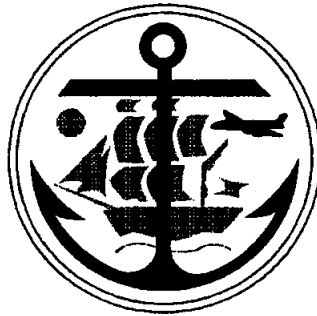


MUNICIPALITY OF ANCHORAGE



COMPREHENSIVE ANNUAL FINANCIAL REPORT

December 31, 2002

**Prepared by:
DEPARTMENT OF FINANCE**

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MUNICIPALITY OF ANCHORAGE, ALASKA

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FINANCIAL SECTION

MUNICIPALITY OF ANCHORAGE

Management's Discussion and Analysis

As management of the Municipality of Anchorage (Anchorage), we offer readers of Anchorage's Comprehensive Annual Financial Report (CAFR) this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. All monetary amounts are in thousands of dollars, unless otherwise indicated. Anchorage has elected not to provide comparative data, as prior year information prepared in accordance with GASB Statement No. 34 is not available. A comparative analysis will be provided beginning with the 2003 financial report.

Financial Highlights

- The assets of Anchorage exceeded its liabilities at the end of 2002 equating to \$3,031,556 of net assets. Of this amount of \$27,262 is unrestricted net assets and may be used to meet Anchorage's ongoing obligations to citizens and creditors and to provide customers the services they desire.
- Anchorage's total net assets decreased slightly over the course of this year's operations. However, while net assets of our business-type activities increased by \$16,248 (or 4%), this was offset by a decrease of \$20,105 (or nearly 1%) in the net assets of our governmental activities.
- At the end of 2002, Anchorage's governmental funds reported combined ending fund balance of \$272,773, a decrease of \$679 in comparison to prior year. Approximately one-third of this amount is unreserved fund balance and is available for spending.
- During the year, expenses of Anchorage's governmental activities were \$20,105 more than the \$437,714 generated in taxes and revenues from governmental programs, including investment losses and land sales.
- The business-type activities generated \$182,347 in revenues and transfers which were offset by expenses including special items of \$166,099.
- During 2002, the Anchorage General Government and the Anchorage School District approved an Assembly Information Memorandum to maintain general fund balances in support of Anchorage's bond rating. The Memorandum of Agreement established a long-term policy to manage budgeting and expenditures to maintain the general fund unreserved fund balance at a level of at least 8.25% of general fund revenues.
- Proceeds of \$118,700 from the 1999 sale of the Anchorage Telephone Utility were placed in the MOA Trust Fund to provide a perpetual revenue stream for Anchorage and tax relief for its citizens. During 2002, Anchorage voters approved Proposition #4 which authorized management of the MOA Trust Fund as an endowment. Having changed to an endowment, the focus of performance has shifted from a short-term view to a long-term view—one that assumes long-term average annual investment return of 8% and long-term average annual inflation rate of 3%. During 2002, the MOA Trust Fund provided \$7,000 in support of government services.
- Anchorage's total long-term liabilities increased by \$21,820 during the current year. This was primarily a result of \$55,165 of new debt, an increase of \$15,440 in liabilities of the Police/Fire Retiree Medical Trust Fund, and liability payments of approximately \$55,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Anchorage's CAFR. The financial section of the annual report consists of four parts – management's discussion and analysis, the basic financial statements,

MUNICIPALITY OF ANCHORAGE

Management's Discussion and Analysis

required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds and internal service funds.

The basic financial statements include two kinds of statements that present different views of Anchorage:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about Anchorage's overall financial status, in a manner similar to a private-sector business.
 - The statement of net assets presents information on all of Anchorage's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Anchorage is improving or deteriorating.
 - The statement of activities presents information showing how Anchorage's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement on an accrual basis, with related cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of Anchorage that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of Anchorage include general government, fire services, police services, health and human services, cultural and recreation services, public transportation, planning development and public works, education, maintenance and operations, and debt service. The business-type activities of Anchorage include water services, wastewater services, electric generation and distribution, port services, municipal airport services, solid waste disposal, refuse collection, parking authority, and performing arts center.

The government-wide financial statements include not only Anchorage itself, but also the following discretely presented component units for which Anchorage is financially accountable – the Anchorage School District and Anchorage Historical Properties, Inc. Financial information for the Anchorage School District and Anchorage Historical Properties, Inc. is reported separately from the financial information presented for the primary government itself. The Alaska Center for the Performing Arts, Inc. and Anchorage Parking Authority, although legally separate, function for all practical purposes as an integral part of the primary government and therefore have been included in business-type activities as blended component units.

- The remaining statements are fund financial statements that focus on individual parts of the local government, reporting Anchorage's operations in more detail than the government-wide statements. A fund is a grouping of related accounts that is used to maintain control over resources segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance related legal requirements.
 - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental fund financial statements focus on short-term inflows and outflows of spendable resources and balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a government's short-term financing requirements.

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Management's Discussion and Analysis

Anchorage maintains twenty-two individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and MOA Trust Fund, which are considered major funds. Information from the other twenty governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Anchorage adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund as required supplementary information to demonstrate compliance with this budget.

- Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Anchorage maintains two different types of proprietary funds, enterprise funds and internal service funds.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Anchorage uses enterprise funds to account for its water services, wastewater services, electric generation/distribution, port services, municipal airport services, solid waste disposal, and refuse collection.

Internal service funds are an accounting device used to accumulate and allocate costs internally among Anchorage's various functions. Anchorage uses internal service funds to account for vehicle operations and maintenance, risk management, self insurance, unemployment compensation, and information technology services. Because these services predominantly benefit governmental rather than business-type activities, they have been included within governmental activities in the government-wide financial statements, with the exception of the portion allocated to enterprise funds.

The proprietary fund financial statements provide separate information for the water services, wastewater services, and electric generation/distribution services, all of which are considered to be major enterprise funds of Anchorage. Information from the other four proprietary enterprise funds and two blended component units is combined into a single, aggregated presentation. Individual fund data for each of these non-major proprietary enterprise funds is provided in the form of combining statements elsewhere in this report. All proprietary internal service funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major proprietary internal service funds is provided in the form of combining statements elsewhere in this report.

- Fiduciary funds are used to account for resources held for the benefit of parties outside the government, such as the retirement and retiree medical plans for police and fire employees, in which Anchorage acts solely as a trustee. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Anchorage's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

MUNICIPALITY OF ANCHORAGE
Management's Discussion and Analysis

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning Anchorage's paved road infrastructure network accounted for under the modified approach and general fund budgetary comparison schedule.

In addition to these required elements, the combining statements referred to earlier in connection with non-major governmental, proprietary, and fiduciary funds are presented as supplementary information immediately following the required supplementary information. A summary of selected statistical information is also provided.

Government-wide Financial Analysis

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Anchorage's total assets exceeded liabilities by \$3,031,556 at the fiscal year ended December 31, 2002 (reference Table A-1).

The net assets for governmental activities are \$2,635,920, with \$75,930 classified as an unrestricted deficit. By far, the largest portion of Anchorage's net assets for governmental activities (95.8%) reflects its investment in capital assets such as infrastructure, land, buildings, machinery and equipment. Anchorage uses capital assets to provide services to citizens and therefore these assets are not available for future spending. The investment in capital assets is reported net of related debt and it is important to remember that resources required to repay this debt must be provided from other sources since these capital assets cannot be used to liquidate these liabilities.

Table A-1
Anchorage's Net Assets
(in thousands)

	Governmental activities	Business-type activities	Total
	2002	2002	2002
Current and other assets	\$ 422,463	\$ 194,826	\$ 617,289
Capital assets	2,860,784	1,057,795	3,918,579
Total assets	3,283,247	1,252,621	4,535,868
Long term liabilities	561,060	426,576	987,636
Other liabilities	86,267	430,409	516,676
Total liabilities	647,327	856,985	1,504,312
Net assets (deficit):			
Invested in capital assets, net of related debt	2,524,921	234,298	2,759,219
Restricted	186,929	58,146	245,075
Unrestricted	(75,930)	103,192	27,262
Total net assets	\$ 2,635,920	\$ 395,636	\$ 3,031,556

Current and other assets include \$289,763 of cash and investments held for governmental activities. Over 57% of the governmental activities long term liabilities are general obligation bonds.

For business-type activities \$103,192 (26%) of net assets is unrestricted and may be used to meet the ongoing needs of these organizations. The largest portion of net assets for the business-type activities, or \$234,298 (59%),

MUNICIPALITY OF ANCHORAGE

Management's Discussion and Analysis

is invested in capital assets which are used to provide customers with the services they desire. The business-type activities have \$58,145 (14%) of net assets that are subject to external restrictions on how they may be used.

At the end of 2002, Anchorage reported positive net asset balances for both governmental and business-type activities.

One of the significant changes in long term liabilities was the net increase of \$21,820 in long term debt resulting from issuance and refunding of debt in June 2002 and an increase in the Police/Fire Retiree Medical Trust Fund liability.

Significant changes in net assets are discussed below under Governmental Activities and Business-Type Activities.

Governmental Activities

Governmental activities decreased Anchorage's net assets by \$20,105 and more than offset the increase of \$16,248 in net assets from the business-type activities (reference Table A-2). Key elements of this decrease are as follows:

- The MOA Trust and MOA Trust Reserve funds had realized and unrealized losses of approximately \$10 million which represent 50% of the decrease in net assets. This was a result of the continued downturn in the stock market during 2002.
- Interest income was approximately \$5 million lower than 2001 activity due to a further decline of market rates in 2002.
- Personal property taxes were approximately \$4 million lower than 2001 activity primarily as a result of a significant decline in the value of modular units constructed for use on the North Slope oil fields, a decline in equipment and inventory values, and prior year adjustments being higher than in 2001.
- The collection of fines was lower than 2001 activity by approximately \$1 million due primarily to a reduced Alaska Permanent Fund Dividend which Anchorage can attach during the collection process.

MUNICIPALITY OF ANCHORAGE

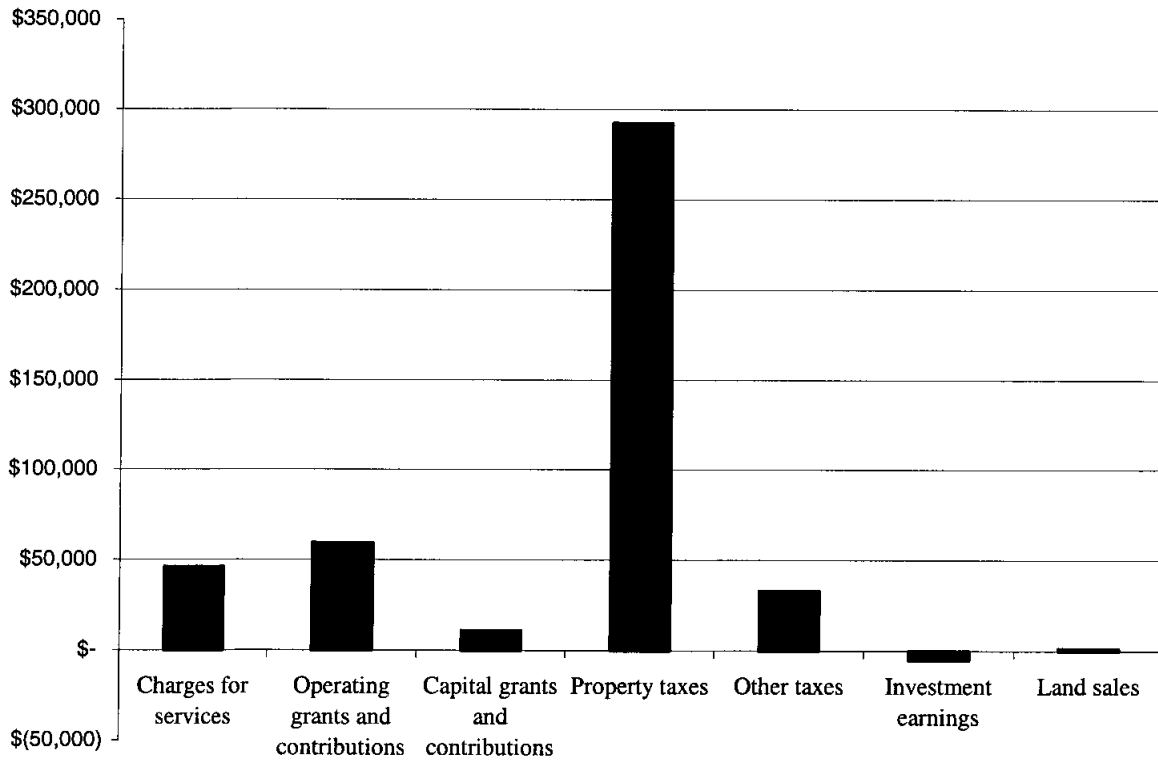
Management's Discussion and Analysis

Table A-2
Anchorage's Changes in Net Assets
(in thousands)

	Governmental activities	Business-type activities	Total
	2002	2002	2002
Revenues:			
Program revenues:			
Charges for services	\$ 46,156	\$ 163,113	\$ 209,269
Operating grants and contributions	59,264	3,044	62,308
Capital grants and contributions	11,046	11,673	22,719
General revenues:			
Property taxes	292,396	-	292,396
Other taxes	33,050	-	33,050
Gain on capital asset sale	-	178	178
Investment earnings	(5,066)	3,843	(1,223)
Land sales	1,364	-	1,364
Total revenues	438,210	181,851	620,061
Expenses:			
General government	39,515	-	39,515
Fire services	53,758	-	53,758
Police services	67,288	-	67,288
Health and human services	36,167	-	36,167
Cultural and recreation services	33,684	-	33,684
Public transportation	17,611	-	17,611
Planning, development and public works	22,744	-	22,744
Education	142,420	-	142,420
Maintenance and operations	25,221	-	25,221
Interest	19,411	-	19,411
Water	-	27,145	27,145
Wastewater	-	20,128	20,128
Electric	-	77,972	77,972
Port	-	6,940	6,940
Municipal airport	-	2,191	2,191
Solid waste	-	14,096	14,096
Refuse	-	5,711	5,711
Parking authority	-	4,243	4,243
Performing arts center	-	1,705	1,705
Total expenses	457,819	160,131	617,950
Special item - reduction of regulatory assets	-	(5,968)	(5,968)
Transfers	(496)	496	-
Change in net assets	(20,105)	16,248	(3,857)
Net assets, beginning of year	2,656,025	379,388	3,035,413
Net assets, end of year	\$ 2,635,920	\$ 395,636	\$ 3,031,556

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Management's Discussion and Analysis

Figure A-1
Government-wide Revenues by Type (in thousands)



MUNICIPALITY OF ANCHORAGE
 Management's Discussion and Analysis

Figure A-2
Program Revenue vs Expense by Governmental Activity
 (in thousands)

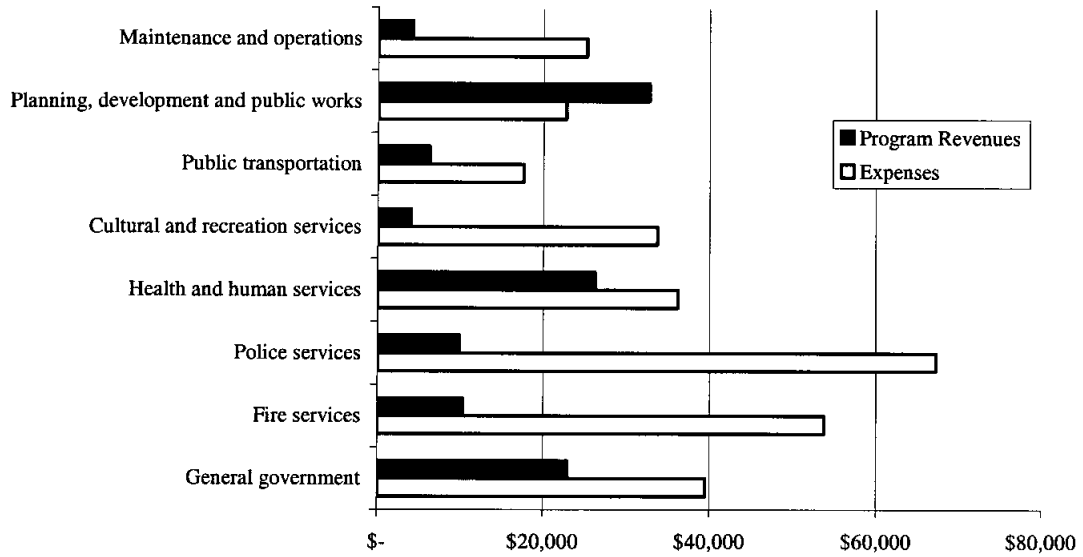
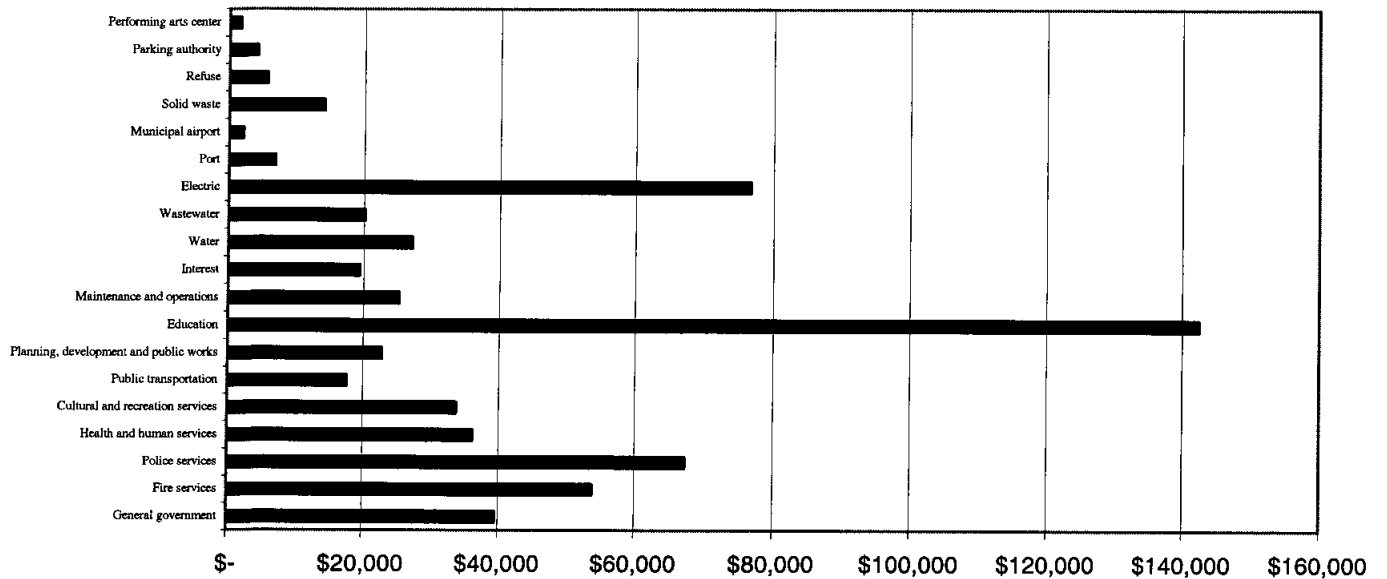


Figure A-3
Expense by Functional Activity (in thousands)



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Management's Discussion and Analysis

Business-type Activities

Business-type activities increased Anchorage's net assets by \$16,248. Key elements of this increase are as follows:

Electric, Water and Wastewater revenues increased by 3%, 5% and 4.2%, respectively. Electric revenues increased as a result of an interim rate increase of 4.07% on demand and energy sales and increased volumes to commercial customers. Water and wastewater revenues increased due to increases in customer base and volumes. Electric Utility expenses decreased by approximately 1%, due primarily to a decrease in interest expense of approximately \$1,129. Water Utility expenses increased by 5%, primarily due to an increase in transmission and distribution expenses related to main line excavations. Wastewater expenses decreased by approximately 3% primarily due to decreased interest expense.

Financial Analysis of Anchorage's Funds

As noted earlier, Anchorage uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of Anchorage's governmental funds is to provide information on the short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Anchorage's financial requirements. In particular, unreserved fund balance can serve as a useful measure of Anchorage's net resources available for spending at the end of the fiscal year.

As of the current fiscal year end, Anchorage's governmental funds reported a combined ending fund balance of \$272,773, a decrease of \$679 in comparison to the prior year balance adjusted for the effect of the adoption of GASB Interpretation No. 6. Approximately one-third of total fund balance (\$90,109) is classified as unreserved fund balance and is available for spending. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed either to liquidate contracts and purchase orders of the prior period (\$26,742), to meet debt service requirements (\$41,517), to generate income for perpetual care of the municipal cemetery (\$243), to recognize prepaid items, deposits and inventory (\$663), to satisfy long term loan principal payments (\$8,208), or is otherwise reserved in the MOA Trust Fund (\$105,289).

The general fund is the primary operational fund for Anchorage. At the end of the current fiscal year, the unreserved fund balance was \$35,284, while the total fund balance was \$42,513. In measuring the general fund's liquidity, one can compare both the unreserved fund balance and the total fund balance to total expenditures. Unreserved fund balance represents 14.3% of total general fund expenditures and total fund balance represents 18.4% of the same amount. Fund balance at December 31, 2002 decreased by 11% as compared to restated fund balance at December 31, 2001, as a result of expenditures exceeding revenues.

Key factors in the overall decrease in fund balance are as follows:

- Decrease of \$5,000 in investment income due to market conditions in 2002
- Increase in contributions to the Anchorage School District of \$7,000 due to increased debt service costs.

The MOA Trust Fund was established in 1999 from the proceeds generated by the sale of the Anchorage Telephone Utility. In 2002 Anchorage voters approved an endowment model for the MOA Trust Fund to follow. This approach limits the amount of annual dividend distribution from the trust fund to no more than 5% of the

MUNICIPALITY OF ANCHORAGE

Management's Discussion and Analysis

average market value of the fund. Implicit in this 5% payout limit is a current assumption that long-term inflation will average 3% and long-term investment returns will average 8%.

During 2002 the MOA Trust Fund had negative investment income of \$9.2 million due to declines in market values. The fund paid a dividend of approximately \$7 million to the General Fund in 2002 under the new endowment model.

Proprietary Funds

Anchorage's proprietary funds provide the same type of information found in the government-wide business-type activities financial statements, but in more detail.

- Electric residential revenues increased by 1.62% and commercial revenues increased by 3.46%. The increased electric revenue can be attributed to an interim rate increase of 4.07% on demand and energy sales as of August 15, 2002, and to the increase of kilowatt-hour sales to commercial customers. Commercial kilowatt-hour sales increased by 5,643,731 kWh. Gas revenues fell short of 2001 revenues due to a decrease in gas contract prices and in the volume of Mcf's sold. The decrease in other operating revenue is attributed to electric sales for resale. Sales for resale decreased by 20,777 megawatt-hours in 2002. The decrease in non-operating revenues is associated with falling interest rates and lower cash balances.
- The Electric Utility's overall expenses decreased minimally (less than 1 percent) from last year. A decrease in non-operating expenses of 8.31% was the major factor in the reduced expenses. Interest expense related to the Utility's bond debt was a major contributor to the decrease in non-operating expense. Interest expense for 2002 decreased by \$1,129 or 7.5%.
- The Water Utility operating revenues showed an increase over last year of \$1,400 or 5% due to increased customer base and volume sales, but increased expenses of \$1,500 or 6% related to transmission and distribution expenses due to main line excavations and key box repairs reduced increases in revenue.
- The Wastewater Utility's operating revenues increased by \$1,013 or 4.2%, while total expenses decreased by over \$600 or 3%. The increase in operating revenues is attributable to residential and commercial sales both having larger volume sales and increased customer base. The decrease in expenses is related mostly to reductions of non-operating expenses associated with long-term debt.

General Fund Budgetary Highlights

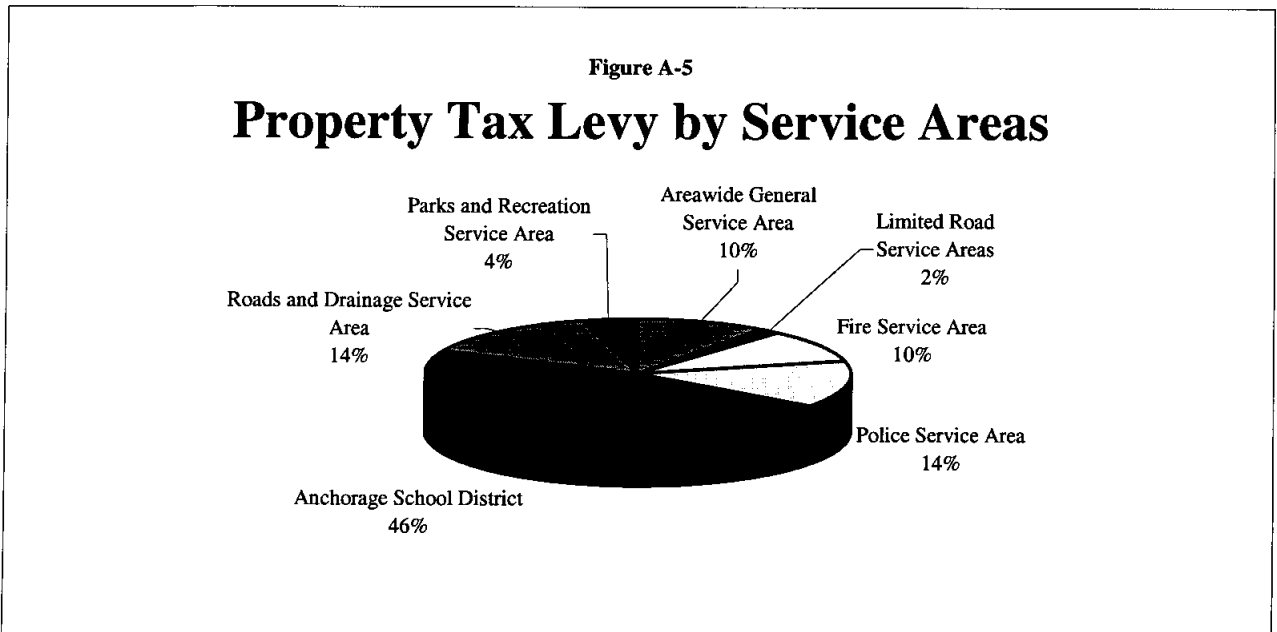
The 2002 approved budget (adopted in late 2001) includes projected funding sources, including property taxes. Many funding sources are better estimated after the first quarter of the fiscal year, especially property taxes.

