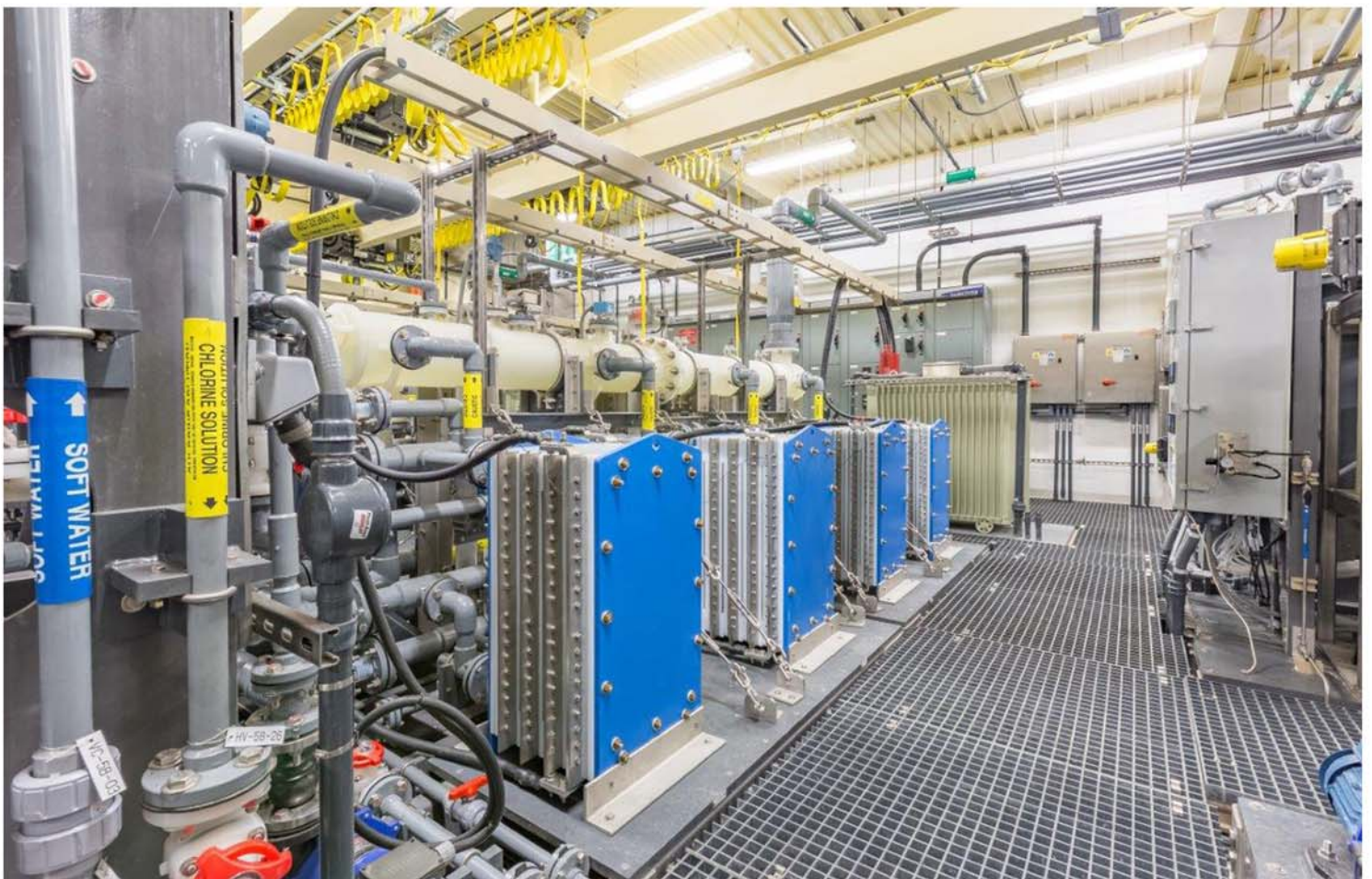




# Municipality of Anchorage, Alaska Wastewater Utility Fund

Basic Financial Statements  
and Other Information

December 31, 2015 and 2014  
(with independent Auditor's Report Thereon)



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

Basic Financial Statements and Other Information

December 31, 2015 and 2014

(With Independent Auditor's Report Thereon)

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

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Wastewater Utility Fund, an enterprise fund of the Municipality of Anchorage, Alaska, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Wastewater Utility's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wastewater Utility Fund, as of December 31, 2015 and 2014, 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 15 to the financial statements, in 2015 the Wastewater Utility Fund adopted the provisions of Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements present only the Wastewater Utility Fund and do not purport to, and do not present fairly the financial position of the Municipality of Anchorage, Alaska as of December 31, 2015 and 2014, 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 4-14, and the Schedule of the Utility's Information on the Net Pension Liability and Pension Contributions on page 52, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

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

The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2016 on our consideration of the Wastewater Utility Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Wastewater Utility Fund's internal control over financial reporting and compliance.

BDO USA, LLP

Anchorage, Alaska  
October 26, 2016

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

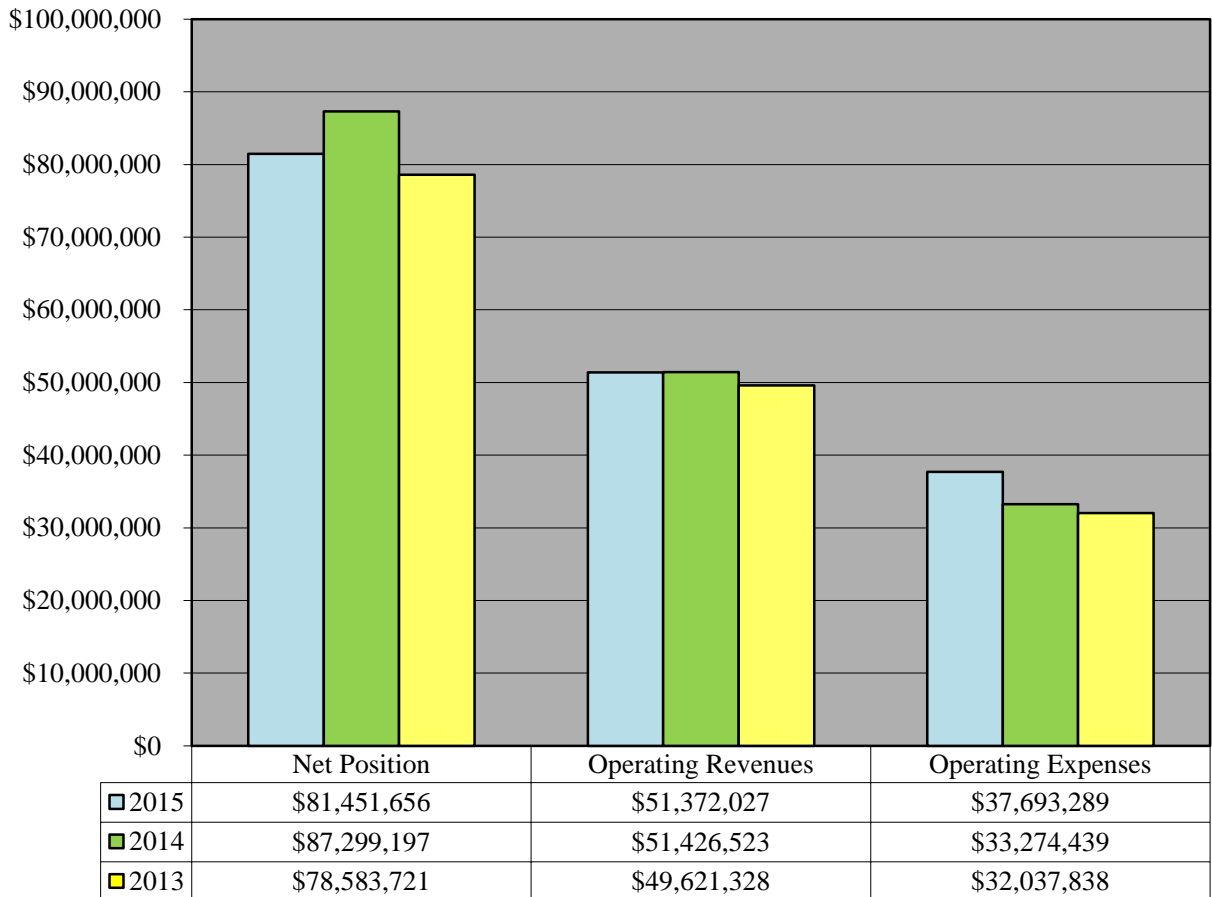
Management's Discussion and Analysis

December 31, 2015 and 2014

This section of the Municipality of Anchorage Wastewater Utility (Utility) annual financial report presents the analysis of the Utility's financial performance during the years ending December 31, 2015 and 2014. Please read it in conjunction with the Utility's financial statements.

**Financial Highlights**

- Net capital assets increased by \$14,410,000, or 4% in 2015 and \$4,430,000, or 1% in 2014.
- The overall change in net position from 2014 to 2015 was a decrease of \$5,840,000, or 0.7% which includes the effect of the restatement for GASB 68 adoption. The change in net position from current year operations was \$5,800,000, or 0.7%.
- Operating revenues decreased by \$50,000, or <1% in 2015 and increased by \$1,810,000, or 4% in 2014.
- Operating expenses increased by \$4,419,000, or 13% in 2015 and \$1,240,000, or 4% in 2014.



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

Management's Discussion and Analysis

December 31, 2015 and 2014

<b>Overview of the Financial Report</b>
---

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

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

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

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

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



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

Management's Discussion and Analysis

December 31, 2015 and 2014

<b>Analysis of the Financial Statements</b>
---

***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 Fund Net Position as of December 31, 2015, 2014, and 2013. 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**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Assets and deferred outflows of resources:			
Net capital assets	\$ 402,356,310	387,943,397	383,514,038
Current and other assets	40,934,261	39,599,558	32,942,997
Deferred outflows of resources	1,890,683	—	—
Total assets and deferred outflows of resources	445,181,254	427,542,955	416,457,035
Liabilities and deferred inflows of resources:			
Net debt outstanding	166,951,790	163,919,960	161,971,644
Current and other liabilities	21,562,007	8,296,557	5,887,895
Deferred inflows of resources	175,215,801	168,027,241	170,013,775
Total liabilities and deferred inflows of resources	363,729,598	340,243,758	337,873,314
Net position:			
Net investment in capital assets	61,077,608	58,308,145	53,654,012
Restricted	—	1,757,531	—
Unrestricted	20,374,048	27,233,521	24,929,709
Total net position	\$ 81,451,656	87,299,197	78,583,721
Net pension - beginning, as restated	75,643,999		
Change in fund net position	\$ 5,807,657	8,715,476	

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

Management's Discussion and Analysis

December 31, 2015 and 2014

The Utility's total assets increased by \$15.7 million in 2015. Net capital assets increased by \$14.4 million due to new plant additions of \$36.8 million, offset by a net decrease in construction work in progress of \$8.3 million, and additions to accumulated depreciation of \$14.1 million (see Table 3A and note 3). Current and other assets increased by \$1.3 million due to increases in the general cash pool of \$4.2 million, prepaids and inventory of \$0.2 million, other non-current assets of \$1.0 million, and restricted customer deposits of \$0.6 million; offset by decreases in restricted interim rate escrow investment of \$2.3 million, construction cash pool of \$1.7 million, customer accounts receivable of \$0.6 million, and unbilled special assessments of \$0.1 million.

Total liabilities and deferred inflows of resources increased by \$23.5 million in 2015. Net debt outstanding increased by \$3.0 million due to an increase in long-term loans which offset the reduction in revenue bonds (see table 4 and note 4). Current and other liabilities increased by \$13.3 million. Deferred inflows of resources, which are made up of contributions in aid of construction and deferred inflows of net pension obligation, increased by \$7.2 million during the year (see note 6).

The Utility's total assets increased by \$11.1 million in 2014. Net capital assets increased by \$4.4 million due to new plant additions of \$11.9 million and a net increase in construction work in progress of \$6.5 million, offset by additions to accumulated depreciation of \$14 million (see Table 3A and note 3). Current and other assets increased by \$6.7 million due to increases in the general cash pool of \$2.4 million, construction cash pool of \$0.3 million, unbilled special assessments of \$0.7 million, restricted customer deposits of \$1.2 million, restricted interim rate escrow investment of \$2.3 million, offset by decreases in current and other assets of \$0.2 million.

Total liabilities and deferred inflows of resources increased by \$2.4 million in 2014. Net debt outstanding increased by \$2.0 million due to an increase in long-term loans which offset the reduction in revenue bonds (see table 4 and note 4). Current and other liabilities increased by \$2.4 million. Deferred inflows of resources, which are made up of contributions in aid of construction, decreased by \$2.0 million during the year (see note 6).

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

Management's Discussion and Analysis

December 31, 2015 and 2014

Changes in the Utility's net position can be determined by reviewing the following condensed Summary of Revenues, Expenses, and Changes in Fund Net Position for the years ending December 31, 2015, 2014, and 2013.

