



Municipality of Anchorage, Alaska Water Utility Fund

Basic Financial Statements
and Other Information

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



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

Basic Financial Statements and Other Information

December 31, 2014 and 2013

(With Independent Auditor's Report Thereon)

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

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Water Utility Fund, an enterprise fund of the Municipality of Anchorage, Alaska, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Water 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 Water 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 Water Utility Fund and do not purport to, and do not present fairly the financial position of the Municipality of Anchorage, Alaska as of December 31, 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 Water 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 Water 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 Water Utility Fund's internal control over financial reporting and compliance.

BDO USA, LLP

Anchorage, Alaska
May 22, 2015

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

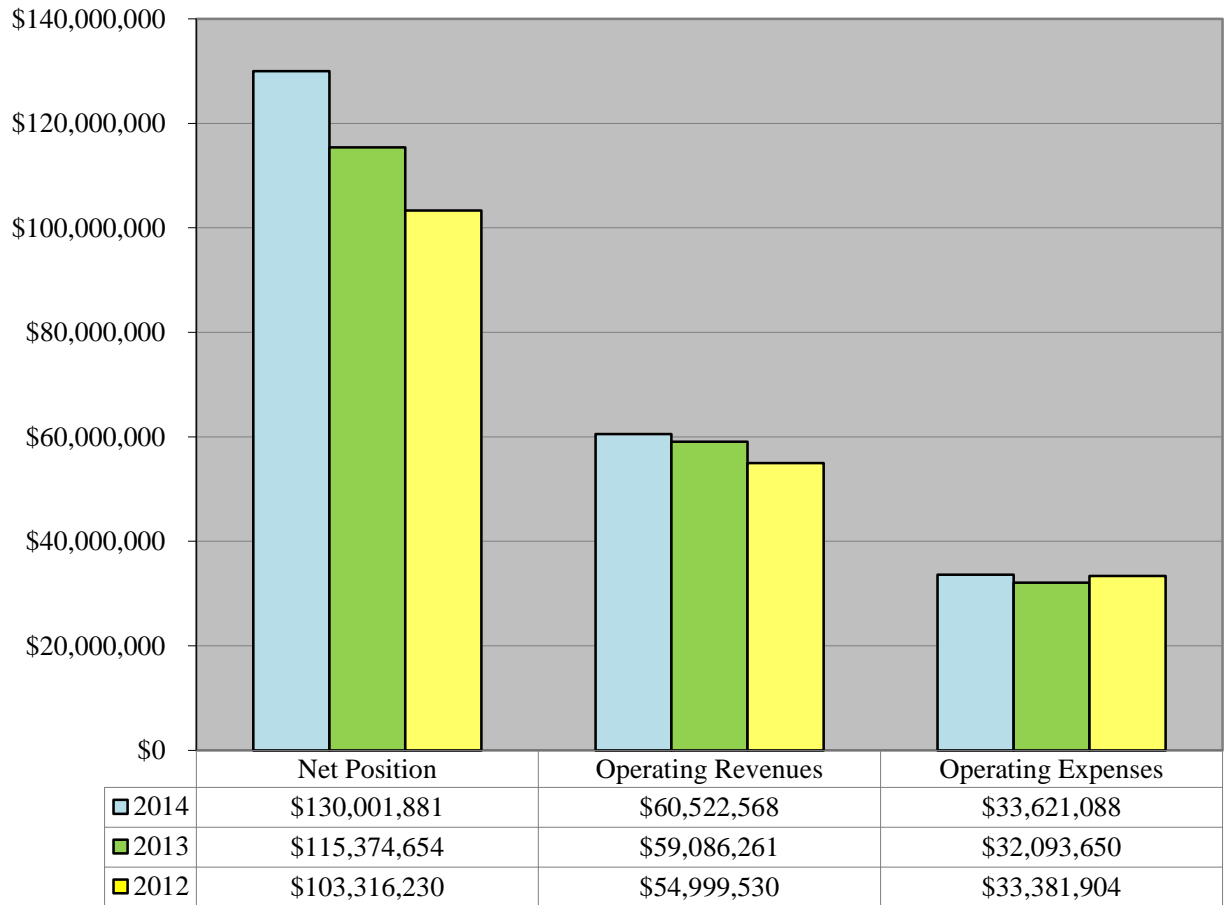
Management's Discussion and Analysis

December 31, 2014 and 2013

This section of the Municipality of Anchorage Water Utility (Utility) annual financial report presents the analysis of the Utility's financial performance during the years ending December 31, 2014 and 2013. Please read it in conjunction with the Utility's financial statements.

Financial Highlights

- Net capital assets increased by \$7,370,000, or 1% in 2014 and decreased by \$2,120,000, or less than 1% in 2013.
- Net position increased by \$14,630,000, or 13% in 2014 and \$12,060,000, or 12% in 2013.
- Operating revenues increased by \$1,440,000, or 2% in 2014 and \$3,910,000, or 7% in 2013.
- Operating expenses increased by \$1,530,000, or 5% in 2014 and decreased by \$1,311,000, or 4% in 2013.



**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER 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 the Management's Discussion and Analysis; 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 total assets and deferred outflows of resources less total 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
WATER 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 and deferred outflows of resources:			
Net capital assets	\$ 519,017,658	511,646,216	513,764,388
Current and other assets	50,054,524	46,045,792	41,514,640
Deferred outflows of resources	1,593,873	1,966,035	2,402,422
Total assets and deferred outflows of resources	570,666,055	559,658,043	557,681,450
Liabilities and deferred inflows of resources:			
Net debt outstanding	211,628,356	213,280,828	216,681,386
Current and other liabilities	9,744,873	5,626,066	6,872,055
Deferred inflows of resources	219,290,945	225,376,495	230,811,779
Total liabilities and deferred inflows of resources	440,664,174	444,283,389	454,365,220
Net position:			
Net investment in capital assets	90,685,159	76,801,473	72,118,201
Restricted	5,954,180	5,040,344	5,030,962
Unrestricted	33,362,542	33,532,837	26,167,067
Total net position	\$ 130,001,881	115,374,654	103,316,230
Change in fund net position	\$ 14,627,227	12,058,424	

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Management's Discussion and Analysis

December 31, 2014 and 2013

The Utility's total assets and deferred outflows of resources increased by \$11.0 million in 2014. Current and other assets increased by \$4.1 million due to a \$3.0 million increase in general cash pool equity, a \$1.2 million increase in restricted assets, and a \$ 0.3 million increase in accounts receivable, netted by a \$0.4 million decrease in non-current assets. Net capital assets increased by \$7.3 million due to an increase in construction work in progress of \$5.9 million, by new plant additions of \$17.6 million, added cost of removal of \$0.6 million, which was reduced by depreciation of \$16.8 million (see MD&A Table 3A and note 3).

Total liabilities and deferred inflows of resources decreased by \$3.6 million in 2014. Net debt outstanding decreased by \$1.6 million, due to debt principal payments of \$12.2 million and bond premium/discount amortization of \$0.2 million, offset by additional low interest State of Alaska loans totaling \$3.1 million and additional long term loans totaling \$7.7 million (see Table 4 and note 4). Current and other liabilities increased by \$4.1 million, and deferred inflows of resources decreased by \$6.1 million due exclusively to a decrease in contributions in aid of construction (see note 6.)

The Utility's total assets and deferred outflows of resources increased by \$2.0 million in 2013. Current and other assets increased by \$4.5 million due to a \$21.2 million increase in general cash pool equity and a \$0.2 million increase in accrued interest receivable, netted by a \$14.7 million decrease in loan receivable from the Wastewater Utility, a \$1.6 million decrease in bond and grant capital acquisition and construction cash pool equity, and a \$0.6 million decrease in non-current assets. Net capital assets decreased by \$2.1 million due to a decrease in construction work in progress of \$0.2 million and depreciation of \$16.4 million, which was offset by new plant additions of \$14.0 million and an increase of \$0.5 million in property held for future use (see MD&A Table 3A and note 3).

Total liabilities and deferred inflows of resources decreased by \$10.1 million in 2013. Net debt outstanding decreased by \$3.4 million, due to debt principal payments of \$11.4 million and bond premium/discount amortization of \$0.2 million, offset by additional low interest State of Alaska loans totaling \$3.8 million and additional long term loans totaling \$4.4 million (see Table 4 and note 4). Liabilities payable from restricted assets decreased \$0.7 million, other liabilities decreased by \$0.6 million, and deferred inflows of resources decreased by \$5.4 million due exclusively to a decrease in contributions in aid of construction (see note 6.)

