



Municipality of Anchorage, Alaska Water Utility Fund

Basic Financial Statements
and Supplementary Information

December 31, 2011 and 2010
(with independent Auditor's Report Thereon)



**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Basic Financial Statements and Supplementary Information

December 31, 2011 and 2010

(With Independent Auditor's Report Thereon)

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the Water Utility Fund, an enterprise fund of the Municipality of Anchorage, Alaska, as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Water Utility Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 provides a reasonable basis for our opinion.

As discussed in Note 1(a), the financial statements present only the Water Utility Fund and do not purport to, and do not, present fairly the financial position of the Municipality of Anchorage, Alaska as of December 31, 2011 and 2010, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility Fund as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1(b), in 2011 the Water Utility amended its definition of cash for the purposes of the Statement of Cash Flows to include the bond and grant capital acquisition and construction pool accounts. The 2010 Statement of Cash Flows has been restated to reflect this amended definition. The 2010 net assets are unaffected by this change.

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

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The other data included in this report, designated as the "statistical section" in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Mikunda, Cottrell & Co.

Anchorage, Alaska
May 17, 2012

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

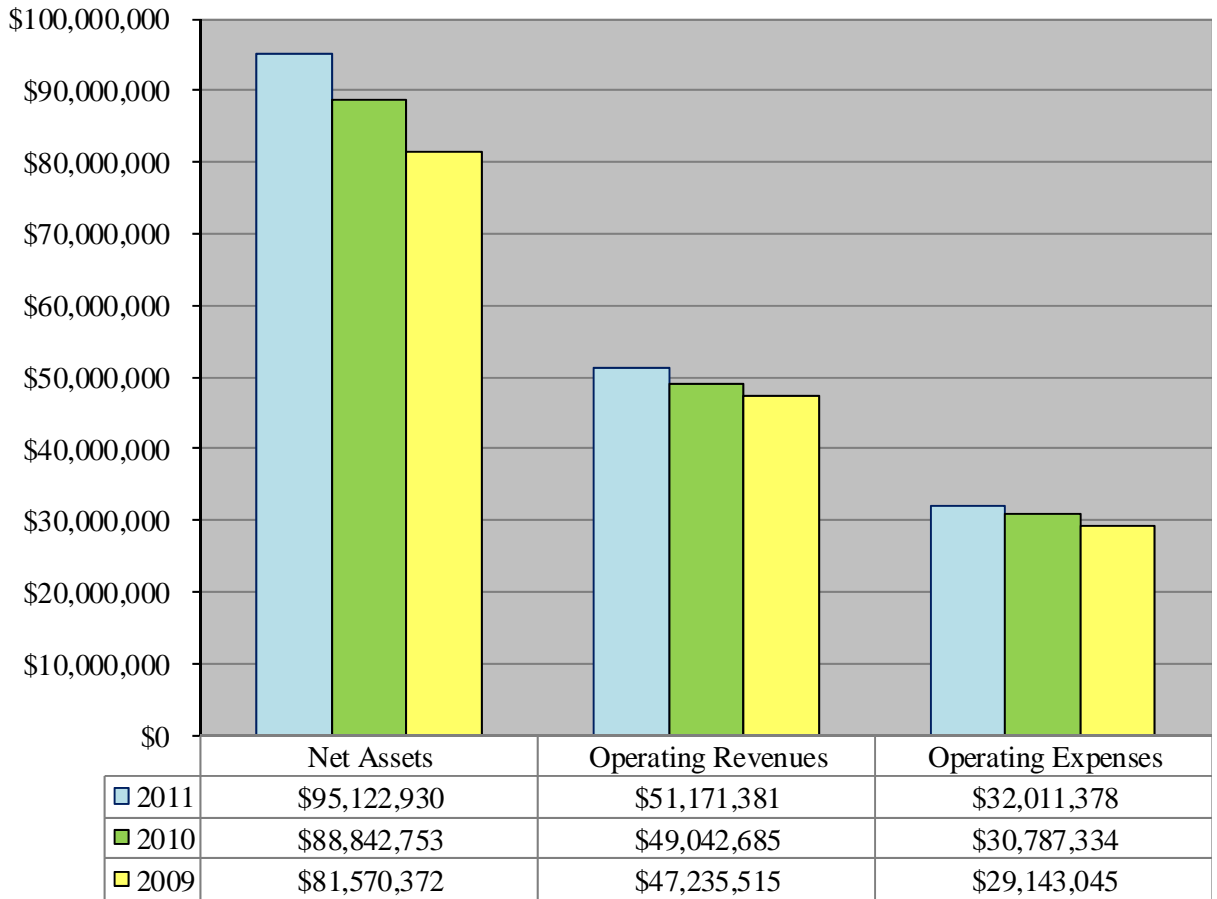
Management's Discussion and Analysis

December 31, 2011 and 2010

This section of the Municipality of Anchorage Water Utility (Utility) annual financial report presents the analysis of the Utility's financial performance during the years ending December 31, 2011 and 2010. Please read it in conjunction with the Utility's financial statements.

Financial Highlights

- Net capital assets increased by \$12,870,000, or 3% in 2011 and \$18,830,000, or 4% in 2010.
- Net assets increased by \$6,280,000, or 7% in 2011 and \$7,270,000, or 9% in 2010.
- Operating revenues increased by \$2,130,000, or 4% in 2011 and \$1,810,000, or 4% in 2010.
- Operating expenses increased by \$1,220,000, or 4% in 2011 and \$1,640,000, or 6% in 2010.



**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Management's Discussion and Analysis

December 31, 2011 and 2010

Overview of the Financial Report

The Utility is reported as an enterprise fund of the Municipality of Anchorage (MOA). A Board of Directors (Board) consisting of seven members recommends tariff rates, fees, and charges imposed by the Utility for its products and services to the Municipal Administration and Assembly for approval. The Utility is economically regulated by the Regulatory Commission of Alaska (RCA). Upon approval by the Assembly, changes to tariff rates, fees, and charges are submitted to the RCA for approval.

This annual report consists of the Management's Discussion and Analysis; Statements of Net Assets; Statements of Revenues, Expenses, and Changes in Fund Net Assets; Statements of Cash Flows; Notes to the Basic Financial Statements; and Statistical information. These statements and other supplemental information include all assets and liabilities using the accrual basis of accounting.

Statements of Net Assets – These statements present information regarding the Utility's assets, liabilities and net assets. Net assets represent the total assets less total liabilities. The Statements of Net Assets classify assets and liabilities as current and non-current.

Statements of Revenues, Expenses, and Changes in Fund Net Assets – These statements present the Utility's operating revenues and expenses and non-operating revenues and expenses for the year with the difference – income before transfers – being combined with any capital contributions or repayments and transfers to determine the change in net assets for the year. That change, combined with last year's ending net assets total reconciles to the net assets total at the end of this year.

Statements of Cash Flows – These statements report cash and cash-equivalent activities for the year resulting from operating activities, non-capital and related financing activities, capital and related financing activities, and investing activities. The net result of these activities added to the beginning-of-year cash reconciles to cash and cash-equivalents balance at the end of the year. The Utility presents its Statement of Cash Flows using the direct method of reporting operating cash flows.

Analysis of the Financial Statements

Net Assets

One of the most important questions asked about the Utility's finances is, "Is the Utility, as a whole, better off or worse off as a result of the year's activities?" The Statements of Net Assets and the Statements of Revenues, Expenses, and Changes in Fund Net Assets report information about the Utility's activities in a way that helps answer this question.

These two statements report the Utility's net assets and changes in them. One can think of the Utility's net assets, the difference between assets and liabilities, as one way to measure financial health or financial position. Over time, increases or decreases in the Utility's net assets are an indicator of whether its financial health is improving or deteriorating. However, one also needs to consider other non-financial factors such as changes in economic conditions, population growth, the regulatory environment, and new or changed legislation.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Management's Discussion and Analysis

December 31, 2011 and 2010

Changes in the Utility's net assets can be determined by reviewing the following condensed Summary of Net Assets as of December 31, 2011, 2010, and 2009. The analysis below focuses on the Utility's net assets at the end of the year (Table 1) and changes in net assets (Table 2) during the year.

**Table 1
Summary of Net Assets**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Net capital assets	\$ 508,132,334	495,261,516	476,435,111
Current and other assets	<u>51,152,704</u>	<u>47,088,137</u>	<u>46,517,845</u>
Total assets	<u>559,285,038</u>	<u>542,349,653</u>	<u>522,952,956</u>
Liabilities:			
Net debt outstanding	223,381,673	210,800,660	200,244,093
Current and other liabilities	<u>240,780,435</u>	<u>242,706,240</u>	<u>241,138,491</u>
Total liabilities	<u>464,162,108</u>	<u>453,506,900</u>	<u>441,382,584</u>
Net assets:			
Invested in capital assets net of debt	67,560,213	61,104,205	59,545,318
Restricted	5,019,180	7,456,016	7,366,317
Unrestricted	<u>22,543,537</u>	<u>20,282,532</u>	<u>14,658,737</u>
Total net assets	<u>\$ 95,122,930</u>	<u>88,842,753</u>	<u>81,570,372</u>
Change in net assets	<u>\$ 6,280,177</u>	<u>7,272,381</u>	

In 2011, the Utility's total assets increased by \$16.9 million. Net capital assets increased by \$12.9 million due to new plant additions (see MD&A Table 3A and note 3). Major additions to plant in service in 2011 were transmission and distribution plant of \$15.4 million, pumping plant and water treatment plant of \$1.2 million, source of supply plant of \$8.4 million and general plant of \$5.7 million.

Total liabilities increased by \$10.7 million from 2010 to 2011. Net debt outstanding increased by \$12.6 million due to additional low interest State of Alaska loans of \$22.0 million offset by debt principal payments (see note 4). Current and other liabilities decreased by \$1.9 million primarily due to a \$2.0 million decrease in contributions in aid of construction, (see note 6.)

In 2010, the Utility's total assets increased by \$19.4 million. Net capital assets increased by \$18.8 million due to new plant additions (see MD&A Table 3A and note 3). Major additions to plant in service in 2010 were transmission and distribution plant of \$31.4 million, pumping plant of \$2 million, water treatment plant of \$2.1 million, source supply plant of \$2.5 million and general plant of \$3.1 million. Current and other assets had a slight increase of \$0.6 million.

Total liabilities increased by \$12.1 million from 2009 to 2010. Net debt outstanding increased by \$10.6 million due to additional low interest State of Alaska loans of \$19 million offset by debt principal payments (see note 4). Current and other liabilities increased by \$1.6 million primarily due to the \$2.2 million increase of contributions in aid of construction, (see note 6)

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Management's Discussion and Analysis

December 31, 2011 and 2010

Changes in the Utility's net assets can be determined by reviewing the following condensed Summary of Revenues, Expenses, and Changes in Fund Net Assets for the years ended December 31, 2011, 2010, and 2009.

**Table 2
Summary of Revenues, Expenses, and Changes in Fund Net Assets**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues:			
Residential sales	\$ 35,341,978	32,947,963	31,909,734
Commercial sales	10,362,143	10,902,300	10,259,360
Public fire protection	4,093,030	3,835,662	3,698,074
Miscellaneous	1,374,230	1,356,760	1,368,347
Nonoperating revenues	<u>1,067,210</u>	<u>1,814,454</u>	<u>2,948,763</u>
Total revenues	<u>52,238,591</u>	<u>50,857,139</u>	<u>50,184,278</u>
Operating expenses:			
Source of supply	3,229,894	3,103,951	2,752,625
Water treatment	4,370,494	4,443,589	4,130,606
Transmission and distribution	5,976,839	5,652,247	5,961,552
Customer accounts	2,519,017	2,366,630	2,223,347
Administrative and general	7,566,757	7,172,416	6,873,012
Depreciation, net of amortization	8,348,377	8,048,501	7,201,903
Nonoperating expenses	<u>6,798,831</u>	<u>6,082,866</u>	<u>8,081,207</u>
Total expenses	<u>38,810,209</u>	<u>36,870,200</u>	<u>37,224,252</u>
Income before transfers	13,428,382	13,986,939	12,960,026
Transfers:			
Transfer to other funds	(7,148,205)	(6,717,558)	(6,112,876)
Transfer from other funds	<u>—</u>	<u>3,000</u>	<u>206,863</u>
Total transfers	(7,148,205)	(6,714,558)	(5,906,013)
Change in fund net assets	6,280,177	7,272,381	7,054,013
Beginning net assets	<u>88,842,753</u>	<u>81,570,372</u>	<u>74,516,359</u>
Ending net assets	<u>\$ 95,122,930</u>	<u>88,842,753</u>	<u>81,570,372</u>

