

Municipality of Anchorage, Alaska Wastewater Utility Fund

Basic Financial Statements
and Supplementary Information

December 31, 2012 and 2011
(with independent Auditor's Report Thereon)



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

Basic Financial Statements and Supplementary Information

December 31, 2012 and 2011

(With Independent Auditor's Report Thereon)

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

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Wastewater Utility Fund, an enterprise fund of the Municipality of Anchorage, Alaska, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Wastewater Utility Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Wastewater Utility Fund, as of December 31, 2012 and 2011, and changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only the Wastewater 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, 2012 and 2011, 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.

As discussed in Note 1 to the financial statements, in 2012, the Wastewater Utility Fund adopted the provisions of Governmental Accounting Standards Board (GASB) Statement number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and the provisions of GASB Statement number 65, *Items Previously Reported as Assets and Liabilities*. These provisions have been retrospectively applied to all periods presented in these financial statements. Net position is unaffected by this change. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 14 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2013 on our consideration of Anchorage Wastewater Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Anchorage Wastewater Utility's internal control over financial reporting and compliance.

Mikunda, Cottrell & Co.

Anchorage, Alaska
May 24, 2013

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

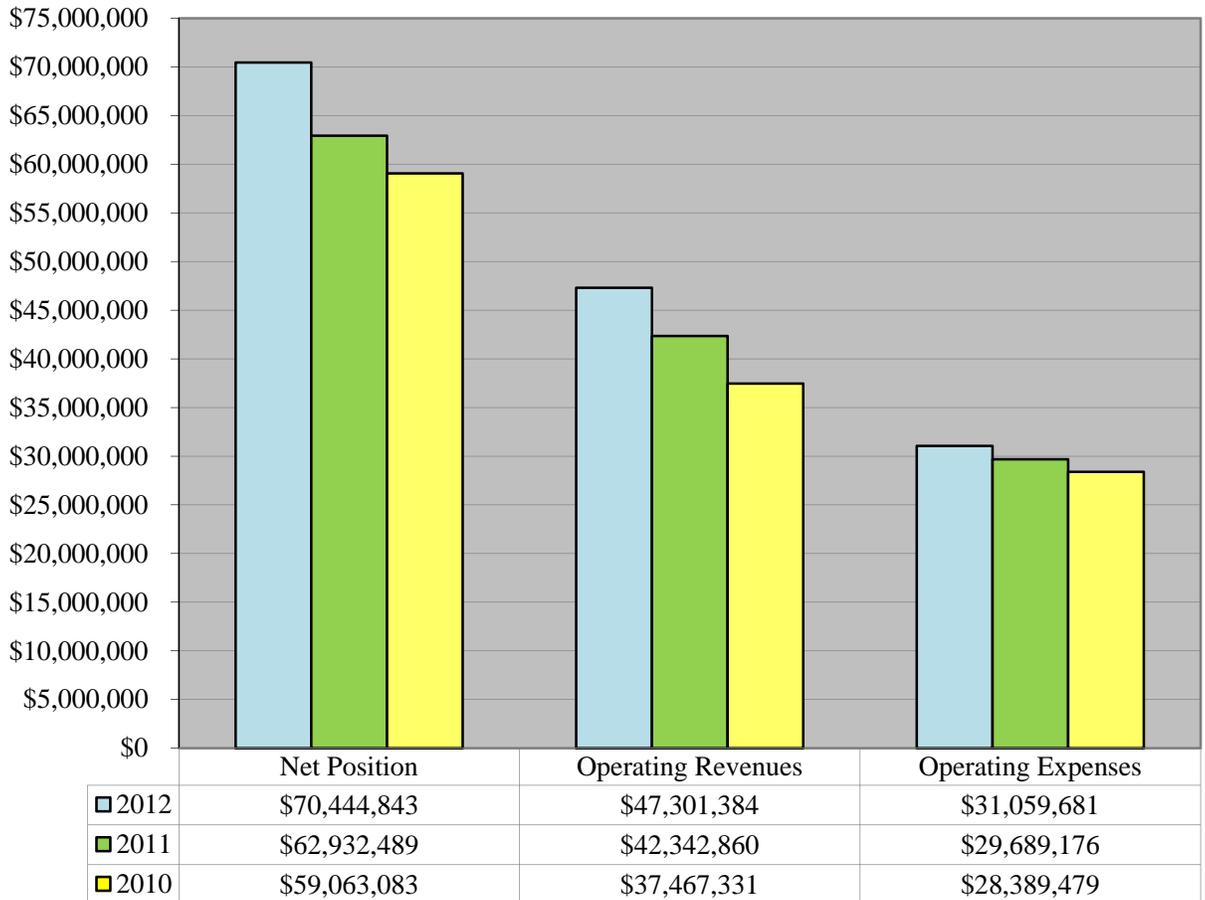
Management's Discussion and Analysis

December 31, 2012 and 2011

This section of the Municipality of Anchorage Wastewater Utility (Utility) annual financial report presents the analysis of the Utility's financial performance during the years ending December 31, 2012 and 2011. Please read it in conjunction with the Utility's financial statements.

Financial Highlights

- Net capital assets increased by \$10,070,000, or 3% in 2012 and \$7,840,000, or 2% in 2011.
- Net position increased by \$7,510,000, or 12% in 2012 and \$3,870,000, or 7% in 2011.
- Operating revenues increased by \$4,960,000, or 12% in 2012 and \$4,880,000, or 13% in 2011.
- Operating expenses increased by \$1,370,000, or 5% in 2012 and \$1,300,000, or 5% in 2011.



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

Management's Discussion and Analysis

December 31, 2012 and 2011

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 Management's Discussion and Analysis; the Statements of Net Position; Statements of Revenues, Expenses, and Changes in Fund Net Position; Statements of Cash Flows; Notes to the Basic Financial Statements; and Statistical Information. These statements and other supplemental information include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting.

Statements of Net Position – These statements present information regarding the Utility's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The Statements of Net Position classify assets and liabilities as current and non-current and show deferred outflows and inflows of resources.

Statements of Revenues, Expenses, and Changes in Fund Net Position – 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 position for the year. That change, combined with last year's ending net position total reconciles to the net position 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 beginning-of-year cash reconciles to the cash and cash-equivalents balance at the end of the year. The Utility presents its Statements of Cash Flows using the direct method of reporting operating cash flows.

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

Management's Discussion and Analysis

December 31, 2012 and 2011

Analysis of the Financial Statements

Net Position

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 Position and Statements of Revenues, Expenses, and Changes in Fund Net Position report information about the Utility's activities in a way that helps answer this question.

These two statements report the Utility's net position and the changes in net position. One can think of the Utility's net position, the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, as one way to measure financial health or financial position. Over time, increases or decreases in the Utility's net position are an indicator of whether its financial health is improving or deteriorating.

However, one will need to also consider other non-financial factors such as changes in economic conditions, population growth, the regulatory environment, and new or changed legislation.

Changes in the Utility's net position can be determined by reviewing the following condensed Summary of Net Position as of December 31, 2012, 2011, and 2010. The analysis below focuses on the Utility's net position at the end of the year (Table 1) and changes in the net position (Table 2) during the year.

**Table 1
Summary of Fund Net Position**

	2012	2011	2010
Assets:			
Net capital assets	\$ 375,763,776	365,696,350	357,855,992
Current and other assets	23,105,622	16,487,461	17,272,424
Total assets	398,869,398	382,183,811	375,128,416
Liabilities and deferred inflows of resources:			
Net debt outstanding	137,295,611	137,199,731	138,681,613
Current and other liabilities	20,564,890	13,055,525	4,726,421
Deferred inflows of resources	170,564,054	168,996,066	172,657,299
Total liabilities and deferred inflows of resources	328,424,555	319,251,322	316,065,333
Net position:			
Net investment in capital assets	67,904,111	59,500,553	47,917,384
Restricted	—	—	1,619,691
Unrestricted	2,540,732	3,431,936	9,526,008
Total net position	\$ 70,444,843	62,932,489	59,063,083
Change in fund net position	\$ 7,512,354	3,869,406	

MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER UTILITY FUND

Management's Discussion and Analysis

December 31, 2012 and 2011

The Utility's total assets increased by \$16.7 million in 2012. Net capital assets increased by \$10.1 million due to new plant additions of \$14.9 million and an increase in construction work in progress of \$7.5 million and net cost of removal of \$0.4 million offset by additions to accumulated depreciation of \$12.7 million (see Table 3A and note 3). Current and other assets increased by \$6.6 million.

Total liabilities and deferred inflows of resources increased by \$9.2 million in 2012. Net debt outstanding decreased by \$.1 million due to an increase in long-term loans which offset the reduction in revenue bonds (see table 4 and note 4). Current and other liabilities increased by \$7.5 million. The factors that made up this increase were an \$8.2 million increase in interfund borrowings used for funding capital construction, a \$1.4 million reduction in liabilities payable from restricted assets, and increased payables of \$.7 million. Deferred inflows of resources, which is made up of contributions in aid of construction, increased by \$1.6 million during the year (see note 6).

In 2011, the Utility's total assets and deferred outflows of resources increased by \$7.1 million. Net capital assets increased by \$7.8 million due to new plant additions of \$16.5 million and an increase in construction work in progress of \$3.1 million offset by additions to accumulated depreciation of \$11.8 million (see MD&A Table 3A and note 3). Current and other assets decreased by \$0.8 million due in part by reductions in grants receivable, unbilled reimbursable accounts and unbilled special assessments.

Total liabilities and deferred inflows of resources increased by \$3.2 million in 2011. Net debt outstanding decreased by \$1.5 million due to new debt of \$3.9 million offset by debt principal payments of \$5.4 million (see table 4 and note 4 of this report). Current liabilities, other liabilities, and deferred inflows of resources increased \$4.7 million during the year. Three of the largest factors in this increase were \$6.4 million of interfund borrowings used for funding 2011 capital construction, a \$1.5 million increase in capital acquisition and construction accounts payable and a net decrease in contributions in aid of construction of \$3.7 million (see note 6).

