



Municipality of Anchorage, Alaska
Water Utility Fund
A Major Enterprise Fund of the
Municipality of Anchorage

Basic Financial Statements, Required
Supplementary Information, and Other Information

December 31, 2022
(With Independent Auditor's Report Thereon)



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

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Other Information

December 31, 2022

(With Independent Auditor's Report Thereon)

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

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Water Utility Fund, an enterprise fund of the Municipality of Anchorage, Alaska, as of and for the year ended December 31, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility Fund as of December 31, 2022, the changes in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Water Utility Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Water Utility Fund and do not purport to, and do not, present fairly the financial position of the Municipality of Anchorage, Alaska as of December 31, 2022, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 8, the Water Utility Fund adopted the provisions of Government Accounting Standards Board Statement Number 87, *Leases*. Our opinion is not modified with respect to this matter.



Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Water Utility Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Water Utility Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Water Utility Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Required Supplementary Information

Accounting principles generally accepted in the United States of America require that that Management's Discussion and Analysis on and the schedules of the Water Utility Fund's proportionate share of the net pension and net other postemployment benefit liability and asset and Water Utility Fund contributions to the pension and other postemployment benefit plans on pages be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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

Management is responsible for the other information included in the annual report. The other information comprises the statistical section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2024 on our consideration of the Water Utility Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Water Utility Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Utility Fund's internal control over financial reporting and compliance.

BDO USA, P.C.

Anchorage, Alaska
January 31, 2024

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

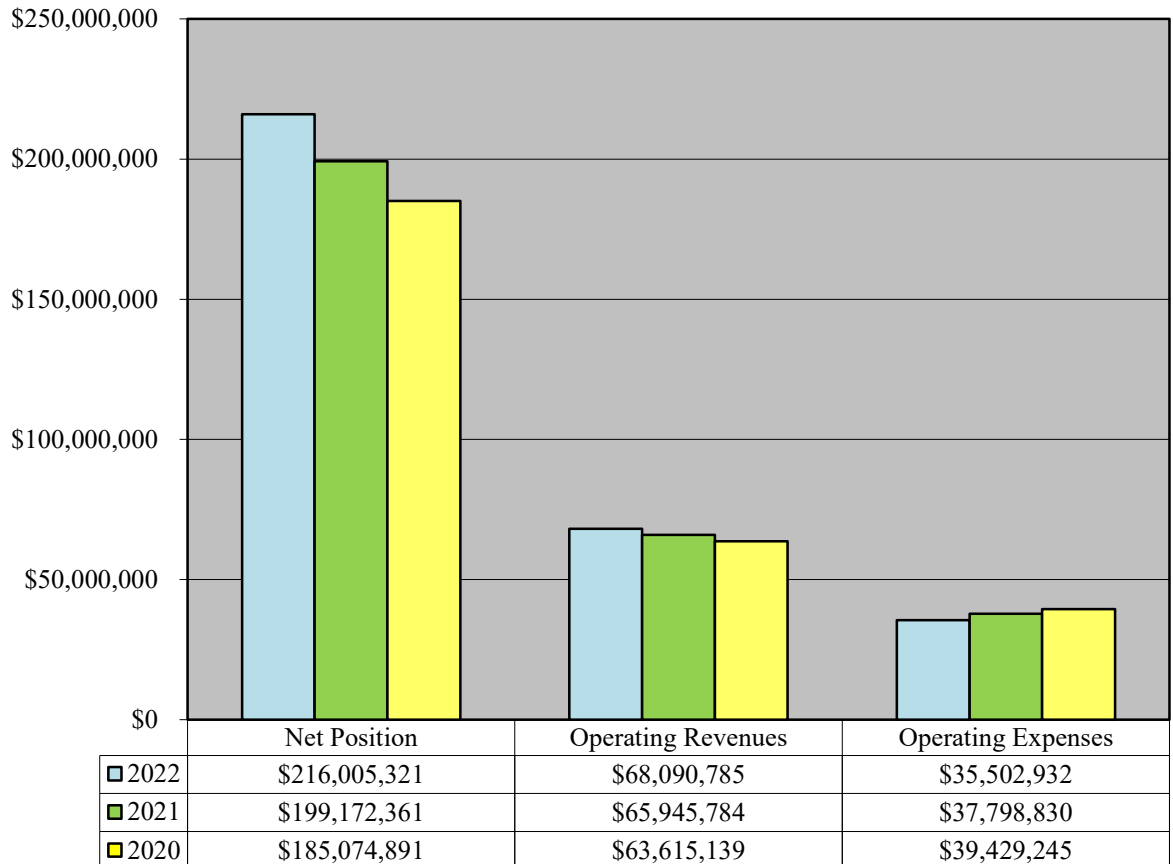
Management's Discussion and Analysis

December 31, 2022

This section of the Municipality of Anchorage Water Utility (Utility) annual financial report presents the analysis of the Utility's financial performance during the year ending December 31, 2022. Please read it in conjunction with the Utility's financial statements.

Financial Highlights

- Net capital assets decreased by \$4,395,000, or less than 1% in 2022 and decreased by \$3,120,000 or less than 1% in 2021.
- The change in net position in 2022 was an increase of \$16,833,000, or 8%. Net position in 2021 increased by \$14,100,000, or 8%.
- Operating revenues increased by \$2,145,000, or 3% in 2022 and increased by \$2,330,000, or 4% in 2021.
- Operating expenses decreased by \$2,296,000, or 6% in 2022 and decreased by \$1,630,000, or 4% in 2021.



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

Management's Discussion and Analysis

December 31, 2022

Overview of the Financial Report

The Utility is reported as a major enterprise fund of the Municipality of Anchorage (Municipality). A Board of Directors (Board) consisting of seven members is to make various recommendations including strategic, capital improvement and operating plans, operating budgets, and tariff changes imposed by the Utility for its products and services to the Municipal Mayor. The Utility is economically regulated by the Regulatory Commission of Alaska (RCA). Upon approval by the Municipal Assembly, changes to tariff rates, fees, and charges are submitted to the RCA for approval.

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

Statement of Net Position – This statement presents information regarding the Utility's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position represents the total assets and deferred outflows of resources less total liabilities and deferred inflows of resources. The Statement of Net Position classifies assets and liabilities as current and non-current.

Statement of Revenue, Expenses, and Changes in Fund Net Position – This statement presents the Utility's operating revenues and expenses and nonoperating revenues and expenses for the year with the difference – income before transfers – being combined with any 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 the current year.

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

Notes to Basic Financial Statements – These provide the reader with additional information that is essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information – This presents certain information concerning the progress in funding the Utility's obligation to provide pension benefits and other postemployment benefits (OPEB).

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

Management's Discussion and Analysis

December 31, 2022

Analysis of the Financial Statements

Net Position

One of the most important questions asked about the Utility's finances is, "Is the Utility, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and Statement 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, 2022, 2021, and 2020. 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**

	2022	2021	2020
Assets and deferred outflows of resources:			
Net capital assets	\$ 568,052,787	572,448,296	575,564,109
Current and other assets	84,410,946	85,098,999	63,556,276
Deferred outflows of resources	4,008,634	3,591,735	5,151,652
Total assets and deferred outflows of resources	656,472,367	661,139,030	644,272,037
Liabilities and deferred inflows of resources:			
Non-current liabilities	227,526,101	239,556,826	244,494,051
Current and other liabilities	21,982,648	19,326,326	18,633,235
Deferred inflows of resources	190,958,297	203,083,517	196,069,860
Total liabilities and deferred inflows of resources	440,467,046	461,966,669	459,197,146
Net position:			
Net investment in capital assets	175,720,678	163,927,337	153,523,427
Restricted	896,335	743,540	—
Unrestricted	39,388,308	34,501,484	31,551,464
Total net position	\$ 216,005,321	199,172,361	185,074,891

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Management's Discussion and Analysis

December 31, 2022

The Utility's total assets and deferred outflows of resources decreased by \$4.7 million in 2022. Net capital assets decreased by \$4.4 million due to an increase in accumulated depreciation of \$15.8 million, a decrease in construction work in progress of \$1.4 million and a decrease in the plant acquisition adjustment of \$0.1 million that was offset by an increase in plant in service of \$12.8 million (see Table 3A and Note 2) and an increase of \$0.1 million in Leased right to use assets as a result of GASB 87 implementation.

Current and other assets decreased by \$.7 million primarily due to increases in long term receivables of \$1.6 million, accounts receivable related accounts of \$.7 million, inventory of \$.5 million, equity in bond and loan debt service of \$.1 million, customer deposits of \$.2 million and interim rate escrow of \$.2 million, which was offset by decreases in net other OPEB asset of \$3.2 million, and combined decreases of \$1.0 million in bond and grant capital acquisition and construction pool and general cash pool. Current assets increased by \$0.7 million due to increases in accounts receivable, less uncollectibles, of \$0.5 million, accrued interest receivable of \$0.1 million, and inventory of \$0.5 million which was offset by a decrease of \$0.4 million equity in general cash pool. Restricted Assets decreased by \$0.1 million due to a decrease in the equity in bond and grant capital acquisition and construction pool in the amount of \$0.6 million offset by increases of \$0.1 million in equity in bond and loan debt service, \$0.2 million in interim rate escrow due to the interim and refundable rate filing being completed and taking effect, and \$0.2 million in equity in customer deposits. Non-current assets decreased by \$1.5 million primarily due to a decrease in the net OPEB asset of \$3.2 million offset by an increase in long term receivables of \$1.7 million due to implementation of GASB 87 requirements in 2022.

Deferred outflows of resources increased by \$0.4 million due to reductions in the unamortized loss on refunded bond issues of \$0.2 million which was offset by increases to deferred outflows of resources related to net pension liability of \$0.1 million, along with an increase in deferred outflows of resources related to the OPEB asset and liability of \$0.5 million.

Total liabilities and deferred inflows of resources decreased by \$21.5 million in 2022. Non-current liabilities decreased by \$12 million (see Table 4 and Note 7). The decrease in non-current liabilities was due to a decrease in other loans payable of \$20.2 million, a decrease of \$8.0 million in Alaska Drinking Water loans payable offset by increases of \$4.3 million in net pension liability and an increase of \$11.8 million in revenue bonds payable. These changes are primarily due to a change in debt structure because the Utility refinanced a line of credit with the issuance of 2022 Series A Revenue Bonds (Note 7).

Current and other liabilities increased by \$2.6 million in 2022. This increase was primarily attributable to a \$2.1 million increase in long-term obligations maturing within one year. Current and other liabilities not listed above had a net increase of \$0.5 million.

Deferred inflows of resources decreased by \$12.1 million due to a \$2.5 million reduction in contributions in aid of construction (see Note 3), a \$6.2 million decrease in deferred inflows of resources related to the net pension liability, a decrease to the net OPEB asset and liability of \$5.2 million offset by an increase of \$1.8 million in net lease liability due to implementation of GASB 87.

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

Management's Discussion and Analysis

December 31, 2022

Changes in the Utility's net position can be determined by reviewing the following condensed Summary of Revenues, Expenses, and Changes in Fund Net Position for the years ended December 31, 2022, 2021, and 2020.

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating revenues:			
Residential sales	\$ 46,971,085	46,301,249	45,618,625
Commercial sales	15,094,794	13,041,294	11,609,613
Public fire protection	4,634,204	5,305,044	5,228,727
Lease revenues	185,904	—	—
Other operating	1,204,798	1,298,197	1,158,174
Total operating revenues	<u>68,090,785</u>	<u>65,945,784</u>	<u>63,615,139</u>
Operating expenses:			
Source of supply	895,637	1,057,790	1,290,051
Pumping plant	446,910	391,576	378,120
Water treatment	5,564,488	4,984,928	5,240,188
Transmission and distribution	8,176,032	8,338,898	8,509,294
Customer accounts	2,900,662	3,160,046	2,825,032
Administrative and general	4,991,741	7,154,000	9,773,903
Depreciation, net of amortization	12,522,374	12,711,592	11,412,657
Amortization of leased right to use assets	5,088	—	—
Total operating expenses	<u>35,502,932</u>	<u>37,798,830</u>	<u>39,429,245</u>
Operating income	<u>32,587,853</u>	<u>28,146,954</u>	<u>24,185,894</u>
Nonoperating revenues	(1,158,109)	159,802	2,617,986
Nonoperating expenses	5,095,861	4,483,730	4,381,945
Income before transfers	<u>26,333,883</u>	<u>23,823,026</u>	<u>22,421,935</u>
Transfers	9,500,923	9,725,556	10,513,635
Change in fund net position	<u>16,832,960</u>	<u>14,097,470</u>	<u>11,908,300</u>
Net position - beginning	199,172,361	185,074,891	173,166,591
Net position - ending	<u>\$ 216,005,321</u>	<u>199,172,361</u>	<u>185,074,891</u>

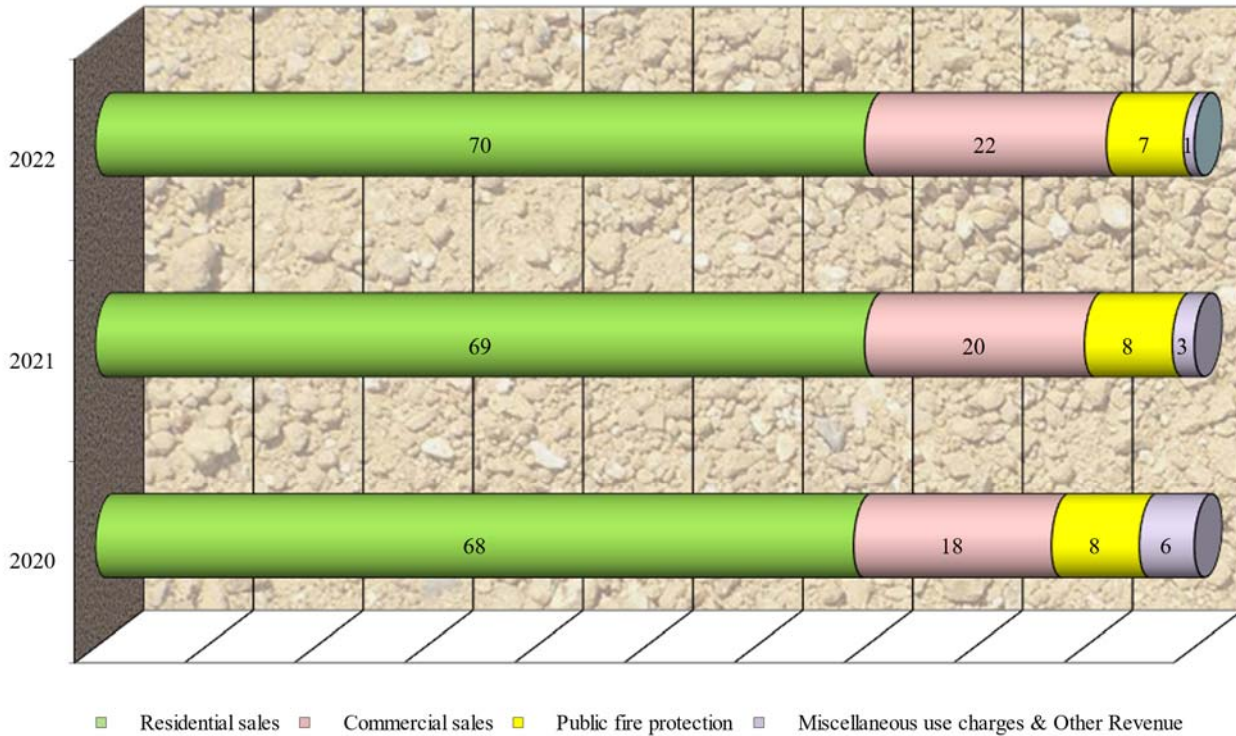
**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Management’s Discussion and Analysis

December 31, 2022

During 2022, net position increased by \$16.8 million. Total revenues increased by \$0.8 million and operating revenues increased by \$2.1 million when compared to 2021. The increase in revenue was primarily due to increased commercial metered revenue, which increased by 5.3% in 2022 as a result of a new fire protection charge per account as well as a rate increase of 1.75% effective January 18th, 2022. Nonoperating revenues decreased by \$1.3 million due to a \$1.2 million decrease in short term investment income, a \$0.3 million decrease in miscellaneous nonoperating revenue, a decrease of \$0.2 million in OPEB on-behalf which was offset by a \$.4 million increase in pension on-behalf.