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

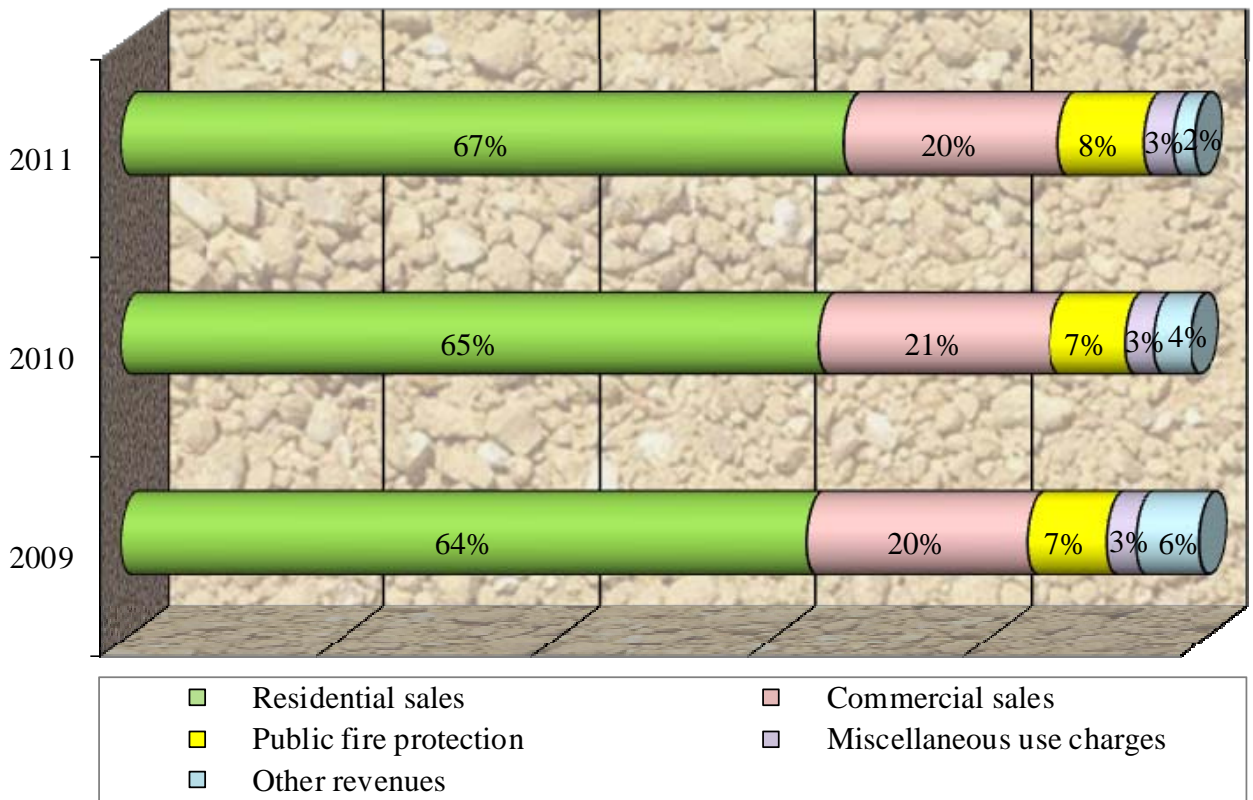
Management's Discussion and Analysis

December 31, 2011 and 2010

Net assets increased by \$6.3 million in 2011. A rate increase of 8% with an effective date of March, 24, 2011 combined with a small increase in customer accounts of .41% provided the Utility with an increase in operating revenues of \$2.1 million. Non-operating revenues decreased by \$.75 million due to a \$0.3 million decrease in short term investment income and a \$0.5 million decrease in gain on disposal of property.

During 2010 net assets increased by \$7.3 million. Operating revenues increased by \$1.8 million due to a 2.5% rate increase effective January 1, 2010 and a small growth in customers accounts of .26%. Non-operating revenues decreased by \$1.1 million due primarily to a \$1.6 million decrease in short term investment income and a \$0.5 million increase from the gain on disposal of property.

Revenues by Source



**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

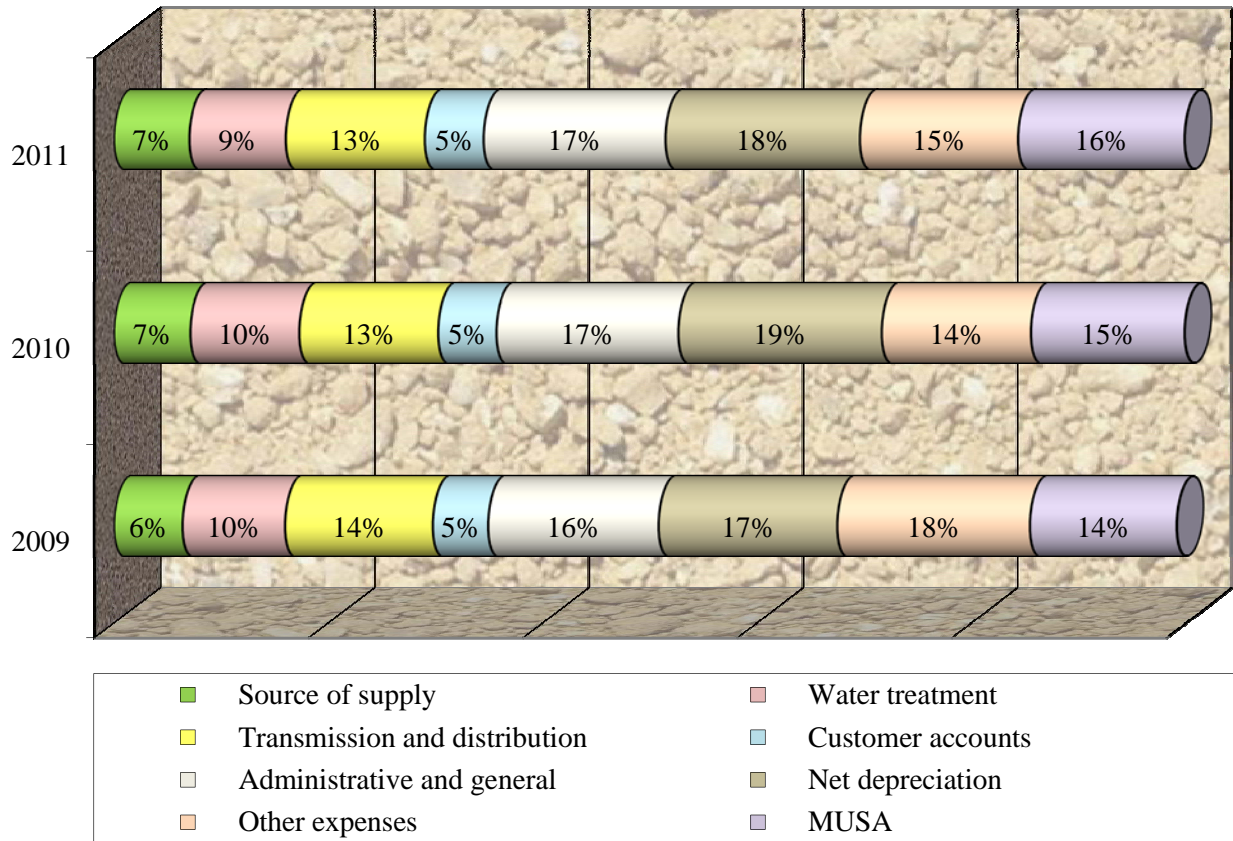
Management's Discussion and Analysis

December 31, 2011 and 2010

2011 operating expenses increased by \$1.2 million from 2010. This increase was due primarily to an increase of \$0.4 million in administrative and general expenses, \$0.3 million in transmission and distribution and \$0.3 million in depreciation expense associated with increased plant in service.

Operating expenses increased by \$1.6 million in 2010. The increase was due primarily to a \$0.8 million increase in depreciation expense associated with increased plant in service. Additional contributing factors were increases in fuel, chemical and utility costs.

Expenses by Source



**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Management's Discussion and Analysis

December 31, 2011 and 2010

Capital Assets and Debt

Capital Assets

The following table summarizes the Utility's capital assets, net of accumulated depreciation, as of December 31, 2011, 2010 and 2009.

**Table 3A
Capital Assets, Net of Accumulated Depreciation**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Intangible plant	\$ 507,066	629,593	753,032
Source of supply plant	31,314,521	23,711,954	22,151,317
Pumping plant	11,480,795	10,841,715	9,195,462
Treatment plant	44,595,506	46,001,408	45,489,272
Transmission & distribution plant	374,791,768	367,516,870	344,150,638
General plant land	762,256	762,256	762,256
General plant	<u>34,045,014</u>	<u>31,344,139</u>	<u>31,402,505</u>
Net plant in service	497,496,926	480,807,935	453,904,482
Plant acquisition adjustment	1,301,461	1,416,237	1,531,014
Property held for future use	80,000	80,000	1,985,619
Construction work in progress	<u>9,253,947</u>	<u>12,957,344</u>	<u>19,013,996</u>
Total net capital plant	<u>\$ 508,132,334</u>	<u>495,261,516</u>	<u>476,435,111</u>
Increase in net capital plant	<u>\$ 12,870,818</u>	<u>18,826,405</u>	

In 2011 total net capital assets increased by \$12.9 million while construction work in progress decreased by \$3.7 million. The 2011 decrease in construction work in progress was due to additions of \$25.8 million netted by deletions of \$30 million.

Total net capital assets increased by \$18.8 million in 2010. Construction work in progress decreased by \$6.0 million during 2010. In 2010 the decrease in construction work in progress was due to additions of \$30.2 million netted by deletions of \$36.2 million.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Management's Discussion and Analysis

December 31, 2011 and 2010

Table 3B

Capital Assets, 2011 Major Additions – gross (millions)

<u>Transmission and Distribution Plant</u>		<u>Treatment Plant</u>	
Anchorage loop WTM phase IV	\$ 1.4	Ship Creek facility roof upgrade	\$ <u>0.2</u>
Island-Kodiak-Kalgin water upgrade	1.3		
Girdwood water improvements phase 2B	5.2	<u>Source Supply</u>	
Melvin water upgrade	0.5	Elmore reservoir	\$ <u>8.4</u>
Tudor-Folker-Wright	0.6		
40th Ave. water interties	1.1	<u>General Plant</u>	
Northern Communities water extension	0.7	CIS system 4.2	\$ 1.8
Alexander Avenue water upgrade	0.9	Dist Ops fuel tank upgrade	1.1
Other miscellaneous projects	<u>3.7</u>	SCADA equipment	0.5
Total transmission and distribution plant	\$ <u>15.4</u>	Other miscellaneous projects	<u>2.3</u>
		Total general plant	\$ <u>5.7</u>
<u>Pumping Plant</u>			
Turnagain View booster station	\$ 0.8		
Other miscellaneous projects	<u>0.2</u>		
Total water pumping plant	\$ <u>1.0</u>	Total Additions	\$ <u><u>30.7</u></u>

Additional information on the Utility's capital assets can be found in note 3.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Management's Discussion and Analysis

December 31, 2011 and 2010

Debt

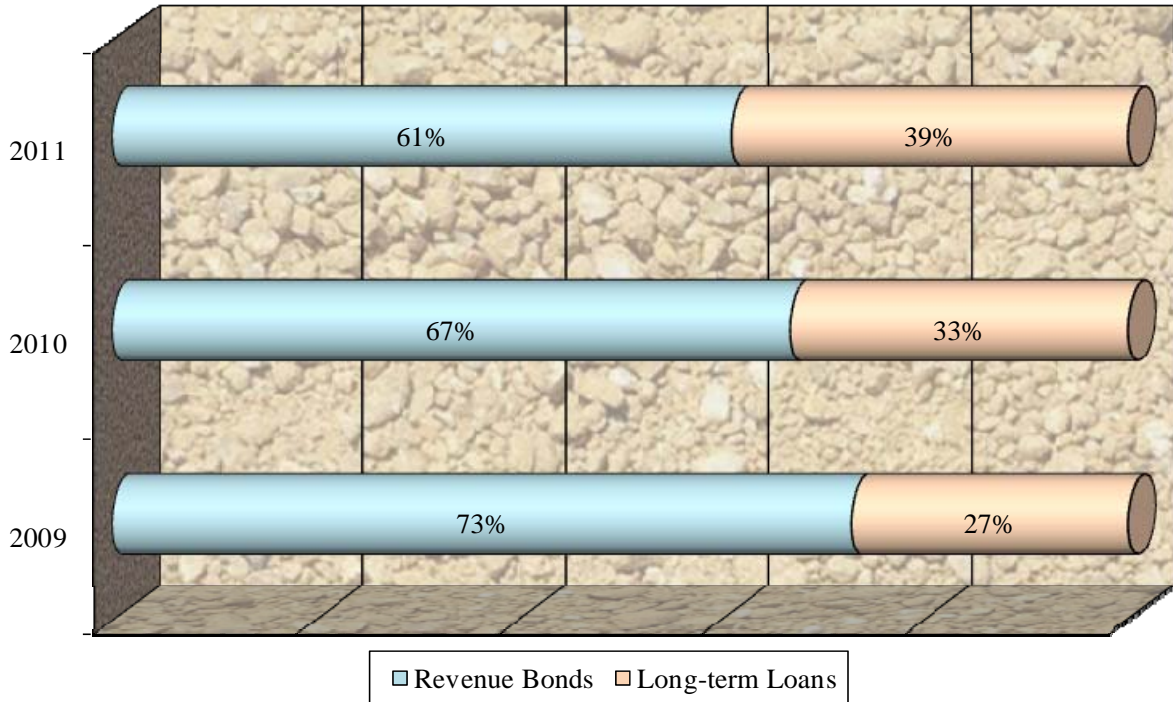
Changes in the Utility's debt are shown in the following table as of December 31, 2011, 2010, and 2009. The table includes only debt having a long-term component.

**Table 4
Net Debt**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenue bonds, net	\$ 136,125,805	140,633,037	145,651,758
Long-term loans	<u>87,255,868</u>	<u>70,167,623</u>	<u>54,592,335</u>
Total net debt	<u>\$ 223,381,673</u>	<u>210,800,660</u>	<u>200,244,093</u>
Increase in net debt	<u>\$ 12,581,013</u>	<u>10,556,567</u>	

The Utility did not issue bonds in either 2011 or 2010 but did receive approximately \$22.0 and \$19.0 million respectively from the State of Alaska Drinking Water Loan Program (see note 4) to finance capital improvements. Bond and loan principal payments totaled \$4.8 million and \$4.9 million, compared to 2010 principal payments of \$5.3 million and \$3.4 million.

Net Debt by Type



Additional information on the Utility's long-term obligations can be found in note 4 and 5.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Management's Discussion and Analysis

December 31, 2011 and 2010

Economic Factors and Next Year's Budgets and Rates

Budgetary Matters

The 2012 budget anticipates revenue increases due to the combined effects of a modest customer growth and a rate increase of 6% effective January 1, 2012.

2012 operating expenses are budgeted to increase 3.7% over the 2011 budget due to a 12% increase in depreciation expense. MUSA expense and interest expense are budgeted to increase 3% and 8% respectively over the 2011 budget.

Regulatory Matters

The Utility applies all applicable provisions of the Governmental Accounting Standards Board (GASB) which has authority for setting accounting standards for governmental entities. The Utility's 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.