**MUNICIPALITY OF ANCHORAGE, ALASKA
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Management's Discussion and Analysis

December 31, 2012 and 2011

Changes in the Utility's net position can be determined by reviewing the following condensed Summary of Revenues, Expenses, and Changes in Fund Net Position for the years ending December 31, 2012, 2011, and 2010.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues:			
Residential sales	\$ 33,878,486	30,398,907	26,489,266
Commercial sales	10,176,552	8,993,210	8,101,152
Public authorities	1,856,459	1,573,850	1,247,885
Miscellaneous	1,389,887	1,376,893	1,629,028
Nonoperating revenues	72,189	180,978	385,834
Total revenues	<u>47,373,573</u>	<u>42,523,838</u>	<u>37,853,165</u>
Operating expenses:			
Collection system	4,520,969	4,309,836	4,075,193
Treatment	9,812,963	9,729,149	9,648,905
Customer accounts	2,113,900	2,126,436	1,906,061
Administrative and general	7,593,336	7,370,228	7,230,786
Depreciation, net of amortization	7,018,513	6,153,527	5,528,534
Nonoperating expenses	3,459,133	3,710,588	3,704,824
Total expenses	<u>34,518,814</u>	<u>33,399,764</u>	<u>32,094,303</u>
Income before transfers	<u>12,854,759</u>	<u>9,124,074</u>	<u>5,758,862</u>
Transfers:			
Transfer to other funds	<u>(5,342,405)</u>	<u>(5,254,668)</u>	<u>(5,011,065)</u>
Change in fund net position	7,512,354	3,869,406	747,797
Net position - beginning	<u>62,932,489</u>	<u>59,063,083</u>	<u>58,315,286</u>
Net position - ending	<u>\$ 70,444,843</u>	<u>62,932,489</u>	<u>59,063,083</u>

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

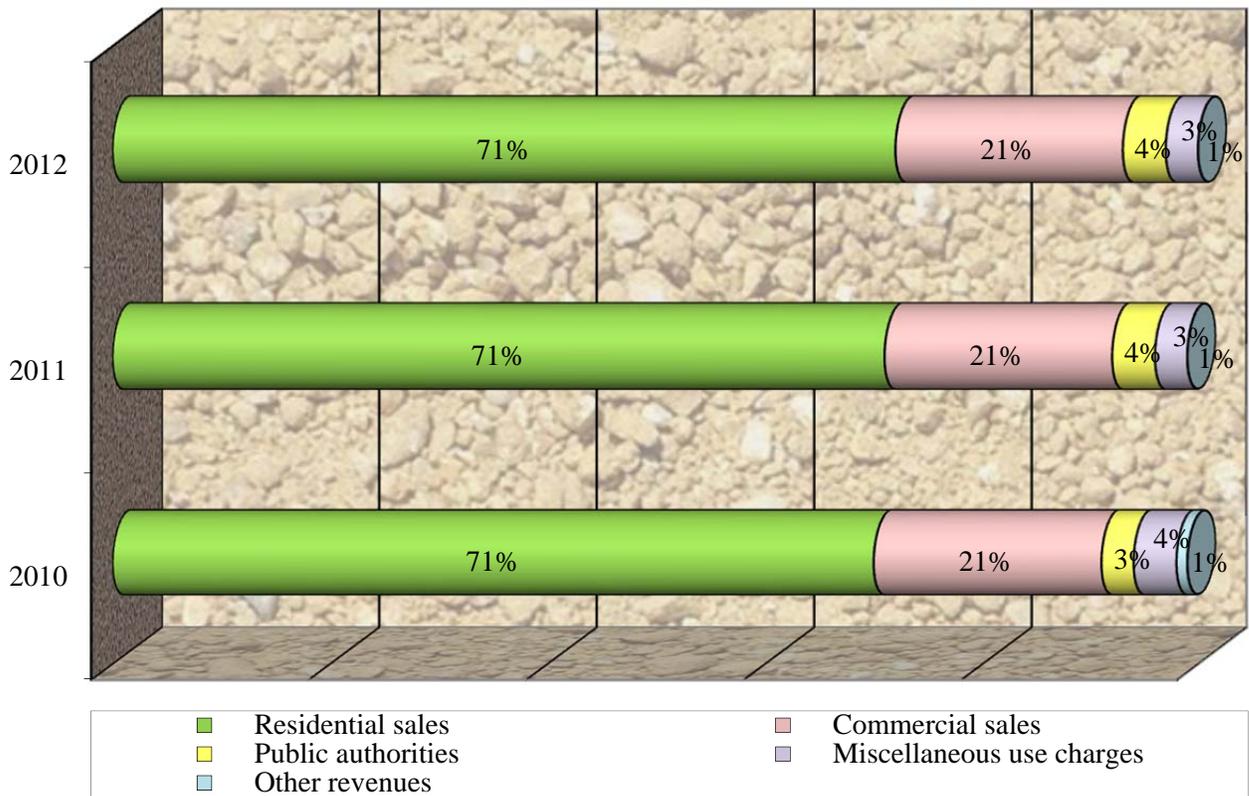
Management's Discussion and Analysis

December 31, 2012 and 2011

During 2012, the net position increased by \$7.5 million. Operating revenues increased by \$5.0 million, primarily due to an 11% rate increase effective January 1, 2012. Non-operating revenues remained relatively stable with a \$0.1 million decrease. A significant portion of this decrease was due to a decrease in investment income from short-term investments, which is a result of reduced liquidity.

The net position increased by \$3.9 million during 2011. Operating revenues increased by \$4.9 million, primarily due to a 15% rate increase effective March 24, 2011. Non-operating revenues remained relatively stable with a \$0.2 million decrease. A significant portion of this decrease was due to a decrease in investment income from short-term investments.

Revenues by Source



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

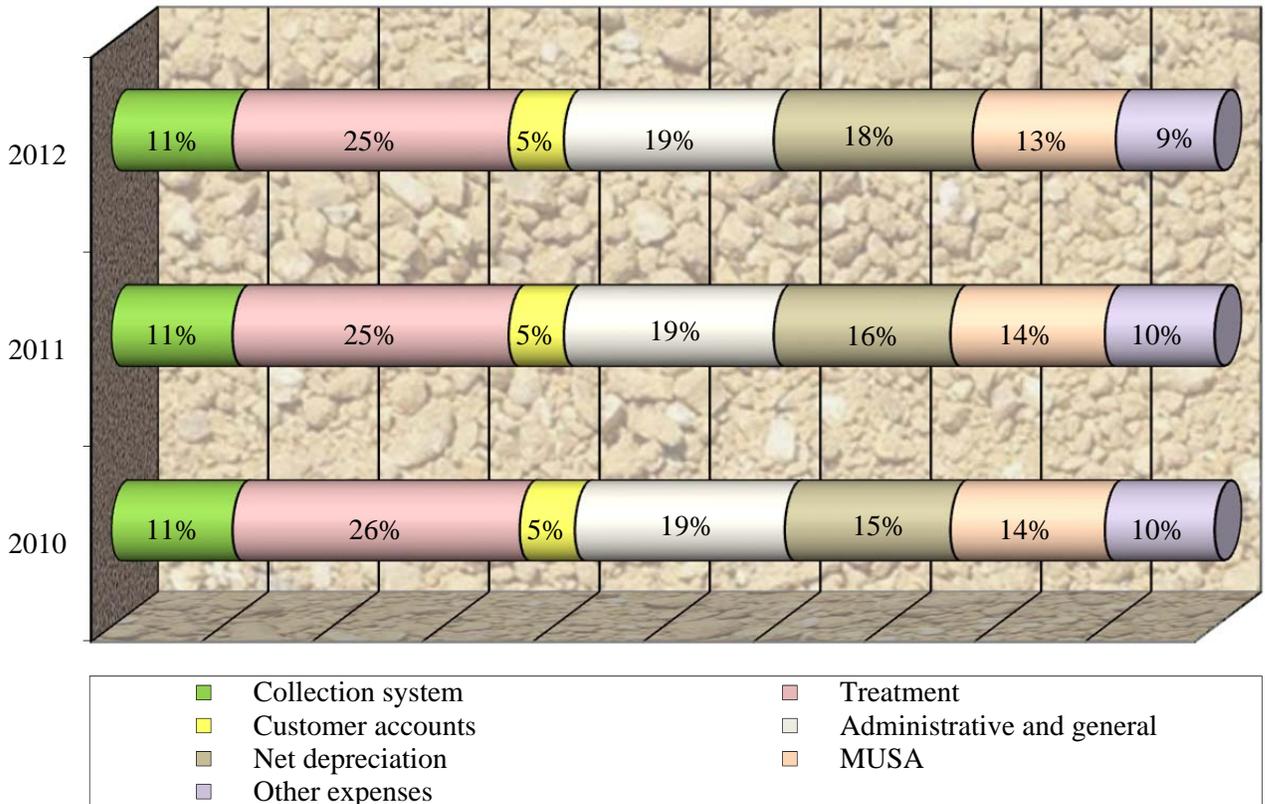
Management's Discussion and Analysis

December 31, 2012 and 2011

Total expenses increased by \$1.1 million in 2012 over 2011, with operating expenses increasing by \$1.4 million and non-operating expenses down by \$0.3 million. Collection, treatment, customer accounts and administrative and general expenses increased by \$0.5 million, and net depreciation expense increased by \$0.9 million. The allowance for funds used during construction (AFUDC) increased by \$0.3 million, which was the primary factor in the reduction in non-operating expenses. The Municipal Utility Service Assessment (MUSA) increased by less than \$0.1 million.

Operating expenses increased by \$1.3 million in 2011. Collection, treatment, customer accounts and administrative and general expenses increased by \$0.7 million, and net depreciation expense increased by \$0.6 million and MUSA expense increased by \$0.2 million. The Municipal Utility Service Assessment (MUSA) increased by \$0.2 million due to the increase in net capital assets and higher mill rates.

Expenses by Source



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

Management's Discussion and Analysis

December 31, 2012 and 2011

Capital Assets and Debt

Capital Assets

The following table summarizes the Utility's net capital assets, as of December 31, 2012, 2011, and 2010.

**Table 3A
Net Capital Assets**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Intangible plant	\$ 3,269,398	584,083	698,170
Collection plant	218,009,254	220,066,096	217,270,796
Treatment & disposal plant	73,317,707	71,392,901	71,266,274
Pumping plant	12,153,208	10,609,259	10,739,110
General plant land	4,203,352	4,203,352	4,203,352
General plant	<u>42,104,638</u>	<u>43,600,397</u>	<u>41,611,633</u>
Net plant in service	353,057,557	350,456,088	345,789,335
Property held for future use	1,379,931	1,379,931	1,379,931
Construction work in progress	<u>21,326,288</u>	<u>13,860,331</u>	<u>10,686,726</u>
Total net capital assets	<u>\$ 375,763,776</u>	<u>365,696,350</u>	<u>357,855,992</u>
Increase in net capital assets	<u>\$ 10,067,426</u>	<u>7,840,358</u>	

Net capital assets increased by \$10.1 million in 2012. The plant categories that increased the most at gross during the year were collection plant, which increased by \$4.2 million, and treatment and disposal plant, which also increased by \$4.2 million. Intangible plant increased by \$2.9 million, general plant increased by \$2.3 million, and pumping plant increased by \$1.3 million (see table 3B).

Construction work in progress had a net increase of \$7.5 million due to additions of \$21.8 million and closures to plant in service of \$14.3 million (see note 3). This significant amount of additions was the cause of the increased allowance for funds used during construction for 2012.

Total net capital assets increased by \$7.8 million in 2011. Collection plant and general plant received the majority of the increase with net additions of \$4.8 million. Intangible plant and treatment plant had net retirements of \$0.1 million.

Construction work in progress had a net increase of \$3.2 million in 2011 due to additions of \$18.4 million netted by closures to plant of \$15.2 million (see note 3).

