



Municipality of Anchorage, Alaska
Wastewater Utility Fund

Basic Financial Statements
and Other Information

December 31, 2014 and 2013
(with independent Auditor's Report Thereon)



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

Basic Financial Statements and Other Information

December 31, 2014 and 2013

(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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Wastewater Utility'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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wastewater Utility Fund, as of December 31, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of 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, 2014 and 2013, the changes in its financial position, or where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-13 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Wastewater Utility Fund's basic financial statements. The statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The statistical section 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2015 on our consideration of the Wastewater Utility Fund'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 the 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 the Wastewater Utility Fund's internal control over financial reporting and compliance.

BDO USA, LLP

Anchorage, Alaska
May 22, 2015

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

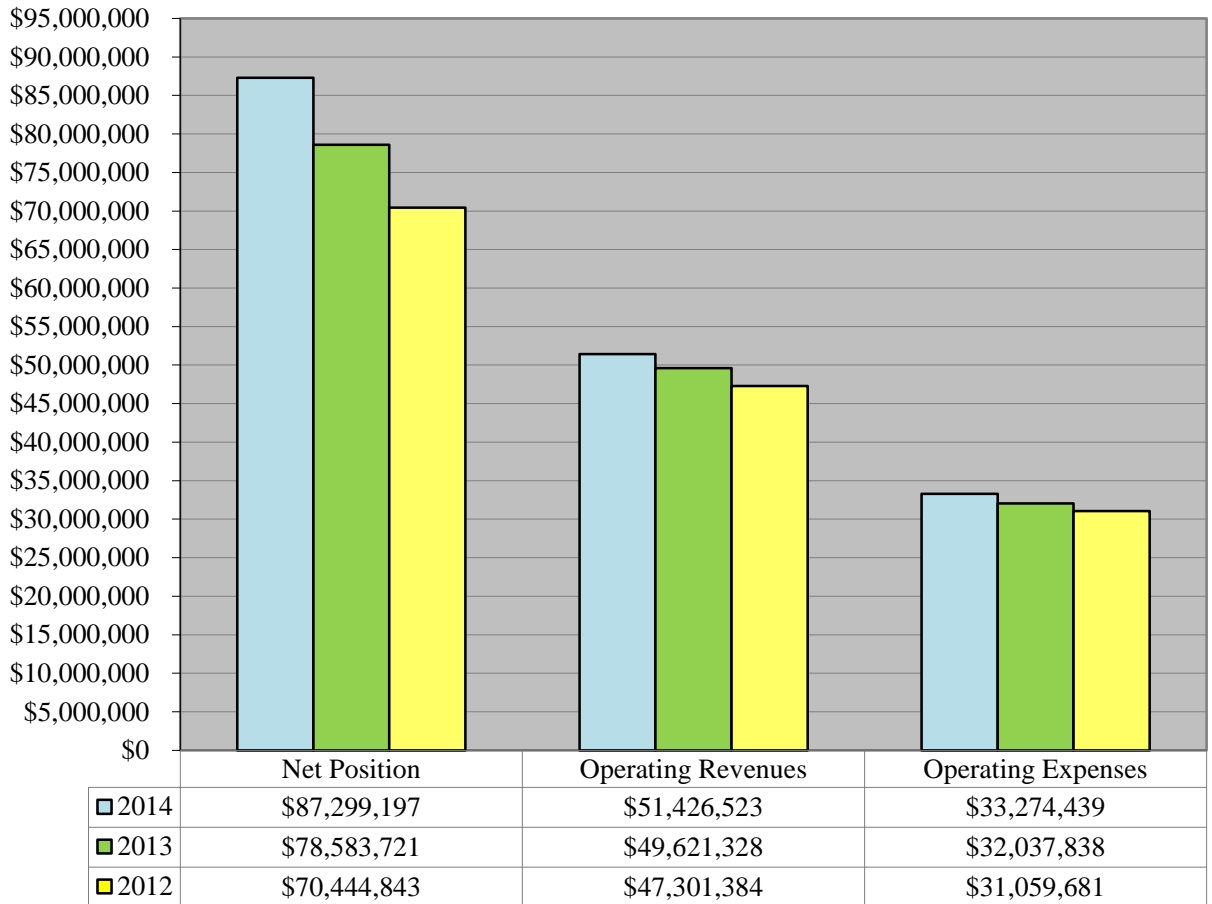
Management's Discussion and Analysis

December 31, 2014 and 2013

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, 2014 and 2013. Please read it in conjunction with the Utility's financial statements.

Financial Highlights

- Net capital assets increased by \$4,430,000, or 1% in 2014 and \$7,750,000, or 2% in 2013.
- Net position increased by \$8,720,000, or 11% in 2014 and \$8,140,000, or 12% in 2013.
- Operating revenues increased by \$1,810,000, or 4% in 2014 and \$2,320,000, or 5% in 2013.
- Operating expenses increased by \$1,240,000, or 4% in 2014 and \$980,000, or 3% in 2013.



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

Management's Discussion and Analysis

December 31, 2014 and 2013

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, 2014 and 2013

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, 2014, 2013, and 2012. 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**

	2014	2013	2012
Assets:			
Net capital assets	\$ 387,943,397	383,514,038	375,763,776
Current and other assets	39,599,558	32,942,997	23,105,622
Total assets	427,542,955	416,457,035	398,869,398
Liabilities and deferred inflows of resources:			
Net debt outstanding	163,919,960	161,971,644	137,295,611
Current and other liabilities	8,296,557	5,887,895	20,564,890
Deferred inflows of resources	168,027,241	170,013,775	170,564,054
Total liabilities and deferred inflows of resources	340,243,758	337,873,314	328,424,555
Net position:			
Net investment in capital assets	58,308,145	53,654,012	67,904,111
Restricted	1,757,531	—	—
Unrestricted	27,233,521	24,929,709	2,540,732
Total net position	\$ 87,299,197	78,583,721	70,444,843
Change in fund net position	\$ 8,715,476	8,138,878	

MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER UTILITY FUND

Management's Discussion and Analysis

December 31, 2014 and 2013

The Utility's total assets increased by \$11.1 million in 2014. Net capital assets increased by \$4.4 million due to new plant additions of \$11.9 million and a net increase in construction work in progress of \$6.5 million, offset by additions to accumulated depreciation of \$14 million (see Table 3A and note 3). Current and other assets increased by \$6.6 million due to increases in the general cash pool of \$2.4 million, construction cash pool of \$0.2 million, unbilled special assessments of \$0.7 million, restricted customer deposits of \$1.2 million, restricted interim rate escrow investment of \$2.3 million, offset by decreases in current and other assets of \$0.2 million.

Total liabilities and deferred inflows of resources increased by \$2.4 million in 2014. Net debt outstanding increased by \$2 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 \$2.4 million. Deferred inflows of resources, which are made up of contributions in aid of construction, decreased by \$2.0 million during the year (see note 6).

The Utility's total assets increased by \$17.6 million in 2013. Net capital assets increased by \$7.8 million due to new plant additions of \$33.2 million offset by a decrease in construction work in progress of \$12 million and additions to accumulated depreciation of \$13.4 million (see Table 3A and note 3). Current and other assets increased by \$9.8 million.

Total liabilities and deferred inflows of resources increased by \$9.4 million in 2013. Net debt outstanding increased by \$24.7 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 decreased by \$14.7 million due to a decrease in interfund borrowings used for funding new plant additions that was repaid with a portion of a new loan payable of \$23.5 million. Deferred inflows of resources, which is made up of contributions in aid of construction, decreased by \$0.6 million during the year (see note 6).

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

December 31, 2014 and 2013

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, 2014, 2013, and 2012.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues:			
Residential sales	\$ 36,940,272	35,612,671	33,878,486
Commercial sales	11,570,728	11,155,400	10,176,552
Public authorities	1,904,326	1,913,149	1,856,459
Miscellaneous	1,011,197	940,108	1,389,887
Nonoperating revenues	315,102	2,991	72,189
Total revenues	<u>51,741,625</u>	<u>49,624,319</u>	<u>47,373,573</u>
Operating expenses:			
Collection system	2,499,636	3,363,535	3,836,027
Pumping Plant	1,097,794	959,031	684,942
Treatment	11,783,731	10,569,139	9,812,963
Customer accounts	1,992,089	2,234,237	2,113,900
Administrative and general	8,057,301	7,113,149	7,593,336
Depreciation, net of amortization	7,843,888	7,798,747	7,018,513
Nonoperating expenses	4,163,539	3,830,125	3,459,133
Total expenses	<u>37,437,978</u>	<u>35,867,963</u>	<u>34,518,814</u>
Income before transfers	<u>14,303,647</u>	<u>13,756,356</u>	<u>12,854,759</u>
Transfers:			
Transfers to other funds	(5,588,171)	(5,617,478)	(5,342,405)
Change in fund net position	8,715,476	8,138,878	7,512,354
Net position - beginning	<u>78,583,721</u>	<u>70,444,843</u>	<u>62,932,489</u>
Net position - ending	<u>\$ 87,299,197</u>	<u>78,583,721</u>	<u>70,444,843</u>

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

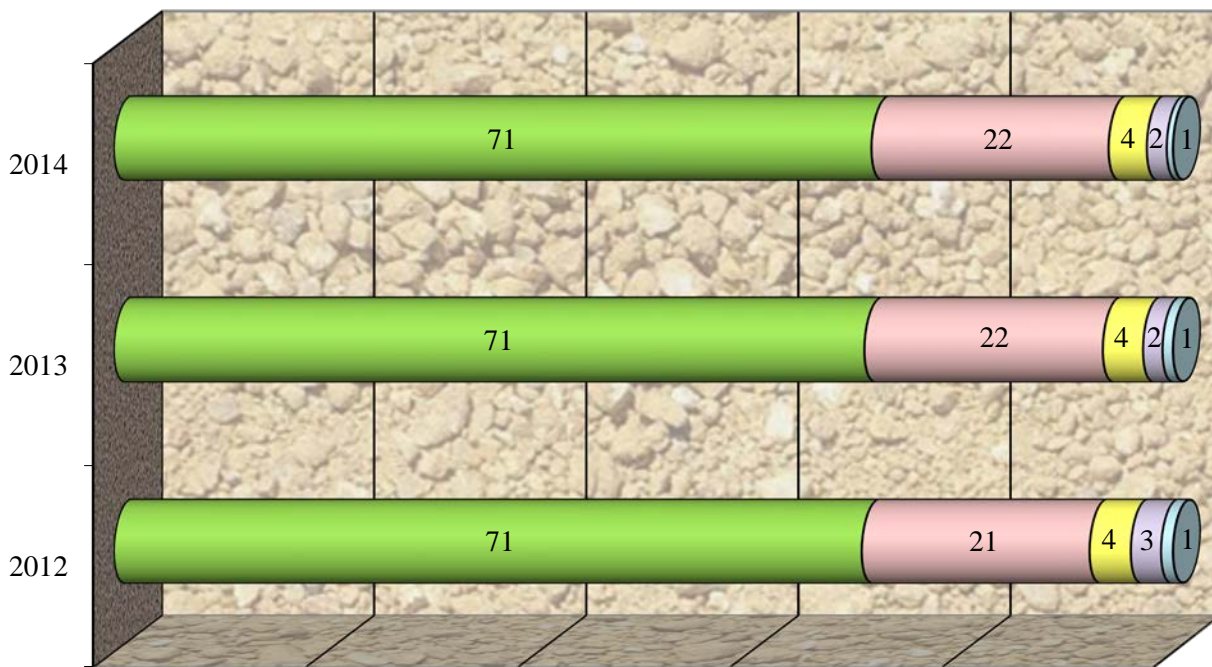
Management's Discussion and Analysis

December 31, 2014 and 2013

During 2014, the net position increased by \$8.7 million and total revenues increased by \$2.1 million. Operating revenues increased by \$1.8 million, primarily due to a 4.34% rate increase effective January 1, 2014 (see Note 11(b) for more information). Non-operating revenues increased by \$0.3 million. A significant portion of this increase was due to an increase in investment income from short-term investments, including unrealized gains on investments recorded at year-end.