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues:			
Residential sales	\$ 37,088,555	36,940,272	35,612,671
Commercial sales	11,428,098	11,570,728	11,155,400
Public authorities	1,787,593	1,904,326	1,913,149
Miscellaneous	1,067,781	1,011,197	940,108
Nonoperating revenues	426,135	315,102	2,991
Total revenues	<u>51,798,162</u>	<u>51,741,625</u>	<u>49,624,319</u>
Operating expenses:			
Collection system	3,827,027	2,499,636	3,363,535
Pumping Plant	1,076,981	1,097,794	959,031
Treatment	12,866,287	11,783,731	10,569,139
Customer accounts	2,383,285	1,992,089	2,234,237
Administrative and general	9,173,295	8,057,301	7,113,149
Depreciation, net of amortization	8,366,414	7,843,888	7,798,747
Nonoperating expenses	3,004,321	4,163,539	3,830,125
Total expenses	<u>40,697,610</u>	<u>37,437,978</u>	<u>35,867,963</u>
Income before transfers	<u>11,100,552</u>	<u>14,303,647</u>	<u>13,756,356</u>
Transfers:			
Transfers to other funds	<u>(5,292,895)</u>	<u>(5,588,171)</u>	<u>(5,617,478)</u>
Change in fund net position	5,807,657	8,715,476	8,138,878
Net position - beginning, as restated	<u>75,643,999</u>	<u>78,583,721</u>	<u>70,444,843</u>
Net position - ending	<u>\$ 81,451,656</u>	<u>87,299,197</u>	<u>78,583,721</u>

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

Management's Discussion and Analysis

December 31, 2015 and 2014

During 2015, net position increased by \$5.8 million and total revenues increased by \$.06 million. Operating revenues decreased by \$.04 million, and non-operating revenues increased by \$0.1 million. A significant portion of the decrease in operating revenues was due to decreases in discharges from septic haulers and public authorities. Non-operating revenues increased by \$0.1 million primarily due to a 2015 State of Alaska on behalf pension (PERS) liability payment.

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

**Revenues by Source in %**



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

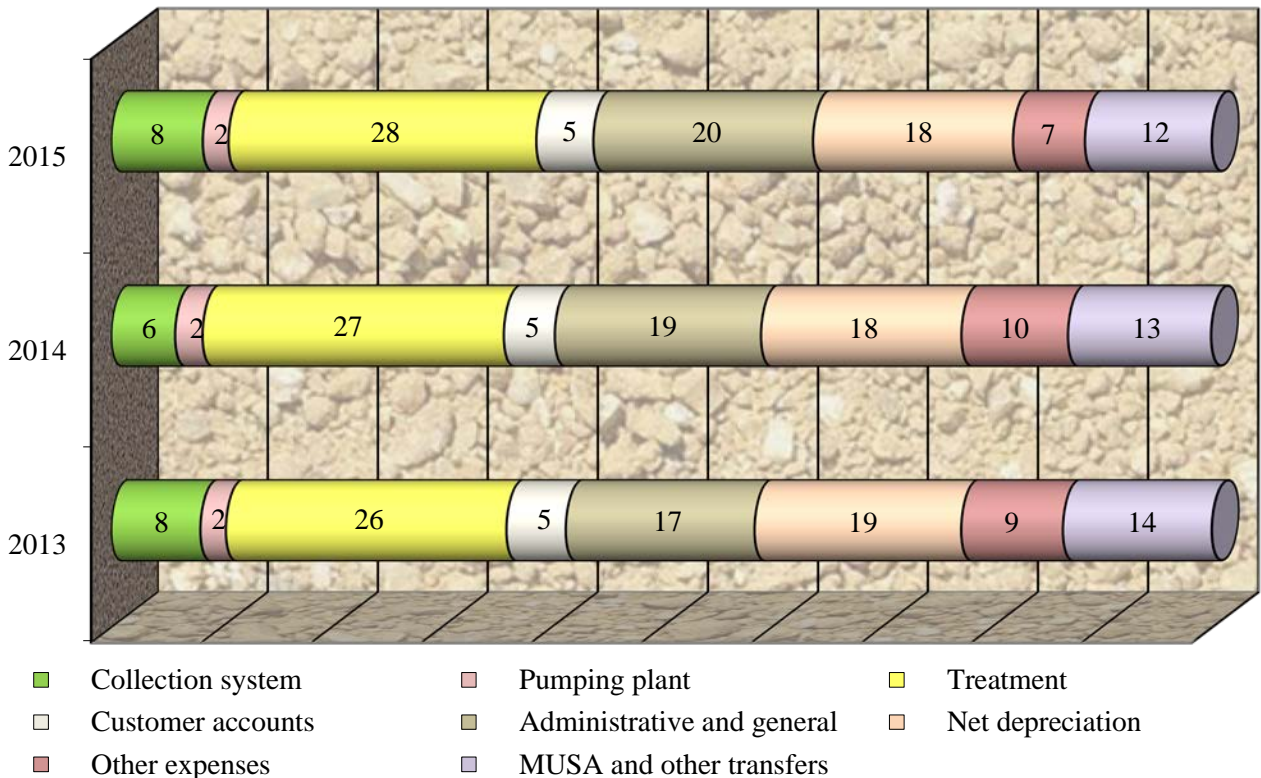
Management's Discussion and Analysis

December 31, 2015 and 2014

Total expenses increased by \$3.2 million in 2015 over 2014, with operating expenses increasing by \$4.4 million and non-operating expenses decreasing by \$1.2 million. The increase in operating expenses was primarily due to an increase in administrative expenses of \$1.1 million comprised of State of Alaska on-behalf (PERS) expenses (see Note 8). The remainder of the increase in operating expenses was due to collection increasing \$1.3 million, Pumping decreasing by \$.02 million, treatment increasing by \$1.1 million, customer accounts expenses increasing by \$0.4 million, and net depreciation expense increased by \$0.5 million. Non-operating expenses decreased by \$1.2 million due to an increase in allowance for funds used during construction offsetting interest expense. The Municipal Utility Service Assessment (MUSA) and other transfers decreased by less than \$0.3 million.

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

**Expenses by Source in %**



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

Management's Discussion and Analysis

December 31, 2015 and 2014

*Capital Assets and Debt*

**Capital Assets**

The following table summarizes the Utility's net capital assets, as of December 31, 2015, 2014, and 2013.

**Table 3A  
Net Capital Assets**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Intangible plant	\$ 3,770,694	\$ 4,203,312	\$ 3,074,540
Collection plant	229,651,402	219,142,622	218,638,124
Treatment & disposal plant	107,088,553	91,994,683	93,365,747
Pumping plant	12,313,180	12,413,307	12,716,888
General plant land	4,203,352	4,203,352	4,203,352
General plant	<u>36,431,066</u>	<u>38,841,732</u>	<u>40,848,809</u>
Net plant in service	393,458,247	370,799,008	372,847,460
Property held for future use	1,379,931	1,379,931	1,379,931
Construction work in progress	<u>7,518,132</u>	<u>15,764,458</u>	<u>9,286,647</u>
Total net capital assets	<u>\$ 402,356,310</u>	<u>\$387,943,397</u>	<u>383,514,038</u>
Increase in net capital assets	<u>\$ 14,412,913</u>	<u>4,429,359</u>	

Net capital assets increased by \$14.4 million in 2015 comprised of plant additions of \$36.8 million, a net decrease in construction work in progress of \$8.3 million, and decreased by depreciation of \$14.1 million. The plant category that increased the most at gross during the year was treatment plant, which increased by \$18 million, and collection plant, which increased by \$17.1 million. General plant increased by \$1.4 million, pumping plant increased by \$.2 million, and intangible plant increased by \$0.1 million (see table 3B).

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

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

Management's Discussion and Analysis

December 31, 2015 and 2014

**Table 3B  
Capital Assets, 2015 Major Additions - gross  
(amounts expressed in millions)**

<u>Collection plant</u>		<u>Pumping Plant</u>	
Fish Crk Intercept Rehab	\$ 4.7	FacRR-OM-SWR12	0.2
S13-012 SEC18 T12N R3W LOT 3 P	2.7	Total Treatment and disposal plant	<u>0.2</u>
Wonder Park PhIII-SWR	2.4		
S14-004 Anchora Village TR A	1.2	<u>Treatment and disposal plant</u>	
S13-003 Eagle Pointe, Ph 10	1.1	AWWTF Disinfection Upgr	16.7
S14-003 PowderView-PowderResv	0.8	ERWWTF Blower Rehab	0.9
S11-001 Green Add No 1 Tr B-1	0.4	AWWTF Clarifier3 Res-Paint	0.1
Barrow 10-11 Upgr-SWR	0.4	GWTF Upgr-Replacement PhI	0.1
Girdwood MH I-I PhVI	0.3	Other Miscellaneous projects	<u>0.2</u>
S07-014GalatEstB5L14-28B7L1-19	0.3	Total Treatment and disposal plant	<u>18</u>
S05-030 Potter View Subd	0.3		
Iris Dr Upgr-SWR	0.3	<u>General Plant</u>	
Business Park Rehab-SWR	0.2	IT Infra Equip Only-SWR15	\$ 0.3
W 32nd Muriel-Doris Upgr-SWR	0.1	SCADA Equip-SWR14	0.6
S14-012 Willow View	0.1	Other Miscellaneous projects	<u>0.5</u>
S14-013 Gray Hawk	0.1	Total general plant	<u>\$ 1.4</u>
Other Miscellaneous projects	<u>1.7</u>		
Total collection plant	<u>\$ 17.1</u>	<u>Total Additions</u>	<u>\$ 36.8</u>
<u>Intangible Plant</u>			
King St Fac Plan	\$ <u>0.1</u>		
Total intangible plant	\$ <u>0.1</u>		

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

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

Management's Discussion and Analysis

December 31, 2015 and 2014

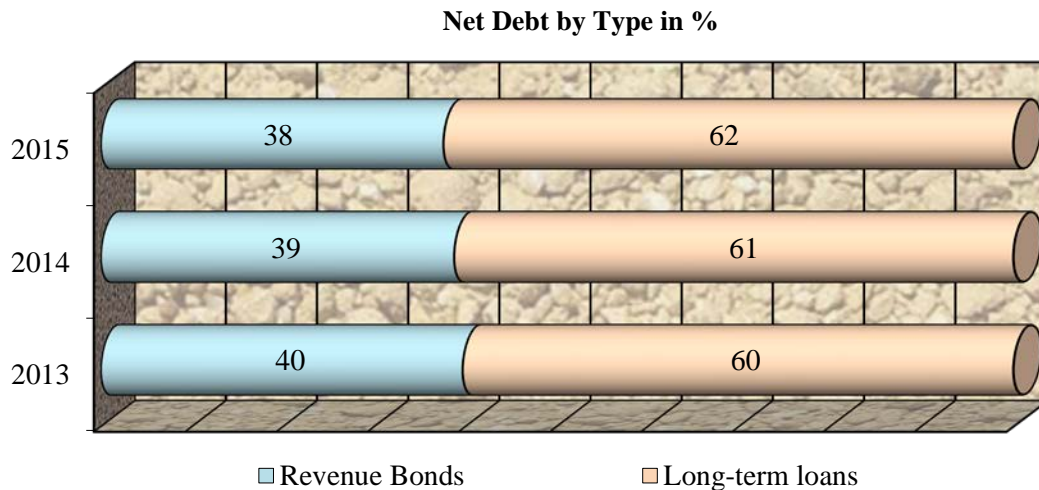
**Debt**

Changes in the Utility's debt are shown in the following table as of December 31, 2015, 2014, and 2013. The table includes only debt having a long-term component.

**Table 4  
Net Debt**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Revenue bonds, net	\$ 62,752,283	63,540,653	64,293,054
Long-term loans	<u>104,199,507</u>	<u>100,379,307</u>	<u>97,678,590</u>
Total net debt	<u>\$ 166,951,790</u>	<u>163,919,960</u>	<u>161,971,644</u>
Increase in net debt	<u>\$ 3,031,830</u>	<u>1,948,316</u>	

The Utility did not issue bonds in either 2015 or 2014, but did receive approximately \$5.4 million and \$1.7 million, respectively, from the State of Alaska Clean Water Loan Program (see note 4(e)) to finance capital improvements. In addition, the Utility borrowed other loans payable of \$3.5 million and \$5.7 million in 2015 and 2014, respectively. Bond and loan principal payments totaled \$0.8 million and \$5 million, respectively, in 2015, compared to 2014 bond and loan principal payments of \$0.7 million and \$4.7 million, respectively.



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



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

Management's Discussion and Analysis

December 31, 2015 and 2014

**Economic Factors and Next Year's Budgets and Rates**

***Budgetary Matters***

The 2016 budget anticipates operating revenue similar to 2015 actual revenue due to no rate increases in 2016. Interest earnings are budgeted to increase approximately 27% over 2015 budget.

2016 operating expenses are budgeted to increase 6.3% over the 2015 budget due to a 5.1% budget increase in labor and an 8% budget increase in non-labor offset by a 5.7% reduction in IGC's. The Municipal Service Assessment is budgeted to increase 3.3% and depreciation expense is budgeted to increase 14.7%.

***Regulatory Matters***

The Utility applies all applicable provisions of the Governmental Accounting Standards Board (GASB) which has authority for setting accounting standards for governmental entities. The Utility's rates are regulated by the RCA, and as a result, revenues intended to recover certain costs are provided either before or after the costs are incurred, resulting in regulatory assets or liabilities.

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

**Contacting the Utility's Financial Management**

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

General information can be found at: [www.awwu.biz](http://www.awwu.biz).

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

Statements of Net Position

December 31, 2015 and 2014

**Assets**

	<b>2015</b>	<b>2014</b>
Capital assets:		
Plant in service, at cost	\$ 651,034,021	615,725,822
Less accumulated depreciation	(257,575,774)	(244,926,814)
Net plant in service	393,458,247	370,799,008
Property held for future use	1,379,931	1,379,931
Construction work in progress	7,518,132	15,764,458
Net capital assets	402,356,310	387,943,397
Non-current assets:		
Unamortized cost of debt issuance [see note 1(a)]	579,119	631,921
Unbilled special assessments	2,151,536	2,443,601
Other	5,341,364	4,042,027
Total non-current assets	8,072,019	7,117,549
Restricted assets:		
Current:		
Equity in bond and grant capital acquisition and construction pool	613,003	2,311,949
Interim rate escrow investments	—	2,317,531
Non-current:		
Customer deposits	2,146,700	1,531,191
Total restricted assets	2,759,703	6,160,671
Current assets:		
Equity in general cash pool	26,294,975	22,104,938
Accrued interest receivable	25,848	4,436
Accounts receivable:		
Utility customers, less estimated uncollectibles of \$140,204 in 2015 and \$66,644 in 2014	2,703,471	3,103,425
Other, less estimated uncollectibles of \$56,930 in 2015 and \$32,502 in 2014	379,768	583,937
Special assessments receivable	102,257	88,807
Unbilled reimbursable projects	11,039	14,035
Prepays	129,363	29,674
Inventory of materials and supplies, at average cost	455,818	392,086
Total current assets	30,102,539	26,321,338
Total assets	443,290,571	427,542,955
Deferred outflows of resources:		
Deferred outflows of resources related to net pension liability	1,890,683	—
Total deferred outflows of resources	1,890,683	—
Total assets and deferred outflows of resources	\$ 445,181,254	427,542,955

See accompanying notes to basic financial statements.