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

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 ended 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	\$ 41,140,290	40,467,916	37,921,728
Commercial sales	13,480,806	12,844,826	11,315,392
Public fire protection	4,763,798	4,658,460	4,394,772
Miscellaneous	1,137,674	1,115,059	1,505,518
Nonoperating revenues	1,642,512	54,334	769,560
Total revenues	<u>62,165,080</u>	<u>59,140,595</u>	<u>55,906,970</u>
Operating expenses:			
Source of supply	2,399,969	2,890,303	3,859,679
Pumping Plant	188,979	3,665	—
Water treatment	4,939,102	4,344,829	4,267,874
Transmission and distribution	5,976,990	5,013,253	5,932,882
Customer accounts	2,247,178	2,530,688	2,577,565
Administrative and general	7,635,177	7,475,212	7,374,436
Depreciation, net of amortization	10,233,693	9,835,700	9,387,673
Nonoperating expenses	6,575,718	7,307,884	6,957,790
Total expenses	<u>40,196,806</u>	<u>39,401,534</u>	<u>40,357,899</u>
Income before special item and transfers	<u>21,968,274</u>	<u>19,739,061</u>	<u>15,549,071</u>
Special item:			
Land acquisition asset adjustment - see note 12	—	238,737	—
Income before transfers	<u>21,968,274</u>	<u>19,977,798</u>	<u>15,549,071</u>
Transfers:			
Transfer to other funds	(7,341,047)	(7,919,374)	(7,367,771)
Transfer from other funds	—	—	12,000
Total transfers	<u>(7,341,047)</u>	<u>(7,919,374)</u>	<u>(7,355,771)</u>
Change in fund net position	14,627,227	12,058,424	8,193,300
Net position - beginning	115,374,654	103,316,230	95,122,930
Net position - ending	<u>\$ 130,001,881</u>	<u>115,374,654</u>	<u>103,316,230</u>

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

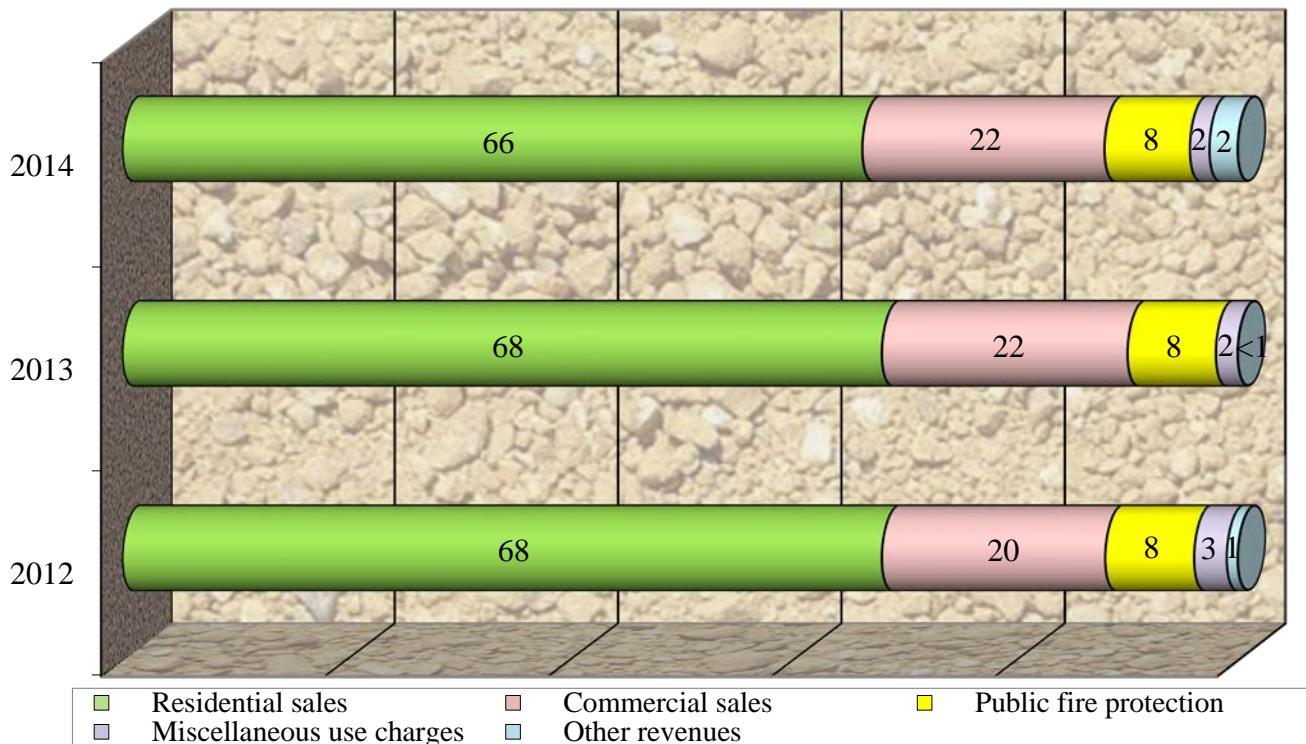
Management's Discussion and Analysis

December 31, 2014 and 2013

During 2014, net position increased by \$14.6 million and total revenues increased by \$3.0 million. Operating revenues increased by \$1.4 million, due to a 2.26% rate increase effective January 1, 2014 and a 0.53% increase in customers during the year. Non-operating revenues increased by \$1.6 million due primarily to a \$1.2 million gain on the disposition of non-utility property and an increase in short term investment income of \$0.4 million.

During 2013, net position increased by \$12.1 million. Operating revenues increased by \$3.9 million, due to a 6.0% rate increase effective January 1, 2013 and a 0.35% increase in customers during the year. Non-operating revenues decreased by \$0.7 million due primarily to a decrease in short term investment income.

Revenues by Source in %



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

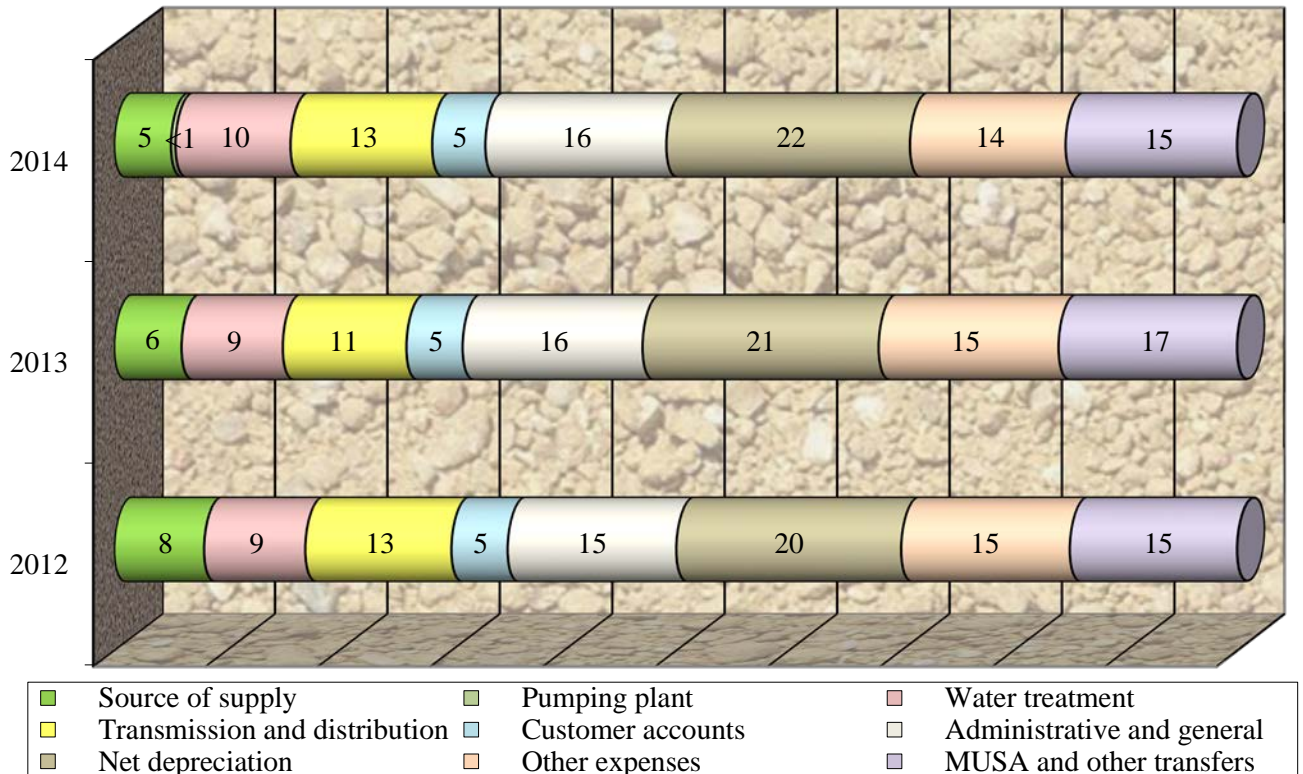
Management's Discussion and Analysis

December 31, 2014 and 2013

Total expenses increased by \$0.8 million in 2014 when compared to 2013, with operating expenses increasing by \$1.5 million, and non-operating expenses decreasing by \$0.7 million. The increase in operating expenses was primarily due to increases of \$0.9 million in transmission and distribution, \$0.6 million in water treatment, \$0.2 million in pumping plant expense, \$0.2 million in administrative expense, and a \$0.4 million in depreciation expense associated with increased plant in service; offset by decreases of \$0.5 million in source of supply, and \$0.3 million in customer service.

Total expenses decreased by \$0.9 million in 2013 when compared to 2012, with operating expenses decreasing by \$1.3 million, and non-operating expenses increasing by \$0.4 million. The decrease was primarily due to a \$1.0 million decrease in source of supply and a \$0.9 million decrease in transmission and distribution, offset by a \$0.1 million increase in administrative expense and a \$0.4 million increase in depreciation expense associated with increased plant in service.

Expenses by Source in %



**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER 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	\$ 2,787,840	3,048,904	3,282,747
Source of supply plant	20,589,477	19,806,157	20,651,396
Pumping plant	11,163,473	11,017,790	11,267,490
Treatment plant	40,665,721	41,723,819	43,267,919
Transmission & distribution plant	395,083,418	390,017,534	389,368,232
General plant land	762,256	762,256	762,256
General plant	31,266,797	34,297,779	34,367,411
Net plant in service	502,318,982	500,674,239	502,967,451
Plant acquisition adjustment	957,132	1,071,908	1,186,684
Property held for future use	506,623	586,623	80,000
Construction work in progress	15,234,921	9,313,446	9,530,253
Total net capital assets	<u>\$ 519,017,658</u>	<u>511,646,216</u>	<u>513,764,388</u>
Increase/(decrease) in net capital assets	<u>\$ 7,371,442</u>	<u>(2,118,172)</u>	

Net capital assets increased by \$7.3 million in 2014. Construction work in progress increased by \$5.9 million during 2014. The increase in construction work in progress was due to additions of \$21.9 million netted by deletions of \$16.0 million (see note 3). The plant category that increased the most at gross during the year was transmission and distribution plant, which increased by \$13.7 million. Pumping plant increased by \$0.6 million, source of supply plant increased by \$1.6 million, general plant increased by \$0.9 million, water treatment plant by \$0.6 million, and miscellaneous intangible plant by \$0.2 million.