**MUNICIPALITY OF ANCHORAGE, ALASKA
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Management's Discussion and Analysis

December 31, 2012 and 2011

**Table 3B
Capital Assets, 2012 Major Additions - gross
(amounts expressed in millions)**

<u>Collection plant</u>		<u>Treatment and disposal plant</u>	
Eagle Crossing main ext.	\$ 0.4	AWWTF upgrades	\$ 0.3
Dawn Ridge, Lots 21-24 main ext.	0.2	King St. Grit-Dewatering upgrade	1.3
Midtown Sewer Rehabilitation	1.5	AWWTF Utilidor upgrade	2.2
Northwood 80-Misty sewer upgrade	0.8	Other miscellaneous projects	0.1
Other miscellaneous projects	1.2	Transfers	<u>0.3</u>
Transfers	<u>0.1</u>	Total treatment and disposal plant	<u>\$ 4.2</u>
Total collection plant	<u>\$ 4.2</u>		
 <u>Pumping plant</u>		 <u>General plant</u>	
Sand Lake sewer upgrade ph2	\$ 0.9	MapOptix	\$ 0.3
Pump Station 12 Valve-Pump Replace	0.7	Project delivery system	0.3
Other miscellaneous projects	0.1	Vaccon-CCTV Truck	0.2
Transfers	<u>(0.4)</u>	Pump station 2 Switch gear upgrade	0.4
Total pumping plant	<u>\$ 1.3</u>	Other miscellaneous projects	<u>1.1</u>
		Total general plant	<u>\$ 2.3</u>
 <u>Misc. intangible plant</u>			
Interceptor Condition Assessment	<u>\$ 2.9</u>		
Total misc. intangible plant	<u>\$ 2.9</u>	Total additions	<u>\$ 14.9</u>

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

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

Management's Discussion and Analysis

December 31, 2012 and 2011

Debt

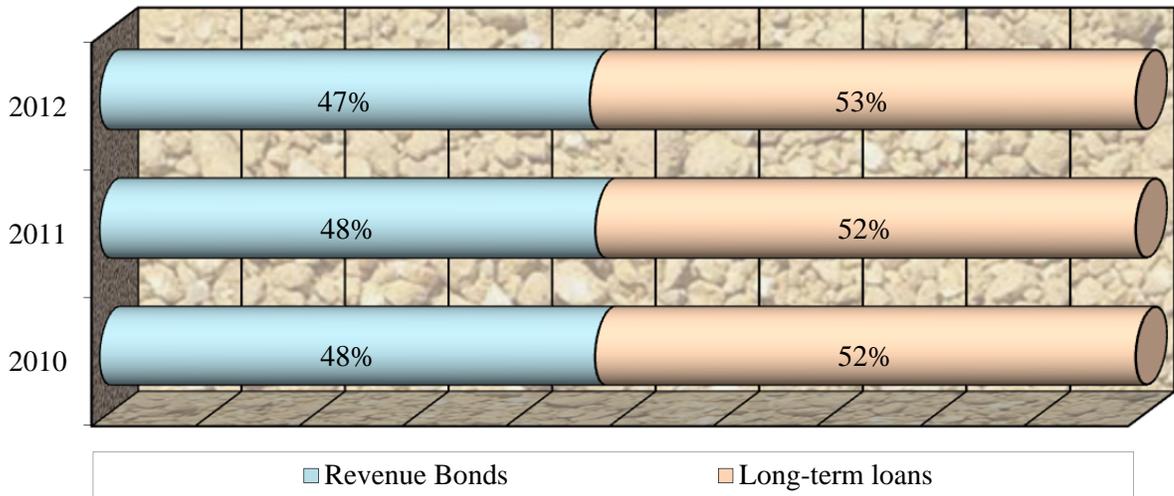
Changes in the Utility's debt are shown in the following table as of December 31, 2012, 2011, and 2010. The table includes only debt having a long-term component.

**Table 4
Net Debt**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenue bonds, net	\$ 65,019,522	65,710,164	66,379,999
Long-term loans	<u>72,276,089</u>	<u>71,489,567</u>	<u>72,301,614</u>
Total net debt	<u>\$ 137,295,611</u>	<u>137,199,731</u>	<u>138,681,613</u>
Increase/(decrease) in net debt	<u>\$ 95,880</u>	<u>(1,481,882)</u>	

The Utility did not issue bonds in either 2012 or 2011, but did receive approximately \$5.7 million and \$3.9 million respectively from the State of Alaska Clean Water Loan Program (see note 4) to finance capital improvements. Bond and loan principal payments totaled \$0.7 million and \$4.9 million, compared to 2011 principal payments of \$0.7 million and \$4.7 million.

Net Debt by Type



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

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

Management's Discussion and Analysis

December 31, 2012 and 2011

Economic Factors and Next Year's Budgets and Rates

Budgetary Matters

The 2013 budget anticipates revenue increases due to the combined effects of a modest customer growth and a rate increase of 4.5% effective January 1, 2013.

Operating expenses for 2013 are budgeted to decrease 1.4% from the 2012 budget due to a 3% budget reduction in labor and non-labor combined with a 2% decrease in MUSA expense and 5% increase in depreciation expense. Interest expense is budgeted to increase 7% over the 2012 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 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

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

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

Statements of Net Position
December 31, 2012 and 2011

Assets

	2012	2011
Capital assets:		
Plant in service, at cost	\$ 578,326,144	564,858,584
Less accumulated depreciation	(225,268,587)	(214,402,496)
Net plant in service	353,057,557	350,456,088
Property held for future use	1,379,931	1,379,931
Construction work in progress	21,326,288	13,860,331
Net capital assets	375,763,776	365,696,350
Non-current assets:		
Unamortized cost of debt issuance [see note 1(a)]	745,428	805,766
Unbilled special assessments	1,928,295	773,095
Other	2,662,915	1,842,488
Total non-current assets	5,336,638	3,421,349
Restricted assets:		
Non-current:		
Customer deposits	319,684	386,243
Total restricted assets	319,684	386,243
Current assets:		
Equity in general cash pool	13,380,641	9,009,753
Accrued interest receivable	—	6,836
Accounts receivable:		
Utility customers, less estimated uncollectibles of \$69,649 in 2012 and \$100,638 in 2011	3,112,981	2,798,032
Other, less estimated uncollectibles of \$1,470 in 2012 and \$5,615 in 2011	364,416	413,172
Special assessments receivable	176,854	84,305
Unbilled reimbursable projects	16,221	10,961
Prepays	32,754	33,013
Inventory of materials and supplies, at average cost	365,433	323,797
Total current assets	17,449,300	12,679,869
Total assets	\$ 398,869,398	382,183,811

See accompanying notes to basic financial statements.

Liabilities, Deferred Inflows of Resources, and Net Position

	2012	2011
Net position:		
Net investment in capital assets	\$ 67,904,111	59,500,553
Unrestricted	2,540,732	3,431,936
Total net position	70,444,843	62,932,489
Non-current liabilities:		
Compensated absences payable	283,527	267,433
Pollution remediation obligation	234,000	244,000
Revenue bonds payable	63,810,000	64,515,000
Less unamortized discounts	(69,148)	(80,676)
Plus unamortized premiums	573,670	605,840
Net revenue bonds payable	64,314,522	65,040,164
Alaska Clean Water Fund loans payable	67,717,767	66,611,494
Total non-current liabilities	132,549,816	132,163,091
Current liabilities:		
Accounts payable	676,265	469,084
Accrued payroll	1,028,839	613,689
Compensated absences payable	890,987	824,491
Accrued interest	1,157,676	1,139,324
Pollution remediation obligation	20,000	20,000
Interfund loan payable to Water Utility Fund	14,669,968	6,445,734
Long-term obligations maturing within one year	5,263,322	5,548,073
Total current liabilities	23,707,057	15,060,395
Liabilities payable from restricted assets:		
Current:		
Capital acquisition and construction accounts	1,283,944	2,645,527
Non-current:		
Customer deposits payable	319,684	386,243
Total liabilities payable from restricted assets	1,603,628	3,031,770
Deferred inflows of resources:		
Contributions in aid of construction, net of amortization	170,564,054	168,996,066
Total liabilities and deferred inflows of resources	328,424,555	319,251,322
Total liabilities, deferred inflows of resources and net position	\$ 398,869,398	382,183,811

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

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

Years ended December 31, 2012 and 2011

	2012	2011
Operating revenues:		
Charges for sales and services:		
Residential sales	\$ 33,878,486	30,398,907
Commercial sales	10,176,552	8,993,210
Public authorities	1,856,459	1,573,850
Total charges for sales and services	45,911,497	40,965,967
Miscellaneous	1,389,887	1,376,893
Total operating revenues	47,301,384	42,342,860
Operating expenses:		
Collection system	4,520,969	4,309,836
Treatment	9,812,963	9,729,149
Customer accounts	2,113,900	2,126,436
Administrative and general	7,593,336	7,370,228
Total operations	24,041,168	23,535,649
Depreciation, net of amortization	7,018,513	6,153,527
Total operating expenses	31,059,681	29,689,176
Operating income	16,241,703	12,653,684
Non-operating revenues (expenses):		
Investment income - short-term investments	53,078	162,308
Interest on long-term obligations	(3,123,131)	(3,149,481)
Allowance for funds used during construction	814,830	533,261
Amortization of bond premium/discount	(11,529)	(12,387)
Amortization of debt expense	(28,167)	(30,247)
Interest expense – other	(1,111,136)	(1,051,734)
Miscellaneous non-operating revenue	19,111	18,670
Total non-operating revenues (expenses)	(3,386,944)	(3,529,610)
Income before transfers	12,854,759	9,124,074
Transfers:		
Transfers to other funds	(5,342,405)	(5,254,668)
Change in fund net position	7,512,354	3,869,406
Net position – beginning	62,932,489	59,063,083
Net position – ending	\$ 70,444,843	62,932,489

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Receipts from customers and users	\$ 46,578,873	43,674,938
Refunds to customers and users	—	(4,997)
Payments to employees	(13,506,730)	(13,947,580)
Payments to vendors	(5,555,121)	(7,148,563)
Internal activity – payments made to other funds	(5,990,339)	(3,136,078)
Net cash provided by operating activities	21,526,683	19,437,720
Cash flows from non-capital and related financing activities:		
Transfers to other funds	(5,342,405)	(5,254,668)
Net cash used by non-capital and related financing activities	(5,342,405)	(5,254,668)
Cash flows from capital and related financing activities:		
Principal payments on long-term obligations	(670,000)	(650,000)
Interest payments on long-term obligations	(4,215,915)	(4,185,777)
Acquisition and construction of capital assets	(21,106,613)	(16,686,462)
Capital contributions – intergovernmental	4,732,912	1,064,506
Capital contributions – customer/special assessments	308,997	344,946
Proceeds from Alaska Clean Water Fund loans	5,729,654	3,895,599
Principal payments on Alaska Clean Water Fund loans	(4,943,132)	(4,707,646)
Proceeds from loan from Water Utility Fund	8,224,234	6,445,734
Net cash used by capital and related financing activities	(11,939,863)	(14,479,100)
Cash flows from investing activities:		
Interest received	59,914	195,692
Net increase (decrease) in cash	4,304,329	(100,356)
Cash, beginning of year	9,395,996	9,496,352
Cash, end of year	\$ 13,700,325	9,395,996
Cash and cash equivalents		
Equity in general cash pool	13,380,641	9,009,753
Customer deposits	319,684	386,243
Cash and cash equivalents, end of year	\$ 13,700,325	9,395,996