The net position increased by \$8.1 million during 2013, and total revenues increased by \$2.2 million. Operating revenues increased by \$2.3 million, primarily due to a 4.5% rate increase effective January 1, 2013. Non-operating revenues decreased by \$0.1 million. A significant portion of this decrease was due to a decrease in investment income from short-term investments, due to unrealized losses on investments recorded at year-end.

Revenues by Source in %



■ Residential sales	■ Commercial sales	■ Public authorities
■ Miscellaneous use charges	■ Other revenues	

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

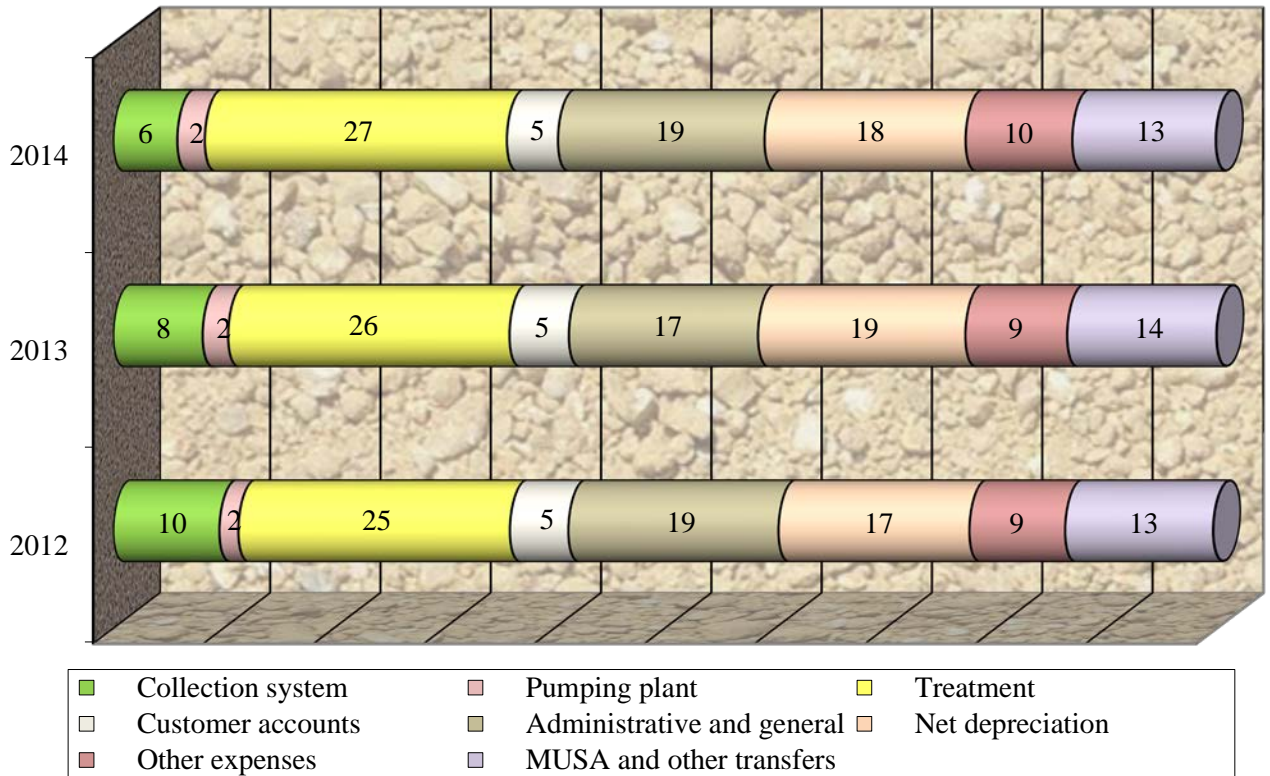
Management's Discussion and Analysis

December 31, 2014 and 2013

Total expenses increased by \$1.6 million in 2014 over 2013, with operating expenses increasing by \$1.3 million and non-operating expenses up by \$0.3 million. Collection, pumping, treatment, customer accounts and administrative and general expenses increased by \$1.2 million, and net depreciation expense increased by \$0.1 million. Non-operating expenses increased by \$0.3 million primarily due to interest expense on new borrowing to finance the capital improvement budget. The Municipal Utility Service Assessment (MUSA) and other transfers decreased by less than \$0.1 million.

Total expenses increased by \$1.4 million in 2013 over 2012, with operating expenses increasing by \$1.0 million and non-operating expenses up by \$0.4 million. Collection, pumping, treatment, customer accounts and administrative and general expenses increased by \$0.2 million, and net depreciation expense increased by \$0.8 million. Non-operating expenses increased by \$0.4 million primarily due to interest expense on new borrowing to finance the capital improvement budget. The Municipal Utility Service Assessment (MUSA) and other transfers decreased by less than \$0.1 million.

Expenses by Source in %



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

Management's Discussion and Analysis

December 31, 2014 and 2013

Capital Assets and Debt

Capital Assets

The following table summarizes the Utility's net capital assets, as of December 31, 2014, 2013, and 2012.

**Table 3A
Net Capital Assets**

	2014	2013	2012
Intangible plant	\$ 4,203,312	\$ 3,074,540	3,269,398
Collection plant	219,142,622	218,638,124	218,009,254
Treatment & disposal plant	91,994,683	93,365,747	73,317,707
Pumping plant	12,413,307	12,716,888	12,153,208
General plant land	4,203,352	4,203,352	4,203,352
General plant	38,841,732	40,848,809	42,104,638
Net plant in service	370,799,008	372,847,460	353,057,557
Property held for future use	1,379,931	1,379,931	1,379,931
Construction work in progress	15,764,458	9,286,647	21,326,288
Total net capital assets	<u>\$ 387,943,397</u>	<u>383,514,038</u>	<u>375,763,776</u>
Increase in net capital assets	<u>\$ 4,429,359</u>	<u>7,750,262</u>	

Net capital assets increased by \$4.4 million in 2014 comprised of plant additions of \$11.9 million, a net increase in construction work in progress of \$6.5 million, and decreased by depreciation of \$14 million. The plant category that increased the most at gross during the year was collection plant, which increased by \$6.9 million. Intangible plant increased by \$1.6 million, general plant increased by \$1.9 million, treatment increased by \$1.5 million and pumping plant increased by less than \$0.1 million (see table 3B).

Net capital assets increased by \$7.8 million in 2013 comprised of plant additions of \$33.2 million, a net decrease in construction work in progress of \$12 million, and depreciation of \$13.4 million. The plant category that increased the most at gross during the year was treatment and disposal plant, which increased by \$22.5 million. Intangible plant increased by \$0.2 million, general plant increased by \$2.7 million, and pumping plant increased by \$0.9 million.

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

December 31, 2014 and 2013

**Table 3B
Capital Assets, 2014 Major Additions - gross
(amounts expressed in millions)**

<u>Collection plant</u>		<u>Treatment and disposal plant</u>	
CheckPoint Ph 1	\$ 0.3	GWWTf Upgrade-Replacement PhI	\$ <u>1.5</u>
W 71st Ave Rehab-SWR	0.4		
Hollywood-Elm Rehab-SWR	0.4	<u>General Plant</u>	
4th-5th Alley C-H Upgr-SWR	0.5	King St Warm Storage Roof	\$ 0.3
Wendys Way Rehab-SWR	0.6	IT Infra Equip Only-SWR14	0.1
Resolution Pointe Ph 1	0.4	CCTV-GIS Int-SWR	0.1
M St MH31429-035 SWR Rehab	0.4	CIS Enhancements SWR	0.1
Railroad Term Res Ph2	0.6	WorkTech-SWR	0.1
Greenhill Way Rehab-SWR	0.6	SCADA Equip-SWR	0.2
W 32nd Muriel-Doris Upgrade-SWR	1.6	Crane FlatBed	0.2
Other Miscellaneous projects	<u>1.1</u>	Treatment Lab Equipment-SWR	0.1
Total collection plant	<u>\$ 6.9</u>	Excavator-SWR	0.2
		Fork Lift	0.1
<u>Intangible Plant</u>		Other Miscellaneous projects	<u>0.4</u>
AWWTf Facility Plan Update	\$ 0.7	Total general plant	<u>\$ 1.9</u>
Wastewater Master Plan Update	0.7		
Other Miscellaneous projects	<u>0.2</u>		
Total intangible plant	<u>\$ 1.6</u>	Total Additions	<u>\$ 11.9</u>

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

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

December 31, 2014 and 2013

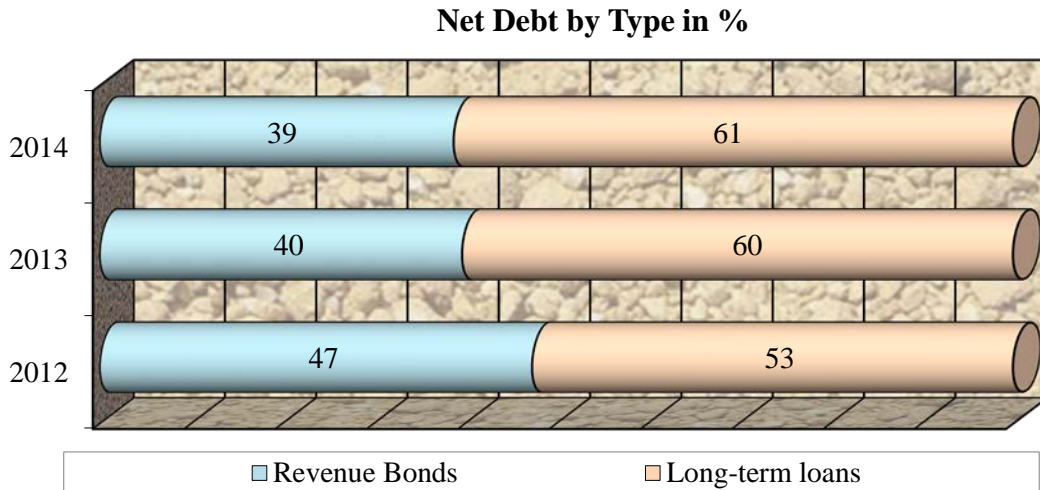
Debt

Changes in the Utility's debt are shown in the following table as of December 31, 2014, 2013, and 2012. The table includes only debt having a long-term component.