Revenues by Source in %



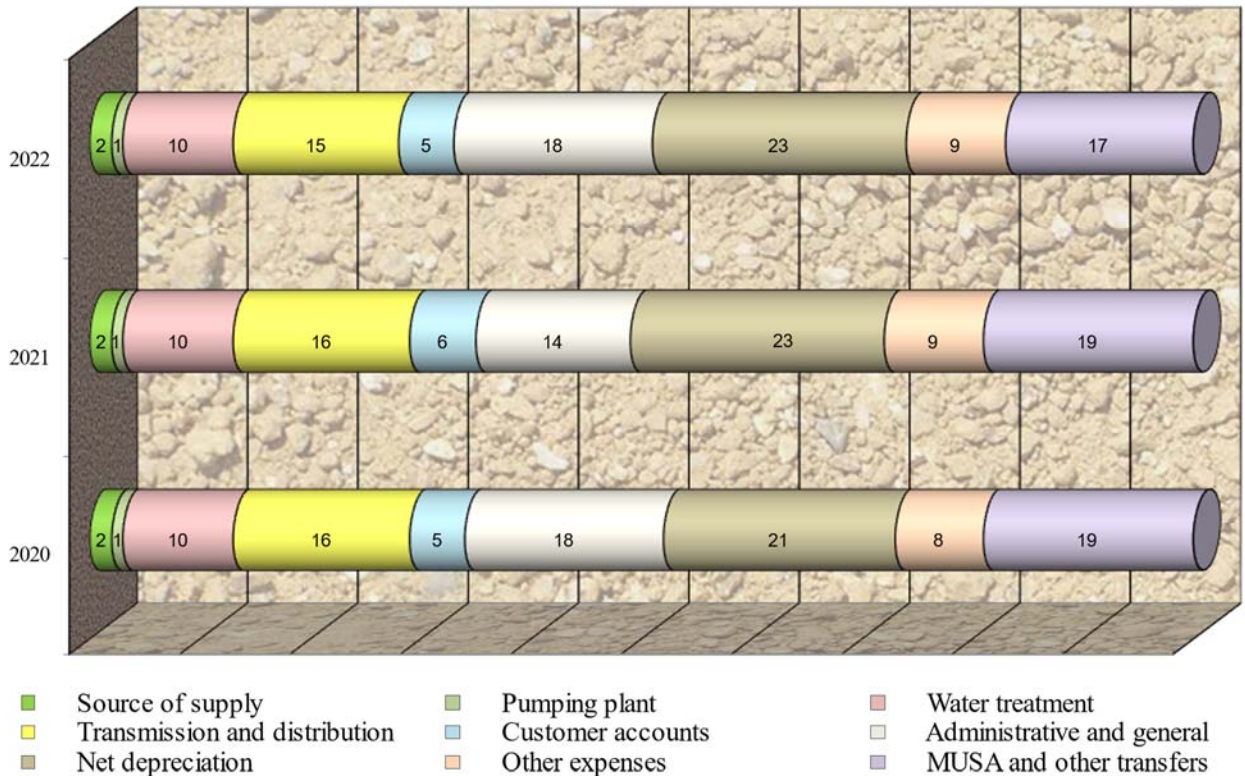
**MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND**

Management's Discussion and Analysis

December 31, 2022

Total expenses decreased by \$1.9 million in 2022 when compared to 2021, with operating expenses decreasing by \$2.3 million, nonoperating expenses increasing by \$0.6 million, and a net reduction of \$0.2 million in transfers. The decrease in operating expenses was significantly impacted by the decrease in administrative and general expense of \$2.1 million. This decrease was attributable to a reduction in pension related expenses which was offset by an increase in general plant maintenance due to an increase in fuel expenses consistent with national trends. Source of Supply decreased by \$0.2 million because of a reduction in water diverted from electrical generation. Transmission and distribution expense decreased by \$0.2 million partially due to a couple of employees being reclassified to another section. Water Treatment expense increased by \$0.6 million attributed by additional chemical purchases to avoid supply chain delays and there were increases in costs, also there were increased overtime costs resulting from staff shortages. Customer accounts decreased by \$0.3 million due to the Utility returning to normal collection activities. Pumping plant had an increase of \$0.1 million. Depreciation, net of amortization decreased by \$0.2 million.

Expenses by Source in %



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

Management's Discussion and Analysis

December 31, 2022

Capital Assets and Debt

Capital Assets

The following table summarizes the Utility's net capital assets, as of December 31, 2022, 2021 and 2020.

**Table 3A
Net Capital Assets**

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Intangible plant	\$ 653,293	1,158,697	1,067,247
Source of supply plant	16,159,012	16,607,723	16,859,562
Pumping plant	9,570,032	9,997,364	10,473,682
Treatment plant	73,124,355	70,109,642	66,700,136
Transmission & distribution plant	432,592,335	434,239,327	428,591,735
General plant	<u>22,379,407</u>	<u>25,390,354</u>	<u>26,652,321</u>
Net plant in service	554,478,434	557,503,107	550,344,683
Plant acquisition adjustment	262,953	361,109	470,403
Property held for future use	911,201	911,201	911,201
Leased right to use assets	99,292	-	-
Construction work in progress	<u>12,300,907</u>	<u>13,672,879</u>	<u>23,837,822</u>
Total net capital assets	<u>\$ 568,052,787</u>	<u>572,448,296</u>	<u>575,564,109</u>
Increase (decrease) in net capital assets	<u>\$ (4,395,509)</u>	<u>(3,115,813)</u>	

Net capital assets decreased by \$4.4 million in 2022 comprised of net plant in service decreasing by \$3 million, a net decrease in construction work in progress of \$1.4 million. Net plant in service decreased \$3 million due to additions of \$14.8 million, offset by retirements of \$2.1 million and the change in accumulated depreciation of \$15.7 million. The plant category that increased the most during the year was transmission plant, which had additions of \$10.2 million. The largest transmission plant project was the Reservoirs 3 and 4 Circulation Line. This project is located at a single facility south of East Tudor Road. This project addresses issues identified as part of master planning efforts and considers the problems of circulation, system redundancy, resiliency, movement of water within Anchorage Bowl, number of pressure zones and maintenance.

Treatment plant had additions of \$3.4 million. The largest water treatment plant project was the Replace OSHG (Onsite Sodium Hypochlorite Generators) system. The existing OSHG equipment was installed in 2000, resulting in parts being difficult to obtain. Plant staff are not satisfied with suppliers' service of equipment and brine tanks are past their useful life. Sodium hypochlorite is critical for water treatment. Project will replace existing Sodium hypochlorite onsite generation system equipment and most accessory equipment including rectifiers, heat exchangers and brine tanks.

Construction work in progress decreased by \$1.4 million during 2022. (see Table 3A and Note 2).

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

Management's Discussion and Analysis

December 31, 2022

**Table 3B
Capital Assets, 2022 Major Additions - gross
(amounts expressed in thousands)**

<u>Transmission and Distribution Plant</u>		<u>Source of Supply</u>	
Reservoir 03 & 04 Circulation Line	\$ 3,953	Eagle River Well Rehabilitation - Norfolk, Well 8	\$ <u>44</u>
Sonoma Glen @ Westpark	1,099		
92nd Ave	1,021	<u>Pumping Plant</u>	
Pressure Relief Valve Replacements	752	Booster Station 135th	\$ <u>49</u>
Sanitary Survey Reservoir Improvements	619		
Eagle Bluff Estates	604	<u>Water Treatment Plant</u>	
Checkpoint Subdivision	548	EWTF Disinfection Improvements	\$ 3,349
458-424 Zone Merge	382	SCWTF Rehab	71
Ruby Estates Subdivision	293	Other Miscellaneous Projects	<u>54</u>
Whispering Hill	149	Total Water Treatment Plant	\$ <u>3,474</u>
Hillcrest Drive Rehabilitation	126		
Yukon Industrial Park	96	<u>General Plant</u>	
TBird Grandview Subdivision Upgrade	89	Light Duty Vehicles	\$ 707
Golden View and 164th Upgrade	64	Communication Equipment	81
Other Miscellaneous Projects	<u>475</u>	Other Miscellaneous Projects	<u>57</u>
Total Transmission and Distribution Plant	\$ <u>10,270</u>	Total General Plant	\$ <u>845</u>
<u>Intangible Plant</u>			
Hydraulic Master Plan	\$ <u>120</u>	Total Additions	\$ <u>14,802</u>

Additional information on the Utility's capital assets can be found in Note 2.

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

Management's Discussion and Analysis

December 31, 2022

Debt

Changes in the Utility's debt are shown in the following table as of December 31, 2022, 2021, and 2020. The table includes only debt having a long-term component.

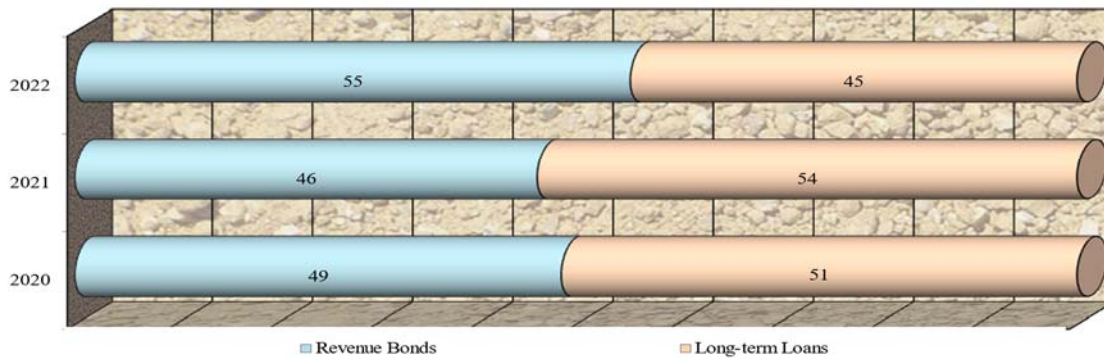
**Table 4
Net Debt**

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Revenue bonds, net	\$ 122,633,262	108,696,378	114,116,034
Long-term loans	<u>98,602,655</u>	<u>126,909,269</u>	<u>121,000,098</u>
Total net debt	<u>\$ 221,235,917</u>	<u>235,605,647</u>	<u>235,116,132</u>
Increase (decrease) in net debt	<u>\$ (14,369,730)</u>	<u>489,515</u>	

Additional information on the Utility's long-term obligations can be found in Note 7.

The Utility issued new revenue bonds in 2022 and received \$20.4 million in proceeds and retired a note payable in the amount of \$20.2 million. Bond and loan principal payments totaled \$5.3 million and \$8.0 million, respectively.

Net Debt by Type in %



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

Management's Discussion and Analysis

December 31, 2022

Economic Factors and Budget and Regulatory Matters, and Currently Known Facts

Budgetary Matters

The 2023 budget anticipates a 1.16% increase in operating revenue compared to 2022 actual revenue with a rate increase of 1.85% effective January 30, 2023.

2023 operating expenses are budgeted to increase 15% from the 2022 actuals due to a 7% increase in labor, a 22% increase in non-labor, and a 7% increase in Intra-governmental Charges from General Government. The Municipal Service Assessment is budgeted to decrease 0.45% and depreciation expense is budgeted to increase 5%.

Regulatory Matters

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

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

Currently Known Facts

The Utility continues to monitor financial metrics and intends on investigating funding opportunities through the state and federal government.

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

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

Statement of Net Position

December 31, 2022

Assets and Deferred Outflows of Resources

Capital assets:	
Plant in service, at cost	\$ 936,347,482
Less accumulated depreciation	(381,869,048)
Net plant in service	554,478,434
Plant acquisition adjustment, less amortization of \$3,238,991	262,953
Property held for future use	911,201
Leased right to use assets, less amortization of \$5,088	99,292
Construction work in progress	12,300,907
Net capital assets	<u>568,052,787</u>
Current assets:	
Equity in general cash pool	34,010,628
Accounts receivable:	
Utility customers, less estimated uncollectibles of \$78,616	5,667,941
Other, less estimated uncollectibles of \$80,960	18,512
Special assessments receivable	58,610
Accrued interest receivable	423,197
Leases receivable	143,393
Inventories	2,866,741
Prepays	224,639
Unbilled reimbursable projects	28,908
Total current assets	<u>43,442,569</u>
Restricted assets:	
Current:	
Equity in bond and grant capital acquisition and construction pool	17,433,361
Equity in general cash pool - bond and loan debt service	8,393,982
Interim rate escrow investment	896,335
Non-current:	
Equity in general cash pool - customer deposits	420,158
Total restricted assets	<u>27,143,836</u>
Non-current assets:	
Unbilled special assessments	964,668
Unamortized cost of debt issuance	444,805
Regulatory assets	140,711
Regulatory debits	2,204,078
Net other postemployment benefits (OPEB) asset	8,012,512
Long-term accounts receivable	404,816
Long-term leases receivable	1,652,951
Total non-current assets	<u>13,824,541</u>
Total assets	<u>652,463,733</u>
Deferred outflows of resources:	
Unamortized loss on refunded bond issues	1,682,642
Related to net pension liability	1,570,032
Related to net OPEB asset and liability	755,960
Total deferred outflows of resources	<u>4,008,634</u>
Total assets and deferred outflows of resources	<u>\$ 656,472,367</u>

See accompanying notes to basic financial statements.

(Continued)

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

Statement of Net Position, continued

December 31, 2022

Liabilities, Deferred Inflows of Resources, and Net Position

Net position:	
Net investment in capital assets	\$ 175,720,678
Restricted - interim rate escrow	896,335
Unrestricted	39,388,308
Total net position	216,005,321
Current liabilities:	
Long-term obligations maturing within one year	14,432,934
Accounts payable	1,183,048
Accrued interest	2,039,633
Pollution remediation obligation	1,100
Lease obligations maturing within one year	3,811
Accrued payroll	798,658
Compensated absences payable	997,761
Total current liabilities	19,456,945
Liabilities payable from restricted assets:	
Current:	
Capital acquisition and construction accounts payable	1,606,136
Customer refund payable	26
Unearned revenue	499,383
Non-current:	
Customer deposits payable	420,158
Total liabilities payable from restricted assets	2,525,703
Non-current liabilities:	
Revenue bonds payable, including unamortized premium	116,130,628
Alaska Drinking Water Fund loans payable	90,671,355
Loans payable – other	1,000
Leases payable	94,038
Compensated absences payable	767,631
Net pension liability	19,861,449
Total non-current liabilities	227,526,101
Total liabilities	249,508,749
Deferred inflows of resources:	
Contributions in aid of construction less amortization of \$208,553,045	188,508,210
Related to net OPEB asset and liability	688,791
Related to leases receivable	1,761,296
Total deferred inflows of resources	190,958,297
Total liabilities, deferred inflows of resources, and net position	\$ 656,472,367

See accompanying notes to basic financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Statement of Revenues, Expenses, and Changes in Fund Net Position
Year Ended December 31, 2022

Operating revenues:	
Charges for sales and services:	
Residential sales	\$ 46,971,085
Commercial sales	15,094,794
Public fire protection	4,634,204
Total charges for sales and services	66,700,083
Lease revenues	185,904
Other operating revenues	1,204,798
Total operating revenues	68,090,785
Operating expenses:	
Source of supply	895,637
Pumping plant	446,910
Water treatment	5,564,488
Transmission and distribution	8,176,032
Customer accounts	2,900,662
Administrative and general	4,991,741
Total operations	22,975,470
Depreciation, net of amortization	12,522,374
Amortization of leased right to use assets	5,088
Total operating expenses	35,502,932
Operating income	32,587,853
Nonoperating revenues:	
Investment income (loss)	(849,826)
Lease interest income	59,689
Pension on-behalf	359,090
OPEB on-behalf	(739,384)
Miscellaneous revenues	12,322
Total nonoperating revenues	(1,158,109)
Nonoperating expenses:	
Interest expense and fees – revenue bonds	3,858,328
Interest expense and fees – loans	1,636,152
Interest expense and fees – leases	2,896
Allowance for funds used during construction	(665,241)
Miscellaneous expenses	263,726
Total nonoperating expenses	5,095,861
Income before transfers	26,333,883
Transfers:	
Transfers to municipal utility service assessment	9,200,923
Transfers to Utility revenue distribution	300,000
Total transfers	9,500,923
Change in fund net position	16,832,960
Net position – beginning	199,172,361
Net position – ending	\$ 216,005,321

See accompanying notes to basic financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Statement of Cash Flows

Years Ended December 31, 2022

Cash flows from operating activities:	
Receipts from customers and users	\$ 65,996,708
Payments to employees	(19,439,182)
Payments to vendors	(4,992,420)
Internal activity - payments made to other funds	(1,775,687)
Net cash provided by operating activities	39,789,419
Cash flows for non-capital financing activities:	
Transfers to municipal utility service assessment	(9,200,923)
Transfers to utility revenue distribution	(300,000)
Net cash used by non-capital financing activities	(9,500,923)
Cash flows for capital and related financing activities:	
Principal payments on revenue bonds	(5,299,874)
Interest payments and other fees on long-term obligations	(6,363,818)
Acquisition and construction of capital assets	(10,425,479)
Capital contributions - customer special assessments	225,947
Proceeds from bonds payable	20,268,887
Retirements of loans payable - other	(20,268,887)
Principal payments on Alaska Drinking Water loans	(8,037,727)
Lease obligations maturing within one year	3,811
Long term lease obligations	94,038
Net cash used by capital and related financing activities	(29,803,102)
Cash flows from investing activities:	
Interest income (loss)	(934,385)
Net increase (decrease) in cash	(448,991)
Cash and cash equivalents, beginning of year	61,603,455
Cash and cash equivalents, end of year	\$ 61,154,464
Cash and cash equivalents:	
Equity in general cash pool	\$ 34,010,628
Restricted equity in bond and grant capital acquisition and construction pool	17,433,361
Restricted equity in general cash pool - customer deposits	420,158
Restricted equity in general cash pool - bond and loan debt service	8,393,982
Interim rate escrow investment	896,335
Total cash and cash equivalents	\$ 61,154,464

See accompanying notes to basic financial statements.

(Continued)

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Statement of Cash Flows, continued

Years Ended December 31, 2022

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 32,587,853
Adjustments to reconcile operating income to net cash provided by operating activities:	
Allowance for uncollectible accounts	(99,604)
Depreciation, net of amortization	12,522,374
Amortization of leased right to use assets	5,088
Pension on-behalf revenue	359,090
OPEB on-behalf revenue	(739,384)
Miscellaneous nonoperating revenue	12,322
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources increasing (decreasing) cash:	
Accounts receivable and other receivables	(302,940)
Leases receivable	(1,796,344)
Unbilled reimbursable projects	(2,445)
Inventories	(491,792)
Customer deposits payable	225,467
Prepays	57,008
Unbilled special assessments	(110,714)
Regulatory debits	25,358
Accounts payable	452,067
Accrued payroll	(121,821)
Compensated absences payable	(54,604)
Unearned revenue	(9,942)
Deferred outflows of resources related to net pension liability	(139,255)
Deferred outflows of resources related to net OPEB asset and liability	(505,746)
Net pension liability	4,378,513
Net OPEB asset	3,195,765
Deferred inflows of resources related to net pension liability	(6,174,248)
Deferred inflows of resources related to net OPEB asset and liability	(5,243,943)
Deferred inflows of resources related to leases	1,761,296
Net cash provided by operating activities	\$ 39,789,419
Non-cash investing, capital and financing activities:	
Contributed capital - private development	\$ 2,789,745
Capital purchases on account	822,004
Allowance for funds used during construction	665,241
Total non-cash investing, capital and financing activities	\$ 4,276,990

See accompanying notes to basic financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2022

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

The Anchorage Water Utility (Utility) began in 1919 as a general government function of the City of Anchorage's Public Works Department and later evolved into an enterprise fund. In the early 1970's, the Utility became its own department of the City and following unification of the City of Anchorage and the Greater Anchorage Area Borough, now exists as a public utility of the Municipality of Anchorage (Municipality). The Utility, whose service area equals 125 square miles of metropolitan Anchorage, from Eklutna to Girdwood, collects water from two major surface watersheds and many deep underground wells. The accompanying financial statements include the activities of the Water Utility Fund, and not the Municipality as a whole.