See accompanying notes to basic financial statements

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

Statements of Cash Flows, Continued

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 16,241,703	12,653,684
Transfer from escrow account	—	1,619,691
Adjustments to reconcile operating income to net cash provided by operating activities:		
Allowance for uncollectible accounts	(35,134)	6,972
Depreciation, net of amortization	7,018,513	6,153,527
Miscellaneous non-operating revenues	19,111	18,670
Changes in assets and liabilities increasing (decreasing) cash		
Accounts receivable and other receivables	(323,608)	(830,013)
Unbilled reimbursable projects	(5,260)	46,242
Inventories	(41,636)	(49,109)
Customer deposits payable	(66,559)	187,008
Prepays	259	(4,017)
Unbilled special assessments and other non-current assets	(1,975,627)	(593,383)
Accounts payable	207,181	(21,368)
Accrued payroll liabilities	415,150	301,106
Compensated absences payable	82,590	(139,290)
Pollution remediation obligation	(10,000)	88,000
Net cash provided by operating activities	<u>\$ 21,526,683</u>	<u>19,437,720</u>
Non-cash investing, capital and financing activities:		
Contributed capital – private development	\$ 1,018,169	1,238,856
Capital purchases on account, net	47,776	2,154,089
Total non-cash investing, capital and financing activities	<u>\$ 1,065,945</u>	<u>3,392,945</u>

See accompanying notes to basic financial statements

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

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

The Anchorage Wastewater Utility (Utility) began as a fragmented system owned by the City of Anchorage, military, public, and private interests. In the late 1960's the Greater Anchorage Area Borough unified these systems creating the Utility. In the early 1970's the Utility began charging rates and by the mid 1980's evolved into an enterprise fund and now exists as a public utility of the Municipality of Anchorage. The Utility, whose service area is the entire Municipality of Anchorage, serves residential, commercial, and military accounts in metropolitan Anchorage from Eklutna to Girdwood. The Utility's treatment plants in Anchorage, Eagle River and Girdwood operate 24 hours per day, discharging treated wastewater into Cook Inlet, Eagle River and Glacier Creek. The accompanying financial statements include the activities of the Wastewater 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 position 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, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of these funds are included in the Statements of Net Position. Net position is segregated into Net Investment in Capital Assets; Restricted; and Unrestricted.

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

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

(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 deferred inflows of resources. 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 a deferred inflow of resources. 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 Statements of Revenues, Expenses, and Changes in Fund Net Position include AFUDC as an item of other income in a manner that indicates the basis for the amount capitalized. The Utility implemented GASB Statements 63 and 65 in 2012. As a regulated operation, the Utility applied the accounting and reporting requirements applicable to regulated operations to the accounting for debt issuance costs. Accordingly, the Utility's debt issuance costs have been recorded as an asset and are being amortized over the life of the debt.

(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 cash equivalents 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 Outflows of Resources*

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then.

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

(f) *Deferred Inflows of Resources*

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources until that time.

(g) *Property, Plant, and Equipment*

Property, plant, and equipment is stated at cost. To be considered for capitalization, the cost of an asset must equal or exceed \$5,000 and the service life must exceed one year. The Utility's depreciation model is composed of the straight-line method, average life procedure, and remaining life technique. The Utility's depreciation model is approved by the RCA. Additions to wastewater 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:

Collection plant	55 - 85 years
Pumping plant	30 - 45 years
Treatment and disposal plant	25 - 75 years
General plant	5 - 50 years
Intangible plant	10 years

(h) *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.

(i) *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 yet billed. The Utility accrued \$1,290,000 and \$1,250,000 for the years ended December 31, 2012 and 2011, respectively.

(j) *Accrued Leave*

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

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

(k) 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 million and \$0.8 million for the years ended December 31, 2012 and 2011, respectively.

(l) 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. One settled claim exceeded this commercial coverage in 2012 while two claims exceeded this coverage in 2011 and no claims exceeded this coverage in 2010.

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, 2012, claims incurred but not reported included in the liability accounts are \$14,155,429 in the General Liability/Workers' Compensation Fund and the Medical/Dental Self Insurance Fund.

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

Changes in the funds' claim liability amounts in 2012 and 2011 follow:

	Liability Balance January 1	Claims and Changes in Estimates	Claims Payment	Liability Balance December 31
2012:				
General Liability/Workers'				
Compensation	\$ 21,085,683	7,983,278	(12,354,406)	16,714,555
Medical/Dental	7,812,769	51,146,314	(51,930,734)	7,028,349
Unemployment	106,566	458,412	(446,346)	118,632
	<u>\$ 29,005,018</u>	<u>59,588,004</u>	<u>(64,731,486)</u>	<u>23,861,536</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>

At December 31, 2012 the Medical and Dental Self Insurance Fund had unrestricted net position of \$1,096,018, an improvement of \$2,132,089 from 2011. Medical and Dental rates were increased by 11.5% in 2012 to offset the deficit in 2011. At December 31, 2012, the General Liability and Worker's Compensation Fund had negative unrestricted net position of \$1,590,344. Insurance rates will be increased to offset the deficit.

(m) 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.

(n) Interfund Loan Payable – Water Utility 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 Clean Water Fund, the cash pool is reimbursed from these proceeds. As of December 31, 2012, the Municipality of Anchorage Water Utility had an outstanding loan to the Municipality of Anchorage Wastewater Utility for \$14.7 million. The loan will be repaid in full in 2013.

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

(2) Cash and Investments

At December 31, 2012, Anchorage had the following cash and investments, with fixed income maturities as noted:

Investment Type	Fair Value*	Fixed Income Investment Maturities (in years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
Petty Cash	\$ 98,599				
Master Lease Agreement	2,104,181				
Central Treasury - Unrestricted					
Cash & Money Market Funds	8,974,027				
Repurchase Agreements	28,899,991	28,899,991	-	-	-
Commercial Paper	542,294	542,294	-	-	-
U.S. Treasuries	117,932,446	9,968,090	94,631,575	12,351,876	980,905
U.S. Agencies	35,859,264	21,874,386	13,501,462	483,416	-
Asset-Backed Securities**	58,423,918	494,929	22,753,176	14,245,733	20,930,080
Corporate Fixed Income Securities	74,844,939	13,247,946	49,460,822	11,411,786	724,385
Payables	(14,816,273)				
	<u>\$ 310,660,606</u>	<u>\$ 75,027,636</u>	<u>\$ 180,347,035</u>	<u>\$ 38,492,811</u>	<u>\$ 22,635,370</u>
Central Treasury - Restricted					
Cash & Money Market Funds	8,447,658				
Repurchase Agreements	9,802,252	9,802,252	-	-	-
Commercial Paper	9,920,209	9,920,209	-	-	-
U.S. Treasuries	40,000,135	3,380,960	32,096,984	4,189,489	332,702
U.S. Agencies***	57,459,058	51,566,885	5,728,209	163,964	-
Foreign Governments & Agencies	2,761,724	2,761,724	-	-	-
Asset-Backed Securities**	19,816,130	167,869	7,717,386	4,831,845	7,099,030
Corporate Fixed Income Securities	28,904,919	8,012,552	16,776,040	3,870,631	245,696
Payables	(5,025,360)				
	<u>\$ 172,086,725</u>	<u>\$ 85,612,451</u>	<u>\$ 62,318,619</u>	<u>\$ 13,055,929</u>	<u>\$ 7,677,428</u>

* Market value plus accrued income.

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

*** \$31,669,965 in callable 1-5 year notes are expected to be called within the next year and are classified as Less Than 1.

The Utility's unrestricted cash and investments represent 4.3% of the unrestricted Municipal Central Treasury. The Utility's restricted cash and investments represent less than 1% of the restricted Municipal Central Treasury.

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

(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.
- 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.

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

- 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, 2012 and 2011

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 Holding % at December 31, 2012	Internally Managed Portfolio Holding % at December 31, 2012
U.S. Government Securities*	50% to 100% of investment portfolio	42%	63%
Repurchase Agreements	0% to 50% of investment portfolio	27%	13%
Certificates of Deposit**	0% to 50% of investment portfolio Maximum 5% per issuer	0%	0%
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	1%	13%
Corporate Bonds	0% to 15% of investment portfolio Maximum 5% per issuer	10%	5%
Alaska Municipal League Investment Pool (AMLIP)***	0% to 25% of investment portfolio	0%	0%
Money Market Mutual Funds	0% to 25% of investment portfolio	20%	2%
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%	4%
		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.

(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.

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

The effective durations of the externally managed portfolios of the Anchorage Central Treasury (working capital, contingency reserve and strategic reserve) at December 31, 2012, were 0.45 years, 1.68 years, and 3.65 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, 2012, the Anchorage Central Treasury's investment in commercial paper totaled \$10,462,503, 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 \$184,168,245 at December 31, 2012. The distribution of ratings on these securities was as follows:

Moody's		S&P	
Aaa	21%	AAA	17%
Aa	10%	AA	11%
A	23%	A	31%
Baa	20%	BBB	14%
Ba or Lower	0%	BB or Lower	0%
Not Rated	26%	Not Rated	27%
	100%		100%

At December 31, 2012, Anchorage's Central Treasury was invested in Asset Backed Securities and Mortgage Backed Securities valued at \$1,948,319 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.

(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, 2012, Anchorage had no investments in any single issuer exceeding 5% of total investments.

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

December 31, 2012 and 2011

(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, 2012, the Anchorage Central Treasury had bank deposit carrying amounts totaling \$30,312,810, of which \$500,000 was covered by federal depository insurance. Bank deposits of \$2,002,762 were secured by collateral held by a third party and deposits of \$27,810,048 were secured by collateral held at the depositor bank. An additional \$9,620,000 was invested in overnight repurchase agreements and was also collateralized through a tri-party 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. 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, 2012 all debt obligations held in the Anchorage Central Treasury were payable in U.S. Dollars.

The MOA Trust's investment in commingled international equity funds exposes it to exchange risk in various foreign currencies. At December 31, 2012, this investment totaled \$33,479,734 and represented 26% of the Trust's aggregate portfolio.