**Table 4
Net Debt**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenue bonds, net	\$ 63,540,653	64,293,054	65,019,522
Long-term loans	<u>100,379,307</u>	<u>97,678,590</u>	<u>72,276,089</u>
Total net debt	<u>\$ 163,919,960</u>	<u>161,971,644</u>	<u>137,295,611</u>
Increase in net debt	<u>\$ 1,948,316</u>	<u>24,676,033</u>	

The Utility did not issue bonds in either 2014 or 2013, but did receive approximately \$1.7 million and \$6.5 million, respectively, from the State of Alaska Clean Water Loan Program (see note 4(d)) to finance capital improvements. In addition, the Utility borrowed other loans payable of \$5.7 million and \$23.5 million in 2014 and 2013, respectively. Bond and loan principal payments totaled \$0.7 million and \$4.7 million, compared to 2013 principal payments of \$0.7 million and \$4.6 million.



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, 2014 and 2013

Economic Factors and Next Year's Budgets and Rates

Budgetary Matters

The 2015 budget anticipates minimal revenue increases due to the effects of modest customer growth and no planned rate increase for 2015.

2015 operating expenses are budgeted to increase 1.7% over the 2014 budget due to a 1.1% budget increase in labor and a 2.2% budget increase in non-labor. There is no change in budget for Municipal Service Assessment and depreciation expense is budgeted to decrease approximately 4.3%. Interest expense is budgeted to decrease 3% from the 2014 budget due to the use of a low interest loan to finance capital construction rather than issuing bonds in 2015.

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, 2014 and 2013

Assets

	2014	2013
Capital assets:		
Plant in service, at cost	\$ 615,725,822	606,481,231
Less accumulated depreciation	(244,926,814)	(233,633,771)
Net plant in service	370,799,008	372,847,460
Property held for future use	1,379,931	1,379,931
Construction work in progress	15,764,458	9,286,647
Net capital assets	387,943,397	383,514,038
Non-current assets:		
Unamortized cost of debt issuance [see note 1(a)]	631,921	687,442
Unbilled special assessments	2,443,601	1,787,339
Other	4,042,027	4,179,243
Total non-current assets	7,117,549	6,654,024
Restricted assets:		
Current:		
Equity in bond and grant capital acquisition and construction pool	2,311,949	2,125,393
Interim rate escrow investments	2,317,531	—
Non-current:		
Customer deposits	1,531,191	357,316
Total restricted assets	6,160,671	2,482,709
Current assets:		
Equity in general cash pool	22,104,938	19,720,813
Accrued interest receivable	4,436	8,903
Accounts receivable:		
Utility customers, less estimated uncollectibles of \$66,644 in 2014 and \$154,360 in 2013	3,103,425	2,854,889
Other, less estimated uncollectibles of \$32,502 in 2014 and \$1,201 in 2013	583,937	674,659
Special assessments receivable	88,807	170,069
Unbilled reimbursable projects	14,035	14,078
Prepays	29,674	28,860
Inventory of materials and supplies, at average cost	392,086	333,993
Total current assets	26,321,338	23,806,264
Total assets	\$ 427,542,955	416,457,035

See accompanying notes to basic financial statements.

Liabilities, Deferred Inflows of Resources, and Net Position

	2014	2013
Net position:		
Net investment in capital assets	\$ 58,308,145	53,654,012
Restricted	1,757,531	—
Unrestricted	27,233,521	24,929,709
Total net position	87,299,197	78,583,721
Non-current liabilities:		
Compensated absences payable	279,475	304,462
Pollution remediation obligation	384,000	414,000
Revenue bonds payable	62,315,000	63,080,000
Less unamortized discounts	(48,940)	(58,547)
Plus unamortized premiums	509,593	541,601
Net revenue bonds payable	62,775,653	63,563,054
Alaska Clean Water Fund loans payable	66,699,049	69,555,497
Loan payable-other	29,151,000	23,451,000
Total non-current liabilities	159,289,177	157,288,013
Current liabilities:		
Accounts payable	525,117	940,755
Accrued payroll	453,419	736,029
Compensated absences payable	886,735	799,786
Accrued interest	1,315,691	1,160,453
Pollution remediation obligation	60,000	60,000
Long-term obligations maturing within one year	5,294,258	5,402,093
Total current liabilities	8,535,220	9,099,116
Liabilities payable from restricted assets:		
Current:		
Capital acquisition and construction accounts payable	2,300,929	1,115,094
Customer refund payable	560,000	—
Non-current:		
Customer deposits payable	1,531,191	357,316
Total liabilities payable from restricted assets	4,392,120	1,472,410
Deferred inflows of resources:		
Contributions in aid of construction, net of amortization	168,027,241	170,013,775
Total liabilities and deferred inflows of resources	340,243,758	337,873,314
Total liabilities, deferred inflows of resources and net position	\$ 427,542,955	416,457,035

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

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

Years ended December 31, 2014 and 2013

	2014	2013
Operating revenues:		
Charges for sales and services:		
Residential sales	\$ 36,940,272	35,612,671
Commercial sales	11,570,728	11,155,400
Public authorities	1,904,326	1,913,149
Total charges for sales and services	50,415,326	48,681,220
Miscellaneous	1,011,197	940,108
Total operating revenues	51,426,523	49,621,328
Operating expenses:		
Collection system	2,499,636	3,363,535
Pumping Plant	1,097,794	959,031
Treatment	11,783,731	10,569,139
Customer accounts	1,992,089	2,234,237
Administrative and general	8,057,301	7,113,149
Total operations	25,430,551	24,239,091
Depreciation, net of amortization	7,843,888	7,798,747
Total operating expenses	33,274,439	32,037,838
Operating income	18,152,084	17,583,490
Non-operating revenues (expenses):		
Investment income (loss) - short-term investments	295,068	(17,448)
Interest-revenue bonds	(3,064,779)	(3,095,017)
Allowance for funds used during construction	328,333	841,487
Amortization of bond premium/discount	(9,608)	(10,600)
Amortization of debt expense	(23,512)	(25,918)
Interest and fees-loans	(1,393,372)	(1,522,629)
Miscellaneous revenue	20,034	2,991
Miscellaneous deductions	(601)	—
Total non-operating revenues (expenses)	(3,848,437)	(3,827,134)
Income before transfers	14,303,647	13,756,356
Transfers:		
Transfers to other funds	(5,588,171)	(5,617,478)
Change in fund net position	8,715,476	8,138,878
Net position – beginning	78,583,721	70,444,843
Net position – ending	\$ 87,299,197	78,583,721

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Receipts from customers and users	\$ 51,780,887	49,484,937
Payments to employees	(14,199,325)	(14,207,767)
Payments to vendors	(5,722,625)	(5,542,139)
Internal activity – payments made to other funds	(7,747,936)	(5,574,018)
Net cash provided by operating activities	24,111,001	24,161,013
Cash flows from non-capital and related financing activities:		
Transfers to other funds	(5,588,171)	(5,617,478)
Net cash used by non-capital and related financing activities	(5,588,171)	(5,617,478)
Cash flows from capital and related financing activities:		
Principal payments on long-term obligations	(730,000)	(705,000)
Interest payments and fees on long-term obligations	(4,302,913)	(4,597,290)
Acquisition and construction of capital assets	(13,657,447)	(18,905,077)
Capital contributions – intergovernmental	560,460	3,223,942
Capital contributions – customer/special assessments	351,374	254,484
Proceeds from loan payable-other	5,700,000	23,451,000
Proceeds from Alaska Clean Water Fund loans	1,672,810	6,509,823
Principal payments on Alaska Clean Water Fund loans	(4,672,093)	(4,558,322)
Payments on loan from Water Utility Fund	—	(14,669,968)
Net cash used by capital and related financing activities	(15,077,809)	(9,996,408)
Cash flows from investing activities:		
Interest received (paid)	299,535	(43,930)
Net increase in cash	3,744,556	8,503,197
Cash, beginning of year	22,203,522	13,700,325
Cash, end of year	\$ 25,948,078	22,203,522
Cash and cash equivalents		
Equity in general cash pool	22,104,938	19,720,813
Equity in bond and grant capital acquisition and construction pool	2,311,949	2,125,393
Customer deposits	1,531,191	357,316
Cash and cash equivalents, end of year	\$ 25,948,078	22,203,522

See accompanying notes to basic financial statements.

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

Statements of Cash Flows, Continued

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 18,152,084	17,583,490
Transfer to escrow account	(2,317,531)	—
Adjustments to reconcile operating income to net cash provided by operating activities:		
Allowance for uncollectible accounts	(56,415)	84,442
Depreciation, net of amortization	7,843,888	7,798,747
Miscellaneous non-operating revenues	19,433	2,991
Changes in assets and liabilities increasing (decreasing) cash:		
Accounts receivable and other receivables	(20,137)	(129,808)
Unbilled reimbursable projects	43	2,143
Inventories	(58,093)	31,440
Customer deposits payable	1,173,875	37,632
Prepays	(814)	3,894
Unbilled special assessments and other non-current assets	(519,046)	(1,375,372)
Accounts payable	(415,638)	264,490
Accrued payroll liabilities	(282,610)	(292,810)
Compensated absences payable	61,962	(70,266)
Pollution remediation obligation	(30,000)	220,000
Customer refund payable	560,000	—
Net cash provided by operating activities	<u>\$ 24,111,001</u>	<u>24,161,013</u>
Non-cash investing, capital and financing activities:		
Contributed capital – private development	\$ 1,801,575	1,752,046
Capital purchases on account, net	766,500	207,846
Total non-cash investing, capital and financing activities	<u>\$ 2,568,075</u>	<u>1,959,892</u>

See accompanying notes to basic financial statements.

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

Notes to Basic Financial Statements

December 31, 2014 and 2013

(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 encompasses the majority of the 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, 2014 and 2013

(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. As a regulated operation, the Utility applies the accounting and reporting requirements applicable to regulated operations to the accounting for debt issuance costs. Accordingly, the Utility's debt issuance costs are 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. At December 31, 2014 and 2013, the Utility has no reportable deferred outflows of resources.

MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2014 and 2013

(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. At December 31, 2014 and 2013, contributions in aid of construction represent the Utility's only deferred inflow of resources.

(g) *Property, Plant, and Equipment*

Property, plant, and equipment are 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 \$1,560,000 and \$1,460,000 for the years ended December 31, 2014 and 2013, 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, 2014 and 2013

(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 \$1.0 million and \$1.1 million for the years ended December 31, 2014 and 2013, 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 Municipality utilizes three risk management funds to account for and finance its uninsured risks of loss.

The Municipality provides coverage up to the maximum of \$2,500,000 per occurrence for automobile and general liability claims and \$2,000,000 for each workers' compensation claim. No settled claim exceeded this commercial coverage in 2014 or 2013.

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

All Municipality 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, 2014, is dependent upon future developments. At December 31, 2014, claims incurred but not reported included in the liability accounts are \$14,212,666 in the General Liability/Workers' Compensation Fund and Medical/Dental Self Insurance Fund.