The Utility is a major Enterprise Fund of the Municipality. 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 expenses are recognized when the liabilities are incurred.

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 Statement 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 Statement of Net Position and revenues and expenses for the period. Actual results could differ from those estimates.

(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.

Regulatory Assets and Regulatory Debits

Miscellaneous Deferred Debits are recorded in accordance with the NARUC chart of accounts. Three accounts are allowed, unless otherwise approved by the RCA: Regulatory assets, Other deferred debits, and Deferred rate case expenses.

(Continued)

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

Notes to Basic Financial Statements

December 31, 2022

Regulatory assets are shown on the Statement of Net Position (See Note 11).

Other deferred debits are reflected as regulatory debits on the Statement of Net Position. The Utility records the offset to pollution remediation obligation and costs associated with the November 30, 2018 Alaska earthquake, net of recoveries, as regulatory debits (See Note 12).

Contributions in Aid of Construction (CIAC)

The Utility receives CIAC, which are recorded as deferred inflows of resources. For rate making purposes, the Utility amortizes CIAC over the life of the respective utility plant as a reduction of depreciation expense and a reduction of a deferred inflow of resources. Consequently, CIAC are recorded as a deferred inflow of resources in the accompanying financial statements (See Note 3).

Debt Issuance Cost

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.

Allowance for Funds Used During Construction (AFUDC)

The Utility's rates also include AFUDC, which is capitalized in the accompanying financial statements. The Statement 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.

(b) Capital Assets

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

Plant removed from service is credited against the plant accounts with the offset to accumulated depreciation. No gain or loss is recognized on the transaction except under extraordinary circumstances. Routine repair and maintenance costs are expensed as incurred.

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. AFUDC is an allowable cost of capital construction applied in accordance with the NARUC. The Utility capitalizes AFUDC as interest on construction work in progress in accordance with regulatory requirements. Interest was capitalized in 2022 in the amount of \$665,241. The Utility uses the most recently authorized or accepted weighted average cost of capital by the RCA as the rate for calculating this component of capitalizable costs.

(Continued)

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

Notes to Basic Financial Statements

December 31, 2022

The estimated lives of major plant and equipment categories follow:

Source of supply plant	40 - 70 years
Pumping plant	20 - 45 years
Treatment plant	35 - 70 years
Transmission and distribution plant	20 - 70 years
General plant	6 - 55 years
Intangible plant	10 years

The Utility implemented GASB 87, Leases, as of January 1, 2022. As a result, the Utility recorded \$104,380 of leased right to use assets less amortization of \$5,088. This is the present value of land leased long term by the Utility.

(c) Asset Retirement Obligations (ARO)

The Utility evaluated the requirements of GASB 83, *Certain Asset Retirement Obligations*, related to all capital assets within the Utility and has implemented the provisions of this Statement since 2020. Assets were grouped into 4 categories: Assets on permitted land/rights of way, wells, horizontal plant and vertical plant are evaluated for ARO's. The finding is that the Utility currently has no requirement to recognize ARO's for these assets. The Utility will continue to perform annual reviews in compliance with GASB 83 requirements and will recognize an ARO when the liability is incurred and reasonably estimable.

(d) Cash Pool and Investments

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

For purposes of the Statement 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 Utility uses the cash pools essentially as demand deposit accounts. Cash also includes escrow funds from interim rates.

(e) Accounts Receivable and Unbilled Revenues

Allowance for doubtful accounts are provided for receivables where there is a question of collectability. Utility receivables are presented in the Statement of Net Position net of estimated uncollectible amounts. Special assessments receivable represents the current portion of outstanding Utility special assessments. Special assessments are billed on a yearly basis. Unbilled special assessments receivable represents the non-current portion of the Utility special assessments; those that are collectible and will be billed in future years. Payment terms on special assessments can extend to 30 years and are approved by the Municipal Assembly.

(Continued)

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2022

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 \$2,074,160 for the year ended December 31, 2022.

(f) Inventories

Inventories are valued at average cost and recorded as an expense when consumed rather than when purchased.

(g) Prepaids

Prepaids are recognized when incurred and the expense is recorded in the period that is benefited using the consumption method.

(h) Restricted Assets

Certain proceeds of the Utility's revenue bonds, as well as resources set aside for their repayment, are classified as restricted assets on the Statement of Net Position because their use is limited by applicable bond covenants. Restricted assets on the Statement of Net Position include:

Equity in bond and grant capital acquisition and construction pool account is used to report debt funding that is restricted for use in construction.

The restricted equity in general cash pool – bond and loan debt service represents funds restricted by Utility management for principal and interest payments due within one year on Utility debt and interest earned on funds set aside for debt payments.

Interim rate escrow investments are funds collected from customer sales arising from interim and refundable rates granted by the RCA. (See Note 11).

The restricted equity in general cash pool - customer deposits account represents deposits provided by utility service customers as security for bill payment, MOA Utility customer COVID-19 relief, special assessment advance payments or reimbursable projects.

(i) Discount or Premium on Revenue Bonds Payable

The discount or premium on revenue bonds payable is amortized over the life of the related bond issues using the effective interest method.

(j) Long-Term Accounts Receivable

As allowed in Anchorage Water Utility Tariff Rule 10.3, Water Infrastructure Coordination Agreement, a loan program was implemented to incentivize new construction of water infrastructure. The loan has a repayment term greater than one year, with interest accruing monthly. The amounts are classified as long-term accounts receivable until one year before the loan enters repayment, at which time they will be classified as current accounts receivable.

(Continued)

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2022

(k) 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, 2022, the Utility had deferred outflows of resources from unamortized loss on refunded bond issues, and pension, and other postemployment benefits related items.

(l) Net Position and Net Position Flow Assumptions

Net Position represents the residual interest in the Utility's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consists of three components: net investment in capital assets, restricted and unrestricted net position. Net investment in capital assets represents net capital assets and those liabilities and deferred resource flows resulting from the construction, acquisition, or improvement of those capital assets. The restricted category represents the balance of assets restricted for general use by external parties (creditors, grantors, contributors, or laws or regulations of other governments) or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position consists of the net position not meeting the definition of the other two components.

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. The Utility shall be operated in such a manner as to provide a reasonable profit in accordance with applicable regulations of the state public utilities commission pursuant to AS 42.05 et seq., or other commission or board under applicable regulatory provisions and law. Surplus revenues from the operation may be reinvested in the utility and, where prudent fiscal management permits, may be distributed as set forth in section 26.10.065 of Alaska Statute.

(m) Compensated Absences

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

(n) Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Details regarding the net pension liability are discussed in Note 9.

(o) Net Other Postemployment Benefits (OPEB) Asset and Liability

For purposes of measuring the net OPEB asset, net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the PERS and additions to/from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

(Continued)

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2022

Investments are reported at fair value. Details regarding net OPEB assets and liability are discussed in Note 10.

(p) 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, 2022, the Utility had deferred inflows of resources from contributions in aid of construction, other postemployment benefits related items, and lease related items.

(q) 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. All other revenues and expenses are reported as nonoperating. Revenues are recognized when utility services are provided and expenses are recognized when costs are incurred.

(r) Intragovernmental Charges

Certain functions of the Municipality of a general and administrative nature are centralized and the related costs are allocated to the various funds of the Municipality, including the Utility. Such costs allocated to the Utility totaled approximately \$1.8 million for the year ended December 31, 2022.

(s) Municipal Utility Service Assessment (MUSA)

The Municipality requires the Utility to pay a municipal utility service assessment for governmental services provided by the Municipality, other than those services received on a contract or interfund basis between the Utility and the Municipality. MUSA is reflected in the transfers on the Statement of Revenues, Expenses and Changes in Fund Net Position.

(t) Utility Revenue Distribution

Title 26, Section 10.065 of the Municipal Code describes the conditions for a "Utility Revenue Distribution" to the general government budget if the "Utility has or is anticipated to have net income accruing from its operations in any year, a portion of the net income may be pledged by inclusion in the respective municipal utility and general government budgets for the subsequent year". The Utility transferred approximately \$0.3 million for the year ended December 31, 2022.

(u) Estimates

Preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect amounts reported in these financial statements. Accordingly, actual results could differ from those estimates.

(Continued)

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2022

(v) Leases

Lessee – For leases where the Utility is the lessee, the Utility recognizes a lease liability and an intangible right-to-use asset on the statement of net position.

At the commencement of the lease, the Utility measures the lease liability at the present value of payments expected to be made during the lease term. The lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. The lease asset is amortized on a straight-line basis over its useful life.

Estimates and judgements related to leases include how the Utility determines, the discount rate used to discount the expected lease payments to present value, lease term, and lease payments.

The Utility monitors changes in circumstances that would require a remeasurement of its leases and will remeasure lease assets and liabilities if certain changes occur that are expected to significantly affect the amount of any lease liability.

Lessor - For leases where the Utility is the Lessor, the Utility recognizes a lease receivable and a deferred inflow of resources on the statement of net position.

At the commencement of the lease, the Utility measures the lease receivable at the present value of payments expected to be received during the lease term. The lease receivable is reduced by the principal portion of lease payments made. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments made at or before the lease commencement date. The deferred inflow of resources is recognized as revenue over the lease term.

Estimates and judgements related to leases include how the Utility determines, the discount rate it uses to discount the expected lease receipts to present value, lease term, and lease receipts.

The Utility monitors changes in circumstances that would require a remeasurement of its leases and will remeasure lease assets if certain changes occur that are expected to significantly affect the amount of any lease receivable and deferred inflows of resources.

(Continued)

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2022

(2) Capital Assets

Capital assets for the year ended December 31, 2022, follow:

	<u>December 31,</u> <u>2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclass*</u>	<u>December 31,</u> <u>2022</u>
Intangible plant	\$ 6,504,247	119,654	—	—	6,623,901
Source of supply plant	44,618,442	43,743	—	—	44,662,185
Pumping plant	17,570,718	49,148	(29,336)	—	17,590,530
Water treatment plant	118,098,880	3,473,742	(1,688,773)	1,825,843	121,709,692
Transmission and distribution plant	691,477,044	10,270,364	—	-	701,747,408
General plant	45,328,469	845,236	(334,096)	(1,825,843)	44,013,766
	923,597,800	14,801,887	(2,052,205)	—	936,347,482
Less accumulated depreciation	(366,094,693)	(17,826,560)	2,052,205	—	(381,869,048)
Net plant in service	557,503,107	(3,024,673)	—	—	554,478,434
Plant acquisition adjustment	3,501,944	—	—	—	3,501,944
Less accumulated amortization	(3,140,835)	(98,156)	—	—	(3,238,991)
Property held for future use	911,201	—	—	—	911,201
Leased right to use assets	—	104,380	—	—	104,380
Less accumulated amortization	—	(5,088)	—	—	(5,088)
Construction work in progress	13,672,879	10,640,171	(12,012,143)	—	12,300,907
Net capital assets	<u>\$ 572,448,296</u>	<u>7,616,634</u>	<u>(12,012,143)</u>	<u>—</u>	<u>568,052,787</u>

Net capital assets at December 31, 2022 include \$7,780,274 of non-depreciable land. The Utility's 2023 construction budget is \$16,112,000. As of December 31, 2022, the Utility has \$7,930,800 in encumbered funds for capital construction commitments.

(3) Contributions in Aid of Construction

CIAC for the year ended December 31, 2022, follow:

	<u>December 31,</u> <u>2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31,</u> <u>2022</u>
Intangible plant	\$ 343,643	—	—	343,643
Source of supply plant	23,319,233	—	—	23,319,233
Pumping plant	3,192,500	—	(29,336)	3,163,164
Water treatment plant	41,482,696	—	(1,688,773)	39,793,923
Transmission and distribution plant	327,000,885	2,940,407	—	329,941,292
Plant acquisitions	—	—	—	—
Construction work in progress	506,390	—	(6,390)	500,000
Total CIAC	395,845,347	2,940,407	(1,724,499)	397,061,255
Less, accumulated amortization	(204,868,812)	(5,402,342)	1,718,109	(208,553,045)
CIAC, net of amortization	<u>\$ 190,976,535</u>	<u>(2,461,935)</u>	<u>(6,390)</u>	<u>188,508,210</u>

(Continued)

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

Notes to Basic Financial Statements

December 31, 2022

(4) Cash and Investments

The Utility participates in the Municipality's Central Treasury cash pool. At December 31, 2022, the Municipality had the following cash and investments, with fixed income maturities as noted:

December 31, 2022

Investment Type	Fair Value	Fixed Income Investment Maturities (in years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
Interim Rate Increase Escrow	896,335				
Central Treasury					
Money Market Funds	29,453,454	—	—	—	—
Repurchase Agreements	64,023,338	64,023,338	—	—	—
Commercial Paper	18,854,955	18,854,955	—	—	—
Certificates of Deposit	650,075	650,075	—	—	—
U.S. Treasuries	138,538,863	14,547,369	108,661,513	15,301,531	28,450
U.S. Agencies	100,017,438	—	96,049,203	2,658,139	1,310,096
Municipal Bonds	1,700,731	1,529,133	14,814	139,910	16,874
Asset-Backed Securities	20,242,516	—	11,019,196	1,565,512	7,657,808
Corporate Fixed Income Securities	156,818,950	79,264,875	40,433,615	33,626,133	3,494,327
	<u>530,300,320</u>	<u>178,869,745</u>	<u>256,178,341</u>	<u>53,291,225</u>	<u>12,507,555</u>
	<u>2022</u>				
Restricted Assets					
Equity in bond and grant capital acquisition and construction pool	\$ 17,433,361				
Interim rate escrow funds	896,335				
Equity in general cash pool - bond and loan debt service	8,393,982				
Equity in general cash pool - customer deposits	420,158				
Total restricted assets	<u>27,143,836</u>				
Equity in general cash pool	34,010,628				
Total Utility Cash and Investments	<u>\$ 61,154,464</u>				

(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.

Of the \$61,154,464 in Utility Cash and Investments, \$27,143,836 is restricted.

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:

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MUNICIPALITY OF ANCHORAGE, ALASKA
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December 31, 2022

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

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MUNICIPALITY OF ANCHORAGE, ALASKA
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Notes to Basic Financial Statements

December 31, 2022

- 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), except that the Working Capital portfolio may not be invested in 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.

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. For the year ending December 31, 2022, the IMA limits the concentration of investments for the working capital portfolio at the time new investments are purchased as follows, with year-end concentrations for 2022:

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**MUNICIPALITY OF ANCHORAGE, ALASKA
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Investment Type	Concentration Limit	Holding % at December 31 2022
U.S. Government Securities*	Maximum of 100% of investment portfolio	26%
Repurchase Agreements	Maximum of 50% of investment portfolio	25%
Certificates of Deposit	Maximum of 25% of investment portfolio	0%
	Maximum 5% per issuer	
Commercial Paper	Maximum of 25% of investment portfolio	7%
	Maximum 5% per issuer	
Bankers Acceptances	Maximum of 25% of investment portfolio	0%
	Maximum 5% per issuer	
Corporate Fixed Income, Corporate Floating Rate and Variable Rate Debt Securities**	Maximum of 35% of investment portfolio	27%
	Maximum 5% per issuer	
Corporate Floating Rate and Variable Rate Debt Securities***	Maximum of 25% of Corporate Securities	3%
	Maximum 5% per issuer	
Taxable & tax-exempt municipal debt securities	Maximum of 15% of investment portfolio	1%
	Maximum 5% per issuer	
Dollar denominated debt of foreign governments and the International Bank for Reconstruction and Development (IBRD)	Maximum of 10% of investment portfolio	0%
	Maximum 5% per issuer	
Money Market Mutual Funds****	Maximum of 25% of investment portfolio	11%
		<u>100%</u>

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

**The maximum exposure to Corporate fixed, floating and variable rate debt securities in the Working Capital Portfolio is 35 percent.

Corporate Fixed Income Debt Securities must have a final maturity within one (1) year of purchase, and Corporate Floating Rate or Variable Rate Debt Securities must have a final maturity within two (2) years of purchase

Taxable and Tax-Exempt Municipal Debt Securities must have a final maturity within two (2) years of purchase.

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

For the years ending December 31, 2022, the P&P limits the concentration of investments for the internally managed portfolio at the time new investments are purchased as follows, with year-end concentrations listed for 2022:

Internally Managed Portfolio

Investment Type	Concentration Limit	Holding % at December 31 2022
U.S. Government Securities*	50% to 100% of investment portfolio	85%
Money Market Mutual Funds	0% to 25% of investment portfolio	15%
		<u>100%</u>

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

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

December 31, 2022

(b) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The externally managed portfolios of the Municipal Central Treasury utilize the duration method to measure exposure to interest rate risk.