Net capital assets decreased by \$2.1 million in 2013. Construction work in progress decreased by \$0.2 million during 2013. The decrease in construction work in progress was due to deletions of \$13.6 million netted by additions of \$13.4 million (see note 3).

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

Management's Discussion and Analysis

December 31, 2014 and 2013

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

<u>Transmission and distribution plant</u>		<u>Miscellaneous Intangible Plant</u>	
Bayshore_Subd-WTR	\$ 5.7	Economic_Pipe_Repl_Model-WTR	\$ <u>0.2</u>
E_Bluff_Rehab_PhII-WTR	0.5		
Creekside Tracts A-E	1.1	<u>Source of Supply Plant</u>	
22ndAve_Wayne-Illian_Rehab-WTR	0.9	Well_10-11_Capacity_Rehab	\$ 1.4
Wonder Park PhII-WTR	1.4	Other Miscellaneous projects	<u>0.2</u>
North_Point_Dr_Rehab-WTR	0.5	Total source of supply	<u>\$ 1.6</u>
Resurrection_Dr_Rehab-WTR	0.6		
SanRoberto_Klvn-Hoyt_Rehab-WTR	0.8	<u>General Plant</u>	
PME_A_48th-50th_Int-WTR	0.5	CIS Enhancements WTR	\$ 0.1
Other Miscellaneous projects	<u>1.7</u>	IT_Infra_Equip_Only-WTR14	0.1
Total transmission and distribution plant	<u>\$ 13.7</u>	WorkTech-WTR	0.1
		Excavator_96804-WTR13	0.2
<u>Water Pumping Plant</u>		Other Miscellaneous projects	<u>0.4</u>
Well_10-11_Capacity_Rehab	\$ 0.2	Total general plant	<u>\$ 0.9</u>
Other Miscellaneous projects	<u>0.4</u>		
Total water pumping plant	<u>\$ 0.6</u>	<u>Water Treatment Plant</u>	
		EWTF_Hypo_Tank_Rehab	\$ 0.4
		Other Miscellaneous projects	<u>0.2</u>
		Total water treatment plant	<u>0.6</u>
		Total Additions	<u>\$ 17.6</u>

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

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

Management's Discussion and Analysis

December 31, 2014 and 2013

Debt

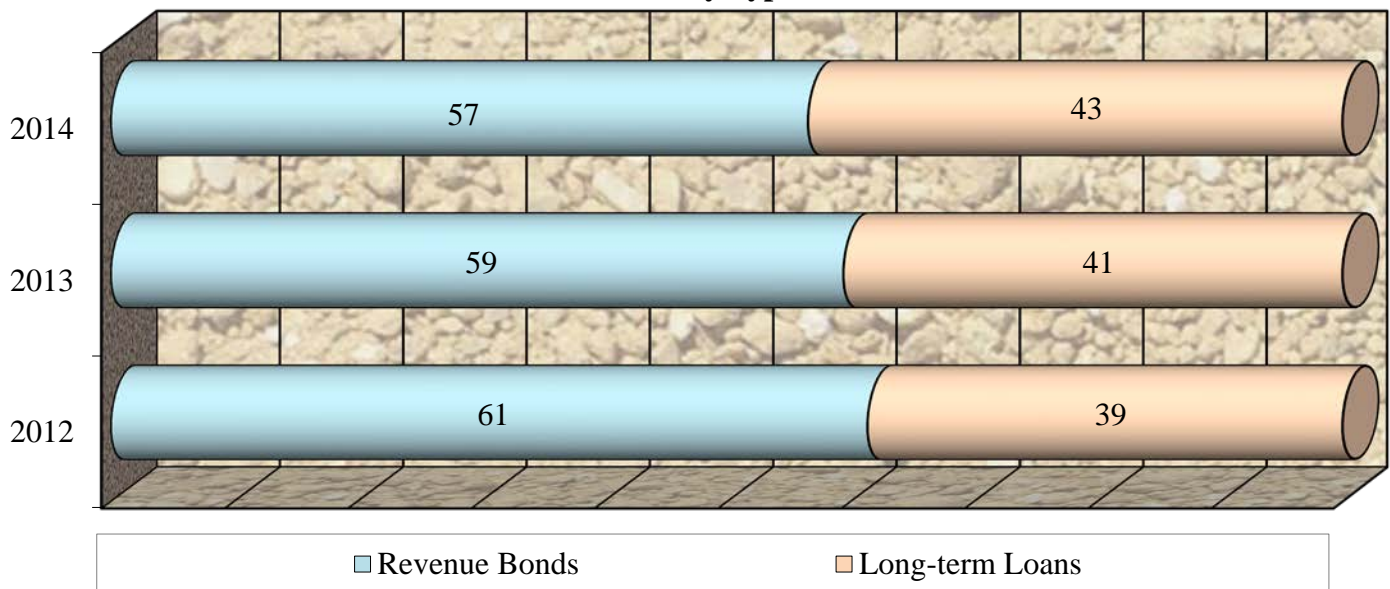
Changes in the Utility's debt are shown in the following table as of December 31, 2014, 2013, and 2012. The table includes only debt having a long-term component.

**Table 4
Net Debt**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenue bonds, net	\$ 119,646,695	126,699,771	132,947,883
Long-term loans	<u>91,981,662</u>	<u>86,581,057</u>	<u>83,733,503</u>
Total net debt	<u>\$ 211,628,357</u>	<u>213,280,828</u>	<u>216,681,386</u>
Increase (Decrease) in net debt	<u>\$ (1,652,471)</u>	<u>(3,400,558)</u>	

The Utility did not issue bonds in either 2014 or 2013 but did receive approximately \$3.1 and \$3.8 million respectively from the State of Alaska Drinking Water Loan Program (see note 4) to finance capital improvements. In addition, the Utility borrowed in 2014 and 2013 \$7.7 and \$4.4 million, respectively, in other loans payable. Bond and loan principal payments totaled \$6.8 million and \$5.4 million, compared to 2013 principal payments of \$6.0 million and \$5.4 million.

Net Debt by Type in %



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

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

Management's Discussion and Analysis

December 31, 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 remain the same as the 2014 budget due to a 2.7% budget increase in labor offset by .2% reduction in non-labor. There is no change in budget for Municipal Service Assessment and depreciation expense is budgeted to decrease approximately 5.2%. 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 Regulatory Commission of Alaska (RCA), and as a result, revenues intended to recover certain costs are provided either before or after the costs are incurred, resulting in regulatory assets or liabilities.

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

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

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

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Statements of Net Position

December 31, 2014 and 2013

Assets and Deferred Outflows of Resources

	2014	2013
Capital assets:		
Plant in service, at cost	\$ 776,035,624	761,631,335
Less accumulated depreciation	(273,716,642)	(260,957,096)
Net plant in service	502,318,982	500,674,239
Plant acquisition adjustment less amortization of \$2,364,812 in 2014 and \$2,250,036 in 2013	957,132	1,071,908
Property held for future use	506,623	586,623
Construction work in progress	15,234,921	9,313,446
Net capital assets	519,017,658	511,646,216
Non-current assets:		
Unamortized cost of debt issuance [see note 1(a)]	872,684	979,042
Unbilled special assessments	1,492,461	1,564,429
Other	4,602,308	4,847,695
Total non-current assets	6,967,453	7,391,166
Restricted assets:		
Current:		
Equity in bond and grant capital acquisition and construction pool	992,930	1,846,545
Revenue bond debt service investments	5,077,564	5,040,344
Interim rate escrow investment	1,881,616	—
Non-current:		
Customer deposits	396,031	239,595
Total restricted assets	8,348,141	7,126,484
Current assets:		
Equity in general cash pool	28,007,205	24,984,337
Accrued interest receivable	194,318	222,105
Accounts receivable:		
Utility customers, less estimated uncollectibles of \$54,953 in 2014 and \$91,888 in 2013	4,656,413	4,379,018
Other, less estimated uncollectibles of \$45,602 in 2014 and \$4,061 in 2013	92,839	67,775
Special assessments receivable	61,768	134,522
Unbilled reimbursable projects	11,903	23,791
Prepays	36,909	35,897
Inventory of materials and supplies, at average cost	1,677,575	1,680,697
Total current assets	34,738,930	31,528,142
Deferred outflows of resources:		
Unamortized loss on refunded bond issues	1,593,873	1,966,035
Total assets and deferred outflows of resources	\$ 570,666,055	559,658,043

See accompanying notes to basic financial statements.

Liabilities, Deferred Inflows of Resources, and Net Position

	2014	2013
Net position:		
Net investment in capital assets	\$ 90,685,159	76,801,473
Restricted	5,954,180	5,040,344
Unrestricted	33,362,542	33,532,837
Total net position	130,001,881	115,374,654
Non-current liabilities:		
Compensated absences payable	267,657	295,345
Pollution remediation obligation	68,500	68,500
Revenue bonds payable	114,255,000	117,825,000
Less unamortized discounts	(19,632)	(90,391)
Plus unamortized premium	1,841,327	2,129,162
Net revenue bonds payable	116,076,695	119,863,771
Alaska Drinking Water Fund loans payable	74,443,724	76,867,583
Loan payable – other	12,125,600	4,425,600
Total non-current liabilities	202,982,176	201,520,799
Current liabilities:		
Accounts payable	659,293	893,127
Accrued payroll	1,635,034	708,196
Compensated absences payable	945,475	858,446
Accrued interest	1,471,060	1,509,082
Pollution remediation obligation	20,000	20,000
Long-term obligations maturing within one year	8,982,338	12,123,874
Total current liabilities	13,713,200	16,112,725
Liabilities payable from restricted assets:		
Current:		
Capital acquisition and construction accounts payable	3,276,822	1,033,775
Customer refund payable	1,005,000	—
Non-current:		
Customer deposits payable	396,031	239,595
Total liabilities payable from restricted assets	4,677,853	1,273,370
Deferred inflows of resources:		
Contributions in aid of construction, net of amortization	219,290,945	225,376,495
Total liabilities and deferred inflows of resources	440,664,174	444,283,389
Total liabilities, deferred inflows of resources and net position	\$ 570,666,055	559,658,043