For information regarding current on-going regulatory matters, see note 11.

Contacting the Utility's Financial Management
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This financial report is designed to provide the Utility's customers, taxpayers, investors, and creditors with a general overview of the Utility's finances and to demonstrate the Utility's accountability for the money it receives. For questions about this report, or for additional financial information, contact the Utility's Chief Financial Officer at (907) 786-5623, or Anchorage Water and Wastewater Utility, 3000 Arctic Blvd., Anchorage, AK 99503.

General Utility information can be found at: www.awwu.biz.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Statements of Net Assets

December 31, 2011 and 2010

Assets	<u>2011</u>	<u>2010</u>
Capital assets:		
Plant in service, at cost	\$ 737,591,930	709,261,666
Less accumulated depreciation	(240,095,004)	(228,453,731)
Net plant in service	497,496,926	480,807,935
Plant acquisition adjustment less amortization of \$2,020,483 in 2011 and \$1,905,707 in 2010	1,301,461	1,416,237
Plant held for future use	80,000	80,000
Construction work in progress	9,253,947	12,957,344
Net capital assets	<u>508,132,334</u>	<u>495,261,516</u>
Restricted assets:		
Current:		
Equity in bond and grant capital acquisition and construction pool	10,457,352	12,686,946
Revenue bond debt service investments	5,019,180	5,000,537
Interim rate escrow investments	—	2,455,479
Non-current:		
Customer deposits	314,713	366,327
Total restricted assets	<u>15,791,245</u>	<u>20,509,289</u>
Current assets:		
Equity in general cash pool	18,187,725	16,024,576
Accrued interest receivable	152,776	122,041
Accounts receivable:		
Utility customers, less estimated uncollectibles of \$101,624 in 2011 and \$96,779 in 2010	4,158,341	3,324,194
Other, less estimated uncollectibles of \$9,215 in 2011 and \$86,470 in 2010	100,815	67,423
Interfund loan receivable from Wastewater Utility Fund	6,445,734	—
Special assessments receivable	64,606	77,981
Unbilled reimbursable projects	12,681	132,847
Inventory of materials and supplies, at average cost	1,520,988	1,586,708
Total current assets	<u>30,643,666</u>	<u>21,335,770</u>
Non-current deferred charges and other assets:		
Unamortized cost of debt issuance	1,205,243	1,332,327
Unbilled special assessments	917,525	1,101,491
Other	2,595,025	2,809,260
Total non-current deferred charges and other assets	<u>4,717,793</u>	<u>5,243,078</u>
Total assets	<u>\$ 559,285,038</u>	<u>542,349,653</u>

See accompanying notes to basic financial statements.

Liabilities and Net Assets	2011	2010
Net assets:		
Invested in capital assets, net of related debt	\$ 67,560,213	61,104,205
Restricted	5,019,180	7,456,016
Unrestricted	<u>22,543,537</u>	<u>20,282,532</u>
Total net assets	<u>95,122,930</u>	<u>88,842,753</u>
Non-current liabilities:		
Compensated absences payable	279,129	94,640
Pollution remediation obligation	166,500	155,000
Revenue bonds payable	130,676,000	136,486,000
Less unamortized discounts and losses	(3,162,116)	(3,798,908)
Plus unamortized premiums	<u>2,801,921</u>	<u>3,185,945</u>
Net revenue bonds payable	<u>130,315,805</u>	<u>135,873,037</u>
Alaska drinking water loans payable	<u>82,275,229</u>	<u>66,017,870</u>
Total non-current liabilities	<u>213,036,663</u>	<u>202,140,547</u>
Current liabilities:		
Accounts payable	643,738	682,188
Accrued payroll	648,511	1,055,524
Compensated absences payable	860,742	1,190,614
Accrued interest	1,628,457	1,586,427
Pollution remediation obligation	20,000	20,000
Long-term obligations maturing within one year	<u>10,790,639</u>	<u>8,909,753</u>
Total current liabilities	<u>14,592,087</u>	<u>13,444,506</u>
Liabilities payable from restricted assets:		
Current:		
Capital acquisition and construction accounts and retainages payable	2,103,361	1,490,173
Non-current:		
Customer deposits payable	<u>314,713</u>	<u>366,327</u>
Total liabilities payable from restricted assets	<u>2,418,074</u>	<u>1,856,500</u>
Deferred liabilities:		
Other deferred credits	21,750	21,750
Contributions in aid of construction, net of amortization	<u>234,093,534</u>	<u>236,043,597</u>
Total deferred liabilities	<u>234,115,284</u>	<u>236,065,347</u>
Total liabilities	<u>464,162,108</u>	<u>453,506,900</u>
Total liabilities and net assets	<u>\$ 559,285,038</u>	<u>542,349,653</u>

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Statements of Revenues, Expenses, and Changes in Fund Net Assets

Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Charges for sales and services:		
Residential sales	\$ 35,341,978	32,947,963
Commercial sales	10,362,143	10,902,300
Public fire protection	4,093,030	3,835,662
Total charges for sales and services	<u>49,797,151</u>	<u>47,685,925</u>
Other:		
Miscellaneous	1,374,230	1,356,760
Total operating revenues	<u>51,171,381</u>	<u>49,042,685</u>
Operating expenses:		
Source of supply	3,229,894	3,103,951
Water treatment	4,370,494	4,443,589
Transmission and distribution	5,976,839	5,652,247
Customer accounts	2,519,017	2,366,630
Administrative and general	7,566,757	7,172,416
Total operations	<u>23,663,001</u>	<u>22,738,833</u>
Depreciation, net of amortization	8,348,377	8,048,501
Total operating expenses	<u>32,011,378</u>	<u>30,787,334</u>
Operating income	<u>19,160,003</u>	<u>18,255,351</u>
Non-operating revenues (expenses):		
Investment income – short-term investments	952,475	1,240,449
Water property rental	95,419	84,369
Miscellaneous non-operating revenues	19,316	489,636
Interest on long-term obligations	(6,183,686)	(6,304,392)
Allowance for funds used during construction	795,662	1,440,042
Amortization of bond premium/discount	(252,768)	(224,026)
Amortization of debt expense	(127,084)	(163,385)
Interest expense – other	(1,030,955)	(831,105)
Total non-operating revenues (expenses)	<u>(5,731,621)</u>	<u>(4,268,412)</u>
Income before transfers	13,428,382	13,986,939
Transfers:		
Transfer to other funds	(7,148,205)	(6,717,558)
Transfer from other funds	—	3,000
Total transfers	<u>(7,148,205)</u>	<u>(6,714,558)</u>
Change in fund net assets	6,280,177	7,272,381
Net assets – beginning	<u>88,842,753</u>	<u>81,570,372</u>
Net assets – ending	<u>\$ 95,122,930</u>	<u>88,842,753</u>

See accompanying notes to basic financial statements.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Statements of Cash Flows

Years ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Receipts from customers and users	\$ 52,514,191	49,834,432
Refunds to customers and users	(182,770)	(595,913)
Payments to employees	(15,251,074)	(14,739,555)
Payments to vendors	(7,233,311)	(6,300,123)
Internal activity – payments made to other funds	(669,479)	(2,934,383)
Net cash provided by operating activities	29,177,557	25,264,458
Cash flows from non-capital and related financing activities:		
Transfers to other funds	(7,148,205)	(6,717,558)
Transfers from other funds	—	3,000
Net cash used by non-capital and related financing activities	(7,148,205)	(6,714,558)
Cash flows from capital and related financing activities:		
Principal payments on long-term obligations	(4,760,000)	(5,255,000)
Interest payments on long-term obligations	(7,172,611)	(7,017,031)
Acquisition and construction of capital assets	(24,908,342)	(27,204,017)
Capital contributions – intergovernmental	2,796,898	3,277,127
Capital contributions – customer/special assessments	351,036	312,253
Proceeds from bond sales	—	18,860
Proceeds from Alaska Drinking Water Fund	22,001,505	18,988,298
Principal payments on Alaska drinking water loans	(4,913,260)	(3,413,010)
Proceeds from (payments on) loan to Wastewater Utility Fund	(6,445,734)	6,583,628
Net cash used by capital and related financing activities	(23,050,508)	(13,708,892)
Cash flows from investing activities:		
Proceeds from sales and maturity (purchases) of investments	(18,643)	(24,308)
Interest received	921,740	1,247,539
Net cash provided by investing activities	903,097	1,223,231
Net increase (decrease) in cash	(118,059)	6,064,239
Cash, beginning of year	29,077,849	23,013,610
Cash, end of year	\$ 28,959,790	29,077,849
Cash and cash equivalents:		
Equity in general cash pool	\$ 18,187,725	16,024,576
Equity in bond and grant capital acquisition and construction pool	10,457,352	12,686,946
Customer deposits	314,713	366,327
Cash and cash equivalents, end of year	\$ 28,959,790	29,077,849

See accompanying notes to basic financial statements.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Statements of Cash Flows, Continued

Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 19,160,003	18,255,351
Transfer from (to) escrow account	2,455,479	(70,438)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Allowance for uncollectible accounts	(72,410)	7,172
Depreciation, net of amortization	8,348,377	8,048,501
Water property rentals	95,419	84,369
Miscellaneous non-operating revenues	19,316	489,636
Changes in assets and liabilities increasing (decreasing) cash:		
Accounts receivable and other receivables	(781,754)	809,698
Unbilled reimbursable projects	120,166	260,178
Inventories	65,720	(46,801)
Customer deposits payable	(51,614)	(172,070)
Deferred charges and other assets	398,201	(2,202,264)
Accounts payable and other liabilities	(38,450)	(445,647)
Accrued payroll liabilities	(407,013)	199,834
Compensated absences payable	(145,383)	24,739
Pollution remediation obligation	11,500	20,000
Other deferred credits	—	2,200
Net cash provided by operating activities	<u>\$ 29,177,557</u>	<u>25,264,458</u>
Non-cash investing, capital, and financing activities:		
Contributed capital – private development	\$ 1,698,764	4,899,735
Capital purchases on account, net	1,054,317	583,356
Total non-cash investing, capital, and financing activities	<u>\$ 2,753,081</u>	<u>5,483,091</u>

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2011 and 2010

(1) Description of Business and Summary of Significant Accounting Policies

The Anchorage Water Utility (Utility) began in 1919 as a general government function of the City of Anchorage's Public Works Department and later evolved into an enterprise fund. In the early 1970's the Utility became its own department of the City and following unification of the City of Anchorage and the Greater Anchorage Area Borough, now exists as a public utility of the Municipality of Anchorage (Municipality). The Utility, whose service area equals 125 square miles of metropolitan Anchorage, from Eklutna to Girdwood, collects water from two major surface watersheds and many deep underground wells. The accompanying financial statements include the activities of the Water Utility Fund.

The Utility is an Enterprise Fund. Enterprise Funds are used to account for operations where the intent is that costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or change in net assets is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Utility applies all applicable provisions of the Governmental Accounting Standards Board (GASB) which has authority for setting accounting standards for governmental entities. The accounting records of the Utility conform to the Uniform System of Accounts prescribed by the National Association of Regulatory Utility Commissioners (NARUC). The accrual basis of accounting is used for Enterprise Funds. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable.

Accounting and reporting treatment applied to a fund is determined by its measurement focus. Enterprise Funds are accounted for on a flow of economic resources measurement focus. With this focus, all assets and liabilities associated with the operation of these funds are included on the Statement of Net Assets. Net assets are segregated into Invested in Capital Assets, Net of Related Debt; Restricted and Unrestricted.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the Statements of Net Assets and revenues and expenses for the period. Actual results could differ from those estimates.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2011 and 2010

(a) Regulated Operations

The Utility meets the criteria, and accordingly, follows the accounting and reporting requirements applicable to regulated operations. The Utility's 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 Utility receives contributions in aid of construction, which are recorded as a deferred liability. For rate-making purposes the Utility amortizes contributions in aid of construction over the life of the respective utility plant as a reduction of depreciation expense and a reduction of deferred liability. Consequently, contributions in aid of construction are recorded as a regulatory liability in the accompanying financial statements. The Utility's rates also include an allowance for the cost of funds used during construction (AFUDC), which is capitalized in the accompanying financial statements. The Statement of Revenues, Expenses, and Changes in Fund Net Assets includes AFUDC as an item of other income in a manner that indicates the basis for the amount capitalized.

(b) Cash Pool and Investments

The Municipality uses a central treasury to account for all cash and investments to maximize interest income. Bond and grant proceeds are shown as equity in the bond and grant capital acquisition and construction pool and are used for capital projects; all other cash is shown as equity in the general cash pool. Equity in the general and construction cash pools are treated as a cash equivalent for cash flow purposes. Investments are recorded at fair value. Interest from cash pool investments is allocated to the Utility based on its average daily balances.

For purposes of the Statements of Cash Flows, the Utility has defined cash as the demand deposits and all investments maintained in the general and construction cash pools, regardless of maturity period, since the various funds use the cash pools essentially as demand deposit accounts.

(c) Flow Assumptions for Restricted Resources

It is the Utility's policy to first use restricted resources to make certain payments when both restricted and unrestricted assets are available for the same purpose.

(d) Inventories

Inventories are valued at average cost.

(e) Deferred Charges

Unamortized debt expense consisting of bond issue costs and other expenditures not qualifying as capital assets are deferred and amortized over the life of the related bond issue or over their estimated useful life.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2011 and 2010

(f) Property, Plant, and Equipment

Property, plant, and equipment is stated at cost. To be considered for capitalization, the threshold cost of an asset must meet or exceed \$5,000 and the service life of the retirement unit must exceed one year. The Utility's depreciation model is composed of the straight-line method, average life procedures, and remaining life technique. The Utility's depreciation model is approved by the RCA. Additions to water plant in service are at original cost of contracted services, direct labor and materials, interest and indirect overhead charges.

Plant removed from service is credited against the plant accounts with the offset to accumulated depreciation. No gain or loss is recognized on the transaction except under extraordinary circumstances.