Duration is a measure of an investment's sensitivity to interest rate changes and represents the sensitivity of an investment's market price to a 1% 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, 2022, the Working Capital Portfolio had a duration of 0.05 years, or approximately 18 days, and was within the targeted duration. At December 31, 2022, the Contingency Reserve Portfolio had a duration of 1.80 years as compared to its benchmark, Barclays 1-3 Year Government Index, which had a duration of 1.86 years. At December 31, 2022, the Strategic Reserve Portfolio had a duration of 3.32 years as compared to its benchmark, Barclays Intermediate Government/Corporate Index, which had a duration of 3.79 years.

(c) Credit Risk

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

At December 31, 2022, the Municipal Central Treasury's investment in marketable debt securities, excluding U.S. Treasuries, totaled \$291,744,019. The distribution of ratings on these securities was as follows:

Moody's		S&P	
Aaa	8%	AAA	4%
Aa	2%	AA	6%
A	20%	A	19%
Baa	20%	BBB	22%
Ba or Lower	11%	BB or Lower	10%
Not Rated	39%	Not Rated	39%
	100%		100%

(d) Concentration of Credit Risk

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

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(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.

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, 2022, the Municipality of Anchorage holds deposits in the amount of \$1,353,883 that are not covered by depository insurance and are collateralized with securities held by KeyBank's agent but not in the name of the Municipality of Anchorage.

(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, 2022, all debt obligations held in the Municipal Central Treasury were payable in U.S. Dollars.

(g) Fair Value Measurements

At December 31, 2022, the Municipality had the following cash and investments, valued as follows:

- Asset-backed securities are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.
- Bank loan investment funds are valued at net Asset Value (NAV) of units held. The NAV is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liability.
- Certificates of deposit are valued at the daily price quoted by the financial institution holding the investment for the Municipality.
- Commercial paper is valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.
- Domestic equities are valued at the closing price reported on the active market on which the individual securities traded.

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MUNICIPALITY OF ANCHORAGE, ALASKA
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December 31, 2022

- Fixed income securities, including corporate bonds, are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.
- Commingled funds are valued at NAV of units held. The NAV is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liability. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV.
- Domestic equity funds are valued at the closing price reported on the active market on which the individual funds traded.
- Emerging market debt funds are valued at the closing price reported on the active market on which the individual funds traded.
- Fixed income funds are valued at the closing price reported on the active market on which the individual funds traded.
- Fixed income funds (MOA Trust) are valued at NAV of units held. The NAV is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liability.
- International equity funds are valued at the closing price reported on the active market on which the individual funds traded.
- Municipal bonds are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.
- Real estate funds are valued at NAV of units held. The NAV is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liability. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV.
- Repurchase agreements are valued at the daily closing price as reported using the daily price quoted by the financial institution holding the investment for the Municipality.
- U.S. treasuries are valued at the closing price reported on the active market on which the individual securities traded.
- U.S. agencies are valued using pricing models maximizing the use of observable inputs for similar securities.
- Repurchase agreements are valued at the daily closing price as reported using the daily price quoted by the financial institution holding the investment for the Municipality.

The Municipality utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Municipality determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principle or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: quoted prices for identical assets or liabilities in active markets
- Level 2 Inputs: quoted prices for similar assets or liabilities in active or inactive markets; or inputs other than quoted prices that are observable

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

December 31, 2022

- Level 3 Inputs: significant unobservable inputs for assets or liabilities

The Municipality categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Municipality has the following recurring fair value measurements as of December 31, 2022:

Investment Type:	December 31, 2022	Fair Value Measurements Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Interim Rate Escrow	896,335	—	—
Central Treasury - Unrestricted:			
Investments Measured at Fair Value:			
Commercial Paper	18,854,955	—	18,854,955
U.S. Treasuries	138,538,863	138,538,863	—
U.S. Agencies	100,017,438	—	100,017,438
Municipal Bonds	1,700,731	—	1,700,731
Asset-Backed Securities	20,242,516	—	20,242,516
Corporate Fixed Income Securities	156,818,950	—	156,818,950
	<u>436,173,453</u>	<u>138,538,863</u>	<u>297,634,590</u>
Investments Measured at Amortized Cost:			
Money Market Funds	29,453,454		
Repurchase Agreements	64,023,338		
Certificates of Deposits	650,075		
Total Central Treasury	<u>\$ 530,300,320</u>		

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Notes to Basic Financial Statements

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(5) Net Position

Net position invested in capital assets is comprised of:

Capital assets, net of depreciation and amortization	\$	568,052,787
Less: Capital accounts payable		1,606,136
Revenue bonds payable, including unamortized premium		116,130,628
Less: Unamortized loss on refunded bonds		(1,682,642)
Less: Unspent debt proceeds		(17,433,361)
Lease obligations maturing within one year		3,811
Alaska Drinking Water Fund loans payable, long-term		90,671,355
Loans payable - other		1,000
Long-term obligations maturing within one year		14,432,934
Leases payable, long-term		94,038
Contributions in aid of construction, net		<u>188,508,210</u>
Net investment in capital assets	\$	<u><u>175,720,678</u></u>

(6) Environmental Issues

The Utility is working with the Alaska Department of Environmental Conservation (ADEC) on the following site:

AWWU Boston St & E 11th Court R/W (ADEC File#2100.38.584)

In September 2019, contaminated soil and groundwater was encountered during the removal and replacement of a water line rehabilitation project. The water line rehabilitation project was completed in October of 2020. It is unlikely that ADEC will require additional testing or monitoring to receive a cleanup complete status and if monitoring was required it would be minimal. Cleanup complete status from ADEC is expected in 2023.

The Utility uses the expected cash flow technique to measure the liability. The Utility expects administrative and project closeout costs for the contaminated site and multiplied those outlays by their probability of occurring to estimate a pollution remediation obligation of \$1,100 as of December 31, 2022. The potential for material change in the estimate is possible depending upon the response received from the ADEC.

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MUNICIPALITY OF ANCHORAGE, ALASKA
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December 31, 2022

(7) Long-Term Obligations

(a) Long-Term Obligations Issued

The Utility has three types of long-term obligations: bonds, low interest loans from the State of Alaska Department of Environmental Conservation and a commercial bank loan.

The total bond principal outstanding on December 31, 2022, is \$111,197,512 comprised of, \$5,000,000 in 2017 Revenue Bond Series A, \$84,360,000 in 2017 Revenue Bond Series B, \$2,385,000 in 2017 Revenue Bond Series C and \$19,452,512 in 2022 Revenue Bond Series A. The Utility issues revenue bonds to provide funds for capital construction and refunding of earlier debt issues. The 2017 Series B bonds were issued as 30-year serial bonds with varying amounts of principal maturing each year. The bonds are payable solely from and secured by a lien and charge on gross Utility revenues and cash on hand in the Water Utility Fund, subject only to payment of Utility operating expenses. The 2017 revenue bond covenants stipulate that net revenues equal at least 1.15 times the debt service requirements each fiscal year. At December 31, 2022, the Utility satisfied the debt service requirements. In April 2020, the Utility requested an interest rate lock for the conversion of the Series A 2017 bond to a fixed interest rate of 1.96%. In July of 2022, Revenue Bonds Series A were issued as 10-year revenue bonds to be used to refund a portion of the outstanding Subordinate Lien Note totaling \$20,269,887 on December 31, 2021. The 2022 Revenue Bond Series A was issued similar to the Series B from 2017. The bonds are payable solely from and secured by a lien and charge on gross Utility revenues and cash on hand in the Water Utility Fund, subject only to payment of Utility operating expenses and the same debt service requirement.

The Utility obtains low interest loans from the State of Alaska Department of Environmental Conservation Drinking Water Fund to fund capital improvement projects. These loans were issued on a per project basis until 2019 when the Programmatic Financial (ProFi), an annual loan, began being issued. The loans issued per project enter repayment status one year after initiation of operation of the facilities with loan terms included in the contract. The loans issued annually go into repayment the following year. These loans have repayment terms of up to 20 years. The Utility obtained no additional State of Alaska loans in 2022. The total amount payable on December 31, 2022, was \$98,601,654.

In 2019, the Utility increased the 2019A Short Term Borrowing Program (STBP) loan agreement with a commercial bank to \$30,000,000. At December 31, 2022, the Utility has a loan balance of \$1,000. On July 14, 2022, the Utility refunded a large portion of the Subordinate Lien Note using the above referenced 2022 Series A Revenue Bond. Effective May 16, 2021, the Utility amended the 2019A STBP. Key changes in the amendment extended the mandatory prepayment to March 1, 2023 from May 15, 2021; changed the interest rate from being based on London Interbank Offered Rate (LIBOR) to Secured Overnight Financing Rate (SOFR); the loan commitment amount may now exceed \$30,000,000 if requested by the Utility and subject to lender approval; and repayment in full will trigger closure of the loan. Under the terms of the loan agreement, the Utility pays fees quarterly of 0.1% per annum based upon the balance authorized, but not drawn, calculated on a weekly basis. Throughout 2022, the interest rate on the loan varied.

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Long-term obligations outstanding at December 31, 2022, follow:

Description	Original Issue Date	Total Authorized Amount	Interest Rates	Maturity Range	Principal Balance December 31, 2022
Revenue bonds:					
2017 Water Bond Series A	7/5/17	\$ 10,000,000	1.96%	2018 - 2027	\$ 5,000,000
2017 Water Bond Series B	10/5/17	88,660,000	3.00-5.00%	2018 - 2047	84,360,000
2017 Water Bond Series C	10/5/17	13,915,000	1.432-2.450%	2018 - 2023	2,385,000
2022 Water Bond Series A	7/14/22	21,000,000	3.56%	2022-2032	19,452,512
Total bonds principal		<u>133,575,000</u>			<u>111,197,512</u>
Unamortized premium		—			<u>11,435,750</u>
Total revenue bonds		<u>133,575,000</u>			<u>122,633,262</u>
Direct borrowings - revolving loans:					
127261 19th Spenard upgrade	9/16/08	770,000	1.50%	2010 - 2029	308,000
127331 68th Pebble-Baby Bear	9/30/08	300,000	1.50%	2009 - 2028	90,000
127361 Christen Dr upgrade	9/8/09	1,350,000	1.50%	2010 - 2029	472,500
127381 South addition woodstave upgrd	8/27/01	1,000,000	1.50%	2004 - 2023	92,841
127411 Loop wtr trans main phase VI	3/2/01	5,000,000	1.50%	2002 - 2021	-
127441 Daryl Industry Way	9/30/08	420,000	1.50%	2011 - 2030	168,000
127461 DeBarr-Klevin-Hoyt upgrade	12/4/09	1,000,000	1.50%	2010 - 2029	350,000
127471 SCADA water	8/4/04	4,000,000	1.50%	2006 - 2025	685,182
127491 Girdwood wtr supply imprvmnts	6/23/04	2,135,300	1.50%	2010 - 2029	701,983
127531 Loop wtr trans main phase IV	10/31/06	12,500,000	1.50%	2010 - 2029	4,307,153
127541 SCADA water II	12/1/04	6,500,000	1.50%	2009 - 2028	1,625,000
127571 88th Ave wtr trans main	10/31/06	2,000,000	1.50%	2009 - 2028	555,209
127581 Pine Debarr San Rob wtr upgrd	9/8/07	1,000,000	1.50%	2010 - 2029	348,006
127731 Arctic 32nd - 36th wtr upgrd	11/24/06	734,806	1.50%	2009 - 2028	121,270
127771 East Bluff upgrade	10/9/06	492,000	1.50%	2009 - 2028	95,329
127781 Sullivan-Ben Boeke wtr upgrd	10/9/06	4,000,000	1.50%	2008 - 2027	547,438
127791 Hiland Rd water intertie	6/25/10	8,700,000	1.50%	2011 - 2030	3,480,000
127811 Island-Kodiak Kalgin water	6/7/10	620,000	1.50%	2011 - 2030	228,216
127831 Klatt Rd - NSH-PZ intertie	9/10/07	621,600	1.50%	2008 - 2027	153,350
127851 Northern Comm. extension	6/3/08	3,150,000	1.50%	2013 - 2032	631,095
127861 So. Anchorage wtr extension	10/12/11	3,427,000	1.50%	2013 - 2032	1,713,500
127871 Debarr-Muldoon-Turpin upgrd	9/28/07	3,992,000	1.50%	2009 - 2028	1,062,159
127901 SCADA water III	9/7/07	5,300,000	1.50%	2009 - 2028	1,325,000
127931 Hillside Transmission Main	7/10/08	9,500,000	1.50%	2011 - 2030	3,800,000
127941 2006 Misc Water Projects	4/8/08	846,000	1.50%	2008 - 2027	277,312
127961 NE Improvements Phase I	7/8/08	1,840,000	1.50%	2010 - 2029	325,187
127991 Sand Lake Wtr Extension	2/10/10	400,000	1.50%	2011 - 2030	112,288
130141 Calais Subdivision Wtr Rehab	10/8/14	3,200,000	1.50%	2018 - 2037	1,881,044
130151 Knik View Intertie	7/21/08	1,000,000	1.50%	2011 - 2030	322,176
130161 Norm-Newt Drive	12/17/08	1,768,400	1.50%	2010 - 2029	618,940
130181 Ship Creek WTF Improvements	10/3/14	14,000,000	1.50%	2020 - 2039 *	11,117,061
130221 San Ernesto Upgrade	12/17/08	1,700,000	1.50%	2010 - 2029	548,526
130241 South Addition Phase IV Proj	2/2/09	1,400,000	1.50%	2010 - 2029	407,511

Long-term obligations continued on next page.

(Continued)

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

Notes to Basic Financial Statements

December 31, 2022

Description	Original Issue Date	Total Authorized Amount	Interest Rates	Maturity Range	Principal Balance December 31, 2022
Direct Borrowings - revolving loans, continued:					
130271 Well 7 Capacity Upgrade	2/28/11	\$ 2,000,000	1.50%	2011 - 2030	\$ 710,307
130331 Seward Hwy Northern Lts Blvd	12/5/12	1,100,000	1.50%	2014 - 2033	550,000
130341 Bayshore Subdv Wtr Upgrade	9/23/14	6,000,000	1.50%	2018 - 2037	2,526,642
130351 North Sitka Water Upgrade	4/13/12	1,300,000	1.50%	2016 - 2035	845,000
130371 ARRC Yard 12" Wtr Rehab	10/8/14	2,700,000	1.50%	2018 - 2037	1,893,570
130401 Wonder PK Water Upgrd PHII	4/24/13	2,500,000	1.50%	2017 - 2036	1,750,000
130411 Sand Lake Area Wtr Ph II	11/16/12	900,000	1.50%	2014 - 2033	469,301
130431 68th Ave Redhawk Intertic	12/4/09	700,000	1.50%	2010 - 2029	221,355
130441 3000 Arctic HVAC Upgrade	6/24/11	1,100,000	1.50%	2012 - 2031	471,041
130471 DOWNTOWN CIPP WTR UPGRADE	10/15/10	1,755,000	1.50%	2011 - 2030	636,728
130511 Reservoir 3&4 Circulation line	9/9/19	1,000,000	1.50%	2019 - 2038	561,035
130541 AARC Yard 16" Rehab Project	10/15/18	3,500,000	1.50%	2020 - 2039	2,423,082
130551 AWWU Lake Otis 42nd	11/2/18	2,700,000	1.50%	2020 - 2039	2,293,368
130561 41st Cope Northstar Water	3/14/12	1,900,000	1.50%	2014 - 2033	740,305
130661 West 8th at L Street Upgrades	10/31/18	560,000	1.50%	2020 - 2039	257,095
130841 Girdwood Wtr Improv	12/14/11	2,000,000	1.50%	2013 - 2032	900,000
130921 Golden View Reservoir	2/2/11	4,381,000	1.50%	2011 - 2030	1,123,551
130941 Ship Crk WTF Heat Exchange	11/1/12	8,700,000	1.50%	2018 - 2037	6,960,000
131021 G Street - 7th Water Main	12/29/10	525,000	1.50%	2011 - 2030	200,987
131031 Eklutna WTF Roof & Window	6/7/10	2,000,000	1.50%	2011 - 2030	622,442
131041 Calais Subdivision Water Rehab	11/9/17	450,000	1.50%	2020 - 2039	90,000
131131 347 Zone Conversion Project	11/14/17	750,000	1.50%	2020 - 2039	600,000
131151 Wesleyan Dr-Checkmate Wtr Rehab	12/16/16	3,300,000	1.50%	2020 - 2039	2,445,389
131161 Wesleyan Bragaw Wtr Rehab	11/7/17	5,000,000	1.50%	2020 - 2039	2,131,637
131281 Ship Creek WTF Roof	3/23/11	1,300,000	1.50%	2011 - 2030	452,297
131441 San Roberto-Klevin/Hoyt Wtr Upgrd	10/6/14	900,000	1.50%	2016 - 2035	479,391
131451 22nd Ave-Wayune-Ililian Water Rehab	2/4/15	1,500,000	1.50%	2017 - 2036	947,938
131461 Denali Wtr Rehab	10/5/16	1,500,000	1.50%	2017 - 2036	1,050,000
131531 E 43rd Thorne Dale to Piper Water Rehal	6/21/18	1,333,783	1.50%	2018 - 2037	1,031,085
131541 Jillcrest Drive Water Rehab	6/21/18	400,000	1.50%	2018 - 2037	329,389
131551 SW 260 Zone Capacity Improvement	6/21/18	851,000	1.50%	2018 - 2037 *	443,352
131561 East 3rd Ave Latouche Intra Rehab	6/21/18	720,000	1.50%	2018 - 2037	576,000
131581 Terminal Road Rehab	6/27/18	1,650,000	1.50%	2018 - 2037	1,402,500
AWUD19 - Pro Fi	5/6/20	10,000,000	1.50%	2020 - 2039	9,000,000
AWUD21 - Pro Fi	5/19/21	13,679,569	1.50%	2021 - 2040 *	12,995,592
Total direct borrowings - revolving loans		<u>195,322,458</u>			<u>98,601,655</u>
Direct borrowings-loans payable:					
Key Government Financing Loan	5/16/19	<u>30,000,000</u>	1.85%	2023	<u>1,000</u>
Total long-term debt, net		<u>\$ 358,897,458</u>			<u>\$ 221,235,917</u>

* Direct borrowing revolving loan repayment is not due. Repayment will begin one year following initiation of operation of all phases.