**Liabilities, Deferred Inflows of Resources, and Net Position**

	<u>2015</u>	<u>2014</u>
Net position:		
Net investment in capital assets	\$ 61,077,608	58,308,145
Restricted	—	1,757,531
Unrestricted	20,374,048	27,233,521
Total net position	<u>81,451,656</u>	<u>87,299,197</u>
Non-current liabilities:		
Net pension liability	14,330,178	—
Compensated absences payable	262,532	279,475
Pollution remediation obligation	354,000	384,000
Revenue bonds payable	61,515,000	62,315,000
Less unamortized discounts	(40,409)	(48,940)
Plus unamortized premiums	477,692	509,593
Net revenue bonds payable	<u>61,952,283</u>	<u>62,775,653</u>
Alaska Clean Water Fund loans payable	66,453,618	66,699,049
Loan payable-other	32,651,000	29,151,000
Total non-current liabilities	<u>176,003,611</u>	<u>159,289,177</u>
Current liabilities:		
Accounts payable	1,216,146	525,117
Accrued payroll	765,126	453,419
Compensated absences payable	885,498	886,735
Accrued interest	1,107,726	1,315,691
Pollution remediation obligation	60,000	60,000
Long-term obligations maturing within one year	5,894,889	5,294,258
Total current liabilities	<u>9,929,385</u>	<u>8,535,220</u>
Liabilities payable from restricted assets:		
Current:		
Capital acquisition and construction accounts payable	434,101	2,300,929
Customer refund payable	—	560,000
Non-current:		
Customer deposits payable	2,146,700	1,531,191
Total liabilities payable from restricted assets	<u>2,580,801</u>	<u>4,392,120</u>
Total liabilities	<u>188,513,797</u>	<u>172,216,517</u>
Deferred inflows of resources:		
Contributions in aid of construction, net of amortization	174,939,915	168,027,241
Deferred inflows of resources related to net pension liability	275,886	—
Total deferred inflows of resources	<u>175,215,801</u>	<u>168,027,241</u>
Total liabilities and deferred inflows of resources	<u>363,729,598</u>	<u>340,243,758</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 445,181,254</u>	<u>427,542,955</u>

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

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

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Charges for sales and services:		
Residential sales	\$ 37,088,555	36,940,272
Commercial sales	11,428,098	11,570,728
Public authorities	1,787,593	1,904,326
Total charges for sales and services	<u>50,304,246</u>	<u>50,415,326</u>
Miscellaneous	1,067,781	1,011,197
Total operating revenues	<u>51,372,027</u>	<u>51,426,523</u>
Operating expenses:		
Collection system	3,827,027	2,499,636
Pumping plant	1,076,981	1,097,794
Treatment	12,866,287	11,783,731
Customer accounts	2,383,285	1,992,089
Administrative and general	9,173,295	8,057,301
Total operations	<u>29,326,875</u>	<u>25,430,551</u>
Depreciation, net of amortization	8,366,414	7,843,888
Total operating expenses	<u>37,693,289</u>	<u>33,274,439</u>
Operating income	<u>13,678,738</u>	<u>18,152,084</u>
Non-operating revenues (expenses):		
Investment income - short-term investments	239,607	295,068
Interest expense-revenue bonds	(3,031,958)	(3,064,779)
Allowance for funds used during construction	1,435,149	328,333
Amortization of bond premium/discount	23,370	22,401
Amortization of debt expense	(52,802)	(55,521)
Interest and fees-loans	(1,344,865)	(1,393,372)
PERS on-behalf	179,073	—
Miscellaneous revenue	7,455	20,034
Miscellaneous deductions	(33,215)	(601)
Total non-operating revenues (expenses)	<u>(2,578,186)</u>	<u>(3,848,437)</u>
Income before transfers	<u>11,100,552</u>	<u>14,303,647</u>
Transfers:		
Transfers to other funds	(5,292,895)	(5,588,171)
Change in fund net position	<u>5,807,657</u>	<u>8,715,476</u>
Net position – beginning, as restated	<u>75,643,999</u>	<u>78,583,721</u>
Net position – ending	<u>\$ 81,451,656</u>	<u>87,299,197</u>

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended December 31, 2015 and 2014

	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:		
Receipts from customers and users	\$ 50,901,948	51,780,887
Refunds to customers and users	(2,317,531)	—
Payments to employees	(15,231,955)	(14,199,325)
Payments to vendors	(7,439,870)	(5,722,625)
Internal activity – payments made (to) from other funds	96,630	(7,747,936)
Net cash provided by operating activities	26,009,222	24,111,001
Cash flows from non-capital and related financing activities:		
Transfers to other funds	(5,292,895)	(5,588,171)
Net cash used by non-capital and related financing activities	(5,292,895)	(5,588,171)
Cash flows from capital and related financing activities:		
Principal payments on long-term obligations	(765,000)	(730,000)
Interest payments and fees on long-term obligations	(4,584,788)	(4,302,913)
Acquisition and construction of capital assets	(20,977,313)	(13,657,447)
Capital contributions – intergovernmental	4,262,740	560,460
Capital contributions – customer/special assessments	416,239	351,374
Proceeds from loan payable – other	3,500,000	5,700,000
Proceeds from Alaska Clean Water Fund loans	5,388,405	1,672,810
Principal payments on Alaska Clean Water Fund loans	(5,068,205)	(4,672,093)
Net cash used by capital and related financing activities	(17,827,922)	(15,077,809)
Cash flows from investing activities:		
Interest received	218,195	299,535
Net cash provided by investing activities	218,195	299,535
Net increase in cash	3,106,600	3,744,556
Cash, beginning of year	25,948,078	22,203,522
Cash, end of year	\$ 29,054,678	25,948,078
Cash and cash equivalents		
Equity in general cash pool	26,294,975	22,104,938
Equity in bond and grant capital acquisition and construction pool	613,003	2,311,949
Customer deposits	2,146,700	1,531,191
Cash and cash equivalents, end of year	\$ 29,054,678	25,948,078

See accompanying notes to basic financial statements.

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

Statements of Cash Flows, Continued

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 13,678,738	18,152,084
Transfer (to) from escrow account	2,317,531	(2,317,531)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Allowance for uncollectible accounts	97,989	(56,415)
Depreciation, net of amortization	8,366,414	7,843,888
PERS relief	179,073	—
Miscellaneous non-operating revenues (expenses)	(25,760)	19,433
Changes in assets, deferred outflows and inflows of resources, and liabilities increasing (decreasing) cash:		
Accounts receivable and other receivables	492,685	(20,137)
Unbilled reimbursable projects	2,996	43
Inventories	(63,732)	(58,093)
Customer deposits payable	615,509	1,173,875
Prepays	(99,689)	(814)
Unbilled special assessments and other non-current assets	(1,007,272)	(519,046)
Accounts payable	691,031	(415,638)
Accrued payroll liabilities	311,706	(282,610)
Compensated absences payable	(18,180)	61,962
Pollution remediation obligation	(30,000)	(30,000)
Customer refund payable	(560,000)	560,000
Deferred outflows of resources related to net pension liability	(1,338,189)	—
Net pension liability	3,474,538	—
Deferred inflows of resources related to net pension liability	(1,076,166)	—
Net cash provided by operating activities	<u>\$ 26,009,222</u>	<u>24,111,001</u>
Non-cash investing, capital and financing activities:		
Contributed capital – private development	\$ 8,350,448	1,801,575
Capital purchases on account, net	689,987	766,500
Total non-cash investing, capital and financing activities	<u>\$ 9,040,435</u>	<u>2,568,075</u>

See accompanying notes to basic financial statements.

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

Notes to Basic Financial Statements

December 31, 2015 and 2014

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

The Anchorage Wastewater Utility (Utility) began as a fragmented system owned by the City of Anchorage, military, public, and private interests. In the late 1960's the Greater Anchorage Area Borough unified these systems creating the Utility. In the early 1970's the Utility began charging rates and by the mid 1980's evolved into an enterprise fund and now exists as a public utility of the Municipality of Anchorage. The Utility, whose service area encompasses the majority of the Municipality of Anchorage, serves residential, commercial, and military accounts in metropolitan Anchorage from Eklutna to Girdwood. The Utility's treatment plants in Anchorage, Eagle River and Girdwood operate 24 hours per day, discharging treated wastewater into Cook Inlet, Eagle River and Glacier Creek. The accompanying financial statements include the activities of the Wastewater Utility Fund.

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

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

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

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

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

Notes to Basic Financial Statements

December 31, 2015 and 2014

***(a) Regulated Operations***

The Utility meets the criteria, and accordingly, follows the accounting and reporting requirements applicable to regulated operations. The Utility's rates are regulated by the Regulatory Commission of Alaska (RCA), and as a result, revenues intended to recover certain costs are provided either before or after the costs are incurred, resulting in regulatory assets or liabilities. The Utility receives contributions in aid of construction, which are recorded as deferred inflows of resources. For rate-making purposes, the Utility amortizes contributions in aid of construction over the life of the respective utility plant as a reduction of depreciation expense and a reduction of a deferred inflow of resources. Consequently, contributions in aid of construction are recorded as a regulatory liability in the accompanying financial statements. The Utility's rates also include an allowance for the cost of funds used during construction (AFUDC), which is capitalized in the accompanying financial statements. The Statements of Revenues, Expenses, and Changes in Fund Net Position include AFUDC as an item of other income in a manner that indicates the basis for the amount capitalized. As a regulated operation, the Utility applies the accounting and reporting requirements applicable to regulated operations to the accounting for debt issuance costs. Accordingly, the Utility's debt issuance costs are recorded as an asset and are being amortized over the life of the debt.

***(b) Cash Pool and Investments***

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

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

***(c) Flow Assumptions for Restricted Resources***

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

***(d) Inventories***

Inventories are valued at average cost.

***(e) Deferred Outflows of Resources***

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then. At December 31, 2015 and 2014, the Utility had deferred outflows of resources from pension related items.

***(f) Deferred Inflows of Resources***

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources until that time. At December 31, 2015 and



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

Notes to Basic Financial Statements

December 31, 2015 and 2014

2014, the Utility had deferred inflows of resources from contributions in aid of construction and pension related items.

**(g) Property, Plant, and Equipment**

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

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

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

The estimated lives of major plant and equipment categories follow:

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

**(h) Operating Revenues and Expenses**

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

**(i) Unbilled Revenues**

Utility revenues are based on cycle billings rendered to customers monthly. The Utility accrues an estimate of revenue at year-end for services provided but not yet billed. The Utility accrued \$1,620,000 and \$1,560,000 for the years ended December 31, 2015 and 2014, 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

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

Notes to Basic Financial Statements

December 31, 2015 and 2014

allocated to the Utility totaled approximately \$1.0 million for the years ended December 31, 2015 and 2014, respectively.

***(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 2015 or 2014.

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, 2015, is dependent upon future developments. At December 31, 2015, claims incurred but not reported included in the liability accounts are \$17,720,226 in the General Liability/Workers' Compensation Fund and Medical/Dental Self Insurance Fund.

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

Notes to Basic Financial Statements

December 31, 2015 and 2014

Changes in the funds' claim liability amounts in 2015 and 2014 are as follows:

	Balance January 1, 2015	Current Year Claims and Changes in Estimates	Claims Payment	Balance December 31, 2015
General Liability/Workers'				
Compensation	\$ 18,030,928	14,931,121	(7,075,555)	25,886,494
Medical/Dental	7,086,801	60,749,094	(58,933,939)	8,901,956
Unemployment	98,411	281,210	(313,025)	66,596
	<u>25,216,140</u>	<u>75,961,425</u>	<u>(66,322,519)</u>	<u>34,855,046</u>
	Balance January 1, 2014	Current Year Claims and Changes in Estimates	Claims Payment	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>

At December 31, 2015, the Medical and Dental Self Insurance Fund had unrestricted net position of \$1,265,813, a decrease of \$9,022,479 from 2014. The decrease in net position is due to increase in reserves for medical and dental claims by margin of 3 percent to the actuarial estimates.

At December 31, 2015, the General Liability and Worker's Compensation Fund had negative net position of \$3,205,093, a decrease of \$6,465,493 from 2014. The deficit is due to increased reserves for worker's comp claims based on actuarial estimates.