Annually after the end of the first quarter of the fiscal year, the rate of tax levy is established and taxes are levied for general purposes, which includes all service areas of Anchorage. This is the primary difference between the original and final budget. Expenditure revisions are usually made at the same time. An additional significant difference between the original budget and the final revised budget is the amount contributed to the Anchorage School District (ASD) for taxes levied. The amount to be contributed to ASD is determined during the first quarter of the fiscal year when the budget for ASD is approved for its ensuing fiscal year, July 1 – June 30, and the resulting tax levy rate and tax amount are levied for ASD.

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Management's Discussion and Analysis

The following were the major revisions to the approved budget, in thousands:

- Five Major Service Areas (Areawide, Fire, Roads and Drainage, Police, and Parks and Recreation)
 - \$139,238 to be contributed to Anchorage School District from General Government.
 - \$2,723 to decrease Debt Service requirements based on current projected outstanding bond activity.
 - \$900 to provide additional funding for fire hydrant maintenance for Fire Services.
 - \$861 to fund budgeted medical/dental costs for fire and police plan participants in Fire Services and Police Services.
 - \$750 to provide services required for compliance with Governmental Accounting Standards Board Statement #34 in General Government.
 - \$700 to provide funding for Wildfire mitigation efforts in Fire Services.
 - \$440 to provide City Hall facility improvements, including escrow requirements and increased lease costs in General Government.
 - \$424 to fund additional equipment operators for the upgrade of gravel roads with recycled asphalt in Maintenance and Operations.
 - Other Service Areas
 - \$536 to fund various Limited Road Service Areas/Chugiak Birchwood Eagle River Rural Road Service Areas budgets to reflect anticipated additional summer and winter road maintenance



MUNICIPALITY OF ANCHORAGE
Management's Discussion and Analysis

Major variances from the final approved budget to actual amount are as follows:

- Personal property taxes were approximately \$4 million lower than budget primarily as a result of a significant decline in the value of modular units constructed for use on the North Slope oil fields, a decline in equipment and inventory values, and prior year adjustments being higher.
- Collection of fines was lower than budgeted in 2002 due to a reduced Alaska Permanent Fund Dividend which Anchorage can attach for collections.
- Investment income was approximately \$3.6 million lower than budget due to a decline in market rates in 2002.
- Proceeds from Bond Sales and Payments to Extinguish debt varied from budget due to refunding bonds in June 2002. Refunding of bonds is not a budgeted item.

Capital Asset and Debt Administration

Capital Assets

At the end of 2002, Anchorage had invested \$3,918,579 in a broad range of capital assets, including police and fire equipment, buildings, land, and paved roads (reference Table A-3). Significant additions during the year were \$8,354 of paved road infrastructure and \$3,500 of related right of way land acquisitions.

Table A-3
Municipality of Anchorage's Capital Assets
(net of accumulated depreciation, in thousands)

	Governmental Activities 2002	Business-type Activities 2002	Total 2002
Land	\$ 1,193,852	\$ 54,625	\$ 1,248,477
Buildings and improvements	167,546	83,669	251,215
Art	12,274	-	12,274
Equipment	59,380	831,220	890,600
Infrastructure	1,276,208	38,584	1,314,792
Construction in progress	151,524	49,697	201,221
	<u>\$ 2,860,784</u>	<u>\$ 1,057,795</u>	<u>\$ 3,918,579</u>

Anchorage's fiscal year 2003 capital budget is \$100,372 principally for infrastructure improvements. The capital budget is funded primarily through general obligation bond proceeds and Federal grants.

Long-term Debt

At year end Anchorage had \$817,137 in debt outstanding, an increase of less than 1% over last year (reference Table A-4). More detailed information about Anchorage's long-term debt liabilities is presented in Note 8, Long Term Debt, in the basic financial statements.

New debt resulted mainly from issuing \$54,365 in general obligation bonds for new general government projects. In addition, to improve cash flow and take advantage of lower interest rates, the administration decided to refund

MUNICIPALITY OF ANCHORAGE

Management's Discussion and Analysis

\$85,815 of six general obligation bond issues. This refunding resulted in additional debt of \$800. By refinancing the debt, Anchorage will reduce its debt service by \$7,634 over the next fourteen years.

Since 1999, Anchorage's general obligation bonds have been rated at (AA-) by Standard Poor and (Aa3) by Moody's Investor Services.

Table A-4
Municipality of Anchorage's Outstanding Debt
(in thousands of dollars)

	Governmental Activities	Business-type Activities	Total
	2002	2002	2002
General Obligation Bonds	\$ 320,699	\$ 30,936	\$ 351,635
Revenue Bonds	58,575	343,110	401,685
Special Assessment Debt with Governmental Commitment	1,020	397	1,417
Certificates of Participation	12,530	-	12,530
Long-term Contracts	1,614	48,256	49,870
Total	\$ 394,438	\$ 422,699	\$ 817,137

Infrastructure Modified Approach

Anchorage manages its paved road network using its Pavement Management Plan and accounts for it using the modified approach. The condition of road pavement is measured based upon an assessment of the longitudinal profile (International Roughness Index) and rut depth provided by the Dynatest Road Surface Profiler. The measurement system is an algorithm that combines the international roughness index, rut depth, and road profile to determine a condition index from 2 for pavement in excellent condition to 7 for pavement in fair condition. The condition index is used to classify paved roads in good or better condition (4 or less) and fair condition (5 or more). It is Anchorage's policy to maintain 60% or more of the total paved road miles in good or better condition. Condition assessments are updated every three years.

As this is Anchorage's initial year of implementation, there have been no significant changes in the assessed condition of infrastructure assets accounted for under the modified approach. The current assessed condition of the paved roads infrastructure network is approximately 81% of total paved roads as being in good or better condition. This exceeds Anchorage's policy to maintain 60% of total paved roads in good or better condition. Anchorage incurred less than estimated costs to maintain and preserve its paved road network due to the relatively mild winter weather experienced in 2002.

Anchorage has identified its additional infrastructure networks and will be recognizing the costs of the remaining networks in the government-wide financial statements during the next three fiscal years in compliance with Governmental Accounting Standards Board Statement No. 34.

Economic Factors and Next Year's Budgets and Rates

Municipal population rose 1.5% to 269,070 at year end 2002, unemployment stood at 4.6%, which is well below the national average of 5.8%, and growth in the average wage kept pace with inflation at a rate between 2-3%.

MUNICIPALITY OF ANCHORAGE

Management's Discussion and Analysis

The Citizens Property Tax Cap allows for both economic growth (inflation and population) and for a number of other factors including new construction, debt service, voter-approved new services, special taxes, operations and maintenance costs, and judgments. For 2002 to 2003, these other factors represented over seventy-five percent of the overall growth in allowable property taxes under the tax limit. Property taxes represent 60% of the General Government Operating Budget (GGOB) Revenue. Local taxes and program revenues account for the majority of the remaining GGOB revenues (29%). Intergovernmental charges outside of general government (7%) and State sharing (4%) account for the balance.

The 2003 general government operating budget is \$8.2 million more than was approved for 2002. This includes a \$.8 million increase in debt service for voter approved bonds and an additional \$2.3 million to operate a new fire station. For 2003, known revenue sources – property taxes, other taxes and fees account for over 99% of budgeted revenues.

On November 8, 2002, an ordinance adopting and appropriating funds for the 2003 Municipal Utilities Operating and Capital budget for Anchorage was approved. The Electric Utility's Operating budget is \$86,409 and Capital Budget is \$20,030. An amendment to the operating budget may be necessary. Municipal Light & Power was the successful bidder of a power supply contract with Fort Richardson commencing October 1, 2003. Energy sales from October through December 2003 are estimated at 17,000 megawatt-hours. A third quarter budget increase for fuel may be necessary to service this additional load.

The Water Utility plans on issuing approximately \$45 million in revenue bonds in September of 2003, which will fund part of the 2003 and 2004 construction plan. Major projects include the Anchorage Loop Water Transmission Main Phase IV and Information Technology Applications. To the fullest extent possible, we will use the State of Alaska low interest loan program.

The Wastewater Utility plans on issuing approximately \$40 million in revenue bonds in September of 2003. The utility has anticipated the need for this bond sale for the past two years and has reflected this in budget schedules and long-range financial plans. These forecasts show that current Wastewater user fees will be insufficient to cover this debt and that rate increases in 2004 will be necessary. However, the utility will closely monitor expenses during 2003.

Contacting Anchorage's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of Anchorage's finances and to demonstrate our accountability for the monies we receive. If you have questions about this report or need additional financial information, please contact the Municipality of Anchorage's Controller Division, P.O. Box 196650, Anchorage, AK 99519-6650.



701 West Eighth Avenue
Suite 600
Anchorage, AK 99501

Independent Auditors' Report

The Honorable Mayor and
Members of the Assembly
Municipality of Anchorage, Alaska:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Anchorage, Alaska, as of and for the year ended December 31, 2002, which collectively comprise Anchorage's basic financial statements, as listed in the table of contents. We also have audited the financial statements of each of Anchorage's nonmajor governmental, nonmajor enterprise, internal service, and fiduciary funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended December 31, 2002, as listed in the table of contents. These financial statements are the responsibility of the Municipality of Anchorage's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Anchorage School District and Anchorage Historic Properties, Inc, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Municipality of Anchorage, Alaska, as of December 31, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States





The Honorable Mayor and
Members of the Assembly
Municipality of Anchorage, Alaska

of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental, nonmajor enterprise, internal service and fiduciary funds of the Municipality of Anchorage, Alaska, as of December 31, 2002 and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 7, 2003 on our consideration of Municipality of Anchorage's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 1, the Municipality of Anchorage, Alaska implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments; Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of January 1, 2002. The Municipality of Anchorage, Alaska also adopted GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* as of January 1, 2002.

The management's discussion and analysis on pages 1 through 14 and budgetary comparison schedule-general fund on pages 80 to 81 and condition rating of Anchorage's road network on page 82 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, accordingly we express no opinion on it.

KPMG LLP

May 7, 2003

BASIC FINANCIAL STATEMENTS

MUNICIPALITY OF ANCHORAGE, ALASKA

Statement of Net Assets

December 31, 2002

Assets	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Anchorage School District	Anchorage Historic Properties
Cash	\$ 8,108	3,692,790	3,700,898	783,789	23,469
Cash in central treasury	149,202,889	79,304,545	228,507,434	—	—
Investments	31,374,399	—	31,374,399	286,328,192	793,660
Interest receivable	1,439,446	1,164,902	2,604,348	616,684	—
Receivables (net of allowance for uncollectibles)	83,513,575	14,451,703	97,965,278	1,415,701	49,327
Due from primary government	—	—	—	71,527,546	—
Due from component unit	180,578	—	180,578	—	—
Internal balances	21,021,990	(21,021,990)	—	—	—
Inventories	937,643	17,569,705	18,507,348	2,660,286	—
Prepaid items and deposits	1,065,968	—	1,065,968	1,824,344	1,231
Deferred charges	—	675,789	675,789	—	—
Restricted assets:					
Cash in central treasury	302,926	3,861,255	4,164,181	—	—
Investments	108,874,281	—	108,874,281	—	—
Customer deposits	—	1,908,293	1,908,293	—	—
Bond acquisition and construction	—	23,227,369	23,227,369	—	—
Bond operation and maintenance	—	7,033,451	7,033,451	—	—
Debt service accounts	—	43,075,479	43,075,479	—	—
Receivables	413,890	332,129	746,019	—	—
Intergovernmental receivables	20,475,033	—	20,475,033	21,584,753	—
Loans receivable, net	748,900	37,451	786,351	—	—
Deferred charges and other assets	2,903,375	19,513,736	22,417,111	3,056,717	—
Capital assets, net	2,860,784,354	1,057,794,715	3,918,579,069	840,773,563	108,661
Total assets	\$ 3,283,247,355	1,252,621,322	4,535,868,677	1,230,571,575	976,348
Liabilities and Net Assets					
Liabilities:					
Accounts payable	\$ 13,389,392	10,931,424	24,320,816	11,100,217	129
Accrued expenses	—	—	—	21,967,641	959
Claims payable, including IBNR	13,162,861	—	13,162,861	8,148,598	—
Accrued interest payable	3,545,818	5,441,276	8,987,094	4,161,853	—
Due to component unit	47,651,527	—	47,651,527	—	—
Deferred revenue	8,412,251	162,386	8,574,637	72,445,123	—
Deferred credits	—	410,592,468	410,592,468	—	—
Liabilities payable from restricted assets	105,084	3,281,818	3,386,902	—	—
Noncurrent liabilities:					
Due within one year	39,190,224	32,009,047	71,199,271	24,750,163	—
Due in more than one year	521,870,455	394,566,547	916,437,002	583,225,000	—
Total liabilities	647,327,612	856,984,966	1,504,312,578	725,798,595	1,088
Net assets (deficit):					
Investment in capital assets, net of related debt	2,524,921,113	234,298,478	2,759,219,591	232,798,398	108,661
Restricted for:					
Debt service	39,065,228	33,476,852	72,542,080	16,162,142	—
Cultural and recreation	35,530	—	35,530	—	—
Maintenance and operations	225,000	1,430,871	1,655,871	—	—
Acquisition and construction	15,984,386	23,237,945	39,222,331	97,185,450	—
Grant activity	21,464,868	—	21,464,868	—	—
Other purposes	4,621,317	—	4,621,317	—	—
Perpetual care:					
Nonexpendable	194,600	—	194,600	—	—
Expendable	48,890	—	48,890	—	—
MOA Trust:					
Nonexpendable	98,488,984	—	98,488,984	—	—
Expendable	6,800,000	—	6,800,000	—	—
Unrestricted	(75,930,173)	103,192,210	27,262,037	158,626,990	866,599
Net assets	2,635,919,743	395,636,356	3,031,556,099	504,772,980	975,260
Total	\$ 3,283,247,355	1,252,621,322	4,535,868,677	1,230,571,575	976,348

See accompanying notes to financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA

Statement of Activities

Year ended December 31, 2002

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 39,514,625	7,004,896	15,942,477	—
Fire services	53,757,939	4,996,684	5,277,502	42,588
Police services	67,287,822	7,944,839	919,436	1,018,007
Health and human services	36,166,795	3,571,237	22,602,564	58,724
Cultural and recreation services	33,684,423	3,021,068	144,772	819,009
Public transportation	17,611,047	2,427,133	1,588,063	2,233,064
Planning, development and public works	22,743,616	14,899,123	12,558,341	5,258,832
Education	142,419,697	—	—	—
Maintenance and operations	25,221,296	2,290,926	231,023	1,615,298
Interest on long-term debt	19,411,686	—	—	—
Total governmental activities	<u>457,818,946</u>	<u>46,155,906</u>	<u>59,264,178</u>	<u>11,045,522</u>
Business-type activities:				
Water	27,144,704	26,673,203	—	3,692,961
Wastewater	20,128,260	24,271,600	—	1,098,350
Electric	77,971,266	77,644,481	—	4,185,083
Port	6,939,378	5,744,707	2,902,747	—
Municipal airport	2,191,356	1,007,230	—	2,653,752
Solid waste	14,096,344	17,285,331	—	—
Refuse	5,710,857	5,664,885	—	—
Parking authority	4,243,346	4,212,113	—	2,754
Performing arts center	1,705,129	609,626	140,765	39,990
Total business-type activities	<u>160,130,640</u>	<u>163,113,176</u>	<u>3,043,512</u>	<u>11,672,890</u>
Total primary government	<u>\$ 617,949,586</u>	<u>209,269,082</u>	<u>62,307,690</u>	<u>22,718,412</u>
Component Units:				
Anchorage school district	\$ 443,295,182	6,714,869	56,241,447	623,636
Anchorage historic properties	139,946	4,714	—	—
Totals – Component Units	<u>\$ 443,435,128</u>	<u>6,719,583</u>	<u>56,241,447</u>	<u>623,636</u>

General revenues:
 Property taxes
 Motor vehicle taxes
 Lodging taxes
 Tobacco taxes
 Utility service assessment taxes
 Grants and entitlements not restricted to specific programs
 Gain on sale of capital asset
 Appropriation from Municipality of Anchorage
 Investment earnings
 Land sales
 Other
 Special item –
 Reduction of regulatory asset
 Transfers
 Total general revenues, special items, and other transfers
 Change in net assets
 Net assets, beginning of year
 Net assets, end of year

See accompanying notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Anchorage School District	Anchorage Historic Properties
(16,567,252)	—	(16,567,252)	—	—
(43,441,165)	—	(43,441,165)	—	—
(57,405,540)	—	(57,405,540)	—	—
(9,934,270)	—	(9,934,270)	—	—
(29,699,574)	—	(29,699,574)	—	—
(11,362,787)	—	(11,362,787)	—	—
9,972,680	—	9,972,680	—	—
(142,419,697)	—	(142,419,697)	—	—
(21,084,049)	—	(21,084,049)	—	—
(19,411,686)	—	(19,411,686)	—	—
<u>(341,353,340)</u>	<u>—</u>	<u>(341,353,340)</u>	<u>—</u>	<u>—</u>
—	3,221,460	3,221,460	—	—
—	5,241,690	5,241,690	—	—
—	3,858,298	3,858,298	—	—
—	1,708,076	1,708,076	—	—
—	1,469,626	1,469,626	—	—
—	3,188,987	3,188,987	—	—
—	(45,972)	(45,972)	—	—
—	(28,479)	(28,479)	—	—
—	(914,748)	(914,748)	—	—
<u>—</u>	<u>17,698,938</u>	<u>17,698,938</u>	<u>—</u>	<u>—</u>
<u>(341,353,340)</u>	<u>17,698,938</u>	<u>(323,654,402)</u>	<u>—</u>	<u>—</u>
			(379,715,230)	—
			—	(135,232)
			<u>(379,715,230)</u>	<u>(135,232)</u>
292,396,169	—	292,396,169	—	—
10,123,166	—	10,123,166	—	—
11,007,248	—	11,007,248	—	—
5,349,091	—	5,349,091	—	—
6,570,767	—	6,570,767	—	—
—	—	—	240,687,660	25,927
—	178,460	178,460	—	—
—	—	—	135,521,074	—
(5,065,814)	3,843,173	(1,222,641)	4,451,782	(22,646)
1,363,556	—	1,363,556	—	—
—	—	—	(455,334)	—
—	(5,968,283)	(5,968,283)	—	—
<u>(495,778)</u>	<u>495,778</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>321,248,405</u>	<u>(1,450,872)</u>	<u>319,797,533</u>	<u>380,205,182</u>	<u>3,281</u>
<u>(20,104,935)</u>	<u>16,248,066</u>	<u>(3,856,869)</u>	<u>489,952</u>	<u>(131,951)</u>
<u>2,656,024,678</u>	<u>379,388,290</u>	<u>3,035,412,968</u>	<u>504,283,028</u>	<u>1,107,211</u>
<u>\$ 2,635,919,743</u>	<u>395,636,356</u>	<u>3,031,556,099</u>	<u>504,772,980</u>	<u>975,260</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Balance Sheet
Governmental Funds

December 31, 2002

Assets	<u>General</u>	<u>MOA Trust</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Cash	\$ —	—	8,108	8,108
Cash in central treasury	80,044,177	—	47,983,709	128,027,886
Investments	2,000	—	31,372,399	31,374,399
Due from other funds	794,901	—	31,119,274	31,914,175
Receivables (net of allowance for uncollectibles)	75,124,589	—	5,689,424	80,814,013
Interest receivable	—	—	65,397	65,397
Special assessments receivable	1,697,549	—	1,002,013	2,699,562
Due from component units	180,578	—	—	180,578
Inventories	608,850	—	—	608,850
Prepaid items and deposits	54,584	—	1,659	56,243
Restricted assets:				
Cash in central treasury	—	108,326	194,600	302,926
Investments	—	104,838,922	4,035,359	108,874,281
Intergovernmental receivables	1,430,869	—	19,044,164	20,475,033
Interest receivables	—	413,890	—	413,890
Loans receivables, net	748,900	—	—	748,900
Advances to other funds	2,236,589	—	—	2,236,589
Total	\$ <u>162,923,586</u>	<u>105,361,138</u>	<u>140,516,106</u>	<u>408,800,830</u>
 Liabilities and Fund Balance				
Liabilities:				
Accounts payable and retainages	\$ 4,298,128	—	8,413,646	12,711,774
Due to other funds	—	—	2,244,070	2,244,070
Due to component unit	47,651,527	—	—	47,651,527
Deferred revenue and deposits	68,461,322	—	4,887,264	73,348,586
Liabilities payable from restricted assets	—	72,154	—	72,154
Total liabilities	<u>120,410,977</u>	<u>72,154</u>	<u>15,544,980</u>	<u>136,028,111</u>
Fund balances:				
Fund balances:				
Reserved:				
Encumbrances	4,306,402	—	22,435,394	26,741,796
Inventories	608,850	—	—	608,850
Prepaid items and deposits	54,584	—	—	54,584
Long-term loans	2,258,768	—	5,949,676	8,208,444
Perpetual care	—	—	243,490	243,490
MOA trust	—	105,288,984	—	105,288,984
Debt service	—	—	41,517,077	41,517,077
Unreserved, reported in:				
General fund	35,284,005	—	—	35,284,005
Special revenue fund	—	—	16,760,953	16,760,953
Capital projects fund	—	—	38,064,536	38,064,536
Total fund balances	<u>42,512,609</u>	<u>105,288,984</u>	<u>124,971,126</u>	<u>272,772,719</u>
Total	\$ <u>162,923,586</u>	<u>105,361,138</u>	<u>140,516,106</u>	<u>408,800,830</u>

See accompanying notes to financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA

Reconciliation of Net Assets between the
Government-wide and Fund Financial Statements

December 31, 2002

Amounts reported as fund balance on the governmental fund balance sheet	\$	272,772,719
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		2,827,614,034
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Jail lease receivable, net activity	59,949,049	
Property taxes	7,119,950	
Deferred charges	<u>2,903,375</u>	69,972,374
Internal service funds are used by management to charge the costs of fleet management, cost of insurance, and information technology to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets		29,031,384
Long term liabilities, including bonds payable, and accrued interest are not due and payable in the current period and therefore not reported in the funds:		
General obligation bonds	(320,699,475)	
Revenue bonds	(58,575,000)	
Special assessment bonds	(1,020,000)	
Certificates of participation	(12,530,000)	
Notes and contracts	(1,206,484)	
Compensated absences	(11,980,972)	
Police and fire post employment health care benefits liability	(153,919,710)	
Accrued interest payable	<u>(3,539,127)</u>	<u>(563,470,768)</u>
Net assets of governmental activities		<u>\$ 2,635,919,743</u>

See accompanying notes to the financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

Year ended December 31, 2002

	<u>General</u>	<u>MOA Trust</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Revenues:				
Taxes	\$ 324,217,752	—	—	324,217,752
Special assessments	540,572	—	743,600	1,284,172
Licenses and permits	10,743,088	—	—	10,743,088
Intergovernmental	13,528,010	—	56,443,246	69,971,256
Charges for services	15,994,900	—	5,802,670	21,797,570
Fines and forfeitures	4,987,963	—	247,838	5,235,801
Investment income	1,344,946	(9,215,664)	(386,259)	(8,256,977)
Restricted contributions	35,530	—	225,000	260,530
Other	1,430,160	—	2,482,102	3,912,262
Total revenues	<u>372,822,921</u>	<u>(9,215,664)</u>	<u>65,558,197</u>	<u>429,165,454</u>
Expenditures:				
Current:				
General government	20,050,082	413,113	10,708,124	31,171,319
Fire services	42,289,149	—	2,437,510	44,726,659
Police services	56,276,748	—	1,703,298	57,980,046
Health and human services	11,930,720	—	23,697,379	35,628,099
Cultural and recreation services	23,338,876	—	353,915	23,692,791
Public transportation	13,195,952	—	1,690,165	14,886,117
Planning, development, and public works	18,594,427	—	1,292,797	19,887,224
Education	139,237,827	—	3,181,870	142,419,697
Maintenance and operations	23,844,750	—	—	23,844,750
Debt service:				
Principal	19,620,739	—	4,884,969	24,505,708
Interest	16,590,890	—	4,160,132	20,751,022
Bond issuance costs	600,273	—	537,019	1,137,292
Capital outlay	<u>—</u>	<u>—</u>	<u>45,875,719</u>	<u>45,875,719</u>
Total expenditures	<u>385,570,433</u>	<u>413,113</u>	<u>100,522,897</u>	<u>486,506,443</u>
Excess (deficiency) of revenues over expenditures	<u>(12,747,512)</u>	<u>(9,628,777)</u>	<u>(34,964,700)</u>	<u>(57,340,989)</u>
Other financing sources (uses):				
Transfers in – from other funds	10,655,510	—	6,035,796	16,691,306
Transfers out – to other funds	(6,261,315)	(7,025,863)	(6,020,557)	(19,307,735)
Proceeds from bond sale	—	—	54,365,000	54,365,000
Proceeds from bond refunding	72,735,000	—	—	72,735,000
Proceeds from premium on bond sale	5,505,071	—	537,019	6,042,090
Payment to refunded bond escrow agent to extinguish debt	(71,935,000)	—	—	(71,935,000)
Payment to refunded bond escrow agent	(3,292,604)	—	—	(3,292,604)
Proceeds from sale of assets	—	—	1,363,556	1,363,556
Total other financing sources	<u>7,406,662</u>	<u>(7,025,863)</u>	<u>56,280,814</u>	<u>56,661,613</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(5,340,850)</u>	<u>(16,654,640)</u>	<u>21,316,114</u>	<u>(679,376)</u>
Fund balances, beginning of year, as previously reported	42,132,662	121,943,624	103,639,677	267,715,963
Add adjustment for the cumulative effect of the adoption of GASB Interpretation No. 6 (note 1)	5,720,797	—	15,335	5,736,132
Fund balances, beginning of year, as adjusted	<u>47,853,459</u>	<u>121,943,624</u>	<u>103,655,012</u>	<u>273,452,095</u>
Fund balances, end of year	\$ <u>42,512,609</u>	<u>105,288,984</u>	<u>124,971,126</u>	<u>272,772,719</u>