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

Notes to Basic Financial Statements

December 31, 2014 and 2013

Changes in the funds' claim liability amounts in 2014 and 2013 are as follows:

	<u>Liability Balance January 1</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payment</u>	<u>Liability Balance December 31</u>
2014:				
General Liability/Workers'				
Compensation	\$ 18,484,350	8,590,527	(9,043,949)	18,030,928
Medical/Dental	6,933,274	47,412,207	(47,258,680)	7,086,801
Unemployment	94,750	364,529	(360,868)	98,411
	<u>25,512,374</u>	<u>56,367,263</u>	<u>(56,663,497)</u>	<u>25,216,140</u>
2013:				
General Liability/Workers'				
Compensation	16,714,555	8,977,822	(7,208,027)	18,484,350
Medical/Dental	7,028,349	52,485,460	(52,580,535)	6,933,274
Unemployment	118,632	443,265	(467,147)	94,750
	<u>\$ 23,861,536</u>	<u>61,906,547</u>	<u>(60,255,709)</u>	<u>25,512,374</u>

At December 31, 2014 the Medical and Dental Self Insurance Fund had unrestricted net position of \$10,288,292, an improvement of \$6,152,609 from 2013. Medical and Dental rates were increased by a margin of 3 percent in 2014 to ensure an adequate reserve.

At December 31, 2014, the General Liability and Worker's Compensation Fund had positive unrestricted net position of \$3,260,400. Insurance rates were increased to offset the deficit in 2012.

(m) Reclassification

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

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

Notes to Basic Financial Statements

December 31, 2014 and 2013

(2) Cash and Investments

At December 31, 2014, the Municipality 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	\$ 83,018				
Master Lease Agreement	142,939				
Interim Rate Increase Escrow	4,199,147				
Central Treasury - Unrestricted					
Cash & Money Market Funds	2,986,970	-	-	-	-
Repurchase Agreements	32,593,655	32,593,655	-	-	-
Commercial Paper	10,789,411	10,789,411	-	-	-
Certificates of Deposit	3,073,542	3,073,542	-	-	-
U.S. Treasuries	134,396,442	14,675,893	112,009,370	7,711,179	-
U.S. TIPS	5,415,041	-	3,060,896	2,031,989	322,156
U.S. Agencies	60,745,165	49,370,233	1,981,137	5,408,512	3,985,283
Municipal Bonds	221,474	-	-	221,474	-
Asset-Backed Securities**	45,009,290	464,642	30,968,105	4,055,610	9,520,933
Corporate Fixed Income Securities	96,081,983	26,183,785	53,323,687	14,232,077	2,342,434
Payables	(9,356,128)	-	-	-	-
	<u>\$ 381,956,845</u>	<u>\$ 137,151,161</u>	<u>\$ 201,343,195</u>	<u>\$ 33,660,841</u>	<u>\$ 16,170,806</u>
Central Treasury - Restricted					
Cash & Money Market Funds	27,988,270	-	-	-	-
Repurchase Agreements	9,019,845	9,019,845	-	-	-
Commercial Paper	3,984,651	3,984,651	-	-	-
Certificates of Deposit	850,560	850,560	-	-	-
U.S. Treasuries	37,192,365	4,061,351	30,997,051	2,133,963	-
U.S. TIPS	1,498,538	-	847,061	562,325	89,152
U.S. Agencies	38,000,249	24,152,828	11,247,818	1,496,731	1,102,872
Municipal Bonds	61,290	-	-	61,290	-
Asset-Backed Securities**	12,455,701	128,583	8,569,997	1,122,334	2,634,787
Corporate Fixed Income Securities	26,589,366	7,246,003	14,756,596	3,938,531	648,236
Payables	(2,589,179)	-	-	-	-
	<u>\$ 155,051,656</u>	<u>\$ 49,443,821</u>	<u>\$ 66,418,523</u>	<u>\$ 9,315,174</u>	<u>\$ 4,475,047</u>

* Market value plus accrued income.

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

MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2014 and 2013

(a) *Municipal Central Treasury*

The Municipality 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.

The Municipality maintains a comprehensive policy over cash and investments that is designed to mitigate risks while maximizing investment return and providing for operating liquidity. Pursuant to Anchorage Municipal Code (AMC) 6.50.030, the Municipality requires investments to meet specific rating and issuer requirements.

Both externally and internally managed investments are subject to the primary investment objectives outlined in 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.

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

Notes to Basic Financial Statements

December 31, 2014 and 2013

- 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.
- 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
WASTEWATER UTILITY FUND**

Notes to Basic Financial Statements

December 31, 2014 and 2013

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, 2014	Internally Managed Holding % at December 31, 2014
U.S. Government Securities*	50% to 100% of investment portfolio	54%	58%
Repurchase Agreements	0% to 50% of investment portfolio	21%	0%
Certificates of Deposit**	0% to 50% of investment portfolio Maximum 5% per issuer	2%	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	0%	4%
Corporate Bonds	0% to 15% of investment portfolio Maximum 5% per issuer	9%	7%
Alaska Municipal League Investment Pool (AMLIP)***	0% to 25% of investment portfolio	0%	0%
Money Market Mutual Funds	0% to 25% of investment portfolio	14%	31%
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%	0%
		100%	100%

*Includes debt obligations issued or guaranteed by the U.S. government, U.S. agencies or U.S. government-sponsored corporations.

**The policy limits CDs that are not secured by U.S. government securities to 20% of the internally managed portfolio.

***The Working Capital portfolio may not be invested in AMLIP.

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

Notes to Basic Financial Statements

December 31, 2014 and 2013

(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 Municipal Central Treasury utilize the duration method to measure exposure to interest rate risk.

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 percent 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.

AMC 6.50.030 requires the Working Capital Portfolio have a duration of zero to 270 days. At December 31, 2014, the Working Capital Portfolio had a duration of .27 years, or approximately 99 days. AMC 6.50.030 also requires that the Contingency Reserve Portfolio have an average duration within half a year of its benchmark. At December 31, 2014, the contingency Reserve Portfolio had a duration of 1.68 years as compared to its benchmark, Barclays 1-3 Year Government Index, which had a duration of 1.92 years. AMC 6.50.030 requires the Strategic Reserve Portfolio have a maximum duration no greater than one-year in excess of its benchmark. At December 31, 2014, the Strategic Reserve Portfolio had a duration of 3.58 years as compared to its benchmark, Barclays Intermediate Government/Corporate Index, which had a duration of 3.88 years.

The effective durations of the externally managed portfolios of the Municipal Central Treasury (working capital, contingency reserve and strategic reserve) at December 31, 2014, were 0.27 years, 1.68 years, and 3.58 years, respectively, which are within the required durations per the policy.

(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.

Policy & Procedures (P&P) 24-11 states that the Internally Managed Funds may not have investments in any single issuer exceeding 5 percent of total investments. P&P 24-11 also requires that at least 50% of the portfolio shall be invested in U.S. Government securities or in mutual funds that invest solely in U.S. Government securities. P&P 24-11 limits concentrations by security type based upon portfolio values at the time of purchase. Security type concentration limits are as follows: i) 50% invested in repurchase agreements or certificates of deposit, including unsecured certificates of deposit, ii) 25% invested in banker's acceptances or money market mutual funds or mutual fund investments that invest predominantly in investments permitted by AMC 6.50.030 or the Alaska Municipal League Investment Pool (AMLIP), iii) 20% invested in certificates of deposit secured by other than U.S. Government securities, and iii) 15% invested in commercial paper of dollar denominated fixed income securities, other than those listed previously, rated by at least one nationally recognized rating agency. P&P 24-11 states that bond debt service reserve funds may be invested in securities not exceeding the final maturity date of the bond issue for which they are invested, and investment of any funds that are subject to restrictive covenants contained in an Ordinance or Resolution must be invested in accordance with those covenants.

At December 31, 2014, the Municipal Central Treasury's investment in commercial paper totaled \$14,744,062, and was rated A-1 by Standard & Poor's and P-1 by Moody's. All commercial paper is

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purchased with a maturity of 270 days or less. The Municipal Central Treasury's investment in marketable debt securities, excluding U.S. Treasury and Agency securities, totaled \$184,214,020 at December 31, 2014. The distribution of ratings on these securities was as follows:

Moody's		S&P	
Aaa	29%	AAA	18%
Aa	5%	AA	8%
A	21%	A	32%
Baa	34%	BBB	23%
Ba or Lower	1%	BB or Lower	0%
Not Rated	10%	Not Rated	19%
	100%		100%

At December 31, 2014, the Municipal Central Treasury was invested in Asset Backed Securities and Mortgage Backed Securities valued at \$234,027 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. At December 31, 2014, Anchorage's Central Treasury had no investments in any single issuer exceeding 5 percent of total investments.

(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 percent 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, 2014, the Municipal Central Treasury had no investments in any single issuer exceeding 5 percent of total investments.

(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, 2014, the Municipal Central Treasury had bank deposit carrying amounts totaling \$27,965,546, of which \$500,000 was covered by federal depository insurance. Bank deposits of \$10,425,008 were secured by collateral held by a third party and deposits of \$17,040,538 were secured by collateral held at the depository bank. An additional \$4,637,500 was invested in overnight repurchase agreements and was secured by collateral held by a third party. 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.

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AMC 6.50.030 requires that repurchase agreements be secured by obligations of the U.S. government, U.S. agencies, or U.S. government-sponsored corporations and agencies. As of December 31, 2014 cash deposits and investments were not exposed to custodial risk.

(f) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Municipality 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 Municipal 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, 2014, all debt obligations held in the Municipal Central Treasury were payable in U.S. Dollars.

(3) Capital Assets

Capital assets for the year ended December 31, 2014 follow:

	December 31, 2013	Additions	Retirements	December 31, 2014
Intangible plant	\$ 4,150,767	1,554,259	—	5,705,026
Collection Plant	371,411,656	6,860,986	(153,352)	378,119,290
Pumping plant	17,073,008	6,864	—	17,079,872
Treatment & disposal plant	146,433,360	1,506,131	—	147,939,491
General plant land	4,203,352	—	—	4,203,352
General plant	63,209,088	1,987,779	(2,518,076)	62,678,791
	<u>606,481,231</u>	<u>11,916,019</u>	<u>(2,671,428)</u>	<u>615,725,822</u>
Less accumulated depreciation	<u>(233,633,771)</u>	<u>(13,964,471)</u>	<u>2,671,428</u>	<u>(244,926,814)</u>
Net plant in service	372,847,460	(2,048,452)	—	370,799,008
Property held for future use	1,379,931	—	—	1,379,931
Construction work in progress	9,286,647	16,592,256	(10,114,445)	15,764,458
	<u>\$ 383,514,038</u>	<u>14,543,804</u>	<u>(10,114,445)</u>	<u>387,943,397</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, 2014. Net salvage, consisting of auction proceeds from the sale of assets less any costs of removal or abandonment, is reported in the “Retirements” column for accumulated depreciation. There were no salvage proceeds in 2014. There was no Cost of Removal recorded for 2014. The Utility’s 2015 construction budget is \$33,345,000.