**(m) Reclassification**

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

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

Notes to Basic Financial Statements

December 31, 2015 and 2014

**(2) Cash and Investments**

At December 31, 2015, 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	\$ 61,528				
Central Treasury - Unrestricted					
Cash & Money Market Funds	15,594,205	-	-	-	-
Repurchase Agreements	30,464,960	30,464,960	-	-	-
U.S. Treasuries	135,314,192	36,177,696	81,901,486	17,235,010	-
U.S. Agencies	73,147,659	47,153,231	18,769,036	3,711,622	3,513,770
Municipal Bonds	210,342	-	-	210,342	-
Asset-Backed Securities**	56,051,278	954,777	37,256,637	5,474,217	12,365,647
Corporate Fixed Income Securities	98,487,247	21,676,845	60,798,871	14,323,744	1,687,787
Payables	(19,154,134)	-	-	-	-
	<u>\$ 390,115,749</u>	<u>\$ 136,427,509</u>	<u>\$ 198,726,030</u>	<u>\$ 40,954,935</u>	<u>\$ 17,567,204</u>
Central Treasury - Restricted					
Cash & Money Market Funds	25,049,307	-	-	-	-
Repurchase Agreements	8,495,115	8,495,115	-	-	-
U.S. Treasuries	49,809,259	22,165,175	22,838,124	4,805,960	-
U.S. Agencies	54,134,455	42,376,670	9,742,994	1,034,981	979,810
Municipal Bonds	58,654	-	-	58,654	-
Asset-Backed Securities**	15,629,826	266,238	10,388,965	1,526,478	3,448,145
Corporate Fixed Income Securities	28,758,248	7,339,767	16,953,687	3,994,158	470,637
Payables	(5,341,106)	-	-	-	-
	<u>\$ 176,593,758</u>	<u>\$ 80,642,965</u>	<u>\$ 59,923,770</u>	<u>\$ 11,420,231</u>	<u>\$ 4,898,592</u>

\* Market value plus accrued income.

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

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

Notes to Basic Financial Statements

December 31, 2015 and 2014

**(a) *Municipal Central Treasury***

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

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

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

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

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

Notes to Basic Financial Statements

December 31, 2015 and 2014

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

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

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

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

Notes to Basic Financial Statements

December 31, 2015 and 2014

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, 2015	Internally Managed Portfolio Holding % at December 31, 2015
U.S. Government Securities*	50% to 100% of investment portfolio	55%	83%
Repurchase Agreements	0% to 50% of investment portfolio	21%	2%
Certificates of Deposit**	0% to 50% of investment portfolio	0%	0%
	Maximum 5% per issuer		
Bankers Acceptances	0% to 25% of investment portfolio	0%	0%
	Maximum 5% per issuer		
Commercial Paper	0% to 15% of investment portfolio	0%	0%
	Maximum 5% per issuer		
Corporate Bonds	0% to 15% of investment portfolio	10%	2%
	Maximum 5% per issuer		
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%	13%
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	0%	0%
	Maximum 5% per issuer		
		<u>100%</u>	<u>100%</u>

\*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.

**(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, the Police and Fire Retiree Medical Trust, and the Police and Fire Retirement Pension Trust utilize the duration method to measure exposure to interest rate risk. All other funds disclose interest rate risk through the segmented time distribution tables within this note, which categorize fixed income investments according to their maturities.

Duration is a measure of an investment's sensitivity to interest rate changes, and represents the sensitivity of an investment's market price to a 1 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, 2015, the Working Capital Portfolio had a duration of .33 years, or approximately 120 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, 2015, the Contingency Reserve Portfolio had a duration of 1.69 years as compared to its benchmark, Barclays 1-3 Year Government Index, which had a duration of 1.86 years. AMC 6.50.030 requires the Strategic Reserve Portfolio have a maximum

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duration no greater than one year in excess of its benchmark. At December 31, 2015, the Strategic Reserve Portfolio had a duration of 3.72 years as compared to its benchmark, Barclays Intermediate Government/Corporate Index, which had a duration of 3.96 years.

The effective durations of the externally managed portfolios of the Municipal Central Treasury (working capital, contingency reserve and strategic reserve) at December 31, 2015, were 0.33 years, 1.69 years, and 3.72 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 percent 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 percent invested in repurchase agreements or certificates of deposit, including unsecured certificates of deposit, ii) 25 percent 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 percent invested in certificates of deposit secured by other than U.S. Government securities, and iv) 15 percent 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, 2015, the Municipal Central Treasury's investment in marketable debt securities, excluding U.S. Treasury and Agency securities, totaled \$224,499,722. The distribution of ratings on these securities was as follows:

Moody's		S&P	
Aaa	22%	AAA	20%
Aa	6%	AA	6%
A	23%	A	23%
Baa	25%	BBB	27%
Ba or Lower	1%	BB or Lower	0%
Not Rated	23%	Not Rated	24%
	100%		100%

At December 31, 2015, 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



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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, 2015, 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, 2015, the Municipal Central Treasury had bank deposit carrying amounts totaling \$41,559,645, of which \$500,000 was covered by federal depository insurance. Bank deposits of \$13,993,299 were secured by collateral held by a third party and deposits of \$27,066,346 were secured by collateral held at the depository bank. An additional \$2,917,500 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.

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, 2015 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, 2015, all debt obligations held in the Municipal Central Treasury were payable in U.S. Dollars.

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**(3) Capital Assets**

Capital assets for the year ended December 31, 2015 follow:

	<b>December 31, 2014</b>	<b>Additions</b>	<b>Retirements</b>	<b>December 31, 2015</b>
Intangible plant	\$ 5,705,026	133,336	—	5,838,362
Collection plant	378,119,290	17,098,418	—	395,217,708
Pumping plant	17,079,872	214,152	—	17,294,024
Treatment and disposal plant	147,939,491	18,025,458	—	165,964,949
General plant – land	4,203,352	—	—	4,203,352
General plant	62,678,791	1,330,900	(1,494,065)	62,515,626
	<u>615,725,822</u>	<u>36,802,264</u>	<u>(1,494,065)</u>	<u>651,034,021</u>
Less accumulated depreciation	(244,926,814)	(14,135,235)	1,486,275	(257,575,774)
Net plant in service	370,799,008	22,667,029	(7,790)	393,458,247
Property held for future use	1,379,931	—	—	1,379,931
Construction work in progress	15,764,458	20,205,490	(28,451,816)	7,518,132
	<u>\$ 387,943,397</u>	<u>42,872,519</u>	<u>(28,459,606)</u>	<u>402,356,310</u>

Any transfers of assets between plant categories are reported in the “Additions” column of plant in service along with the additions for the year. There were no transfers for the year ended December 31, 2015. Net salvage, consisting of auction proceeds from the sale of assets less any costs of removal or abandonment, is reported in the “Retirements” column for accumulated depreciation. There was \$7,790 in salvage proceeds in 2015. The Utility’s 2016 construction budget is \$34,200,000.

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

	<b>December 31, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>December 31, 2014</b>
Intangible plant	\$ 4,150,767	1,554,259	—	5,705,026
Collection Plant	371,411,656	6,860,986	(153,352)	378,119,290
Pumping plant	17,073,008	6,864	—	17,079,872
Treatment & disposal plant	146,433,360	1,506,131	—	147,939,491
General plant land	4,203,352	—	—	4,203,352
General plant	63,209,088	1,987,779	(2,518,076)	62,678,791
	<u>606,481,231</u>	<u>11,916,019</u>	<u>(2,671,428)</u>	<u>615,725,822</u>
Less accumulated depreciation	<u>(233,633,771)</u>	<u>(13,964,471)</u>	<u>2,671,428</u>	<u>(244,926,814)</u>
Net plant in service	372,847,460	(2,048,452)	—	370,799,008
Property held for future use	1,379,931	—	—	1,379,931
Construction work in progress	9,286,647	16,592,256	(10,114,445)	15,764,458
	<u>\$ 383,514,038</u>	<u>14,543,804</u>	<u>(10,114,445)</u>	<u>387,943,397</u>

Net salvage, consisting of auction proceeds from the sale of assets less any costs of removal or abandonment, is reported in the "Retirements" column for accumulated depreciation. There were no salvage proceeds in 2014. There was no cost of removal recorded for 2014. The Utility's 2015 construction budget was \$33,345,000.

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**(4) Long-Term Obligations**

***(a) Long-Term Obligations Issued***

The Utility issues revenue bonds to provide funds for capital construction and refunding of earlier bond issues. These bonds are generally issued as 30-year serial bonds with varying amounts of principal maturing each year. The Utility did not issue any bonds in 2015.

The Utility obtains low interest loans from the State of Alaska, Department of Environmental Conservation Alaska Clean Water Fund to fund capital improvement projects. These loans enter repayment status one year after the initiation of operation of the facilities with the loan terms included in the contract. These loans have repayments terms of up to 20 years. In 2015, the Utility obtained additional low interest loans of \$5,388,405.

In March 2013, the Utility entered into a Loan Agreement for up to \$60,000,000 with a commercial bank. In 2016, the agreement was amended to extend the lending term for up to one additional year, expiring in March of 2017. 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 there are no principal payments due before the end of the loan term. In 2015, the Utility obtained additional loans of \$3,500,000 through this agreement to bring the loan balance to \$32,651,000. 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, 2015, the interest rate for the loan was 0.51%; 0.01% plus a 0.5% lender margin. In Note 4(c) Debt Service Requirements, the Utility has estimated future interest payments using the 0.51% interest rate on the outstanding loan payable for years 2016 and 2017. The principal repayment of the loan has been included in 2017.

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Long-term obligations outstanding at December 31, 2015 follow:

Description	Original Issue Date	Total Issue Amount	Interest Rates	Maturity Range	Principal Balance December 31, 2015
Revenue Bonds:					
2004 Wastewater Revenue Bonds	06/10/04	\$ 22,620,000	3.00 - 5.125%	2007 - 2034	3,690,000
2007 Wastewater Revenue & Refunding Bonds	06/28/07	59,665,000	4.00 - 5.00%	2008 - 2037	58,625,000
Total Revenue Bonds		82,285,000			62,315,000
Long-Term Revolving Loans:					
127061 Girdwood Wastewater	4/24/95	1,565,161	1.50%	1999 - 2018	277,159
127071 Eagle River TID ER-3	10/30/95	2,073,031	1.50%	1999 - 2018	366,235
127081 Misc Wastewater Projects	5/8/95	2,071,475	1.50%	2002 - 2021	695,848
127091 Chester Creek Pump Stn R&R	6/11/97	959,587	1.50%	1999 - 2018	170,892
127101 FY97 Misc Wastewater Projects	6/11/97	2,250,000	1.50%	2009 - 2028	1,462,500
127111 Equipment - Wastewater 1998	1/21/98	286,051	1.50%	2001 - 2020	80,442
127131 Chester Creek Sewer Trunk Study	4/2/98	300,127	1.50%	2004 - 2023	120,051
127141 Facility Replace & Rehab Proj 1998	1/21/98	1,305,252	1.50%	2009 - 2028	819,763
127151 Operations Facilities, Phase II	1/21/98	1,138,248	1.50%	2006 - 2022	397,324
127211 FY99 Misc Small Sewer R&R, Phs I	7/23/01	1,410,000	1.50%	2003 - 2022	548,084
127271 C-5-7 Trunk Sewer Upgrade	5/19/03	2,229,617	1.50%	2007 - 2026	1,307,892
127281 Asplund Facility Solids Handling	1/21/00	4,290,279	1.50%	2002 - 2021	1,289,870
127291 Operations Facility, Phase III	3/18/03	3,608,588	1.50%	2004 - 2023	1,618,498
127301 Septic System Site Upgrade	1/21/00	500,000	1.50%	2004 - 2023	199,636
127371 Old Glenn Hwy	2/22/08	2,000,000	1.50%	2012 - 2031	1,600,000
127421 B-4AB Sewer Trunk Upgrade	8/20/01	2,370,748	1.50%	2003 - 2022	826,368
127451 SCADA Sewer	6/18/04	13,000,000	1.50%	2009 - 2028	8,551,311
127481 Asplund WW Treatment Facility	6/18/04	4,200,000	1.50%	2006 - 2025	2,256,042
127611 Asplund Facility Utilador	12/5/12	2,100,000	1.50%	2014 - 2033	1,890,000
127631 Asplund Process Impr	1/30/08	8,000,000	1.50%	2009 - 2028	5,200,000
127641 (C-F) Interceptor Upgrade	12/16/09	41,858	1.50%	2010 - 2019 **	16,743
127651 C-2(A,B) Sewer Improvements	8/1/07	1,700,000	1.50%	2010 - 2029	1,189,997
127661 King-Rovenna Sewer Upgrade	8/1/07	1,613,129	1.50%	2010 - 2029	1,129,190
127671 C-5-N Campbell Lake	8/7/07	941,788	1.50%	2010 - 2029	659,252
127691 ER WWTF Gravity Thickener	12/28/07	201,970	1.50%	2010 - 2029	141,379

Loans continued on next page.

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Description	Original Issue Date	Total Issue Amount	Interest Rates	Maturity Range	Principal Balance December 31, 2015
127701 Girdwood WWTF Improvements	12/16/09	10,778,946	1.50%	2015 - 2034	10,239,999
127721 San Ernesto Hoyt Upgrade	12/22/08	404,000	1.50%	2010 - 2029	282,800
127741 Septage Improvements	10/29/08	1,800,000	1.50%	2011 - 2030	1,350,000
130031 Asplund Improvements	1/18/08	2,701,000	1.50%	2009 - 2028	1,620,600
130061 W. 71st Ave Sewer Rehab	10/31/14	300,000	1.50%	2016 - 2035	300,000
130071 Pump Station Upgrade	12/16/09	3,519,908	1.50%	2013 - 2032	2,991,922
130081 Sand Lake Sewer Extension	2/17/10	600,000	1.50%	2011 - 2030	450,000
130091 Asplund Generator Upgrade	10/16/08	5,963,373	1.50%	2011 - 2030	4,472,530
130101 Minnesota-Benson Sewer Upgrade	6/16/09	395,625	1.50%	2009 - 2028	257,156
130131 Arctic 32nd-36th Upgrade	7/9/08	437,275	1.50%	2009 - 2028	284,229
130171 Asplund Disinfection Study & Upgrade	4/30/10	6,056,110	1.50%	2017 - 2036 *	6,056,110
130191 Pump Station 10 Upgrade	12/12/08	3,283,217	1.50%	2011 - 2030	2,462,413
130301 Cope Dorbrant Upgrade	9/9/08	927,746	1.50%	2011 - 2030	695,809
130311 Douglas St Sewer	9/9/08	117,000	1.50%	2008 - 2027	70,200
130321 ER WWTR Improvements	11/5/08	4,746,427	1.50%	2010 - 2029	3,375,627
130361 Downtown Sewer Upgrade	10/6/09	280,000	1.50%	2010 - 2029	196,000
130621 Benson Dawson-Cheechako Upgrade	3/16/10	447,878	1.50%	2010 - 2029	313,515
130681 Wonder Park Sewer Upgrade Ph II	3/31/10	540,217	1.50%	2017 - 2036 *	540,217
130711 Iris Way Sewer Upgrade	3/19/10	408,359	1.50%	2010 - 2029	285,851
131081 Rovenna Pipe Upgrade	7/22/11	820,741	1.50%	2014 - 2033	697,630
131091 ERWTF Clarifier Upgrade	7/22/11	1,330,806	1.50%	2011 - 2030	1,066,041
131111 Chester Creek Sewer	9/20/11	420,000	1.50%	2012 - 2031	336,000
131121 HVAC Control System King St	11/21/12	237,012	1.50%	2012 - 2031	189,610
131391 Sand Lake Area Swr Phase II	11/21/12	140,000	1.50%	2014 - 2033	126,000
131401 Fish Creek Interceptor Rehab Proj	10/20/14	73,772	1.50%	2017 - 2036 *	73,772
Total Long-Term Loans		106,886,321			71,548,507
Loan payable-other	3/15/13	32,651,000	0.54%	2016	32,651,000
Total Long-Term Debt		\$ 221,822,321			\$ 166,514,507

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**(b) Revenue Bond Coverage Requirements**

The Utility is required to maintain a minimum coverage ratio for revenue bonds.