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

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

December 31, 2014 and 2013

	2014	2013
Operating revenues:		
Charges for sales and services:		
Residential sales	\$ 41,140,290	40,467,916
Commercial sales	13,480,806	12,844,826
Public fire protection	4,763,798	4,658,460
Total charges for sales and services	59,384,894	57,971,202
Miscellaneous	1,137,674	1,115,059
Total operating revenues	60,522,568	59,086,261
Operating expenses:		
Source of supply	2,399,969	2,890,303
Pumping plant	188,979	3,665
Water treatment	4,939,102	4,344,829
Transmission and distribution	5,976,990	5,013,253
Customer accounts	2,247,178	2,530,688
Administrative and general	7,635,177	7,475,212
Total operations	23,387,395	22,257,950
Depreciation, net of amortization	10,233,693	9,835,700
Total operating expenses	33,621,088	32,093,650
Operating income	26,901,480	26,992,611
Nonoperating revenues (expenses):		
Investment income – short-term investments	433,930	49,725
Interest – revenue bonds	(5,547,876)	(5,760,309)
Allowance for funds used during construction	795,916	494,524
Amortization of bond premium/discount	(155,086)	(203,276)
Amortization of debt expense	(106,353)	(107,763)
Interest and fees – loans	(1,554,856)	(1,731,060)
Miscellaneous revenue and deductions	1,208,582	4,609
Miscellaneous expenses	(7,463)	—
Total non-operating revenues (expenses)	(4,933,206)	(7,253,550)
Income before special item and transfers	21,968,274	19,739,061
Special item:		
Land acquisition asset adjustment - see note 12	—	238,737
Income before transfers	21,968,274	19,977,798
Transfers:		
Transfers to other funds	(7,341,047)	(7,919,374)
Change in fund net position	14,627,227	12,058,424
Net position – beginning	115,374,654	103,316,230
Net position – ending	\$ 130,001,881	115,374,654

See accompanying notes to basic financial statements.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER 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	\$ 60,535,889	58,783,764
Refunds to customers and users	(183,010)	(184,529)
Payments to employees	(16,225,179)	(15,966,809)
Payments to vendors	(7,035,270)	(6,960,198)
Internal activity – payments made from other funds	1,377,680	796,406
Net cash provided by operating activities	38,470,110	36,468,634
Cash flows from non-capital and related financing activities:		
Transfers to other funds	(7,341,047)	(7,919,374)
Net cash used by non-capital and related financing activities	(7,341,047)	(7,919,374)
Cash flows from capital and related financing activities:		
Principal payments on long-term obligations	(6,836,000)	(6,015,000)
Interest payments and fees on long-term obligations	(7,140,754)	(7,548,132)
Acquisition and construction of capital assets	(21,123,389)	(13,111,602)
Capital contributions – customer/special assessments	471,667	248,752
Proceeds from loan payable – other	7,700,000	4,425,600
Proceeds from Alaska Drinking Water Fund loans	3,097,215	3,814,332
Principal payments on Alaska Drinking Water Fund loans	(5,396,610)	(5,392,378)
Payments from loan to Wastewater Utility Fund	—	14,669,968
Net cash used by capital and related financing activities	(29,227,871)	(8,908,460)
Cash flows from investing activities:		
Purchases of investments	(37,220)	(9,382)
Interest received (paid)	461,717	(114,886)
Net cash provided (used) by investing activities	424,497	(124,268)
Net increase in cash	2,325,689	19,516,532
Cash, beginning of year	27,070,477	7,553,945
Cash, end of year	\$ 29,396,166	27,070,477
Cash and cash equivalents		
Equity in general cash pool	28,007,205	24,984,337
Equity in bond and grant capital acquisition and construction pool	992,930	1,846,545
Customer deposits	396,031	239,595
Cash and cash equivalents, end of year	\$ 29,396,166	27,070,477

See accompanying notes to basic financial statements.

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

Statements of Cash Flows, Continued

Years ended December 31, 2014 and 2013

	2014	2013
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 26,901,480	26,992,611
Transfer (to) escrow account	(1,881,616)	—
Adjustments to reconcile operating income to net cash provided by operating activities:		
Allowance for uncollectible accounts	4,605	5,667
Depreciation, net of amortization	10,233,693	9,835,700
Miscellaneous non-operating revenue	1,201,124	4,609
Changes in assets and liabilities increasing (decreasing) cash:		
Accounts receivable and other receivables	(234,310)	(35,716)
Unbilled reimbursable projects	11,888	25,109
Inventories	3,122	(122,359)
Customer deposits payable	156,436	(44,239)
Prepays	(1,012)	4,844
Unbilled special assessments and other non-current assets	317,355	504,097
Accounts payable	(233,834)	(144,498)
Accrued payroll	926,838	(337,129)
Compensated absences payable	59,341	(68,154)
Pollution remediation obligation	—	(134,000)
Customer refund payable	1,005,000	—
Unearned lease revenue	—	(17,908)
Net cash provided by operating activities	\$ 38,470,110	36,468,634
Non-cash investing, capital and financing activities:		
Contributed capital – private development	\$ 2,390,364	959,614
Capital purchases on account, net	739,605	249,750
Total non-cash investing, capital and financing activities	\$ 3,129,969	1,209,364

See accompanying notes to basic financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2014 and 2013

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

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

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

(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.

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2014 and 2013

(g) Property, Plant, and Equipment

Property, plant, and equipment is stated at cost. To be considered for capitalization, the threshold 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 procedures, and remaining life technique. The Utility's depreciation model is approved by the RCA. Additions to water plant in service are at original cost of contracted services, direct labor and materials, interest and indirect overhead charges.

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

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

The estimated lives of major plant and equipment categories follow:

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

(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 \$1,750,000 and \$1,660,000 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.

(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.

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2014 and 2013

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

Claims payable represent estimates of claims to be paid based upon past experience modified for current trends and information. The ultimate amount of losses incurred through December 31, 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
WATER 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:

	Liability Balance January 1	Claims and Changes in Estimates	Claims Payment	Liability Balance December 31
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.

(m) Reclassification

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

**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER 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
WATER 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
WATER 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
WATER 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
WATER 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	\$ 4,410,975	183,647	—	4,594,622
Source of supply plant	41,153,750	1,642,098	(231,663)	42,564,185
Pumping plant	14,893,944	583,021	(81,345)	15,395,620
Water treatment plant	77,926,837	533,062	—	78,459,899
Transmission and distribution plant	565,804,642	13,718,634	(601,103)	578,922,173
General plant - land	762,256	—	—	762,256
General plant	56,678,931	981,101	(2,323,163)	55,336,869
	<u>761,631,335</u>	<u>17,641,563</u>	<u>(3,237,274)</u>	<u>776,035,624</u>
Less accumulated depreciation	<u>(260,957,096)</u>	<u>(16,717,452)</u>	<u>3,957,906</u>	<u>(273,716,642)</u>
Net plant in service	500,674,239	924,111	720,632	502,318,982
Plant acquisition adjustment	3,321,944	—	—	3,321,944
Less accumulated amortization	(2,250,036)	(114,776)	—	(2,364,812)
Property held for future use	586,623	—	(80,000)	506,623
Construction work in progress	<u>9,313,446</u>	<u>21,893,877</u>	<u>(15,972,402)</u>	<u>15,234,921</u>
	<u>\$ 511,646,216</u>	<u>22,703,212</u>	<u>(15,331,770)</u>	<u>519,017,658</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. For the year ended December 31, 2014, no transfers were made. 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. For the year ended December 31, 2014 there were auction proceeds of \$572, and cost of removal charges of \$721,205. The Utility’s 2015 construction budget is \$31,700,000.

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

	December 31, 2012	Additions	Retirements	December 31, 2013
Intangible plant	\$ 4,207,689	203,286	—	4,410,975
Source of supply plant	41,159,952	—	(6,202)	41,153,750
Pumping plant	14,717,300	177,257	(613)	14,893,944
Water treatment plant	77,889,358	37,479	—	77,926,837
Transmission and distribution plant	556,714,997	9,529,812	(440,167)	565,804,642
General plant - land	762,256	—	—	762,256
General plant	<u>56,426,678</u>	<u>4,028,099</u>	<u>(3,775,846)</u>	<u>56,678,931</u>
	751,878,230	13,975,933	(4,222,828)	761,631,335
Less accumulated depreciation	<u>(248,910,779)</u>	<u>(16,271,263)</u>	<u>4,224,946</u>	<u>(260,957,096)</u>
Net plant in service	502,967,451	(2,295,330)	2,118	500,674,239
Plant acquisition adjustment	3,321,944	—	—	3,321,944
Less accumulated amortization	(2,135,260)	(114,776)	—	(2,250,036)
Property held for future use	80,000	506,623	—	586,623
Construction work in progress	<u>9,530,253</u>	<u>13,369,508</u>	<u>(13,586,315)</u>	<u>9,313,446</u>
	<u>\$ 513,764,388</u>	<u>11,466,025</u>	<u>(13,584,197)</u>	<u>511,646,216</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. For the year ended December 31, 2013, \$23,656 was transferred from transmission and distribution plant to pumping plant. 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. For the year ended December 31, 2013 there were auction proceeds of \$61,254, and cost of removal charges of \$63,372.

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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 Drinking Water Fund to fund capital improvement projects. These loans enter repayment status one year after the initiation of operation of the facilities with the loan terms included in the contract. These loans have repayment terms of up to 20 years. In 2014, the Utility obtained additional low interest loans of \$3,097,215.