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

(3) Capital Assets

Capital assets for the year ended December 31, 2012 follow:

	December 31, 2011	Additions	Retirements	December 31, 2012
Intangible plant	\$ 1,077,813	2,861,036	—	3,938,849
Collection plant	361,133,801	4,190,393	(192,005)	365,132,189
Pumping plant	15,060,556	1,334,524	(192,285)	16,202,795
Treatment & disposal plant	120,718,791	4,204,991	—	124,923,782
General plant land	4,203,352	—	—	4,203,352
General plant	<u>62,664,271</u>	<u>2,274,273</u>	<u>(1,013,367)</u>	<u>63,925,177</u>
	564,858,584	14,865,217	(1,397,657)	578,326,144
Less accumulated depreciation	<u>(214,402,496)</u>	<u>(12,699,928)</u>	<u>1,833,837</u>	<u>(225,268,587)</u>
Net plant in service	350,456,088	2,165,289	436,180	353,057,557
Property held for future use	1,379,931	—	—	1,379,931
Construction work in progress	<u>13,860,331</u>	<u>21,797,578</u>	<u>(14,331,621)</u>	<u>21,326,288</u>
	<u>\$ 365,696,350</u>	<u>23,962,867</u>	<u>(13,895,441)</u>	<u>375,763,776</u>

Any transfers of assets between plant categories are reported in the “Additions” column of plant in service along with the additions for the year. There was a total of \$374,879 in transfers for the year ended December 31, 2012, with \$55,000 transferred from pumping plant to collection plant, \$289,614 transferred out of pumping plant into treatment and disposal plant, and \$30,265 that was transferred from one pumping plant account to another pumping plant account. Net auction proceeds, which is the proceeds of the sale of assets less the cost of removal of assets that were retired from service, is reported in the “Retirements” column in the depreciation section. There was \$48,392 in salvage proceeds in 2012. Cost of removal recorded for the year was \$484,572. The Utility’s 2013 construction budget is \$31,863,000.

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

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

	December 31, 2010	Additions	Retirements	December 31, 2011
Intangible plant	\$ 1,172,000	—	(94,187)	1,077,813
Collection plant	352,781,600	8,840,480	(488,279)	361,133,801
Pumping plant	14,941,378	147,634	(28,456)	15,060,556
Treatment & disposal plant	121,960,043	2,422,823	(3,664,075)	120,718,791
General plant land	4,203,352	—	—	4,203,352
General plant	59,536,239	5,077,271	(1,949,239)	62,664,271
	<u>554,594,612</u>	<u>16,488,208</u>	<u>(6,224,236)</u>	<u>564,858,584</u>
Less accumulated depreciation	<u>(208,805,277)</u>	<u>(11,834,635)</u>	<u>6,237,416</u>	<u>(214,402,496)</u>
Net plant in service	345,789,335	4,653,573	13,180	350,456,088
Property held for future use	1,379,931	—	—	1,379,931
Construction work in progress	10,686,726	18,436,136	(15,262,531)	13,860,331
	<u>\$ 357,855,992</u>	<u>23,089,709</u>	<u>(15,249,351)</u>	<u>365,696,350</u>

Any transfers of assets between plant categories are reported in the “Additions” column of plant in service along with the additions for the year. There were no transfers for the year ended December 31, 2011. Net auction proceeds, which is the proceeds of the sale of assets less the cost of removal of assets that were retired from service, is reported in the “Retirements” column in the depreciation section. There were no salvage proceeds in 2011. Cost of removal recorded for the year was \$13,180.

(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 Clean 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. These loans have repayments terms of up to 20 years. In 2012, the Utility obtained additional low interest loans of \$5,729,654.

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 in 2012.

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

Long-term obligations outstanding at December 31, 2012 follow:

Description	Original Issue Date	Total Issue Amount	Interest Rates	Maturity Range	Principal Balance December 31, 2012
Revenue Bonds:					
2004 Wastewater Revenue Bonds	06/10/2004	\$ 22,620,000	3.00 - 5.125%	2007 - 2034	5,315,000
2007 Wastewater Revenue & Refunding Bonds	06/28/2007	59,665,000	4.00 - 5.00%	2008 - 2037	59,200,000
Total Revenue Bonds		82,285,000			64,515,000
Long-Term Loans:					
127041 Pt. Woronzof Phase V	04/26/1993	2,443,128	1.50%	1995 - 2014	306,411
127061 Girdwood Wastewater	04/24/1995	1,565,161	1.50%	1999 - 2018	542,211
127071 Eagle River TID ER-3	10/30/1995	2,073,031	1.50%	1999 - 2018	716,471
127081 Misc Wastewater Projects	05/08/1995	2,071,475	1.50%	2002 - 2021	1,021,144
127091 Chester Creek Pump Stn R&R	06/11/1997	959,587	1.50%	1999 - 2018	334,319
127101 FY97 Misc Wastewater Projects	06/11/1997	2,250,000	1.50%	2009 - 2028	1,800,000
127111 Equipment - Wastewater 1998	01/21/1998	286,051	1.50%	2001 - 2020	125,910
127131 Chester Creek Sewer Trunk Study	04/02/1998	300,127	1.50%	2004 - 2023	165,070
127141 Facility Replace & Rehab Proj 1998	01/21/1998	1,305,252	1.50%	2009 - 2028	1,008,939
127151 Operations Facilities, Phase II	01/21/1998	1,138,248	1.50%	2006 - 2022	567,606
127211 FY99 Misc Small Sewer R&R, Phs I	07/23/2001	1,410,000	1.50%	2003 - 2022	766,046
127271 C-5-7 Trunk Sewer Upgrade	05/19/2003	2,229,617	1.50%	2007 - 2026	1,628,955
127281 Asplund Facility Solids Handling	01/21/2000	4,290,279	1.50%	2002 - 2021	1,934,805
127291 Operations Facility, Phase III	03/18/2003	3,608,588	1.50%	2004 - 2023	2,225,435
127301 Septic System Site Upgrade	01/21/2000	500,000	1.50%	2004 - 2023	274,499
127371 Old Glenn Hwy	02/22/2008	2,000,000	1.50%	2012 - 2031 *	1,900,000
127421 B-4AB Sewer Trunk Upgrade	08/20/2001	2,370,748	1.50%	2003 - 2022	1,180,526
127451 SCADA Sewer	06/18/2004	13,000,000	1.50%	2009 - 2028	10,524,690
127481 Asplund WW Treatment Facility	06/18/2004	4,200,000	1.50%	2006 - 2025	2,869,909
127611 Asplund Facility Utilador	12/05/2012	1,661,823	1.50%	2014 - 2033	1,661,823
127631 Asplund Process Impr	01/30/2008	8,000,000	1.50%	2009 - 2028	6,400,000
127641 (C-F) Interceptor Upgrade	12/16/2009	41,858	1.50%	2010 - 2019 #	29,301
127651 C-2(A,B) Sewer Improvements	08/01/2007	1,700,000	1.50%	2010 - 2029	1,444,996
127661 King-Rovenna Sewer Upgrade	08/01/2007	1,613,129	1.50%	2010 - 2029	1,371,160
127671 C-5-N Campbell Lake	08/07/2007	941,788	1.50%	2010 - 2029	800,520

Loans continued on next page.

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

Description	Original Issue Date	Total Issue Amount	Interest Rates	Maturity Range	Principal Balance December 31, 2012
127691 ER WWTF Gravity Thickener	12/28/2007	201,970	1.50%	2010 - 2029	171,675
127701 Girdwood WWTF Improvements	12/16/2009	4,000,753	1.50%	2012 - 2031 *	4,000,753
127721 San Ernesto Hoyt Upgrade	12/22/2008	404,000	1.50%	2010 - 2029	343,400
127741 Septage Improvements	10/29/2008	1,800,000	1.50%	2011 - 2030	1,620,000
130031 Asplund Improvements	01/18/2008	2,701,000	1.50%	2009 - 2028	2,025,750
130071 Pump Station Upgrade	12/16/2009	3,519,908	1.50%	2013 - 2032 *	3,519,908
130081 Sand Lake Sewer Extension	02/17/2010	600,000	1.50%	2011 - 2030	540,000
130091 Asplund Generator Upgrade	10/16/2008	5,963,373	1.50%	2011 - 2030	5,367,036
130101 Minnesota-Benson Sewer Upgrade	06/16/2009	395,625	1.50%	2009 - 2028	316,500
130131 Arctic 32nd-36th Upgrade	07/09/2008	437,275	1.50%	2009 - 2028	349,820
130171 Asplund Disinfection Study & Upgrade	04/30/2010	615,431	1.50%	2014 - 2033 *	615,431
130191 Pump Station 10 Upgrade	12/12/2008	3,283,217	1.50%	2011 - 2030	2,954,895
130301 Cope Dorbrant Upgrade	09/09/2008	927,746	1.50%	2011 - 2030	834,971
130311 Douglas St Sewer	09/09/2008	117,000	1.50%	2008 - 2027	87,750
130321 ER WWTF Improvements	11/05/2008	4,746,427	1.50%	2010 - 2029	4,098,976
130361 Downtown Sewer Upgrade	10/06/2009	280,000	1.50%	2010 - 2029	238,000
130621 Benson Dawson-Cheechako Upgrade	03/16/2010	447,878	1.50%	2010 - 2029	380,696
130711 Iris Way Sewer Upgrade	03/19/2010	408,359	1.50%	2010 - 2029	347,105
131081 Rovenna Pipe Upgrade	02/07/2010	820,741	1.50%	2014 - 2033	820,741
131091 ER WWTF Clarifier Upgrade	07/22/2011	1,330,806	1.50%	2011 - 2030	1,265,924
131111 Chester Creek Sewer	09/20/2011	420,000	1.50%	2012 - 2031	399,000
131121 HVAC Control System King St	11/21/2012	237,012	1.50%	2012 - 2031	237,012
131391 Sand Lake Area Swr Phase II	11/21/2012	140,000	1.50%	2014 - 2033	140,000
Total Long-Term Loans		<u>95,758,411</u>			<u>72,276,089</u>
Total Long-Term Debt		<u>\$ 178,043,411</u>			<u>\$ 136,791,089</u>

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

10-year repayment schedule.

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

(b) Revenue Bond Coverage Requirements

The Utility's Schedule of Revenue Bond Coverage for the last ten years follows:

Fiscal Year	Revenue (1)	Assessment Collections (2)	Operating Expenses (3)	Amount Available For Debt Service	Current Year Debt Service Requirements (Accrual Basis)			
					Principal	Interest	Total	Coverage (4)
2003	25,318,049	725,096	14,717,225	11,325,920	85,000	284,573	369,573	30.65
2004	26,802,108	886,986	15,821,938	11,867,156	90,000	707,312	797,312	14.88
2005	29,168,118	919,373	16,401,620	13,685,871	90,000	1,365,706	1,455,706	9.40
2006	31,163,232	1,017,357	17,576,955	14,603,634	95,000	1,361,319	1,456,319	10.03
2007	35,566,755	481,651	23,627,253	12,421,153	520,000	1,672,649	2,192,649	5.66
2008	34,954,522	842,664	24,844,546	10,952,640	575,000	3,225,638	3,800,638	2.88
2009	37,346,056	420,981	26,417,349	11,349,688	595,000	3,204,697	3,799,697	2.99
2010	37,853,165	501,616	27,872,010	10,482,771	615,000	3,181,475	3,796,475	2.76
2011	42,523,838	344,946	28,790,317	14,078,467	650,000	3,153,650	3,803,650	3.70
2012	47,373,573	308,997	29,383,573	18,298,997	670,000	3,127,634	3,797,634	4.82

- (1) Excludes interest restricted for construction and interest on advanced grants and includes special items, transfers from other funds and non-operating revenue.
- (2) Assessment collections represent payments made by benefited property owners.
- (3) Excludes depreciation, PERS relief distributed to labor, but includes transfer to other funds (MUSA), as per the 2007 covenants.
- (4) Required Minimum Coverage is 1.15.