The Utility employs amortization accounting for specific general plant accounts and includes provisions for future salvage and cost of removal in annual depreciation rates for specific plant accounts. Proceeds associated with the sale of an asset are credited to the accumulated depreciation account and costs associated with the retirement of an asset are debited against the accumulated depreciation account.

The estimated lives of major plant and equipment categories follow:

Source of supply plant	40 - 55 years
Pumping plant	20 - 45 years
Treatment plant	30 - 50 years
Transmission and distribution plant	20 - 70 years
General plant	5 - 50 years
Intangible plant	10 years

(g) Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations.

(h) Unbilled Revenues

Utility revenues are based on cycle billings rendered to customers monthly. The Utility accrues an estimate of revenue at year-end for services provided but not billed. The Utility accrued \$1,410,000 and \$1,370,000 for the years ended December 31, 2011 and 2010, respectively.

(i) Accrued Leave

The Utility records annual leave, which includes cashable sick leave, when earned.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2011 and 2010

(j) Intra-governmental Charges

Certain functions of the Municipality of a general and administrative nature are centralized and the related costs are allocated to the various funds of the Municipality, including the Utility. Such costs allocated to the Utility totaled \$0.9 and \$1.1 million for the years ended December 31, 2011 and 2010, respectively.

(k) Risk Management and Self-Insurance

The Municipality 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 Municipality provides coverage up to the maximum of \$2,000,000 per occurrence for automobile and general liability claims and \$1,000,000 for each workers' compensation claim. Two settled claims exceeded this commercial coverage in 2010 while no claims exceeded this coverage in 2011 and 2009.

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

All municipal 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, 2011, is dependent upon future developments. At December 31, 2011, claims incurred but not reported included in the liability accounts are \$14,307,162 in the General Liability/Workers' Compensation Fund and Medical/Dental Self Insurance Fund.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2011 and 2010

Changes in the funds' claim liability amounts in 2011 and 2010 follow:

	<u>Liability Balance January 1</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payment</u>	<u>Liability Balance December 31</u>
2011:				
General Liability/Workers'				
Compensation	\$ 16,284,545	12,979,419	(8,178,281)	21,085,683
Medical/Dental	6,586,478	49,651,504	(48,425,213)	7,812,769
Unemployment	169,316	522,267	(585,017)	106,566
	<u>\$ 23,040,339</u>	<u>63,153,190</u>	<u>(57,188,511)</u>	<u>29,005,018</u>
2010:				
General Liability/Workers'				
Compensation	\$ 16,192,805	8,648,832	(8,557,092)	16,284,545
Medical/Dental	7,354,588	48,760,422	(49,528,532)	6,586,478
Unemployment	130,070	740,907	(701,661)	169,316
	<u>\$ 23,677,463</u>	<u>58,150,161</u>	<u>(58,787,285)</u>	<u>23,040,339</u>

At December 31, 2011 the Municipality's Medical and Dental Self Insurance Fund had negative unrestricted net assets of \$1,036,071, an improvement of \$2,639,184 from 2010. Medical and Dental rates were increased by 11.5% in 2012 to offset the deficit. At December 31, 2011, the General Liability and Worker's Compensation Fund had negative unrestricted net assets of \$4,714,225. Insurance rates will be increased to offset the deficit.

(l) Reclassification

Certain amounts previously reported have been reclassified to conform with the current year's presentation. The reclassification had no effect on previously reported net income.

(m) Interfund Loan Receivable – Wastewater Utility Capital Projects Fund

When the Utility borrows from the Municipality's Central Treasury to fund capital projects, the Municipality assesses a monthly fee. The fee is based on the investment earnings rate, plus 49 basis points. When the Utility sells bonds or secures loans from the Alaska Drinking Water Fund, the cash pool is reimbursed from these proceeds. In 2011, the Water Utility loaned the Wastewater Utility \$6.4 million to fund wastewater capital projects. The loan will be repaid in full in 2012.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2011 and 2010

(2) Cash and Investments

At December 31, 2011, Anchorage had the following cash and investments, with fixed income maturities as noted:

<u>Investment Type</u>	<u>Fair Value*</u>	<u>Fixed Income Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
Petty Cash	\$ 77,012	—	—	—	—
Master Lease Agreement	656,850	—	—	—	—
Central Treasury - Unrestricted					
Cash & Money Market Funds	7,539,501	—	—	—	—
Repurchase Agreements	881,793	—	—	—	—
Commercial Paper	1,933,453	1,933,453	—	—	—
Certificates of Deposit	1,616,710	1,616,710	—	—	—
U.S. Treasuries	104,100,064	3,152,242	80,795,315	20,152,507	—
U.S. TIPS	5,551,418	2,458,157	828,842	2,264,419	—
U.S. Agencies	74,143,910	51,022,181	14,956,744	6,846,843	1,318,142
Asset-Backed Securities**	46,577,956	—	21,009,958	6,480,127	19,087,871
Corporate Fixed Income Securities	85,620,130	22,515,236	48,637,867	12,020,730	2,446,297
Payables	(9,466,377)	—	—	—	—
	<u>\$ 318,498,558</u>	<u>82,697,979</u>	<u>166,228,726</u>	<u>47,764,626</u>	<u>22,582,310</u>
Central Treasury - Restricted					
Cash & Money Market Funds	19,189,854	—	—	—	—
Repurchase Agreements	215,720	—	—	—	—
Commercial Paper	16,724,246	16,724,246	—	—	—
Certificates of Deposit	1,566,532	1,566,562	—	—	—
U.S. Treasuries	25,466,807	771,157	19,765,586	4,930,064	—
U.S. TIPS	1,358,087	601,358	202,766	553,963	—
U.S. Agencies***	43,488,698	34,637,047	6,854,188	1,674,996	322,467
Foreign Governments & Agencies	4,296,742	4,296,742	—	—	—
Asset-Backed Securities**	11,394,727	—	5,139,829	1,585,284	4,669,614
Corporate Fixed Income Securities	51,962,172	36,524,331	11,898,659	2,940,725	598,457
Payables	(2,315,833)	—	—	—	—
	<u>\$ 173,347,752</u>	<u>\$ 95,121,413</u>	<u>\$ 43,861,028</u>	<u>\$ 11,685,032</u>	<u>\$ 5,590,538</u>

* Market value plus accrued income.

** Includes asset-backed securities, residential and commercial mortgage-backed securities, and collateralized debt obligations.

*** \$11,531,699 in callable 1-5 year notes are expected to be called within the next year and are classified as *Less Than 1*.

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2011 and 2010

The Utility's unrestricted cash and investments represent 5.8% of the unrestricted Municipal Central Treasury. The Utility's restricted cash and investments represent 9.1% of the restricted Municipal treasury.

(a) Anchorage Central Treasury

Anchorage manages its Central Treasury in four portfolios; one internally managed portfolio and three externally managed duration portfolios based on liability duration and cash needs: working capital, contingency reserve and strategic reserve.

Both externally and internally managed investments are subject to the primary investment objectives outlined in Anchorage Municipal Code (AMC) 6.50.030, in priority order as follows: safety of principal, liquidity, return on investment and duration matching. Consistent with these objectives, AMC 6.50.030 authorizes investments that meet the following rating and issuer requirements:

- Obligations issued or guaranteed by the U.S. government, U.S. agencies or U.S. government-sponsored corporations and agencies.
- Corporate Debt Securities that are guaranteed by the U.S. government or the Federal Deposit Insurance Corporation (FDIC) as to principal and interest.
- Taxable and tax-exempt municipal securities having a long-term rating of at least A- by a nationally recognized rating agency or taxable or tax-exempt municipal securities having a short-term rating of at least A-1 by Standard & Poor's, P-1 by Moody's, or F-1 by Fitch.
- Debt securities issued and guaranteed by the International Bank for Reconstruction and Development (IBRD) and rated AAA by a nationally recognized rating agency.
- Commercial paper, excluding asset-backed commercial paper, rated at least A-1 by Standard & Poor's, P-1 by Moody's, or F-1 by Fitch.
- Bank debt obligations, including unsecured certificates of deposit, notes, time deposits, and bankers' acceptances (with maturities of not more than 365 days), and deposits with any bank, the short-term obligations of which are rated at least A-1 by Standard & Poor's, P-1 by Moody's, or F-1 by Fitch and which is either:
 - a. Incorporated under the laws of the United States of America, or any state thereof, and subject to supervision and examination by federal or state banking authorities; or
 - b. Issued through a foreign bank with a branch or agency licensed under the laws of the United States of America, or any state thereof, or under the laws of a country with a Standard & Poor's sovereign rating of AAA, or a Moody's sovereign rating for bank deposits of Aaa, or a Fitch national rating of AAA, and subject to supervision and examination by federal or state banking authorities.
- Repurchase agreements secured by obligations of the U.S. government, U.S. agencies, or U.S. government-sponsored corporations and agencies.
- Dollar denominated corporate debt instruments rated BBB- or better (investment grade) by Standard & Poor's or the equivalent by another nationally recognized rating agency.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2011 and 2010

- Dollar denominated corporate debt instruments rated lower than BBB- (non-investment grade) by Standard & Poor's or the equivalent by another nationally recognized rating agency, including emerging markets.
- Dollar denominated debt instruments of foreign governments rated BBB- or better (investment grade) by Standard & Poor's or the equivalent by another nationally recognized rating agency.
- Asset Backed Securities (ABS), excluding commercial paper, collateralized by: credit cards, automobile loans, leases and other receivables which must have a credit rating of AA- or above by Standard & Poor's or the equivalent by another nationally recognized rating agency.
- Mortgage Backed Securities, including generic mortgage-backed pass-through securities issued by Ginnie Mae, Freddie Mac, and Fannie Mae, as well as non-agency mortgage-backed securities, Collateralized Mortgage Obligations (CMOs), or Commercial mortgage-backed securities (CMBS), which must have a credit rating of AA- or better by Standard & Poor's or the equivalent by another nationally recognized rating agency.
- Debt issued by the Tennessee Valley Authority.
- Money Market Mutual Funds rated Am or better by Standard & Poor's, or the equivalent by another nationally recognized rating agency, as long as they consist of allowable securities as outlined above.
- The Alaska Municipal League Investment Pool (AMLIP).
- Mutual Funds consisting of allowable securities as outlined above.
- Interfund Loans from a Municipal Cash Pool to a Municipal Fund.

In addition to providing a list of authorized investments, AMC 06.50.030 specifically prohibits investment in the following:

- Structured Investment Vehicles.
- Asset Backed Commercial Paper.
- Short Sales.
- Securities not denominated in U.S. Dollars.
- Commodities.
- Real Estate Investments.
- Derivatives, except "to be announced" forward mortgage-backed securities (TBAs) and derivatives for which payment is guaranteed by the U.S. government or an agency thereof.

**MUNICIPALITY OF ANCHORAGE, ALASKA
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Notes to Basic Financial Statements

December 31, 2011 and 2010

The Investment Management Agreement (IMA) for each external manager and the policy and procedures (P&P) applicable to the internally managed investments provide additional guidelines for each portfolio's investment mandate. The IMA and P&P limit the concentration of investments for the working capital portfolio and the internally managed portfolio at the time new investments are purchased as follows:

Investment Type	Concentration Limit	Working Capital Portfolio	Internally Managed Portfolio
		Holding % at 12/31/2011	Holding % at 12/31/2011
U.S. Government Securities*	50% to 100% of investment portfolio	69%	56%
Repurchase Agreements	0% to 50% of investment portfolio	0	0.01
Certificates of Deposit**	0% to 50% of investment portfolio Maximum 5% per issuer	2%	1%
Bankers' Acceptances	0% to 25% of investment portfolio Maximum 5% per issuer	0%	0%
Commercial paper	0% to 15% of investment portfolio Maximum 5% per issuer	2%	18%
Corporate Bonds	0% to 15% of investment portfolio Maximum 5% per issuer	16%	7%
Alaska Municipal League Investment Pool (AMLIP)***	0% to 25% of investment portfolio	0%	0%
Money Market Mutual Funds	0% to 25% of investment portfolio	11%	12%
Dollar Denominated Fixed Income Securities, other than those listed herein, rated by at least one nationally recognized rating agency	0% to 15% of investment portfolio Maximum 5% per issuer	0%	5%
		100%	100%

- * Includes debt obligations issued or guaranteed by the U.S. government, U.S. agencies or U.S. government-sponsored corporations, including corporate debt issued under the FDIC's Temporary Liquidity Guarantee program.
- ** The policy limits CDs that are not secured by U.S. government securities to 20% of the internally managed portfolio.
- *** The Working Capital Portfolio may not be invested in AMLIP.

**MUNICIPALITY OF ANCHORAGE, ALASKA
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Notes to Basic Financial Statements

December 31, 2011 and 2010

(b) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The externally managed portfolios of the Anchorage Central Treasury, utilize the duration method to measure exposure to interest rate risk. All other funds disclose interest rate risk through the segmented time distribution tables within this note, which categorize fixed income investments according to their maturities.

Duration is a measure of an investment's sensitivity to interest rate changes, and represents the sensitivity of an investment's market price to a 1% change in interest rates. The effective duration of an investment is determined by its expected future cash flows, factoring in uncertainties introduced through options, prepayments, and variable rates. The effective duration of a pool is the average fair value weighted effective duration of each security in the pool.

The effective durations of the externally managed portfolios of the Anchorage Central Treasury (working capital, contingency reserve and strategic reserve) at December 31, 2011, were 0.35 years, 1.68 years, and 3.70 years, respectively.

(c) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For fixed income securities, this risk is generally expressed as a credit rating.