In March 2013, the Utility entered into a Loan Agreement for up to \$75,000,000 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 additional loans of \$7,700,000 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(d) 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 Water revenue & refunding bonds	5/26/04	\$ 18,595,000	5.125%	2005 - 2021	1,855,000
2004 Junior lien water revenue bonds	10/12/04	2,000,000	4.35%	2014	-
2007 Water revenue & refunding bonds	6/28/07	91,315,000	5.00%	2008 - 2037	88,350,000
2009 Water refunding bonds	12/16/09	49,680,000	5.00%	2009 - 2014	27,620,000
Total revenue bonds		161,590,000			117,825,000
Long-term Revolving Loans:					
127201 Airport water project, phs 1B	6/6/00	2,334,756	1.50%	2000 - 2019	677,702
127231 ER Reservoir/wtr trans main	6/6/00	2,000,000	1.50%	2002 - 2021	789,356
127241 Loop wtr trans main phase V	7/25/00	5,039,233	1.50%	2002 - 2021	1,994,990
127251 Service reservoir No. 6	7/25/00	3,723,056	1.50%	2002 - 2021	1,470,226
127261 19th Spenard upgrade	9/16/08	770,000	1.50%	2010 - 2029	577,500
127321 Disinfection alternative wtr upg	3/22/02	755,000	1.50%	2002 - 2021	302,096
127331 68th Pebble-Baby Bear	9/30/08	300,000	1.50%	2009 - 2028	210,000
127361 Christen Dr upgrade	9/8/09	1,350,000	1.50%	2010 - 2029	1,012,500
127381 South addition woodstave upgrd	8/27/01	922,354	1.50%	2004 - 2023	417,784
127411 Loop wtr trans main phase VI	3/2/01	1,305,776	1.50%	2002 - 2021	517,455
127441 Daryl Industry Way	9/30/08	420,000	1.50%	2011 - 2030	336,000
127461 DeBarr-Klevin-Hoyt upgrade	12/4/09	1,000,000	1.50%	2010 - 2029	750,000
127471 SCADA water	8/4/04	4,000,000	1.50%	2006 - 2025	2,369,530
127491 Girdwood wtr supply imprvmnts	6/23/04	2,135,300	1.50%	2010 - 2029	1,504,249
127531 Loop wtr trans main phase IV	10/31/06	12,306,151	1.50%	2010 - 2029	9,229,613
127541 SCADA water II	12/1/04	6,500,000	1.50%	2009 - 2028	4,225,000
127571 88th Ave wtr trans main	10/31/06	1,850,696	1.50%	2009 - 2028	1,295,487
127581 Pine Debarr San Rob wtr upgrd	9/8/07	870,014	1.50%	2010 - 2029	652,510
127731 Arctic 32nd - 36th wtr upgrd	11/24/06	404,234	1.50%	2009 - 2028	282,964
127771 East Bluff upgrade	10/9/06	317,763	1.50%	2009 - 2028	222,434
127781 Sullivan-Ben Boeke wtr upgrd	10/9/06	2,189,753	1.50%	2008 - 2027	1,423,339
127791 Hiland Rd water intertie	6/25/10	8,700,000	1.50%	2011 - 2030	6,960,000
127811 Island-Kodiak Kalgin water	6/7/10	570,541	1.50%	2011 - 2030	456,433
127831 Klatt Rd - NSH-PZ intertie	9/10/07	621,600	1.50%	2008 - 2027	398,709
127851 Northern Comm. extension	6/3/08	1,402,434	1.50%	2013 - 2032	1,192,069
127861 So. Anchorage wtr extension	10/12/11	3,427,000	1.50%	2013 - 2032	3,084,300
127871 Debarr-Muldoon-Turpin upgrd	9/28/07	3,034,740	1.50%	2009 - 2028	2,124,318

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
127901 SCADA water III	9/7/07	5,300,000	1.50%	2009 - 2028	3,445,000
127931 Hillside Transmission Main	7/10/08	9,500,000	1.50%	2011 - 2030	7,600,000
127941 2006 Misc Water Projects	4/8/08	846,000	1.50%	2008 - 2027	571,035
127961 NE Improvements Phase 1	7/8/08	929,107	1.50%	2010 - 2029	696,830
127991 Sand Lake Wtr Extension	2/10/10	280,719	1.50%	2011 - 2030	224,575
130141 Calais Subdivision Wtr Rehab	10/8/14	124,040	1.50%	2016-2035 *	124,040
130151 Knik View Intertie	7/21/08	715,946	1.50%	2011 - 2030	572,757
130161 Norm-Newt Drive	12/17/08	1,768,400	1.50%	2010 - 2029	1,326,300
130181 Ship Creek WTF Improvements	10/3/14	15,039	1.50%	2016-2035 *	15,039
130221 San Ernesto Upgrade	12/17/08	1,567,218	1.50%	2010 - 2029	1,175,414
130241 South Addition Phase IV Proj	2/2/09	1,164,317	1.50%	2010 - 2029	873,238
130271 Well 7 Capacity Upgrade	2/28/11	1,775,766	1.50%	2011 - 2030	1,420,613
130331 Seward Hwy Northern Lts Blvd	12/5/12	1,100,000	1.50%	2014 - 2033	990,000
130341 Bayshore Subdv Wtr Upgrade	9/23/14	1,161,452	1.50%	2016-2035 *	1,161,452
130351 North Sitka Water Upgrade	4/13/12	579,566	1.50%	2016-2035 *	579,566
130371 ARRC Yard 12" Wtr Rehab	10/8/14	190,383	1.50%	2016-2035 *	190,383
130401 Wonder PK Water Upgrd PHII	4/24/13	2,196,781	1.50%	2016-2035 *	2,196,781
130411 Sand Lake Area Wtr Ph II	11/16/12	828,707	1.50%	2014 - 2033	787,272
130431 68th Ave Redhawk Intertie	12/4/09	632,444	1.50%	2010 - 2029	474,333
130441 3000 Arctic HVAC Upgrade	6/24/11	1,046,759	1.50%	2012 - 2031	889,745
130471 Downtown CIPP Wtr Upgrade	10/15/10	1,414,951	1.50%	2011 - 2030	1,131,961
130491 2-Way Radio Water Upgrade	2/17/10	299,248	1.50%	2010 - 2019	157,936
130561 41st 41st Cope Northstar Water	3/14/12	1,346,010	1.50%	2014 - 2033	1,278,709
130841 Girdwood Wtr Improv	12/14/11	2,000,000	1.50%	2013 - 2032	1,700,000
130921 Golden View Reservoir	2/2/11	2,808,878	1.50%	2011 - 2030	2,247,102
130941 Ship Crk WTF Heat Exchange	11/1/12	957,102	1.50%	2016-2035 *	957,102
131021 G Street - 7th Water Main	12/29/10	502,468	1.50%	2011 - 2030	401,974
131031 Eklutna WTF Roof & Window	6/7/10	1,556,106	1.50%	2011 - 2030	1,244,885
131281 Ship Creek WTF Roof	3/23/11	1,130,742	1.50%	2011 - 2030	904,594
131441 San Roberto-Klevin/Hoyt Wtr Upgrd	10/8/14	40,862	1.50%	2016 - 2034 *	40,862
Total Long-Term Loans		<u>112,029,412</u>			<u>79,856,062</u>
Loan Payable-other	3/15/13	12,125,600	5.40%	2016	12,125,600
Total Long-Term Debt		<u>\$ 285,745,012</u>			<u>209,806,662</u>

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

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(b) Revenue Bond Coverage Requirements

The Utility is required to maintain a minimum coverage ratio for revenue bonds. Additionally, the Utility is required to maintain a minimum balance in a reserve account to further secure repayment of bonds.

The Utility's Schedule of Revenue Bond Coverage for the last 2 years follows:

Fiscal Year	Revenue	Assessment Collections	Operating Expenses	Amount Available For Debt Service	<u>Current Year Debt Service Requirements</u>			Coverage
					Principal	Interest	Total	
	(1)	(2)	(3)	(4)	(4)	(4)	(5)	
2013	59,140,595	248,752	29,938,587	29,450,760	6,015,000	5,785,568	11,800,568	2.50
2014	62,165,080	471,667	30,728,442	31,908,305	4,880,000	5,588,355	10,468,355	3.05

- (1) Excludes allowance for funds used during construction and includes non-operating revenue.
- (2) Assessment collections represent payments made by benefited property owners.
- (3) Excludes depreciation and PERS relief distributed to labor for years 2006 through 2008, but includes special items and transfers to other funds commencing in 2007.
- (4) Does not include Mini-Bonds of \$1,956,000 repaid in 2014 as they have no debt service coverage requirements.
- (5) Required minimum coverage is 1.15.

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(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	Assessment Collections	Operating Expenses	Amount Available For Debt Service	Current Year Debt Service Requirements			Coverage
					Principal	Interest	Total	
	(1)	(2)	(3)	(4)	(4)	(4)	(5)	
2013	59,140,595	248,752	29,938,587	29,450,760	11,407,378	7,013,938	18,421,316	1.60
2014	62,165,080	471,667	30,728,442	31,908,305	12,232,610	6,784,585	19,017,195	1.68

- (1) Excludes allowance for funds used during construction and includes non-operating revenue
- (2) Assessment collections represent payments made by benefited property owners.
- (3) Excludes depreciation and PERS relief distributed to labor for years 2006 through 2008, but includes special items and transfers to other funds commencing in 2007.
- (4) Represents total principal and interest payments on all debt: Revenue bonds, Alaska Drinking 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:

<u>Year</u>	<u>Revenue Bonds</u>		<u>Long-term Contracts</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2015	\$ 3,570,000	5,393,402	5,412,338	1,191,723	15,567,463
2016	3,710,000	5,243,236	17,817,164 *	1,158,345	27,928,745
2017	3,855,000	5,099,536	5,707,767	1,031,282	15,693,585
2018	3,985,000	4,965,957	5,724,214	945,666	15,620,837
2019	4,155,000	4,795,591	5,740,907	859,803	15,551,301
2020 - 2024	21,965,000	21,062,006	25,687,580	3,063,262	71,777,848
2025 - 2029	22,375,000	16,260,445	21,284,406	1,252,567	61,172,418
2030 - 2034	31,330,000	9,733,735	4,344,025	147,703	45,555,463
2035 - 2038	22,880,000	1,754,000	263,261	3,949	24,901,210
TOTAL	<u>117,825,000</u>	<u>74,307,908</u>	<u>91,981,662</u>	<u>9,654,300</u>	<u>293,768,870</u>
	(3,570,000)		(5,412,338)		Current Portion of Principal
	(19,632)		--		Unamortized Discounts
	1,841,327		--		Unamortized Premiums
	<u>\$ 116,076,695</u>		<u>86,569,324</u>		Total Long Term Portion

* Includes \$12,125,600 bank loan repayment that is anticipated to be repaid by issuance of revenue bonds.