See accompanying notes to financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities

Year ended December 31, 2002

Net change in fund balance – total governmental funds		\$	(679,376)
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures.			
However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:			
Capital outlay	\$ 45,875,719		
Depreciation expense	(18,459,641)		
Reversal of capital outlay determined to be expensed under modified approach	(2,346,317)		
Equipment purchases expensed in fund statements	<u>2,767,823</u>		27,837,584
Revenues in the statement of activities that do not provide current financial resources and are deferred in the funds:			
Property taxes	1,228,689		
Jail lease receivable, net activity	<u>(1,903,854)</u>		(675,165)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effects of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:			
New issuance of general obligation bonds	(54,365,000)		
Refunding issuance of general obligation bonds	(72,735,000)		
Extinguishment of debt due to refunding	71,935,000		
Principal repayment	24,505,708		
Payment to escrow agent for refunding	3,292,604		
Net activity of premium discount, issuance, and interest of issued debt	<u>(3,565,462)</u>		(30,932,150)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.			
Compensated absences	18,224		
Increase in police and fire post-employment healthcare benefits liability	<u>(15,440,570)</u>		(15,422,346)
Internal service funds are used by management to charge the costs of insurance, fleet management and information technology to individual funds. The net revenue (expenses) of certain activities of internal service funds is reported with governmental activities.			<u>(233,482)</u>
Change in net assets of governmental activities		\$	<u><u>(20,104,935)</u></u>

See accompanying notes to the financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA

Statement of Net Assets
Proprietary Funds

December 31, 2002

Assets	Business-type Activities – Enterprise Funds					Governmental Activities – Internal Service Funds
	Electric Utility	Water Utility	Wastewater Utility	Other Enterprise Funds	Total Enterprise Funds	
Current assets:						
Cash	\$ 1,600	—	—	3,691,190	3,692,790	—
Cash in central treasury	21,344,751	12,612,883	11,184,253	34,162,658	79,304,545	21,175,003
Due from other funds	—	—	—	—	—	8,966,967
Receivables (net of allowance for uncollectibles)	6,756,610	2,012,920	2,029,893	2,530,704	13,330,127	—
Interest receivable	503,045	185,105	118,979	357,773	1,164,902	—
Current portion of lease receivable	—	—	—	377,770	377,770	—
Inventories	16,306,637	1,205,442	—	57,626	17,569,705	328,793
Prepaid items and deposits	—	—	—	—	—	1,009,725
Special assessments receivable	—	87,480	38,534	—	126,014	—
Unbilled reimbursable work orders	14,374	397,320	206,098	—	617,792	—
Deferred charges	659,383	—	—	16,406	675,789	—
Total current assets	45,586,400	16,501,150	13,577,757	41,194,127	116,859,434	31,480,488
Noncurrent restricted assets:						
Cash in central treasury	3,861,255	—	—	—	3,861,255	—
Customer deposits	943,493	463,323	329,449	172,028	1,908,293	—
Receivables	—	290,238	33,021	8,870	332,129	—
Bond and acquisition and construction accounts	—	—	—	23,227,369	23,227,369	—
Revenue bond operations and maintenance accounts	5,530,085	—	—	1,503,366	7,033,451	—
Debt service accounts	31,742,198	10,553,682	132,091	647,508	43,075,479	—
Total noncurrent restricted assets	42,077,031	11,307,243	494,561	25,559,141	79,437,976	—
Noncurrent assets:						
Loans receivables, net	—	—	—	37,451	37,451	—
Deferred charges and other assets	14,383,603	959,491	1,910,589	2,260,053	19,513,736	—
Capital assets, net	254,068,889	365,752,264	260,172,588	177,800,974	1,057,794,715	33,170,320
Total noncurrent assets	268,452,492	366,711,755	262,083,177	180,098,478	1,077,345,902	33,170,320
Total assets	\$ 356,115,923	394,520,148	276,155,495	246,851,746	1,273,643,312	64,650,808

(Continued)

(Continued)

MUNICIPALITY OF ANCHORAGE, ALASKA

Statement of Net Assets
Proprietary Funds

December 31, 2002

Liabilities and Net Assets	Business-type Activities – Enterprise Funds					Governmental Activities – Internal Service Funds
	Electric Utility	Water Utility	Wastewater Utility	Other Enterprise Funds	Total Enterprise Funds	
Current liabilities:						
Accounts payable and retainages	\$ 9,172,808	201,592	445,447	1,111,577	10,931,424	605,464
Compensated absences payable	1,337,663	797,019	797,019	604,515	3,536,216	721,756
Claims payable	—	—	—	—	—	8,074,931
Claims incurred but not reported	—	—	—	—	—	5,087,930
Due to other funds	—	7,992,426	13,041,612	86,613	21,120,651	9,579,612
Accrued interest payable	1,840,587	2,264,635	712,975	623,079	5,441,276	6,691
Long-term obligations maturing within one year	11,815,000	4,984,931	6,822,227	4,755,673	28,377,831	696,013
Deferred revenue and deposits	—	—	—	162,386	162,386	62,602
Deferred credits and other liabilities	—	—	—	386,755	386,755	—
Total current liabilities	24,166,058	16,240,603	21,819,280	7,730,598	69,956,539	24,834,999
Current liabilities payable from restricted assets:						
Customer deposits payable	943,493	463,324	329,449	20,282	1,756,548	—
Capital acquisition and construction accounts and retainage payable	—	525,980	926,795	72,495	1,525,270	105,084
Total current liabilities payable from restricted assets	943,493	989,304	1,256,244	92,777	3,281,818	105,084
Non-current liabilities:						
General obligation bonds payable (net of unamortized discounts, premiums, deferred gain or loss on refunding)	—	—	16,183,782	6,877,791	23,061,573	—
Revenue bonds payable (net of unamortized discounts, premiums, deferred gain or loss on refunding)	232,121,826	82,563,509	4,692,486	5,746,626	325,124,447	—
Special assessment bonds payable (net of unamortized discounts)	—	341,245	56,197	—	397,442	—
Due to other funds	—	—	—	—	—	10,173,398
Federal clean water loan payable	—	13,687,981	19,003,864	13,046,816	45,738,661	—
Other loans and contracts payable	—	—	—	—	—	407,282
Compensated absences	—	169,712	169,712	—	339,424	—
Total non-current liabilities	232,121,826	96,762,447	40,106,041	25,671,233	394,661,547	10,580,680
Deferred credits and other liabilities:						
Future landfill closure costs	—	—	—	9,557,559	9,557,559	—
Contributed capital	—	224,153,853	176,494,301	—	400,648,154	—
Total liabilities	257,231,377	338,146,207	239,675,866	43,052,167	878,105,617	35,520,763
Net assets:						
Invested in capital assets, net of related debt	10,132,063	40,020,745	36,771,602	147,374,068	234,298,478	16,441,347
Restricted for debt service	24,839,714	8,579,285	165,112	819,536	34,403,647	—
Restricted for operations and maintenance	—	—	—	1,430,871	1,430,871	—
Restricted for acquisition and construction	10,576	—	—	23,227,369	23,237,945	—
Unrestricted	63,902,193	7,773,911	(457,085)	30,947,735	102,166,754	12,688,698
Total net assets	98,884,546	56,373,941	36,479,629	203,799,579	395,537,695	29,130,045
Total	\$ 356,115,923	394,520,148	276,155,495	246,851,746	98,661	64,650,808
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					98,661	
Net assets of business-type activities					\$ 395,636,356	

See accompanying notes to financial statements.

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MUNICIPALITY OF ANCHORAGE, ALASKA
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year ended December 31, 2002

	<u>Business-type Activities – Enterprise Funds</u>					<u>Governmental Activities – Internal Service Funds</u>
	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	
Operating revenues:						
Charges for services	\$ 77,644,481	26,673,203	24,271,600	34,523,892	163,113,176	34,415,375
Other	4,185,083	3,692,961	1,098,350	3,086,256	12,062,650	132,600
Total operating revenues	<u>81,829,564</u>	<u>30,366,164</u>	<u>25,369,950</u>	<u>37,610,148</u>	<u>175,175,826</u>	<u>34,547,975</u>
Operating expenses:						
Operations	43,535,477	15,428,722	14,189,645	23,152,205	96,306,049	29,411,213
Municipal service assessment taxes	2,080,018	1,911,709	1,191,166	601,722	5,784,615	—
Future landfill closure costs	—	—	—	792,349	792,349	—
Depreciation and amortization	16,120,483	4,008,342	3,586,282	8,679,503	32,394,610	6,275,243
Total operating expenses	<u>61,735,978</u>	<u>21,348,773</u>	<u>18,967,093</u>	<u>33,225,779</u>	<u>135,277,623</u>	<u>35,686,456</u>
Operating income (loss)	<u>20,093,586</u>	<u>9,017,391</u>	<u>6,402,857</u>	<u>4,384,369</u>	<u>39,898,203</u>	<u>(1,138,481)</u>
Non-operating revenues (expenses):						
Investment income	1,447,883	761,861	223,985	1,409,444	3,843,173	494,535
Other revenues	22,293	30,951	—	360,454	413,698	166,702
Interest expense	(16,052,283)	(5,313,770)	(1,730,844)	(1,444,683)	(24,541,580)	(407,480)
Allowance for funds used during construction	339,480	638,201	507,880	—	1,485,561	—
Gain on disposition of assets	—	—	—	178,460	178,460	—
Amortization of deferred charges	(300,329)	(1,213,110)	—	(75,270)	(1,588,709)	—
Other expenses	(308,523)	—	—	—	(308,523)	—
Net non-operating revenues (expenses)	<u>(14,851,479)</u>	<u>(5,095,867)</u>	<u>(998,979)</u>	<u>428,405</u>	<u>(20,517,920)</u>	<u>253,757</u>
Income before capital contributions, special items and transfers	<u>5,242,107</u>	<u>3,921,524</u>	<u>5,403,878</u>	<u>4,812,774</u>	<u>19,380,283</u>	<u>(884,724)</u>
Capital contributions	—	—	—	2,241,627	2,241,627	—
Special item – reduction of regulatory asset	(5,968,283)	—	—	—	(5,968,283)	—
Transfers in	—	—	—	1,148,500	1,148,500	1,053,661
Transfers out	—	—	—	(652,722)	(652,722)	(50,000)
Change in net assets	<u>(726,176)</u>	<u>3,921,524</u>	<u>5,403,878</u>	<u>7,550,179</u>	<u>16,149,405</u>	<u>118,937</u>
Total net assets – beginning	<u>99,610,722</u>	<u>52,452,417</u>	<u>31,075,751</u>	<u>196,249,400</u>	<u>29,011,108</u>	<u>29,011,108</u>
Total net assets – ending	<u>\$ 98,884,546</u>	<u>56,373,941</u>	<u>36,479,629</u>	<u>203,799,579</u>	<u>45,160,513</u>	<u>29,130,045</u>
				Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	98,661	
				Change in net assets of business-type activities	<u>\$ 16,248,066</u>	

See accompanying notes to financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA

Statement of Cash Flows
Proprietary Funds

Year ended December 31, 2002

	<u>Business-type Activities – Enterprise Funds</u>		
	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 82,413,792	30,106,158	24,335,261
Payments to employees	(15,925,836)	(9,071,605)	(8,642,223)
Payments to vendors	(38,439,710)	(4,803,056)	(3,545,406)
Internal activity – payments made to other funds	(4,110,179)	(3,407,838)	(2,490,710)
Internal activity – payments received from other funds	3,540,020	—	—
Net cash provided by operating activities	<u>27,478,087</u>	<u>12,823,659</u>	<u>9,656,922</u>
Cash flows from non-capital financing activities:			
Transfers to other funds	—	—	—
Transfers from other funds	—	—	—
Other non-capital receipts	—	—	—
Net cash provided by non-capital and related financing activities	<u>—</u>	<u>—</u>	<u>—</u>
Cash flows from capital and related financing activities:			
Proceeds from issuance of long-term obligations	—	—	—
Principal payments on long-term obligations	(11,295,000)	(4,900,215)	(6,545,065)
Loan from construction cash pool	—	7,992,426	13,041,612
Interest payments on long-term obligations	(13,983,077)	(5,765,929)	(2,365,728)
Acquisition and construction of capital assets	(13,426,841)	(12,629,219)	(12,152,228)
Proceeds from disposition of capital assets	13,421	—	—
Grant proceeds	3,860,000	—	—
Capital contributions – customers	1,332,745	637,981	960,745
Capital contributions – intergovernmental	523,700	1,789,582	931,529
Proceeds from Alaska Clean Water loans	—	1,603,257	1,849,869
Net cash used by capital and related financing activities	<u>(32,975,052)</u>	<u>(11,272,117)</u>	<u>(4,279,266)</u>
Cash flows from investing activities:			
Proceeds from sales and maturity of investments	—	157,700	(4,182,726)
Purchase of investments	(3,594,539)	—	—
Interest received	1,278,332	645,399	75,949
Net cash (used) provided by investing activities	<u>(2,316,207)</u>	<u>803,099</u>	<u>(4,106,777)</u>
Net cash provided (used) by operating activities	(7,813,172)	2,354,641	1,270,879
Cash, beginning of year	<u>30,103,016</u>	<u>10,721,565</u>	<u>10,242,823</u>
Cash, end of year	<u>\$ 22,289,844</u>	<u>13,076,206</u>	<u>11,513,702</u>
Cash	\$ 1,600	—	—
Cash in central treasury	21,344,751	12,612,883	11,184,253
Customer deposits	943,493	463,323	329,449
Cash in construction investment pool in central treasury	—	—	—
Cash, December 31	<u>\$ 22,289,844</u>	<u>13,076,206</u>	<u>11,513,702</u>

Other Enterprise Funds	Total Enterprise Funds	Governmental Activities – Internal Service Funds
41,496,186	178,351,397	1,250,528
(10,647,636)	(44,287,300)	(8,304,255)
(16,780,244)	(63,568,416)	(12,654,926)
(4,837,237)	(14,845,964)	(7,534,752)
<u>4,076,827</u>	<u>7,616,847</u>	<u>33,342,086</u>
<u>13,307,896</u>	<u>63,266,564</u>	<u>6,098,681</u>
(652,722)	(652,722)	(50,000)
1,148,500	1,148,500	1,053,661
—	—	237,753
<u>495,778</u>	<u>495,778</u>	<u>1,241,414</u>
—	—	505,139
(3,892,807)	(26,633,087)	(1,738,941)
—	21,034,038	—
(1,293,641)	(23,408,375)	(407,480)
(10,135,204)	(48,343,492)	(17,763,806)
184,376	197,797	441,538
6,001,385	9,861,385	—
190,748	3,122,219	2,637,888
(1,498,139)	1,746,672	—
—	3,453,126	—
<u>(10,443,282)</u>	<u>(58,969,717)</u>	<u>(16,325,662)</u>
315,971	(3,709,055)	10,722
—	(3,594,539)	—
<u>1,347,107</u>	<u>3,346,787</u>	<u>494,536</u>
<u>1,663,078</u>	<u>(3,956,807)</u>	<u>505,258</u>
5,023,470	835,818	(8,480,309)
<u>32,207,766</u>	<u>83,275,170</u>	<u>21,437,894</u>
<u>37,231,236</u>	<u>84,110,988</u>	<u>12,957,585</u>
3,691,190	3,692,790	—
33,540,046	78,681,933	12,957,585
—	1,736,265	—
<u>622,612</u>	<u>622,612</u>	<u>8,217,418</u>
<u>37,853,848</u>	<u>84,733,600</u>	<u>21,175,003</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Statement of Cash Flows
Proprietary Funds

Year ended December 31, 2002

	Business-type Activities – Enterprise Funds		
	Electric Utility	Water Utility	Wastewater Utility
Reconciliation of change in net assets to net cash provided by operating activities:			
Operating income (loss)	\$ 20,093,586	9,017,391	6,402,857
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	16,120,483	4,008,342	3,586,282
Amortization of landfill closure costs	—	—	—
Allowance for uncollectible accounts	(20,613)	8,653	9,729
Changes in assets and liabilities which increase (decrease) cash:			
Accounts receivable	1,790,203	100,646	793,283
Notes receivable	—	—	—
Unbilled reimbursable work orders	1,275	246,763	34,434
Prepaid items	—	—	—
Inventories	(3,778,909)	61,506	—
Customer deposits	20,731	(469,487)	3,906
Deferred charges and other assets	(5,723,139)	(30,210)	10,017
Accounts payable	(290,463)	(34,699)	(20,033)
Accrued interest payable	—	—	—
Claims payable	—	—	—
Deferred credits	(685,577)	—	(1,078,307)
Deferred revenue	—	—	—
Compensated absences payable	(49,490)	(85,246)	(85,246)
Total cash provided by operating activities	<u>\$ 27,478,087</u>	<u>12,823,659</u>	<u>9,656,922</u>
Non-cash investing, capital and financing activities:			
Capital purchases on account	\$ —	—	—
Deferred refunding loss	—	—	—
Contributed equipment	—	2,514,477	2,194,892
	<u>\$ —</u>	<u>2,514,477</u>	<u>2,194,892</u>

See accompanying notes to financial statements.

<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Governmental Activities – Internal Service Funds</u>
4,384,369	39,898,203	(1,138,481)
8,679,503	32,394,610	6,275,243
792,350	792,350	—
—	(2,231)	—
55,828	2,739,960	63,311
2,331	2,331	—
—	282,472	—
—	—	32,033
—	(3,717,403)	37,414
16,403	(428,447)	—
(14,385)	(5,757,717)	(135,721)
(205,571)	(550,766)	(437,068)
—	—	(11,054)
—	—	1,530,400
(333,440)	(2,097,324)	(26,156)
(19,101)	(19,101)	—
(50,391)	(270,373)	(91,240)
<u>13,307,896</u>	<u>63,266,564</u>	<u>6,098,681</u>
—	—	101,924
140,356	140,356	—
—	4,709,369	—
<u>140,356</u>	<u>4,849,725</u>	<u>101,924</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Statement of Fiduciary Net Assets
Fiduciary Funds

December 31, 2002

	Pension and Other Post Employee Benefit Trust Funds	Employee Benefits Agency Fund
Assets		
Cash in central treasury	\$ 36,614	9,557,161
Investments	326,183,191	—
Accounts receivable	—	9,974
Capital assets, net	41,071	—
Total assets	\$ 326,260,876	9,567,135
Liabilities		
Accounts payable	\$ 61,934	233,898
Due to employees	—	5,856,239
Due to employees' retirement systems	—	727,071
Payroll liabilities	—	2,749,927
Total liabilities	61,934	9,567,135
Net Assets		
Held in trust for:		
Employees' pension benefits	322,161,771	—
Employees' postemployment healthcare benefits	4,037,171	—
Total net assets	\$ 326,198,942	—

See accompanying notes to financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended December 31, 2002

	<u>Pension and Other Post Employee Benefit Trust Funds</u>
Additions:	
Contributions from other funds	\$ 1,116,990
Investment income:	
Interest	7,600,684
Dividends	1,699,025
Net depreciation in fair value of investments	(38,877,990)
Less investments expense	<u>(1,300,412)</u>
Total additions (reductions)	<u>(29,761,703)</u>
Deductions:	
Regular benefit payments	19,772,470
Administrative expenses	<u>1,603,533</u>
Total deductions	<u>21,376,003</u>
Change in net assets	(51,137,706)
Net assets – beginning	<u>377,336,648</u>
Net assets – ending	<u><u>\$ 326,198,942</u></u>

See accompanying notes to financial statements.

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MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The Municipality of Anchorage (Anchorage) operates under an elected non-partisan Mayor-Assembly form of government. The Mayor is elected at large for a three-year term. Legislative power is vested in the Assembly with executive and administrative power vested in the Mayor. The financial statements of the reporting entity include those of Anchorage (primary government) and its component units. The component units discussed below are included in the reporting entity because of the significance of their operational or financial relationships with the primary government.

Blended component units. The Anchorage Parking Authority (Authority) is a public corporation created to promote adequate parking facilities within Anchorage. Anchorage's Mayor appoints the Authority's Board of Directors and the Assembly approves debt and the annual budget for municipal contributions. The Alaska Center for Performing Arts, Inc. (ACPA) operates, maintains and promotes the performing arts center, which is owned by the primary government. The ACPA is fiscally dependent upon the primary government because the ACPA must adhere to budget and fiscal provisions of the Anchorage Municipal Charter and Code and the primary government provides a significant subsidy for its annual operations. Both the Authority and ACPA are reported as enterprise funds.

Discretely presented component units. The Anchorage School District (School District) is responsible for elementary and secondary education within Anchorage. Members of the School Board are elected by the voters, however, the School District is fiscally dependent upon the primary government because the Assembly approves the total budget of the School District, levies the necessary taxes, and approves the borrowing of money and the issuance of bonds. The School District has a June 30 fiscal year end; therefore, the financial information presented in these financial statements is as of and for the year ended June 30, 2002. Anchorage Historic Properties, Inc. (Historic Properties) administers historic preservation projects. The Assembly approves the annual budget and the financing of historic preservation projects.

Complete financial statements of the individual component units can be obtained from their respective administrative offices in the following locations:

Anchorage School District
4600 DeBarr Road
Anchorage, Alaska 99519-6614

Anchorage Parking Authority, Inc.
700 West 6th Avenue, Suite 206
Anchorage, Alaska 99501

Anchorage Historic Properties
645 West 3rd Avenue
Anchorage, Alaska 99501

Anchorage Center for the Performing Arts, Inc.
621 West 6th Avenue
Anchorage, Alaska 99501

(b) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

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revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental fund and major individual enterprise funds are reported as separate columns in the fund financial statements.

(c) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property and other taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, lodging and other taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual. Only the portion of special assessment receivable due within the current period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Anchorage reports the following major governmental funds:

- The *General fund* is the government's primary operating fund. It is used to account for resources which are not required legally or by sound management to be accounted for in any other fund.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

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- The *MOA Trust Fund* accounts for investments and related income from proceeds of the sale of Anchorage Telephone Utility and any other amounts the Anchorage Assembly may add to the fund.

Anchorage reports the following major proprietary funds:

- The *Electric Utility fund* accounts for the operations of the Municipal owned Electric Utility.
- The *Water Utility fund* accounts for the operations of the Municipal owned Water Utility.
- The *Wastewater Utility fund* accounts for the operations of the Municipal owned Wastewater Utility.

Additionally, the government reports the following fund types:

- The *Internal Service funds* account for the management and maintenance of general government equipment and vehicles, management information services, and for general liability, workers' compensation, and unemployment compensation insurance coverage provided to other departments on a cost-reimbursement basis.
- The *Pension and Post-employment Trust funds* account for the Police and Fire Retirement Systems Pension plans and the Police and Fire Retiree Medical plan for eligible Police and Fire retirees.
- The *Agency fund* accounts for payroll related liabilities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. Anchorage has elected not to follow subsequent private-sector guidance.

The regulated Electric, Water and Wastewater Utilities (Utilities) follow provisions of Financial Accounting Standards Board Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*. The Utilities' rates are regulated by the Regulatory Commission of Alaska (RCA), and as a result, revenues intended to recover certain costs are provided either before or after the costs are incurred, resulting in regulatory assets or liabilities. The Utilities receive contributions in aid of construction which for rate-making purposes are amortized over the life of the respective utility plant as a reduction of depreciation expense. Consequently, contributions in aid of construction are recorded as a regulatory liability in the accompanying basic financial statements. The Utilities' rates also include an allowance for the cost of funds used during construction (AFUDC), this amount is capitalized in the accompanying financial statements. Associated rate case expenses are amortized over a period of 24 to 60 months.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between Anchorage's various business-type functions and various other functions of Anchorage. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

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Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is Anchorage's policy to use unrestricted resources first, and then restricted resources, as they are needed.

(d) *Assets, Liabilities, and Fund Equity*

Cash and Investments

To obtain flexibility in cash management, Anchorage uses a central treasury. 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.

Municipal Code (Code) authorizes Anchorage to invest in negotiable certificates of deposit issued by banks rated at least "A" by a nationally recognized rating service or non-negotiable certificates of deposit of other depository agreements collateralized according to the Code. Anchorage and the School District maintain non-interest bearing deposits of \$4,680,000 (adjusted quarterly) and \$985,000, respectively, as compensating balances in return for banking services. Code requires deposits to be collateralized by securities valued at current market value.

The Code further authorizes Anchorage to invest in the following:

- Direct obligations of or obligations insured or guaranteed by the United States of America or agencies thereof;
- Commercial paper with no more than nine-months maturities issues by business organizations 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; and
- Repurchase agreements secured by obligations insured or guaranteed by the United States of America or agencies or instrumentalities thereof.

The Anchorage Parking Authority's bond indenture agreements require that bond moneys be invested in the following:

- Direct obligations of or obligations insured or guaranteed by the United States of America or agencies thereof;
- Interest bearing deposits or certificates of deposit if amounts in excess of amounts insured by the Federal Deposit Insurance Corporation are collateralized by obligations of the United

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States of America, or agencies thereof, State of Alaska, Municipality of Anchorage, or bonds of other states or municipalities in the two highest rating categories;

- Interest bearing notes maturing in six months, or less, issued by a bank with capital in excess of \$200,000,000 and rated in the two highest rating categories by a national rating agency;
- Repurchase agreements fully collateralized; and
- Banker's acceptances, certificates of deposit, and investment agreements of institutions with stated capital and surplus in excess of \$200,000,000 and rated within the two highest rating categories assigned by Standard and Poor's Corporation or Moody's Investors Services, Inc.

Investments at December 31, 2002 are reported at fair value. Investment income on cash pool investments is allocated to the various funds based on their month-end cash pool equity balances. Funds which have negative balances in the cash pools are charged interest; the interest income is allocated to those funds having equity in the cash pools.

Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property taxes receivable, including those business-type activities, are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectibles, including those related to business-type activities.

Property Taxes

Property taxes attach a lien on property on the first day of the tax year in which taxes are levied. For 2002, real property taxes were levied on May 22. Real property taxes were payable in two installments on June 30 and August 15, and personal property taxes in two installments on August 31 and October 31. The School District had accrued taxes and deferred revenue of \$71,477,920 for financing half of the 2002-2003 budget as of June 30, 2002. Taxes receivable of \$10,469,554 at December 31, 2002, include interest and penalties of \$1,416,830 and is net of an allowance for doubtful property taxes receivable of \$982,525. The property taxes receivable allowance is equal to approximately 9.38% of outstanding property taxes at December 31, 2002.