At December 31, 2011, the Anchorage Central Treasury's investment in commercial paper totaled \$18,657,700, and was rated A-1 by Standard & Poor's and P-1 by Moody's. All commercial paper is purchased with a maturity of 270 days or less. The Anchorage Central Treasury's investment in marketable debt securities, excluding U.S. Treasury and Agency securities, totaled \$205,626,554 at December 31, 2011. The distribution of ratings on these securities was as follows:

Moody's		S&P	
Aaa	39%	AAA	19%
Aa	14%	AA	24%
A	18%	A	26%
Baa	13%	BBB	12%
Ba or lower	1%	BB or lower	1%
Not Rated	15%	Not Rated	18%
	100%		100%

At December 31, 2011, Anchorage's Central Treasury was invested in Asset Backed Securities and Mortgage Backed Securities valued at \$1,253,814 which fell below the minimum credit rating of AA-/Aa3 required by AMC 6.50.030. These circumstances resulted from the downgrade of investments held in the contingency reserve and strategic reserve portfolios. Securities falling outside of compliance are divested as soon as it is prudent to do so.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2011 and 2010

(d) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure when the amount invested in a single issuer exceeds 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. Government, as well as mutual funds and other pooled investments, are exempted from this requirement.

At December 31, 2011, Anchorage had no investments in any single issuer exceeding 5% of net assets.

(e) Custodial Credit Risk

Custodial credit risk is the risk, in event of the failure of a depository institution, that an entity will not be able to recover deposits or collateral securities in the possession of an outside party. For investments, custodial credit risk is the risk, in event of the failure of the counterparty to a transaction, that an entity will not be able to recover the value of the investment or collateral securities in the possession of an outside party.

At December 31, 2011, the Anchorage Central Treasury had bank deposit carrying amounts totaling \$24,303,426, of which \$1,879,079 was covered by federal depository insurance. Bank deposits of \$21,200,665 were secured by collateral held at the depository bank, and additional bank deposits of \$1,097,512 were secured by a tri-party collateral agreement. The tri-party collateral agreement requires that collateral be transferred to the custodian of the tri-party agreement and held in the pledging bank's name on behalf of Anchorage. Additional bank balances of \$1,097,512 were invested in overnight repurchase agreements. Repurchase agreement investments were also collateralized through a tri-party collateral agreement. All collateral consists of obligations issued, or fully insured or guaranteed as to payment of principal and interest, by the United States of America, an agency thereof or a United States government sponsored corporation, with market value not less than the collateralized deposit balances.

(f) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Anchorage has no specific policy addressing foreign currency risk; however foreign currency risk is managed through the requirements of AMC 6.50.030 and the asset allocation policies of each portfolio.

The Anchorage Central Treasury is not exposed to foreign currency risk because AMC 6.50.030 explicitly prohibits the purchase of securities not denominated in U.S. Dollars. At December 31, 2011 all debt obligations held in the Anchorage Central Treasury were payable in U.S. Dollars.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2011 and 2010

(3) Capital Assets

Capital assets for the year ended December 31, 2011 follow:

	December 31, 2010	Additions	Retirements	December 31, 2011
Intangible plant	\$ 1,245,591	—	(110,327)	1,135,264
Source of supply plant	48,314,776	8,425,945	(196,899)	56,543,822
Pumping plant	13,933,847	847,660	(123,311)	14,658,196
Treatment plant	78,529,773	188,961	(14,641)	78,704,093
Transmission and distribution plant	517,719,204	15,475,463	(285,530)	532,909,137
General plant - land	762,256	—	—	762,256
General plant	48,756,219	5,741,685	(1,618,742)	52,879,162
	<u>709,261,666</u>	<u>30,679,714</u>	<u>(2,349,450)</u>	<u>737,591,930</u>
Less accumulated depreciation	<u>(228,453,731)</u>	<u>(14,560,582)</u>	<u>2,919,309</u>	<u>(240,095,004)</u>
Net plant in service	480,807,935	16,119,132	569,859	497,496,926
Plant acquisition adjustment	3,321,944	—	—	3,321,944
Less accumulated amortization	(1,905,707)	(114,776)	—	(2,020,483)
Plant held for future use	80,000	—	—	80,000
Construction work in progress	<u>12,957,344</u>	<u>25,836,349</u>	<u>(29,539,746)</u>	<u>9,253,947</u>
	<u>\$ 495,261,516</u>	<u>41,840,705</u>	<u>(28,969,887)</u>	<u>508,132,334</u>

Any transfers of assets between plant categories are reported in “Additions” to plant in service. There are no transfers for the year ended December 31, 2011. Auction proceeds, resulting from the sale of assets and cost of removal, resulting from the retirement or abandonment of assets are reported netted in the “Retirements” column for accumulated depreciation. There were no auction proceeds for the year ended December 31, 2011. For the year ended 2011, there were cost of removal charges of \$569,859. The Utility’s 2012 construction budget is \$38,760,000.

**MUNICIPALITY OF ANCHORAGE, ALASKA
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Notes to Basic Financial Statements

December 31, 2011 and 2010

Capital assets for the year ended December 31, 2010 follow:

	<u>December 31, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2010</u>
Intangible plant	\$ 1,245,591	—	—	1,245,591
Source of supply plant	45,831,505	2,514,505	(31,234)	48,314,776
Pumping plant	12,110,841	1,991,161	(168,155)	13,933,847
Treatment plant	76,463,305	2,075,172	(8,704)	78,529,773
Transmission and distribution plant	487,212,951	31,375,476	(869,223)	517,719,204
General plant - land	762,256	—	—	762,256
General plant	50,134,434	3,165,312	(4,543,527)	48,756,219
	<u>673,760,883</u>	<u>41,121,626</u>	<u>(5,620,843)</u>	<u>709,261,666</u>
Less accumulated depreciation	<u>(219,856,401)</u>	<u>(14,183,824)</u>	<u>5,586,494</u>	<u>(228,453,731)</u>
Net plant in service	453,904,482	26,937,802	(34,349)	480,807,935
Plant acquisition adjustment	3,321,944	—	—	3,321,944
Less accumulated amortization	(1,790,930)	(114,777)	—	(1,905,707)
Plant held for future use	1,985,619	—	(1,905,619)	80,000
Construction work in progress	19,013,996	30,165,241	(36,221,893)	12,957,344
	<u>\$ 476,435,111</u>	<u>56,988,266</u>	<u>(38,161,861)</u>	<u>495,261,516</u>

Transfers of assets between plant categories are reported in “Additions” to plant in service. There are no transfers for the year ended December 31, 2010. Auction proceeds, resulting from the sale of assets, are netted against retirements to accumulated depreciation. Auction proceeds are \$34,349 for the year ended December 31, 2010. Cost of removal, resulting from the retirement, or abandonment of assets, is reported as reduction to accumulated depreciation in the “Retirements” column. For the year ended 2010 there were no cost of removal charges. The Utility’s 2011 construction budget is \$36,281,000.

(4) Long-Term Obligations

(a) Long-Term Obligations Issued

The Utility obtains low interest loans from the State of Alaska, Department of Environmental Conservation Alaska Drinking Water Fund to fund capital improvement projects. These loans enter repayment status one year after the initiation of operation of the facilities with the loan terms included in the contract. In 2011, the Utility obtained additional low interest loans of \$22,001,505.

The Utility issues revenue bonds to provide funds for capital construction and refunding of earlier bond issues. These bonds are generally issued as 30-year serial bonds with varying amounts of principal maturing each year. The Utility did not issue any bonds for 2011.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2011 and 2010

Long-term obligations outstanding at December 31, 2011 follow:

Description	Original Issue Date	Total Issue Amount	Interest Rates	Maturity Range	Principal Balance December 31, 2011
Revenue Bonds:					
2004 Water revenue & refunding bonds	5/26/04	\$ 18,595,000	2.00-5.125%	2005 - 2021	3,020,000
2004 Junior lien water revenue bonds	10/12/04	2,000,000	4.35%	2014	1,956,000
2007 Water revenue & refunding bonds	6/28/07	91,315,000	4.00-5.00%	2008 - 2037	90,190,000
2009 Water refunding bonds	12/16/09	49,680,000	1.50-5.00%	2009 - 2014	41,320,000
Total revenue bonds		<u>161,590,000</u>			<u>136,486,000</u>
Long-term Loans:					
127201 Airport water project, phase 1B	6/6/00	2,334,756	1.50%	2000 - 2019	1,060,758
127231 ER Reservoir/wtr trans main	6/6/00	2,000,000	1.50%	2002 - 2021	1,103,265
127241 Loop wtr trans main phase V	7/25/00	5,039,233	1.50%	2002 - 2021	2,788,355
127251 Service reservoir No. 6	7/25/00	3,723,056	1.50%	2002 - 2021	2,054,904
127261 19th Spenard upgrade	9/16/08	770,000	1.50%	2010 - 2029	693,000
127321 Disinfection alternative wtr upgrd	3/22/02	755,000	1.50%	2002 - 2021	422,233
127331 68th Pebble-Baby Bear	9/30/08	300,000	1.50%	2009 - 2028	255,000
127361 Christen Dr upgrade	9/8/09	1,350,000	1.50%	2010 - 2029	1,215,000
127381 South addition woodstave upgrd	8/27/01	922,354	1.50%	2004 - 2023	557,046
127411 Loop wtr trans main phase VI	3/2/01	1,305,776	1.50%	2002 - 2021	723,235
127441 Daryl Industry Way	9/30/08	420,000	1.50%	2011 - 2030	399,000
127461 DeBarr-Klevin-Hoyt upgrade	12/4/09	1,000,000	1.50%	2010 - 2029	900,000
127471 SCADA water	8/4/04	4,000,000	1.50%	2006 - 2025	2,951,203
127491 Girdwood wtr supply imprvmnts	6/23/04	2,135,300	1.50%	2010 - 2029	1,805,099
127531 Loop wtr trans main phase IV	10/31/06	12,306,151	1.50%	2010 - 2029	11,075,536
127541 SCADA water II	12/1/04	6,500,000	1.50%	2009 - 2028	5,200,000
127571 88th Ave wtr trans main	10/31/06	1,850,696	1.50%	2009 - 2028	1,573,091
127581 Pine Debarr San Rob wtr upgrd	9/8/07	870,014	1.50%	2010 - 2029	783,012
127731 Arctic 32nd - 36th wtr upgrd	11/24/06	404,234	1.50%	2009 - 2028	343,599
127771 East Bluff upgrade	10/9/06	317,763	1.50%	2009 - 2028	270,099
127781 Sullivan-Ben Boeke wtr upgrd	10/9/06	2,189,753	1.50%	2008 - 2027	1,751,802
127791 Hiland Rd water intertie	6/25/10	8,700,000	1.50%	2011 - 2030	8,265,000
127811 Island-Kodiak Kalgin water	6/7/10	570,541	1.50%	2011 - 2030	542,014
127831 Klatt Rd - NSH-PZ intertie	9/10/07	621,600	1.50%	2008 - 2027	490,719
127851 Northern Communities extension	6/3/08	1,402,434	1.50%	2013 - 2032*	1,402,434

Loans continued on next page.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2011 and 2010

Description	Original Issue Date	Total Issue Amount	Interest Rates	Maturity Range	Principal Balance December 31, 2011
127861 So. Anchorage wtr extension	10/12/11	3,427,000	1.50%	2013 - 2032*	3,427,000
127871 Debarr-Muldoon-Turpin upgrd	9/28/07	3,034,740	1.50%	2009 - 2028	2,579,529
127901 SCADA water III	9/7/07	5,300,000	1.50%	2009 - 2028	4,240,000
127911 Wtr data processing project	9/8/09	600,000	1.00%	2010 - 2014	240,000
127931 Hillside transmission main	7/10/08	9,500,000	1.50%	2011 - 2030	9,025,000
127941 2006 misc water projects	4/8/08	846,000	1.50%	2008 - 2027	687,843
127961 NE improvements phase 1	7/8/08	929,107	1.50%	2010 - 2029	836,196
127991 Sand Lake wtr extension	2/10/10	280,719	1.50%	2011 - 2030	266,683
130151 Knik View intertie	7/21/08	715,946	1.50%	2011 - 2030	680,149
130161 Norm-Newt Drive	12/17/08	1,768,400	1.50%	2010 - 2029	1,591,560
130221 San Ernesto upgrade	12/17/08	1,567,218	1.50%	2010 - 2029	1,410,496
130241 South Addition phase IV proj	2/2/09	1,164,317	1.50%	2010 - 2029	1,047,885
130271 Well 7 capacity upgrade	2/28/11	1,775,766	1.50%	2011 - 2030	1,686,978
130431 68th Ave Redhawk intertie	12/4/09	632,444	1.50%	2010 - 2029	569,200
130441 3000 Arctic HVAC upgrade	6/24/11	1,046,759	1.50%	2012 - 2031	1,046,759
130471 Downtown CIPP wtr upgrade	10/15/10	1,414,951	1.50%	2011 - 2030	1,344,203
130491 2-way radio water upgrade	2/17/10	299,248	1.50%	2010 - 2019	252,698
130841 Girdwood wtr improvements	12/14/11	2,000,000	1.50%	2013 - 2032*	2,000,000
130921 Golden View reservoir	2/2/11	2,808,878	1.50%	2011 - 2030	2,668,434
131021 G Street - 7th water main	12/29/10	502,468	1.50%	2011 - 2030	477,345
131031 Eklutna wTF roof & window	6/7/10	1,556,106	1.50%	2011 - 2030	1,478,301
131281 Ship Creek WTF roof	3/23/11	1,130,742	1.50%	2011 - 2030	1,074,205
Total long-term loans		<u>104,089,470</u>			<u>87,255,868</u>
Total long-term debt		<u>\$ 265,679,470</u>			<u>223,741,868</u>

* Loan repayment is not due. Repayment will begin one year following initiation of operation of all project phases.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2011 and 2010

(b) Revenue Bond Coverage Requirements

The debt service on Parity Water Bonds is paid from a special fund designated as the “Anchorage Water Revenue Bond Fund” (Parity Water Bond Fund”). The Municipality is obligated to make payments into the Parity Water Bond Fund no later than the date due sufficient to pay the principal and interest on the Parity Water Bonds as it becomes due and payable. Within the Parity Water Bond Fund is a reserve account created for the purpose of further securing the repayment of the Parity Water Bonds.