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Capital assets for the year ended December 31, 2013 follow:

	December 31, 2012	Additions	Retirements	December 31, 2013
Intangible plant	\$ 3,938,849	211,918	—	4,150,767
Collection Plant	365,132,189	6,864,607	(585,140)	371,411,656
Pumping plant	16,202,795	870,213	—	17,073,008
Treatment & disposal plant	124,923,782	22,501,800	(992,222)	146,433,360
General plant land	4,203,352	—	—	4,203,352
General plant	63,925,177	2,734,767	(3,450,856)	63,209,088
	<u>578,326,144</u>	<u>33,183,305</u>	<u>(5,028,218)</u>	<u>606,481,231</u>
Less accumulated depreciation	<u>(225,268,587)</u>	<u>(13,399,521)</u>	<u>5,034,337</u>	<u>(233,633,771)</u>
Net plant in service	353,057,557	19,783,784	6,119	372,847,460
Property held for future use	1,379,931	—	—	1,379,931
Construction work in progress	21,326,288	19,420,353	(31,459,994)	9,286,647
	<u>\$ 375,763,776</u>	<u>39,204,137</u>	<u>(31,453,875)</u>	<u>383,514,038</u>

Net salvage, consisting of auction proceeds from the sale of assets less any costs of removal or abandonment, is reported in the "Retirements" column for accumulated depreciation. There was \$22,616 in salvage proceeds in 2013. Cost of removal recorded for the year was \$28,735. The Utility's 2014 construction budget was \$31,863,000.

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(4) Long-Term Obligations

(a) Long-Term Obligations Issued

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 2014.

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 2014, the Utility obtained additional low interest loans of \$1,672,810.

In March 2013, the Utility entered into a Loan Agreement for up to \$60,000,000 with a commercial bank. It is anticipated that the amount outstanding under the Loan Agreement will be refunded by long term revenue bonds. The Utility's financial statements show the amount borrowed under the Loan Agreement as a non-current liability since the lending term under the Loan Agreement is up to three years with no principal payments due before the end of the loan term. In 2014, the Utility obtained loans of \$5,700,000 through this program. Under the terms of the Loan Agreement, the Utility pays fees quarterly of 0.5% per annum based upon the amount of the authorized, but not drawn, loan amount calculated on a weekly basis. The interest rate on the loan varies. As of December 31, 2014, the interest rate for the loan was 0.54%; 0.04% plus a 0.5% lender margin. In Note 4(c) Debt Service Requirements, the Utility has estimated future interest payments using the 0.54% interest rate on the outstanding loan payable for years 2015 and 2016. The principal repayment of the loan has been included in 2016.

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Long-term obligations outstanding at December 31, 2014 follow:

Description	Original Issue Date	Total Issue Amount	Interest Rates	Maturity Range	Principal Balance December 31, 2014
Revenue Bonds:					
2004 Wastewater Revenue Bonds	06/10/2004	\$ 22,620,000	3.00 - 5.125%	2007 - 2034	4,255,000
2007 Wastewater Revenue & Refunding Bonds	06/28/2007	59,665,000	4.00 - 5.00%	2008 - 2037	58,825,000
Total Revenue Bonds		82,285,000			63,080,000
Long-Term Revolving Loans:					
127061 Girdwood Wastewater	04/24/1995	1,565,161	1.50%	1999 - 2018	366,828
127071 Eagle River TID ER-3	10/30/1995	2,073,031	1.50%	1999 - 2018	484,723
127081 Misc Wastewater Projects	05/08/1995	2,071,475	1.50%	2002 - 2021	805,898
127091 Chester Creek Pump Stn R&R	06/11/1997	959,587	1.50%	1999 - 2018	226,181
127101 FY97 Misc Wastewater Projects	06/11/1997	2,250,000	1.50%	2009 - 2028	1,575,000
127111 Equipment - Wastewater 1998	01/21/1998	286,051	1.50%	2001 - 2020	95,824
127131 Chester Creek Sewer Trunk Study	04/02/1998	300,127	1.50%	2004 - 2023	135,057
127141 Facility Replace & Rehab Proj 1998	01/21/1998	1,305,252	1.50%	2009 - 2028	882,822
127151 Operations Facilities, Phase II	01/21/1998	1,138,248	1.50%	2006 - 2022	454,085
127211 FY99 Misc Small Sewer R&R, Phs I	07/23/2001	1,410,000	1.50%	2003 - 2022	621,822
127271 C-5-7 Trunk Sewer Upgrade	05/19/2003	2,229,617	1.50%	2007 - 2026	1,416,511
127281 Asplund Facility Solids Handling	01/21/2000	4,290,279	1.50%	2002 - 2021	1,504,848
127291 Operations Facility, Phase III	03/18/2003	3,608,588	1.50%	2004 - 2023	1,820,810
127301 Septic System Site Upgrade	01/21/2000	500,000	1.50%	2004 - 2023	224,590
127371 Old Glenn Hwy	02/22/2008	2,000,000	1.50%	2012 - 2031	1,700,000
127421 B-4AB Sewer Trunk Upgrade	08/20/2001	2,370,748	1.50%	2003 - 2022	944,421
127451 SCADA Sewer	06/18/2004	13,000,000	1.50%	2009 - 2028	9,209,104
127481 Asplund WW Treatment Facility	06/18/2004	4,200,000	1.50%	2006 - 2025	2,463,719
127611 Asplund Facility Utilador	12/05/2012	2,100,000	1.50%	2014 - 2033	1,995,000
127631 Asplund Process Impr	01/30/2008	8,000,000	1.50%	2009 - 2028	5,600,000
127641 (C-F) Interceptor Upgrade	12/16/2009	41,858	1.50%	2010 - 2019 #	20,929
127651 C-2(A,B) Sewer Improvements	08/01/2007	1,700,000	1.50%	2010 - 2029	1,274,996
127661 King-Rovenna Sewer Upgrade	08/01/2007	1,613,129	1.50%	2010 - 2029	1,209,847
127671 C-5-N Campbell Lake	08/07/2007	941,788	1.50%	2010 - 2029	706,341
127691 ER WWTF Gravity Thickener	12/28/2007	201,970	1.50%	2010 - 2029	151,477

Loans continued on next page.

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Description	Original Issue Date	Total Issue Amount	Interest Rates	Maturity Range	Principal Balance December 31, 2014
127701 Girdwood WWTF Improvements	12/16/2009	10,778,946	1.50%	2016 - 2035 *	10,778,946
127721 San Ernesto Hoyt Upgrade	12/22/2008	404,000	1.50%	2010 - 2029	303,000
127741 Septage Improvements	10/29/2008	1,800,000	1.50%	2011 - 2030	1,440,000
130031 Asplund Improvements	01/18/2008	2,701,000	1.50%	2009 - 2028	1,755,650
130061 W. 71st Ave Sewer Rehab	10/31/2014	73,627	1.50%	2016 - 2035 *	73,627
130071 Pump Station Upgrade	12/16/2009	3,519,908	1.50%	2013 - 2032	3,167,917
130081 Sand Lake Sewer Extension	02/17/2010	600,000	1.50%	2011 - 2030	480,000
130091 Asplund Generator Upgrade	10/16/2008	5,963,373	1.50%	2011 - 2030	4,770,698
130101 Minnesota-Benson Sewer Upgrade	06/16/2009	395,625	1.50%	2009 - 2028	276,938
130131 Arctic 32nd-36th Upgrade	07/09/2008	437,275	1.50%	2009 - 2028	306,092
130171 Asplund Disinfection Study & Upgrade	04/30/2010	894,078	1.50%	2016 - 2035 *	894,078
130191 Pump Station 10 Upgrade	12/12/2008	3,283,217	1.50%	2011 - 2030	2,626,574
130301 Cope Dorbrant Upgrade	09/09/2008	927,746	1.50%	2011 - 2030	742,197
130311 Douglas St Sewer	09/09/2008	117,000	1.50%	2008 - 2027	76,050
130321 ER WWTR Improvements	11/05/2008	4,746,427	1.50%	2010 - 2029	3,616,744
130361 Downtown Sewer Upgrade	10/06/2009	280,000	1.50%	2010 - 2029	210,000
130621 Benson Dawson-Cheechako Upgrade	03/16/2010	447,878	1.50%	2010 - 2029	335,909
130681 Wonder Park Sewer Upgrade Ph II	03/31/2010	540,217	1.50%	2016 - 2035 *	540,217
130711 Iris Way Sewer Upgrade	03/19/2010	408,359	1.50%	2010 - 2029	306,269
131081 Rovenna Pipe Upgrade	07/22/2011	820,741	1.50%	2014 - 2033	738,667
131091 ERWTF Clarifier Upgrade	07/22/2011	1,330,806	1.50%	2011 - 2030	1,132,669
131111 Chester Creek Sewer	09/20/2011	420,000	1.50%	2012 - 2031	357,000
131121 HVAC Control System King St	11/21/2012	237,012	1.50%	2012 - 2031	201,460
131391 Sand Lake Area Swr Phase II	11/21/2012	140,000	1.50%	2014 - 2033	133,000
131401 Fish Creek Interceptor Rehab Proj	10/20/2014	73,772	1.50%	2016 - 2035 *	73,772
Total Long-Term Loans		<u>101,497,916</u>			<u>71,228,307</u>
Loan payable-other	03/15/2013	29,151,000	0.54%	2016	29,151,000
Total Long-Term Debt		<u>\$ 212,933,916</u>			<u>\$ 163,459,307</u>

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

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(b) Revenue Bond Coverage Requirements

The Utility is required to maintain a minimum Revenue Bond Coverage. The Utility's Schedule of Revenue Bond Coverage for the last 2 years follows:

Fiscal Year	Revenue (1)	Assessment Collections (2)	Operating Expenses (3)	Amount Available For Debt Service	<u>Current Year Debt Service Requirements</u>			Coverage (4)
					Principal	Interest	Total	
2013	49,606,871	254,484	29,856,569	20,004,786	705,000	3,099,794	3,804,794	5.26
2014	51,741,625	351,374	31,018,722	21,074,277	730,000	3,069,950	3,799,950	5.55

- (1) Excludes allowance for funds used during construction and includes transfers from funds and non-operating revenue.
- (2) Assessment Collections represent payments made by benefited property owners.
- (3) Excludes Depreciation, PERS relief distributed to labor for years 2006 through 2008, but includes transfers to other funds commencing in 2007.
- (4) Required Minimum Coverage is 1.15.

(c) Total Debt Service Coverage Requirements

Beginning in 2013, the Utility is required to maintain a minimum Total Debt Service Coverage, per terms of a loan agreement. The Utility's Schedule of Total Debt Service Coverage for the last two years follows:

Fiscal Year	Revenue (1)	Assessment Collections (2)	Operating Expenses (3)	Amount Available For Debt Service	<u>Current Year Debt Service Requirements</u>			Coverage (5)
					Principal (4)	Interest (4)	Total	
2013	49,606,871	254,484	29,856,569	20,004,786	5,263,322	4,195,243	9,458,565	2.11
2014	51,741,625	351,374	31,018,722	21,074,277	5,402,093	4,118,817	9,520,910	2.21

- (1) Excludes allowance for funds used during construction and includes transfers from funds and non-operating revenue.
- (2) Assessment Collections represent payments made by benefited property owners.
- (3) Excludes Depreciation, PERS relief distributed to labor for years 2006 through 2008, but includes transfers to other funds commencing in 2007.
- (4) Represents total principal and interest payments on all debt: Revenue bonds, Alaska Clean Water Fund and loan payable-other.
- (5) Required Minimum Coverage is 1.15.