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

Notes to Basic Financial Statements

December 31, 2022

(b) Pledged Revenue Disclosure

The Utility has pledged future customer revenues, net of specified operating expenses, to repay Utility revenue bonds. Proceeds from the bonds provided financing for construction and other capital improvements. The bonds are payable solely from customer net revenues and are payable through 2047. The total principal and interest remaining to be paid on the bonds at December 31, 2022, was \$157,269,694. Principal and interest paid for the year ended December 31, 2022, was \$10,013,954. Total customer net revenues for the year ended December 31, 2022, was \$30,193,316.

(c) 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 three 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	
2020	\$ 65,576,197	428,995	35,977,170	30,028,022	4,135,000	4,657,907	8,792,907	3.42
2021	66,595,961	303,012	37,238,490	29,660,483	4,240,000	4,556,536	8,796,536	3.37
2022	67,312,970	225,947	37,345,601	30,193,316	5,299,874	4,714,080	10,013,954	3.02

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

(d) Total Debt Service Coverage Requirements

The Utility is required to maintain a minimum Total Debt Service Coverage, per terms of the loan agreements. 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	
2020	\$ 65,576,197	428,995	35,977,170	30,028,022	10,294,143	5,992,283	16,286,426	1.84
2021	66,595,961	303,012	37,238,490	29,660,483	12,268,822	6,046,454	18,315,276	1.62
2022	67,312,970	225,947	37,345,601	30,193,316	13,337,602	6,091,417	19,429,019	1.55

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

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

Notes to Basic Financial Statements

December 31, 2022

(e) Debt Service Requirements

Debt service requirements to maturity follow:

Year	Revenue Bonds		Loans from Direct Borrowings		Total
	Principal	Interest	Principal	Interest	
2023	\$ 6,502,634	4,984,585	7,930,301	1,426,437	20,843,957
2024	6,132,634	4,758,999	8,434,342	1,351,733	20,677,708
2025	6,307,634	4,507,877	8,392,025	1,225,217	20,432,753
2026	6,752,634	4,241,257	8,160,910	1,099,337	20,254,138
2027	6,957,632	3,958,386	8,161,609	976,923	20,054,550
2028 - 2032	36,029,344	14,934,203	29,903,204	3,219,134	84,085,885
2033 - 2037	34,425,000	6,497,375	18,673,462	1,448,223	61,044,060
2038 - 2042	3,540,000	1,597,750	8,945,802	275,597	14,359,149
2043 - 2047	4,550,000	591,750	—	—	5,141,750
Total	111,197,512	46,072,182	98,601,655	11,022,601	266,893,950
	11,435,750		—		Unamortized Premiums
	\$ 122,633,262		98,601,655		Total

(f) Changes in Long-Term Obligations

Changes in long-term obligations for the year ended December 31, 2022, follow:

Description	December 31, 2021	Additions	Deletions	December 31, 2022	Amounts Due Within One Year
Revenue bonds, net	\$ 96,095,000	20,402,386	(5,299,874)	111,197,512	6,502,634
Direct borrowing - revolving loans	106,639,382	—	(8,037,727)	98,601,655	7,930,300
Direct borrowing - loans payable	20,269,887	—	(20,268,887)	1,000	—
Total debt	223,004,269	20,402,386	(33,606,488)	209,800,167	14,432,934
Unamortized premiums	12,601,378	—	(1,165,628)	11,435,750	—
Total debt, net	235,605,647	20,402,386	(34,772,116)	221,235,917	14,432,934
Leases payable	—	104,380	(6,531)	97,849	3,811
Compensated absences payable	1,819,996	1,122,493	(1,177,097)	1,765,392	997,761
Pollution remediation obligation	1,000	100	—	1,100	1,100
Total long-term, net	\$ 237,426,643	21,629,359	(35,955,744)	223,100,258	15,435,606

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

Notes to Basic Financial Statements

December 31, 2022

(8) Leases

The Utility has adopted the Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, which establishes a single comprehensive model for lease accounting for state and local governments based upon the principal that leases are financings of the right to use an underlying asset. This statement requires recognition of certain lease assets and lease liabilities that previously were classified as operating leases, and inflows of resources or outflows of resources based upon the payment provisions of the contract.

The adoption of GASB 87 resulted in the recognition of lease liabilities of \$137,229 and corresponding lease right-of-use assets of \$104,380, and a recognition of lease receivables of \$1,928,390 and corresponding deferred inflow of resources as of the date of adoption. The Utility has also implemented policies and procedures to ensure compliance with the new lease accounting requirements under GASB 87 going forward. The Utility made a conservative assumption when implementing GASB 87 that when the lease is expected to extend beyond the initial term the cancelability is not applicable.

(a) Utility as Lessee

The Utility is committed under various leases for land. As of December 31, 2022, the Utility has three lessee financing leases. Under GASB 87, an implicit interest rate is calculated for leases based on their term. The method is to use the sum of 1) the last U.S. Treasury Yield most applicable to the lease term on December 31 of the prior year, and 2) a spread.

The Utility has a total of four lessee leases of which three qualify as financing leases under GASB 87. While one does not. GASB 87 was implemented on January 1, 2022.

The intangible right-to-use assets associated with the lessee leases comprise land used for storage to supplement Ship Creek and fire flow, Girdwood wells, and the Hiland intertie.

The Utility's schedule of future minimum payments for these financing lease liabilities is as follows:

<u>Year</u>	<u>Leases Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 3,811	2,896	6,707
2024	3,916	2,791	6,707
2025	4,024	2,683	6,707
2026	4,135	2,572	6,707
2027	4,249	2,458	6,707
2028 - 2032	23,076	10,459	33,535
2033 - 2037	26,454	7,080	33,534
2038 - 2042	10,222	3,965	14,187
2043 - 2047	6,572	2,777	9,349
2048 - 2052	7,844	1,506	9,350
2053 - 2057	3,546	193	3,739
Total	<u>\$ 97,849</u>	<u>39,380</u>	<u>137,229</u>

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

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(b) *Utility as Lessor*

The Utility is committed under various leases for land. As of December 31, 2022, the Utility has eighteen lessor financing leases. Under GASB 87, an implicit interest rate is calculated for leases based on their term. The method is to use the sum of 1) the last U.S. Treasury Yield most applicable to the lease term on December 31 of the prior year, and 2) a spread and, 3) an additional spread to reflect the cost of Utility resources used in managing the lease equal to 1%.

The Utility has a total of nineteen lessor leases of which eighteen qualify as financing leases under GASB 87, while one lease does not. GASB 87 was implemented on January 1, 2022. The lease receivable associated with the lessor leases is for land used for cell tower access.

(c) *Cancellation*

The Utility has issued debt for which the principal and interest payments are secured by the Utility's gross revenues, which include lease principal and interest revenues. The cancellation terms vary depending on the lease.

(9) Pensions

All regular full-time Utility employees participate in the State of Alaska Public Employees' Retirement System (PERS). All pension obligations of the Utility are included in the financial statements.

(a) *Defined Benefit Pension Plan*

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. 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 Postemployment Benefits (OPEB). A complete benefit comparison chart is available at the website noted below.

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**MUNICIPALITY OF ANCHORAGE, ALASKA
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The Plan is included in an annual comprehensive 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 July 1, 2006. New employees hired after that date participate in the PERS IV Defined Contribution (DC) Plan described later in this 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 defined benefit 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 wages, including wages paid to participants of the PERS Tier IV defined contribution plan described later in this note.

Alaska Statutes require 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 (ARM) 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 and AS 39.35.280 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% of their annual covered salary.

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

Notes to Basic Financial Statements

December 31, 2022

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 in 2039.

State 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. In the Utility's financial statements, the on-behalf amounts reflect revenue and expense only during the measurement period, in which the Plan recognizes the payments, resulting in a significant timing difference between the cash transfers and revenue and expense recognition. Total on-behalf amounts recognized as of the measurement period are actuarially calculated.

Contribution rates for the years ended June 30, 2022 and June 30, 2023, were determined in the June 30, 2020, and June 30, 2021, actuarial valuations, respectively. Utility contribution rates for the 2022 calendar year were as follows:

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

December 31, 2022

January 1, 2022 to June 30, 2022	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate
Pension	22.00%	26.99%	8.11%
Postemployment healthcare - ARHCT (see Note 8)	0.00%	3.12%	0.00%
Total Contribution Rates	22.00%	30.11%	8.11%

July 1, 2022 to December 31, 2022	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate
Pension	22.00%	24.79%	2.79%
Postemployment healthcare - ARHCT (see Note 8)	0.00%	2.84%	0.00%
Total Contribution Rates	22.00%	27.63%	2.79%

In 2022 the Utility's proportionate share of the Municipality's share was 5.17% and was credited with the following contributions into the pension plan.

	<u>Measurement Period</u>	<u>Utility's Fiscal Year</u>
	July 1, 2021 to June 30, 2022	January 1, 2022 to December 31, 2022
Employer contributions (including DBUL) \$	1,717,385	1,849,101
Nonemployer contributions (on-behalf)	919,992	603,827
Total Contributions \$	2,637,377	2,452,928

In addition, employee contributions to the Plan totaled \$320,535 for the year ended December 31, 2022.

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

The Utility's portion of the Municipality's liabilities, pension expense, deferred outflows and inflows of resources related to pensions are based on its share of the Municipality's contributions to the plan in the current year. That proportion is 5.17% at December 31, 2022.

At December 31, 2022, the Utility reported a liability for its proportionate share of the net pension liability (NPL) that reflected a reduction for State pension support provided to the Utility. The amount recognized by the Utility for its proportional share, the related State proportion, and the total were as follows:

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

December 31, 2022

Utility proportionate share of NPL	\$	19,861,449
State's proportionate share of NPL associated with the Utility		<u>5,496,947</u>
Total Net Pension Liability	\$	<u><u>25,358,396</u></u>

The total pension liability for the June 30, 2022, measurement date was determined by an actuarial valuation as of June 30, 2021, rolled forward to June 30, 2022, to calculate the net pension liability as of that date. The Utility'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, 2022, measurement date, the Utility's proportionate share was .38968%, compared to .42205% at the June 30, 2021 measurement date.

The Utility recognized pension expense of \$1,039,926 for the year ended December 31, 2022, of which \$359,090 was recorded as on-behalf revenue and expense for additional contributions paid by the State. At December 31, 2022 the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Measurement Period	
	June 30, 2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ —	—
Changes in assumptions	—	—
Net difference between projected and actual earnings on pension plan investments	567,846	—
Changes in proportion and differences between Utility contributions and proportionate share of contributions	—	—
Utility contributions subsequent to the measurement date	<u>1,002,186</u>	—
Total Deferred Outflows and Deferred Inflows Related to Pensions	<u><u>\$ 1,570,032</u></u>	<u><u>—</u></u>

At December 31, 2022, the \$1,002,186 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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in future years in pension expense as follows:

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

December 31, 2022

Year Ending December 31,	Net Amortization of Deferred Outflows and Deferred Inflows of Resources
2023	\$ (67,509)
2024	(173,039)
2025	(415,398)
2026	1,223,792
Total Amortization	\$ 567,846

Actuarial Assumptions

The total pension liability for the measurement period ended June 30, 2022, was determined by an actuarial valuation as of June 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2022 and adjusted to reflect updated assumptions. The updated demographic and economic assumptions were adopted by the Board in June 2022 based on the results of an actuarial experience study for the period July 1, 2017 to June 30, 2021. The new assumptions were adopted to better reflect expected future experience and are effective June 30, 2022. The assumptions used in the June 30, 2021 actuarial valuation are the same as those used in the June 20, 2020 valuation, except the amount included in the Normal Cost for the administrative expense was updated to reflect the most recent two years of actual administrative expenses paid from defined benefit plan assets.

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

Notes to Basic Financial Statements

December 31, 2022

Inflation	2.50%
Actuarial cost method	Entry Age Normal
Amortization methodology	Layered unfunded accrued actuarial liability, level percent of pay basis
Allocation methodology	Amounts for the June 30, 2021 measurement date were allocated to employers based on the present value of contributions for FY2023-FY2039, as determined by projections based on the June 30, 2020 valuation. The contributions for FY2023 reflect those adopted by the Board on October 11, 2021.
Salary increases	Increases range from 6.75% to 2.85%, based on service.
Investment return / discount rate	7.25%, net of pension plan investment expenses. This is based on an average inflation rate of 2.50% and real rate of return of 4.75%.
Mortality	Pre-commencement mortality rates were based on the Pub-2010 Safety Employee table, amount-weighted, and projected with MP-2021 generational improvement. Deaths are assumed to result from occupational causes 70% of the time. Post-commencement mortality rates for healthy retirees were based on the Pub-2010 Safety Retiree table, amount-weighted, and projected with MP-2021 generational improvement. Post-commencement mortality rates for disabled retirees were based on the Pub-2010 Safety Disabled Retiree table, amount-weighted, and projected with MP-2021 generational improvement. Post-commencement mortality rates for beneficiaries were based on the Pub-2010 Contingent Survivor table, amount-weighted, and projected with MP-2021 generational improvement. These rates are applied only after the death of the original member. Pre-commencement mortality rates were based on the Pub-2010 General Employee table, amount-weighted, and projected with MP-2021 generational improvement. Deaths are assumed to result from occupational causes 35% of the time. Post-commencement mortality rates for healthy retirees were based on 98% of male and 106% of female rates of the Pub-2010 General Retiree table, amount-weighted, and projected with MP-2021 generational improvement. Post-commencement mortality rates for disabled retirees were based on the Pub-2010 Non-Safety Disabled Retiree table, amount-weighted, and projected with MP-2021 generational improvement. Post-commencement mortality rates for beneficiaries were based on 102% of male and 108% of female rates of the Pub-2010 Contingent Survivor table, amount-weighted, and projected with MP-2021 generational improvement. These rates are applied only after the death of the original member.

Long Term Expected Rate of Return

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, excluding the inflation component of 2.5%, for each major asset class are included in the pension plan's target asset allocation.

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**MUNICIPALITY OF ANCHORAGE, ALASKA
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Those estimate as of the measurement period ended June 30, 2022, is summarized as follows:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation	Range
Broad domestic equity	6.51%	27%	+/- 6%
Global equity (non-U.S.)	5.70%	18%	+/- 4%
Aggregate bonds	0.31%	21%	+/- 10%
Opportunistic	0.00%	6%	+/- 4%
Real assets	3.71%	14%	+/- 7%
Absolute return	9.61%	14%	+/- 6%
Cash equivalents	-0.50%	0%	+/-0%

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent. The prior measurement date used a discount rate of 7.38%. 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 in accordance with GASB Statement No. 67.

Discount Rate Sensitivity

The following presents the Utility's proportionate share of the net pension liability calculated using the current discount rate of 7.25%, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower, 6.25%, or 1-percentage-point higher, 8.25%:

	Proportional Share	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Utility's proportionate share of the net pension liability	0.38968%	\$ 26,737,780	\$ 19,861,449	\$ 14,063,283

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Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report. The pension plan's fiduciary net position has been determined on the same basis used by the pension plan.

(b) Defined Contribution Pension Plan

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, that first enroll after July 1, 2006. The Plan also includes a component of defined benefit postemployment healthcare. 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 an annual comprehensive financial report that includes financial statements and other required supplemental information. That report is available via the internet at <http://doa.alaska.gov/dr/pers>. Actuarial valuation reports, audited financial statements, and other detailed plan information is 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.

Participating employees are immediately and fully vested in their contributions and related earnings (losses). An employee shall be fully vested in the employer contributions made on that employee's behalf, and related earnings (losses), after five years of service. An employee is partially vested in the employer contributions, made on that employee's behalf, and the related earnings, in the ratio of (a) 25% with two years of service; (b) 50% with three years of service; (c) 75% with four years of service; and (d) 100% with five years of service. Employer contributions, and related earnings, that are contributed for employees that are not fully vested before leaving employment are considered forfeited and returned to the employer.

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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. For 2022, the employee contribution rate was 8.00% and the employer contribution rate was 5.00%.

For the year ended December 31, 2022, the Utility contributed \$359,220 to PERS IV for retirement. Employee contributions to the Plan for 2022 totaled \$574,752. Total Defined Contribution forfeitures for the Utility in 2022 were \$13,836.

(10) Other Postemployment Benefits Plans

All regular full-time Utility employees participate in the State of Alaska Public Employees' Retirement System (PERS). All other postemployment benefits (OPEB) obligations of the Utility are included in the financial statements.

(a) Defined Benefit OPEB Plans

Public Employees Retirement System (PERS I-III)

General Information About the Plans

As part of its participation in the PERS Defined Benefit Plan (Tiers I, II, III), which is a cost-sharing multiple employer defined benefit plan, the Utility participates in the Alaska Retiree Healthcare Trust (ARHCT), Retiree Medical Plan (RMP) and Occupational Death and Disability Plan (ODD). The ARHCT is self-funded and provides major medical coverage to retirees of the Defined Benefit Plan. Benefits vary by Tier level. The ARHCT was closed to all new members effective July 1, 2006. The RMP provides major medical coverage to retirees of the PERS Defined Contribution Plan (Tier IV). The RMP is self-insured. Members are not eligible to use this plan until they have at least ten years of service and are Medicare age eligible. The ODD provides death benefits for beneficiaries of plan participants and long-term disability benefits to all active members within PERS. The Plans are administered by the State of Alaska, Department of Administration. 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.