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

(c) Debt Service Requirements

Debt service requirements to maturity follow:

<u>Year</u>	<u>Revenue Bonds</u>		<u>Long-Term Loans</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2013	\$ 705,000	3,099,794	4,558,322	1,032,703	9,395,819
2014	730,000	3,069,950	4,880,993	1,036,290	9,717,233
2015	765,000	3,037,578	4,738,158	942,552	9,483,288
2016	800,000	3,002,719	4,749,842	871,479	9,424,040
2017	840,000	2,963,719	4,761,701	800,232	9,365,652
2018 - 2022	5,435,000	14,164,417	22,465,277	2,951,981	45,016,675
2023 - 2027	11,555,000	12,187,282	18,070,227	1,395,565	43,208,074
2028 - 2032	19,175,000	8,512,736	7,730,669	275,079	35,693,484
2033 - 2037	24,510,000	3,186,250	320,900	4,814	28,021,964
	<u>64,515,000</u>	<u>53,224,445</u>	<u>72,276,089</u>	<u>9,310,695</u>	<u>199,326,229</u>
	(705,000)		(4,558,322)		Current Portion of Principal
	(69,148)		—		Unamortized Original Issuance Discount
	573,670		—		Unamortized Original Issuance Premium
	<u>\$ 64,314,522</u>		<u>67,717,767</u>		Total Long-Term Portion

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

(d) Long-Term Obligations

Changes in long-term obligations for the year ending December 31, 2012 follow:

<u>Description</u>	<u>December 31, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2012</u>	<u>Amounts Due Within One Year</u>
Revenue bonds	\$ 65,185,000	—	(670,000)	64,515,000	705,000
Long-term loans	71,489,567	5,729,654	(4,943,132)	72,276,089	4,558,322
Total debt	136,674,567	5,729,654	(5,613,132)	136,791,089	5,263,322
Unamortized premiums	605,840	—	(32,170)	573,670	—
Unamortized discounts	(80,676)	—	11,528	(69,148)	—
Total debt, net	137,199,731	5,729,654	(5,633,774)	137,295,611	5,263,322
Compensated absences	1,091,924	1,599,151	(1,516,561)	1,174,514	890,987
Pollution remediation obligation	264,000	—	(10,000)	254,000	20,000
Total long-term, net	<u>\$ 138,555,655</u>	<u>7,328,805</u>	<u>(7,160,335)</u>	<u>138,724,125</u>	

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

<u>Description</u>	<u>December 31, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2011</u>	<u>Amounts Due Within One Year</u>
Revenue bonds	\$ 65,835,000	—	(650,000)	65,185,000	670,000
Long-term loans	72,301,614	3,895,599	(4,707,646)	71,489,567	4,878,073
Total debt	138,136,614	3,895,599	(5,357,646)	136,674,567	5,548,073
Unamortized premiums	638,062	—	(32,222)	605,840	—
Unamortized discounts	(93,063)	—	12,387	(80,676)	—
Total debt, net	138,681,613	3,895,599	(5,377,481)	137,199,731	5,548,073
Compensated absences	1,231,214	1,373,434	(1,512,724)	1,091,924	824,494
Pollution remediation obligation	176,000	88,000	—	264,000	20,000
Total long-term, net	<u>\$ 140,088,827</u>	<u>5,357,033</u>	<u>(6,890,205)</u>	<u>138,555,655</u>	

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

(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, 2012, the amount of defeased debt outstanding on 2004 revenue bonds amounted to \$14,575,000.

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

(6) Deferred Inflows of Resources

Contributions in Aid of Construction (CIAC) for the years ended December 31, 2012 and 2011 follow:

	December 31, 2011	Additions	Deletions	December 31, 2012
Contributions in Aid of Construction				
Customer:				
Special assessments	\$ 46,025,430	1,498,322	—	\$ 47,523,752
Private development	111,991,954	1,018,169	—	113,010,123
Other	25,980	—	—	25,980
Intergovernmental	142,170,204	4,732,912	—	146,903,116
Paid in capital	6,882,286	—	—	6,882,286
Total CIAC	<u>307,095,854</u>	<u>7,249,403</u>	<u>—</u>	<u>314,345,257</u>
Accumulated Amortization				
Customer	(69,946,633)	(2,960,762)	—	(72,907,395)
Intergovernmental	(63,335,554)	(2,032,425)	—	(65,367,979)
Paid in capital	(4,817,601)	(688,228)	—	(5,505,829)
Total amortization	<u>(138,099,788)</u>	<u>(5,681,415)</u>	<u>—</u>	<u>(143,781,203)</u>
Net CIAC	<u>\$ 168,996,066</u>	<u>1,567,988</u>	<u>—</u>	<u>170,564,054</u>
	December 31, 2010	Additions	Deletions	December 31, 2011
Contributions in Aid of Construction				
Customer:				
Special assessments	\$ 45,936,883	108,884	(20,337)	\$ 46,025,430
Private development	110,822,107	1,238,856	(69,009)	111,991,954
Other	25,980	—	—	25,980
Intergovernmental	143,872,142	672,135	(2,374,073)	142,170,204
Paid in capital	6,882,286	—	—	6,882,286
Total CIAC	<u>307,539,398</u>	<u>2,019,875</u>	<u>(2,463,419)</u>	<u>307,095,854</u>
Accumulated Amortization				
Customer	(67,107,157)	(2,928,822)	89,346	(69,946,633)
Intergovernmental	(63,645,570)	(2,064,057)	2,374,073	(63,335,554)
Paid in capital	(4,129,372)	(688,229)	—	(4,817,601)
Total amortization	<u>(134,882,099)</u>	<u>(5,681,108)</u>	<u>2,463,419</u>	<u>(138,099,788)</u>
Net CIAC	<u>\$ 172,657,299</u>	<u>(3,661,233)</u>	<u>—</u>	<u>168,996,066</u>

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

(7) Net Position

The portion of net position invested in capital assets is comprised of:

	2012	2011
Capital assets, net of depreciation	\$ 375,763,776	365,696,350
Less: Net revenue bonds payable, long-term	64,314,522	65,040,164
Less: Unspent debt proceeds	—	—
Alaska Clean Water loans payable, long-term	67,717,767	66,611,494
Long-term obligations maturing within one year	5,263,322	5,548,073
Contributions in aid of construction, net	170,564,054	168,996,066
Net investment in capital assets	\$ 67,904,111	59,500,553

(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 cost sharing plan that acts as a common investment and administrative agent for political subdivisions within the State of Alaska. Employees hired on or 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.

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/.

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

**(b) Funding Policy and Annual Pension and Post-Employment Healthcare Cost - PERS Tier I-II
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 43 accounting rate.

Detailed contribution rates for the Utility and actuarial methods for the plan for the year ended 2012 follow:

	Employee Rate		Contractual Rate		ARM Board Adopted Rate		GASB 43*	
	<u>1/1 to 6/30/12</u>	<u>7/1 to 12/31/12</u>						
Pension	3.04%	2.97%	9.92%	9.67%	15.10%	15.75%	23.10%	24.95%
Postemployment Healthcare	<u>3.71%</u>	<u>3.78%</u>	<u>12.08%</u>	<u>12.33%</u>	<u>18.39%</u>	<u>20.09%</u>	<u>32.74%</u>	<u>39.93%</u>
Total Contribution Rate	<u>6.75%</u>	<u>6.75%</u>	<u>22.00%</u>	<u>22.00%</u>	<u>33.49%</u>	<u>35.84%</u>	<u>55.84%</u>	<u>64.88%</u>

* This rate uses a 8.00% pension discount rate and a 6.88% healthcare discount rate from 1/1/2012 to 12/31/2012 and disregards future Medical Part D payments.

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

(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 11.49% from January 1 through June 30 and 13.84% between July 1 and December 31, 2012 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 \$23,583,206 as a PERS on-behalf payment. However, 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, 2010 to December 31, 2012 are shown below:

Year	Annual Pension Cost	Annual OPEB Cost	Total Benefit Cost (TBC)	Utility Contributions	% of TBC Contributed
2012	\$ 870,489	\$ 1,110,145	\$ 1,980,634	\$ 1,980,634	100%
2011	943,529	1,061,394	2,004,923	2,004,923	100%
2010	939,471	1,032,965	1,972,436	1,972,436	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	0.51%	0.48%
Death & Disability Benefit	<u>0.20%</u>	<u>0.14%</u>
Total Employer Contribution	<u>8.71%</u>	<u>8.62%</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, 2012 a rate of \$68.39 per full time employee per pay period and \$1.14 per part time hour worked was paid. For pay periods ending after July 1, 2012, a rate of \$71.09 per full time employee per pay period and \$1.18 per part time hour worked was paid.

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

For the year ended December 31, 2012, the Utility contributed \$161,468 to PERS Tier IV for retirement and retiree medical, and it contributed \$71,072 to PERS Tier IV for Health Reimbursement Arrangement on-behalf of its employees. Employee contributions to the plan totaled \$220,497.

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 13.38% 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. On March 29, 2013, the Alaska Supreme Court issued its decision in Plumbers & Pipefitters Local 367 v. Municipality of Anchorage. The decision affirms the Superior Court decision. The Utility included an estimated liability in accrued payroll at December 31, 2012 of \$226,848.

(10) Environmental Issues

Beginning in 1992, in accordance with the State of Alaska Department of Environmental Conservation (ADEC) regulations, the Utility commenced activities to remove two leaking, underground fuel storage tanks and the surrounding contaminated soils. The Utility maintains monitoring wells and, performed soil and groundwater testing at the site. 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 \$160,000 to \$348,000 and multiplied those outlays by their probability of occurring to estimate a pollution remediation obligation of \$254,000. The potential for a material change in the estimate is possible depending upon the response received from ADEC.

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

Notes to Basic Financial Statements

December 31, 2012 and 2011

(11) Regulatory Matters

(a) 2010 Test Year / 2012 Rates

On November 4, 2011, the Utility filed a revenue requirement study requesting an interim refundable rate increase of 11.0% 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.

(b) 2011 Test Year / 2013 Rates

On November 14, 2012, the Utility filed a revenue requirement study requesting an interim refundable rate increase of 4.5% to become effective January 1, 2013. On December 21, 2012, the RCA issued a letter order approving the requested rate increase on a permanent basis without suspension into a docket for further investigation.

(12) Interfund Transfers

The composition of interfund transfers for the year ended December 31, 2012 follows:

<u>Description</u>	<u>Amount</u>
Transfer to other funds:	
Municipal utility service assessment	\$ <u>5,342,405</u>

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>5,254,668</u>

(13) Wastewater Treatment Facilities Discharge Permits

The State of Alaska Department of Environmental Conservation (ADEC) assumed authority for permitting wastewater discharges for the Girdwood and Eagle River Wastewater Treatment Facilities (WWTF) in November 2008. The Eagle River WWTF permit is administratively extended pending reissuance by ADEC. ADEC is working on the renewal and expects to issue a draft permit for the Utility in mid-2013. The Girdwood WWTF permit is also administratively extended pending reissuance by ADEC. The Utility is working closely with ADEC to ensure that a proposed upgrade to the Girdwood WWTF is consistent with terms and conditions of the new permit, when it is reissued.

MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2012 and 2011

Authorization of discharge into marine waters from the Asplund WWTF under the provisions of Section 301(h) of the Clean Water Act remains under the auspices of the U.S. Environmental Protection Agency (EPA). EPA is currently evaluating the Utility's application for reauthorization of the permit. The renewal process includes an evaluation by EPA to determine whether Asplund continues to meet the Clean Water Act criteria necessary to reissue a permit with a 301(h) modification allowing only primary treatment. The tentative determination from this evaluation has not been published, but could be released in mid-2013 for public comment prior to a final decision. Subsequent to a positive determination, EPA is required to consult with the National Marine Fisheries Service (NMFS) on the effects of the permit reauthorization on endangered species (i.e., the Cook Inlet beluga whale). If NMFS finds that the discharge reauthorization is likely to jeopardize continued existence of the species or adversely modify critical habitat, NMFS may impose conditions on the permit to mitigate the effects on the species. Discussions with federal agencies to date suggest that such a finding is unlikely.

(14) Subsequent Events

Subsequent to December 31, 2012, the Utility received authorization for up to \$60 million in short term loans for capital construction projects to be drawn as needed. In March 2013, the Utility received the first draw on the short term loan for \$13.7 million. In addition, the Utility received \$2,240,073 in loans from the State of Alaska Clean Water Fund also for capital construction projects.

(15) New Accounting Pronouncements

(a) *GASB 67 Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*

The objective of this standard is to improve financial reporting by state and local governmental pension plans. This standard results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this standard will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. Effective for the year ending December 31, 2014.

(b) *GASB 68 Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*

The primary objective of this standard is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This standard results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. Effective for the year ending December 31, 2015.

STATISTICAL SECTION

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

Statistical Section (unaudited)

Financial Ratios

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Financial ratios:					
Current ratio (current assets / current liabilities)	0.74	0.84	1.32	1.10	2.74
Quick ratio (quick assets / current liabilities)	0.72	0.82	1.29	1.09	2.68
Return on investment (change in net position / total assets)	1.71%	0.83%	0.02%	0.80%	0.20%
Return on equity (change in net position / net position)	9.50%	4.89%	0.10%	4.90%	1.20%
Debt to equity as a percent of capital structure (outstanding debt / capital structure over net position / capital structure)	<u>66%</u> 34%	<u>68%</u> 32%	<u>69%</u> 31%	<u>68%</u> 32%	<u>66%</u> 34%
Operating margin (operating income / operating revenues)	34%	30%	24%	27%	20%
Revenue bond debt coverage (amount available for revenue bond debt service / revenue bond principal & interest)	4.82	3.70	2.76	2.99	2.88
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)	3.12%	3.14%	3.14%	3.36%	3.62%

MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER UTILITY FUND

Statistical Section (unaudited)

Table 1

Average Number of Accounts

<u>Customer Type</u>	<u>2012</u>	<u>2011 ⁽¹⁾</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Residential	52,569	52,438	52,257	52,159	52,054
Commercial	3,682	3,669	3,641	3,624	3,581
Total	<u>56,251</u>	<u>56,107</u>	<u>55,898</u>	<u>55,783</u>	<u>55,635</u>
Growth rate	0.26%	0.37%	0.21%	0.27%	

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

MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER UTILITY FUND

Statistical Section (unaudited)

Table 2

Current Wastewater Rates

<u>Type of Service</u>	<u>2012⁽¹⁾</u>	<u>2011⁽²⁾</u>	<u>2010⁽³⁾</u>	<u>2009⁽⁴⁾</u>	<u>2008⁽⁵⁾</u>
Metered:					
Customer charge (per account)	\$ 7.14	6.43	5.59	5.45	5.12
Residential usage (per 1,000 gallons)	4.73	4.26	3.70	3.61	3.39
Commercial – low strength (TSS≤ 275 mg/L)	4.15	3.74	3.25	3.17	2.98
Commercial – medium strength (TSS between 275 and 450mg/L)	5.52	4.97	4.32	4.21	3.95
Commercial – high strength (TSS>450 mg/L)	6.44	5.80	5.04	4.92	4.62
Unmetered:					
Customer charge (per account)	7.14	6.43	5.59	5.45	5.12
Residential charge, including I&I charge (per unit)	30.21	27.22	23.67	23.09	21.68
Commercial, including I&I charge (depends on activity)	9.95 to 843.41	8.96 to 759.83	7.79 to 660.72	7.60 to 644.60	7.14 to 605.26

⁽¹⁾ Rates effective 1/1/12.

⁽²⁾ Rates effective 3/24/11. Rate increase of 11.75% was approved by the Regulatory Commission of Alaska (RCA) effective 1/1/11 through 3/23/11. A permanent rate increase of 15% was approved by the RCA effective 3/24/11, which is reflected in the 2011 column above.

⁽³⁾ Rates effective 1/1/10.

⁽⁴⁾ Rates effective 1/1/09.

⁽⁵⁾ Rates effective 8/8/08, per TA119-126 and docket U-05-103(17). As a result of the cost of service study and rate design, separate I&I charges have been eliminated.

MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER UTILITY FUND

Statistical Section (unaudited)

Table 3

Revenues and Expenses - Budget to Actual

	2012 Budget	2012 Actual	Variance On Budget
Operating revenues:			
Residential sales	\$ 33,872,000	33,878,486	6,486
Commercial sales	9,742,200	10,176,552	434,352
Public authorities	1,805,200	1,856,459	51,259
Miscellaneous service	1,559,600	1,389,887	(169,713)
Total operating revenues	<u>46,979,000</u>	<u>47,301,384</u>	<u>322,384</u>
Nonoperating revenues:			
Investment income - short-term investments	120,000	53,078	(66,922)
Miscellaneous non-operating revenue	—	19,111	19,111
Total non-operating revenue	<u>120,000</u>	<u>72,189</u>	<u>(47,811)</u>
Total revenues	<u>\$ 47,099,000</u>	<u>47,373,573</u>	<u>274,573</u>
Expenses:			
Collection system:			
Operations	\$ 1,628,900	1,544,646	84,254
Maintenance	3,184,645	2,976,323	208,322
Total collection system expense	<u>4,813,545</u>	<u>4,520,969</u>	<u>292,576</u>
Treatment:			
Operations	10,248,000	8,646,576	1,601,424
Maintenance	1,118,700	1,166,387	(47,687)
Total treatment expense	<u>11,366,700</u>	<u>9,812,963</u>	<u>1,553,737</u>
Customer accounts	2,400,155	2,113,900	286,255
Administrative and general	9,272,600	7,593,336	1,679,264
Depreciation, net of amortization	7,600,000	7,018,513	581,487
Total operating expenses	<u>35,453,000</u>	<u>31,059,681</u>	<u>4,393,319</u>
Other expenses:			
Transfers to other funds	5,500,000	5,342,405	157,595
Interest on long-term obligations	4,830,000	4,234,267	595,733
Amortization of debt expense	100,000	39,696	60,304
Allowance for funds used during construction	(380,000)	(814,830)	434,830
Total other expenses	<u>10,050,000</u>	<u>8,801,538</u>	<u>1,248,462</u>
Total expenses	<u>45,503,000</u>	<u>39,861,219</u>	<u>5,641,781</u>
Increase in net position	<u>\$ 1,596,000</u>	<u>7,512,354</u>	<u>5,916,354</u>

MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER UTILITY FUND

Statistical Section (unaudited)

Table 4

Debt Principal by Issue

Description	Original Issue Date	Total Issue Amount	Principal Balance 12/31/2011	2012 New Debt	2012 Principal Payments	Principal Balance 12/31/2012	Current Portion
Revenue Bonds							
2004 Wastewater Revenue Bonds	06/10/04	22,620,000	5,810,000	—	495,000	5,315,000	520,000
2007 Wastewater Revenue & Refunding Bonds	06/28/07	59,665,000	59,375,000	—	175,000	59,200,000	185,000
Total Revenue Bonds		82,285,000	65,185,000	—	670,000	64,515,000	705,000
Alaska Clean Water (ACW) Loans							
127011 - Eagle River STP	10/10/1989	7,718,497	406,423	—	406,423	—	—
127041 - Pt. Woronzof Phase V	03/02/1993	2,443,128	456,229	—	149,818	306,411	152,065
127061 - Girdwood Wastewater	05/28/1998	1,565,161	857,963	—	85,752	542,211	87,039
127071 - Eagle River TID ER-3	08/03/2000	2,073,031	829,783	—	113,312	716,471	115,012
127081 - Misc Wastewater Projects	05/08/1996	2,071,475	1,126,387	—	105,243	1,021,144	106,822
127091 - Chester Creek Pump Stn R&R	03/02/2000	959,587	387,193	—	52,874	334,319	53,667
127101 - FY97 Misc Wastewater Projects	08/09/2002	2,250,000	1,912,500	—	112,500	1,800,000	112,500
127111 - Equipment - Wastewater 1998	12/02/1999	286,051	140,621	—	14,711	125,910	14,931
127131 - Chester Creek Sewer Trunk Study	03/11/2005	300,127	180,076	—	15,006	165,070	15,006
127141 - Facility Replace & Rehab Proj 1998	03/20/2003	1,305,252	1,071,998	—	63,059	1,008,939	63,059
127151 - Operations Facilities, Phase II	06/06/2001	1,138,248	624,367	—	56,761	567,606	56,761
127161 - Wastewater Data Processing	05/29/2002	1,182,000	236,400	—	236,400	—	—
127211 - FY99 Misc Small Sewer R&R, Phs I	07/23/2002	1,410,000	836,563	—	70,517	766,046	71,575
127271 - C-5-7 Trunk Sewer Upgrade	07/27/2004	2,229,617	1,732,828	—	103,873	1,628,955	105,431
127281 - Asplund Facility Solids Handling	01/02/2002	4,290,279	2,149,783	—	214,978	1,934,805	214,978
127291 - Operations Facility, Phase III	03/18/2004	3,608,588	2,427,747	—	202,312	2,225,435	202,312
127301 - Septic System Site Upgrade	08/27/2002	500,000	299,453	—	24,954	274,499	24,954
127371 - Old Glen Hwy	02/22/2008	2,000,000	2,000,000	—	100,000	1,900,000	100,000
127421 - B-4AB Sewer Trunk Upgrade	02/04/2003	2,370,748	1,298,579	—	118,053	1,180,526	118,053
127451 - SCADA Sewer	10/11/2004	13,000,000	11,182,483	—	657,793	10,524,690	657,793
127481 - Asplund WW Treatment Facility	10/08/2004	4,200,000	3,068,514	—	198,604	2,869,910	201,583
127611 - Asplund Facility Utilador	12/05/2012	1,661,823	—	1,661,823	—	1,661,823	—
127631 - Asplund Process Impr	01/30/2008	8,000,000	6,800,000	—	400,000	6,400,000	400,000
127641 - C-F Interceptor Upgrade	12/16/2009	41,858	33,487	—	4,186	29,301	4,186
127651 - C-2(A,B) Sewer Improvements	08/01/2007	1,700,000	1,529,996	—	85,000	1,444,996	85,000
127661 - King-Rovenma Sewer Upgrade	08/01/2007	1,613,129	1,451,816	—	80,656	1,371,160	80,656
127671 - C-5-N Campbell Lake	08/07/2007	941,788	847,609	—	47,089	800,520	47,089
127691 - ER WWTF Gravity Thickener	12/28/2007	201,970	181,773	—	10,099	171,674	10,099
127701 - Girdwood WWTF Improvements	12/16/2009	4,000,753	1,260,929	2,739,824	—	4,000,753	—
127721 - San Ernesto Hoyt Upgrade	12/22/2008	404,000	363,600	—	20,200	343,400	20,200
127741 - Septage Improvements	10/29/2008	1,800,000	1,710,000	—	90,000	1,620,000	90,000
130031 - Asplund Improvements	01/18/2008	2,701,000	2,160,800	—	135,050	2,025,750	135,050
130071 - Pump Station Upgrade	12/16/2009	3,519,908	3,332,118	187,790	—	3,519,908	175,995
130081 - Sand Lake Swr Extension Proj.	02/17/2010	600,000	570,000	—	30,000	540,000	30,000
130091 - Asplund Generator Upgrade	10/16/2008	5,963,373	5,665,204	—	298,169	5,367,035	298,169
130101 - Minnesota-Benson Swr Upgrd	06/16/2009	395,625	336,281	—	19,781	316,500	19,781
130131 - Arctic 32nd-36th Upgrade	07/09/2008	437,275	371,684	—	21,864	349,820	21,864
130171 - Asplund Disinfection Study & Upgrd	04/30/2010	615,431	34,044	581,387	—	615,431	—
130191 - Pump Station 10 Upgrade	12/12/2008	3,283,217	3,119,056	—	164,161	2,954,895	164,161
130301 - Cope Dorbrant Upgrade	09/09/2008	927,746	881,359	—	46,387	834,972	46,387
130311 - Douglas St Sewer	09/09/2008	117,000	93,600	—	5,850	87,750	5,850
130321 - ER WWTF Improvements	11/05/2008	4,746,427	4,298,874	39,105	239,003	4,098,976	241,116
130361 - Downtown Sewer Upgrade	10/06/2009	280,000	252,000	—	14,000	238,000	14,000
130621 - Benson Dawson-Cheechako Upgrd	03/16/2010	447,878	403,090	—	22,394	380,696	22,394
130711 - Iris Way Sewer Upgrade	03/19/2010	408,359	367,523	—	20,418	347,105	20,418
131081 - Rovenma Pipe Upgrade	02/17/2010	820,741	711,191	109,550	—	820,741	41,037
131091 - ER WWTF Clarifier Upgrade	07/22/2011	1,330,806	1,297,643	33,163	64,882	1,265,924	66,628
131111 - Chester Creek Sewer	09/20/2011	420,000	420,000	—	21,000	399,000	21,000
131121 HVAC Control System King St	11/21/2012	237,012	—	237,012	—	237,012	23,701
131391 - Sand Lake Area Swr Phase II	11/21/2012	140,000	—	140,000	—	140,000	—
Total ACW Loans		104,658,908	71,489,567	5,729,654	4,943,132	72,276,089	4,558,322
Total Long-Term Debt		\$ 186,943,908	136,674,567	5,729,654	5,613,132	136,791,089	5,263,322