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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	\$ 124,661,000	—	(6,836,000)	117,825,000	3,570,000
Long-term revolving loans	82,155,457	3,097,215	(5,396,610)	79,856,062	5,412,338
Long-term loans payable	4,425,600	7,700,000	—	12,125,600	—
Total debt	211,242,057	10,797,215	(12,232,610)	209,806,662	8,982,338
Unamortized discounts	(90,391)	—	70,759	(19,632)	—
Unamortized premiums	2,129,162	—	(287,835)	1,841,327	—
Total debt, net	213,280,828	10,797,215	(12,449,686)	211,628,357	8,982,338
Compensated absences	1,153,791	1,375,768	(1,316,427)	1,213,132	945,475
Pollution remediation obligation	88,500	—	—	88,500	20,000
Total long-term, net	\$ 214,523,119	12,172,983	(13,766,113)	212,929,989	

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	\$ 130,676,000	—	(6,015,000)	124,661,000	6,836,000
Long-term revolving loans	83,733,503	3,814,332	(5,392,378)	82,155,457	5,287,874
Long-term loans payable	—	4,425,600	—	4,425,600	—
Total debt	214,409,503	8,239,932	(11,407,378)	211,242,057	12,123,874
Unamortized discounts	(177,578)	—	87,187	(90,391)	—
Unamortized premiums	2,449,461	—	(320,299)	2,129,162	—
Total debt, net	216,681,386	8,239,932	(11,640,490)	213,280,828	12,123,874
Compensated absences	1,221,945	1,390,509	(1,458,663)	1,153,791	858,446
Pollution remediation obligation	222,500	—	(134,000)	88,500	20,000
Total long-term, net	\$ 218,125,831	9,630,441	(13,233,153)	214,523,119	

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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 year ended December 31, 2014 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	\$ 48,495,489	252,709	(137,933)	48,610,265
Private development	135,802,870	2,390,364	—	138,193,234
Other	3,168,072	46,226	(2,176,314)	1,037,984
Intergovernmental	198,839,274	—	(200,258)	198,639,016
Total CIAC, gross	<u>386,305,705</u>	<u>2,689,299</u>	<u>(2,514,505)</u>	<u>386,480,499</u>
Accumulated Amortization				
Customer	(86,714,520)	(2,933,626)	137,933	(89,510,213)
Intergovernmental	(74,214,690)	(3,664,909)	200,258	(77,679,341)
Total amortization	<u>(160,929,210)</u>	<u>(6,598,535)</u>	<u>338,191</u>	<u>(167,189,554)</u>
Net CIAC	<u>\$ 225,376,495</u>	<u>(3,909,236)</u>	<u>(2,176,314)</u>	<u>219,290,945</u>

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December 31, 2014 and 2013

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

	<u>December 31, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2013</u>
Contributions in Aid of Construction				
Customer:				
Special assessments	\$ 48,949,207	155,441	(609,159)	48,495,489
Private development	135,033,553	959,614	(190,297)	135,802,870
Other	3,168,072	—	—	3,168,072
Intergovernmental	199,493,076	—	(653,802)	198,839,274
Total CIAC, gross	<u>386,643,908</u>	<u>1,115,055</u>	<u>(1,453,258)</u>	<u>386,305,705</u>
Accumulated Amortization				
Customer	(83,909,674)	(3,604,302)	799,456	(86,714,520)
Intergovernmental	(71,922,455)	(2,946,037)	653,802	(74,214,690)
Total amortization	<u>(155,832,129)</u>	<u>(6,550,339)</u>	<u>1,453,258</u>	<u>(160,929,210)</u>
Net CIAC	<u>\$ 230,811,779</u>	<u>(5,435,284)</u>	<u>—</u>	<u>225,376,495</u>

(7) Net Position

Net position invested in capital assets is comprised of:

	<u>2014</u>	<u>2013</u>
Capital assets, net of depreciation	\$ 519,017,658	511,646,216
Less: Net revenue bonds payable long-term	114,482,822	117,897,736
Less: Unspent debt proceeds	(992,930)	(1,846,545)
Alaska Drinking Water loans payable, long-term	74,443,724	76,867,583
Long-term notes payable	12,125,600	4,425,600
Long-term obligations maturing within one year	8,982,338	12,123,874
Contributions in aid of construction, net	<u>219,290,945</u>	<u>225,376,495</u>
Net investment in capital assets	<u>\$ 90,685,159</u>	<u>76,801,473</u>

Restricted net position is comprised of:

	<u>2014</u>	<u>2013</u>
Revenue bond debt service investments	\$ 5,077,564	5,040,334
Interim rate escrow requirement	1,881,616	—
Less: Customer refund payable	1,005,000	—
	<u>\$ 5,954,180</u>	<u>5,040,334</u>

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

December 31, 2014 and 2013

(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 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/drb/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.

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

December 31, 2014 and 2013

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:

<u>Year</u>	<u>Annual Pension Cost</u>	<u>Annual OPEB Cost</u>	<u>Total Benefit Cost (TBC)</u>	<u>Utility Contributions</u>	<u>% of TBC Contributed</u>
2014	\$ 1,095,336	826,306	1,921,642	1,921,642	100%
2013	961,177	1,021,181	1,982,358	1,982,358	100%
2012	870,489	1,110,145	1,980,634	1,980,634	100%

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

December 31, 2014 and 2013

**(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 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.

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

Notes to Basic Financial Statements

December 31, 2014 and 2013

(10) Environmental Issues

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

The Utility used the expected cash flow technique to measure the liability. The Utility estimated a reasonable range of potential outlays of \$70,000 to \$255,000 and multiplied those outlays by their probability of occurring to estimate a pollution remediation obligation of \$88,500. 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 6.0% 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 4.0% 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 \$1.0 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.

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

Notes to Basic Financial Statements

December 31, 2014 and 2013

(12) Special Item

In 2013, the Municipality sold the Utility a parcel of land for \$384,000, a price determined to be the FMV of the land. The carrying value of the land at the time of the transaction on the Municipality's statement of net position was \$145,263. As required by GAAP, the Municipality recorded a transfer from the Utility for the difference between the FMV and carrying cost on the statement of activities.

The Utility follows regulatory accounting as described in Note 1 and as such, has recorded the full FMV of the purchased land in its statement of net position as it is probable that future revenue in an amount at least equal to the FMV of the purchased land will be included as an allowable cost for rate-making purposes and the RCA will permit recovery of such cost. To properly reflect the rate-making adjustments, in its statement of activities, the Utility has shown a special item of \$238,737 in 2013 to offset the transfer to the Municipality in connection with the land purchase as described above.

(13) 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	\$ 7,138,099
ERP project labor	202,948
Total transfers	<u>\$ 7,341,047</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	\$ 7,439,549
ERP project labor	241,088
Land acquisition asset adjustment	238,737
Total transfers	<u>\$ 7,919,374</u>

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2014 and 2013

(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.

(b) *GASB 71 Pension Transition for Contribution 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 an 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
WATER 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)	2.53	1.96	1.55	2.10	1.59
Quick ratio (quick assets / current liabilities)	2.41	1.85	1.45	2.00	1.47
Return on investment (change in net position / total assets)	2.6%	2.2%	1.5%	1.1%	1.3%
Return on equity (change in net position / net position)	11.3%	10.5%	7.9%	6.6%	8.2%
Debt to equity as a percent of capital structure (outstanding debt / capital structure over net position / capital structure)	<u>62%</u> 38%	<u>65%</u> 35%	<u>67%</u> 33%	<u>70%</u> 30%	<u>70%</u> 30%
Operating margin (operating income / operating revenues)	44%	46%	39%	37%	37%
Revenue bond debt coverage (amount available for revenue bond debt service / revenue bond principal & interest)	3.15	2.50	2.10	1.99	1.91
Total debt coverage (amount available for total debt service/total principal & interest)	1.74	1.60			
Weighted cost of long term debt (Sum of interest rates multiplied by percentage of total amounts outstanding for bonds, long-term loans, and amortization of bond discounts and transaction costs)	3.51%	3.69%	3.52%	3.52%	3.70%

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

<u>Customer Type</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011⁽¹⁾</u>	<u>2010</u>
Residential	52,162	51,884	51,703	51,558	51,416
Commercial	3,692	3,673	3,659	3,644	3,560
Total	<u>55,854</u>	<u>55,557</u>	<u>55,362</u>	<u>55,202</u>	<u>54,976</u>
Growth rate	0.53%	0.35%	0.29%	0.41%	

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

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

Type of Service	2014 ⁽¹⁾	2013 ⁽²⁾	2012 ⁽³⁾	2011 ⁽⁴⁾	2010 ⁽⁵⁾
Metered:					
Customer charge (per account)	\$ 13.37	12.86	12.13	11.44	10.59
Meter rate (per meter)					
(Depending on meter size ranging between 5/8" to 8")	6.65 to	6.39 to	6.03 to	5.69 to	5.27 to
	352.33	338.78	319.60	301.51	279.18
Volume rate (per 1,000 gallons):					
Residential	5.17	4.97	4.69	4.42	4.09
Commercial	5.17	4.97	4.69	4.42	4.09
Unmetered:					
Customer charge (per account)	13.37	12.86	12.13	11.44	10.59
Residential (per dwelling unit)	37.17	35.74	33.72	31.81	29.45
Commercial (per service connection)					
Service Size:					
3/4"	52.67	50.64	47.77	45.07	41.73
1"	106.16	102.08	96.30	90.85	84.12
1 1/2"	277.59	266.91	251.80	237.55	219.95
2"	502.72	483.38	456.02	430.21	398.34