The Utility's Schedule of Revenue Bond Coverage for the last 3 years follows:

Fiscal Year	Revenue (1)	Assessment Collections (2)	Operating Expenses (3)	Amount Available For Debt Service	Current Year Debt Service Requirements			Coverage (4)
					Principal	Interest	Total	
2013	49,606,871	254,484	29,856,569	20,004,786	705,000	3,099,794	3,804,794	5.26
2014	51,741,625	351,374	31,018,722	21,074,277	730,000	3,069,950	3,799,950	5.55
2015	51,619,089	416,239	34,440,698	17,594,630	765,000	3,037,578	3,802,578	4.63

- (1) Excludes allowance for funds used during construction, includes non-operating revenue except for payments received for PERS relief from State of Alaska.
- (2) Assessment collections represent payments made by benefited property owners.
- (3) Excludes depreciation and 2015 PERS relief, but includes special items and transfers to other funds, and pension expense.
- (4) Required minimum coverage is 1.15.

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**(c) Total Debt Service Coverage Requirements**

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 three years follows:

Fiscal Year	Revenue (1)	Assessment Collections (2)	Operating Expenses (3)	Amount Available For Debt Service	Current Year Debt Service Requirements			Coverage (5)
					Principal (4)	Interest (4)	Total	
2013	49,606,871	254,484	29,856,569	20,004,786	5,263,322	4,195,243	9,458,565	2.11
2014	51,741,625	351,374	31,018,722	21,074,277	5,402,093	4,118,817	9,520,910	2.21
2015	51,619,089	416,239	34,440,698	17,594,630	5,833,205	4,429,024	10,262,229	1.71

- (1) Excludes allowance for funds used during construction, includes non-operating revenue except for payments received for PERS relief from State of Alaska.
- (2) Assessment collections represent payments made by benefited property owners.
- (3) Excludes depreciation and 2015 PERS relief, but includes special items and transfers to other funds and pension expense.
- (4) Represents total principal and interest payments on all debt: Revenue bonds, Alaska Clean Water Fund and loan payable-other.
- (5) Required minimum coverage is 1.15.



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**(d) Debt Service Requirements**

Debt service requirements to maturity follow:

<b>Year</b>	<b>Revenue Bonds</b>		<b>Long-term Loans</b>		<b>Total</b>
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	
2016	\$ 800,000	3,002,719	5,094,889	1,133,689	10,031,297
2017	840,000	2,963,719	38,091,253 *	1,131,704	43,026,676
2018	880,000	2,924,019	5,452,290	915,200	10,171,509
2019	950,000	2,885,131	5,184,895	833,416	9,853,442
2020	1,010,000	2,840,247	5,188,915	755,643	9,794,805
2021 -2025	8,760,000	13,159,375	23,363,879	2,656,451	47,939,705
2026- 2030	16,340,000	10,205,181	16,622,024	1,054,310	44,221,515
2031 - 2035	22,190,000	5,502,855	4,867,857	207,106	32,767,818
2036 - 2037	10,545,000	533,875	333,505	5,003	11,417,383
<b>TOTAL</b>	<b>62,315,000</b>	<b>44,017,121</b>	<b>104,199,507</b>	<b>8,692,522</b>	<b>219,224,150</b>
	(800,000)		(5,094,889)		Current Portion of Principal
	(40,409)		-		Unamortized Discount
	477,692		-		Unamortized Premium
	<u>\$ 61,952,283</u>		<u>99,104,618</u>		Total Long Term Portion

\* Includes \$32,651,000 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, 2015 follow:

Description	December 31, 2014	Additions	Deletions	December 31, 2015	Amounts Due Within One Year
Revenue bonds	\$ 63,080,000	—	(765,000)	62,315,000	800,000
Long-term revolving loans	71,228,307	5,388,405	(5,068,205)	71,548,507	5,094,889
Long-term loans payable	29,151,000	3,500,000	—	32,651,000	—
Total debt	<u>163,459,307</u>	<u>8,888,405</u>	<u>(5,833,205)</u>	<u>166,514,507</u>	<u>5,894,889</u>
Unamortized discounts	(48,940)	—	8,531	(40,409)	—
Unamortized premiums	509,593	—	(31,901)	477,692	—
Total debt, net	163,919,960	8,888,405	(5,856,575)	166,951,790	5,894,889
Net Pension Liability	—	14,330,178	—	14,330,178	—
Compensated absences	1,166,210	1,617,537	(1,635,717)	1,148,030	885,498
Pollution remediation obligation	444,000	—	(30,000)	414,000	60,000
Total long-term, net	<u>\$ 165,530,170</u>	<u>24,836,120</u>	<u>(7,522,292)</u>	<u>182,843,998</u>	

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

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

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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, 2015, 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, 2015 follow:

	<u>December 31, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2015</u>
<b>Contributions in Aid of Construction</b>				
Customer:				
Special assessments	48,246,467	68,307	—	48,314,774
Private development	116,390,171	8,350,448	—	124,740,619
Other	892,325	—	—	892,325
Intergovernmental	149,809,274	4,253,629	—	154,062,903
Paid in Capital	25,980	—	(25,980)	—
Total CIAC	<u>315,364,217</u>	<u>12,672,384</u>	<u>(25,980)</u>	<u>328,010,621</u>
<b>Accumulated Amortization</b>				
Customer	(78,239,449)	(3,162,831)	9,111	(81,393,169)
Intergovernmental	(69,071,547)	(2,605,990)	—	(71,677,537)
Paid in Capital	(25,980)	—	25,980	—
Total amortization	<u>(147,336,976)</u>	<u>(5,768,821)</u>	<u>35,091</u>	<u>(153,070,706)</u>
Net CIAC	<u>168,027,241</u>	<u>6,903,563</u>	<u>9,111</u>	<u>174,939,915</u>

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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>
<b>Contributions in Aid of Construction</b>				
Customer:				
Special assessments	\$ 47,439,644	879,689	(72,866)	48,246,467
Private development	114,588,596	1,801,575	—	116,390,171
Other	25,980	892,325	(25,980)	892,325
Intergovernmental	149,283,323	560,460	(34,509)	149,809,274
Paid in Capital	6,882,286	25,980	(6,882,286)	25,980
Total CIAC	<u>318,219,829</u>	<u>4,160,029</u>	<u>(7,015,641)</u>	<u>315,364,217</u>
<b>Accumulated Amortization</b>				
Customer	(75,436,695)	(2,875,620)	72,866	(78,239,449)
Intergovernmental	(66,575,302)	(2,530,754)	34,509	(69,071,547)
Paid in Capital	(6,194,057)	(714,209)	6,882,286	(25,980)
Total amortization	<u>(148,206,054)</u>	<u>(6,120,583)</u>	<u>6,989,661</u>	<u>(147,336,976)</u>
Net CIAC	<u>\$ 170,013,775</u>	<u>(1,960,554)</u>	<u>(25,980)</u>	<u>168,027,241</u>

**(7) Net Position**

Net position invested in capital assets is comprised of:

	<u>2015</u>	<u>2014</u>
Capital assets, net of depreciation	\$ 402,356,310	387,943,397
Less: Net revenue bonds payable, long-term	61,952,283	62,775,653
Less: Unspent debt proceeds	(613,003)	(2,311,949)
Alaska Drinking Water loan payable, long-term	66,453,618	66,699,049
Loan payable – other	32,651,000	29,151,000
Long-term obligations maturing within one year	5,894,889	5,294,258
Contributions in aid of construction, net	<u>174,939,915</u>	<u>168,027,241</u>
Net position invested in capital assets	<u>\$ 61,077,608</u>	<u>58,308,145</u>

Restricted net position is comprised of:

	<u>2015</u>	<u>2014</u>
Interim rate escrow requirement	\$ —	2,317,531
Less: Customer refund payable	—	560,000
	<u>\$ —</u>	<u>1,757,531</u>

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**(8) Pensions**

Substantially all regular employees of the Municipality are members of a public employees' retirement system except for employees who are members of the Police and Fire Pension System Plans.

All Utility employees who are members of a public employees' retirement system participate in the State of Alaska Public Employees' Retirement System (PERS). All pension and postemployment healthcare benefit obligations of the Utility are included on the financial statements.

**(a) Defined Benefit Pension Plans**

**Public Employees Retirement System (PERS I-III)**

**General Information About the Plan**

The Utility participates in the Alaska Public Employees' Retirement System (PERS I-III or the Plan). PERS I-III is a cost-sharing multiple employer plan which covers eligible State and local government employees, other than teachers. The Plan was established and is administered by the State of Alaska Department of Administration. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

The Plan provides for retirement, death and disability, and post-employment health care benefits. There are three tiers of employees, based on entry date. For all tiers within the Defined Benefit (DB) plan, full retirement benefits are generally calculated using a formula comprised of a multiplier times the average monthly salary (AMS) times the number of years of service. The multiplier is increased at longevity milestone markers for most employees. Police and Fire employees accrue benefits at an accelerated rate. The tiers within the Plan establish differing criteria regarding normal retirement age, early retirement age, and the criteria for calculation of AMS, COLA adjustments, and Other Post-Employment Benefits (OPEB) benefits. A complete benefit comparison chart is available at the website noted below.

The Plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. That report is available via the internet at <http://doa.alaska.gov/drb/pers>. Actuarial valuation reports, audited financial statements, and other detailed plan information are also available on this website. 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 or by phoning (907) 465-4460.

The PERS I-III DB Plan was closed to new entrants effective June 30, 2006. New employees hired after that date participate in the PERS IV Defined Contribution (DC) Plan described later in the note.

**Historical Context and Special Funding Situation**

In April 2008, the Alaska Legislature passed legislation converting the previously existing PERS plan from an agent-multiple employer plan to a cost-sharing plan with an effective date of July 1, 2008. In connection with this conversion, the State of Alaska passed additional legislation which statutorily capped the employer contribution rate, established a state funded "on-behalf" contribution (subject to funding availability), and required that employer contributions be calculated against all PERS eligible

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wages, including wages paid to participants of the PERS Tier IV defined contribution plan described later in this note.

Alaska Statute requires the State of Alaska to contribute to the Plan an amount such that, when combined with the employer contribution, is sufficient to pay the Plan's past service liability contribution rate as adopted by the Alaska Retirement Management Board.

Although current statutes call for the State of Alaska to contribute to the Plan, the Alaska Department of Law determined that the statute does not create a legal obligation to assume the liabilities of the Plan; rather it establishes a contribution mechanism to provide employer relief against the rising contribution rates. This relief payment is subject to funding availability, and therefore not legally mandated. As a result, the State initially determined that the Plan is not in a special funding situation. Following much discussion with various stakeholders, participant communities, attorneys, auditors, and the GASB, itself the State has subsequently reversed its position on this matter, and as of June 30, 2015, the State did record the liability presuming that the current statute does constitute a special funding situation as the legislation is currently written. It is important to note that the Alaska Legislature has the power and authority to change the aforementioned statute through the legislative process, and it is likely that the State will pursue efforts to do so in a future legislative session.

For the current year financial statements, management has treated AS 39.35.255 as constituting a special funding situation under GASB Statement No. 68 rules and has recorded all pension related liabilities, deferred inflows and outflows of resources, and disclosures on this basis.

**Employee Contribution Rates**

Regular employees are required to contribute 6.75 percent of their annual covered salary.

**Employer and Other Contribution Rates**

There are several contribution rates associated with the pension and healthcare contributions and related liabilities. These amounts are calculated on an annual basis.

**Employer Effective Rate**

This is the contractual employer pay-in rate. Under current legislation, this rate is statutorily capped at 22 percent of eligible wages, subject to a wage floor, and other termination events. This 22 percent rate is calculated on all PERS participating wages, including those wages attributable to employees in the defined contribution plan. Contributions derived from the defined contribution employees are referred to as the Defined Benefit Unfunded Liability (DBUL) contribution.

**ARM Board Adopted Rate**

This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined and used to calculate annual Plan funding requirements, without regard to the statutory rate cap or the GASB accounting rate. Prior to July 1, 2015, there were no constraints or restrictions on the actuarial cost method or other assumptions used in the ARM Board valuation. Effective July 1, 2015, the Legislature requires the ARM Board to adopt employer contribution rates for past service liabilities using a level percent of pay method over a closed 25 year term which ends

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in 2039. This will result in lower ARM Board Rates in future years (as demonstrated in the contribution rate tables below).