Inventories and Prepaid Items

Inventories are valued at cost (specific identification), except inventories of the Utilities, which are valued at the lower of average cost or market. All primary government inventories are recorded as expenditures or expenses when used (consumption method).

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

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Restricted Assets

Assets which are restricted for specific uses by bond covenants, grant provisions or other requirements are classified as restricted assets. The “bond operation and maintenance account” is used to report resources set aside to subsidize potential deficiencies from Anchorage’s operations that could adversely effect debt service payments. The “bond acquisition and construction account” is used to report those proceeds of bond issuances that are restricted for use in construction. The “debt service account” is used to segregate resources accumulated for debt service payments. “Intergovernmental receivables” represent grant receivables due from state and federal governments. Restricted assets, excluding customer deposits, are considered investments, and as such, are excluded from cash for the purposes of the statement of cash flows. Liabilities payable from such restricted assets are separately classified.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, street lights, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by Anchorage as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Capital assets owned by Anchorage but managed by the Anchorage School District are reported on the Anchorage School District’s financial statements. Donated capital assets are recorded at estimated fair market value at the date of donation.

The Utilities capitalize interest on construction work in progress in accordance with regulatory requirements. The non-regulated enterprise funds capitalize interest on projects which exceed \$50,000 when interest exceeds \$1,000 annually. Interest was capitalized in 2002 in the amounts of \$339,480, \$638,201, and \$507,880 for the Electric, Water and Wastewater Utilities, respectively. The non-regulated enterprise funds did not capitalize interest in 2002 because the amounts were not material.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

For all regulated utility property replaced or retired, the average cost of the property unit, plus removal cost less salvage value, is charged to accumulated depreciation. Gain or loss on the sale or retirement of plant is not recognized, except for extraordinary retirement. For all other proprietary fund types, gain or loss on the sale or retirement is recognized.

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Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	3-47 years
Production, Treatment, General Plant, Transmission and Reservoirs	5-90 years
Lift Stations, Interceptor, Trunks and Laterals	50-85 years
Equipment Containers	14 years
Office equipment and vehicles	3-25 years
Infrastructure (other than roads)	30 years

Anchorage has elected to use the modified approach on its paved road infrastructure network.

Under this election, Anchorage does not depreciate infrastructure assets that are part of a network or subsystem of a network that meet two specific requirements. First, Anchorage manages the paved road infrastructure network using an asset management system that has certain specified characteristics; second, Anchorage documents that the paved road infrastructure network is being preserved approximately at (or above) a condition level established and disclosed by Anchorage.

Compensated Absences

It is Anchorage's policy to permit employees to accumulate earned but unused annual leave benefits. All annual leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they are due and payable, for example, as a result of employee resignations or retirements.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statements of net assets. Bond premiums, discounts, gains and losses on bond refundings, and issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premiums, discounts, gains and loss on bond refundings. Bond issuance costs are reported as deferred charges and amortized over the life of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a

MUNICIPALITY OF ANCHORAGE, ALASKA

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specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(e) Revenues

Utility Revenues

Utility revenues (excluding gas revenues) are based on cycle billings rendered monthly to customers. As a result of this cycle billing method, the Utilities do not accrue revenue at the end of any fiscal period for services sold but not billed at such date.

(f) Statement of Cash Flows

For the purposes of the statement of cash flows, Anchorage has defined cash as the demand deposits and all investments maintained in the central treasury (regardless of maturity period), because the funds use the pool essentially as a demand deposit account. Anchorage has excluded the construction investment pool within the central treasury and restricted assets, which are not considered demand deposits.

(g) New Accounting and Reporting Standards

Effective January 1, 2002, Anchorage adopted the following new accounting and reporting standards:

- Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* (Statement No. 34). This statement requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between Anchorage's governmental activities, business-type activities and activities of its discretely presented component units on the statements of net assets and activities. Anchorage's statement of net assets will include both noncurrent assets and noncurrent liabilities of Anchorage, which were previously recorded in the General Fixed Asset Account Group and the General Long-term Debt Account Group. In addition to the capital assets previously recorded in the General Fixed Asset Account Group, Anchorage retroactively capitalized infrastructure assets for its road network. All other general government infrastructure assets have been reported prospectively. The government-wide statement of activities does not reflect depreciation expense on Anchorage's infrastructure paved road network, which has been accounted for using the modified approach. No other infrastructure was reported in 2002.

Statement No. 34 also requires the presentation of fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus for governmental funds. Accordingly, the accounting and financial reporting for Anchorage's General Fund, Debt Service, Special Revenue, Permanent and Capital Projects funds is similar to that previously presented in Anchorage's financial statements, although the format of the financial statements has been modified. The permanent fund is a newly created governmental fund type used to report resources that are legally restricted to the extent that

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

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only earnings, and not principal, may be used for the reporting government's programs, that is, for the benefit of Anchorage and its citizenry. This statement also requires as required supplementary information Management's Discussion and Analysis which includes an analytical overview of Anchorage's financial activities. In addition, a budgetary comparison schedule which compares the adopted and modified General Fund budget with actual results is presented as required supplementary information.

The implementation of GASB Statement No. 34 resulted in a restatement of fund balance at January 1, 2002 (in thousands) as follows:

Total fund balances – governmental funds at December 31, 2001	\$	267,715
Add: Capital assets, net		2,839,887
Long term assets not recognized under modified accrual basis		55,520
Cumulative effect of compensated absences prior to Interpretation 6		5,736
Less: Long-term liabilities		<u>(512,833)</u>
Net assets of governmental activities at January 1, 2002	\$	<u><u>2,656,025</u></u>

- Governmental Accounting Standards Board Statement No. 37, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Government: Omnibus*. This statement amends Statement No. 34.
- Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*. This statement modifies, establishes, and rescinds certain financial statements disclosure requirements in the area of long term obligations, receivable and payable balances and interfund activity, as well as within the summary of significant accounting policies.
- Governmental Accounting Standards Board Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. The interpretation clarifies that liabilities not due and payable on the last day of the fiscal year should not be reported on governmental fund balance sheets. Adoption of this interpretation resulted in a restatement of \$5,736,132 in the general fund to reverse the amount of compensated absences that were not due and payable on December 31, 2001 that were previously recorded.

(2) Stewardship, Compliance, and Accountability

(a) Deficit of Individual Funds

The Information Technology Internal Service Fund reflects a retained deficit of \$100,444 due to having incurred, but not having fully recovered, costs of upgrading computer systems for Year 2000 compliance and under-recovery of prior year expenses from user departments. This deficit is expected to be eliminated when the costs are recovered from the user departments over the next several years. The Jail Bond Debt Service Fund reflects a deficit balance of \$13,347. This deficit is expected to be eliminated by a transfer in 2003. The Miscellaneous Capital Projects Fund reflects a deficit fund balance of \$164,778. This deficit is expected to be eliminated by a transfer in 2003. The

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

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General Liability/Workers' Compensation Risk Management Internal Service Fund reflects a deficit net asset of \$2,010,572. The deficit was eliminated by a transfer subsequent to year end.

(b) Related Party Transactions

Parking Authority: The primary government has leased 600 spaces located on four sites to the Parking Authority for a period of 35 years at \$10 per year per lot.

Elected and Appointed Public Officials: Anchorage's elected and appointed public officials have not engaged in any business which would cause a material conflict of interest.

(3) Cash and Investments

At year end, Anchorage's carrying amount of deposits was \$7,992,856 and the bank balance was \$10,640,217. Of the bank balance, \$10,640,217 was covered by federal depository insurance or by collateral held by Anchorage's agent in Anchorage's name.

Investments are categorized into these three categories of custodial credit risk:

1. Insured or registered, or securities held by Anchorage or its agent in Anchorage's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in Anchorage's name.
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in Anchorage's name.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

At year end, Anchorage's investment balances were as follows:

	Category			Carrying Value
	1	2	3	
Repurchase agreements	\$ 52,084,820	—	—	52,084,820
Corporate bonds –				
Anchorage	5,530,085	—	—	5,530,085
Commercial paper –				
Anchorage	39,855,100	—	—	39,855,100
U.S. Government and Agency Securities:				
Anchorage	213,965,611	—	—	213,965,611
Police/Fire Retirement System Trust	33,007,794	—	—	33,007,794
Fixed Income Securities:				
Police/Fire Retirement System Trust	58,314,283	—	—	58,314,283
Municipality of Anchorage Trust	45,589,571	—	—	45,589,571
Equity Securities:				
Police/Fire Retirement System Trust	49,404,040	—	—	49,404,040
Municipality of Anchorage Trust	30,626,753	—	—	30,626,753
	<u>528,378,057</u>	<u>—</u>	<u>—</u>	<u>528,378,057</u>
Component units –				
Alaska Center for Performing Arts				
Repurchase Agreement	981,020	—	—	981,020
	<u>\$ 529,359,077</u>	<u>—</u>	<u>—</u>	<u>529,359,077</u>
Amounts not classified because they do not exist in physical or book entry form:				
Anchorage:				
Money market funds				5,545,875
Non-participating annuity				11,966,000
Alaska Center for Performing Arts –				
money market funds				305,814
Police/Fire Retiree Medical Liability –				
mutual funds				13,768,501
Police/Fire Retiree Medical Trust –				
mutual funds				4,035,690
Municipality of Anchorage Trust –				
mutual funds				33,247,554
Police/Fire Retirement System Trust:				
Equity securities – pooled				122,668,147
Short-term investment funds – pooled				20,768,624
mutual funds				14,889,672
Real estate investment trust				16,832,177
Real estate mortgages				6,262,764
				<u>\$ 779,649,895</u>
Cash and investments				\$ 779,649,895
Cash on hand and in banks				7,992,856
				<u>\$ 787,642,751</u>
Governmental activities				\$ 289,762,603
Business type activities				162,103,182
Fiduciary funds				335,776,966
				<u>\$ 787,642,751</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

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(4) Receivables

Receivables as of year end for Anchorage's individual governmental major fund, governmental nonmajor funds and business-type activities in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental activities		Business-type activities	Total
	General fund	Nonmajor funds	Enterprise funds	
Property taxes	\$ 10,469,554	—	—	10,469,554
Unbilled reimbursable work orders	—	—	617,792	617,792
Special assessments receivable	1,697,549	1,002,013	126,014	2,825,576
Capital lease receivable	58,575,000	—	377,770	58,952,770
Trade accounts	22,227,208	5,689,424	13,946,551	41,863,183
	92,969,311	6,691,437	15,068,127	114,728,875
Allowance for uncollectible accounts	(16,147,173)	—	(616,424)	(16,763,597)
	\$ 76,822,138	6,691,437	14,451,703	97,965,278

Special assessment receivables and that portion outside of amount due within one year of capital leases receivables are not expected to be collected within one year.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

(5) Capital Assets

Capital asset activity for the year ended December 31, 2002, was as follows (in thousands):

(a) Primary Government

	<u>Beginning balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,190,221	3,631	—	1,193,852
Construction work-in-progress	137,520	54,178	(40,174)	151,524
Infrastructure	1,267,854	8,354	—	1,276,208
Total	<u>2,595,595</u>	<u>66,163</u>	<u>(40,174)</u>	<u>2,621,584</u>
Capital assets, being depreciated:				
Buildings and improvements	369,384	1,091	—	370,475
Equipment	135,920	14,850	(5,519)	145,251
Total	<u>505,304</u>	<u>15,941</u>	<u>(5,519)</u>	<u>515,726</u>
Less accumulated depreciation for:				
Buildings and improvements	184,898	5,757	—	190,655
Equipment	76,114	12,703	(2,946)	85,871
Total	<u>261,012</u>	<u>18,460</u>	<u>(2,946)</u>	<u>276,526</u>
Total capital assets being depreciated	<u>244,292</u>	<u>(2,519)</u>	<u>(2,573)</u>	<u>239,200</u>
Total governmental activities, net	<u>\$ 2,839,887</u>	<u>63,644</u>	<u>(42,747)</u>	<u>2,860,784</u>

Anchorage has elected to use the modified approach for its paved road infrastructure network. At December 31, 2002 no other infrastructure is reported retroactively, as it does not meet the major general infrastructure criteria under Statement No. 34. No other infrastructure in governmental activities is reported prospectively as management has determined them to not be material to the financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

	<u>Beginning balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 54,591	34	—	54,625
Construction work-in-progress	<u>38,066</u>	<u>48,064</u>	<u>(36,433)</u>	<u>49,697</u>
Total	92,657	48,098	(36,433)	104,322
Capital assets, being depreciated:				
Distribution and collection systems, infrastructure	1,422,131	38,166	(20,719)	1,439,578
Buildings and improvements	<u>127,540</u>	<u>2,825</u>	<u>(41)</u>	<u>130,324</u>
Total	<u>1,549,671</u>	<u>40,991</u>	<u>(20,760)</u>	<u>1,569,902</u>
Less accumulated depreciation for:				
Distribution and collection systems, infrastructure	548,411	29,239	(7,876)	569,774
Buildings and equipment	<u>43,669</u>	<u>3,156</u>	<u>(170)</u>	<u>46,655</u>
Total	<u>592,080</u>	<u>32,395</u>	<u>(8,046)</u>	<u>616,429</u>
Total capital assets being depreciated	<u>957,591</u>	<u>8,596</u>	<u>(12,714)</u>	<u>953,473</u>
Total business-type activities, net	\$ <u>1,050,248</u>	<u>56,694</u>	<u>(49,147)</u>	<u>1,057,795</u>

Depreciation expense was charged to the departments and functions of the primary government as follows (in thousands):

Governmental activities:	
General government	\$ 649
Fire services	2,064
Police services	940
Health and human services	769
Cultural and recreation services	10,291
Public transportation	2,835
Planning, development and public works	645
Maintenance and operations	<u>267</u>
Total – Governmental activities	\$ <u>18,460</u>
Business-type activities:	
Water	\$ 4,008
Wastewater	3,586
Electric	16,121
Port	3,215
Municipal airport	1,375
Solid Waste	2,430
Refuse	519
Parking Authority	<u>1,141</u>
Total – Business-type activities	\$ <u>32,395</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

(b) Discretely Presented Component Units – Anchorage School District – Capital Assets

Activity for the for the year ended June 30, 2002, was as follows:

CHANGES IN CAPITAL ASSETS

The following is a summary of the changes in capital assets used in the governmental activities:

	<u>Balance July 1, 2001</u>	<u>Additions/ Transfers</u>	<u>Deduction/ Transfers</u>	<u>Balance June 30, 2002</u>
Land and improvements	\$ 59,858,783	4,309,185	10,451	64,157,517
Buildings and equipment	972,523,672	13,688,385	55,951,246	930,260,811
Pupil transportation equipment	7,250,820	270,406	139,416	7,381,810
Construction in progress	44,574,395	72,498,777	5,996,731	111,076,441
	<u>\$ 1,084,207,670</u>	<u>90,766,753</u>	<u>62,097,844</u>	<u>1,112,876,579</u>

The capital assets activity for the fiscal year ended June 30, 2002 are as follows:

	<u>Balance July 1, 2001</u>	<u>Additions/ Transfers</u>	<u>Deduction/ Transfers</u>	<u>Balance June 30, 2002</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 24,793,447	730,265	10,451	25,513,261
Construction in progress	44,574,395	72,498,777	5,996,731	111,076,441
Total capital assets not being depreciated	<u>69,367,842</u>	<u>73,229,042</u>	<u>6,007,182</u>	<u>136,589,702</u>
Capital assets being depreciated:				
Land improvements	35,065,336	3,578,920	—	38,644,256
Buildings and equipment	972,523,672	14,776,826	57,039,687	930,260,811
Pupil transportation equipment	7,250,820	270,406	139,416	7,381,810
Total capital assets being depreciated	<u>1,014,839,828</u>	<u>18,626,152</u>	<u>57,179,103</u>	<u>976,286,877</u>
Less accumulated depreciation for:				
Land improvements	(21,907,282)	(2,520,845)	—	(24,428,127)
Buildings and equipment	(222,628,322)	(24,779,457)	(4,734,475)	(242,673,304)
Pupil transportation equipment	(4,502,854)	(632,152)	(133,420)	(5,001,586)
Total accumulated depreciation	<u>(249,038,458)</u>	<u>(27,932,454)</u>	<u>(4,867,895)</u>	<u>(272,103,017)</u>
Total capital assets, being depreciated, net	<u>765,801,370</u>	<u>(9,306,302)</u>	<u>52,311,208</u>	<u>704,183,860</u>
Governmental activities capital assets, net	<u>\$ 835,169,212</u>	<u>63,922,740</u>	<u>58,318,390</u>	<u>840,773,562</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

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(6) Interfund Receivables, Payables, and Transfers

(a) Interfund Receivables and Payables

A summary of interfund receivables and payables is as follows:

	Receivables			Payables		
	Interfund	Blended component unit/primary government	Discretely presented component unit/primary government	Interfund	Blended component unit/primary government	Discretely presented component unit/primary government
General fund	\$ 2,944,877	86,613	180,578	—	—	47,651,527
Non-major governmental funds	31,119,274	—	—	2,244,070	86,613	—
Major enterprise funds:						
Water Utility	—	—	—	7,992,426	—	—
Wastewater Utility	—	—	—	13,041,612	—	—
Internal service funds	8,966,967	—	—	19,753,010	—	—
Total primary government	43,031,118	86,613	180,578	43,031,118	86,613	47,651,527
Discretely presented component unit Anchorage School District, June 30, 2002	—	—	71,527,546	—	—	—
Adjustment –						
Activity occurring between July 1, 2002 and December 31, 2002	—	—	(23,876,019)	—	—	180,578
Total reporting entity	\$ 43,031,118	86,613	47,832,105	43,031,118	86,613	47,832,105

All balances are expected to be settled within the next fiscal year, except for those interfund receivables and payables recorded as advances to/from other funds.

(b) Interfund Transfers

A summary of interfund transfers is as follows:

	Transfers In		Transfers Out	
	Interfund	Blended component unit/primary government	Interfund	Blended component unit/primary government
General fund	\$ 10,175,325	480,185	5,112,815	1,148,500
MOA Trust Fund	—	—	7,025,863	—
Non-major governmental funds	6,035,796	—	6,020,557	—
Non-major enterprise funds	—	1,148,500	172,537	480,185
Internal service funds	1,053,661	—	50,000	—
Fuduciary funds	1,116,990	—	—	—
Total primary government	\$ 18,381,772	1,628,685	18,381,772	1,628,685

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Significant transfers were as follows:

- General Fund transferred \$1,148,500 to the Anchorage Center for the Performing Arts component unit to fund operations;
- General Fund transferred \$3,380,000 to Capital Projects Funds for the acquisition and construction of capital assets.

(7) Lease Agreements

(a) Lease Commitments

Commitments under operating lease agreements for facilities provide for minimum annual rental payments as follows (in thousands):

<u>Years</u>	<u>Anchorage</u>
2003	\$ 5,087
2004	5,100
2005	5,121
2006	5,096
2007	5,177
2008-2012	20,717
2013-2017	20,717
2018-2022	20,717
2023-2027	11,669
2028-2032	2,709
Total	\$ 102,110
2002 rent expense	\$ 4,626

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Notes to Basic Financial Statements

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(b) Investment in Direct Financing Leases

Anchorage has entered into direct financing leases for various plant and equipment located at the Port of Anchorage.

Components of the investments in leases as of December 31, 2002 follow (in thousands):

	<u>Direct Financing</u>
Total minimum lease payment to be received	\$ 3,327
Less:	
Unearned interest income	<u>(768)</u>
Net investment in leases	2,559
Amount due within one year	<u>(378)</u>
 Total non-current investment – included in deferred changes and other assets in the accompanying financial statements	 \$ <u><u>2,181</u></u>
 Minimum lease payments to be received as follows:	
2003	\$ 603
2004	603
2005	603
2006	603
2007	365
2008-2010	<u>550</u>
	\$ <u><u>3,327</u></u>

(c) Port of Anchorage Lease Agreements

The Port of Anchorage has leased to unrelated third parties 72.8 acres of space in the Port Industrial Park. The leases provide for five-year rental adjustment intervals. Future minimum payments to be received are as follows (in thousands):

<u>Years</u>	<u>Amount</u>
2003	\$ 2,334
2004	2,165
2005	1,997
2006	<u>356</u>
Total	\$ <u><u>6,852</u></u>
Lease revenue for 2002	\$ <u><u>2,795</u></u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

(d) Parking Authority Lease Agreements

Leases to unrelated third parties of 9,150 square feet of retail space in Sixth Avenue Parking Mall provide for adjustments to rent based on the Consumer Price Index and additional rents based on gross revenue. The lease to an unrelated party of Fifth Avenue Garage retail space through September 13, 2007 provides for a minimum rental of \$480,000 per year and additional rent equal to 50% of net income each calendar year as defined by the lease. Future minimum rental on non-cancelable operating leases follow (in thousands):

Years	Sixth Avenue	Fifth Avenue
2003	\$ 20	480
2004	—	480
2005	—	480
2006	—	480
2007	—	340
Total	\$ 20	2,260
Lease revenue for 2002	\$ 20	480

(8) Long Term Obligation

(a) General Obligation Bonds

Anchorage issues general obligation (GO) bonds to provide funds for capital acquisition and construction. GO bonds are direct obligations and pledge the full faith and credit of the government. They generally are issued as 20-year serial bonds with equal amounts of principal and interest payments due each year.

A portion of Anchorage's GO bonds are reported in the proprietary funds since they are expected to be repaid from proprietary fund revenues; such amounts total \$30,936,573, net of unamortized discounts and losses on refundings of \$1,148,430 at December 31, 2002. School District GO Bonds are reported as obligations of the component unit since they are expected to be repaid from School District revenues; such amounts total \$607,940,000 at June 30, 2002. All other Anchorage GO bonds are reported in the government-wide financial statements.

In June 2002, Anchorage issued \$54,365,000 of new general obligation bonds to provide funding for capital acquisition and construction projects.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

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Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Years</u>	Governmental Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 20,680,000	15,316,236	35,996,236
2004	20,795,000	13,676,409	34,471,409
2005	21,380,000	13,459,629	34,839,629
2006	21,755,000	12,485,466	34,240,466
2007	19,105,000	11,545,444	30,650,444
2008-2012	84,125,000	44,679,332	128,804,332
2013-2017	80,405,000	23,463,958	103,868,958
2018-2022	48,960,000	5,308,864	54,268,864
Totals	317,205,000	139,935,338	457,140,338
Add unamortized premiums/ discounts, net	3,494,475	—	3,494,475
	<u>\$ 320,699,475</u>	<u>139,935,338</u>	<u>460,634,813</u>

<u>Years</u>	Business-type Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 7,875,000	1,389,053	9,264,053
2004	7,925,000	1,004,095	8,929,095
2005	8,000,000	628,015	8,628,015
2006	6,415,000	259,748	6,674,748
2007	430,000	99,640	529,640
2008-2012	1,440,000	157,285	1,597,285
Totals	32,085,000	3,537,836	35,622,836
Less unamortized premiums/ discounts, net	(1,148,427)	—	(1,148,427)
	<u>\$ 30,936,573</u>	<u>3,537,836</u>	<u>34,474,409</u>

(b) Revenue Bonds

On April 15, 2000 Anchorage issued \$60,440,000 in Revenue Bonds for the purpose of construction and operation of the new municipal jail facility that will be leased to the State of Alaska. Jail revenue bond covenants require an "absolute net lease" pursuant to which Anchorage shall not be expected or required to make any payment of any kind under the Agreement of Lease. The Department of Administration (DOA) of the State of Alaska is required to make all payments under the Agreement of Lease. The DOA's obligation to make lease payments and to perform and observe all other covenants and agreements is absolute and unconditional except as expressly provided in the Agreement of Lease.

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Electric, Water, Wastewater, Solid Waste, Refuse Collection and Port revenue bond covenants require establishment of certain cash reserves. Revenue bond covenants further stipulate that operating income, as defined in the covenants, will be at least equal to 1.25 to 1.40 times the debt service requirement for that year. All such requirements were met in 2002.

Annual debt service requirements to maturity for revenue bonds are as follows:

<u>Years</u>	Governmental Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 1,965,000	3,248,594	5,213,594
2004	2,065,000	3,147,844	5,212,844
2005	2,175,000	3,039,125	5,214,125
2006	2,290,000	2,921,919	5,211,919
2007	2,415,000	2,798,413	5,213,413
2008-2012	14,255,000	11,801,497	26,056,497
2013-2017	19,040,000	7,020,263	26,060,263
2018-2020	14,370,000	1,267,925	15,637,925
	<u>\$ 58,575,000</u>	<u>35,245,580</u>	<u>93,820,580</u>

<u>Years</u>	Business-type Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 17,985,000	18,434,958	36,419,958
2004	20,015,000	18,069,874	38,084,874
2005	20,625,000	17,013,100	37,638,100
2006	21,775,000	17,179,426	38,954,426
2007	19,400,000	16,164,734	35,564,734
2008-2012	96,595,000	63,989,430	160,584,430
2013-2017	82,990,000	35,649,675	118,639,675
2018-2022	49,185,000	17,977,775	67,162,775
2023-2027	32,945,000	4,905,269	37,850,269
2028-2032	3,270,000	833,300	4,103,300
	364,785,000	210,217,541	575,002,541
Less unamortized premiums/ discounts, net	<u>(21,675,373)</u>	<u>—</u>	<u>(21,675,373)</u>
	<u>\$ 343,109,627</u>	<u>210,217,541</u>	<u>553,327,168</u>

(c) Special Assessment District Bonds

In 1989 Anchorage issued \$3,438,200 of Roads and Drainage Consolidated Special Assessment (CSA) District 1 Bonds. In 1990 Anchorage issued \$590,770 for Water Utility CSA District 2 and \$985,448 for Water and Wastewater Utility CSA District 3. In 1991 Anchorage issued \$728,721 for Roads and Drainage Special Assessment District 1P87. In 1992 Anchorage issued \$48,667 for Natural Gas Line Special Assessment District 2G90. In 1993, Anchorage issued \$532,677 for Natural Gas Line Special Assessment Districts 1G91. These bonds were issued to provide

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permanent financing for improvements in certain identified special assessment districts. The bonds are backed only by the assessments levied in the identified districts and by the Roads and Drainage Guarantee Reserves, the Natural Gas Line Guarantee Reserves, and the Water and Wastewater Special Assessment Guarantee Reserves. The debt for Roads and Drainage and Natural Gas Line bonds is included in the Governmental Activities while the debt for CSA Districts 2 and 3 bonds is included in the Business-type Activities.