The Utility’s Schedule of Revenue Bond Coverage for the last ten years follow:

Fiscal Year	Revenue (1)	Assessment Collections (2)	Operating Expenses (3)	Amount Available For Debt Service	Current Year Debt Service Requirements (Accrual Basis)			Coverage (5)
					Principal (4)	Interest (4)	Total	
2002	31,158,976	523,688	15,428,722	16,253,942	4,220,000	5,358,150	9,578,150	1.70
2003	30,602,246	452,608	15,449,834	15,605,020	4,400,000	5,165,863	9,565,863	1.63
2004	33,688,579	560,866	17,094,054	17,155,391	4,595,000	5,277,793	9,872,793	1.74
2005	39,214,137	475,004	18,733,157	20,955,984	5,185,000	5,394,050	10,579,050	1.98
2006	39,480,462	605,444	18,964,994	21,120,912	5,375,000	5,174,576	10,549,576	2.00
2007	44,755,119	292,321	26,714,777	18,332,663	3,960,000	5,549,972	9,509,972	1.93
2008	44,264,376	326,820	27,725,271	16,865,925	4,250,000	7,836,288	12,086,288	1.40
2009	50,391,141	301,479	28,054,018	22,638,602	4,095,000	7,632,687	11,727,687	1.93
2010	50,860,139	312,253	29,456,391	21,716,001	5,255,000	6,094,343	11,349,343	1.91
2011	52,238,591	351,036	30,811,206	21,778,421	4,760,000	6,206,089	10,966,089	1.99

- (1) Excludes interest restricted for construction, interest on advanced grants and amortization of premiums on investments, includes antenna revenue and special items.
- (2) Assessment collections represent payments made by benefited property owners.
- (3) Excludes depreciation and Public Employees Retirement System relief distributed to labor. Includes Municipal Utilities Service Assessment as per the 2007 bond covenants.
- (4) Does not include Mini-Bonds as they have no debt service requirements.
- (5) Required minimum coverage is 1.15.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2011 and 2010

(c) Debt Service Requirements

Debt service requirements to maturity follow:

Year	Revenue Bonds		Long-term Loans		Total
	Principal	Interest	Principal	Interest	
2012	\$ 5,810,000	6,000,111	4,980,639	1,156,780	17,947,530
2013	6,015,000	5,785,568	5,337,378	1,194,464	18,332,410
2014	6,836,000	5,588,355	5,232,873	1,154,068	18,811,296
2015	3,570,000	5,393,402	5,248,602	1,075,575	15,287,579
2016	3,710,000	5,243,236	5,264,566	996,846	15,214,648
2017 - 2021	20,880,000	23,891,137	26,222,103	3,797,383	74,790,623
2022 - 2026	20,660,000	19,157,716	21,760,608	1,961,376	63,539,700
2027 - 2031	26,425,000	13,932,661	12,867,627	469,135	53,694,423
2032 - 2036	34,570,000	6,489,505	341,472	5,122	41,406,099
2037	8,010,000	200,250	—	—	8,210,250
	<u>136,486,000</u>	<u>91,681,941</u>	<u>87,255,868</u>	<u>11,810,749</u>	<u>327,234,558</u>
	(5,810,000)		(4,980,639)		Current Portion of Principal
	(3,162,116)		—		Unamortized Discounts and Losses
	<u>2,801,921</u>		—		Unamortized Premiums
	<u>\$ 130,315,805</u>		<u>82,275,229</u>		Total Long-term Portion

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2011 and 2010

(d) Long-Term Obligations

Changes in long-term obligations for the year ending December 31, 2011 follow:

Description	December 31, 2010	Additions	Deletions	December 31, 2011	Amounts Due Within One Year
Revenue bonds	\$ 141,246,000	—	(4,760,000)	136,486,000	5,810,000
Long-term loans	70,167,623	22,001,505	(4,913,260)	87,255,868	4,980,639
Total debt	211,413,623	22,001,505	(9,673,260)	223,741,868	10,790,639
Unamortized discounts/loss	(3,798,908)	—	636,792	(3,162,116)	—
Unamortized premiums	3,185,945	—	(384,024)	2,801,921	—
Total debt, net	210,800,660	22,001,505	(9,420,492)	223,381,673	10,790,639
Compensated absences	1,285,254	1,433,502	(1,578,885)	1,139,871	860,742
Pollution remediation obligation	175,000	11,500	—	186,500	20,000
Total long-term, net	\$ 212,260,914	23,446,507	(10,999,377)	224,708,044	

Changes in long-term obligations for the year ending December 31, 2010 follow:

Description	December 31, 2009	Additions	Deletions	December 31, 2010	Amounts Due Within One Year
Revenue bonds	\$ 146,501,000	—	(5,255,000)	141,246,000	4,760,000
Long-term loans	54,592,335	18,988,298	(3,413,010)	70,167,623	4,149,753
Total debt	201,093,335	18,988,298	(8,668,010)	211,413,623	8,909,753
Unamortized discounts/loss	(4,424,771)	—	625,863	(3,798,908)	—
Unamortized premiums	3,575,529	—	(389,585)	3,185,945	—
Total debt, net	200,244,093	18,988,298	(8,431,732)	210,800,660	8,909,753
Compensated absences	1,260,515	1,596,265	(1,571,526)	1,285,254	1,190,614
Pollution remediation obligation	155,000	20,000	—	175,000	20,000
Total long-term, net	\$ 201,659,608	20,604,563	(10,003,257)	212,260,914	

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2011 and 2010

(5) Defeasance of Debt

In prior years, the Utility defeased certain general obligation and revenue bonds by placing the proceeds of the new bonds and other available funds in irrevocable trusts with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, trust account assets and liabilities for defeased bonds are not included in the Utility's financial statements. At December 31, 2011, the amount of defeased debt outstanding on 2004 revenue bonds amounted to \$11,175,000.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2011 and 2010

(6) Deferred Liabilities

Contributions in Aid of Construction (CIAC) for the years ended December 31, 2011 and 2010 follow:

	December 31, 2010	Additions	Deletions	December 31, 2011
Contributions in Aid of Construction				
Customer:				
Special assessments	\$ 47,898,179	85,551	—	47,983,730
Private development	131,944,472	1,698,764	(132,973)	133,510,263
Other	3,372,367	—	(204,295)	3,168,072
Intergovernmental	196,215,149	2,796,898	(74,867)	198,937,180
Total CIAC	379,430,167	4,581,213	(412,135)	383,599,245
Accumulated Amortization				
Customer	(78,723,305)	(2,678,747)	132,973	(81,269,079)
Intergovernmental	(64,663,265)	(3,648,234)	74,867	(68,236,632)
Total amortization	(143,386,570)	(6,326,981)	207,840	(149,505,711)
Net CIAC	\$ 236,043,597	(1,745,768)	(204,295)	234,093,534
Contributions in Aid of Construction				
Customer:				
Special assessments	\$ 47,622,209	275,970	—	47,898,179
Private development	127,194,393	4,899,735	(149,656)	131,944,472
Other	3,372,367	—	—	3,372,367
Intergovernmental	193,436,956	3,277,127	(498,934)	196,215,149
Total CIAC	371,625,925	8,452,832	(648,590)	379,430,167
Accumulated Amortization				
Customer	(76,234,299)	(2,638,662)	149,656	(78,723,305)
Intergovernmental	(61,550,761)	(3,611,438)	498,934	(64,663,265)
Total amortization	(137,785,060)	(6,250,100)	648,590	(143,386,570)
Net CIAC	\$ 233,840,865	2,202,732	—	236,043,597

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2011 and 2010

(7) Net Assets

Net assets invested in capital assets, net of related debt is comprised of:

	2011	2010
Net capital assets	\$ 508,132,334	495,261,516
Less: Net revenue bonds payable long-term	130,315,805	135,873,037
Less: Unspent debt proceeds	(16,903,086)	(12,686,946)
Alaska Drinking Water loans payable, long-term	82,275,229	66,017,870
Long-term obligations maturing within one year	10,790,639	8,909,753
Contributions in aid of construction, net	234,093,534	236,043,597
Invested in capital assets, net of related debt	\$ 67,560,213	61,104,205

Restricted net assets are comprised of:

	2011	2010
Revenue bond debt service investments	\$ 5,019,180	5,000,537
Interim rate escrow investment	—	2,455,479
Restricted net assets	\$ 5,019,180	7,456,016

(8) Retirement Plans

State of Alaska Public Employees' Retirement System

(a) Plan Descriptions

The Utility participates in the State of Alaska Public Employees' Retirement System (PERS). Employees hired prior to July 1, 2006, and employees hired after July 1, 2006 who have PERS enrollment from prior employment, participate in PERS Tiers I-III, a defined benefit public employee retirement system. Employees hired after July 1, 2006 who have no prior PERS participating employment participate in PERS Tier IV, a defined contribution plan with a component of defined benefit postemployment healthcare.

The defined benefit plan was originally established as an agent multiple-employer plan, but was converted by legislation to a cost-sharing plan, effective July 1, 2008. Under the cost-sharing arrangement, the State of Alaska Division of Retirement and Benefits will no longer track individual employer assets and liabilities. Rather all plan costs and past service liabilities will be shared among all participating employers. Both plans are administered by the State of Alaska (State) to provide pension, postemployment healthcare, death and disability benefits to eligible employees.

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Notes to Basic Financial Statements

December 31, 2011 and 2010

All full-time and regular part-time Utility employees are eligible to participate in PERS if they are employed fifteen hours or more per week. For both the defined benefit plan and the defined contribution plan, benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

Each fiscal year, PERS issues publicly available financial reports that include financial statements and required supplementary information. They 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, by phoning (907) 465-4460, or via the web at www.state.ak.us/dr/pers/.

**(b) Funding Policy and Annual Pension and Post-Employment Healthcare Cost - PERS Tier I-III
Defined Benefit Plan**

Participating employees are required to contribute 6.75% of their annual covered salary. Employer contribution rates are established by state statute. Employer contribution rates are established annually by a state sanctioned management board. 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.

The employer contribution rate is statutorily capped at 22% of annual covered salary. State legislation currently provides that the State of Alaska will contribute any amount over 22% such that the total contribution equals the Alaska Retirement Management Board adopted rate, but not the same as the Governmental Accounting Standards Board (GASB) Statement 45 accounting rate.

Detailed contribution rates for the Utility and actuarial methods for the plan for the year ended 2011 follow:

	Employee Rate		Contractual Rate		ARM Board Adopted Rate		GASB 45*	
	<u>1/1 to 6/30/11</u>	<u>7/1 to 12/31/11</u>	<u>1/1 to 6/30/11</u>	<u>7/1 to 12/31/11</u>	<u>1/1 to 6/30/11</u>	<u>7/1 to 12/31/11</u>	<u>1/1 to 6/30/11</u>	<u>7/1 to 12/31/11</u>
Pension	2.41%	3.21%	7.85%	10.48%	9.98%	14.65%	13.49%	13.72%
Postemployment Healthcare	<u>4.34%</u>	<u>3.54%</u>	<u>14.15%</u>	<u>11.52%</u>	<u>17.98%</u>	<u>16.11%</u>	<u>55.87%</u>	<u>49.98%</u>
Total Contribution Rate	<u>6.75%</u>	<u>6.75%</u>	<u>22.00%</u>	<u>22.00%</u>	<u>27.96%</u>	<u>30.76%</u>	<u>69.36%</u>	<u>63.70%</u>

* This rate uses a 4.5% OPEB discount rate from 1/1/2011 to 6/30/2011 and 4.70% from 7/1/2011 to 12/31/2011 and disregards future Medical Part D payments.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2011 and 2010

(c) Annual Pension and Post-employment Healthcare Cost

The Utility is required to contribute 22% of covered payroll, subject to a wage floor. In addition, the State contributed approximately 5.96% from January 1 through June 30 and 8.76% between July 1 and December 31, 2011 of covered payroll to the Plan. In accordance with the provisions of GASB Statement Number 24, Anchorage has recorded the state contribution in the General Fund in the amount of \$19,733,677 as a PERS on-behalf payment. The Utility did not recognize any portion of the revenue or expense related to this contribution. Because the Utility is not statutorily obligated for these payments, this amount has been excluded from pension and OPEB cost as described here. Pension and OPEB payments for the three years ending December 31, 2009 to December 31, 2011 are shown below:

Year	Annual Pension Cost	Annual OPEB Cost	Total Benefit Cost (TBC)	Utility Contributions	% of TBC Contributed
2011	\$ 984,795	1,107,815	2,092,610	2,092,610	100%
2010	977,817	1,075,126	2,052,943	2,052,943	100%
2009	709,672	1,278,546	1,988,218	1,988,218	100%

(d) Funding Policy and Annual Pension and Post-employment HealthCare Costs– PERS Tier IV Defined Contribution Plan

Employees first enrolling into PERS after July 1, 2006 participate in PERS Tier IV. PERS Tier IV is a defined contribution retirement plan that includes a component of defined benefit post-employment health care. The plan requires both employer and employee contributions. Employees may make additional contributions into the plan, subject to limitations. Contribution rates follow:

	TIER IV	
	<u>1/1 - 6/30</u>	<u>7/1 - 12/31</u>
Employee Contribution	<u>8.00%</u>	<u>8.00%</u>
Employer Contribution		
Retirement	5.00%	5.00%
Health Reimbursement Arrangement *	3.00%	3.00%
Retiree Medical Plan	0.55%	0.51%
Death & Disability Benefit	<u>0.31%</u>	<u>0.20%</u>
Total Employer Contribution	<u>8.86%</u>	<u>8.71%</u>

*Health Reimbursement Arrangement - AS 39.30.370 requires that the employer contribute “an amount equal to three percent of the employer’s average annual employee compensation.” For actual remittance, this amount is calculated as a flat rate per full time employee and a flat rate per hour for part time employees. Prior to July 1,

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2011 and 2010

2011 a rate of \$66.18 per full time employee per pay period and \$1.10 per part time hour worked was paid. For pay periods ending after July 1, 2011, a rate of \$68.39 per full time employee per pay period and \$1.14 per part time hour worked was paid.