On-behalf Contribution Rate

This is the rate paid in by the State as an on-behalf payment under the current statute. The statute requires the State to contribute, based on funding availability, an on-behalf amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. However, in state fiscal year 2015, the State Legislature appropriated a one-time contribution to the Plan in the amount of \$1 billion. As a result, the On-behalf Contribution Rate for State Fiscal Year 2015 (July 1, 2014 through June 30, 2015) significantly exceeds the statutory amount. In the governmental fund financial statements, on-behalf contribution amounts have been recognized as additional revenues and expenditures during the calendar year 2015. On the proprietary fund and government-wide financial statements, the on-behalf amounts are included in revenue and expense only to the extent they are applicable to the measurement period, which is the same as the State's fiscal year ending June 30, 2015.

GASB Rate

This is the Rate used to determine the long-term pension and healthcare liability for plan accounting purposes in accordance with generally accepted accounting principles as established by GASB. Certain actuarial methods and assumptions for this rate calculation are mandated by GASB. Additionally, the GASB Rate disregards all future Medicare Part D payments. For Fiscal Year 2015, the rate uses an 8.00 percent pension discount rate and a 4.90 percent healthcare discount rate.

The GASB Rate and the ARM Board Adopted Rate differ significantly as a direct result of variances in the actuarial methods and assumptions used.

Contribution rates for the years ended June 30, 2015 and June 30, 2016 were determined in the June 30, 2012 and June 30, 2013 actuarial valuations, respectively. Municipality contribution rates for the 2015 calendar year were as follows:

January 1, 2015 to June 30, 2015	Employer Effective Rate	ARM Board Adopted Rate	State Contribution	
			Rate	GASB Rate
Pension	12.54%	25.09%	42.41%	33.05%
Postemployment healthcare	9.46%	18.94%	0.00%	55.07%
<b>Total Contribution Rates</b>	<b>22.00%</b>	<b>44.03%</b>	<b>42.41%</b>	<b>88.12%</b>

July 1, 2015 to December 31, 2015	Employer Effective Rate	ARM Board Adopted Rate	State Contribution	
			Rate	GASB Rate
Pension	13.25%	16.38%	3.63%	37.79%
Postemployment healthcare	8.75%	10.81%	1.56%	58.73%
<b>Total Contribution Rates</b>	<b>22.00%</b>	<b>27.19%</b>	<b>5.19%</b>	<b>96.52%</b>

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In 2015, the Municipality was credited with the following contributions into the pension plan. The Utility represents approximately 4.8% of the total contributions credited to the Municipality.

	Measurement Period	Municipality's Fiscal Year
	July 1, 2014 to June 30, 2015	January 1, 2015 to December 31, 2015
Employer contributions (including DBUL)	\$ 20,997,173	\$ 21,876,448
Nonemployer contributions (on-behalf)	85,772,027	45,610,582
Total Contributions	\$ 106,769,200	\$ 67,487,030

The Wastewater Utility contributions were \$1,048,661 for the year ended December 31, 2015. In addition, employee contributions to the Plan totaled \$9,401,945 during the Municipality's fiscal year.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At December 31, 2015, the Municipality reported a liability for its proportionate share of the net pension liability (NPL) that reflected a reduction for State pension support provided to the Municipality. The amount recognized by the Municipality for its proportional share, the related State proportion, and the total were as follows:

	2015
Municipality proportionate share of NPL	\$ 298,946,265
State's proportionate share of NPL associated with the Municipality	80,071,590
Total Net Pension Liability	\$ 379,017,855

The Wastewater Utility recognized \$14,330,178 in net pension liability. The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 to calculate the net pension liability as of that date. The Municipality's proportion of the net pension liability was based on a projection of the Municipality's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, including the State, actuarially determined. At the June 30, 2015 measurement date, the Municipality's proportion was 6.16 percent, which was an increase of 1.39 percent from its proportion measured as of June 30, 2014. The Utility represents approximately 4.8% of the total net pension liability of the Municipality.

For the year ended December 31, 2015, the Municipality recognized pension expense of \$59,742,977. Of this amount, \$11,057,633 was recorded as on-behalf revenue and expense for additional contributions paid by the State. The Utility represents approximately 4.8% of the total pension expense of the Municipality. At December 31, 2015, the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:



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	Measurement Period	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 348,455	\$ -
Changes in assumptions	17,479,691	-
Net difference between projected and actual earnings on pension plan investments	-	(5,292,586)
Changes in proportion and differences between Municipality contributions and proportionate share of contributions	9,413,051	(462,752)
Municipality contributions subsequent to the measurement date	12,200,933	-
Total Deferred Outflows and Deferred Inflows Related to Pensions	\$ 39,442,130	\$ (5,755,338)

The \$12,200,933 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended December 31, 2016. The Utility represents approximately 4.8% of the total net pension liability of the Municipality. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Net Amortization of Deferred Outflows and Deferred Inflows of Resources
2016	\$ 20,902,902
2017	(922,599)
2018	(3,399,071)
2019	4,904,627
Total Amortization	\$ 21,485,859

**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement period, and rolled forward to the measurement date of June 30, 2015. The actuarial valuation for the year ended June 30, 2014 (latest available) was prepared by Buck Consultants. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2005 to June 30, 2009, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience.

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Inflation	3.12%
Salary Increases	Graded by service, from 9.66% to 4.92% for Peace Officers/Firefighters. Graded by age and service, from 8.55% to 4.34% for all others.
Investment Return / Discount Rate	8.00% net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and real rate of return over 4.88%.
Mortality	Rates based on the 1994 Group Annuity Mortality Table, sex distinct, 1994 Base year without margin projected to 2013 using Projection Scale AA, 80% of the male table and 60% of the female table for pre-termination mortality for Peace officers/fire fighters. 75% for male and 55% for female for pre-termination for all others; and 100% for males and 1-year set-forward for females for post-termination.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized in the following table (note that the rates shown below exclude the inflation component):

Asset Class	Long-term Expected Real Rate of Return
Domestic equity	5.35%
International equity	5.55%
Private equity	6.25%
Fixed income	0.80%
Real estate	3.65%
Absolute return	4.70%

**Discount Rate**

The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that Employer and State contributions will continue to follow the current funding policy which meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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**Discount Rate Sensitivity**

The following presents the Municipality's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Municipality's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Municipality's proportionate share of the net pension liability	6.16382%	\$ 397,423,750	\$ 298,946,265
			\$ 216,038,412

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

***(b). Defined Contribution Pension Plans***

**Public Employees Retirement System (PERS IV)**

**Plan Information**

The Utility participates in the Alaska Public Employees' Retirement System (PERS IV or the Plan). PERS IV is a Defined Contribution (DC) plan which covers eligible State and local government employees, other than teachers. The Plan was established and is administered by the State of Alaska Department of Administration. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

The Plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. That report is available via the internet at <http://doa.alaska.gov/drb/pers>. Actuarial valuation reports, audited financial statements, and other detailed plan information are also available on this website. 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 or by phoning (907) 465-4460.

**Plan Participation and Benefit Terms**

The Plan is governed by Section 401(a) of the Internal Revenue Code. A portion of employee wages and a matching employer contribution are made to the Plan before tax. These contributions plus any change in value (interest, gains and losses), and minus any Plan administrative fees or other charges, are payable to the employee or the employee's beneficiary at a future date. The Plan is a participant-directed plan with investment options offered by providers that are selected by the [Alaska Retirement Management \(ARM\) Board](#).

Employees first enrolling into PERS after July 1, 2006 participate in PERS IV. PERS IV is a defined contribution retirement plan that includes a component of defined benefit post-employment health care.

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**Plan Contribution Requirements**

The plan requires both employer and employee contributions. Employees may make additional contributions into the plan, subject to limitations. Contribution rates are as follows:

	<u>Police/Fire</u>		<u>Others</u>	
	<u>1/1 - 6/30</u>	<u>7/1 - 12/31</u>	<u>1/1 - 6/30</u>	<u>7/1 - 12/31</u>
Employee Contribution	8.00%	8.00%	8.00%	8.00%
Employer Contribution				
Retirement	5.00%	5.00%	5.00%	5.00%
Health Reimbursement Arrangement *	3.00%	3.00%	3.00%	3.00%
Retiree Medical Plan	1.66%	1.68%	1.66%	1.68%
Death & Disability Benefit	1.06%	1.05%	0.22%	0.22%
Total Employer Contribution	<u>10.72%</u>	<u>10.73%</u>	<u>9.88%</u>	<u>9.90%</u>

**Health Reimbursement Arrangement**

Alaska Statute 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, 2015 a flat rate of approximately \$1,961 per year for full time employees and \$1.26 per part time hour worked was paid. For pay periods ending after July 1, 2015, a flat rate of approximately \$2,005 per year for full time employees and \$1.28 per part time hour worked were paid.

For the year ended December 31, 2015, the Municipality contributed \$3,287,101 to PERS IV for retirement and retiree medical, and \$1,709,437 to PERS IV for Health Reimbursement Arrangement on-behalf of its employees. Employee contributions to the plan totaled \$5,264,982.

**(9) Contingencies**

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

**(10) Environmental Issues**

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

The Utility used the expected cash flow technique to measure the liability. The Utility estimated a reasonable range of potential outlays of \$70,000 to \$358,000 and multiplied those outlays by their probability of occurring to estimate a pollution remediation obligation of \$414,000. The potential for a material change in the estimate is possible depending upon the response received from ADEC.

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**(11) Regulatory Matters**

*(a) 2012 Test Year / 2014-2015 Rates*

On November 14, 2013, the Utility filed a revenue requirement study requesting an interim and refundable rate increase of 5.5%. The Regulatory Commission of Alaska (RCA) granted the requested interim rate increase effective January 1, 2014. The RCA accepted a stipulation between AWWU and the Office of the Attorney General, Regulatory Affairs and Public Advocacy section (RAPA) resolving this matter and approving a permanent rate increase of 4.34% effective June 5<sup>th</sup> 2015, which resulted in a partial refund of interim rates charged from January 1, 2014 through June 4, 2015.

**(12) Interfund Transfers**

The composition of interfund transfers for the year ended December 31, 2015 follows:

<u>Description</u>	<u>Amount</u>
Transfers to other funds:	
Municipal utility service assessment	\$ 5,285,575
ERP project labor	<u>7,320</u>
Total transfers	<u><u>\$ 5,292,895</u></u>

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

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

**(13) Wastewater Treatment Facilities Discharge Permits**

The State of Alaska Department of Environmental Conservation (ADEC) assumed authority for permitting wastewater discharges for the Girdwood and Eagle River Wastewater Treatment Facilities (WWTF) in November 2008. The Eagle River WWTF permit was re-issued by ADEC in the spring of 2014, and is set to expire on June 30, 2019. The Girdwood WWTF permit is administratively extended pending reissuance by ADEC. The Utility is working closely with ADEC to ensure that a proposed upgrade to the Girdwood WWTF is consistent with terms and conditions of the new permit, when it is reissued. The Utility intends to submit an updated Facilities Plan and a revised permit application under the Alaska Pollutant Discharge Elimination System in 2016.

Authorization of discharge into marine waters from the Asplund WWTF under the provisions of Section 301(h) of the Clean Water Act remains under the auspices of the U.S. Environmental Protection Agency (EPA). EPA has not yet ruled on the Utility's 2005 application for reauthorization of the permit, originally issued in October of 1985. The permit renewal process includes an evaluation by EPA on

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

Prior to issuance of a federal discharge permit, EPA is required to consult with the National Marine Fisheries Service (NMFS) on the effects of the permit reauthorization on endangered species (i.e., the Cook Inlet beluga whale). If NMFS finds that the discharge reauthorization is likely to jeopardize continued existence of the species or adversely modify critical habitat, NMFS may impose conditions on the permit to mitigate the effects on the species. Discussions with federal agencies to date suggest that such a finding is unlikely.

**(14) Subsequent Events**

Subsequent to December 31, 2015, the Utility experienced a diesel fuel spill at our King Street Operations & Maintenance Facility. The quantity of this fuel spill is currently estimated at less than 500 gallons. The Utility is investigating the cause of the spill, and there may be a third party who is fully or partially responsible for the cost associated with the cleanup of the spill. Preliminary actions have occurred to remove surface and some subsurface contamination, but subsurface contamination remains. The Utility will be required to perform the cleanup in accordance with Alaska Department of Environmental Conservation regulations. It is reasonably possible that a liability has been incurred, however, it is not currently possible to estimate the amount of any potential liability so no liability has been recorded.

**(15) Other Accounting Matters**

***(a) Change in Accounting Principles – Implementation of GASB Statement No. 68, 71, 73, 78, and 82***

As discussed in Note 8 to the financial statements, the Municipality participates in the Alaska Public Employees Retirement System (PERS) plan and the Police and Fire Retirement Pension System. In 2015, the Municipality adopted the provisions of GASB Statement No. 68 Accounting and Financial Reporting for Pensions, which, among other accounting and reporting criteria, requires the Municipality to recognize its proportional share of the Net Pension Liability (and related deferred inflow/outflow accounts), as of the beginning of the Municipality’s fiscal year. As a result of the implementation of this statement, the Municipality has recorded an opening balance adjustment to reflect opening balance pension liabilities and related accounts and to decrease opening net position as follows:

	Opening Net Position, as Originally Presented	Change in Accounting Principle Adjustment	Opening Net Position, as Restated
Wastewater Utility	87,299,197	(11,655,198)	75,643,999

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

Notes to Basic Financial Statements

December 31, 2015 and 2014

**(16) New Accounting Pronouncements**

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates.

**GASB 72 Fair Value Measurement and Application:** The provisions of this Statement are required to be implemented for the 2016 financial reporting period.

**GASB 74 Financial Reporting for Postemployment Benefit Plans:** Other than Pension Plans. The provisions of this Statement are required to be implemented for the 2017 financial reporting period.

**GASB 75 Accounting and Financial Reporting for Postemployment Benefits Other than Pensions:** The provisions of this Statement are required to be implemented for the 2018 financial reporting period.