Annual debt service requirements to maturity for special assessment bonds are as follows:

<u>Years</u>	Governmental Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 125,000	83,031	208,031
2004	130,000	72,772	202,772
2005	145,000	62,101	207,101
2006	155,000	50,211	205,211
2007	165,000	37,486	202,486
2008-2012	300,000	42,989	342,989
	<u>\$ 1,020,000</u>	<u>348,590</u>	<u>1,368,590</u>

<u>Years</u>	Business-type Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 95,000	32,600	127,600
2004	40,000	25,025	65,025
2005	40,000	21,850	61,850
2006	40,000	18,675	58,675
2007	45,000	15,500	60,500
2008-2012	150,000	24,650	174,650
	410,000	138,300	548,300
Less unamortized premiums/ discounts, net	(12,558)	—	(12,558)
	<u>\$ 397,442</u>	<u>138,300</u>	<u>535,742</u>

(d) Certificates of Participation

On April 1, 1994, Anchorage issued \$6,995,000 of Certificates of Participation, Series 1994B Tax Exempt, for the Information Technology Internal Service Fund.

On July 1, 1999 Anchorage issued \$2,437,262 of Certificates of Participation, Series 1999A Tax Exempt, for the Information Technology Internal Service Fund.

Proceeds from the sale of the Series 1994B and 1999A Non-taxable Certificates were used to prepay an existing lease obligation, to acquire new property, to fund a reserve fund for the payment of principal and interest on the certificates and to pay certificate issuance costs. The debt, included in the Internal Service Fund, is not backed by a pledge of the full faith and credit of Anchorage.

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Annual debt service requirements to maturity for certificates of participation are as follows:

<u>Years</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 2,915,000	543,143	3,458,143
2004	3,055,000	401,320	3,456,320
2005	3,200,000	248,000	3,448,000
2006	3,360,000	84,000	3,444,000
	<u>\$ 12,530,000</u>	<u>1,276,463</u>	<u>13,806,463</u>

(e) *Notes and Contracts*

Anchorage has various notes and contracts for equipment in its Information Technology Department and clean water fund loans in its Solid Waste, Water and Wastewater Utilities.

Annual debt service requirements to maturity for notes and contracts are as follows:

<u>Years</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 802,496	66,473	868,969
2004	380,616	33,292	413,908
2005	127,890	79,441	207,331
2006	54,585	15,713	70,298
2007	57,418	12,881	70,299
2008-2012	190,761	20,135	210,896
	<u>\$ 1,613,766</u>	<u>227,935</u>	<u>1,841,701</u>

<u>Years</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 2,517,837	1,170,891	3,688,728
2004	2,654,972	1,188,016	3,842,988
2005	2,695,499	1,105,911	3,801,410
2006	2,735,853	1,010,217	3,746,070
2007	2,777,214	941,834	3,719,048
2008-2012	14,543,610	3,646,326	18,189,936
2013-2017	12,528,716	1,892,372	14,421,088
2018-2023	7,637,221	490,669	8,127,890
2024-2029	165,569	5,815	171,384
	<u>\$ 48,256,491</u>	<u>11,452,051</u>	<u>59,708,542</u>

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Notes to Basic Financial Statements

December 31, 2002

(f) Bonds Authorized But Unissued

A summary of authorized but unissued bonds as of December 31, 2002 (in thousands):

<u>General Obligation Bonds</u>	<u>Interest Limitation</u>	<u>Amount Authorized</u>	<u>Amount Issued</u>	<u>Remaining Authorized</u>
Primary Government:				
Public transit services	None	\$ 1,780	500	1,280
Culture and recreation services	None	5,750	—	5,750
Roads and drainage	None	66,840	45,000	21,840
Emergency services	None	3,490	550	2,940
Fire protection	None	7,200	—	7,200
Total authorized but unissued general obligation bonds			\$	<u>39,010</u>

There are \$73,150,000 authorized but unissued general obligation school bonds of the Municipality of Anchorage at December 31, 2002 as follows (in thousands):

<u>Purpose</u>	<u>Ordinance Date</u>	<u>Interest Limitation</u>	<u>Amount Authorized</u>	<u>Amount Issued</u>	<u>Remaining Authorized</u>
Construction/renovation/ acquisition of school facilities	April 20, 1999	None	\$ 173,150	100,000	73,150

(g) Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2002, was as follows (in thousands):

	<u>Balance January 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2002</u>	<u>Due within one year</u>
Governmental activities:					
General obligation bonds	\$ 279,485	133,142	(91,928)	320,699	20,680
Revenue bonds	60,440	—	(1,865)	58,575	1,965
Special assessment district bonds	1,255	—	(235)	1,020	125
Certificates of participation	15,315	—	(2,785)	12,530	2,915
Long-term contracts	5,047	—	(3,433)	1,614	802
Total debt payable	361,542	133,142	(100,246)	394,438	26,487
Compensated absences	12,812	10,679	(10,788)	12,703	12,703
Post-employment benefits	138,479	15,440	—	153,919	—
Total governmental activities	\$ <u>512,833</u>	<u>159,261</u>	<u>(111,034)</u>	<u>561,060</u>	<u>39,190</u>

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	Balance January 1, 2002	Additions	Reductions	Balance December 31, 2002	Due within one year
Business-type activities:					
General Obligation Bonds	\$ 38,191	13,080	(20,335)	30,936	7,875
Revenue Bonds	360,305	—	(17,195)	343,110	17,985
Special assessment district bonds	522	—	(125)	397	95
Long-term contracts	49,785	857	(2,386)	48,256	2,517
Total bonds payable	448,803	13,937	(40,041)	422,699	28,472
Compensated absences	4,180	3,383	(3,686)	3,877	3,537
Total business-type activities	\$ 452,983	17,320	(43,727)	426,576	32,009

(h) Refunded Bond Issues

In June 2002 Anchorage issued \$85,815,000 of new general obligation bonds at an effective interest rate of 4.27% to advance refund a total of \$85,015,000 of outstanding bonds, \$13,080,000 of which are accounted for in the Wastewater fund. The economic gain generated by this refunding was \$731,982 calculated as the difference between the present value of the debt service requirements of the new debt and the present value of the debt services requirement of the refunded debt. The accounting gain generated by this refunding was \$813,519.

(i) Defeasance of Debt

Anchorage defeased certain general obligation and reserve bonds by placing the proceeds of new bonds and other available funds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, trust account assets and liabilities for defeased bonds are not included in Anchorage's financial statements. At December 31, 2002 the amount of general obligation and revenue bonds considered defeased was \$358,200,000.

(j) School District Debt

The following is a summary of long-term debt transactions of the School District for fiscal year ended June 30, 2002 (in thousands):

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
General obligation bonds	\$ 496,555	202,145	90,760	607,940
Long-term contracts	68	—	33	35
	\$ 496,623	202,145	90,793	607,975

On June 27, 2002, Anchorage issued \$131,800,000 of general obligation bonds. The net proceed of \$137,754,059, were recorded in the School District Capital Projects Fund. Included in this amount are as follows: \$7,237,446 from bond premium and \$1,283,387 for the payment of underwriting fees, insurance premium and other issuance cost.

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The proceeds from the sale of these bonds will be used to pay for the costs of planning, designing, acquiring property for, preparing the sites for, constructing, acquiring, renovating, installing and equipping the educational capital improvements of the District.

Bonds payable at June 30, 2002 are comprised of the following individual issues (in thousands):

<u>General Obligation Bonds</u>	<u>Amount</u>
\$19,450,000 1992 series B school construction serial bonds due in annual installments of \$890,000 through August 2002 interest at 5.8 percent.	\$ 890
\$41,635,000 1993 series B school construction refunding serial bonds due in annual installments of \$1,245,000 to \$4,030,000 through September 2005; interest at 4.8 percent to 5.0 percent.	12,785
\$19,300,000 1993 series A school construction serial bonds due in annual installments of \$855,000 to \$895,000 through January 2004; interest at 4.9 percent to 5.0 percent.	1,750
\$63,000,000 1994 series A school construction serial bonds due in annual installments of \$2,560,000 to \$3,060,000 through July 2005; interest at 5.4 percent to 6.5 percent.	11,220
\$60,000,000 1995 series A school construction serial bonds due in annual installments of \$2,290,000 to \$5,030,000 through October 2015; interest at 4.57 percent to 6.0 percent.	30,110
\$29,765,000 1995 series A school construction refunding serial bonds due in annual installments of \$1,310,000 to \$3,700,000 through October 2012; interest at 5.0 percent to 6.0 percent.	29,630
\$65,000,000 1996 series A school construction serial bonds due in annual installments of \$2,365,000 to \$5,345,000 through August 2016; interest at 5.1 percent to 6.0 percent.	19,750
\$43,850,000 1997 series A school construction serial bonds due in annual installments of \$1,665,000 to \$3,390,000 through December 2017; interest at 4.75 percent to 5.25 percent.	23,520
\$20,735,000 1998 series A school construction refunding serial bonds due in annual installments of \$125,000 to \$5,120,000 through July 2014; interest at 3.75 percent to 4.75 percent.	20,410
\$55,900,000 1999 series A school construction serial bonds due in annual installments of \$2,000,000 to \$4,270,000 through December 2018; interest at 4.0 percent to 5.125 percent.	44,815
\$35,000,000 2000 series A school construction serial bonds due in annual installments of \$1,060,000 to \$2,770,000 through December 2020; interest at 4.5 percent to 5.75 percent.	32,085
\$77,900,000 2000 series B school construction serial bonds due in annual installments of \$2,435,000 to \$6,235,000 through December 2020; interest at 4.75 percent to 5.875 percent.	64,150

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

<u>General Obligation Bonds (continued)</u>	<u>Amount</u>
\$65,000,000 2001 series A school construction serial bonds due in annual installments of \$2,030,000 to \$5,065,000 through June 2021; interest at 4.125 percent to 5.5 percent.	\$ 62,875
\$51,805,000 2001 school construction refunding serial bonds due in annual installments of \$55,000 to \$10,345,000 through July 2013; interest 4.125 percent to 5.5 percent.	51,805
\$131,800,000 2002 series B school construction serial bonds due in annual installments of \$4,050,000 to \$10,390,000 through July 2022; interest 3.0 percent to 5.5 percent.	131,800
\$70,345,000 2002 school construction refunding serial bonds due in annual installments of \$140,000 to \$10,255,000 through July 2015; interest 2.5 percent to 5.5 percent.	70,345
	<u>\$ 607,940</u>

The annual requirements to amortize all general obligation debt outstanding as of June 30, 2002, including interest payments in the amount of \$309,122,593 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 24,715	26,309	51,024
2004	28,745	29,634	58,379
2005	30,235	28,127	58,362
2006	28,935	26,565	55,500
2007	29,860	25,026	54,886
2008-2012	169,225	102,070	271,295
2013-2017	177,615	55,584	233,199
2018-2023	118,610	15,808	134,418
	<u>\$ 607,940</u>	<u>309,123</u>	<u>917,063</u>

The Debt Service Fund has \$16,162,142 available to service the general obligation bonds.

There are a number of restrictions contained in the various bond indentures. The School District is in compliance with all significant restrictions.

In fiscal year 1998-99, the School District lease purchased several pieces of office equipment in the amount of \$165,267 on a five-year contract ending in fiscal year 2002-03. The annual requirements to amortize long-term contracts payable as of June 30, 2002, including interest payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 35,163	2,409	37,572

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

The amount available and to be provided by each fund to repay long-term debt obligations at June 30, 2002 are as follows (in thousands):

Fund	General Obligation Bonds	Long-Term Contract
General	\$ —	35
Debt service	607,940	—

Refunded Bond Issues

On June 27, 2002, Anchorage issued \$70,345,000 of General Obligation Refunding School Bonds at a net effective rate of 4.22% to advance refund the following General Obligation School Bonds: \$940,000 of outstanding 1993 General Obligation School Bonds, Series A; \$6,700,000 of outstanding 1994 General Obligation School Bonds, Series A; \$6,380,000 of outstanding 1995 General Obligation School Bonds, Series A; \$20,800,000 of outstanding 1996 General Obligation School Bonds, Series A; \$14,490,000 of outstanding 1997 General Obligation School Bonds, Series A; \$5,900,000 of outstanding 1999 General Obligation School Bonds, Series A; \$1,910,000 of outstanding 2000 General Obligation School Bonds, Series A; and \$11,985,000 of outstanding 2000 General Obligation School Bonds, Series B.

The gross proceeds of \$74,540,227 were used to purchase U.S. Government securities that were deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on the refunded bonds until July 1, 2015 when all the refunded bonds will be redeemed and retired. As a result, the refunded bonds are considered to be defeased and the School District is no longer recording any liability for these bonds.

Anchorage advance refunded these bonds due to lower interest rates available at the date of issue. The refunding will result in lower debt service payments of \$3,558,458 over the next 12 years. There was an economic gain of \$2,077,680.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

The balance of refunded bonds outstanding as of June 30, 2002 is as follows (in thousands):

	<u>Fiscal Year of Refunding</u>	<u>Total Issue</u>	<u>Balance June 30, 2002</u>
1992 General Obligation School Bonds, Series B	1996	\$ 19,450	12,595
1994 General Obligation School Bonds, Series A	1998	63,000	19,200
1993 General Obligation School Bonds, Series A	2001	19,300	11,030
1994 General Obligation School Bonds, Series A	2001	63,000	11,670
1995 General Obligation School Bonds, Series A	2001	58,655	12,325
1996 General Obligation School Bonds, Series A	2001	65,000	16,490
1993 General Obligation School Bonds, Series A	2002	19,300	940
1994 General Obligation School Bonds, Series A	2002	63,000	6,700
1995 General Obligation School Bonds, Series A	2002	60,000	6,380
1996 General Obligation School Bonds, Series A	2002	65,000	20,800
1997 General Obligation School Bonds, Series A	2002	43,850	14,490
1999 General Obligation School Bonds, Series A	2002	55,900	5,900
2000 General Obligation School Bonds, Series A	2002	35,000	1,910
2000 General Obligation School Bonds, Series A	2002	77,900	11,985
			<u>\$ 152,415</u>

(9) Mortgage, Hospital and Higher Education Revenue Bonds

(a) Mortgage Revenue Bonds

Anchorage issued \$15,190,000 of Housing Mortgage Revenue Refunding Bonds during 1992 for the purpose of refunding its outstanding 1979 Home Mortgage Revenue Bonds. The bonds did not constitute a general obligation debt or pledge of the full faith and credit of Anchorage. Accordingly, the bonds and the related assets were not reflected in Anchorage's financial statements. On December 19, 2001 the Housing Mortgage Refunding Revenue Bonds were defeased in entirety. Proceeds from the sale of the Mortgage Backed Securities, which acted as collateral for the issue, were put into an Investment Agreement and irrevocable instructions were given to redeem the bonds on February 1, 2002.

(b) Nonrecourse Revenue Bonds – United Way of Anchorage

On November 1, 2000, Anchorage issued \$850,000 of Nonrecourse Revenue Bonds on behalf of the United Way of Anchorage. On July 30, 2001, Anchorage issued \$950,000 of Nonrecourse Revenue Bonds on behalf of the United Way of Anchorage. Anchorage has no direct involvement with the administration of these bonds except to allow their issuance under the name of Anchorage. These revenue bonds are issued under provisions of state and Federal law that provide that the bonds do not constitute an indebtedness of Anchorage. The bonds do not constitute a general obligation or pledge of the full faith and credit of Anchorage. Accordingly, the bonds and the related assets are not reflected in the accompanying financial statements. At December 31, 2002, \$776,658 of 2000 issue bonds and \$869,414 of 2002 issue bonds were outstanding.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

(c) Hospital Revenue Bonds – Sisters of Providence Projects

On April 16, 1991, Anchorage participated in the issuance of \$84,385,000 of Hospital Revenue Refunding Bonds on behalf of the Sisters of Providence. The proceeds were used to refund the outstanding 1985 bonds. Anchorage has no direct involvement with the administration of these bonds except to allow their issuance under the name of Anchorage. These revenue bonds are issued under provisions of state and Federal law that provide that the bonds do not constitute an indebtedness of Anchorage. The bonds do not constitute a general obligation or pledge of the full faith and credit of Anchorage. Accordingly, the bonds and the related assets are not reflected in the accompanying financial statements.

A schedule of the remaining debt service follows:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 7,020,000 ⁽¹⁾	1,609,894	8,629,894
2004	7,515,000 ⁽¹⁾	1,109,719	8,624,719
2005	8,060,000 ⁽²⁾	574,275	8,634,275
Total	<u>\$ 22,595,000</u>	<u>3,293,888</u>	<u>25,888,888</u>

⁽¹⁾ Mandatory redemption payment

⁽²⁾ Maturity

On November 17, 1987, Anchorage participated in the issuance of \$5,310,000 of Hospital Revenue Bonds on behalf of the Sisters of Providence. The proceeds were used to finance the cost of certain equipment and capital improvements for Providence Hospital, Anchorage, Alaska, cost of renovations to Our Lady of Compassion Care Center, and costs of issuance of the bonds. These bonds are issued under provisions of state and Federal law that provide they do not constitute an indebtedness of Anchorage. Accordingly, the bonds and related assets are not reflected in the accompanying financial statements. When issued, the bonds consisted of \$3,200,000 of Serial Bonds with interest due on October 1 for the years 1988 through 1999 at interest rates of 5.75% through 8.20% and \$2,110,000 of Term Bonds due October 1, 2007, at 8.20%.

A schedule of remaining debt service including mandatory redemption payments of the term bonds follows:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 250,000	127,280	377,280
2004	270,000	105,780	375,780
2005	295,000	82,560	377,560
2006	320,000	57,190	377,190
2007	345,000	29,670	374,670
Total	<u>\$ 1,480,000</u>	<u>402,480</u>	<u>1,882,480</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

(d) Higher Education Revenue Bonds – Alaska Pacific University Project

On January 5, 1993, Anchorage participated in the issuance of \$18,800,000 of Higher Education Variable Rate Demand Revenue Bonds, Series 1993, on behalf of Alaska Pacific University. The proceeds were used to refund all Anchorage’s Higher Education Variable Rate Demand Revenue Bonds, Series 1987; to refund a portion of the Revenue Bonds, 1990 (Alaska Pacific University Project), issued by the City of Seward; to fund certain other indebtedness of the University; and to pay costs of issuance of the bonds. The bonds bear interest at a weekly interest rate based upon prevailing market rates of like-quality debt instruments. The bonds do not constitute a general obligation debt or pledge of the full faith and credit of Anchorage. Accordingly, the bonds and the related assets are not reflected in the accompanying financial statements.

A schedule of the remaining debt service follows:

<u>Years</u>	<u>Principal</u>
2003	\$ 600,000
2004	600,000
2005	700,000
2006	700,000
2007	800,000
2008-2012	4,800,000
2013-2017	<u>7,000,000</u>
Total	<u>\$ 15,200,000</u>

(10) Retirement Plans

Substantially all regular employees of Anchorage are members of a public employee retirement system (PERS) except for employees who are members of the International Brotherhood of Electrical Workers (IBEW). IBEW members participate in a union sponsored cost-sharing defined benefit plan. Employer contributions are determined from hours of work reported by participating employers and the contractual employer contribution rate in effect. The Electric Utility’s current agreement provides for contributions of \$3.67 to the Plan for each hour worked by a covered employee. The total employer contributions for 2002, 2001 and 2000 were \$3,871,875, \$3,610,877, and \$3,286,225, respectively. Anchorage’s obligation for IBEW employees’ retirement is limited to the amount paid to the Alaska Electrical Trust Fund. Each year, IBEW issues audited financial statements that can be obtained by writing to International Brotherhood of Electrical Workers, 3333 Denali Street, Anchorage, Alaska 99503

All Anchorage employees who are members of a PERS participate in the State of Alaska Public Employees Retirement System (State Plan) except for 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, who 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 the State Plan.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

(a) State of Alaska Public Employees' Retirement System

Plan Description

Anchorage contributes to the State of Alaska Public Employees' Retirement System (PERS), a defined benefit, agent multiple-employer public employee retirement system which was established and is administered by the State of Alaska (State) to provide pension, post employment healthcare, death and disability benefits to eligible employees.

All full-time Anchorage employees not covered by the State of Alaska Teacher's Retirement System (TRS) are eligible to participate in PERS. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

Each fiscal year, PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

Funding Policy and Annual Pension Cost

Employee contribution rates are required by State statute. The funding policy for PERS provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due.

Annual pension cost for the year ended 2002 and related information for the Municipality of Anchorage (MOA), and Anchorage Parking Authority (APA) are as follows:

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

	<u>Pension</u>	
	<u>MOA</u>	<u>APA</u>
Contribution Rates:		
Employee:		
Police Officers and Firefighters	5.28%	N/A
Other Employees	4.75%	4.80%
Employer:		
Police Officers and Firefighters	5.62%	N/A
Other Employees	4.66%	2.56%
Actual Pension Cost (in thousands)	\$ 4,662	26
Contributions Made (in thousands)	4,662	26
Actuarial Valuation Date	June 30, 1999	June 30, 1999
Actuarial Cost Method	Projected Unit Credit	Same
Amortization Method	Level Dollar, Open	Same
Amortization Period	Rolling 25 Years	Same
Asset Valuation Method	5-Year Smoothed Market	Same
Actuarial Assumptions:		
Inflation Rate	4%	3.5%
Investment Return	8%	8.25%
Projected Salary Increase:		
Inflation	4%	3.5%
Productivity and Merit-Police	1.5%	2.5%
Productivity and Merit-Other	N/A	2.0%
Health Cost Trend	N/A	N/A
	<u>Postemployment Healthcare</u>	
	<u>MOA</u>	<u>APA</u>
Contribution Rates:		
Employee:		
Police Officers and Firefighters	2.22%	N/A
Other Employees	2.00%	1.95%
Employer:		
Police Officers and Firefighters	2.36%	N/A
Other Employees	1.96%	1.04%
Actual Pension Cost (in thousands)	\$ 1,963	11
Contributions Made (in thousands)	1,963	11
Actuarial Valuation Date	June 30, 1999	June 30, 1999
Actuarial Cost Method	Projected Unit Credit	Same
Amortization Method	Level Dollar, Open	Same
Amortization Period	Rolling 25 Years	Same
Asset Valuation Method	5-Year Smoothed Market	Same
Actuarial Assumptions:		
Inflation Rate	4%	Same
Investment Return	8%	8.25%
Projected Salary Increase:		
Inflation	4%	N/A
Productivity and Merit	1.5%	N/A
Health Cost Trend	8.5%	6.5%

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

The components of annual pension cost for the year ended 2002 (in thousands) are as follows:

	Pension	
	MOA	APA
Annual Required Contribution (ARC)	\$ 4,662	26
Interest on the Net Pension Obligation (NPO)	—	—
Adjustment to the ARC	—	—
Annual Pension Cost (APC)	—	—
	4,662	26
Contributions made	(4,662)	(26)
Increase in NPO	—	—
NPO, beginning of year	—	—
NPO, end of year	\$ —	—
	Postemployment Healthcare	
	MOA	APA
Annual Required Contribution (ARC)	\$ 1,963	11
Interest on the Net Pension Obligation (NPO)	—	—
Adjustment to the ARC	—	—
Annual Pension Cost (APC)	1,963	11
Contributions made	(1,963)	(11)
Increase in NPO	—	—
NPO, beginning of year	—	—
NPO, end of year	\$ —	—

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

Three year trend information (in thousands) follows:

MUNICIPALITY OF ANCHORAGE

	Year Ending December 31	APC	Percentage of APC contributed	NPO
Pension	2000	4,473	100%	—
	2001	4,191	100%	—
	2002	4,662	100%	—
Postemployment healthcare	2000	1,820	100%	—
	2001	1,754	100%	—
	2002	1,963	100%	—

ANCHORAGE PARKING AUTHORITY

	Year Ending December 31	APC	Percentage of APC contributed	NPO
Pension	2000	42	100%	—
	2001	38	100%	—
	2002	26	100%	—
Postemployment healthcare	2000	16	100%	—
	2001	15	100%	—
	2002	10	100%	—

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

**Schedule of Funding Progress
Pension and Postemployment Healthcare Benefits (in thousands)
(unaudited)**

		Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liability (AAL)	(Overfunded) unfunded actuarial accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
<u>MUNICIPALITY OF ANCHORAGE</u>								
Pension benefits	1998		411,396	393,723	(17,673)	104%	95,345	(19%)
	1999		428,380	407,062	(21,318)	105%	102,107	(21%)
	2001*		496,559	466,160	(30,399)	107%	100,953	(30%)
Postemployment healthcare benefits	1998		164,071	157,022	(7,049)	104%	95,345	(7%)
	1999		173,661	165,019	(8,642)	105%	102,107	(8%)
	2001*		210,242	197,372	(12,870)	107%	100,953	(13%)
Total	1998		575,467	550,745	(24,722)	104%	95,345	(26%)
	1999		602,041	572,081	(29,960)	105%	102,107	(29%)
	2001*		706,801	663,532	(43,269)	107%	100,953	(43%)
<u>ANCHORAGE PARKING AUTHORITY</u>								
Pension benefits	1998		1,429	1,313	(116)	109%	734	(16%)
	1999		1,514	1,204	(310)	126%	744	(42%)
	2001*		1,882	1,745	(137)	108%	916	(13%)
Postemployment healthcare benefits	1998		571	524	(47)	109%	734	(6%)
	1999		614	489	(125)	126%	744	(17%)
	2001*		797	739	(58)	108%	916	(5%)
Total	1998		2,000	1,837	(163)	109%	734	(22%)
	1999		2,128	1,693	(435)	126%	744	(59%)
	2001*		2,679	2,484	(195)	108%	916	(18%)

* After 1999, PERS began reporting information on a biannual basis.

(c) Police and Fire Retirement System Plans

Plans I, II and III are defined benefit single-employer plans established by Chapter 3.85 of the Anchorage Municipal Code. The plans are administered by the Police and Fire Retirement Board (Retirement Board). The cost of administering the plans is financed by the Retirement Board. The board consists of eight members appointed by the mayor and confirmed by the assembly.