For the year ended December 31, 2011, the Utility contributed \$146,646 to PERS Tier IV for retirement and retiree medical, and it contributed \$64,457 to PERS Tier IV for Health Reimbursement Arrangement on-behalf of its employees. Employee contributions to the plan totaled \$197,647.

Under the cost-sharing arrangement for the PERS defined benefit plan (Tiers I–III), the state statute employer contribution rate of 22%, includes Tier IV employees. In addition to the amounts above, the Utility contributed approximately 13.29% on Tier IV employee payroll. This amount was applied to the obligation of the PERS defined benefit plan and is included in the contributions (ARC) recorded in the defined benefit cost-sharing plan.

(9) Contingencies

(a) Claims and Litigation

The Utility, in the normal course of its activities, is involved in various claims and pending litigation. In the opinion of Management and the Municipality’s legal staff, the disposition of these matters is not expected to have a material adverse effect on the Utility’s financial statements.

(b) Plumbers and Pipefitters, Local 367 Union Contract

The Plumbers and Pipefitters, Local 367 Union (Plumbers Union) contract expired June 30, 2010. The Municipality and the Plumbers Union entered negotiations in March 2010. The parties proceeded through negotiations, mediation and arbitration in 2011. The arbitrator issued a decision in 2011, which was rejected by the Municipal Assembly. The Municipality and the Plumbers Union went to Superior Court in November 2011. In February 2012 the Superior Court issued a decision in favor of the Municipality’s last best offer. In March 2012 the Plumbers Union filed an appeal to the Alaska Supreme Court. The Plumbers Union continues to work under the expired contract until a new contract is ratified. The potential impacts of any contract decision are not yet measurable, and therefore no liability has been recorded related to the expired contract.

(10) Environmental Issues

Beginning in 1993, in accordance with the State of Alaska Department of Environmental Conservation (ADEC) regulations, the Utility commenced activities to remove three leaking, underground fuel storage tanks and the surrounding contaminated soils. Additional contamination was identified on the affected property (unrelated to the tank leakage) requiring additional removal of soils. In 2010, the Utility completed additional site characterization. In 2011, AWWU submitted work plans and received approval from ADEC for continued groundwater monitoring while working towards closure of the case on this site.

The Utility used the expected cash flow technique to measure the liability. The Utility estimated a reasonable range of potential outlays of \$180,000 to \$245,000 and multiplied those outlays by their probability of occurring to estimate a pollution remediation obligation of \$186,500. The potential for a material change in the estimate is possible depending upon the response received from ADEC.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2011 and 2010

(11) Regulatory Matters

(a) MUSA Remand

On June 27, 2011, the Regulatory Commission of Alaska (RCA or Commission) issued a final order in Docket U-04-23 authorizing the Utility to include the Municipal Utility Service Assessment (MUSA) expense (an ad valorem payment in lieu of taxes to municipal government) in rates charged by the Utility. This order reversed a September 2, 2005 Commission decision to disallow the portion of this expense related to contributed plant from the Utility's rates. The Utility appealed the 2005 decision to Alaska Superior Court which upheld the Commission decision. The Utility then filed an appeal to the Alaska Supreme Court. On September 4, 2009, the Supreme Court issued a unanimous decision finding no reasonable basis for the RCA's 2005 exclusion of MUSA, as it related to contributed plant from the Utility's revenue requirement. The Court remanded the case to the RCA for further proceedings. The June 27, 2011 decision found in favor of the Utility and allows the MUSA expenses to be included in the rates.

(b) 2009 Test Year / 2011 Rates

On November 10, 2010, the Utility filed a revenue requirement study requesting an interim refundable rate increase of 8.0% to become effective January 1, 2011. The RCA issued Order U-10-101(1) (Order 1) on December 27, 2010 granting a lower interim rate increase of 1.96% to be effective January 1, 2011. On January 10, 2011 the Utility filed a Petition for Reconsideration of Order 1 and requested a hearing on interim rates. The requested public hearing involving the Utility, RAPA and the Federal Executive Agency (FEA) representing the Department of Defense, was conducted on February 15, 2011. The hearing provided the Utility an opportunity to present evidence to the RCA of the financial damage that the Utility would incur if higher interim rates could not be approved. After reviewing additional evidence and legal arguments, the Commission approved, on an interim and refundable basis, the full requested 8% increase over 2010 water rates effective March 24, 2011. On August 12, 2011, the RCA accepted a stipulation filed by AWWU and RAPA that settled all outstanding issues specific to the docket and granted permanent rates.

(c) 2010 Test Year / 2012 Rates

On November 4, 2011, the Utility filed a revenue requirement study requesting an interim refundable rate increase of 6.0% to become effective January 1, 2012. On December 12, 2011, the RCA issued a letter order approving the requested rate increase on a permanent basis without suspension into a docket for further investigation.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2011 and 2010

(12) Interfund Transfers

The composition of interfund transfers for the year ended December 31, 2011 follows:

<u>Description</u>	<u>Amount</u>
Transfer to other funds:	
Municipal utility service assessment	\$ <u>7,148,205</u>

The composition of interfund transfers for the year ended December 31, 2010 follow:

<u>Description</u>	<u>Amount</u>
Transfer to other funds:	
Municipal utility service assessment	\$ <u>6,717,558</u>
Transfer from other funds:	
Transfer for vehicle	\$ <u>3,000</u>

(13) New Accounting Pronouncements

(a) GASB 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

Effective for the year ending December 31, 2012 – This statement will result in a change to the Utility’s financial statements from a traditional “Balance Sheet Format” to a new Statement of Net Position format which will segregate deferred inflows and deferred outflows from assets and liabilities respectively.

(b) GASB 65 Items Previously Reported as Assets and Liabilities

Effective for the year ending December 31, 2013 – This statement is a companion to GASB statement 63 and establishes accounts to be reclassified as deferred inflows and outflows. In addition, certain items previously reported as assets or liabilities will be moved to the income statement. For example, debt issuance costs will no longer be capitalized and amortized but will be expensed as incurred. Certain regulatory assets and liabilities will be reclassified to deferred inflows and outflows.

STATISTICAL SECTION

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND
Statistical Section (unaudited)
Financial Ratios

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Financial ratios:					
Current ratio (current assets / current liabilities)	2.10	1.59	1.93	1.95	2.45
Quick ratio (quick assets / current liabilities)	2.00	1.47	1.81	1.82	2.31
Return on investment (change in net assets / total assets)	1.1%	1.3%	1.3%	0.3%	1.0%
Return on equity (change in net assets / net assets)	6.6%	8.2%	8.6%	2.0%	6.7%
Debt to equity as a percent of capital structure (outstanding debt / capital structure over net assets / capital structure)	<u>70%</u> 30%	<u>70%</u> 30%	<u>71%</u> 29%	<u>72%</u> 28%	<u>72%</u> 28%
Operating margin (operating income / operating revenues)	37%	37%	38%	30%	32%
Revenue bond debt coverage (amount available for revenue bond debt service / revenue bond principal & interest)	1.99	1.91	1.93	1.40	1.93
Weighted cost of long term debt (Sum of interest rates multiplied by percentage of total amounts outstanding for bonds, long-term loans, and amortization of bond discounts and transaction costs)	3.52%	3.70%	4.01%	4.59%	4.80%

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND
 Statistical Section (unaudited)
 Table 1
 Average Number of Accounts

<u>Customer Type</u>	<u>2011 ⁽¹⁾</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Residential	51,558	51,416	51,302	51,177	51,026
Commercial	3,644	3,560	3,533	3,520	3,499
Total	<u>55,202</u>	<u>54,976</u>	<u>54,835</u>	<u>54,697</u>	<u>54,525</u>
Growth rate	0.41%	0.26%	0.25%	0.32%	

⁽¹⁾ Statistics changed from reporting end of year account total to a monthly average account total in 2011. Restating prior years results is an immaterial difference.

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND
Statistical Section (unaudited)
Table 2
Current Water Rates

Type of Service	2011 ⁽¹⁾	2010 ⁽²⁾	2009 ⁽³⁾	2008 ⁽⁴⁾	2007 ⁽⁵⁾
Metered:					
Customer charge (per account)	\$ 11.44	10.59	10.33	9.65	9.65
Meter rate					
(Depending on meter size ranging between 5/8" to 8")	5.69 to	5.27 to	5.14 to	4.80 to	4.80 to
	301.51	279.18	272.37	254.55	254.55
Metered usage rate (per 1,000 gallons):					
Residential	4.42	4.09	3.99	3.73	3.73
Commercial	4.42	4.09	3.99	3.73	3.73
Unmetered:					
Customer charge (per account)	11.44	10.59	10.33	9.65	9.65
Residential (per unit)	31.81	29.45	28.73	26.85	26.85
Commercial:					
3/4"	45.07	41.73	40.71	38.05	38.05
1"	90.85	84.12	82.07	76.70	76.70
1 1/2"	237.55	219.95	214.59	200.55	200.55
2"	430.21	398.34	388.62	363.20	363.20

⁽¹⁾ Rates effective 3/24/11. Rate increase of 1.96% was approved by the Regulatory Commission of Alaska (RCA) effective 1/1/11 through 3/23/11. A permanent rate increase of 8% was approved by the RCA effective 3/24/11, which is reflected in the 2011 column above.

⁽²⁾ Rates effective 1/1/10

⁽³⁾ Rates effective 1/1/09

⁽⁴⁾ Rates effective 1/1/07

⁽⁵⁾ Rates effective 1/1/07

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Statistical Section (unaudited)

Table 3

Revenues and Expenses - Budget to Actual

	Budget	Actual	Variance Favorable / (Unfavorable)
Operating revenues:			
Residential sales	\$ 35,172,000	35,341,978	169,978
Commercial sales	10,998,000	10,362,143	(635,857)
Public fire protection	4,330,000	4,093,030	(236,970)
Miscellaneous	1,250,000	1,374,230	124,230
Total operating revenues	<u>51,750,000</u>	<u>51,171,381</u>	<u>(578,619)</u>
Nonoperating revenues:			
Investment income - short-term investments	870,000	952,475	82,475
Water property rental	30,000	95,419	65,419
Transfers from other funds	—	—	—
Miscellaneous non-operating revenue	—	19,316	19,316
Total non-operating revenues	<u>900,000</u>	<u>1,067,210</u>	<u>167,210</u>
Total revenues	<u>52,650,000</u>	<u>52,238,591</u>	<u>(411,409)</u>
Expenses:			
Source of supply:			
Operations	3,509,000	2,673,688	835,312
Maintenance	768,000	556,206	211,794
Total source of supply	<u>4,277,000</u>	<u>3,229,894</u>	<u>1,047,106</u>
Water treatment:			
Operations	4,407,000	3,875,288	531,712
Maintenance	719,000	495,206	223,794
Total treatment	<u>5,126,000</u>	<u>4,370,494</u>	<u>755,506</u>
Transmission and distribution:			
Operations	2,192,000	1,979,031	212,969
Maintenance	4,172,000	3,997,808	174,192
Total transmission and distribution	<u>6,364,000</u>	<u>5,976,839</u>	<u>387,161</u>
Customer accounts	2,593,000	2,519,017	73,983
Administrative and general	8,979,000	7,566,757	1,412,243
Depreciation, net of amortization	9,100,000	8,348,377	751,623
Total operating expenses	<u>36,439,000</u>	<u>32,011,378</u>	<u>4,427,622</u>
Other expenses:			
Transfers to other funds	7,280,000	7,148,205	131,795
Interest on long-term obligations	8,290,000	7,214,641	1,075,359
Amortization of debt expense	650,000	379,852	270,148
Allowance for funds used during construction	(780,000)	(795,662)	15,662
Total other expenses	<u>15,440,000</u>	<u>13,947,036</u>	<u>1,492,964</u>
Total expenses	<u>51,879,000</u>	<u>45,958,414</u>	<u>5,920,586</u>
Increase in net assets	<u>\$ 771,000</u>	<u>6,280,177</u>	<u>5,509,177</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

WATER UTILITY FUND

Statistical Section (unaudited)