**GASB 79 Certain External Investment Pools and Pool Participants:** The provisions of the Statement are required to be implemented for the 2016 financial reporting period.

***REQUIRED SUPPLEMENTARY INFORMATION***



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

Required Supplementary Information  
Public Employees Retirement System – Defined Benefit  
Schedule of the Utility’s Information on the Net Pension Liability

Year Ended Dec 31,	Measurement Period Ended June 30,	Utility's Proportion of the Net Pension Liability	Utility's Proportionate Share of the Net Pension Liability	State of Alaska Proportionate Share of the Net Pension Liability	Total Net Pension Liability	Utility's Covered Payroll	Utility's Proportionate Share of the Net Pension Liability as a percentage of Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	2015	0.29547	\$ 14,330,178	\$ 3,838,282	\$ 18,168,460	\$ 9,329,583	154%	63.96%

Schedule of Utility Contributions

Year Ended December 31,	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	Utility's Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 1,048,661	\$ 1,048,661	\$ -	\$ 9,547,517	10.984%

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

Notes to the Required Supplementary Information  
Pension Plans

December 31, 2015

**Public Employees Retirement System- Defined Benefit**

In accordance with GASB Statement No. 82, "Covered Payroll" is defined as payroll on which contributions to the pension plan are based. Because a portion of the Municipality's contributions to the Plan (the DBUL) are based on Defined Contribution Wages, covered payroll reported here includes all PERS participating wages (both Defined Benefit and Defined Contribution).

Both pension tables are intended to present 10 years of information. Additional year's information will be added to the schedules as it becomes available.

Schedule of Utility's Information on the Net Pension Liability

- This table is presented based on the Plan measurement date. For December 31, 2015, the Plan measurement date is June 30, 2015.
- There were no changes in benefit terms from the prior measurement period.
- There were no changes in assumptions from the prior measurement period.
- There was a material change in the allocation methodology from the prior measurement period. The measurement period ended June 30, 2014 allocated the net pension liability based in actual contributions for 2014. The measurement period ended June 30, 2015 allocated the net pension liability based on the present value of contributions for fiscal year 2017 through 2039, as determined by projections based on the June 30, 2014 actuarial valuation.

Schedule of Utility's Contributions

- This table is based on the Utility's contributions during calendar year 2015. A portion of these contributions are included in the plan measurement results, while a portion of the contributions are reported as a deferred outflow on the December 31, 2015 basic financial statements.

***STATISTICAL SECTION***

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

Statistical Section (unaudited)

Financial Ratios

	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Financial ratios:</b>					
Current ratio (current assets / current liabilities)	3.03	3.08	2.62	0.74	0.84
Quick ratio (quick assets / current liabilities)	2.99	3.04	2.58	0.72	0.82
Return on investment (change in net position / total assets and deferred outflows of resources)	1.31%	2.04%	1.95%	1.71%	0.83%
Return on equity (change in net position / net position)	7.13%	9.98%	10.53%	9.50%	4.89%
Debt to equity as a percent of capital structure (outstanding debt / capital structure over net position / capital structure)	<u>67%</u> 33%	<u>65%</u> 35%	<u>67%</u> 33%	<u>66%</u> 34%	<u>68%</u> 32%
Operating margin (operating income / operating revenues)	27%	35%	35%	34%	30%
Revenue bond debt coverage (Note 4b) (amount available for revenue bond debt service / revenue bond principal & interest)	4.63	5.54	5.26	4.82	3.70
Total debt coverage (note 4c) (amount available for total debt service / total principal & interest)	1.71	2.21	2.11	—	—
Weighted cost of long term debt (schedule attached) (Sum of interest rates multiplied by percentage of total amounts outstanding for bonds, long-term loans, and amortization of bond discounts and transaction costs)	2.68%	2.76%	2.72%	3.12%	3.14%

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

Statistical Section (unaudited)

Table 1

Average Number of Accounts

<u>Customer Type</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Residential	53,264	53,016	52,745	52,569	52,438
Commercial	3,733	3,695	3,687	3,682	3,669
Total	<u>56,997</u>	<u>56,711</u>	<u>56,432</u>	<u>56,251</u>	<u>56,107</u>
Growth rate	0.5%	0.49%	0.32%	0.26%	0.37%

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

Statistical Section (unaudited)

Table 2

Current Wastewater Rates

<b>Type of Service</b>	<b>2015 <sup>(1)</sup></b>	<b>2014 <sup>(2)</sup></b>	<b>2013 <sup>(3)</sup></b>	<b>2012 <sup>(4)</sup></b>	<b>2011 <sup>(5)</sup></b>
<b>Metered:</b>					
Customer charge (per account)	\$ 7.78	\$ 7.87	\$ 7.46	7.14	6.43
Residential usage charge (per 1,000 gallons)	5.15	5.21	4.94	4.73	4.26
Commercial – low strength (TSS<= 275 mg/L)	4.53	4.58	4.34	4.15	3.74
Commercial – medium strength (TSS between 275 and 450mg/L)	6.02	6.09	5.77	5.52	4.97
Commercial – high strength (TSS>450 mg/L)	7.02	7.10	6.73	6.44	5.80
<b>Unmetered:</b>					
Customer charge (per account)	7.78	7.87	7.46	7.14	6.43
Residential, usage charge (per dwelling unit)	32.94	33.31	31.57	30.21	27.22
Commercial, usage charge (depends on customer business)	10.85 to 919.61	10.97 to 929.83	10.40 to 881.36	9.95 to 843.41	8.96 to 759.83

<sup>(1)</sup> Rates effective 6/5/15. Rate increase of 4.34% was approved by the Regulatory Commission of Alaska effective 6/5/15 as Final and Permanent.

<sup>(2)</sup> Rates effective 1/1/14. Rate increase of 5.5% was approved by the Regulatory Commission of Alaska effective 1/1/14 as Interim and Refundable.

<sup>(3)</sup> Rates effective 1/1/13.

<sup>(4)</sup> Rates effective 1/1/12.

<sup>(5)</sup> Rates effective 3/24/11. Rate increase of 11.75% was approved by the Regulatory Commission of Alaska (RCA) effective 1/1/11 through 3/23/11. A permanent rate increase of 15% was approved by the RCA effective 3/24/11, which is reflected in the 2011 column above.

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

Statistical Section (unaudited)

Table 3

Revenues and Expenses - Budget to Actual

	<u>2015</u> Budget	<u>2015</u> Actual	Variance Favorable/ (Unfavorable)
Operating revenues:			
Residential sales	\$ 37,366,000	37,088,555	(277,445)
Commercial sales	11,317,100	11,428,098	110,998
Public authorities	1,916,900	1,787,593	(129,307)
Miscellaneous service	970,000	1,067,781	97,781
Total operating revenues	<u>51,570,000</u>	<u>51,372,027</u>	<u>(197,973)</u>
Nonoperating revenues:			
Investment income (loss) - short-term investments	228,000	239,607	11,607
PERS on-behalf	—	179,073	179,073
Miscellaneous non-operating revenue	15,000	7,455	(7,545)
Transfers from other funds	—	—	—
Total non-operating revenue	<u>243,000</u>	<u>426,135</u>	<u>183,135</u>
Total revenues	<u>\$ 51,813,000</u>	<u>51,798,162</u>	<u>(14,838)</u>
Expenses:			
Collection system:			
Operations	\$ 1,299,629	1,411,816	(112,187)
Maintenance	3,181,593	2,415,211	766,382
Total collection system expense	<u>4,481,222</u>	<u>3,827,027</u>	<u>654,195</u>
Pumping:			
Operations	\$ 162,099	636,637	(474,538)
Maintenance	388,949	440,344	(51,395)
Total collection system expense	<u>551,048</u>	<u>1,076,981</u>	<u>(525,933)</u>
Treatment:			
Operations	10,427,765	11,733,375	(1,305,610)
Maintenance	925,934	1,132,912	(206,978)
Total treatment expense	<u>11,353,699</u>	<u>12,866,287</u>	<u>(1,512,588)</u>
Customer accounts	2,163,825	2,383,285	(219,460)
Administrative and general	9,252,635	9,173,295	79,340
Depreciation, net of amortization	8,500,000	8,366,414	133,586
Total operating expenses	<u>19,916,460</u>	<u>19,922,994</u>	<u>(6,534)</u>
Other expenses:			
Transfers to other funds	5,265,071	5,292,895	(27,824)
Interest on long-term obligations	4,950,000	4,376,823	573,177
Amortization of debt expense	40,000	29,432	10,568
Allowance for funds used during construction	(680,000)	(1,435,149)	755,149
Misc income deduction	—	33,215	(33,215)
Total other expenses	<u>9,575,071</u>	<u>8,297,216</u>	<u>1,277,855</u>
Total expenses	<u>45,877,500</u>	<u>45,990,505</u>	<u>(113,005)</u>
Increase in net position	<u>\$ 5,935,500</u>	<u>5,807,657</u>	<u>(127,843)</u>

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

Statistical Section (unaudited)

Table 4

Debt Principal by Issue

Description	Original Issue Date	Total Issue Amount	Principal Balance 12/31/2014	2015 New (Retired) Debt	2015 Principal Payments	Principal Balance 12/31/2015	Current Portion
<b>Revenue Bonds</b>							
2004 Wastewater Revenue Bonds	06/10/04	\$ 22,620,000	4,255,000	—	565,000	3,690,000	590,000
2007 Wastewater Revenue & Refunding Bonds	06/28/07	59,665,000	58,825,000	—	200,000	58,625,000	210,000
Total Revenue Bonds		82,285,000	63,080,000	—	765,000	62,315,000	800,000
<b>Alaska Clean Water (ACW) Loans</b>							
127061 - Girdwood Wastewater	04/24/1995	1,565,161	366,828	—	89,669	277,159	91,014
127071 - Eagle River TID ER-3	10/30/1995	2,073,031	484,723	—	118,488	366,235	120,265
127081 - Misc Wastewater Projects	05/08/1995	2,071,475	805,898	—	110,050	695,848	111,701
127091 - Chester Creek Pump Stn R&R	06/11/1997	959,587	226,181	—	55,289	170,892	56,118
127101 - FY97 Misc Wastewater Projects	06/11/1997	2,250,000	1,575,000	—	112,500	1,462,500	112,500
127111 - Equipment - Wastewater 1998	01/21/1998	286,051	95,824	—	15,382	80,442	15,613
127131 - Chester Creek Sewer Trunk Study	04/02/1998	300,127	135,057	—	15,006	120,051	15,006
127141 - Facility Replace & Rehab Proj 1998	01/21/1998	1,305,252	882,822	—	63,059	819,763	63,059
127151 - Operations Facilities, Phase II	01/21/1998	1,138,248	454,085	—	56,761	397,324	56,761
127211 - FY99 Misc Small Sewer R&R, Phs I	07/23/2001	1,410,000	621,822	—	73,738	548,084	74,844
127271 - C-5-7 Trunk Sewer Upgrade	05/19/2003	2,229,617	1,416,511	—	108,618	1,307,893	110,247
127281 - Asplund Facility Solids Handling	01/21/2000	4,290,279	1,504,848	—	214,978	1,289,870	214,978
127291 - Operations Facility, Phase III	03/18/2003	3,608,588	1,820,810	—	202,312	1,618,498	202,312
127301 - Septic System Site Upgrade	01/21/2000	500,000	224,590	—	24,954	199,636	24,954
127371 - Old Glen Hwy	02/22/2008	2,000,000	1,700,000	—	100,000	1,600,000	100,000
127421 - B-4AB Sewer Trunk Upgrade	08/20/2001	2,370,748	944,421	—	118,053	826,368	118,053
127451 - SCADA Sewer	06/18/2004	13,000,000	9,209,104	—	657,793	8,551,311	657,793
127481 - Asplund WW Treatment Facility	06/18/2004	4,200,000	2,463,719	—	207,676	2,256,043	210,792
127611 - Asplund Facility Utilador	12/05/2012	2,100,000	1,995,000	—	105,000	1,890,000	105,000
127631 - Asplund Process Impr	01/30/2008	8,000,000	5,600,000	—	400,000	5,200,000	400,000
127641 - C-F Interceptor Upgrade	12/16/2009	41,858	20,929	—	4,186	16,743	4,186
127651 - C-2(A,B) Sewer Improvements	08/01/2007	1,700,000	1,274,996	—	85,000	1,189,996	85,000
127661 - King-Rovenna Sewer Upgrade	08/01/2007	1,613,129	1,209,847	—	80,657	1,129,190	80,657
127671 - C-5-N Campbell Lake	08/07/2007	941,788	706,341	—	47,089	659,252	47,089
127691 - ER WWTF Gravity Thickener	12/28/2007	201,970	151,477	—	10,099	141,378	10,099
127701 - Girdwood WWTF Improvements	12/16/2009	10,778,946	10,778,946	—	538,947	10,239,999	538,947
127721 - San Ernesto Hoyt Upgrade	12/22/2008	404,000	303,000	—	20,200	282,800	20,200
127741 - Septage Improvements	10/29/2008	1,800,000	1,440,000	—	90,000	1,350,000	90,000
130031 - Asplund Improvements	01/18/2008	2,701,000	1,755,650	—	135,050	1,620,600	135,050
130061 - W. 71st Ave. Sewer Rehabilitation	10/31/2014	300,000	73,627	226,373	—	300,000	15,000
130071 - Pump Station Upgrade	12/16/2009	3,519,908	3,167,917	—	175,995	2,991,922	175,995
130081 - Sand Lake Swr Extension Proj.	02/17/2010	600,000	480,000	—	30,000	450,000	30,000
130091 - Asplund Generator Upgrade	10/16/2008	5,963,373	4,770,698	—	298,169	4,472,529	298,169
130101 - Minnesota-Benson Swr Upgrd	06/16/2009	395,625	276,938	—	19,781	257,157	19,781
130131 - Arctic 32nd-36th Upgrade	07/09/2008	437,275	306,092	—	21,864	284,228	21,864
130171 - Asplund Disinfection Study & Upgrd	04/30/2010	6,056,110	894,078	5,162,032	—	6,056,110	—
130191 - Pump Station 10 Upgrade	12/12/2008	3,283,217	2,626,574	—	164,161	2,462,413	164,161
130301 - Cope Dorbrant Upgrade	09/09/2008	927,746	742,197	—	46,387	695,810	46,387
130311 - Douglas St Sewer	09/09/2008	117,000	76,050	—	5,850	70,200	5,850
130321 - ER WWTF Improvements	11/05/2008	4,746,427	3,616,744	—	241,116	3,375,628	241,116
130361 - Downtown Sewer Upgrade	10/06/2009	280,000	210,000	—	14,000	196,000	14,000
130621 - Benson Dawson-Cheechako Upgrd	03/16/2010	447,878	335,909	—	22,394	313,515	22,394
130681 - Wonder Park Sewer Upgrade Ph II	03/31/2010	540,217	540,217	—	—	540,217	—
130711 - Iris Way Sewer Upgrade	03/19/2010	408,359	306,269	—	20,418	285,851	20,418
131081 - Rovenna Pipe Upgrade	07/22/2011	820,741	738,667	—	41,037	697,630	41,037
131091 - ER WWTF Clarifier Upgrade	07/22/2011	1,330,806	1,132,669	—	66,628	1,066,041	66,628
131111 - Chester Creek Sewer	09/20/2011	420,000	357,000	—	21,000	336,000	21,000
131121 - HVAC Control System King St	11/21/2012	237,012	201,460	—	11,851	189,609	11,851
131391 - Sand Lake Area Swr Phase II	11/21/2012	140,000	133,000	—	7,000	126,000	7,000
131401 - Fish Creek Interceptor Rehab Proj	10/20/2014	73,772	73,772	—	—	73,772	—
Total ACW Loans		106,886,321	71,228,307	5,388,405	5,068,205	71,548,507	5,094,889
<b>Loan Payable-other</b>							
Loan Payable-other	03/15/13	32,651,000	29,151,000	3,500,000	—	32,651,000	—
Total Loan Payable-other		32,651,000	29,151,000	3,500,000	—	32,651,000	—
Total Long-Term Debt		\$ 221,822,321	163,459,307	8,888,405	5,833,205	166,514,507	5,894,889