All regular full-time 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, are required to participate in a plan. No other person is eligible to participate. Membership is determined by date of employment or employee election. Members employed on or before June 30, 1977, are members of Plan I, members employed between July 1, 1977, and April 16, 1984, are members of Plan II and members employed after April 16, 1984, are members of Plan III. Members of Plans I and II were permitted to elect into Plan III at its inception. Police officers, command officers, paramedics and fire fighters hired subsequent to these dates are in the State Plan.

Members of Plan I are required to contribute an amount not to exceed 6% of compensation. Members of Plan II and III are required to contribute not more than 2.5:1 Anchorage/member contribution ratio. Anchorage is responsible for any additional contributions to ensure that Plans I, II, and III are financially sound.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

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Benefit and contribution provisions are established by the Municipal code and may be amended only by the Assembly. The actuarial valuation recommended contribution rates for Plans I, II and III are zero for both the employee and the employer. All contributions were made in accordance with actuarial recommendations except for Plan III. The Assembly adopted ordinance AO 94-95 which ceased contributions to Plan III on July 24, 1994.

Benefits for all three plans include voluntary normal, early and deferred retirement benefits and occupational and non-occupational disability and death benefits. The extent of benefits varies by plan and basic benefit provisions are discussed in the following paragraphs. Benefits vest after 5 years of service for all plans, retirement benefits are paid monthly for life and are equal to 2.5% of average monthly compensation times years of credited service. A member may retire after 20 years of credited service and immediately begin receiving a monthly benefit. For Plans I and II average monthly compensation is the amount paid during the period of the highest three consecutive calendar years divided by the number of months for which compensation was received. For Plan III, final average compensation is the greater of the average of the two highest consecutive tax years of base compensation or average of total base compensation for the last 52 pay periods.

Plan I and II members may elect early retirement after five years of credited service and attainment of age 55 and receive a retirement benefit. Plan III members may elect early retirement after 15 years of credited service and either withdraw their contributions or start receiving a retirement benefit. All three plans have deferred retirement options for members who have at least five years credited service and have not reached age 55. Plan I and II members may either withdraw their contributions or remain in the plan and begin receiving a retirement benefit upon reaching age 55. Plan III members either withdraw their contributions or receive a retirement benefit beginning the date on which he or she would have completed 20 years of credited service or upon reaching age 55.

Disability benefits may be either occupational or non-occupational. Benefits are payable for life and are subject to certain restrictions. To be eligible for non-occupational benefits, a member must have five years credited service prior to date of disability. Plan I and II members receive an occupational benefit of $66 \frac{2}{3}\%$ of gross monthly compensation at time of disability and a non-occupational disability of 50% of monthly compensation. Plan III members receive an occupational benefit of 50% of final average compensation at time of disability and a non-occupational disability of 25% of final average compensation at time of disability with more than five but less than ten years credited service. For each additional year of service up to 20 years, the benefit shall increase by 2.5% of final average compensation.

Plan III beneficiaries are entitled to receive limited cost of living adjustments and children's benefits for disabilitants and surviving spouses until dependent children reach age eighteen.

Each fiscal year, the Police and Fire Retirement System Plan issues a publicly available financial report. That report may be obtained by writing to Anchorage Police and Fire Retirement System, P.O. Box 196650, Anchorage, Alaska 99519-6650 or by calling (907) 343-8400.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

Funding Status and Contribution Requirements

Annual pension cost for the current year and the related information is as follows:

	Police and Fire Retirement Systems		
	Plan I	Plan II	Plan III
Contribution rates:			
Employee:			
Peace officers and firefighters	—	—	—
Other employees	—	—	—
Employer			
Annual Pension Cost (in thousands)	—	—	—
Contributions made (in thousands)	—	—	—
Actuarial valuation date	January 1, 2002	January 1, 2002	January 1, 2002
Actuarial cost method	Aggregate	Aggregate	Aggregate
Amortization period	*	*	*
Imputed amortization period	*	*	*
Asset valuation method	Market related	Market related	Market related
Actuarial assumptions:			
Inflation rate	3.5%	3.5%	3.5%
Investment rate of return	8%	8%	8%
Projected salary increase	4%	4%	4%
Cost of living adjustment	N/A	N/A	1.125%/2.250%

* The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

* 1.125% prior to 20th anniversary of hire, and 2.25% after 25th anniversary of hire, based on an underlying CPI assumption of 4.5% per year and the plan provisions.

The components of annual pension cost for the year ended 2002 (in thousands) are as follows:

	Police and Fire Retirement Systems		
	Plan I	Plan II	Plan III
Annual required contribution (ARC)	\$ —	—	—
Interest on the net pension obligation (NPO)	—	—	—
Adjustment to the ARC	—	—	—
Annual pension cost (APC)	—	—	—
Contributions made	—	—	—
Increase in NPO	—	—	—
NPO, beginning of year	—	—	—
NPO, end of year	\$ —	—	—

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

Three year trend information (in thousands) follows:

	<u>Year ending</u>	<u>APC</u>	<u>Percentage of APC contributed</u>	<u>NPO</u>
Plan I	2000	—	100%	—
	2001	—	100%	—
	2002	—	100%	—
Plan II	2000	—	100%	—
	2001	—	100%	—
	2002	—	100%	—
Plan III	2000	—	100%	—
	2001	—	100%	—
	2002	—	100%	—

(d) Investments

The State Plan and the Police and Fire Retirement System do not own any notes, bonds, or other instruments of Anchorage.

(e) The impact of Fiscal Year 2002's decline on the System's market value has impacted the System's funding status as of December 31, 2002.

In May 2003, the Police and Fire Retirement System Board of Directors elected to change the methodology for calculating contributions to the modified aggregate actuarial cost method, effective with the plan year beginning January 1, 2004. Based upon this methodology, scheduled contributions for 2004 are shown below:

	<u>Members</u>	<u>Anchorage</u>	<u>Total</u>
Plan I	\$ 50,717	972,943	1,023,660
Plan II	244,400	611,170	855,570
Plan III	924,048	2,313,322	3,237,370
	<u>\$ 1,219,165</u>	<u>3,897,435</u>	<u>5,116,600</u>

(11) Post-Employment Health Care Benefits

Prior to January 1, 1995, Anchorage was required to provide post-employment medical benefits for all retired police officers and fire fighters. In December 1994, Anchorage entered into a defined contribution program to provide medical benefits for police officers and fire fighters. The program went into effect January 1, 1995, and applied to those active duty, non-command personnel who retire after January 1, 1995, and are members of the Police and Fire Retirement System. The program also applies to personnel appointed to non-represented command positions after January 1, 1995. Anchorage has elected to recognize the capped ultimate cost of post-employment medical benefit for this group of employees. As such a long-term obligation of \$153,919,710 has been recorded.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

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The significant terms of the agreement required Anchorage to contribute to the Police and Fire Retiree Medical Trust Fund, \$2,000,000 in 1994, and \$490 per month per retired employee in 1995. For all subsequent years, the amount to be contributed per retired employee is adjusted in accordance with the CPI factors indicated below:

Retirement Age	Service at Retirement	Annual Adjustment
60 or older	25 years	75% of medical CPI
55 – 59		50% of medical CPI
50 – 54	20 – 24 years	50% of medical CPI (with a maximum of 6%)
Less than 50	0 – 19 years	25% of medical CPI (with a maximum of 3%)

Anchorage contributed \$1,116,990 to the Police and Fire Retiree Medical Trust Fund in 2002.

Anchorage is prefunding the estimated cost of the program with annual payments to the Police and Fire Retiree Medical Liability Debt Service Fund of \$1.7 million, except for 2006 when \$9.8 million will be contributed from the retirement certificates of participation debt service fund. Based on actuarial report issued in July 2002 the annual payment in 2002 was \$1.3 million. Anchorage will perform an actuarial study every three years and adjust the required annual contribution as needed.

For other personnel retired under the Police and Fire Retirement Plan and command active personnel, Anchorage plans to continue pay-as-you-go post-employment health, dental, audio and vision benefits. To be eligible for post-employment defined health benefits, the participant must be receiving retirement benefits from the Police and Fire Retirement Plan. At December 31, 2002, there were 184 retirees who met the eligibility requirements. Anchorage pays 100 percent of the health portion for all eligible retirees and dental, audio and vision coverage for police retirees; optional dental, audio and vision coverage is paid by the fire and command retirees. The cost of retiree health benefits is recognized as an expenditure as premiums are paid. For 2002, those costs totaled \$3,510,818.

Anchorage employees, including new police and fire employees, who are members of the State Public Employee Retirement Plan will receive medical benefits as determined by that Plan.

Deferred Compensation Plan

Anchorage has determined that a fiduciary relationship does not exist between it and the Internal Revenue Code Section 457 deferred compensation plan. The deferred compensation plan is not reported in Anchorage's financial statements in accordance with GASB Statement No. 32.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

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(12) Risk Management and Self-Insurance

Anchorage is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; illness of and injuries to employees; unemployment; and natural disasters. The primary government utilizes three risk management funds to account for and finance its uninsured risks of loss.

The government provides coverage up to the maximum of \$2,000,000 per occurrence for automobile and general liability claims and \$500,000 for each workers' compensation claim. Coverage in excess of these amounts is insured by private carriers. Settled claims have not exceeded this commercial coverage in any of the past three years.

The government's liability for coverage for IBEW employees is limited to its contribution of \$3,871,875 in 2002, to the Alaska Electrical Health and Welfare Trust Fund.

Unemployment compensation expense is based on actual claims paid by the State of Alaska and reimbursed by the government.

All government departments participate in the risk management program and make payments to the risk management funds based on actuarial estimates of the amounts needed to pay prior and current year claims.

Claims payable represent estimates of claims to be paid based upon past experience modified for current trends and information. The ultimate amount of losses incurred through December 31, 2002, is dependent upon future developments. At December 31, 2002, claims incurred but not reported included in the liability accounts are \$4,694,412 in the general liability/workers' compensation fund. No provision has been made for unemployment compensation claims incurred but not paid by the State of Alaska.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

Changes in the funds' claim liability amounts in 2001 and 2002 are as follows:

	<u>Liability Balance January 1</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payment</u>	<u>Liability Balance December 31</u>
2001:				
General Liability/Workers' Compensation	\$ 8,506,026	7,764,302	(5,212,540)	11,057,788
Health	5,058,661	22,648,530	(27,231,153)	476,038
Unemployment	115,340	324,379	(369,525)	70,194
	<u>\$ 13,680,027</u>	<u>30,737,211</u>	<u>(32,813,218)</u>	<u>11,604,020</u>
2002:				
General Liability/Workers' Compensation	\$ 11,057,788	7,879,155	(6,266,235)	12,670,708
Health	476,038	—	(82,520)	393,518
Unemployment	70,194	355,598	(327,157)	98,635
	<u>\$ 11,604,020</u>	<u>8,234,753</u>	<u>(6,675,912)</u>	<u>13,162,861</u>

(13) MOA Trust Fund

On April 2, 2002, 70% of Anchorage voters approved Proposition #4 which fundamentally changed distribution rules applicable to the MOA Trust Fund. Key excerpts from Proposition #4 include:

- "The trust fund shall be defined as an endowment fund with a controlled spending policy limiting dividend distributions..."
- "Any use of the corpus, or a portion of the corpus, separate from the controlled spending policy of the endowment, may only be used for purposes approved by a majority of the voters voting on a ballot proposition in a regular or special election."
- "Under the endowment's controlled spending policy an annual dividend may be appropriated by the assembly provided that the annual appropriation does not exceed 5% of the average asset balance of the trust."

Anchorage Municipal Code (AMC) was also revised to accompany the City Charter change. The changes made to AMC 6.50.060 further define and clarify the methodology to be used in paying out an annual dividend from the MOA Trust Fund each year.

Depending on the investment market conditions in any given year, the MOA Trust Fund may or may not generate sufficient realized and unrealized net earnings to cover the 5% dividend payout. Under the endowment model, however, up to 5% of the market value of the MOA Trust Fund for the twelve trailing quarters marked at March 31 of each year is available for appropriation by the Assembly to help fund the general government budget. The endowment model is tied to an average market value, not to annual earnings, and it assumes a long-term investment return of 8% and inflation of 3%. During periods of market decline such as 2002 the MOA Trust Fund experienced a negative return; nonetheless the voter-

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

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approved endowment model for the MOA Trust Fund made it possible for the Assembly to payout a 5% dividend in 2002 by drawing from the fund's corpus. Over time the MOA Trust Fund is also expected to benefit from positive years in the market (i.e., years in which the real rate of return exceeds 5%), however the Assembly must abide by the 5% cap on annual distributions. This means that any excess returns generated during positive year in the market effectively are converted to corpus. The Municipal Treasurer is required by Code to determine whether the MOA Trust Fund's purchasing power is being maintained, by performing an analysis at least every five years beginning in year 2007. At December 31, 2002, \$6,800,000 of the MOA Trust Reserved Fund Balance was determined to be expendable.

(14) Regulatory and Other Matters

(a) *Electric Utility*

Demand and Energy Rates and Cost of Service Study, U-99-139: The Utility was ordered to file a Revenue Requirement and Cost of Service study by July 1, 2000 in Docket No. U-99-139. The Utility timely filed a 1999 test year revenue requirement study and later, a 2001 test year revenue requirement study. All substantive issues related to the Utility's base rates have been resolved in Order No. 17, with the result that the Utility's base rates were increased by 4.05% effective August 15, 2002, and will be increased by an additional 3.59% effective October 1, 2003. The docket is still open for the purpose of resolving technical issues involved in the implementation of these rate increases.

Accounting and Rate Making Treatment of Beluga River Gas Field: In Docket U-96-36, Order No. 7, the RCA required the Utility to file an explanation of its intended accounting treatment and proposed rate making treatment with respect to its Beluga River Gas Field interest. The Utility complied with this order on December 23, 1996. The most noteworthy aspect of this filing was a request to be allowed to defer some costs associated with the gas field interest in order to spread the benefits of the acquisition through time in an equitable manner. While the RCA has approved the Utility's rates on an interim basis, it has not yet issued an order on the deferred cost request. On June 16, 2002, the Commission issued Order No. 25, and then clarified and corrected that order in Order No. 26, on July 20, 2002. This order affirmed certain important Utility positions, but changed the capital cost portion of the rate-making methodology from rate-base/rate-of-return to debt service coverage ratio. The Utility believes that this change, while not necessarily harmful to the Utility's long run financial interest, is theoretically incorrect, and would require substantial write-off of the Utility's regulatory deferred gas cost asset. The Utility petitioned Order No. 30. A hearing convened on March 11, 2003 to determine whether the revenue requirement determined in Order No. 26 afforded the Utility an adequate return on its Gas Field assets in the years 1997-2002. Due to the nature of regulatory proceedings, the Utility cannot at this time determine the ultimate impact on its financial statements. The Utility recorded a reduction of its regulatory asset in the amount of \$5,968,283 as a special item, in order to reflect the Utility's Interpretation of Order No. 30.

Eklutna Hydroelectric Project: On October 2, 1997, the ownership of the Eklutna Hydroelectric Project was formally transferred from the Alaska Power Administration, a unit of the United States Department of Energy, to the three participating utilities: the Utility, Chugach Electric Association (CEA) and Matanuska Electric Association (MEA). The Project is jointly owned and operated by the participating utilities and each contributes their proportionate share for operation and maintenance

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

costs. The Utility has a 53.33% ownership interest in the Project and recorded costs of \$197,075 in 2002.

Grant Agreement 2195150 (Eklutna Project Transmission Line Upgrade): On November 5, 2002, the Utility received a grant from the State of Alaska, Alaska Energy Authority in the amount of \$19,130,000. The grant was issued for the Eklutna Project Transmission Line Upgrade which shall be completed no later than December 31, 2006. The Utility received an advance of twenty percent or \$3,860,000 on December 5, 2002.

Bradley Lake Hydroelectric Project: The Utility has agreed to acquire a portion of the output of the Bradley Lake Hydroelectric Project (Project) pursuant to a Power Sales Agreement (Agreement). The Agreement specifies that the Utility acquire 25.9% of the output of the Project. The Bradley Lake Hydroelectric Project went on line September 1, 1991. The Utility made payment to the Alaska Energy Authority (AEA) of \$3,700,602 in 2002 for its portion of the costs, and received 126,885 megawatt hours of power in 2002 from the Project. The Utility's estimated cost of power from the Project for 2003 is \$3,750,000.

The Alaska Energy Authority (AEA) issued the Power Revenue Bonds, First and Second Series in September 1989 and August 1990, respectively for the long term financing of the construction costs of the Bradley Lake Hydroelectric Project. The total amount of debt outstanding as of December 31, 2002, was \$136,862,101. The pro rata share of the debt service costs of the Project for which the Utility is responsible, given its 25.9% share of the Project, is \$35,447,284. In the event of payment defaults by other power purchasers, the Utility's share could be increased by up to 25%, which would then cause its pro rata share to be a total of \$44,309,105. The Utility does not now know of or anticipate any such defaults.

In order to deliver the Bradley Lake energy and power from the Project to the participants, a transmission line had to be built between the Bradley Junction and the Soldotna Substation. Homer Electric Association constructed the transmission line and the Utility has purchased a portion of the transmission capability of the line in an amount equal to the Utility's share of the Project output. The Utility's portion of the transmission line capability was \$2,795,477, which is being amortized over a 30-year period and is included as intangible plant.

Railbelt Electric Interties: In 1993, the Alaska Legislature appropriated \$90 million in grants from the Railbelt Energy Fund to fund construction of a Northern Intertie between Healy and Fairbanks and a Southern Intertie between Anchorage and the Kenai Peninsula. Several of the necessary agreements have been signed by the utilities. Among them was the agreement allocating a portion of the capacity of the lines to each utility, reflecting ownership interests and financial responsibility for the project costs. In late 1998, as allowed by the agreements, the Utility withdrew from direct participation in the Northern Intertie, thus relieving itself of any financial responsibility or ownership interest in that line. Access to the Northern Intertie for purposes of engaging in electric sales will be acquired by paying the wheeling rate in effect at the time such sales are imminent. The Utility's financial responsibilities and ownership interest in the Southern Intertie remain in place, with commercial operation anticipated in 2007. The decision date as allowed by the Intertie Participants Agreement has been extended to late spring of 2004 at which time the Utility will make the decision whether or not to participate in the Southern Intertie Project. Both interties will enhance the stability

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

of the interconnected electrical system and improve reliability through availability of redundant transmission routes.

Gas Supply Contracts: On August 30, 2002, Conoco Inc. and Phillips Petroleum Company merged to become ConocoPhillips. The Alaska division of ConocoPhillips changed their name to ConocoPhillips, Alaska, Inc. which acquired all of Phillips, Alaska, Inc. assets including their share of the Beluga River Unit. The Utility purchases natural gas from ConocoPhillips Alaska, Inc. and Chevron U.S.A. under contracts approved by the Alaska Public Utilities Commission. The contract price of gas for 2002 was \$1.8499/thousand cubic feet ("MCF") plus tax reimbursement and excess royalties (if any). The contract price of gas is adjusted annually based on the price of Light Sweet Crude Oil Futures Contracts. Under its effective tariff, the Utility passes through any gas cost changes directly to its customers in the form of quarterly cost of power adjustment rate changes. In order to provide a source of fuel for its gas turbines, stabilize fuel costs, and lower total energy costs to customers, the Utility acquired Shell Western E & P Inc. and Shell Onshore Ventures Inc.'s (Shell) share of the gas reserves in the Beluga River Field. The purchase price approximated \$120 million, and was finalized December 20, 1996. Gas revenues in 2002 consist of sales to third parties pursuant to contracts the Utility assumed from Shell.

(b) Water and Wastewater Utilities

301(h) Waiver: The Environmental Protection Agency issued the Wastewater Utility a new National Pollutant Discharge Elimination System discharge permit on June 28, 2000, for the Asplund Wastewater Treatment Facility, located at Pt. Woronzof. This permit is good for five (5) years from the date of issuance and contains a Section 301(h) waiver of secondary treatment. The Wastewater Utility believes it will be able to meet all the new permit limits contained in the new discharge permit.

(15) Contingencies

(a) Litigation

Anchorage, in the normal course of its activities, is involved in various claims and litigation. In the opinion of management and the Municipal Attorney, the disposition of these matters is not presently expected to have a material adverse effect on Anchorage's financial statements.

(b) Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, would become a liability of the General or other applicable fund. In management's opinion, disallowances, if any, will be immaterial.

(c) Property Tax Limitation

On October 4, 1983, Anchorage voters approved a charter amendment limiting the amount of taxes Anchorage can levy except for debt service. With certain other exceptions, the amendment limits taxes to the amount levied in the previous year increased by Anchorage Consumer Price Index (CPI) and 5-year average population growth. In the opinion of management, Anchorage is in compliance with this limitation.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

(d) *Spending Limitation*

On August 3, 1983, the Assembly adopted an ordinance limiting the amount of expenditures in the general government operating budget for tax-supported services. The amount is limited to the previous year's budget increased by amounts no more than the percentage increase in the July CPI over the previous July CPI and those additional increases necessary to provide voter and legally mandated services. In the opinion of management, Anchorage is in compliance with this limitation.

(e) *Internal Revenue Service Examination of Electric Utility Revenue Bonds*

In 1996, the Municipality of Anchorage issued tax-exempt electric revenue bonds to finance capital improvements and a portion of its purchase of the Beluga River Gas Field. These electric revenue bonds are being examined by the Internal Revenue Service as part of its expanded compliance program for tax-exempt bonds. Anchorage does not believe that the ultimate outcome of this uncertainty would be material to its financial statements.

(16) Environmental Issues

Anchorage has adopted an aggressive proactive policy designed to identify and mitigate the potential effects of past, present and future activity which may result in environmental impact. It is accounting policy to record a liability when the likelihood of responsibility for an environmental impact is probable and the cost of mitigating the impact is estimable within reasonable limits. At December 31, 2002, there are environmental issues which meet both of these criteria and, accordingly, a provision has been made in the accompanying financial statements for the cost of mitigating environmental concerns of underground fuel and hazardous waste contamination. The following is a summary of environmental concerns at December 31, 2002.

(a) *Solid Waste Landfill Site*

Anchorage's landfill at Merrill Field was closed during 1987 following approximately 50 years of usage. An active gas migration control system was successfully constructed in 1992 and has since operated without fail. It appears that remedial measures already completed and continued monitoring of the active gas control system have alleviated any potential environmental problems.

In 1992, the 20-year-old subdrain of the leachate collection system at the Merrill Field landfill was cleaned. As a result, the amount of leachate flow increased 241 percent. Subsequently, an outside consultant was hired to make recommendations for improving the leachate collection system to ensure that no off-site migration of leachate will occur. This study was completed in 1994 and recommended a rehabilitation/upgrade of the leachate collection system. Design work for the project was completed in 1995 and construction completed in the fall of 1996. Completion of this project should alleviate any potential environmental problems. The water quality at 16 different locations at the Merrill Field landfill will continue to be monitored.

(b) *Landfill Closure and Postclosure Care Cost*

State and federal laws and regulations require Anchorage to place a final cover on its current landfill when it stops accepting solid waste and to perform certain maintenance and monitoring functions at the landfill for thirty years after closure. To properly account for these future closure and postclosure

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2002

costs, Anchorage Solid Waste Services (SWS) is recording as an operating expense in each period an amount based on landfill capacity used as of each balance sheet date. During 1997 the future closure and postclosure were reevaluated and adjusted to reflect current conditions. As of December 2002, SWS had a recorded liability of \$9,557,559 associated with these future costs, based on the use of 22.5 percent of the estimated capacity of the landfill. It is estimated that SWS will recognize another \$32,908,605 in expense and liability between December 31, 2002, and the year 2037, the date the landfill is expected to reach full capacity. These amounts are based on what it would cost to perform all the closure and postclosure functions in 2002. Actual costs of closure and postclosure care may be higher due to inflation, changes in technology, or changes in laws and regulations.

As of December 31, 2002, there are no state laws or regulations requiring Anchorage to provide financial assurances for the closure and postclosure care of the landfill. Federal regulations that went into effect in 1997 do require Anchorage to provide financial assurances for future closure and postclosure costs by one of a number of allowable mechanisms available. Anchorage elected to use the "Local Government Test" financial assurance mechanism to be in compliance with the regulation. Currently no SWS assets are restricted for payment of closure and postclosure care costs. Future inflation costs and additional costs that might arise from changes in requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both.

Activity in long term liability of the landfill closure and postclosure care cost was as follows:

Balance January 1, 2002	Addition	Deletion	Balance December 31, 2002	Due within 1 year
\$ 8,765,209	792,350	—	9,557,559	—

(c) Fuel Contamination Sites

During the 1964 earthquake, approximately 250,000-400,000 gallons of diesel fuel spilled on the ground. According to numerous environmental investigations, the spill impacted soil and groundwater at Plant 1 of the Electric Utility, and properties west/northwest of Plant 1. Currently, no active remediation, environmental investigation, or monitoring is being requested by the Alaska Department of Environmental Conservation (ADEC) at this site. However, these activities may be triggered if soil-disturbing activities occur at Plant 1 or in the area impacted by the 1964 spill.

(d) Water Vulnerability Assessment

The Water Utility is required by federal law to prepare a security Vulnerability Assessment (VA). This requirement, administered by the United States Environmental Protection Agency (USEPA), took effect in April 2002. The Water Utility requested and received an extension by the USEPA until March 30, 2003. The Water Utility failed to file the VA with the USEPA on the deadline and is now under a compliance order from the USEPA to complete the VA by May 31, 2003. The Water Utility anticipates it will complete the VA on or before May 31, 2003.