Table 4

Debt Principal by Issue

Description	Original Issue Date	Total Issue Amount	Principal Balance 12/31/2010	2011 New (Retired) Debt	2011 Principal Payments	Principal Balance 12/31/2011	Current Portion
Revenue Bonds							
2004 Water Revenue & Refunding Bonds	05/26/04	\$ 18,595,000	3,220,000	—	200,000	3,020,000	570,000
2004 Junior Lien Water Revenue Bonds	10/12/04	2,000,000	1,956,000	—	—	1,956,000	—
2007 Water Revenue & Refunding Bonds	06/28/07	91,315,000	90,985,000	—	795,000	90,190,000	830,000
2009 Water Refunding Bonds	12/16/09	49,680,000	45,085,000	—	3,765,000	41,320,000	4,410,000
Total Revenue Bonds		161,590,000	141,246,000	—	4,760,000	136,486,000	5,810,000
Alaska Drinking Water (ADW) Loans							
127201 - Airport Water Project, Phase 1B	06/06/00	2,334,756	1,184,688	—	123,930	1,060,758	125,789
127231 - ER Rsvr/Wtr Trans Main	06/06/00	2,000,000	1,204,825	—	101,559	1,103,265	103,083
127241 - Loop Wtr Trans Main Phs V	07/25/00	5,039,233	3,045,032	—	256,677	2,788,355	260,528
127251 - Service Reservoir No. 6	07/25/00	3,723,056	2,244,065	—	189,161	2,054,904	191,998
127261 - 19th Spenard Upgrade	09/16/08	770,000	731,500	—	38,500	693,000	38,500
127321 - Disinfection Alt. Upgrade	03/22/02	755,000	461,101	—	38,868	422,233	39,451
127331 - 68th Pebble-Baby Bear	09/30/08	300,000	270,000	—	15,000	255,000	15,000
127361 - Christen Dr Upgrade	09/08/09	1,350,000	1,282,500	—	67,500	1,215,000	67,500
127381 - S. Addition Woodstave Upgrd	08/27/01	922,354	603,466	—	46,420	557,046	46,420
127411 - Loop Wtr Trans Main Phs VI	03/02/01	1,305,776	789,811	—	66,576	723,235	67,575
127441 - Daryl Industry Way	09/30/08	420,000	420,000	—	21,000	399,000	21,000
127461 - DeBarr-Klevin-Hoyt Upgrade	12/04/09	1,000,000	950,000	—	50,000	900,000	50,000
127471 - SCADA Water	08/04/04	4,000,000	3,139,392	—	188,189	2,951,203	191,012
127491 - Girdwood Wtr Supply Imprvmnets	06/23/04	2,135,300	1,905,382	—	100,283	1,805,099	100,283
127531 - Loop Wtr Trans Main Phs IV	10/31/06	12,306,151	11,690,843	—	615,308	11,075,536	615,308
127541 - SCADA Water II	12/01/04	6,500,000	5,525,000	—	325,000	5,200,000	325,000
127571 - 88th Ave Wtr Trans Main	10/31/06	1,850,696	1,665,626	—	92,535	1,573,091	92,535
127581 - Pine Debarr San Rob Wtr Upgrd	09/08/07	870,014	826,513	—	43,501	783,012	43,501
127731 - Arctic 32nd - 36th Wtr Upgrd	11/24/06	404,234	363,811	—	20,212	343,599	20,212
127771 - East Bluff Upgrade	10/09/06	317,763	285,987	—	15,888	270,099	15,888
127781 - Sullivan-Ben Boeke Wtr Upgrd	10/09/06	2,189,753	1,861,289	—	109,488	1,751,802	109,488
127791 - Hiland Rd Water Intertie	06/25/10	8,700,000	8,700,000	—	435,000	8,265,000	435,000
127811 - Island-Kodiak Kalgin Water	06/07/10	570,541	531,552	38,989	28,527	542,014	28,527
127831 - Klatt Rd - NSH-PZ Intertie	09/10/07	621,600	521,389	—	30,670	490,719	30,670
127851 - N Comm Extension	06/03/08	1,402,434	812,319	590,115	—	1,402,434	—
127861 - So. Anchorage Wtr Extension	10/12/11	3,427,000	—	3,427,000	—	3,427,000	—
127871 - Debarr-Muldoon-Turpin Upgrd	09/28/07	3,034,740	2,731,266	—	151,737	2,579,529	151,737
127901 - SCADA Water III	09/07/07	5,300,000	4,505,000	—	265,000	4,240,000	265,000
127911 - Wtr Data Processing Project	09/08/09	600,000	360,000	—	120,000	240,000	120,000
127931 - Hillside Transmission Main	07/10/08	9,500,000	317,094	9,182,906	475,000	9,025,000	475,000
127941 - 2006 Misc Water Projects	04/08/08	846,000	725,634	—	37,791	687,843	38,358
127961 - NE Improvements Phase 1	07/08/08	929,107	882,652	—	46,455	836,196	46,455
127991 - Sand Lake Wtr Extension	02/10/10	280,719	280,719	—	14,036	266,683	14,036
130151 - Knik View Intertie	07/21/08	715,946	715,946	—	35,797	680,149	35,797
130161 - Norm-Newt Drive	12/17/08	1,768,400	1,679,980	—	88,420	1,591,560	88,420
130221 - San Ernesto Upgrade	12/17/08	1,567,218	1,488,857	—	78,361	1,410,496	78,361
130241 - South Addition Phase IV Proj	02/02/09	1,164,317	1,106,101	—	58,216	1,047,885	58,216
130271 - Well 7 Capacity Upgrade	02/28/11	1,775,766	—	1,775,766	88,788	1,686,978	88,788
130431 - 68th Ave Redhawk Intertie	12/04/09	632,444	600,822	—	31,622	569,200	31,622
130441 - 3000 Arctic HVAC Upgrade	06/24/11	1,046,759	—	1,046,759	—	1,046,759	52,338
130471 - Downtown CIPP Wtr Upgrade	10/15/10	1,414,951	1,414,951	—	70,748	1,344,203	70,748
130491 - 2-Way Radio Water Upgrade	02/17/10	299,248	284,286	—	31,587	252,698	31,587
130841 - Girdwood Wtr Improv	12/14/11	2,000,000	—	2,000,000	—	2,000,000	—
130921 - Golden View Reservoir	02/02/11	2,808,878	—	2,808,878	140,444	2,668,434	140,444
131021 - G Street - 7th Water Main	12/29/10	502,468	502,118	350	25,123	477,345	25,123
131031 - Eklutna WTF Roof & Window	06/07/10	1,556,106	1,556,106	—	77,805	1,478,301	77,805
131281 - Ship Creek WTF Roof	03/23/11	1,130,742	—	1,130,742	56,537	1,074,205	56,537
Total ADW Loans		104,089,470	70,167,623	22,001,505	4,913,260	87,255,868	4,980,639
Total Long-Term Debt		\$ 265,679,470	211,413,623	22,001,505	9,673,260	223,741,868	10,790,639

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND
 Statistical Section (unaudited)
 Table 5
 Capital Improvement Program
 (Dollars in thousands)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	Six Year Total
Project category:							
General plant	\$ 14,747	15,848	16,574	6,958	7,598	11,858	73,583
Repair and rehabilitation	23,423	24,317	23,776	27,952	22,898	12,331	134,697
Transmission/distribution	<u>590</u>	<u>210</u>	<u>25</u>	<u>4,610</u>	<u>10,354</u>	<u>18,561</u>	<u>34,350</u>
Total AWWU funded	38,760	40,375	40,375	39,520	40,850	42,750	242,630
Grants	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u><u>38,760</u></u>	<u><u>40,375</u></u>	<u><u>40,375</u></u>	<u><u>39,520</u></u>	<u><u>40,850</u></u>	<u><u>42,750</u></u>	<u><u>242,630</u></u>
Source of funding:							
Debt	31,760	33,375	34,375	28,520	28,850	30,750	187,630
Equity	<u>5,000</u>	<u>5,000</u>	<u>4,000</u>	<u>9,000</u>	<u>10,000</u>	<u>10,000</u>	<u>43,000</u>
Total AWWU funded	36,760	38,375	38,375	37,520	38,850	40,750	230,630
Grants	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>12,000</u>
Total	<u><u>\$ 38,760</u></u>	<u><u>40,375</u></u>	<u><u>40,375</u></u>	<u><u>39,520</u></u>	<u><u>40,850</u></u>	<u><u>42,750</u></u>	<u><u>242,630</u></u>

WATER UTILITY FUND
Statistical Section (unaudited)
Table 6
Production Comparison by Facility

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Water treatment facilities (WTF) production and usage data:					
Water produced yearly (millions of gallons):					
Ship Creek WTF	94.1	0.2	27.7	124.9	143.6
Wells	588.1	664.4	969.4	529.0	921.9
Eklutna WTF	<u>7,576.7</u>	<u>7,729.4</u>	<u>8,212.9</u>	<u>7,878.6</u>	<u>8,177.8</u>
Total	<u><u>8,258.9</u></u>	<u><u>8,394.0</u></u>	<u><u>9,210.0</u></u>	<u><u>8,532.5</u></u>	<u><u>9,243.3</u></u>
Average daily water demand (millions of gallons per day (MGD)):					
Ship Creek WTF	0.3	0.1	0.1	0.3	0.4
Wells	1.6	1.8	2.7	1.4	2.5
Eklutna WTF	<u>20.8</u>	<u>21.2</u>	<u>22.5</u>	<u>21.6</u>	<u>22.4</u>
Total	<u><u>22.7</u></u>	<u><u>23.1</u></u>	<u><u>25.3</u></u>	<u><u>23.3</u></u>	<u><u>25.3</u></u>
Minimum daily water demand (all facilities)					
	16.2	16.2	24.4	16.0	14.7
Peak production day:					
Ship Creek WTF	10.5	0.2	11.8	9.0	10.0
Wells	15.5	12.6	19.0	10.2	15.4
Eklutna WTF	<u>28.8</u>	<u>28.2</u>	<u>35.4</u>	<u>31.8</u>	<u>34.7</u>
Total ⁽¹⁾	<u><u>54.8</u></u>	<u><u>41.0</u></u>	<u><u>66.2</u></u>	<u><u>51.0</u></u>	<u><u>60.1</u></u>
Four hour peak demand (all facilities) ⁽²⁾					
	39.7	41.6	56.2	43.8	55.6
<u>Current Capacity</u>					
Source ⁽³⁾ :					
Ship Creek WTF	20				
Wells	20				
Eklutna WTF	<u>35</u>				
Total	<u><u>75</u></u>				
Miles of water mains	836	834	829	828	823
Number of hydrants:					
Public	5,887	5,874	5,851	5,817	5,785
Private	1,367	1,357	1,356	1,204	1,156

⁽¹⁾ Total water contribution coming into the water treatment facility on a specific day.

⁽²⁾ Equals water coming into the water treatment facility plus water usage from the reservoirs.

⁽³⁾ Max design capacity MGD

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Statistical Section (unaudited)

Table 7

Detailed Schedule of Water Plant in Service (In Thousands)

	Water Plant			Balance 12/31/11
	Balance 01/01/11	Additions	Retirements	
Water plant in service:				
Tangible plant:				
Source of supply:				
Source of supply/land	\$ 747	—	—	747
Structures & improvements	2,313	—	—	2,313
Collecting & impound reservoir	4,795	8,407	—	13,202
Wells & spring	8,895	17	(67)	8,845
Supply mains	31,565	—	(130)	31,435
Pumping plant:				
Structures & improvements	11,624	816	(122)	12,318
Other power production equipment	234	—	—	234
Electric pumping equipment	805	32	(1)	836
Diesel pumping equipment	52	—	—	52
Booster pumping equipment	1,218	—	—	1,218
Treatment plant:				
Structures & improvements	63,903	176	—	64,079
Water treatment equipment	14,627	14	(15)	14,626
Transmission plant:				
Transmission & distribution-land	3,699	—	—	3,699
Structures & improvements	559	114	—	673
Distribution reservoir & standpipes	38,190	60	—	38,250
Transmission & distribution mains	448,010	15,057	(279)	462,788
Services	17,414	18	—	17,432
Meters	2,138	—	—	2,138
Hydrants	7,711	226	(6)	7,931
Land and land rights	762	—	—	762
General plant:				
Structures & improvements	19,097	317	(346)	19,068
Office furniture	424	—	(8)	416
Office equipment	36	—	(10)	26
Computer equipment	8,990	3,057	(881)	11,166
Vehicles (light duty)	1,926	227	(147)	2,006
Transportation equipment (heavy duty)	1,795	383	(94)	2,084
Store equipment	59	1,099	(53)	1,105
Tools, shop & garage equipment	441	—	(39)	402
Laboratory equipment	132	—	(20)	112
Power operated equipment	469	56	—	525
Communication equipment	15,248	603	(21)	15,830
Miscellaneous equipment	138	—	—	138
Total tangible plant	708,016	30,679	(2,239)	736,456
Intangible plant	1,246	—	(110)	1,136
Total water plant in service	709,262	30,679	(2,349)	737,592
Acquisition adjustment	3,322	—	—	3,322
Property held for future use	80	—	—	80
Construction work in progress	12,957	25,837	(29,540)	9,254
Total water plant	\$ 725,621	56,516	(31,889)	750,248

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Table 7 (Continued)

Detailed Schedule of Depreciation and Amortization (In Thousands)

	Accumulated Depreciation and Amortization				Net Book Value of Plant
	Balance	Additions	Retirements	Balance	
	01/01/11			12/31/11	
Water plant in service:					
Tangible plant:					
Source of supply:					
Source of supply/land	\$ —	—	—	—	747
Structures & improvements	924	41	—	965	1,348
Collecting & impound reservoir	3,449	93	(154)	3,388	9,814
Wells & spring	3,170	158	(67)	3,261	5,584
Supply mains	17,059	685	(130)	17,614	13,821
Pumping plant:					
Structures & improvements	1,750	284	(302)	1,732	10,586
Other power production equipment	102	7	—	109	125
Electric pumping equipment	766	41	(1)	806	30
Diesel pumping equipment	52	—	—	52	—
Booster pumping equipment	422	56	—	478	740
Treatment plant:					
Structures & improvements	21,385	1,219	—	22,604	41,475
Water treatment equipment	11,144	377	(15)	11,506	3,120
Transmission plant:					
Transmission & distribution-land	—	—	—	—	3,699
Structures & improvements	369	17	—	386	287
Distribution reservoir & standpipes	10,887	881	—	11,768	26,482
Transmission & distribution mains	117,465	7,130	(516)	124,079	338,709
Services	17,235	197	—	17,432	—
Meters	1,152	84	—	1,236	902
Hydrants	3,095	129	(6)	3,218	4,713
Land and land rights	—	—	—	—	762
General plant:					
Structures & improvements	5,224	371	(346)	5,249	13,819
Office furniture	136	20	(8)	148	268
Office equipment	36	—	(10)	26	—
Computer equipment	2,820	1,301	(881)	3,240	7,926
Vehicles (light duty)	1,526	162	(147)	1,541	465
Transportation equipment (heavy duty)	1,456	111	(94)	1,473	611
Store equipment	25	4	(53)	(24)	1,129
Tools, shop & garage equipment	325	20	(40)	305	97
Laboratory equipment	122	6	(20)	108	4
Power operated equipment	368	28	—	396	129
Communication equipment	5,293	1,008	(21)	6,280	9,550
Miscellaneous equipment	80	9	—	89	49
Total tangible plant	<u>227,837</u>	<u>14,439</u>	<u>(2,811)</u>	<u>239,465</u>	<u>496,991</u>
Intangible plant	617	122	(110)	629	507
Total water plant in service	<u>228,454</u>	<u>14,561</u>	<u>(2,921)</u>	<u>240,094</u>	<u>497,498</u>
Acquisition adjustment	1,906	115	—	2,021	1,301
Property held for future use	—	—	—	—	80
Construction work in progress	—	—	—	—	9,254
Total water plant	<u>\$ 230,360</u>	<u>14,676</u>	<u>(2,921)</u>	<u>242,115</u>	<u>508,133</u>