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(d) Debt Service Requirements

Debt service requirements to maturity follow:

Year	REVENUE BONDS		LONG-TERM LOANS		Total
	Principal	Interest	Principal	Interest	
2015	\$ 765,000	3,037,578	4,529,258	1,033,982	9,365,818
2016	800,000	3,002,719	34,309,974	1,379,773	39,492,466
2017	840,000	2,963,719	5,170,833	923,101	9,897,653
2018	880,000	2,924,019	5,182,869	845,539	9,832,427
2019	950,000	2,885,131	4,915,475	767,796	9,518,402
2020 -2024	7,560,000	13,551,247	22,837,071	2,751,730	46,700,048
2025- 2029	14,725,000	10,941,456	17,598,865	1,172,049	44,437,370
2030 - 2034	21,125,000	6,565,455	5,216,930	240,149	33,147,534
2035 - 2038	15,435,000	1,183,375	618,032	9,270	17,245,677
TOTAL	63,080,000	47,054,699	100,379,307	9,123,389	219,637,395
	(765,000)		(4,529,258)		
	(48,940)				
	509,593				
	<u>\$ 62,775,653</u>		<u>95,850,049</u>		
				Current Portion of Principal	
				Unamortized Discount	
				Unamortized Premium	
				Total Long Term Portion	

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(e) Long-Term Obligations

Changes in long-term obligations for the year ending December 31, 2014 follow:

Description	December 31, 2013	Additions	Deletions	December 31, 2014	Amounts Due Within One Year
Revenue bonds	\$ 63,810,000	—	(730,000)	63,080,000	765,000
Long-term revolving loans	74,227,590	1,672,810	(4,672,093)	71,228,307	4,529,258
Long-term loans payable	23,451,000	5,700,000	—	29,151,000	—
Total debt	161,488,590	7,372,810	(5,402,093)	163,459,307	5,294,258
Unamortized discounts	(58,547)	—	9,607	(48,940)	—
Unamortized premiums	541,601	—	(32,008)	509,593	—
Total debt, net	161,971,644	7,372,810	(5,424,494)	163,919,960	5,294,258
Compensated absences	1,104,248	1,436,514	(1,374,552)	1,166,210	886,735
Pollution remediation obligation	474,000	—	(30,000)	444,000	60,000
Total long-term, net	\$ 163,549,892	8,809,324	(6,829,046)	165,530,170	

Changes in long-term obligations for the year ending December 31, 2013 follow:

Description	December 31, 2012	Additions	Deletions	December 31, 2013	Amounts Due Within One Year
Revenue bonds	\$ 64,515,000	—	(705,000)	63,810,000	730,000
Long-term revolving loans	72,276,089	6,509,823	(4,558,322)	74,227,590	4,672,093
Long-term loans payable	—	23,451,000	—	23,451,000	—
Total debt	136,791,089	29,960,823	(5,263,322)	161,488,590	5,402,093
Unamortized discounts	(69,148)	—	10,601	(58,547)	—
Unamortized premiums	573,670	—	(32,069)	541,601	—
Total debt, net	137,295,611	29,960,823	(5,284,790)	161,971,644	5,402,093
Compensated absences	1,174,514	1,433,606	(1,503,872)	1,104,248	799,786
Pollution remediation obligation	254,000	220,000	—	474,000	60,000
Total long-term, net	\$ 138,724,125	31,614,429	(6,788,662)	163,549,892	

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(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, 2014, there is zero defeased debt outstanding as the remaining balance was called and retired in 2014.

(6) Deferred Inflows of Resources

Contributions in Aid of Construction (CIAC) for the years ended December 31, 2014 and 2013 follow:

	<u>December 31, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2014</u>
Contributions in Aid of Construction				
Customer:				
Special assessments	\$ 47,439,644	879,689	(72,866)	48,246,467
Private development	114,588,596	1,801,575	—	116,390,171
Other	25,980	892,325	(25,980)	892,325
Intergovernmental	149,283,323	560,460	(34,509)	149,809,274
Paid in Capital	6,882,286	25,980	(6,882,286)	25,980
Total CIAC	<u>318,219,829</u>	<u>4,160,029</u>	<u>(7,015,641)</u>	<u>315,364,217</u>
Accumulated Amortization				
Customer	(75,436,695)	(2,875,620)	72,866	(78,239,449)
Intergovernmental	(66,575,302)	(2,530,754)	34,509	(69,071,547)
Paid in Capital	(6,194,057)	(714,209)	6,882,286	(25,980)
Total amortization	<u>(148,206,054)</u>	<u>(6,120,583)</u>	<u>6,989,661</u>	<u>(147,336,976)</u>
Net CIAC	<u>\$ 170,013,775</u>	<u>(1,960,554)</u>	<u>(25,980)</u>	<u>168,027,241</u>
	<u>December 31, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2013</u>
Contributions in Aid of Construction				
Customer:				
Special assessments	\$ 47,523,752	74,507	(158,615)	47,439,644
Private development	113,010,123	1,752,046	(173,573)	114,588,596
Other	25,980	—	—	25,980
Intergovernmental	146,903,116	3,223,942	(843,735)	149,283,323
Paid in Capital	6,882,286	—	—	6,882,286
Total CIAC	<u>314,345,257</u>	<u>5,050,495</u>	<u>(1,175,923)</u>	<u>318,219,829</u>
Accumulated Amortization				
Customer	(72,907,395)	(2,861,488)	332,188	(75,436,695)
Intergovernmental	(65,367,979)	(2,051,058)	843,735	(66,575,302)
Paid in Capital	(5,505,829)	(688,228)	—	(6,194,057)
Total amortization	<u>(143,781,203)</u>	<u>(5,600,774)</u>	<u>1,175,923</u>	<u>(148,206,054)</u>
Net CIAC	<u>\$ 170,564,054</u>	<u>(550,279)</u>	<u>—</u>	<u>170,013,775</u>

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(7) Net Position

Net position invested in capital assets is comprised of:

	2014	2013
Capital assets, net of depreciation	\$ 387,943,397	383,514,038
Less: Net revenue bonds payable, long-term	62,775,653	63,563,054
Less: Unspent debt proceeds	(2,311,949)	(2,125,393)
Alaska drinking water loan payable, long-term	66,699,049	69,555,497
Loan payable-other	29,151,000	23,451,000
Long-term obligations maturing within one year	5,294,258	5,402,093
Contributions in aid of construction, net	168,027,241	170,013,775
Investment in capital assets, net of related debt	\$ 58,308,145	53,654,012
	2014	2013
Interim rate escrow requirement	\$ 2,317,531	—
Less: Customer refund payable	560,000	—
	\$ 1,757,531	—

(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 (State). 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 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 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

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contribution plan, benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

Each fiscal year, PERS issues publicly available financial reports that include financial statements and required supplementary information. They may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811 0203, by phoning (907) 465 4460, or via the web at www.state.ak.us/dr/pers/.

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

Participating employees are required to contribute 6.75% of their annual covered salary. Employer contribution rates are established by state statute. Employer contribution rates are established annually by a state sanctioned management board. The funding policy for PERS provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate the necessary 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 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 2014 follow:

	<u>Employee Rate</u>		<u>Contractual Rate</u>		<u>ARM Board Adopted Rate</u>		<u>GASB 43*</u>	
	Pension	3.48%	3.26%	10.64%	12.54%	18.38%	25.09%	27.94%
Postemployment Healthcare	3.27%	3.49%	11.36%	9.46%	17.30%	18.94%	52.55%	55.07%
Total Contribution Rate	6.75%	6.75%	22.00%	22.00%	35.68%	44.03%	80.49%	88.12%

* This rate uses an 8.00% pension discount rate and a 4.90% healthcare discount rate from 1/1/2014 to 12/31/2014 and disregards future Medical Part D payments.

(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 13.68% from January 1 through June 30 and 22.03% between July 1 and December 31, 2014 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 \$57,184,705 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 from December 31, 2012 to December 31, 2014 are shown below:

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Year	Annual Pension cost	Annual OPEB Cost	Total Benefit Cost (TBC)	Utility Contributions	% of TBC Contributed
2014	1,095,336	826,306	1,921,642	1,921,642	100%
2013	961,177	1,027,181	1,982,357	1,982,357	100%
2012	870,489	1,110,145	1,980,634	1,980,634	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 are as follows:

	Tier IV	
	1/1 - 6/30	7/1 - 12/31
Employee Contribution	8.00%	8.00%
Employer Contribution		
Retirement	5.00%	5.00%
Health Reimbursement Arrangement *	3.00%	3.00%
Retiree Medical Plan	0.48%	1.66%
Death & Disability Benefit	0.20%	0.22%
Total Employer Contribution	8.68%	9.88%

*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, 2014 a rate of \$72.95 per full time employee per pay period and \$1.22 per part time hour worked was paid. For pay periods ending after July 1, 2014, a flat rate of approximately \$1,961 per year for full time employees and \$1.26 per part time hour worked were paid.

For the year ended December 31, 2014, the Utility contributed \$251,600 to PERS Tier IV for retirement and retiree medical, and \$98,008 to PERS Tier IV for Health Reimbursement Arrangement on-behalf of its employees. Employee contributions to the plan totaled \$305,284.

For the year ended December 31, 2013, the Utility contributed \$187,345 to PERS Tier IV for retirement and retiree medical, and \$80,619 to PERS Tier IV for Health Reimbursement Arrangement on-behalf of its employees. Employee contributions to the plan totaled \$253,373.

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 12.12% on other Tier IV employee payroll. This amount was

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Notes to Basic Financial Statements

December 31, 2014 and 2013

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

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.

(10) Environmental Issues

In accordance with the State of Alaska Department of Environmental Conservation (ADEC) regulations, the Utility is engaging in activities to remove four leaking, underground fuel storage tanks and the surrounding contaminated soils. In 2011, the Utility submitted work plans and received approval from ADEC for continued groundwater monitoring while working towards closure of the cases on these sites.

The Utility used the expected cash flow technique to measure the liability. The Utility estimated a reasonable range of potential outlays of \$330,000 to \$558,000 and multiplied those outlays by their probability of occurring to estimate a pollution remediation obligation of \$444,000. The potential for a material change in the estimate is possible depending upon the response received from ADEC.

(11) Regulatory Matters

(a) 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.