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REQUIRED SUPPLEMENTARY INFORMATION

MUNICIPALITY OF ANCHORAGE, ALASKA

Budgetary Comparison Schedule
General Fund

Year ended December 31, 2002

	Budget		Actual	Variance with final budget – positive (negative)
	Original	Final		
Revenues:				
Taxes	\$ 28,392,330	327,476,997	324,217,752	(3,259,245)
Special assessments	751,240	753,470	540,572	(212,898)
Licenses and permits	8,833,620	9,170,960	10,743,088	1,572,128
Intergovernmental	13,652,580	13,696,586	13,528,010	(168,576)
Charges for services	16,026,300	16,513,030	15,994,900	(518,130)
Fines and forfeitures	6,879,120	6,879,120	4,987,963	(1,891,157)
Investment income	4,999,620	4,948,260	1,344,946	(3,603,314)
Restricted contributions	—	—	35,530	35,530
Other revenues	1,804,500	2,032,460	1,430,160	(602,300)
Total revenues	81,339,310	381,470,883	372,822,921	(8,647,962)
Expenditures:				
Current:				
General government	19,719,380	21,560,320	20,050,082	1,510,238
Fire services	41,505,240	42,966,210	42,289,149	677,061
Police services	55,050,980	56,081,930	56,276,748	(194,818)
Health and human services	11,482,640	11,985,066	11,930,720	54,346
Cultural and recreation services	23,125,490	23,805,940	23,338,876	467,064
Public transportation	12,594,080	13,078,150	13,195,952	(117,802)
Planning, development, and public works	16,782,710	16,942,120	18,594,427	(1,652,307)
Education	—	139,237,827	139,237,827	—
Maintenance and operations	24,959,220	25,604,040	23,844,750	1,759,290
Debt service:				
Principal	20,575,620	19,486,070	19,620,739	(134,669)
Interest	17,486,700	15,815,770	16,590,890	(775,120)
Bond issuance costs	—	—	600,273	(600,273)
Total expenditures	243,282,060	386,563,443	385,570,433	993,010
Excess (deficiency) of revenues over expenditures	(161,942,750)	(5,092,560)	(12,747,512)	(7,654,952)
Other financing sources (uses):				
Transfers in – from other funds	9,780,000	10,004,350	10,655,510	651,160
Transfers out – to other funds	(5,109,040)	(6,328,220)	(6,261,315)	66,905
Proceeds from bond sale	—	—	72,735,000	72,735,000
Proceeds from premium on bond sale	—	—	5,505,071	5,505,071
Payment to extinguish debt	—	—	(71,935,000)	(71,935,000)
Payment to refunded bond escrow agent	—	—	(3,292,604)	(3,292,604)
Total other financing uses	4,670,960	3,676,130	7,406,662	3,730,532
Excess of revenues and other financing sources over expenditures and other financing uses	(157,271,790)	(1,416,430)	(5,340,850)	(3,924,420)
Fund balance, beginning of year, as previously reported	42,132,662	42,132,662	42,132,662	—
Add adjustment for the cumulative effect on prior years of applying retroactively the adoption of GASB Interpretation No. 6 (note 1)	5,720,797	5,720,797	5,720,797	—
Fund balance, beginning of year	47,853,459	47,853,459	47,853,459	—
Fund balance, end of year	\$ (109,418,331)	46,437,029	42,512,609	(3,924,420)

See accompanying notes to required supplementary information.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Required Supplementary Information – Budgetary Data

December 31, 2002

In accordance with the Anchorage Home Rule Charter, the Mayor is required to submit a proposed budget for the next fiscal year to the Assembly at least 90 days before the end of the current fiscal year. The Assembly holds two public hearings on the proposed budget. The Assembly may increase or decrease any item, and may add or delete items; but must approve a budget and appropriate the necessary resources by ordinance at least 21 days prior to year end. Otherwise, the Mayor's proposal becomes the budget and appropriation.

The Assembly approved 2002 operating budgets and appropriations of direct costs at the department level, and indirect costs at the fund level. Some departmental appropriations span more than one fund. The Assembly approved 2002 capital budgets with anticipated appropriation of resources for the general government and appropriations for each utility. Upon certification by the Chief Fiscal Officer that actual resources have become available for specific general government capital projects; e.g., when a grant is accepted, a bond sale or interfund transfer is approved, or a special assessment district is created, a supplemental appropriation is submitted to the Assembly for final approval. Supplemental appropriations are also submitted for approval upon certification by the Chief Fiscal Officer that operating grant funds have become available. The legal level of a budgetary control is the department and fund level.

During the year, no obligation involving the expenditure of money may be made unless the Chief Fiscal Officer has certified that the money required for the expenditure has been appropriated for that purpose. When each obligation is incurred, the committed amount becomes encumbered; i.e., it is treated as a reduction of available budget so that the committed amount will be available to pay for the goods or services when they are received. When the commitment is fulfilled, the encumbrance is released and an expenditure is recorded. An encumbrance is also released when a commitment is canceled.

The Assembly may approve supplemental appropriations to increase or decrease the budget and appropriations, or transfer all or part of any unencumbered balance from one appropriation to another by resolution. The Assembly, by ordinance, may authorize a contract, lease or other obligation requiring financing from future appropriations, except that a lease purchase agreement committing funds in excess of \$1 million is not valid until approved by the voters. The Mayor may transfer all or part of any unencumbered balance between categories within an appropriation.

At the end of the year, an unencumbered operating appropriation lapses into the fund from which it was appropriated; except that supplemental appropriations of grant and capital project resources do not lapse until their purpose has been accomplished or abandoned.

Annual budgets are adopted for the General Fund, Heritage Land Bank (a Special Revenue Fund), Debt Service Funds, and the administrative operating costs of the Pension Trust Fund. Appropriations for these funds lapse at year end to the extent they have not been expended or encumbered. The General Fund is the only major fund required to be included as required supplementary information

Annual budgets are also adopted for proprietary fund types. However, since the measurement focus for proprietary fund types is upon determination of net income, financial position and cash flows, GAAP does not require the adoption of budgets, and budgetary comparisons are not included for these funds.

The Municipal Assembly is required to approve the School District budget (in total only) and appropriate by ordinance the necessary resources at least sixty (60) days prior to the current School District year end. Any budget revisions during the year increasing the total appropriation require approval by the Assembly. Expenditures may not exceed the aggregate total amount of the budget.

MUNICIPALITY OF ANCHORAGE

Required Supplementary Information – Condition Rating of
Anchorage’s Road Network

December 31, 2002

	Percentage of Lane – Miles in Good or Better Condition
	2002
Anchorage Road District	76.61%
Chugiak/Eagle River Road District	95.25%
Girdwood Road District	73.75%
Other Road Districts	76.94%
Overall system	80.57%

	Percentage of Lane – Miles in Fair Condition
	2002
Anchorage Road District	23.39%
Chugiak/Eagle River Road District	4.75%
Girdwood Road District	26.25%
Other Road Districts	23.06%
Overall system	19.43%

Comparison of Estimated-to-Actual Maintenance/Preservation (in Thousands)

	2002
Anchorage Road District:	
Needed	\$ 6,914
Actual	6,997
Chugiak/Eagle River Road District:	
Needed	1,415
Actual	1,173
Girdwood Road District:	
Needed	104
Actual	103
Other Road Districts:	
Needed	616
Actual	338
Overall system:	
Needed	9,049
Actual	8,611
Difference	438

Note: The condition of road pavement is measured based upon an assessment of the longitudinal profile (International Roughness Index) and rut depth provided by the Dynatest Road Surface Profiler. The measurement system is an algorithm that combines the international roughness index, rut depth, and road profile to determine a condition index from two for pavement in excellent condition to seven for pavement in fair condition. The condition index is used to classify paved roads in good or better condition (4 or less) and fair condition (5 or more). It is Anchorage’s policy to maintain 60% or more of the total paved road miles in good or better condition. Condition assessments are updated every three years.

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SUPPLEMENTARY INFORMATION

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MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Balance Sheet
Nonmajor Governmental Funds

December 31, 2002

Assets	Special Revenue					Miscellaneous Operational Grants
	Heritage Land Bank	Police Investigations	State Grants	Federal Grants	MOA Trust Reserve	
Cash	\$ —	8,108	—	—	—	—
Cash in central treasury	2,915,162	684,923	441,104	4,802,530	1,980,823	578,425
Investments	1,007,190	—	—	—	4,624,954	5,754
Due from other funds	—	—	—	—	—	—
Receivables (net of allowance for uncollectibles)	1,491	—	—	5,596,395	—	5,986
Intergovernmental receivables	—	—	10,719,351	4,641,664	—	—
Interest receivable	13,986	—	—	—	45,933	30
Special assessments receivable	725	—	—	—	—	—
Prepaid items and deposits	—	—	1,659	—	—	—
Restricted assets:						
Cash in central treasury	—	—	—	—	—	—
Investments	—	—	—	—	—	—
Total assets	\$ 3,938,554	693,031	11,162,114	15,040,589	6,651,710	590,195
Liabilities and Fund Balance						
Liabilities:						
Accounts payable and retainages	\$ 12,343	(636)	4,507,927	819,039	7,963	1,064
Due to other funds	—	—	—	—	—	—
Deferred revenue and deposits	725	—	189,749	3,868,895	—	—
Total liabilities	13,068	(636)	4,697,676	4,687,934	7,963	1,064
Fund balances:						
Reserved:						
Encumbrances	24,038	4,633	3,088,681	3,027,373	—	158,001
Long-term loans	—	—	—	5,596,395	—	—
Perpetual care	—	—	—	—	—	—
Debt service	—	—	—	—	—	—
Unreserved, reported in:						
Special revenue fund	3,901,448	689,034	3,375,757	1,728,887	6,643,747	431,130
Capital project funds:						
Designated	—	—	—	—	—	—
Undesignated	—	—	—	—	—	—
Total fund balances	3,925,486	693,667	6,464,438	10,352,655	6,643,747	589,131
Total liabilities and fund balances	\$ 3,938,554	693,031	11,162,114	15,040,589	6,651,710	590,195

See accompanying notes to financial statements.

Debt Service						
Other Restricted Resources	Total	Special Assessment Bonds	Retirement Certificates of Participation	Police/Fire Retiree Medical Liability	Jail Revenue Bond	Total
—	8,108	—	—	—	—	—
—	11,402,967	744,499	11,967,375	—	—	12,711,874
—	5,637,898	—	11,966,000	13,768,501	—	25,734,501
—	—	—	—	—	—	—
—	5,603,872	—	—	—	—	—
—	15,361,015	—	—	—	—	—
—	59,949	2,851	2,597	—	—	5,448
32,385	33,110	801,206	—	—	—	801,206
—	1,659	—	—	—	—	—
—	—	—	—	—	—	—
—	—	365,313	3,670,046	—	—	4,035,359
32,385	38,108,578	1,913,869	27,606,018	13,768,501	—	43,288,388
—	5,347,700	—	—	—	—	—
30,946	30,946	—	—	663,995	13,347	677,342
—	4,059,369	740,688	—	—	—	740,688
30,946	9,438,015	740,688	—	663,995	13,347	1,418,030
10,489	6,313,215	—	—	—	—	—
—	5,596,395	353,281	—	—	—	353,281
—	—	—	—	—	—	—
—	—	819,900	27,606,018	13,104,506	(13,347)	41,517,077
(9,050)	16,760,953	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
1,439	28,670,563	1,173,181	27,606,018	13,104,506	(13,347)	41,870,358
32,385	38,108,578	1,913,869	27,606,018	13,768,501	—	43,288,388

(Continued)

MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Balance Sheet
Nonmajor Governmental Funds

December 31, 2002

Assets	Capital Projects					
	Areawide	Public Safety	Roads and Drainage	Public Transportation	Miscellaneous	Parks and Recreation
Cash	—	—	—	—	—	—
Cash in central treasury	\$ 7,810,367	7,633,519	3,580,624	—	—	3,693,721
Investments	—	—	—	—	—	—
Due from other funds	779,624	—	25,034,038	—	—	5,305,612
Receivables (net of allowance for uncollectibles)	—	—	4,073	—	—	81,429
Intergovernmental receivables	687,201	37,535	534,474	711,677	598,237	1,114,025
Interest receivable	—	—	—	—	—	—
Special assessments receivable	—	—	—	—	167,697	—
Prepaid items and deposits	—	—	—	—	—	—
Restricted assets:						
Cash in central treasury	—	—	—	—	—	—
Investments	—	—	—	—	—	—
Total assets	\$ 9,277,192	7,671,054	29,153,209	711,677	765,934	10,194,787
Liabilities and Fund Balance						
Liabilities:						
Accounts payable and retainages	\$ 738,104	412,821	1,136,509	152,180	14,990	258,810
Due to other funds	354,488	—	—	265,572	915,722	—
Deferred revenue and deposits	—	87,207	—	—	—	—
Total liabilities	1,092,592	500,028	1,136,509	417,752	930,712	258,810
Fund balances:						
Reserved:						
Encumbrances	922,423	5,534,818	8,002,426	308,087	316,168	1,026,870
Long-term loans	—	—	—	—	—	—
Perpetual care	—	—	—	—	—	—
Debt service	—	—	—	—	—	—
Unreserved, reported in:						
Special revenue fund	—	—	—	—	—	—
Capital project funds:						
Designated	7,184,677	850,396	19,663,257	—	—	8,722,131
Undesignated	77,500	785,812	351,017	(14,162)	(480,946)	186,976
Total fund balances	8,184,600	7,171,026	28,016,700	293,925	(164,778)	9,935,977
Total liabilities and fund balances	\$ 9,277,192	7,671,054	29,153,209	711,677	765,934	10,194,787

See accompanying notes to financial statements.

(Continued)

		Permanent Fund		
Historic Preservation	Heritage Land Bank	Total	Cemetery Perpetual Maintenance	Total Nonmajor Governmental Funds
—	—	—	—	8,108
53,136	1,048,661	23,820,028	48,840	47,983,709
—	—	—	—	31,372,399
—	—	31,119,274	—	31,119,274
—	—	85,502	50	5,689,424
—	—	3,683,149	—	19,044,164
—	—	—	—	65,397
—	—	167,697	—	1,002,013
—	—	—	—	1,659
—	—	—	194,600	194,600
—	—	—	—	4,035,359
<u>53,136</u>	<u>1,048,661</u>	<u>58,875,650</u>	<u>243,490</u>	<u>140,516,106</u>
—	352,532	3,065,946	—	8,413,646
—	—	1,535,782	—	2,244,070
—	—	87,207	—	4,887,264
<u>—</u>	<u>352,532</u>	<u>4,688,935</u>	<u>—</u>	<u>15,544,980</u>
—	11,387	16,122,179	—	22,435,394
—	—	—	—	5,949,676
—	—	—	243,490	243,490
—	—	—	—	41,517,077
—	—	—	—	16,760,953
—	377,544	36,798,005	—	36,798,005
<u>53,136</u>	<u>307,198</u>	<u>1,266,531</u>	<u>—</u>	<u>1,266,531</u>
<u>53,136</u>	<u>696,129</u>	<u>54,186,715</u>	<u>243,490</u>	<u>124,971,126</u>
<u>53,136</u>	<u>1,048,661</u>	<u>58,875,650</u>	<u>243,490</u>	<u>140,516,106</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended December 31, 2002

	Special Revenue				
	Heritage Land Bank	Police Investigations	State Grants	Federal Grants	MOA Trust Reserve
Revenues:					
Special assessments	\$ —	—	—	—	—
Intergovernmental	—	—	32,564,492	12,833,233	—
Charges for services	—	—	—	—	—
Fines and forfeitures	—	247,838	—	—	—
Investment income	118,305	10,229	13,704	28,453	(847,225)
Restricted contributions	—	—	—	—	—
Other	942,894	125,609	64,922	184,117	—
Total revenues	1,061,199	383,676	32,643,118	13,045,803	(847,225)
Expenditures:					
Current:					
General government	783,522	—	5,294,184	4,129,946	26,326
Fire services	—	—	86,289	2,341,221	—
Police services	—	219,820	456,277	1,027,201	—
Health and human services	—	—	21,733,336	1,939,567	—
Cultural and recreation services	—	—	295,517	7,500	—
Public transportation	—	—	1,278,041	412,124	—
Planning, development, and public works	—	—	713,835	578,962	—
Education	—	—	3,181,870	—	—
Debt service:					
Principal	—	—	—	—	—
Interest	—	—	—	—	—
Bond issuance costs	—	—	—	—	—
Capital projects	—	—	—	—	—
Total expenditures	783,522	219,820	33,039,349	10,436,521	26,326
Excess (deficiency) of revenues over expenditures	277,677	163,856	(396,231)	2,609,282	(873,551)
Other financing sources (uses):					
Transfers in – from other funds	—	—	621,439	735,990	—
Transfers out – to other funds	(655,500)	—	(395,430)	—	(2,374,137)
Proceeds from bond sales	—	—	—	—	—
Proceeds from premium on bond sale	—	—	—	—	—
Proceeds from sale of assets	1,363,556	—	—	—	—
Total other financing sources (uses)	708,056	—	226,009	735,990	(2,374,137)
Excess (deficiency) of revenues and other sources over expenditures and other uses	985,733	163,856	(170,222)	3,345,272	(3,247,688)
Fund balances, beginning of year, as previously reported	2,924,418	529,811	6,634,660	7,007,383	9,891,435
Add adjustment for cumulative effect of the adoption of GASB Interpretation 6	15,335	—	—	—	—
Fund balances, beginning of year, as adjusted	2,939,753	529,811	6,634,660	7,007,383	9,891,435
Fund balances, end of year	\$ 3,925,486	693,667	6,464,438	10,352,655	6,643,747

See accompanying notes to financial statements.

Debt Service

Miscellaneous Operational Grants	Other Restricted Resources	Total	Special Assessment Bonds	Retirement Certificates of Participation	Police/Fire Retiree Medical Liability	Jail Revenue Bond	Total
—	436,938	436,938	275,277	—	—	—	275,277
—	—	45,397,725	—	—	—	—	—
—	—	—	—	—	—	5,209,344	5,209,344
—	—	247,838	—	—	—	—	—
7,874	—	(668,660)	32,548	1,482,708	(1,423,668)	—	91,588
—	—	—	—	—	—	—	—
246,252	15,159	1,578,953	—	—	—	—	—
254,126	452,097	46,992,794	307,825	1,482,708	(1,423,668)	5,209,344	5,576,209
4,475	469,671	10,708,124	—	—	—	—	—
10,000	—	2,437,510	—	—	—	—	—
—	—	1,703,298	—	—	—	—	—
24,476	—	23,697,379	—	—	—	—	—
50,898	—	353,915	—	—	—	—	—
—	—	1,690,165	—	—	—	—	—
—	—	1,292,797	—	—	—	—	—
—	—	3,181,870	—	—	—	—	—
—	—	—	234,969	2,785,000	—	1,865,000	4,884,969
—	—	—	103,908	681,880	30,000	3,344,344	4,160,132
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
89,849	469,671	45,065,058	338,877	3,466,880	30,000	5,209,344	9,045,101
164,277	(17,574)	1,927,736	(31,052)	(1,984,172)	(1,453,668)	—	(3,468,892)
70,950	—	1,428,379	—	—	1,300,000	—	1,300,000
—	—	(3,425,067)	—	—	(1,116,990)	—	(1,116,990)
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	1,363,556	—	—	—	—	—
70,950	—	(633,132)	—	—	183,010	—	183,010
235,227	(17,574)	1,294,604	(31,052)	(1,984,172)	(1,270,658)	—	(3,285,882)
353,904	19,013	27,360,624	1,204,233	29,590,190	14,375,164	(13,347)	45,156,240
—	—	15,335	—	—	—	—	—
353,904	19,013	27,375,959	1,204,233	29,590,190	14,375,164	(13,347)	45,156,240
589,131	1,439	28,670,563	1,173,181	27,606,018	13,104,506	(13,347)	41,870,358

(Continued)

MUNICIPALITY OF ANCHORAGE, ALASKA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended December 31, 2002

	<u>Capital Projects</u>				
	<u>Areawide</u>	<u>Public Safety</u>	<u>Roads and Drainage</u>	<u>Public Transportation</u>	<u>Miscellaneous</u>
Revenues:					
Special assessments	—	—	—	—	31,385
Intergovernmental	2,630,189	994,332	2,809,412	2,233,064	917,250
Charges for services	222,941	—	—	—	—
Fines and forfeitures	—	—	—	—	—
Investment income	114,327	20,901	24,899	—	(6,232)
Restricted contributions	225,000	—	—	—	—
Other	829,461	5,592	25,928	543	—
Total revenues	<u>4,021,918</u>	<u>1,020,825</u>	<u>2,860,239</u>	<u>2,233,607</u>	<u>942,403</u>
Expenditures:					
Current:					
General government	—	—	—	—	—
Fire services	—	—	—	—	—
Police services	—	—	—	—	—
Health and human services	—	—	—	—	—
Cultural and recreation services	—	—	—	—	—
Public transportation	—	—	—	—	—
Planning, development, and public works	—	—	—	—	—
Education	—	—	—	—	—
Debt service:					
Principal	—	—	—	—	—
Interest	—	—	—	—	—
Bond issuance costs	28,164	27,347	478,375	3,133	—
Capital projects	8,154,797	6,516,837	21,992,037	2,746,157	1,093,570
Total expenditures	<u>8,182,961</u>	<u>6,544,184</u>	<u>22,470,412</u>	<u>2,749,290</u>	<u>1,093,570</u>
Excess (deficiency) of revenues over expenditures	<u>(4,161,043)</u>	<u>(5,523,359)</u>	<u>(19,610,173)</u>	<u>(515,683)</u>	<u>(151,167)</u>
Other financing sources (uses):					
From other funds	142,617	517,490	1,955,590	—	—
To other funds	(766,000)	—	(712,500)	—	—
Proceeds from bond sales	4,500,000	4,365,000	45,000,000	500,000	—
Proceeds from premium on bond sale	28,165	27,347	478,374	3,133	—
Proceeds from sale of assets	—	—	—	—	—
Total other financing sources (uses)	<u>3,904,782</u>	<u>4,909,837</u>	<u>46,721,464</u>	<u>503,133</u>	<u>—</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(256,261)</u>	<u>(613,522)</u>	<u>27,111,291</u>	<u>(12,550)</u>	<u>(151,167)</u>
Fund balances, beginning of year, as previously reported	8,440,861	7,784,548	905,409	306,475	(13,611)
Add adjustment for cumulative effect of the adoption of GASB Interpretation 6	—	—	—	—	—
Fund balances, beginning of year, as adjusted	<u>8,440,861</u>	<u>7,784,548</u>	<u>905,409</u>	<u>306,475</u>	<u>(13,611)</u>
Fund balances, end of year	<u>\$ 8,184,600</u>	<u>7,171,026</u>	<u>28,016,700</u>	<u>293,925</u>	<u>(164,778)</u>

See accompanying notes to financial statements.

(Continued)

Parks and Recreation	Historic Preservation	Heritage Land Bank	Total	Permanent Fund	
				Cemetery Perpetual Maintenance	Total Nonmajor Governmental Funds
—	—	—	31,385	—	743,600
1,461,274	—	—	11,045,521	—	56,443,246
360,085	—	—	583,026	10,300	5,802,670
—	—	—	—	—	247,838
20,985	895	10,945	186,720	4,093	(386,259)
—	—	—	225,000	—	225,000
41,625	—	—	903,149	—	2,482,102
<u>1,883,969</u>	<u>895</u>	<u>10,945</u>	<u>12,974,801</u>	<u>14,393</u>	<u>65,558,197</u>
—	—	—	—	—	10,708,124
—	—	—	—	—	2,437,510
—	—	—	—	—	1,703,298
—	—	—	—	—	23,697,379
—	—	—	—	—	353,915
—	—	—	—	—	1,690,165
—	—	—	—	—	1,292,797
—	—	—	—	—	3,181,870
—	—	—	—	—	4,884,969
—	—	—	—	—	4,160,132
—	—	—	537,019	—	537,019
<u>4,923,459</u>	<u>—</u>	<u>448,862</u>	<u>45,875,719</u>	<u>—</u>	<u>45,875,719</u>
<u>4,923,459</u>	<u>—</u>	<u>448,862</u>	<u>46,412,738</u>	<u>—</u>	<u>100,522,897</u>
<u>(3,039,490)</u>	<u>895</u>	<u>(437,917)</u>	<u>(33,437,937)</u>	<u>14,393</u>	<u>(34,964,700)</u>
47,720	—	644,000	3,307,417	—	6,035,796
—	—	—	(1,478,500)	—	(6,020,557)
—	—	—	54,365,000	—	54,365,000
—	—	—	537,019	—	537,019
—	—	—	—	—	1,363,556
<u>47,720</u>	<u>—</u>	<u>644,000</u>	<u>56,730,936</u>	<u>—</u>	<u>56,280,814</u>
<u>(2,991,770)</u>	<u>895</u>	<u>206,083</u>	<u>23,292,999</u>	<u>14,393</u>	<u>21,316,114</u>
<u>12,927,747</u>	<u>52,241</u>	<u>490,046</u>	<u>30,893,716</u>	<u>229,097</u>	<u>103,639,677</u>
—	—	—	—	—	15,335
<u>12,927,747</u>	<u>52,241</u>	<u>490,046</u>	<u>30,893,716</u>	<u>229,097</u>	<u>103,655,012</u>
<u>9,935,977</u>	<u>53,136</u>	<u>696,129</u>	<u>54,186,715</u>	<u>243,490</u>	<u>124,971,126</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Statement of Net Assets
Nonmajor Enterprise Funds

December 31, 2002

Assets	<u>Refuse Utility</u>	<u>Solid Waste</u>	<u>Port</u>
Current assets:			
Cash	\$ —	—	150
Cash in central treasury	5,671,042	20,529,625	7,291,274
Receivables (net of allowance for uncollectibles)	406,575	839,879	667,330
Interest receivable	—	—	357,170
Current portion of lease receivable	—	—	377,770
Prepaid items and deposits	614	—	—
Deferred charges	—	16,406	—
Total current assets	<u>6,078,231</u>	<u>21,385,910</u>	<u>8,693,694</u>
Noncurrent restricted assets:			
Deposits	—	—	—
Receivables	—	8,870	—
Bond and acquisition and construction accounts	322,023	3,643,320	19,262,026
Revenue bond operations and maintenance accounts	355,968	—	1,147,398
Debt service accounts	—	376,125	—
Total current restricted assets	<u>677,991</u>	<u>4,028,315</u>	<u>20,409,424</u>
Noncurrent assets:			
Loans receivables, net	—	—	—
Deferred charges and other assets	—	—	2,260,053
Capital assets, net	2,907,281	44,238,491	58,172,639
Total noncurrent assets	<u>2,907,281</u>	<u>44,238,491</u>	<u>60,432,692</u>
Total assets	<u>\$ 9,663,503</u>	<u>69,652,716</u>	<u>89,535,810</u>

Municipal Airport	Anchorage Parking Authority	Alaska Center for Performing Arts	Total
200	2,709,820	981,020	3,691,190
670,717	—	—	34,162,658
430,570	174,935	11,415	2,530,704
603	—	—	357,773
—	—	—	377,770
1,879	39,846	15,287	57,626
—	—	—	16,406
<u>1,103,969</u>	<u>2,924,601</u>	<u>1,007,722</u>	<u>41,194,127</u>
—	—	172,028	172,028
—	—	—	8,870
—	—	—	23,227,369
—	—	—	1,503,366
—	137,597	133,786	647,508
<u>—</u>	<u>137,597</u>	<u>305,814</u>	<u>25,559,141</u>
37,451	—	—	37,451
—	—	—	2,260,053
<u>40,369,444</u>	<u>32,113,119</u>	<u>—</u>	<u>177,800,974</u>
<u>40,406,895</u>	<u>32,113,119</u>	<u>—</u>	<u>180,098,478</u>
<u>41,510,864</u>	<u>35,175,317</u>	<u>1,313,536</u>	<u>246,851,746</u>

(Continued)

MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Statement of Net Assets

Nonmajor Enterprise Funds

December 31, 2002

Liabilities	Refuse Utility	Solid Waste	Port
Current liabilities:			
Accounts payable and retainages	\$ 23,023	251,839	126,327
Compensated absences payable	86,094	351,102	129,943
Due to Primary Government	—	—	—
Accrued interest payable	7,883	493,446	121,750
Long-term obligations maturing within one year	320,000	3,325,673	1,110,000
Deferred revenue and deposits	2,578	—	13,000
Deferred credits and other liabilities	—	—	—
Total current liabilities	439,578	4,422,060	1,501,020
Current liabilities payable from restricted assets:			
Customer deposits payable	—	—	—
Capital acquisition and construction accounts and retainage payable	—	—	72,495
Total current liabilities payable from restricted assets	—	—	72,495
Non-current liabilities:			
General obligation bonds payable (net of unamortized discounts, premiums, deferred gain or loss on refunding)	—	6,877,791	—
Revenue bonds payable (net of unamortized discounts, premiums, deferred gain or loss on refunding)	325,469	1,793,569	3,627,588
Federal clean water loan payable	—	13,046,816	—
Total non-current liabilities	325,469	21,718,176	3,627,588
Deferred credits and other liabilities – Future landfill closure costs	—	9,557,559	—
Total liabilities	765,047	35,697,795	5,201,103
Net Assets			
Invested in capital assets, net of related debt	2,261,812	19,194,642	53,435,051
Restricted for debt service	—	376,125	—
Restricted for operations and maintenance	355,968	—	1,074,903
Restricted for capital construction	322,023	3,643,320	19,262,026
Unrestricted	5,958,653	10,740,834	10,562,727
Total net assets	8,898,456	33,954,921	84,334,707
Total	\$ 9,663,503	69,652,716	89,535,810

See accompanying notes to financial statements.