Employer Contribution Rate

The Utility was required to contribute the following percentages of covered payroll into the OPEB plans; for January 1 through June 30, 2022, ARHCT 0%, ODD 0.31%, and RMP 1.07%; for July 1 through December 31, 2022, ARHCT 0%, ODD .30%, and RMP 1.10%. Employees do not contribute. In 2022, the Utility was credited with the following contributions to the OPEB plan:

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	<u>Measurement Period</u> July 1, 2021 to June 30, 2022	<u>Utility's Fiscal Year</u> January 1, 2022 to December 31, 2022
Employer contributions- ARHCT	\$ 300,989	145,420
Employer contributions- RMP	75,426	77,969
Employer contributions- ODD	31,866	32,410
Total Contributions	<u>\$ 408,281</u>	<u>255,799</u>

OPEB Assets and Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB Plans

At December 31, 2022, the Utility reported assets for its proportionate share of the net OPEB assets (NOA) that reflected a reduction for State OPEB support provided to the Utility.

The amount recognized by the Utility for its proportional share, the related State proportion, and the totals were as follows:

Utility's proportionate share of NOA- ARHCT	\$ 7,614,690
Utility's proportionate share of NOA- RMP	155,784
Utility's proportionate share of NOA- ODD	242,038
Subtotal Net OPEB Assets	<u>8,012,512</u>
State's proportionate share of ARHCT NOA associated with the Utility	<u>2,176,626</u>
Total Net OPEB Assets	<u>\$ 10,189,138</u>

For 2022, the total OPEB assets for the June 30, 2022, measurement date were determined by an actuarial valuation as of June 30, 2021, rolled forward to June 30, 2022, to calculate the net OPEB assets as of that date. The Utility's proportion of the net OPEB assets were based on a projection of the Utility's long-term share of contributions to the OPEB plans relative to the projected contributions of all participating entities, actuarially determined. The Utility's proportionate share at the June 30, 2022, measurement date changed from the proportionate share as of June 30, 2021, as shown below.

Utility's proportionate share of the net OPEB liabilities:	Measurement Date June 30, 2021	Measurement Date June 30, 2022	Change
ARHCT	0.42322%	0.38701%	-0.03621%
RMP	0.43092%	0.44856%	0.01764%
ODD	0.53426%	0.55212%	0.01786%

As a result of its requirement to contribute to the Plan and changes in actuarially calculated net OPEB asset and liability, the Utility recognized net OPEB benefit of (\$2,554,190) for 2022. Of this amount, (\$739,384) was recorded for on-behalf revenue and expense for 2022, respectively for actuarially calculated support provided by the State for the ARHCT plan.

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At December 31, 2022, the Utility reported deferred outflows of resources and deferred inflows of resources related to all OPEB plans from the following sources:

	Measurement Period June 30, 2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 7,722	(139,421)
Changes in assumptions	30,163	(537,780)
Net difference between projected and actual earnings on OPEB plan investments	462,426	—
proportionate share of contributions	199,017	(11,590)
Utility's contributions subsequent to the measurement date	56,632	—
Total Deferred Outflows and Deferred Inflows of Resources Related to OPEB	<u>\$ 755,960</u>	<u>(688,791)</u>

Deferred outflows of resources and deferred inflows of resources from each Plan for 2022 are reported from the following sources:

	Measurement Period June 30, 2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>ARHCT</u>		
Difference between expected and actual experience	\$ —	(53,897)
Changes in assumptions	—	(349,449)
Net difference between projected and actual earnings on OPEB plan investments	432,010	—
Changes in proportion and differences between Utility's contributions and	—	—
proportionate share of contributions	188,552	—
Utility's contributions subsequent to the measurement date	37	—
Total Deferred Outflows and Deferred Inflows of Resources Related to ARHCT	<u>\$ 620,599</u>	<u>(403,346)</u>

	Measurement Period June 30, 2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>RMP</u>		
Difference between expected and actual experience	\$ 7,722	(6,122)
Changes in assumptions	30,163	(186,790)
Net difference between projected and actual earnings on OPEB plan investments	22,220	—
Changes in proportion and differences between Utility's contributions and	—	—
proportionate share of contributions	3,597	(290)
Utility's contributions subsequent to the measurement date	40,193	—
Total Deferred Outflows and Deferred Inflows of Resources Related to RMP	<u>\$ 103,895</u>	<u>(193,202)</u>

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Notes to Basic Financial Statements

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	Measurement Period June 30, 2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>ODD</u>		
Difference between expected and actual experience	\$ —	(79,402)
Changes in assumptions	—	(1,541)
Net difference between projected and actual earnings on OPEB plan investments proportionate share of contributions	8,196	—
Utility's contributions subsequent to the measurement date	6,868	(11,300)
Total Deferred Outflows and Deferred Inflows of Resources Related to ODD	\$ 31,466	(92,243)

The \$56,632 reported in 2022 as deferred outflows of resources related to all OPEB plans resulting from contributions made subsequent to the measurement date will be recognized as a reduction in the net OPEB assets in the year ended December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>All Plans</u>	Net Amortization of Deferred Outflows and Deferred Inflows of Resources
Year Ending December 31,	
2023	\$ (325,480)
2024	(191,134)
2025	(385,667)
2026	994,091
2027	(37,166)
Thereafter	(44,107)
Total Amortization	\$ 10,537

Excluding contributions made subsequent to the measurement date, deferred outflows of resources and deferred inflows of resources related to each OPEB plan will be recognized in OPEB expense as follows:

<u>ARHCT</u>	Net Amortization of Deferred Outflows and Deferred Inflows of Resources
Year Ending December 31,	
2023	\$ (287,349)
2024	(151,505)
2025	(341,304)
2026	997,373
Total Amortization	\$ 217,215

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<u>RMP</u>	Net Amortization of Deferred Outflows and Deferred Inflows of Resources
Year Ending December 31,	
2023	\$ (21,655)
2024	(22,742)
2025	(26,173)
2026	3,650
2027	(27,949)
Thereafter	(34,631)
Total Amortization	<u>\$ (129,500)</u>

<u>ODD</u>	Net Amortization of Deferred Outflows and Deferred Inflows of Resources
Year Ending December 31,	
2023	\$ (16,477)
2024	(16,886)
2025	(18,188)
2026	(6,933)
2027	(9,217)
Thereafter	(9,477)
Total Amortization	<u>\$ (77,178)</u>

Actuarial Assumptions

The total OPEB asset for the measurement period ended June 30, 2022, (Utility calendar year 2022) was determined by an actuarial valuation as of June 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2022. The actuarial assumptions used in the June 30, 2021, actuarial valuation were based on the results of an actuarial experience study for the period from July 1, 2017, to June 30, 2021, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience. The assumptions used in the June 30, 2021, actuarial valuation are the same as those used in the June 30, 2020 valuation with the following exceptions:

- Per capita claims costs were updated to reflect recent experience.
- The amount included in the Normal Cost for administrative expenses was updated to reflect the most recent two years of actual administrative expenses paid from postretirement healthcare plan assets.

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Actuarial cost method	Entry age normal actuarial cost method
Amortization method	Layered unfunded accrued actuarial liability, level percent of pay basis
Inflation	2.50%
Salary increases	Graded by service from 6.75% to 2.85%.
Allocation methodology	Amounts for the June 30, 2022 measurement date were allocated to employers based on the projected present value of contributions for FY2022-FY2039, as determined by projections based on the June 30, 2021.
Investment return / discount rate	7.25 percent, net of postemployment healthcare plan investment expenses. This is based on an average inflation rate of 2.50 percent and real rate of return of 4.75 percent.
Healthcare cost trend rates	Pre-65 medical; 7.0% grading down to 4.5% Post-65 medical; 5.5% grading down to 4.5% Prescription drug; 7.5% grading down to 4.5% EGWP: 7.5% grading down to 4.5%
Mortality	Pre-commencement mortality rates were based on the Pub-2010 General Employee table, headcount-weighted, and projected with MP-2021 generational improvement. Post-commencement mortality rates for healthy retirees were based on 101% of male and 110% of female rates of the Pub-2010 General Retiree table, headcount-weighted, and projected with MP-2021 generational improvement. Post-commencement mortality rates for disabled retirees were based on the Pub-2010 Non-Safety disabled Retiree table, headcount-weighted, and projected with MP-2021 generational improvement. Post-commencement mortality rates for beneficiaries were based on 101% (102%) of male and 108% of female rates of the Pub-2010 contingent Survivor table, headcount-weighted, and projected with MP-2021 generational improvement. These rates are applied only after the death of the original member. Deaths are assumed to result from occupational causes 35% of the time.

Long-Term Expected Rate of Return

The long-term expected rate of return on OPEB 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 postretirement healthcare 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, excluding the inflation component of 2.5%, for each major asset class included in the postretirement healthcare plan's target asset allocation as of June 30, 2022 is summarized in the following table:

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Asset Class	Long-term Expected Real Rate of Return	Target Allocation	Range
Broad domestic equity	6.51%	27%	+/- 6%
Global equity (non-U.S.)	5.70%	18%	+/- 4%
Aggregate bonds	0.31%	21%	+/- 10%
Opportunistic	0.00%	6%	+/- 4%
Real assets	3.71%	14%	+/- 7%
Private equity	9.61%	14%	+/- 6%
Cash equivalents	-0.50%	0%	+/-0%

Discount Rate

The discount rate used to measure the total OPEB asset for each plan was 7.25%. 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 OPEB plans' 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB asset in accordance with the method prescribed by GASB Statement No. 75, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*.

Discount Rate Sensitivity

The following presents the Utility's proportionate share of the net OPEB assets and liabilities as of June 30, 2022 calculated using the current discount rate of 7.25%, as well as what the Utility's proportionate share of the net OPEB assets and liabilities would be if they were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Proportional Share	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Utility's proportionate share of the NOA- ARHCT	0.38701%	\$ 4,524,224	\$ 7,614,690	\$ 10,206,323
Utility's proportionate share of the NOA- RMP	0.44856%	(28,654)	155,784	296,434
Utility's proportionate share of the NOA- ODD	0.55212%	227,997	242,038	253,019

Healthcare Cost Trend Rate Sensitivity

The following presents the Utility's proportionate share of the net OPEB assets and liabilities as of June 30, 2022, calculated using the healthcare cost trend rates as summarized in the 2022 actuarial valuation report, respectively, as well as what the respective plans' net OPEB asset and liability would be if it were calculated using trend rates that are one-percentage-point lower or one-percentage-point higher than the current healthcare cost trend rates:

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	Proportional Share	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Utility's proportionate share of the NOA- ARHCT	0.38701%	\$ 10,511,198	\$ 7,614,690	\$ 4,155,701
Utility's proportionate share of the NOA- RMP	0.44856%	315,749	155,784	(59,676)
Utility's proportionate share of the NOA- ODD	0.55212%	N/A	N/A	N/A

OPEB Plans Fiduciary Net Position

Detailed information about the OPEB plans' fiduciary net position is available in the separately issued PERS financial report.

(b) PERS Defined Contribution OPEB Plans

Public Employees Retirement System (PERS IV)

General Information About the Plans

Defined Contribution Pension Plan participants (PERS Tier IV) participate in the Occupational Death and Disability Plan (ODD), and the Retiree Medical Plan (RMP). Information on these plans is included in the comprehensive annual financial report for the PERS Plans noted above. These plans provide for death, disability, and postemployment healthcare benefits.

Employer Contribution Rates

Employees do not contribute to the Defined Contribution OPEB plans. Employer contribution rates for the year ended December 31, 2022 are as follows:

	2022	
	Tier IV	
	1/1 - 6/30	7/1 - 12/31
Employer Contribution Rates:		
Health Reimbursement Arrangement	3.00%	3.00%
Retiree Medical Plan	1.07%	1.10%
Death & Disability Benefit	0.31%	0.30%
Total Employer Contribution Rates	4.38%	4.40%

Health Reimbursement Arrangement

In addition, PERS defined contribution members also participate in the Health Reimbursement Arrangement. AS 39.30.370 establishes this contribution amount as "three percent of the average annual employee compensation of all employees of all employers in the plan". Prior to July 1, 2022, a flat rate of approximately \$2,168 per year for full time employees and \$1.39 per part time hour worked were paid. For pay periods ending after July 1, 2022, a flat rate of approximately \$2,237 per year for full time employees and \$1.43 per part time hour worked were paid.

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**MUNICIPALITY OF ANCHORAGE, ALASKA
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Annual Postemployment Healthcare Cost

For the year ended December 31, 2022, the Utility contributed \$172,574 in Defined Contribution OPEB costs. This amount has been recognized as an expense.

(11) Regulatory Matters

(a) Recurring Rates: Revenue Requirement (2019 Test Year / 2021 Rates)

On December 29, 2020, the Utility filed a revenue requirement study requesting an interim and refundable rate increase of 2.0%, to be effective April 1, 2021. This request was granted by the Regulatory Commission of Alaska (RCA) on February 21, 2021, under Order 1 in Docket U-21-010 for the Utility. On March 7, 2022, the RCA issued Order 8 in the same docket, accepting the Joint Stipulation Resolving Disputed Issues submitted by AWWU and Regulatory Affairs and Public Advocacy (RAPA). The rate increase of 2% for AWU is now permanent and no refunds are to be issued.

(b) Recurring Rates: Cost of Service and Rate Design (2019 Test Year / 2022 Rates)

On March 18, 2021, in Tariff Advice (TA) Letter TA170-122, the Utility requested approval of new permanent rates for the Utility that implement the results of a 2019 test year cost of service and rate design study. On March 7, 2022, the RCA issued Order 5 in AWWU's cost of service docket U-21-016, accepting the Joint Stipulation Resolving Disputed Issues submitted by AWWU and RAPA. The Utility tariff rate restructure and resulting fire protection charges were implemented on customer bills effective April 30, 2022.

(c) Recurring Rates: Revenue Requirement (2020 Test Year / 2022 Rates)

On December 3, 2021, the Utility filed a revenue requirement study requesting an interim and refundable rate increase of 1.75%, to be effective January 18, 2022. This request was granted by the RCA on January 18, 2022, under Order 1 in Docket U-22-002. On February 7, 2023, the RCA issued Order 8 in the same docket, accepting the Joint Stipulation Resolving Disputed Issues submitted by AWWU and Regulatory Affairs and Public Advocacy (RAPA). The rate increase of 1.75% for AWU is now permanent and no refunds are to be issued.

(d) Recurring Rates: Plant Replacement and Improvement Surcharge Mechanism (2021 Test Year)

On December 14, 2022, in Tariff Advice (TA) Letter TA176-122, the Utility requested approval to establish a plant replacement and improvement surcharge mechanism (PRISM) in AWU tariff and to establish an initial AWU PRISM surcharge of 1.85%, to be effective January 30, 2023. On January 20, 2023, the RCA issued Letter Order number L2300016 approving the PRISM in AWU's tariff and the initial AWU PRISM surcharge rate of 1.85%. The PRISM surcharge was implemented on customer bills effective January 30, 2022.

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(12) Earthquake in Anchorage

On November 30, 2018, the Municipality experienced a magnitude 7.1 earthquake located 10 miles north of Anchorage, AK. It was followed by a 5.7 magnitude aftershock centered 2.5 miles north-northwest of the Municipality. The earthquake caused severe damage to roads, bridges, buildings, water and wastewater pipes, and electrical systems. The Utility is actively working with the Federal Emergency Management Agency (FEMA) to recover eligible costs associated with the repair of damage caused by the earthquake on November 30, 2018. The net amount of recoverable expenses included in Regulatory debits is \$2,192,020 at December 31, 2022.

(13) 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 \$3,000,000 per occurrence for automobile and general liability claims and for each workers' compensation claim. No settled claim exceeded this commercial coverage in 2022, 2021 or 2020.

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.

The Utility participates in the Municipality's risk management program and makes payments to the Municipality through inter-governmental charges based on actuarial estimates of amounts needed to pay prior and current year claims. The Utility does not include any portion of the Municipality's claims payable among its liabilities on the Statement of Net Position.

(14) 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.

(15) Subsequent Events

Direct Borrowings – Revolving Loans

Subsequent to December 31, 2022, the Utility requested disbursement of \$8.5 million of the Programmatic Financing (ProFi) from the State of Alaska Drinking Water Fund (ADWF) to be used for capital construction projects.

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(16) New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several new accounting standards with upcoming implementation dates (effective dates are adjusted for the issuance of GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance). The following new accounting standards were considered and/or implemented by the Utility for 2022 reporting:

- GASB 87 – *Leases*. Effective for year-end December 31, 2022, This Statement addresses accounting and financial reporting for certain lease assets and liabilities for leases that previously were classified as operating leases. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Utility analyzed all active leases to determine which leases applied to GASB 87, then accounted for those leases accordingly.

- GASB 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period* . Effective for year-end December 31, 2022. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. For regulated utilities, Allowance for funds used during construction (AFUDC) is capitalized in the financial statements in accordance with GASB Statement No. 62, paragraph 485.

- GASB 92 - *Omnibus 2020*. Provisions of this Statement related to the effective date of Statement No. 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. The effective date for all other provisions of the Statement are to be implemented for year-end December 31, 2022. This Statement addresses a variety of topics such as leases, the applicability of Statement No. 73 and Statement No. 74 for reporting assets accumulated for postemployment benefits, the applicability of Statement No. 84 to postemployment benefit arrangements, the measurements of liabilities and assets related to asset retirement obligations in a government acquisition, reporting of public entity risk pools, referencing to nonrecurring fair value measurements, and terminology used to refer to derivative instruments. The Utility evaluated the impacts of GASB 92 and determined there to be no impact to the Utility’s financial statements for the current fiscal year.