(b) 2012 Test Year / 2014 Rates

On November 14, 2013, the Utility filed a revenue requirement study requesting an interim refundable rate increase of 5.5% to become effective January 1, 2014. The RCA granted the requested interim rate increase effective January 1, 2014. On April 28, 2015, AWWU and the Office of the Attorney General, Regulatory Affairs and Public Advocacy section (RAPA) agreed to a stipulation resolving this matter which will result in a partial refund of interim rates. The Utility anticipates an order from the Commission requiring refunds on revenues collected in 2014 of approximately \$0.6 million to its customers. This anticipated refund, associated with 2014 sales, was recorded as a liability payable from restricted assets in the Utility's financial statements.

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December 31, 2014 and 2013

(12) Interfund Transfers

The composition of interfund transfers for the year ended December 31, 2014 follows:

<u>Description</u>	<u>Amount</u>
Transfers to other funds:	
Municipal utility service assessment	\$ 5,386,761
ERP project labor	<u>201,410</u>
	<u>\$ 5,588,171</u>

The composition of interfund transfers for the year ended December 31, 2013 follows:

<u>Description</u>	<u>Amount</u>
Transfers to other funds:	
Municipal utility service assessment	\$ 5,376,225
ERP project labor	<u>241,253</u>
	<u>\$ 5,617,478</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 was re-issued by ADEC in the spring of 2014, and is set to expire on June 30, 2019. The Girdwood WWTF permit is 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. The Utility will submit an updated Facilities Plan and a revised permit application under the Alaska Pollutant Discharge Elimination System in 2015.

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 has not yet ruled on the Utility's 2005 application for reauthorization of the permit, originally issued in October of 1985. The permit renewal process includes an evaluation by EPA on whether Asplund continues to meet the criteria specified in Section 301(h) of the Clean Water Act to allow discharge of wastewater receiving a primary level of treatment. EPA has not yet published a determination as to whether the Asplund WWTF discharge continues to meet 301(h) criteria. Neither has EPA established a timeline for the decision. Should EPA determine that the Asplund discharge no longer meets the 301(h) criteria, the permitting authority could fall to the State with a requirement to apply a secondary level of treatment. The 301(h) determination, like the permit issuance itself, is subject to appeal by the Municipality or a third party.

Prior to issuance of a federal discharge permit, 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

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the permit to mitigate the effects on the species. Discussions with federal agencies to date suggest that such a finding is unlikely.

(14) New Accounting Pronouncements

The following standards will be implemented in future reporting periods.

(a) 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. This standard is required to be implemented for the 2015 financial reporting period and will result in a significant reporting change.

(b) GASB 71 Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement No. 68, which is required to be implemented for the 2015 financial reporting period.

(c) GASB 72 Fair Value Measurement and Application

This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this Statement are required to be implemented for the 2016 financial reporting period.

STATISTICAL SECTION

MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER UTILITY FUND

Statistical Section (unaudited)
Financial Ratios

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Financial ratios:					
Current ratio (current assets / current liabilities)	3.08	2.62	0.74	0.84	1.32
Quick ratio (quick assets / current liabilities)	3.04	2.58	0.72	0.82	1.29
Return on investment (change in net position / total assets)	2.04%	1.95%	1.71%	0.83%	0.02%
Return on equity (change in net position / net position)	9.98%	10.53%	9.50%	4.89%	0.10%
Debt to equity as a percent of capital structure (outstanding debt / capital structure over net position / capital structure)	<u>65%</u> 35%	<u>67%</u> 33%	<u>66%</u> 34%	<u>68%</u> 32%	<u>69%</u> 31%
Operating margin (operating income / operating revenues)	35%	35%	34%	30%	24%
Revenue bond debt coverage (amount available for revenue bond debt service / revenue bond principal & interest)	5.54	5.26	4.82	3.70	2.76
Total debt coverage (amount available for total debt service / total principal & interest)	2.21	2.11	—	—	—
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)	2.76%	2.72%	3.12%	3.14%	3.14%

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

Statistical Section (unaudited)

Table 1

Average Number of Accounts

Customer Type	2014	2013	2012	2011 ⁽¹⁾	2010
Residential	53,016	52,745	52,569	52,438	52,257
Commercial	3,695	3,687	3,682	3,669	3,641
Total	<u>56,711</u>	<u>56,432</u>	<u>56,251</u>	<u>56,107</u>	<u>55,898</u>
Growth rate	0.49%	0.32%	0.26%	0.37%	

⁽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

Type of Service	2014 ⁽¹⁾	2013 ⁽²⁾	2012 ⁽³⁾	2011 ⁽⁴⁾	2010 ⁽⁵⁾
Metered:					
Customer charge (per account)	\$ 7.87	\$ 7.46	7.14	6.43	5.59
Residential usage charge (per 1,000 gallons)	5.21	4.94	4.73	4.26	3.70
Commercial – low strength (TSS<= 275 mg/L)	4.58	4.34	4.15	3.74	3.25
Commercial – medium strength (TSS between 275 and 450mg/L)	6.09	5.77	5.52	4.97	4.32
Commercial – high strength (TSS>450 mg/L)	7.10	6.73	6.44	5.80	5.04
Unmetered:					
Customer charge (per account)	7.87	7.46	7.14	6.43	5.59
Residential, usage charge (per dwelling unit)	33.31	31.57	30.21	27.22	23.67
Commercial, usage charge (depends on customer business)	10.97 to 929.83	10.40 to 881.36	9.95 to 843.41	8.96 to 759.83	7.79 to 660.72

⁽¹⁾ Rates effective 1/1/14 as Interim and Refundable. As per the Regulatory Matters disclosure in Notes to Basic Financial Statements, there will be a partial refund of the interim rates collected in 2014.

⁽²⁾ Rates effective 1/1/13.

⁽³⁾ Rates effective 1/1/12.

⁽⁴⁾ 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.

⁽⁵⁾ Rates effective 1/1/10.

MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER UTILITY FUND

Statistical Section (unaudited)

Table 3

Revenues and Expenses - Budget to Actual

	2014 Budget	2014 Actual	Variance Favorable/ (Unfavorable)
Operating revenues:			
Residential sales	\$ 37,256,600	36,940,272	(316,328)
Commercial sales	11,250,800	11,570,728	319,928
Public authorities	2,048,300	1,904,326	(143,974)
Miscellaneous service	914,300	1,011,197	96,897
Total operating revenues	<u>51,470,000</u>	<u>51,426,523</u>	<u>(43,477)</u>
Nonoperating revenues:			
Investment income (loss) - short-term investments	45,000	295,068	250,068
Miscellaneous non-operating revenue	—	20,034	20,034
Total non-operating revenue	<u>45,000</u>	<u>315,102</u>	<u>270,102</u>
Total revenues	<u>\$ 51,515,000</u>	<u>51,741,625</u>	<u>226,625</u>
Expenses:			
Collection system:			
Operations	\$ 1,623,710	891,501	732,209
Maintenance	2,017,144	1,608,135	409,009
Total collection system expense	<u>3,640,854</u>	<u>2,499,636</u>	<u>1,141,218</u>
Pumping:			
Operations	\$ 66,819	660,427	(593,608)
Maintenance	655,769	437,367	218,402
Total collection system expense	<u>722,588</u>	<u>1,097,794</u>	<u>(375,206)</u>
Treatment:			
Operations	9,586,929	10,443,157	(856,228)
Maintenance	1,611,941	1,340,574	271,367
Total treatment expense	<u>11,198,870</u>	<u>11,783,731</u>	<u>(584,861)</u>
Customer accounts	2,288,972	1,992,089	296,883
Administrative and general	8,256,578	8,057,301	199,277
Depreciation, net of amortization	8,200,000	7,843,888	356,112
Total operating expenses	<u>34,307,862</u>	<u>33,274,439</u>	<u>1,033,423</u>
Other expenses:			
Transfers to other funds	5,397,958	5,588,171	(190,213)
Interest on long-term obligations	5,140,000	4,458,151	681,849
Amortization of debt expense	40,000	33,120	6,880
Allowance for funds used during construction	(680,000)	(328,333)	(351,667)
Misc income deduction	—	601	(601)
Total other expenses	<u>9,897,958</u>	<u>9,751,710</u>	<u>146,248</u>
Total expenses	<u>44,205,820</u>	<u>43,026,149</u>	<u>1,179,671</u>
Increase in net position	<u>\$ 7,309,180</u>	<u>8,715,476</u>	<u>1,406,296</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 12/31/2013	2014 New (Retired) Debt	2014 Principal Payments	Principal Balance 12/31/2014	Current Portion
Revenue Bonds							
2004 Wastewater Revenue Bonds	06/10/04	\$ 22,620,000	4,795,000	—	540,000	4,255,000	565,000
2007 Wastewater Revenue & Refunding Bonds	06/28/07	59,665,000	59,015,000	—	190,000	58,825,000	200,000
Total Revenue Bonds		82,285,000	63,810,000	—	730,000	63,080,000	765,000
Alaska Clean Water (ACW) Loans							
127041 - Pt. Woronzof Phase V	03/02/1993	2,443,128	154,346	—	154,346	—	—
127061 - Girdwood Wastewater	04/24/1995	1,565,161	455,173	—	88,345	366,828	89,669
127071 - Eagle River TID ER-3	10/30/1995	2,073,031	601,460	—	116,737	484,723	118,488
127081 - Misc Wastewater Projects	05/08/1995	2,071,475	914,322	—	108,424	805,898	110,050
127091 - Chester Creek Pump Stn R&R	06/11/1997	959,587	280,653	—	54,472	226,181	55,289
127101 - FY97 Misc Wastewater Projects	06/11/1997	2,250,000	1,687,500	—	112,500	1,575,000	112,500
127111 - Equipment - Wastewater 1998	01/21/1998	286,051	110,979	—	15,155	95,824	15,382
127131 - Chester Creek Sewer Trunk Study	04/02/1998	300,127	150,064	—	15,007	135,057	15,006
127141 - Facility Replace & Rehab Proj 1998	01/21/1998	1,305,252	945,881	—	63,059	882,822	63,059
127151 - Operations Facilities, Phase II	01/21/1998	1,138,248	510,845	—	56,760	454,085	56,761
127211 - FY99 Misc Small Sewer R&R, Phs I	07/23/2001	1,410,000	694,471	—	72,649	621,822	73,738
127271 - C-5-7 Trunk Sewer Upgrade	05/19/2003	2,229,617	1,523,523	—	107,012	1,416,511	108,618
127281 - Asplund Facility Solids Handling	01/21/2000	4,290,279	1,719,827	—	214,979	1,504,848	214,978
127291 - Operations Facility, Phase III	03/18/2003	3,608,588	2,023,123	—	202,313	1,820,810	202,312
127301 - Septic System Site Upgrade	01/21/2000	500,000	249,544	—	24,954	224,590	24,954
127371 - Old Glen Hwy	02/22/2008	2,000,000	1,800,000	—	100,000	1,700,000	100,000
127421 - B-4AB Sewer Trunk Upgrade	08/20/2001	2,370,748	1,062,473	—	118,052	944,421	118,053
127451 - SCADA Sewer	06/18/2004	13,000,000	9,866,897	—	657,793	9,209,104	657,793
127481 - Asplund WW Treatment Facility	06/18/2004	4,200,000	2,668,326	—	204,607	2,463,719	207,676
127611 - Asplund Facility Utilador	12/05/2012	2,100,000	2,100,000	—	105,000	1,995,000	105,000
127631 - Asplund Process Impr	01/30/2008	8,000,000	6,000,000	—	400,000	5,600,000	400,000
127641 - C-F Interceptor Upgrade	12/16/2009	41,858	25,115	—	4,186	20,929	4,186
127651 - C-2(A,B) Sewer Improvements	08/01/2007	1,700,000	1,359,996	—	85,000	1,274,996	85,000
127661 - King-Rovenna Sewer Upgrade	08/01/2007	1,613,129	1,290,503	—	80,656	1,209,847	80,657
127671 - C-5-N Campbell Lake	08/07/2007	941,788	753,430	—	47,089	706,341	47,089
127691 - ER WWTF Gravity Thickener	12/28/2007	201,970	161,576	—	10,099	151,477	10,099
127701 - Girdwood WWTF Improvements	12/16/2009	10,778,946	9,642,768	1,136,178	—	10,778,946	—
127721 - San Ernesto Hoyt Upgrade	12/22/2008	404,000	323,200	—	20,200	303,000	20,200
127741 - Septage Improvements	10/29/2008	1,800,000	1,530,000	—	90,000	1,440,000	90,000
130031 - Asplund Improvements	01/18/2008	2,701,000	1,890,700	—	135,050	1,755,650	135,050
130061 - W. 71st Ave. Sewer Rehabilitation	10/31/2014	73,627	—	73,627	—	73,627	—
130071 - Pump Station Upgrade	12/16/2009	3,519,908	3,343,913	—	175,996	3,167,917	175,995
130081 - Sand Lake Swr Extension Proj.	02/17/2010	600,000	510,000	—	30,000	480,000	30,000
130091 - Asplund Generator Upgrade	10/16/2008	5,963,373	5,068,867	—	298,169	4,770,698	298,169
130101 - Minnesota-Benson Swr Upgrd	06/16/2009	395,625	296,719	—	19,781	276,938	19,781
130131 - Arctic 32nd-36th Upgrade	07/09/2008	437,275	327,956	—	21,864	306,092	21,864
130171 - Asplund Disinfection Study & Upgrd	04/30/2010	894,078	854,700	39,378	—	894,078	—
130191 - Pump Station 10 Upgrade	12/12/2008	3,283,217	2,790,734	—	164,160	2,626,574	164,161
130301 - Cope Dorbrant Upgrade	09/09/2008	927,746	788,584	—	46,387	742,197	46,387
130311 - Douglas St Sewer	09/09/2008	117,000	81,900	—	5,850	76,050	5,850
130321 - ER WWTF Improvements	11/05/2008	4,746,427	3,857,860	—	241,116	3,616,744	241,116
130361 - Downtown Sewer Upgrade	10/06/2009	280,000	224,000	—	14,000	210,000	14,000
130621 - Benson Dawson-Cheechako Upgrd	03/16/2010	447,878	358,302	—	22,393	335,909	22,394
130681 - Wonder Park Sewer Upgrade Ph II	03/31/2010	540,217	190,362	349,855	—	540,217	—
130711 - Iris Way Sewer Upgrade	03/19/2010	408,359	326,687	—	20,418	306,269	20,418
131081 - Rovenna Pipe Upgrade	07/22/2011	820,741	779,704	—	41,037	738,667	41,037
131091 - ER WWTF Clarifier Upgrade	07/22/2011	1,330,806	1,199,296	—	66,627	1,132,669	66,628
131111 - Chester Creek Sewer	09/20/2011	420,000	378,000	—	21,000	357,000	21,000
131121 - HVAC Control System King St	11/21/2012	237,012	213,311	—	11,851	201,460	11,851
131391 - Sand Lake Area Swr Phase II	11/21/2012	140,000	140,000	—	7,000	133,000	7,000
131401 - Fish Creek Interceptor Rehab Proj	10/20/2014	73,772	—	73,772	—	73,772	—
Total ACW Loans		103,941,044	74,227,590	1,672,810	4,672,093	71,228,307	4,529,258
Loan Payable-other							
Loan Payable-other	03/15/13	23,451,000	23,451,000	5,700,000	—	29,151,000	—
Total Loan Payable-other		23,451,000	23,451,000	5,700,000	—	29,151,000	—
Total Long-Term Debt		\$ 209,677,044	161,488,590	7,372,810	5,402,093	163,459,307	5,294,258