**MUNICIPALITY OF ANCHORAGE**  
**WASTEWATER UTILITY FUND**

Statistical Section (unaudited)

Table 5

Schedule of Revenue Bond Coverage

Fiscal Year	Revenue (1)	Assessment Collections (2)	Operating Expenses (3)	Amount Available For Debt Service	Current Year Debt Service Requirements			Coverage (4)
					Principal	Interest	Total	
2006	31,163,232	1,017,357	17,576,955	14,603,634	95,000	1,361,319	1,456,319	10.03
2007	35,566,755	481,651	23,627,253	12,421,153	520,000	1,672,649	2,192,649	5.66
2008	34,954,522	842,664	24,844,546	10,952,640	575,000	3,225,638	3,800,638	2.88
2009	37,346,056	420,981	26,417,349	11,349,688	595,000	3,204,697	3,799,697	2.99
2010	37,853,165	501,616	27,872,010	10,482,771	615,000	3,181,475	3,796,475	2.76
2011	42,523,838	344,946	28,790,317	14,078,467	650,000	3,153,650	3,803,650	3.70
2012	47,373,573	308,997	29,383,573	18,298,997	670,000	3,127,634	3,797,634	4.82
2013	49,606,871	254,484	29,856,569	20,004,786	705,000	3,099,794	3,804,794	5.26
2014	51,741,625	351,374	31,018,722	21,074,277	730,000	3,069,950	3,799,950	5.55
2015	51,619,089	416,239	34,440,698	17,594,630	765,000	3,037,578	3,802,578	4.63

- (1) Excludes allowance for funds used during construction, includes non-operating revenue except for payments received for PERS relief from State of Alaska.
- (2) Assessment collections represent payments made by benefited property owners.
- (3) Excludes depreciation, and PERS relief for years 2006 through 2008 and 2015; but includes special items and transfers to other funds commencing in 2007.
- (4) Required Minimum Coverage is 1.15.

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

Statistical Section (unaudited)

Table 6

Capital Improvement Program  
(amounts expressed in thousands)

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Six Year Total</b>
Project category:							
Equipment	\$ 5,975	4,418	3,671	3,303	3,301	3,255	23,923
Plant	17,205	7,618	5,441	13,872	2,604	6,580	53,320
Pipe	11,020	23,114	26,888	19,825	32,095	29,165	142,107
Total	<u>34,200</u>	<u>35,150</u>	<u>36,000</u>	<u>37,000</u>	<u>38,000</u>	<u>39,000</u>	<u>219,350</u>
Source of funding:							
Debt	27,200	29,150	30,000	31,000	32,000	30,000	179,350
Grants	1,000	1,000	1,000	1,000	1,000	1,000	6,000
Equity	6,000	5,000	5,000	5,000	5,000	8,000	34,000
Total	<u>\$ 34,200</u>	<u>35,150</u>	<u>36,000</u>	<u>37,000</u>	<u>38,000</u>	<u>39,000</u>	<u>219,350</u>

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

Statistical Section (unaudited)

Table 7

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

	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Wastewater treatment facility (WWTF) system data:					
Asplund WWTF:					
Minimum daily flow	19.61	17.8	23.2	22.3	20.2
Maximum daily flow	52.19	41.7	52.9	50.2	41.6
Average daily flow	25.31	26.9	28.9	27.7	25.0
Peak Flow	76.37	64.5	67.8	65.5	58.5
Yearly Total (mg)	9,237.23	9,799.0	10,529.7	10,128.4	9,120.1
Eagle River WWTF:					
Minimum daily flow	1.08	1.1	1.2	0.7	0.9
Maximum daily flow	1.92	1.9	2.3	2.1	2.1
Average daily flow	1.34	1.4	1.4	1.4	1.3
Peak Flow	4.42	4.4	4.4	4.4	4.4
Yearly Total (mg)	489.46	498.3	517.7	526.6	488.1
Girdwood WWTF:					
Minimum daily flow	0.23	0.2	0.3	0.2	0.3
Maximum daily flow	1.15	1.3	1.5	1.4	1.9
Average daily flow	0.36	0.4	0.5	0.5	0.5
Peak Flow	1.90	2.2	2.2	2.2	2.2
Yearly Total (mg)	131.30	155.3	170.8	164.5	169.2
Miles of line:					
Interceptors	45	45	45	45	45
Trunks	84	84	83	83	83
Laterals	627.62	625	623	622	621
Total	<u>757</u>	<u>754</u>	<u>751</u>	<u>750</u>	<u>749</u>
	<b>Current</b>	<b>Current</b>			
	<b>Capacity</b>	<b>Capacity</b>			
Source <sup>(1)</sup> :					
Asplund WWTF	58.00	58.00			
Eagle River WWTF	2.50	2.50			
Girdwood WWTF	0.60	0.60			
Total	<u>61.10</u>	<u>61.10</u>			

<sup>(1)</sup> Max design capacity

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

Statistical Section (unaudited)

Table 8

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

	Wastewater Plant			Balance 12/31/2015
	Balance 01/01/2015	Additions	Retirements	
Wastewater plant in service:				
Tangible plant:				
Collection plant:				
Laterals	\$ 240,685	8,178	—	248,863
Trunks	75,658	2,709	—	78,367
Interceptors	44,519	4,679	—	49,198
Lift stations	17,258	1,046	—	18,304
Service Lines	—	485	—	485
Pumping plant:				
Structures & improvements	9,158	—	—	9,158
Receiving wells	2,641	—	—	2,641
Electric pumping equipment	5,281	214	—	5,495
Treatment and disposal plant:				
Treatment plant	72,423	138	—	72,561
Treatment & disposal equipment	61,960	17,887	—	79,847
Effluent tunnel plant sewer	11,238	—	—	11,238
Outfall sewer lines	2,319	—	—	2,319
Land and land rights	4,203	—	—	4,203
General plant:				
Structures & improvements	24,994	121	—	25,115
Office furniture	141	—	(3)	138
Office equipment	—	—	—	—
Computer equipment	7,580	526	(1,116)	6,990
Vehicles (light duty)	2,140	—	(16)	2,124
Transportation equipment (heavy duty)	4,615	1	(265)	4,351
Stores equipment	188	—	—	188
Tools, shop, & garage equipment	298	34	(94)	238
Laboratory equipment	178	15	—	193
Power operated equipment	807	—	—	807
Communication equipment	21,406	579	—	21,985
Miscellaneous equipment	331	57	—	388
Total tangible plant	<u>610,021</u>	<u>36,669</u>	<u>(1,494)</u>	<u>645,196</u>
Intangible plant:	5,705	133	—	5,838
Total wastewater plant in service	<u>615,726</u>	<u>36,802</u>	<u>(1,494)</u>	<u>651,034</u>
Utility plant acquisition adjustment	—	—	—	—
Property held for future use	1,380	—	—	1,380
Construction work in progress	15,764	20,206	(28,452)	7,518
Total wastewater plant	<u>\$ 632,870</u>	<u>57,008</u>	<u>(29,946)</u>	<u>659,932</u>

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

Statistical Section (unaudited)

Table 8 (continued)

Detailed Schedule of Depreciation and Amortization  
(amounts expressed in thousands)

	Accumulated Depreciation and Amortization				Net Book Value of Plant
	Balance	Additions	Retirements	Balance	
	01/01/2015			12/31/2015	
Wastewater plant in service:					
Tangible plant:					
Collection plant:					
Laterals	\$ 95,342	4,409	—	99,751	149,112
Trunks	31,049	1,222	—	32,271	46,096
Interceptors	19,496	595	—	20,091	29,107
Lift stations	13,090	357	—	13,447	4,857
Service Lines	—	5	—	5	480
Pumping plant:					
Structures & improvements	3,635	141	—	3,776	5,382
Receiving wells	267	76	—	343	2,298
Electric pumping equipment	765	97	—	862	4,633
Treatment and disposal plant:					
Treatment plant	19,497	907	—	20,404	52,157
Treatment & disposal equipment	30,286	1,818	—	32,104	47,743
Effluent tunnel plant sewer	4,006	170	—	4,176	7,062
Outfall sewer lines	2,156	36	—	2,192	127
Land and land rights	—	—	—	—	4,203
General plant:					
Structures & improvements	7,863	478	—	8,341	16,774
Office furniture	130	1	(3)	128	10
Office equipment	—	—	—	—	—
Computer equipment	1,895	1,517	(1,116)	2,296	4,694
Vehicles (light duty)	942	45	(16)	971	1,153
Transportation equipment (heavy duty)	3,977	266	(265)	3,978	373
Stores equipment	146	7	—	153	35
Tools, shop, & garage equipment	190	12	(94)	108	130
Laboratory equipment	27	10	—	37	156
Power operated equipment	209	44	—	253	554
Communication equipment	8,344	1,346	—	9,690	12,295
Miscellaneous equipment	113	19	—	132	256
Total tangible plant	<u>243,425</u>	<u>13,578</u>	<u>(1,494)</u>	<u>255,509</u>	<u>389,687</u>
Intangible plant	<u>1,502</u>	<u>565</u>	<u>—</u>	<u>2,067</u>	<u>3,771</u>
Total wastewater plant in service	<u>244,927</u>	<u>14,143</u>	<u>(1,494)</u>	<u>257,576</u>	<u>393,458</u>
Utility plant acquisition adjustment	—	—	—	—	—
Property held for future use	—	—	—	—	1,380
Construction work in progress	—	—	—	—	7,518
Total wastewater plant	<u>\$ 244,927</u>	<u>14,143</u>	<u>(1,494)</u>	<u>257,576</u>	<u>402,356</u>



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Wastewater Utility Fund, an enterprise fund of the Municipality of Anchorage, Alaska, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Wastewater Utility Fund's basic financial statements and have issued our report thereon dated October 26, 2016.

### Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses to be a significant deficiency (Item 2015-001).

## Compliance and Other Matters

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

## Wastewater Utility Fund's Response to Findings

The Wastewater Utility Fund's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Wastewater Utility Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

## 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  
October 26, 2016





MUNICIPALITY OF ANCHORAGE  
WASTEWATER UTILITY FUND

Schedule of Findings and Responses  
*Year Ended December 31, 2015*

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*Finding 2015-001* **Completeness of State Schedule of Financial Assistance and Schedule of Expenditures of Federal Awards - Significant Deficiency, continued**

state major program were not identified until several weeks into audit fieldwork.

*Cause* Proper communication between the Utility Fund Engineering Project Support Group and MOA Central Accounting did not occur.

*Recommendation* We recommend that management develop procedures to support timely communication of loan and grant financial activity between various departments.

Management Response Please see the Corrective Action Plan



Mayor  
Ethan Berkowitz

# Anchorage Water & Wastewater Utility

## Finance Division



Board Chair  
David M. Richards

### Corrective Action Plan Year Ended December 31, 2015

Name of Contact Person      Glenda Gibson  
AWWU Finance Division Director  
glenda.gibson@awwu.biz  
907-786-5623

### Financial Statement Findings

**Finding 2015-001**      **Completeness of State Schedule of Financial Assistance and Schedule of Expenditures of Federal Awards - Significant Deficiency**

*Corrective Action Plan*      The Utility Fund Engineering Project Support section will provide the financial activity for the year related to State of Alaska Department of Environmental Conservation Clean Water loans and grants recorded in the Wastewater Utility Fund to the AWWU Finance Division. The AWWU Finance Division will review and reconcile the information for completeness prior to submission to MOA Central Accounting.

*Expected Completion Date*      December 31, 2016

**Anchorage Water & Wastewater Utility**  **Clearly**

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