- GASB 93 – *Replacement of Interbank Offered Rates*. The provisions of this Statement, except for paragraph 11b, 13 and 14, are required to be implemented for year-end December 31, 2021. The requirements in paragraph 11b, 13 and 14 are required to be implemented for year-end December 31, 2022. This Statement addresses accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). The Utility evaluated the impacts of GASB 93 and determined there to be no impact to the Utility’s financial statements for the current fiscal year.

(Continued)

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2022

- *GASB 97 – Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* Effective for year-end December 31, 2022, except the portion of the pronouncement related to component unit criteria, which is effective for year-end December 31, 2020. This Statement modifies certain guidance contained in Statement No. 84 and enhances the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The Utility evaluated the impacts of GASB 97 and determined there to be no impact to the Utility’s financial statements for the current fiscal year.

The Governmental Accounting Standards Board has issued several new accounting standards with upcoming implementation dates (effective dates adjusted for the issuance of GASB 95). Management has not fully evaluated the potential effects of these statements, and actual impacts have not yet been determined. The statements are as follows:

- *GASB 91 – Conduit Debt Obligations.* Effective for year-end December 31, 2022. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with commitments extended by issuers, arrangements associated with conduit obligations, and related note disclosures. This Statement clarifies the definition of a conduit debt obligation and establishes standards for related accounting and financial reporting.
- *GASB 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements.* Effective for year-end December 31, 2023. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APA).
- *GASB 96 – Subscription-Based Information Technology Arrangements.* Effective for year-end December 31, 2023. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This Statement, among other things, defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides capitalization criteria for outlays other than subscription payments, and requires note disclosures regarding a SBITA.
- *GASB 99 – Omnibus 2022.* Provisions of this Statement related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, classification of certain provisions in Statement No. 34, as amended, and terminology updates related to Statement No. 53 and Statement No. 63 are effective upon issuance. The effective date for the provisions of this Statement related to leases, PPPs, and SBITAs are to be implemented for year-end December 31, 2023. The effective date for the provisions of this Statement related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53, are to be implemented for year-end December 31, 2024.

(Continued)

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2022

- GASB 100 – *Accounting Changes and Error Corrections*. An amendment of GASB Statement No. 62 – Effective for year-end December 31, 2024. Earlier application is encouraged. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.
- GASB 101 – *Compensated Absences*. Effective for year-end December 31, 2025. Earlier application is encouraged. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.
- GASB 102 – *Certain Risk Disclosures*. Effective for year-end June 30, 2025. Earlier application is encouraged. The objective of this Statement is to provide users of these government financial statements with essential information about risks related to a government’s vulnerabilities due to certain concentrations or constraints. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact.

REQUIRED SUPPLEMENTARY INFORMATION

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

Required Supplementary Information
Pension Plan

December 31, 2022

Schedule of the Utility's Proportionate Share of the Net Pension Liability

Year Ended December 31,	Measurement Period Ended June 30,	Utility's Proportion of the Net Pension Liability	Utility's Proportionate Share of the Net Pension Liability ⁽¹⁾	State of Alaska's Proportionate Share of the Net Pension Liability	Total Net Pension Liability	Utility's Proportion of the Covered Payroll	Utility's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	2022	0.38968%	\$ 19,861,449	\$ 5,496,947	\$ 25,358,396	\$ 12,130,730	163.73%	67.97%
2021	2021	0.42205%	15,482,936	2,097,460	17,580,396	11,450,907	135.21%	76.46%
2020	2020	0.33739%	19,909,963	8,238,657	28,148,620	11,223,720	177.39%	61.61%
2019	2019	0.30589%	16,745,385	6,649,219	23,394,604	10,536,899	158.92%	63.42%
2018	2018	0.34734%	17,259,484	4,998,746	22,258,230	10,492,455	164.49%	65.19%
2017	2017	0.31010%	15,727,387	5,972,279	21,699,666	9,670,842	162.63%	63.37%
2016	2016	0.35241%	19,698,144	2,482,046	22,180,190	9,225,738	213.51%	59.55%
2015	2015	0.28042%	13,600,625	3,642,874	17,243,499	8,854,612	153.60%	63.96%

(1) The Utility's proportionate share of the Net Pension Liability represents the Utility's allocated portion of the Municipality's proportionate share for the given year.

(1) The Utility's proportionate share of the Net Pension Liability represents the Utility's allocated portion of the Municipality's proportionate share for the given year.

Note: This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

Schedule of Utility Contributions

Year Ended December 31,	Measurement Period Ended June 30,	Utility's Proportion of the Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	Utility's Covered Payroll	Contributions as a Percentage of Covered Payroll
2022	2022	\$ 1,849,101	\$ 1,849,101	\$ —	\$ 12,076,031	15.312%
2021	2021	1,602,582	1,602,582	—	11,511,797	13.921%
2020	2020	1,462,561	1,462,561	—	11,009,182	13.285%
2019	2019	1,335,213	1,335,213	—	10,622,250	12.570%
2018	2018	1,422,382	1,422,382	—	10,587,315	13.435%
2017	2017	1,322,886	1,322,886	—	9,919,772	13.336%
2016	2016	1,114,822	1,114,822	—	9,402,941	11.856%
2015	2015	995,274	995,274	—	9,061,450	10.984%

Note: This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying notes to Required Supplementary Information.

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

Notes to Required Supplementary Information
Pension Plan

December 31, 2022

Public Employees' Retirement System - Defined Benefit Pension Plan

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 Utility'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 Proportionate Share of the Net Pension Liability

- This schedule is presented based on the Plan measurement date. For December 31, 2022, the Plan measurement date is June 30, 2022.
- There were no changes in benefit terms from the prior measurement period.
- There was a decrease of 0.13% to the Discount Rate of 7.25% from 7.38% between 2022 and 2021.
- There were no changes in the valuation method or the allocation methodology from the prior measurement period.
- The total pension liability for the June 30, 2022, measurement date was determined by an actuarial valuation as of June 30, 2021. The actuarial assumptions used in the June 30, 2022, actuarial valuation (latest available) were based on the results of an actuarial experience study for the period from July 1, 2017 to June 30, 2021. The assumptions used in the June 30, 2021, actuarial valuation are the same as those used in the June 30, 2020 valuation, except the amount included in the Normal Cost for administrative expenses was updated to reflect the most recent two years of actual administrative expenses paid from defined benefit plan assets.

Schedule of Utility's Contributions

- This Schedule is based on the Utility's contributions for each year presented. A portion of these contributions is included in the plan measurement results, while a portion of the contributions is reported as a deferred outflow of resources on the December 31, 2022, statement of net position.

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

Required Supplementary Information
OPEB Plans

December 31, 2022

**Schedule of the Utility's Proportionate Share of the Net OPEB (Asset) Liability - Alaska Retiree
Healthcare Trust Plan (ARHCT)**

Year Ended December 31,	Measurement Period Ended June 30,	Utility's Proportion of the Net OPEB (Asset) Liability ⁽¹⁾	Utility's Proportionate Share of the Net OPEB (Asset) Liability	State of Alaska's Proportionate Share of the Net OPEB (Asset) Liability	Total Utility Net OPEB (Asset) Liability	Utility's Proportion of the Covered Payroll	Utility's Proportionate Share of the Net OPEB (Asset) Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB (Asset) Liability
2022	2022	0.38701%	\$ (7,614,690)	\$ (2,176,626)	\$ (9,791,316)	\$ 12,130,730	-62.77%	128.51%
2021	2021	0.42322%	(10,857,146)	(1,422,005)	(12,279,151)	11,435,106	-94.95%	135.54%
2020	2020	0.33725%	(1,527,270)	(633,623)	(2,160,893)	11,223,720	-13.61%	106.15%
2019	2019	0.30588%	453,860	180,465	634,325	10,536,899	4.31%	98.13%
2018	2018	0.34727%	3,564,000	1,034,593	4,598,593	10,492,455	33.97%	88.12%
2017	2017	0.31014%	2,619,959	—	2,619,959	9,670,834	27.09%	89.68%

(1) The Utility's proportionate share of the Net OPEB Asset or Liability represents the Utility's allocated portion of the Municipality's proportionate share for the given year.

Note: This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

Schedule of Utility Contributions - Alaska Retiree Healthcare Trust Plan (ARHCT)

Year Ended December 31,	Measurement Period Ended June 30,	Utility's Proportion of the Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	Utility's Covered Payroll	Contributions as a Percentage of Covered Payroll
2022	2022	\$ 145,420	\$ 145,420	\$ —	\$ 12,076,031	1.20%
2021	2021	320,196	320,196	—	11,495,912	2.79%
2020	2020	442,730	442,730	—	11,009,182	4.02%
2019	2019	506,971	506,971	—	10,622,250	4.77%
2018	2018	461,738	461,738	—	10,587,315	4.36%
2017	2017	480,077	480,077	—	9,919,764	4.84%

Note: This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying notes to Required Supplementary Information.

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

Required Supplementary Information
OPEB Plans

December 31, 2022

Schedule of the Utility's Proportionate Share of the Net OPEB (Asset) Liability - Retiree Medical Plan (RMP)

Year Ended December 31,	Measurement Period Ended June 30,	Utility's Proportion of the Net OPEB (Asset) Liability ⁽¹⁾	Utility's Proportionate Share of the Net OPEB (Asset) Liability	State of Alaska's Proportionate Share of the Net OPEB (Asset) Liability	Total Utility Net OPEB (Asset) Liability	Utility's Proportion of the Covered Payroll	Utility's Proportionate Share of the Net OPEB (Asset) Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB (Asset) Liability
2022	2022	0.44856%	\$ (155,784)	\$ —	\$ (155,784)	\$ 12,130,730	-1.28%	120.08%
2021	2021	0.43092%	(115,667)	—	(115,667)	11,435,106	-1.01%	115.10%
2020	2020	0.40997%	29,080	—	29,080	11,223,720	0.26%	95.23%
2019	2019	0.40265%	96,331	—	96,331	10,536,899	0.91%	83.17%
2018	2018	0.40402%	51,411	—	51,411	10,492,455	0.49%	88.71%
2017	2017	0.36534%	19,052	—	19,052	9,670,834	0.20%	93.98%

(1) The Utility's proportionate share of the Net OPEB Asset or Liability represents the Utility's allocated portion of the Municipality's proportionate share for the given year.

Note: This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

Schedule of Utility Contributions - Retiree Medical Plan (RMP)

Year Ended December 31,	Measurement Period Ended June 30,	Utility's Proportion of the Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	Utility's Covered Payroll	Contributions as a Percentage of Covered Payroll
2022	2022	\$ 77,969	\$ 77,969	\$ —	\$ 12,076,031	0.65%
2021	2021	75,867	75,867	—	11,495,912	0.66%
2020	2020	76,796	76,796	—	11,009,182	0.70%
2019	2019	60,021	60,021	—	10,622,250	0.57%
2018	2018	47,646	47,646	—	10,587,315	0.45%
2017	2017	45,108	45,108	—	9,919,764	0.45%

Note: This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying notes to Required Supplementary Information.

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

Required Supplementary Information
OPEB Plans

December 31, 2022

Schedule of the Utility's Proportionate Share of the Net OPEB Asset - Occupational Death and Disability Plan (ODD)

Year Ended December 31,	Measurement Period Ended June 30,	Utility's Proportion of the Net OPEB Asset ⁽¹⁾	Utility's Proportionate Share of the Net OPEB Asset	State of Alaska's Proportionate Share of the Net OPEB Asset	Total Utility Net OPEB Asset	Utility's Proportion of the Covered Payroll	Utility's Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Asset
2022	2022	0.55212%	\$ (242,038)	\$ —	\$ (242,038)	\$ 12,130,730	2.00%	348.80%
2021	2021	0.53426%	(235,464)	—	(235,464)	11,435,106	2.06%	374.22%
2020	2020	0.54467%	(148,478)	—	(148,478)	11,223,720	1.32%	283.80%
2019	2019	0.54049%	(131,042)	—	(131,042)	10,536,899	1.24%	297.43%
2018	2018	0.40402%	(78,469)	—	(78,469)	10,492,455	0.75%	270.62%
2017	2017	0.36534%	(51,838)	—	(51,838)	9,670,834	0.54%	212.97%

(1) The Utility's proportionate share of the Net OPEB Asset represents the Utility's allocated portion of the Municipality's proportionate share for the given year.

Note: This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

Schedule of Utility Contributions - Occupational Death and Disability Plan (ODD)

Year Ended December 31,	Measurement Period Ended June 30,	Utility's Proportion of the Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contributions Contribution Deficiency (Excess)	Utility's Covered Payroll	Contributions as a Percentage of Covered Payroll
2022	2022	\$ 32,410	\$ 32,410	\$ —	\$ 12,076,031	0.27%
2021	2021	29,456	29,456	—	11,495,912	0.26%
2020	2020	26,043	26,043	—	11,009,182	0.24%
2019	2019	22,868	22,868	—	10,622,250	0.22%
2018	2018	17,355	17,355	—	10,587,315	0.16%
2017	2017	10,839	10,839	—	9,919,764	0.11%

Note: This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying notes to Required Supplementary Information.

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

Notes to Required Supplementary Information
OPEB Plans

December 31, 2022

Public Employees' Retirement System - Defined Benefit OPEB Plans

In accordance with GASB Statement No. 85, "Covered Payroll" is defined as payroll on which contributions to the OPEB plans are based. Because a portion of the Utility's contributions to the Plans (the DBUL) are based on Defined Contribution Wages, covered payroll reported here includes all PERS participating wages (both Defined Benefit and Defined Contribution).

Both OPEB schedules discussed below are presented for each of the three PERS OPEB plans; Alaska Retiree Healthcare Trust Plan (ARHCT), Retiree Medical Plan (RMP), and Occupational Death and Disability Plan (ODD).

Schedule of Utility's Proportionate Share of the Net OPEB Asset and Liability

- The Schedules presented are based on the Plan measurement date. For December 31, 2022, the Plan measurement date is June 30, 2022.
- There were no changes in benefit terms from the prior measurement period.
- For 2022, the Discount Rate decreased to 7.25% from 7.38% in 2021.
- The actuarial assumptions used in the June 30, 2021, actuarial valuation (latest available) were based on the results of an actuarial experience study for the period from July 1, 2017 to June 30, 2021. The assumptions used in the June 30, 2021, actuarial valuation are the same as those used in the June 30, 2020, valuation with the following exceptions:
 - The amount included in the Normal Cost for administrative expenses was updated to reflect the most recent two years of actual administrative expenses paid from postretirement healthcare plan assets.
- There were no changes in the valuation method from the prior measurement period.
- There were no changes in the allocation methodology from the prior measurement period. The measurement period ended June 30, 2022, allocated the net OPEB liability and asset based on the present value of contributions for fiscal year 2023 through 2039, as determined by projections based on the June 30, 2021, actuarial valuation.

Schedule of Utility's Contributions

These Schedules are based on the Utility's contributions for each year presented. A portion of these contributions is included in the plan measurement results, while a portion of the contributions is reported as a deferred outflow of resources on the December 31, 2022, statement of net position.

STATISTICAL SECTION

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND
Statistical Section (unaudited)
Table 1
Financial Ratios

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Financial ratios:					
Current ratio (current assets / current liabilities)	2.23	2.55	2.58*	2.84	2.82
Quick ratio (quick assets / current liabilities)	2.07	2.39	2.44*	2.69	2.71
Return on investment (change in net position / total assets)	2.6%	2.1%	1.9%	2.7%	1.6%
Return on equity (change in net position / net position)	7.8%	7.1%	6.4%	10.0%	6.2%
Debt to equity as a percent of capital structure (outstanding debt / capital structure over net position / capital structure)	<u>51%</u> 49%	<u>54%</u> 46%	<u>56%</u> 44%	<u>58%</u> 42%	<u>60%</u> 40%
Operating margin (operating income / operating revenues)	48%	43%	38%	44%	36%
Revenue bond debt coverage (Note 7c) (amount available for revenue bond debt service / revenue bond principal & interest)	3.02	3.37	3.42	3.64	2.85
Total debt coverage (Note 7d) (amount available for total debt service / total principal & interest)	1.55	1.62	1.84	1.81	1.48
Weighted cost of long term debt**	2.62%	2.46%	2.15%*	2.72%	2.61%

* Corrected from 2020 published financial statements.

** 2022 changed to calculating the weighted cost of long term debt using the interest expense by issued debt instead of historically using sum of interest rates multiplied by percentage of total amounts outstanding for bonds, long-term loans and amortization of bond discounts and transaction costs.

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND
 Statistical Section (unaudited)
 Table 2
 Average Number of Accounts

<u>Customer Type</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Residential	52,891	53,130	52,985	52,878	52,840
Commercial	3,679	3,675	3,678	3,683	3,688
Total	<u>56,570</u>	<u>56,805</u>	<u>56,663</u>	<u>56,561</u>	<u>56,528</u>
Growth rate	(0.41%)	0.25%	0.18%	0.06%	

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

Table 3
 Current Rates

Type of Service	2022 ⁽¹⁾	2021 ⁽²⁾	2020 ⁽³⁾	2019 ⁽³⁾	2018 ⁽⁴⁾
Metered: ⁽⁵⁾					
Customer charge (per account)	\$ 9.91	14.71	14.42	14.49	13.54
Meter rate (per meter)					
(Depending on meter size ranging between 5/8" to 8")	6.08 to 324.61	7.31 to 387.70	7.17 to 380.10	7.20 to 381.81	6.73 to 356.83
Volume rate (per 1,000 gallons):					
Residential	8.61	5.68	5.57	5.60	5.23
Multi-Family	5.36				
Commercial	6.50	5.68	5.57	5.60	5.23
Unmetered: ⁽⁶⁾					
Customer charge (per account)	9.91	14.71	14.42	14.49	13.54
Residential (per unit)	46.63	40.91	40.11	40.29	37.65
Multi-Family (per unit)	18.62				
Commercial (per service connection)					
Service Size:					
3/4"	49.75	57.95	56.81	57.06	53.33
1"	116.47	116.82	114.53	115.05	107.52
1 1/2"	404.21	305.45	299.46	300.81	281.13
2"	696.63	556.18	542.33	544.77	509.13

⁽¹⁾ Rates effective 4/30/22. Rate decrease of 1.75% was approved by the RCA on an interim and refundable basis.