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

Statistical Section (unaudited)

Table 5

Capital Improvement Program
(amounts expressed in thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	Six Year Total
Project category:							
Equipment	\$ 2,757	2,971	3,207	3,313	2,720	2,591	17,559
Plant	22,491	18,711	17,249	14,539	7,756	4,521	85,267
Pipe	<u>6,615</u>	<u>10,181</u>	<u>12,889</u>	<u>16,348</u>	<u>24,674</u>	<u>28,888</u>	<u>99,595</u>
Total	<u>31,863</u>	<u>31,863</u>	<u>33,345</u>	<u>34,200</u>	<u>35,150</u>	<u>36,000</u>	<u>202,421</u>
Source of funding:							
Debt	22,863	20,863	27,345	29,200	29,150	28,000	157,421
Equity	3,000	5,000	4,000	3,000	4,000	6,000	25,000
Grants	<u>6,000</u>	<u>6,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>20,000</u>
Total	<u>\$ 31,863</u>	<u>31,863</u>	<u>33,345</u>	<u>34,200</u>	<u>35,150</u>	<u>36,000</u>	<u>202,421</u>

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

Statistical Section (unaudited)

Table 6

Production Comparison by Facility
(amounts expressed in millions of gallons per day)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Wastewater treatment facility (WWTF) system data:					
Asplund WWTF:					
Minimum daily flow	22.3	20.2	16.7	20.9	25.2
Maximum daily flow	50.2	41.6	39.1	45.3	38.4
Average daily flow	27.7	25.0	26.9	28.0	29.2
Peak Flow	65.5	58.5	58.5	71.1	57.0
Yearly Total (mg)	10,128.4	9,120.1	9,802.4	10,233.5	10,682.2
Eagle River WWTF:					
Minimum daily flow	0.7	0.9	0.8	1.1	1.3
Maximum daily flow	2.1	2.1	1.8	2.1	2.0
Average daily flow	1.4	1.3	1.3	1.4	1.5
Peak Flow	4.4	4.4	3.7	3.3	3.8
Yearly Total (mg)	526.6	488.1	480.9	523.9	545.7
Girdwood WWTF:					
Minimum daily flow	0.2	0.3	0.2	0.2	0.2
Maximum daily flow	1.4	1.9	1.2	1.8	1.7
Average daily flow	0.5	0.5	0.4	0.4	0.5
Peak Flow	2.2	2.2	N/A	N/A	N/A
Yearly Total (mg)	164.5	169.2	148.1	153.1	197.8
Miles of line:					
Interceptors	45	45	45	45	45
Trunks	83	83	83	83	82
Laterals	634	624	623	623	616
Total	<u>762</u>	<u>752</u>	<u>751</u>	<u>751</u>	<u>743</u>
	Current Capacity				
Source ⁽¹⁾ :					
Asplund WWTF	58.00				
Eagle River WWTF	2.50				
Girdwood WWTF	0.60				
Total	<u>61.10</u>				

⁽¹⁾ Max design capacity

MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER UTILITY FUND

Statistical Section (unaudited)

Table 7

Detailed Schedule of Wastewater Plant in Service
(amounts expressed in thousands)

	Wastewater Plant			Balance 12/31/2012
	Balance 01/01/2012	Additions	Retirements	
Wastewater plant in service:				
Tangible plant:				
Collection plant:				
Laterals	\$ 227,311	3,120	(192)	230,239
Trunks	72,261	973	—	73,234
Interceptors	44,393	8	—	44,401
Lift stations	17,169	89	—	17,258
Pumping plant:				
Structures & improvements	9,004	—	—	9,004
Receiving wells	3,016	(375)	—	2,641
Electric pumping equipment	3,041	1,709	(192)	4,558
Treatment and disposal plant:				
Treatment plant	57,455	2,198	—	59,653
Treatment & disposal equipment	49,706	2,008	—	51,714
Effluent tunnel-plant sewer	11,238	—	—	11,238
Outfall sewer lines	2,319	—	—	2,319
Land and land rights	4,203	—	—	4,203
General plant:				
Structures & improvements	24,584	81	(7)	24,658
Office furniture	173	—	(13)	160
Office equipment	41	—	(41)	—
Computer equipment	10,776	1,276	(808)	11,244
Vehicles (light duty)	1,760	157	—	1,917
Transportation equipment (heavy duty)	3,696	235	—	3,931
Stores equipment	263	—	—	263
Tools, shop, & garage equipment	509	48	(100)	457
Laboratory equipment	70	—	(45)	25
Power operated equipment	264	89	—	353
Communication equipment	20,198	388	—	20,586
Miscellaneous equipment	331	—	—	331
Total tangible plant	563,781	12,004	(1,398)	574,387
Intangible plant:	1,078	2,861	—	3,939
Total wastewater plant in service	564,859	14,865	(1,398)	578,326
Utility plant acquisition adjustment	—	—	—	—
Property held for future use	1,380	—	—	1,380
Construction work in progress	13,860	21,798	(14,332)	21,326
Total wastewater plant	\$ 580,099	36,663	(15,730)	601,032

MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER UTILITY FUND

Statistical Section (unaudited)

Table 7 (continued)

Detailed Schedule of Depreciation and Amortization

(amounts expressed in thousands)

	Accumulated Depreciation and Amortization				Net Book Value of Plant
	Balance		Balance		
	01/01/2012	Additions	Retirements	12/31/2012	
Wastewater plant in service:					
Tangible plant:					
Collection plant:					
Laterals	\$ 83,691	4,115	(204)	87,602	142,637
Trunks	27,608	1,142	—	28,750	44,484
Interceptors	17,803	564	—	18,367	26,034
Lift stations	11,967	437	—	12,404	4,854
Pumping plant:					
Structures & improvements	3,217	138	—	3,355	5,649
Receiving wells	522	(406)	—	116	2,525
Electric pumping equipment	712	59	(192)	579	3,979
Treatment and disposal plant:					
Treatment plant	18,540	721	(473)	18,788	40,865
Treatment & disposal equipment	25,241	1,827	—	27,068	24,646
Effluent tunnel-plant sewer	3,493	171	—	3,664	7,574
Outfall sewer lines	2,051	35	—	2,086	233
Land and land rights	—	—	—	—	4,203
General plant:					
Structures & improvements	6,463	468	(7)	6,924	17,734
Office furniture	159	—	(12)	147	13
Office equipment	41	—	(41)	—	—
Computer equipment	3,008	1,665	(808)	3,865	7,379
Vehicles (light duty)	780	32	36	848	1,069
Transportation equipment (heavy duty)	3,223	228	13	3,464	467
Stores equipment	198	8	—	206	57
Tools, shop, & garage equipment	419	19	(100)	338	119
Laboratory equipment	70	—	(45)	25	—
Power operated equipment	140	17	—	157	196
Communication equipment	4,504	1,265	—	5,769	14,817
Miscellaneous equipment	58	19	—	77	254
Total tangible plant	<u>213,908</u>	<u>12,524</u>	<u>(1,833)</u>	<u>224,599</u>	<u>349,788</u>
Intangible plant	494	176	—	670	3,269
Total wastewater plant in service	<u>214,402</u>	<u>12,700</u>	<u>(1,833)</u>	<u>225,269</u>	<u>353,057</u>
Utility plant acquisition adjustment	—	—	—	—	—
Property held for future use	—	—	—	—	1,380
Construction work in progress	—	—	—	—	21,326
Total wastewater plant	<u>\$ 214,402</u>	<u>12,700</u>	<u>(1,833)</u>	<u>225,269</u>	<u>375,763</u>

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Wastewater Utility Fund, an enterprise fund of the Municipality of Anchorage, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Wastewater Utility Fund's basic financial statements, and have issued our report thereon dated May 24, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Wastewater Utility Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Wastewater Utility Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Wastewater Utility Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Wastewater Utility Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mikunda, Cottrell & Co.

Anchorage, Alaska
May 24, 2013