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

⁽⁵⁾ Rates effective 1/1/10

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Statistical Section (unaudited)

Table 3

Revenues and Expenses - Budget to Actual

	2014 Budget	2014 Actual	Variance Favorable / (Unfavorable)
Operating revenues:			
Residential sales	\$ 41,694,300	41,140,290	(554,010)
Commercial sales	13,266,600	13,480,806	214,206
Public fire protection	4,844,800	4,763,798	(81,002)
Miscellaneous	1,105,300	1,137,674	32,374
Total operating revenues	<u>60,911,000</u>	<u>60,522,568</u>	<u>(388,432)</u>
Nonoperating revenues:			
Investment income - short-term investments	190,000	433,930	243,930
Transfers from other funds			—
Miscellaneous non-operating revenue		1,208,582	1,208,582
Total non-operating revenues	<u>190,000</u>	<u>1,642,512</u>	<u>1,452,512</u>
Total revenues	<u>61,101,000</u>	<u>62,165,080</u>	<u>1,064,080</u>
Expenses:			
Source of supply:			
Operations	2,561,803	2,177,161	384,642
Maintenance	230,562	222,808	7,754
Total source of supply expense	<u>2,792,365</u>	<u>2,399,969</u>	<u>392,396</u>
Pumping			
Operations	31,622	15,572	16,050
Maintenance	409,282	173,407	235,875
Total pumping expense	<u>440,904</u>	<u>188,979</u>	<u>251,925</u>
Treatment:			
Operations	4,867,608	4,515,365	352,243
Maintenance	771,732	423,737	347,995
Total treatment expense	<u>5,639,340</u>	<u>4,939,102</u>	<u>700,238</u>
Transmission and distribution system:			
Operations	700,321	719,829	(19,508)
Maintenance	4,716,811	5,257,161	(540,350)
Total transmission and distribution system expense	<u>5,417,132</u>	<u>5,976,990</u>	<u>(559,858)</u>
Customer accounts	2,577,359	2,247,178	330,181
Administrative and general	8,068,669	7,635,177	433,492
Depreciation, net of amortization	10,500,000	10,233,693	266,307
Total operating expenses	<u>35,435,769</u>	<u>33,621,088</u>	<u>1,814,681</u>
Other expenses:			
Transfers to other funds	7,155,477	7,341,047	(185,570)
Interest on long-term obligations	8,210,000	7,102,732	1,107,268
Amortization of debt expense	350,000	261,439	88,561
Allowance for funds used during construction	(280,000)	(795,916)	515,916
Misc Income Deduction	-	7,463	(7,463)
Total other expenses	<u>15,435,477</u>	<u>13,916,765</u>	<u>1,518,712</u>
Total expenses	<u>50,871,246</u>	<u>47,537,853</u>	<u>3,333,393</u>
Increase in net position	<u>\$ 10,229,754</u>	<u>14,627,227</u>	<u>4,397,473</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

WATER UTILITY FUND

Statistical Section (unaudited)

Table 4

Debt Principal by Issue

Description	Original Issue Date	Total Issue Amount	Principal Balance 12/31/2013	2014 New (Retired) Debt	2014 Principal Payments	Principal Balance 12/31/2014	Current Portion
Revenue Bonds							
2004 Water Revenue & Refunding Bonds	05/26/04	\$ 18,595,000	1,855,000	—	—	1,855,000	395,000
2004 Junior Lien Water Revenue Bonds	10/12/04	2,000,000	1,956,000	—	1,956,000	—	—
2007 Water Revenue & Refunding Bonds	06/28/07	91,315,000	88,500,000	—	150,000	88,350,000	550,000
2009 Water Refunding Bonds	12/16/09	49,680,000	32,350,000	—	4,730,000	27,620,000	2,625,000
Total Revenue Bonds		161,590,000	124,661,000	—	6,836,000	117,825,000	3,570,000
Alaska Drinking Water (ADW) Loans							
127201 - Airport Water Project, Phase 1B	06/06/00	2,334,756	807,293	—	129,591	677,702	131,535
127231 - ER Rsvr/Wtr Trans Main	06/06/00	2,000,000	895,554	—	106,198	789,356	107,791
127241 - Loop Wtr Trans Main Phs V	07/25/00	5,039,233	2,263,392	—	268,402	1,994,990	272,428
127251 - Service Reservoir No. 6	07/25/00	3,723,056	1,668,028	—	197,802	1,470,226	200,768
127261 - 19th Spenard Upgrade	09/16/08	770,000	616,000	—	38,500	577,500	38,500
127321 - Disinfection Alt. Upgrade	03/22/02	755,000	342,740	—	40,644	302,096	41,253
127331 - 68th Pebble-Baby Bear	09/30/08	300,000	225,000	—	15,000	210,000	15,000
127361 - Christen Dr Upgrade	09/08/09	1,350,000	1,080,000	—	67,500	1,012,500	67,500
127381 - S. Addition Woodstave Upgrd	08/27/01	922,354	464,205	—	46,421	417,784	46,420
127411 - Loop Wtr Trans Main Phs VI	03/02/01	1,305,776	587,072	—	69,617	517,455	70,662
127441 - Daryl Industry Way	09/30/08	420,000	357,000	—	21,000	336,000	21,000
127461 - DeBarr-Klevin-Hoyt Upgrade	12/04/09	1,000,000	800,000	—	50,000	750,000	50,000
127471 - SCADA Water	08/04/04	4,000,000	2,566,315	—	196,785	2,369,530	199,737
127491 - Girdwood Wtr Supply Imprvmnets	06/23/04	2,135,300	1,604,532	—	100,283	1,504,249	100,283
127531 - Loop Wtr Trans Main Phs IV	10/31/06	12,306,151	9,844,921	—	615,308	9,229,613	615,308
127541 - SCADA Water II	12/01/04	6,500,000	4,550,000	—	325,000	4,225,000	325,000
127571 - 88th Ave Wtr Trans Main	10/31/06	1,850,696	1,388,022	—	92,535	1,295,487	92,535
127581 - Pine DeBarr San Rob Wtr Upgrd	09/08/07	870,014	696,011	—	43,501	652,510	43,501
127731 - Arctic 32nd - 36th Wtr Upgrd	11/24/06	404,234	303,176	—	20,212	282,964	20,212
127771 - East Bluff Upgrade	10/09/06	317,763	238,322	—	15,888	222,434	15,888
127781 - Sullivan-Ben Boeke Wtr Upgrd	10/09/06	2,189,753	1,532,826	—	109,487	1,423,339	109,488
127791 - Hiland Rd Water Intertie	06/25/10	8,700,000	7,395,000	—	435,000	6,960,000	435,000
127811 - Island-Kodiak Kalgin Water	06/07/10	570,541	484,960	—	28,527	456,433	28,527
127831 - Klatt Rd - NSH-PZ Intertie	09/10/07	621,600	429,379	—	30,670	398,709	30,670
127851 - N Comm Extension	06/03/08	1,402,434	1,262,191	—	70,122	1,192,069	70,122
127861 - So. Anchorage Wtr Extension	10/12/11	3,427,000	3,255,650	—	171,350	3,084,300	171,350
127871 - DeBarr-Muldoon-Turpin Upgrd	09/28/07	3,034,740	2,276,055	—	151,737	2,124,318	151,737
127901 - SCADA Water III	09/07/07	5,300,000	3,710,000	—	265,000	3,445,000	265,000
127931 - Hillside Transmission Main	07/10/08	9,500,000	8,075,000	—	475,000	7,600,000	475,000
127941 - 2006 Misc Water Projects	04/08/08	846,000	610,552	—	39,517	571,035	40,110
127961 - NE Improvements Phase 1	07/08/08	929,107	743,286	—	46,456	696,830	46,455
127991 - Sand Lake Wtr Extension	02/10/10	280,719	238,611	—	14,036	224,575	14,036
130141 - Calais Subdivision Wtr Rehab	10/08/14	124,040	—	124,040	—	124,040	—
130151 - Knik View Intertie	07/21/08	715,946	608,554	—	35,797	572,757	35,797
130161 - Norm-Newt Drive	12/17/08	1,768,400	1,414,720	—	88,420	1,326,300	88,420
130181 - Ship Creek WTF Improvements	10/03/14	15,039	—	15,039	—	15,039	—
130221 - San Ernesto Upgrade	12/17/08	1,567,218	1,253,774	—	78,360	1,175,414	78,361
130241 - South Addition Phase IV Proj	02/02/09	1,164,317	931,454	—	58,216	873,238	58,216
130271 - Well 7 Capacity Upgrade	02/28/11	1,775,766	1,509,401	—	88,788	1,420,613	88,788
130331 - Seward Hyw Northern Lts Blvd	12/05/12	1,100,000	1,045,000	—	55,000	990,000	55,000
130341 - Bayshore Subdivision Wtr Upgrade	09/23/14	1,161,452	—	1,161,452	—	1,161,452	—
130351 - North Sitka Water Upgrade	04/13/12	579,566	579,566	—	—	579,566	—
130371 - ARRC Yard 12" Water Rehab	10/08/14	190,383	—	190,383	—	190,383	—
130401 - Wonder Pk Water Upgrade Ph II	04/24/13	2,196,781	1,200,000	996,781	—	2,196,781	—
130411 - Sand Lake Area Water Ph II	11/16/12	828,707	828,707	—	41,435	787,272	41,435
130431 - 68th Ave Redhawk Intertie	12/04/09	632,444	505,955	—	31,622	474,333	31,622
130441 - 3000 Arctic HVAC Upgrade	06/24/11	1,046,759	942,083	—	52,338	889,745	52,338
130471 - Downtown CIPP Wtr Upgrade	10/15/10	1,414,951	1,202,708	—	70,747	1,131,961	70,748
130491 - 2-Way Radio Water Upgrade	02/17/10	299,248	189,524	—	31,588	157,936	31,587
130561 - 41st Cope Northstar Water	03/14/12	1,346,010	1,289,687	56,322	67,300	1,278,709	67,301
130841 - Girdwood Wtr Improv	12/14/11	2,000,000	1,800,000	—	100,000	1,700,000	100,000
130921 - Golden View Reservoir	02/02/11	2,808,878	2,387,546	—	140,444	2,247,102	140,444
130941 - Ship Creek WTF Heat Exchanger	11/01/12	957,102	444,766	512,336	—	957,102	—
131021 - G Street - 7th Water Main	12/29/10	502,468	427,098	—	25,124	401,974	25,123
131031 - Eklutna WTF Roof & Window	06/07/10	1,556,106	1,322,690	—	77,805	1,244,885	77,805
131281 - Ship Creek WTF Roof	03/23/11	1,130,742	961,131	—	56,537	904,594	56,537
131441 - San Roberto-Klevin/Hoyt Water	10/08/14	40,862	—	40,862	—	40,862	—
Total ADW Loans		112,029,412	82,155,457	3,097,215	5,396,610	79,856,062	5,412,338
Long-Term Loan Payable							
Long-Term Loan Payable	03/15/13	12,125,600	4,425,600	7,700,000	—	12,125,600	—
Total Long-Term Loan Payable		12,125,600	4,425,600	7,700,000	—	12,125,600	—
Total Long-Term Debt		\$ 285,745,012	211,242,057	10,797,215	12,232,610	209,806,662	8,982,338