(Continued)

Municipal Airport	Anchorage Parking Authority	Alaska Center for Performing Arts	Total
108,028	262,060	340,300	1,111,577
37,376	—	—	604,515
—	41,906	44,707	86,613
—	—	—	623,079
—	—	—	4,755,673
73,039	36,891	36,878	162,386
—	108,400	278,355	386,755
<u>218,443</u>	<u>449,257</u>	<u>700,240</u>	<u>7,730,598</u>
—	20,282	—	20,282
—	—	—	72,495
—	20,282	—	92,777
—	—	—	6,877,791
—	—	—	5,746,626
—	—	—	13,046,816
—	—	—	25,671,233
—	—	—	9,557,559
<u>218,443</u>	<u>469,539</u>	<u>700,240</u>	<u>43,052,167</u>
40,369,444	32,113,119	—	147,374,068
—	137,597	305,814	819,536
—	—	—	1,430,871
—	—	—	23,227,369
922,977	2,455,062	307,482	30,947,735
<u>41,292,421</u>	<u>34,705,778</u>	<u>613,296</u>	<u>203,799,579</u>
<u>41,510,864</u>	<u>35,175,317</u>	<u>1,313,536</u>	<u>246,851,746</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Nonmajor Enterprise Funds

Year ended December 31, 2002

	<u>Refuse Utility</u>	<u>Solid Waste</u>	<u>Port</u>
Operating revenues:			
Charges for sales and services	\$ 5,664,885	17,285,331	5,744,707
Other	—	—	2,902,747
Total operating revenues	<u>5,664,885</u>	<u>17,285,331</u>	<u>8,647,454</u>
Operating expenses:			
Operations	4,353,074	10,574,809	2,986,761
Municipality service assessment taxes	—	—	601,722
Future landfill closure costs	792,349	—	—
Depreciation and amortization	518,735	2,430,080	3,214,741
Total operating expenses	<u>5,664,158</u>	<u>13,004,889</u>	<u>6,803,224</u>
Operating income (loss)	<u>727</u>	<u>4,280,442</u>	<u>1,844,230</u>
Non-operating revenues (expenses):			
Investment income	120,314	401,489	812,846
Other revenues	20,449	105,474	210,974
Interest expense	(39,572)	(1,102,948)	(302,163)
Gain (loss) on disposition of assets	9,832	168,628	—
Amortization of deferred charges	(2,854)	(19,816)	(52,600)
Net non-operating revenues (expenses)	<u>108,169</u>	<u>(447,173)</u>	<u>669,057</u>
Income (loss) before transfers	<u>108,896</u>	<u>3,833,269</u>	<u>2,513,287</u>
Capital contributions	—	—	—
Transfers out	—	—	(172,537)
Transfers in	—	—	—
Change in net assets	<u>108,896</u>	<u>3,833,269</u>	<u>2,340,750</u>
Total net assets – beginning	<u>8,789,560</u>	<u>30,121,652</u>	<u>81,993,957</u>
Total net assets – ending	\$ <u><u>8,898,456</u></u>	<u><u>33,954,921</u></u>	<u><u>84,334,707</u></u>

See accompanying notes to financial statements.

Municipal Airport	Anchorage Parking Authority	Alaska Center for Performing Arts	Total
1,007,230	4,212,113	609,626	34,523,892
—	2,754	180,755	3,086,256
<u>1,007,230</u>	<u>4,214,867</u>	<u>790,381</u>	<u>37,610,148</u>
843,390	2,689,042	1,705,129	23,152,205
—	—	—	601,722
—	—	—	792,349
<u>1,375,223</u>	<u>1,140,724</u>	<u>—</u>	<u>8,679,503</u>
<u>2,218,613</u>	<u>3,829,766</u>	<u>1,705,129</u>	<u>33,225,779</u>
<u>(1,211,383)</u>	<u>385,101</u>	<u>(914,748)</u>	<u>4,384,369</u>
4,359	49,476	20,960	1,409,444
25,012	(1,455)	—	360,454
—	—	—	(1,444,683)
—	—	—	178,460
—	—	—	(75,270)
<u>29,371</u>	<u>48,021</u>	<u>20,960</u>	<u>428,405</u>
<u>(1,182,012)</u>	<u>433,122</u>	<u>(893,788)</u>	<u>4,812,774</u>
2,653,752	(412,125)	—	2,241,627
—	(356,509)	(123,676)	(652,722)
—	—	1,148,500	1,148,500
<u>1,471,740</u>	<u>(335,512)</u>	<u>131,036</u>	<u>7,550,179</u>
<u>39,820,681</u>	<u>35,041,290</u>	<u>482,260</u>	<u>196,249,400</u>
<u>41,292,421</u>	<u>34,705,778</u>	<u>613,296</u>	<u>203,799,579</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Statement of Cash Flows
Nonmajor Enterprise Funds

Year ended December 31, 2002

	<u>Refuse Utility</u>	<u>Solid Waste</u>	<u>Port</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 5,690,533	18,152,577	8,692,504
Payments to employees	(1,297,992)	(4,550,221)	(1,456,283)
Payments to vendors	(2,571,412)	(6,763,746)	(2,265,857)
Internal activity – payments made to other funds	(1,434,766)	(3,402,471)	—
Internal activity – payments received from other funds	25,000	4,051,827	—
Net cash (used) provided by operating activities	<u>411,363</u>	<u>7,487,966</u>	<u>4,970,364</u>
Cash flows from non-capital and related financing activities:			
Transfers to other funds	—	—	(172,537)
Transfers from other funds	—	—	—
Net cash used (provided) by non-capital and related financing activities	<u>—</u>	<u>—</u>	<u>(172,537)</u>
Cash flows from capital and related financing activities:			
Principal payments on long-term obligations	(305,000)	(2,325,000)	(1,196,100)
Interest payments on long-term obligations	(39,396)	(1,012,932)	(241,313)
Acquisition and construction of capital assets	(397,959)	(1,412,655)	(1,354,770)
Proceeds from disposition of capital assets	9,832	168,628	—
Grant proceeds	—	88,696	69,375
Contributed capital – customers	—	24,137	141,599
Contributed capital – intergovernmental	85,956	(946,139)	—
Net cash provided by capital and related financing activities	<u>(646,567)</u>	<u>(5,415,265)</u>	<u>(2,581,209)</u>
Cash flows from investing activities:			
Proceeds from sales and maturity of investments	—	—	315,971
Interest received	127,689	409,275	735,325
Net cash provided by investing activities	<u>127,689</u>	<u>409,275</u>	<u>1,051,296</u>
Net cash provided (used) by operating activities	(107,515)	2,481,976	3,267,914
Cash, beginning of year	5,778,557	18,047,649	4,023,510
Cash, end of year	\$ <u>5,671,042</u>	<u>20,529,625</u>	<u>7,291,424</u>

Municipal Airport	Anchorage Parking Authority	Alaska Center for Performing Arts	Total
1,011,226	4,132,706	3,816,640	41,496,186
(656,171)	(1,057,909)	(1,629,060)	(10,647,636)
(374,397)	(1,584,301)	(3,220,531)	(16,780,244)
—	—	—	(4,837,237)
—	—	—	4,076,827
<u>(19,342)</u>	<u>1,490,496</u>	<u>(1,032,951)</u>	<u>13,307,896</u>
—	(356,509)	(123,676)	(652,722)
—	—	1,148,500	1,148,500
—	(356,509)	1,024,824	495,778
—	(66,707)	—	(3,892,807)
—	—	—	(1,293,641)
(6,030,533)	(821,561)	(117,726)	(10,135,204)
—	5,916	—	184,376
5,843,314	—	—	6,001,385
25,012	—	—	190,748
—	(412,125)	(225,831)	(1,498,139)
<u>(162,207)</u>	<u>(1,294,477)</u>	<u>(343,557)</u>	<u>(10,443,282)</u>
—	—	—	315,971
4,382	49,476	20,960	1,347,107
<u>4,382</u>	<u>49,476</u>	<u>20,960</u>	<u>1,663,078</u>
(177,167)	(111,014)	(330,724)	5,023,470
225,472	2,820,834	1,311,744	32,207,766
<u>48,305</u>	<u>2,709,820</u>	<u>981,020</u>	<u>37,231,236</u>

(Continued)

MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

Year ended December 31, 2002

	<u>Refuse Utility</u>	<u>Solid Waste</u>	<u>Port</u>
Cash	\$ —	—	150
Cash in central treasury	5,671,042	20,529,625	7,291,274
Add: Cash in construction investment pool in central treasury	—	—	—
Cash, December 31	<u>\$ 5,671,042</u>	<u>20,529,625</u>	<u>7,291,424</u>
Reconciliation of change in net assets to net cash provided by operating activities:			
Operating income (loss)	\$ 727	4,280,442	1,844,230
Adjustments to reconcile operating income to net cash provided or used by operating activities:			
Depreciation and amortization	518,735	2,430,080	3,214,741
Amortization of landfill closure costs	—	792,350	—
Changes in assets and liabilities which increase (decrease) cash:			
Accounts receivable	18,367	50,339	45,050
Notes receivable	—	—	—
Customer deposits	—	—	—
Deferred charges and other assets	21,346	—	—
Accounts payable	(147,853)	(73,024)	(84,592)
Deferred credits	—	7,779	—
Deferred revenue	41	—	—
Compensated absences payable	—	—	(49,065)
Total cash provided by operating activities	<u>\$ 411,363</u>	<u>7,487,966</u>	<u>4,970,364</u>
Non-cash investing, capital and financing activities – Deferred refunding loss	<u>\$ 3,760</u>	<u>136,596</u>	<u>—</u>

(Continued)

Municipal Airport	Anchorage Parking Authority	Alaska Center for Performing Arts	Total
200	2,709,820	981,020	3,691,190
48,105	—	—	33,540,046
622,612	—	—	622,612
<u>670,917</u>	<u>2,709,820</u>	<u>981,020</u>	<u>37,853,848</u>
(1,211,383)	385,101	(914,748)	4,384,369
1,375,223	1,140,724	—	8,679,503
—	—	—	792,350
4,115	(73,809)	11,766	55,828
2,331	—	—	2,331
—	14,993	1,410	16,403
—	(35,348)	(383)	(14,385)
(194,365)	95,126	199,137	(205,571)
—	(11,086)	(330,133)	(333,440)
6,063	(25,205)	—	(19,101)
(1,326)	—	—	(50,391)
<u>(19,342)</u>	<u>1,490,496</u>	<u>(1,032,951)</u>	<u>13,307,896</u>
<u>—</u>	<u>—</u>	<u>—</u>	<u>140,356</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Statement of Net Assets
Internal Service Funds

December 31, 2002

Assets	Risk Management					Total
	General Liability/Workers' Compensation	Medical Dental Life	Unemployment Compensation	Equipment Maintenance	Information Technology	
Current assets:						
Cash in central treasury	\$ 1,553,977	1,098,773	1,896,025	12,437,540	4,188,688	21,175,003
Due from other funds	8,966,967	—	—	—	—	8,966,967
Inventories	—	—	—	328,793	—	328,793
Prepaid items and deposits	678,459	—	—	—	331,266	1,009,725
Total current assets	11,199,403	1,098,773	1,896,025	12,766,333	4,519,954	31,480,488
Noncurrent assets –						
Capital assets, net	—	—	—	16,441,347	16,728,973	33,170,320
Total noncurrent assets	—	—	—	16,441,347	16,728,973	33,170,320
Total assets	\$ 11,199,403	1,098,773	1,896,025	29,207,680	21,248,927	64,650,808
Liabilities and Net Assets						
Current liabilities:						
Accounts payable and retainages	\$ 265,267	660	—	262,186	77,351	605,464
Compensated absences payable	—	—	—	203,258	518,498	721,756
Claims payable	7,976,296	—	98,635	—	—	8,074,931
Due to other funds	274,000	—	—	—	9,305,612	9,579,612
Claims incurred but not reported	4,694,412	393,518	—	—	—	5,087,930
Accrued interest payable	—	—	—	—	6,691	6,691
Long-term obligations maturing within one year	—	—	—	—	696,013	696,013
Deferred revenue and deposits	—	—	—	—	62,602	62,602
Total current liabilities	13,209,975	394,178	98,635	465,444	10,666,767	24,834,999
Current liabilities payable from restricted assets –						
Capital acquisition and construction accounts and retainage payable	—	—	—	3,160	101,924	105,084
Total current liabilities payable from restricted assets	—	—	—	3,160	101,924	105,084
Non-current liabilities:						
Due to other funds	—	—	—	—	10,173,398	10,173,398
Capital leases	—	—	—	—	172,835	172,835
Other loans and contracts payable	—	—	—	—	234,447	234,447
Total non-current liabilities	—	—	—	—	10,580,680	10,580,680
Total liabilities	13,209,975	394,178	98,635	468,604	21,349,371	35,520,763
Net assets (deficit):						
Invested in capital assets, net of related debt	—	—	—	16,441,347	—	16,441,347
Unrestricted	(2,010,572)	704,595	1,797,390	12,297,729	(100,444)	12,688,698
Total net assets (deficit)	(2,010,572)	704,595	1,797,390	28,739,076	(100,444)	29,130,045
Total	\$ 11,199,403	1,098,773	1,896,025	29,207,680	21,248,927	64,650,808

See accompanying notes to financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Funds
Year ended December 31, 2002

	<u>Risk Management</u>					<u>Total</u>
	<u>General Liability/ Workers' Compensation</u>	<u>Medical Dental Life</u>	<u>Unemployment Compensation</u>	<u>Equipment Maintenance</u>	<u>Information Technology</u>	
Operating revenues:						
Charges for sales and services	\$ 8,085,130	271,689	803,204	7,359,425	17,895,927	34,415,375
Other	—	—	—	132,600	—	132,600
Total operating revenues	<u>8,085,130</u>	<u>271,689</u>	<u>803,204</u>	<u>7,492,025</u>	<u>17,895,927</u>	<u>34,547,975</u>
Operating expenses:						
Operations	(9,324,936)	—	(355,598)	(6,202,097)	(13,528,582)	(29,411,213)
Depreciation and amortization	—	—	—	(3,353,330)	(2,921,913)	(6,275,243)
Total operating expenses	<u>(9,324,936)</u>	<u>—</u>	<u>(355,598)</u>	<u>(9,555,427)</u>	<u>(16,450,495)</u>	<u>(35,686,456)</u>
Operating income (loss)	<u>(1,239,806)</u>	<u>271,689</u>	<u>447,606</u>	<u>(2,063,402)</u>	<u>1,445,432</u>	<u>(1,138,481)</u>
Non-operating revenues (expenses):						
Investment income	201,335	(9,521)	29,995	226,821	45,905	494,535
Other revenues	—	—	—	162,752	3,950	166,702
Interest expense	—	—	—	—	(407,480)	(407,480)
Net non-operating revenues (expenses)	<u>201,335</u>	<u>(9,521)</u>	<u>29,995</u>	<u>389,573</u>	<u>(357,625)</u>	<u>253,757</u>
Income (loss) before transfers	<u>(1,038,471)</u>	<u>262,168</u>	<u>477,601</u>	<u>(1,673,829)</u>	<u>1,087,807</u>	<u>(884,724)</u>
Transfer to other funds	—	—	—	(50,000)	—	(50,000)
Transfer from other funds	—	—	—	1,053,661	—	1,053,661
Change in net assets	<u>(1,038,471)</u>	<u>262,168</u>	<u>477,601</u>	<u>(670,168)</u>	<u>1,087,807</u>	<u>118,937</u>
Total net assets – beginning	<u>(972,101)</u>	<u>442,427</u>	<u>1,319,789</u>	<u>29,409,244</u>	<u>(1,188,251)</u>	<u>29,011,108</u>
Total net assets (deficit) – ending	<u>\$ (2,010,572)</u>	<u>704,595</u>	<u>1,797,390</u>	<u>28,739,076</u>	<u>(100,444)</u>	<u>29,130,045</u>

See accompanying notes to financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Statement of Cash Flows
Internal Service Funds

Year ended December 31, 2002

	Risk Management					Total
	General Liability/ Workers' Compensation	Medical Dental Life	Unemployment Compensation	Equipment Maintenance	Information Technology	
Cash flows from operating activities:						
Receipts from customers and users	\$ —	271,689	803,204	132,600	43,035	1,250,528
Payments to employees	—	—	—	(2,752,674)	(5,551,581)	(8,304,255)
Payments to vendors	(7,331,994)	(266,046)	(327,156)	(2,478,564)	(2,251,166)	(12,654,926)
Internal activity – payments made to other funds	(562,262)	—	—	(885,559)	(6,086,931)	(7,534,752)
Internal activity – payments received from other funds	8,085,130	—	—	7,359,425	17,897,531	33,342,086
Net cash (used) provided by operating activities	<u>190,874</u>	<u>5,643</u>	<u>476,048</u>	<u>1,375,228</u>	<u>4,050,888</u>	<u>6,098,681</u>
Cash flows from non-capital and related financing activities:						
Transfers out	—	—	—	(50,000)	—	(50,000)
Transfers in	—	—	—	1,053,661	—	1,053,661
Other	—	—	—	237,753	—	237,753
Net cash provided by non-capital and related financing activities	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,241,414</u>	<u>—</u>	<u>1,241,414</u>
Cash flows from capital and related financing activities:						
Proceeds from issuance of long-term obligations	—	—	—	—	505,139	505,139
Principal payments on long-term obligations	817,605	—	—	—	(2,556,546)	(1,738,941)
Interest payments on long-term obligations	—	—	—	—	(407,480)	(407,480)
Acquisition and construction of capital assets	—	—	—	(14,947,451)	(2,816,355)	(17,763,806)
Proceeds from disposition of capital assets	—	—	—	441,538	—	441,538
Contributed capital – interfund	—	—	—	—	2,637,888	2,637,888
Net cash used (provided) by capital and related financing activities	<u>817,605</u>	<u>—</u>	<u>—</u>	<u>(14,505,913)</u>	<u>(2,637,354)</u>	<u>(16,325,662)</u>
Cash flows from investing activities:						
Proceeds from sales and maturity of investments	—	—	—	10,722	—	10,722
Interest received	201,335	(9,520)	29,995	226,821	45,905	494,536
Net cash (used) provided by investing activities	<u>201,335</u>	<u>(9,520)</u>	<u>29,995</u>	<u>237,543</u>	<u>45,905</u>	<u>505,258</u>
Net cash provided (used) by operating activities	1,209,814	(3,877)	506,043	(11,651,728)	1,459,439	(8,480,309)
Cash, beginning of year	344,163	1,102,650	1,389,982	15,871,850	2,729,249	21,437,894
Cash, end of year	<u>\$ 1,553,977</u>	<u>1,098,773</u>	<u>1,896,025</u>	<u>4,220,122</u>	<u>4,188,688</u>	<u>12,957,585</u>
Cash in central treasury	\$ 1,553,977	1,098,773	1,896,025	4,220,122	4,188,688	12,957,585
Add: Cash in construction investment pool in central treasury	—	—	—	8,217,418	—	8,217,418
Cash, December 31	<u>\$ 1,553,977</u>	<u>1,098,773</u>	<u>1,896,025</u>	<u>12,437,540</u>	<u>4,188,688</u>	<u>21,175,003</u>
Reconciliation of change in net assets to net cash provided by operating activities:						
Operating income (loss)	\$ (1,239,806)	271,689	447,606	(2,063,402)	1,445,432	(1,138,481)
Adjustments to reconcile operating income to net cash provided or used by operating activities –						
Depreciation and amortization	—	—	—	3,353,330	2,921,913	6,275,243
Changes in assets and liabilities which increase (decrease) cash:						
Accounts receivable	25,830	—	—	—	37,481	63,311
Prepaid items	—	32,033	—	—	—	32,033
Inventories	—	—	—	37,414	—	37,414
Deferred charges and other assets	(273,781)	—	—	—	138,060	(135,721)
Accounts payable	65,712	(215,560)	28,442	51,486	(367,148)	(437,068)
Accrued interest payable	—	—	—	—	(11,054)	(11,054)
Claims payable	1,612,919	(82,519)	—	—	—	1,530,400
Deferred credits	—	—	—	—	(26,156)	(26,156)
Compensated absences payable	—	—	—	(3,600)	(87,640)	(91,240)
Total cash provided by operating activities	<u>\$ 190,874</u>	<u>5,643</u>	<u>476,048</u>	<u>1,375,228</u>	<u>4,050,888</u>	<u>6,098,681</u>
Non-cash investing, capital and financing activities –						
Capital purchases on account	\$ —	—	—	—	101,924	101,924

See accompanying notes to financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Statement of Fiduciary Net Assets
Fiduciary Funds

December 31, 2002

	Police/Fire Retirement Trust Funds			Total	Police/Fire Retiree Medical Employment Trust Fund	
	Police/Fire Retirement System Plan I	Police/Fire Retirement System Plan II	Police/Fire Retirement System Plan III		Total	Total
Assets						
Cash in central treasury	\$ 9,985	6,609	18,539	35,133	1,481	36,614
Investments	91,381,097	60,589,769	170,176,635	322,147,501	4,035,690	326,183,191
Capital assets, net	11,652	7,725	21,694	41,071	—	41,071
Total assets	\$ 91,402,734	60,604,103	170,216,868	322,223,705	4,037,171	326,260,876
Liabilities						
Accounts payable	\$ 17,886	11,840	32,208	61,934	—	61,934
Total liabilities	\$ 17,886	11,840	32,208	61,934	—	61,934
Net Assets						
Held in trust for:						
Employees' pension benefits	\$ 91,384,848	60,592,263	170,184,660	322,161,771	—	322,161,771
Employees' postemployment healthcare benefits	—	—	—	—	4,037,171	4,037,171
Total net assets	\$ 91,384,848	60,592,263	170,184,660	322,161,771	4,037,171	326,198,942

See accompanying notes to financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA
Combining Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year ended December 31, 2002

	Police/Fire Retirement Pension Trust Funds				Police/Fire	Total
	Police/Fire Retirement System Plan I	Police/Fire Retirement System Plan II	Police/Fire Retirement System Plan III	Total	Retiree Medical Employment Trust Fund	
Additions:						
Contributions from other funds	\$ —	—	—	—	1,116,990	1,116,990
Interest	2,152,207	1,413,032	3,939,115	7,504,354	96,330	7,600,684
Dividends	487,422	319,942	891,661	1,699,025	—	1,699,025
Net depreciation in fair value of investments	(11,002,049)	(7,222,529)	(20,126,637)	(38,351,215)	(526,775)	(38,877,990)
Less investments expense	(368,905)	(244,463)	(686,966)	(1,300,334)	(78)	(1,300,412)
Total additions	(8,731,325)	(5,734,018)	(15,982,827)	(30,448,170)	686,467	(29,761,703)
Deductions:						
Regular benefit payments	7,874,260	3,765,973	8,132,237	19,772,470	—	19,772,470
Administrative expenses	215,448	140,072	400,755	756,275	847,258	1,603,533
Total deductions	8,089,708	3,906,045	8,532,992	20,528,745	847,258	21,376,003
Change in net assets	(16,821,033)	(9,640,063)	(24,515,819)	(50,976,915)	(160,791)	(51,137,706)
Net assets – beginning	108,205,881	70,232,326	194,700,479	373,138,686	4,197,962	377,336,648
Net assets – ending	\$ <u>91,384,848</u>	<u>60,592,263</u>	<u>170,184,660</u>	<u>322,161,771</u>	<u>4,037,171</u>	<u>326,198,942</u>

See accompanying notes to financial statements.