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

Statistical Section (unaudited)

Table 5

Capital Improvement Program
(amounts expressed in thousands)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	Six Year Total
Project category:							
Equipment	\$ 4,629	4,323	3,958	3,671	3,443	3,324	23,348
Plant	19,704	14,450	11,620	9,980	13,322	980	70,056
Pipe	<u>9,012</u>	<u>15,427</u>	<u>19,572</u>	<u>22,349</u>	<u>20,235</u>	<u>33,696</u>	<u>120,291</u>
Total	<u>33,345</u>	<u>34,200</u>	<u>35,150</u>	<u>36,000</u>	<u>37,000</u>	<u>38,000</u>	<u>213,695</u>
Source of funding:							
Debt	24,345	25,200	26,650	28,000	29,500	29,000	162,695
Equity	1,000	1,000	1,000	1,000	1,000	1,000	6,000
Grants	<u>8,000</u>	<u>8,000</u>	<u>7,500</u>	<u>7,000</u>	<u>6,500</u>	<u>8,000</u>	<u>45,000</u>
Total	<u>\$ 33,345</u>	<u>34,200</u>	<u>35,150</u>	<u>36,000</u>	<u>37,000</u>	<u>38,000</u>	<u>213,695</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>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Wastewater treatment facility (WWTF) system data:					
Asplund WWTF:					
Minimum daily flow	17.8	23.2	22.3	20.2	16.7
Maximum daily flow	41.7	52.9	50.2	41.6	39.1
Average daily flow	26.9	28.9	27.7	25.0	26.9
Peak Flow	64.5	67.8	65.5	58.5	58.5
Yearly Total (mg)	9,799.0	10,529.7	10,128.4	9,120.1	9,802.4
Eagle River WWTF:					
Minimum daily flow	1.1	1.2	0.7	0.9	0.8
Maximum daily flow	1.9	2.3	2.1	2.1	1.8
Average daily flow	1.4	1.4	1.4	1.3	1.3
Peak Flow	4.4	4.4	4.4	4.4	3.7
Yearly Total (mg)	498.3	517.7	526.6	488.1	480.9
Girdwood WWTF:					
Minimum daily flow	0.2	0.3	0.2	0.3	0.2
Maximum daily flow	1.3	1.5	1.4	1.9	1.2
Average daily flow	0.4	0.5	0.5	0.5	0.4
Peak Flow	2.2	2.2	2.2	2.2	N/A
Yearly Total (mg)	155.3	170.8	164.5	169.2	148.1
Miles of line:					
Interceptors	45	45	45	45	45
Trunks	84	83	83	83	83
Laterals	625	623	622	621	620
Total	<u>755</u>	<u>751</u>	<u>750</u>	<u>749</u>	<u>748</u>
	<u>Current</u>				
	<u>Capacity</u>				
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 12/31/2014
	Balance 01/01/2014	Additions	Retirements	
Wastewater plant in service:				
Tangible plant:				
Collection plant:				
Laterals	\$ 236,303	4,535	(153)	240,685
Trunks	73,450	2,208	—	75,658
Interceptors	44,401	118	—	44,519
Lift stations	17,258	—	—	17,258
Pumping plant:				
Structures & improvements	9,158	—	—	9,158
Receiving wells	2,641	—	—	2,641
Electric pumping equipment	5,274	7	—	5,281
Treatment and disposal plant:				
Treatment plant	71,570	853	—	72,423
Treatment & disposal equipment	61,307	653	—	61,960
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	24,658	336	—	24,994
Office furniture	158	—	(17)	141
Office equipment	—	—	—	—
Computer equipment	9,045	995	(2,460)	7,580
Vehicles (light duty)	2,112	28	—	2,140
Transportation equipment (heavy duty)	4,453	162	—	4,615
Stores equipment	188	—	—	188
Tools, shop, & garage equipment	318	21	(41)	298
Laboratory equipment	54	124	—	178
Power operated equipment	485	322	—	807
Communication equipment	21,406	—	—	21,406
Miscellaneous equipment	331	—	—	331
Total tangible plant	602,330	10,362	(2,671)	610,021
Intangible plant:	4,151	1,554	—	5,705
Total wastewater plant in service	606,481	11,916	(2,671)	615,726
Utility plant acquisition adjustment	—	—	—	—
Property held for future use	1,380	—	—	1,380
Construction work in progress	9,287	16,592	(10,115)	15,764
Total wastewater plant	\$ 617,148	28,508	(12,786)	632,870

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		
	01/01/2014	Additions	Retirements	12/31/2014	
Wastewater plant in service:					
Tangible plant:					
Collection plant:					
Laterals	\$ 91,206	4,289	(153)	95,342	145,343
Trunks	29,890	1,159	—	31,049	44,609
Interceptors	18,931	565	—	19,496	25,023
Lift stations	12,747	343	—	13,090	4,168
Pumping plant:					
Structures & improvements	3,495	140	—	3,635	5,523
Receiving wells	191	76	—	267	2,374
Electric pumping equipment	670	95	—	765	4,516
Treatment and disposal plant:					
Treatment plant	18,592	905	—	19,497	52,926
Treatment & disposal equipment	28,520	1,766	—	30,286	31,674
Effluent tunnel-plant sewer	3,835	171	—	4,006	7,232
Outfall sewer lines	2,121	35	—	2,156	163
Land and land rights	—	—	—	—	4,203
General plant:					
Structures & improvements	7,392	471	—	7,863	17,131
Office furniture	146	1	(17)	130	11
Office equipment	—	—	—	—	—
Computer equipment	2,546	1,809	(2,460)	1,895	5,685
Vehicles (light duty)	904	38	—	942	1,198
Transportation equipment (heavy duty)	3,713	264	—	3,977	638
Stores equipment	140	6	—	146	42
Tools, shop, & garage equipment	218	13	(41)	190	108
Laboratory equipment	25	2	—	27	151
Power operated equipment	181	28	—	209	598
Communication equipment	6,999	1,345	—	8,344	13,062
Miscellaneous equipment	95	18	—	113	218
Total tangible plant	<u>232,557</u>	<u>13,539</u>	<u>(2,671)</u>	<u>243,425</u>	<u>366,596</u>
Intangible plant	1,077	425	—	1,502	4,203
Total wastewater plant in service	<u>233,634</u>	<u>13,964</u>	<u>(2,671)</u>	<u>244,927</u>	<u>370,799</u>
Utility plant acquisition adjustment	—	—	—	—	—
Property held for future use	—	—	—	—	1,380
Construction work in progress	—	—	—	—	15,764
Total wastewater plant	<u>\$ 233,634</u>	<u>13,964</u>	<u>(2,671)</u>	<u>244,927</u>	<u>387,943</u>



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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, Alaska, as of and for the year ended December 31, 2014, 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 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit, 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 the Wastewater Utility Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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.

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.

BDO USA, LLP

Anchorage, Alaska
May 22, 2015