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND
Statistical Section (unaudited)
Table 5
Capital Improvement Program
(Dollars 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	\$ 4,221	4,238	3,958	3,835	3,443	3,324	23,019
Plant	6,757	1,762	2,973	3,298	2,664	9,130	26,584
Pipe	20,722	26,226	26,149	25,085	26,893	21,546	146,621
Total	<u>31,700</u>	<u>32,226</u>	<u>33,080</u>	<u>32,218</u>	<u>33,000</u>	<u>34,000</u>	<u>196,224</u>
Source of funding:							
Debt	21,700	20,726	19,080	17,718	21,000	22,000	122,224
Equity	8,000	9,500	12,000	12,500	10,000	10,000	62,000
Grants	2,000	2,000	2,000	2,000	2,000	2,000	12,000
Total	<u>\$ 31,700</u>	<u>32,226</u>	<u>33,080</u>	<u>32,218</u>	<u>33,000</u>	<u>34,000</u>	<u>196,224</u>

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Statistical Section (unaudited)

Table 6

Production Comparison by Facility

	<u>2014</u>	<u>2013</u> ⁽⁴⁾	<u>2012</u>	<u>2011</u>	<u>2010</u>
Water treatment facilities (WTF) production and usage data:					
Water produced yearly (millions of gallons):					
Ship Creek WTF	156.9	35.6	0.0	94.1	0.2
Wells	758.8	687.4	266.0	588.1	664.4
Eklutna WTF	<u>7,181.2</u>	<u>7,767.7</u>	<u>7,808.8</u>	<u>7,576.7</u>	<u>7,729.4</u>
Total	<u><u>8,096.9</u></u>	<u><u>8,490.7</u></u>	<u><u>8,074.8</u></u>	<u><u>8,258.9</u></u>	<u><u>8,394.0</u></u>
Average daily water demand (millions of gallons per day (MGD)):					
Ship Creek WTF	0.4	0.1	0.0	0.3	0.1
Wells	2.1	1.9	0.7	1.6	1.8
Eklutna WTF	<u>19.7</u>	<u>21.3</u>	<u>21.4</u>	<u>20.8</u>	<u>21.2</u>
Total	<u><u>22.2</u></u>	<u><u>23.3</u></u>	<u><u>22.1</u></u>	<u><u>22.7</u></u>	<u><u>23.1</u></u>
Minimum daily water demand (all facilities)					
	22.0	17.4	16.2	16.2	16.2
Peak production day:					
Ship Creek WTF	10.1	5.5	0.0	10.5	0.2
Wells	16.3	17.1	7.2	15.5	12.6
Eklutna WTF	<u>28.8</u>	<u>30.3</u>	<u>28.5</u>	<u>28.8</u>	<u>28.2</u>
Total ⁽¹⁾	<u><u>55.2</u></u>	<u><u>52.9</u></u>	<u><u>35.7</u></u>	<u><u>54.8</u></u>	<u><u>41.0</u></u>
Four hour peak demand (all facilities) ⁽²⁾					
	55.0	40.6	40.6	39.7	41.6
Firm Capacity					
Source ⁽³⁾ :					
Ship Creek WTF	14				
Wells	18				
Eklutna WTF	<u>32</u>				
Total	<u><u>64</u></u>				
Miles of water mains	839	838	837	836	834
Number of hydrants:					
Public	5,949	5,917	5,897	5,887	5,874

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

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

(3) Max design capacity MGD

(4) Changes made to Wells to include Girdwood well productions.

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Statistical Section (unaudited)

Table 7

Detailed Schedule of Water Plant in Service (In Thousands)

	Water Plant			Balance 12/31/14
	Balance 01/01/14	Additions	Retirements	
Water plant in service:				
Tangible plant:				
Source of supply:				
Source of supply/land	\$ 747	—	—	747
Structures & improvements	1,858	—	—	1,858
Collecting & impound reservoir	—	—	—	—
Wells & spring	7,118	1,642	(232)	8,528
Supply mains	31,429	—	—	31,429
Pumping plant:				
Structures & improvements	12,456	—	—	12,456
Other power production equipment	146	—	—	146
Electric pumping equipment	970	538	(81)	1,427
Diesel pumping equipment	103	45	—	148
Booster pumping equipment	1,218	—	—	1,218
Treatment plant:				
Structures & improvements	63,019	—	—	63,019
Water treatment equipment	14,908	533	—	15,441
Transmission plant:				
Transmission & distribution-land	3,886	—	—	3,886
Structures & improvements	673	—	—	673
Distribution reservoir & standpipes	47,147	—	—	47,147
Transmission & distribution mains	486,221	12,674	(591)	498,304
Services	17,621	553	(10)	18,164
Meters	1,910	—	—	1,910
Hydrants	8,347	492	—	8,839
Land and land rights	762	—	—	762
General plant:				
Structures & improvements	19,077	37	—	19,114
Office furniture	400	9	(3)	406
Office equipment	—	—	—	—
Computer equipment	8,904	635	(2,288)	7,251
Vehicles (light duty)	2,304	63	—	2,367
Transportation equipment (heavy duty)	2,482	—	—	2,482
Store equipment	1,099	—	—	1,099
Tools, shop & garage equipment	382	41	(4)	419
Laboratory equipment	100	—	—	100
Power operated equipment	580	196	—	776
Communication equipment	21,215	—	—	21,215
Miscellaneous equipment	138	—	(28)	110
Total tangible plant	<u>757,220</u>	<u>17,458</u>	<u>(3,237)</u>	<u>771,441</u>
Intangible plant	4,411	184	-	4,595
Total water plant in service	<u>761,631</u>	<u>17,642</u>	<u>(3,237)</u>	<u>776,036</u>
Acquisition adjustment	3,322	—	—	3,322
Property held for future use	587	—	(80)	507
Construction work in progress	9,313	21,894	(15,972)	15,235
Total water plant	<u>\$ 774,853</u>	<u>39,536</u>	<u>(19,289)</u>	<u>795,100</u>

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Statistical Section (unaudited)

Table 7 (Continued)

Detailed Schedule of Depreciation and Amortization (In Thousands)

	Accumulated Depreciation and Amortization				Net Book Value of Plant
	Balance			Balance	
	01/01/14	Additions	Retirements	12/31/14	
Water plant in service:					
Tangible plant:					
Source of supply:					
Source of supply/land	\$ —	—	—	—	747
Structures & improvements	576	33	—	609	1,249
Collecting & impound reservoir	—	—	—	—	—
Wells & spring	1,791	141	(232)	1,700	6,828
Supply mains	18,979	685	—	19,664	11,765
Pumping plant:					
Structures & improvements	2,353	304	—	2,657	9,799
Other power production equipment	31	5	—	36	110
Electric pumping equipment	847	68	(81)	834	593
Diesel pumping equipment	54	5	—	59	89
Booster pumping equipment	590	56	—	646	572
Treatment plant:					
Structures & improvements	23,930	1,197	—	25,127	37,892
Water treatment equipment	12,274	394	—	12,668	2,773
Transmission plant:					
Transmission & distribution-land	—	—	—	—	3,886
Structures & improvements	420	17	—	437	236
Distribution reservoir & standpipes	15,128	1,084	—	16,212	30,935
Transmission & distribution mains	138,010	7,715	(1,312)	144,413	353,891
Services	17,595	340	(10)	17,925	239
Meters	1,160	75	—	1,235	675
Hydrants	3,475	142	—	3,617	5,222
Land and land rights	—	—	—	—	762
General plant:					
Structures & improvements	5,985	369	—	6,354	12,760
Office furniture	173	19	(3)	189	217
Office equipment	—	—	—	—	—
Computer equipment	2,450	1,781	(2,288)	1,943	5,308
Vehicles (light duty)	1,913	187	—	2,100	267
Transportation equipment (heavy duty)	1,813	141	—	1,954	528
Store equipment	58	44	—	102	997
Tools, shop & garage equipment	295	18	(4)	309	110
Laboratory equipment	7	7	—	14	86
Power operated equipment	456	32	—	488	288
Communication equipment	9,125	1,405	—	10,530	10,685
Miscellaneous equipment	107	9	(28)	88	22
Total tangible plant	259,595	16,273	(3,958)	271,910	499,531
Intangible plant	1,362	445	—	1,807	2,788
Total water plant in service	260,957	16,718	(3,958)	273,717	502,319
Acquisition adjustment	2,250	115	—	2,365	957
Property held for future use	—	—	—	—	507
Construction work in progress	—	—	—	—	15,235
Total water plant	\$ 263,207	16,833	(3,958)	276,082	519,018



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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 Water 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 Water 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 Water 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 Water Utility Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Water 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 Water 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