⁽²⁾ Rates effective 4/1/21. Rate increase of 2.0% was approved by the RCA on an interim and refundable basis.

⁽³⁾ Rates effective 2/1/19. Rate increase of 7.0% was approved by the RCA on an interim and refundable basis.
 Rate increase of 6.52% was approved by the RCA on 2/25/20 as final and permanent.

⁽⁴⁾ Rates effective 1/8/18. Rate increase of 3.0% was approved by the RCA as final and permanent.

⁽⁵⁾ Approved COSS effective 4/30/22. Metered residential separated into two categories.

⁽⁶⁾ Approved COSS effective 4/30/22. Unmetered residential separated into two categories.

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

Table 4
Revenues and Expenses - Budget to Actual

	2022 Budget	2022 Actual	Variance Favorable / (Unfavorable)	% of Budget
Operating Revenue				
Charges for services	\$ 65,858,000	66,700,083	842,083	101.3%
Miscellaneous	1,103,315	1,390,702	287,387	126.0%
Total Operating Revenue	66,961,315	68,090,785	1,129,470	101.7%
Non Operating Revenue				
Investment income (loss)	494,735	(790,137)	(1,284,872)	-159.7%
Other income	5,000	12,416	7,416	248.3%
Total Non Operating Revenue	499,735	(777,721)	(1,277,456)	-155.6%
Total Revenue	67,461,050	67,313,064	(147,986)	99.8%
Operating Expenses				
Labor				
Labor and Benefits	18,863,866	17,388,471	1,475,395	92.2%
Overtime	453,000	855,487	(402,487)	188.8%
Total Labor	19,316,866	18,243,958	1,072,908	94.4%
Non Labor				
Non Labor	10,121,283	8,591,060	1,530,223	84.9%
Travel	96,700	25,094	71,606	26.0%
Transfers (MUSA and gross receipts)	10,546,098	9,500,923	1,045,175	90.1%
Depreciation and amortization	13,106,740	12,550,516	556,224	95.8%
Amortization of Leased Right to Use Assets	-	5,088	(5,088)	N/A
Total Non Labor	33,870,821	30,672,681	3,198,140	90.6%
Total Direct Cost	53,187,687	48,916,639	4,271,048	92.0%
Charges from other departments	2,489,456	2,278,735	210,721	91.5%
Charges to other departments	(415,157)	(1,049,818)	634,661	252.9%
Total Operating Expense	55,261,986	50,145,556	5,116,430	90.7%
Non Operating Expense				
Interest on bonded debt	5,000,000	4,752,887	247,113	95.1%
Amortization of debt expense	(864,000)	(894,908)	30,908	103.6%
Other interest expense	2,150,000	1,630,724	519,276	75.8%
Allowance for funds used during construction	(700,000)	(665,241)	(34,759)	95.0%
Total Non Operating Expense	5,586,000	4,823,462	762,538	86.3%
Total Expenses	60,847,986	54,969,018	5,878,968	90.3%
Increase in Net Position	6,613,064	12,344,046	5,730,982	186.7%
Non-Budget Items:				
Non Operating Revenue				
Pension On-Behalf		359,080		
OPEB On-Behalf		(739,384)		
Total Non Operating Revenue		(380,304)		
Non Operating Expense				
Pension On-Behalf expense		359,080		
Pension expense (benefit)		(1,934,990)		
OPEB On-Behalf benefit		(739,384)		
OPEB expense (benefit)		(2,553,924)		
Total Non Operating Expense		(4,869,218)		
Change in Net Position		16,832,960		
Appropriation:				
Total Expenses	60,847,986	54,969,018		
Less: Non cash items not appropriated				
Depreciation and amortization	13,106,740	12,555,604		
Amortization of debt expense	(864,000)	(894,908)		
Allowance for funds used during construction	(700,000)	(665,241)		
Total Non-Cash	11,542,740	10,995,455		
Total Appropriated Expenses	\$ 49,305,246	43,973,563	5,331,683	89.2%

MUNICIPALITY OF ANCHORAGE, ALASKA

WATER UTILITY FUND

Statistical Section (unaudited)

Table 5

Debt Principal by Issue

Description	Original Issue Date	Total Authorized Amount	Principal Balance 12/31/2021	2022 New(Retired) Debt	2022 Principal Payments	Principal Balance 12/31/2022	Current Portion
Revenue Bonds, Net							
2017 Water Bonds Series A	07/05/2017	\$ 10,000,000	\$ 6,000,000	\$ —	\$ 1,000,000	\$ 5,000,000	\$ 1,000,000
2017 Water Bonds Series B	10/05/2017	88,660,000	85,375,000	—	1,015,000	84,360,000	1,070,000
2017 Water Bonds Series C	10/05/2017	13,915,000	4,720,000	—	2,335,000	2,385,000	2,385,000
2022 Water Bonds Series A	07/14/2022	21,000,000	—	20,402,386	949,874	19,452,512	2,047,634
Total bonds principal		133,575,000	96,095,000	20,402,386	5,299,874	111,197,512	6,502,634
Unamortized premium		—	12,601,378	—	1,165,628	11,435,750	—
Total Revenue Bonds		133,575,000	108,696,378	20,402,386	6,465,502	122,633,262	6,502,634
Direct Borrowings - Alaska Drinking Water (ADW) Loans							
ADW-127261 19th Spendard Upgr	09/16/2008	770,000	346,500	—	38,500	308,000	38,500
ADW-127331 68th Pebble-Baby Bear	09/30/2008	300,000	105,000	—	15,000	90,000	15,000
ADW-127361 Christen Dr Upgrade	09/08/2009	1,350,000	540,000	—	67,500	472,500	67,500
ADW-127381 S Add Wdstv	08/27/2001	1,000,000	139,262	—	46,420	92,842	46,421
ADW-127411 Loop Ph VI	03/02/2001	5,000,000	77,264	1	77,265	—	—
ADW-127441 Daryl J Industry Way	09/30/2008	420,000	189,000	—	21,000	168,000	21,000
ADW-127461 DeBarr-Klevin-Hoyt Upgrd	12/04/2009	1,000,000	400,000	—	50,000	350,000	50,000
ADW-127471 SCADA Wtr	08/04/2004	4,000,000	906,858	—	221,677	685,181	225,002
ADW-127491 Grdwd Wtr	06/23/2004	2,135,300	802,266	—	100,283	701,983	100,283
ADW-127531 Loop Ph IV	10/31/2006	12,500,000	4,922,461	—	615,308	4,307,153	615,308
ADW-127541 SCADA WTR II	12/01/2004	6,500,000	1,950,000	—	325,000	1,625,000	—
ADW-127571 88th Ave Main	10/31/2006	2,000,000	647,744	—	92,535	555,209	92,534
ADW-127581 Pine Debarr upgr	09/08/2007	1,000,000	391,506	—	43,501	348,005	43,501
ADW-127731 Arctic 32-36th	11/24/2006	734,806	141,482	—	20,212	121,270	20,212
ADW-127771 Est Bluff Upgrade	10/09/2006	492,000	111,217	—	15,888	95,329	15,888
ADW-127781 Sullivan & Boeke	10/09/2006	4,000,000	656,926	—	109,488	547,438	109,488
ADW-127791 Hiland Road Wtr Intertie	06/25/2010	8,700,000	3,915,000	—	435,000	3,480,000	435,000
ADW-127811 Island-Kodiak Kalgin Wtr	06/07/2010	620,000	256,743	—	28,527	228,216	28,527
ADW-127831 Klatt Rd-NSH-PZ	09/10/2007	621,600	184,020	—	30,670	153,350	30,670
ADW-127851 N_Comm Extension	06/03/2008	3,150,000	701,217	—	70,121	631,096	70,122
ADW-127861 So. Anchorage Wtr Extension	10/12/2011	3,427,000	1,884,850	—	171,350	1,713,500	171,350
ADW-127871 Debarr-Turpin Upgr	09/28/2007	3,992,000	1,213,896	—	151,737	1,062,159	151,737
ADW-127901 SCADA Water III	09/07/2007	5,300,000	1,590,000	—	265,000	1,325,000	—
ADW-127931 Hillside Trans. Main	07/10/2008	9,500,000	4,275,000	—	475,000	3,800,000	475,000
ADW-127941 2006 Misc Wtr Proj.	04/08/2008	846,000	321,170	—	43,857	277,313	44,516
ADW-127961 NE Imprvmnts Phs I	07/08/2008	1,840,000	371,643	—	46,455	325,188	46,455
ADW-127991 Sand Lake Wtr Extension	02/10/2010	400,000	126,323	—	14,035	112,288	14,036
ADW-130141 Calais Subdv Wtr Rehab	10/08/2014	3,200,000	2,006,447	—	125,402	1,881,045	125,403
ADW-130151 Knik View Intertie	07/21/2008	1,000,000	357,973	—	35,797	322,176	35,797
ADW-130161 Norm-Newt Drive	12/17/2008	1,768,400	707,360	—	88,420	618,940	88,420
ADW-130181 Ship Creek WTF Improvements	10/03/2014	14,000,000	11,117,061	—	—	11,117,061	555,853
ADW-130221 San Ernesto Ugrd	12/17/2008	1,700,000	626,887	—	78,361	548,526	78,361
ADW-130241 South Add. Phs. IV Proj.	02/02/2009	1,400,000	465,727	—	58,216	407,511	58,216
ADW-130271 Well 7 Capacity Upgrade	02/28/2011	2,000,000	799,095	—	88,788	710,307	88,789
ADW-130331 Seward Hyw Northern Lts Blvd	12/05/2012	1,100,000	605,000	—	55,000	550,000	55,000
ADW-130341 BayShore Subdv Wtr Upgrade	09/23/2014	6,000,000	2,707,116	—	180,474	2,526,642	180,474
ADW-130351 North Sitka Water Upgrade	04/13/2012	1,300,000	910,000	—	65,000	845,000	65,000
ADW-130371 ARRC Yard 12" Water Rehab	10/08/2014	2,700,000	2,019,808	—	126,238	1,893,570	126,238
ADW-130401 Wonder Pk Water Upgrd Ph II	04/24/2013	2,500,000	1,875,000	—	125,000	1,750,000	125,000
ADW-130411 Sand Lake Area Water Ph II	11/16/2012	900,000	511,965	—	42,664	469,301	42,664
ADW-130431 68th Ave Redhawk Intertie	12/04/2009	700,000	252,978	—	31,622	221,356	31,622
ADW-130441 3000 Arctic HVAC Upgrade	06/24/2011	1,100,000	523,379	—	52,338	471,041	52,338
ADW-130471 Downtown CIPP Wtr Upgrd	10/15/2010	1,755,000	707,475	—	70,748	636,727	70,748
ADW-130511 Reservoir 3&4 Circulation line	09/09/2019	1,000,000	592,203	—	31,169	561,034	31,169
ADW-130541 ARRC Yard 16" Rehab Project	10/15/2018	3,500,000	2,565,616	—	142,534	2,423,082	142,534
ADW-130551 AWWU Lake Otis 42nd	11/02/2018	2,700,000	2,420,778	—	127,409	2,293,369	127,409
ADW-130561 41st Cope Northstar Water	03/14/2012	1,900,000	807,606	—	67,301	740,305	67,301
ADW-130661 West 8th at L Street Upgrades	10/31/2018	560,000	271,378	—	14,283	257,095	14,283
ADW-130841 Girdwood Water Improvement Ph2B	12/14/2011	2,000,000	1,000,000	—	100,000	900,000	100,000
ADW-130921 Golden View Reservoir	02/02/2011	4,381,000	1,263,995	—	140,444	1,123,551	140,444
ADW-130941 Ship Creek WTF Heat Exchanger	11/01/2012	8,700,000	7,395,000	—	435,000	6,960,000	435,000
ADW-131021 G Street 6th - 7th Water Main	12/29/2010	525,000	226,111	—	25,123	200,988	25,124
ADW-131031 Eklutna WTF Roof & Window	06/07/2010	2,000,000	700,248	—	77,805	622,443	77,805
ADW-131041 EWTF_Fac_Plan	11/09/2017	450,000	180,000	—	90,000	90,000	90,000
ADW-131131 347_Zone_Conversion-WTR	11/14/2017	750,000	637,500	—	37,500	600,000	37,500
ADW-131151 Wesleyan Dr-Checkmate Wtr Reha	12/16/2016	3,300,000	2,598,226	—	152,837	2,445,389	152,837
ADW-131161 NLB_Wesleyan-Bragaw_Rehab-WTR	11/07/2017	5,000,000	2,273,746	—	142,109	2,131,637	142,109
ADW-131281 Ship Creek WTF Roof	03/23/2011	1,300,000	508,834	—	56,537	452,297	56,537
ADW-131441 San Roberto-Klevin/Hoyt Wtr	10/06/2014	900,000	516,267	—	36,876	479,391	36,876
ADW-131451 22nd Ave Wayne-Illian Water Rehab	02/04/2015	1,500,000	1,015,648	—	67,710	947,938	67,710
ADW-131461 Denali Wtr Rehab	10/05/2016	1,500,000	1,125,000	—	75,000	1,050,000	75,000
ADW-131531 E 43rd Thorne Dale to Piper Water Rehab	06/21/2018	1,333,783	1,088,367	—	57,283	1,031,084	57,283
ADW-131541 Hillcrest Drive Water Rehab	06/21/2018	400,000	347,689	—	18,299	329,390	18,299
ADW-131551 SW 260 Zone Capacity Improvements	06/21/2018	851,000	467,982	—	24,631	443,351	24,631
ADW-131561 East 3rd Ave Latouche Intra rehab	06/21/2018	720,000	612,000	—	36,000	576,000	36,000
ADW-131581 Terminal Road rehab	06/27/2018	1,650,000	1,485,000	—	82,500	1,402,500	82,500
AWUD19 - Pro Fi SFY19	05/06/2020	10,000,000	9,500,000	—	500,000	9,000,000	500,000
AWUD21 - Pro Fi SFY21	05/19/2021	13,679,569	13,679,569	—	683,981	12,995,588	683,976
Total Direct Borrowings - ADW loans		195,322,458	106,639,382	1	8,037,728	98,601,655	7,930,300
Direct borrowings - other							
Key Government Financing	05/16/2019	30,000,000	20,269,887	(20,268,887)	—	1,000	—
Total long-term debt, net		\$ 358,897,458	235,605,647	133,500	14,503,230	221,235,917	14,432,934

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Statistical Section (unaudited)

Table 6

Revenue Bond Coverage Requirements

Fiscal Year	Revenue (1)	Assessment Collections (2)	Operating Expenses (3)	Amount For Debt Service	Current Year Debt Service Requirements			Coverage (4)
					Principal	Interest	Total	
2013	\$ 59,140,595	248,752	29,938,587	29,450,760	6,015,000	5,785,568	11,800,568	2.50
2014	62,165,080	471,667	30,728,442	31,908,305	4,880,000	5,588,355	10,468,355	3.05
2015	61,488,681	282,443	33,931,325	27,839,799	3,570,000	5,393,402	8,963,402	3.11
2016	61,126,530	532,065	32,848,108	28,810,487	3,710,000	5,243,236	8,953,236	3.22
2017 *	60,286,693	609,626	35,759,018	25,137,301	3,855,000	2,655,579	6,510,579	3.86
2018 *	61,886,218	307,718	35,892,160	26,301,776	4,025,000	5,188,855	9,213,855	2.85
2019	68,602,501	241,257	36,550,617	32,293,141	4,080,000	4,797,440	8,877,440	3.64
2020	65,576,197	428,995	35,977,170	30,028,022	4,135,000	4,657,907	8,792,907	3.42
2021	66,595,961	303,012	37,238,490	29,660,483	4,240,000	4,556,536	8,796,536	3.37
2022	67,312,970	225,947	37,345,601	30,193,316	5,299,874	4,714,080	10,013,954	3.02

- (1) Excludes allowance for funds used during construction and payments received for PERS relief from State of Alaska; but includes nonoperating revenue.
 - (2) Assessment collections represent payments made by benefited property owners.
 - (3) Excludes pension expense, PERS on behalf expense, OPEB on behalf expense, OPEB expense, and depreciation; but includes special items and transfers to other funds excluding Utility revenue distribution
 - (4) Required minimum coverage is 1.15.
- * Revised calculation removing pension and OPEB revenue and expense as stated in sections (1) and (3) above.

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Statistical Section (unaudited)

Table 7

Capital Improvement Program (In Thousands)

	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	Six Year Total
Project category:							
ADOT-MOA Emergency	\$ 1,000	1,000	1,000	1,000	1,000	1,000	6,000
Facility Master Plan	—	—	—	—	350	50	400
Transmission/Distribution	4,127	4,860	7,650	11,172	8,500	5,010	41,319
IT Hardware/Software	1,150	1,375	2,330	475	455	475	6,260
Miscellaneous Equipment	1,300	1,300	1,300	1,300	1,300	1,300	7,800
Other Plant & Facilities	—	—	120	—	—	—	120
Vehicles	1,250	1,250	1,250	1,250	1,500	1,250	7,750
Water Plant	7,285	8,715	1,000	1,000	3,880	1,000	22,880
Total	<u>16,112</u>	<u>18,500</u>	<u>14,650</u>	<u>16,197</u>	<u>16,985</u>	<u>10,085</u>	<u>92,529</u>
Source of funding:							
Debt	1,762	8,500	5,650	9,197	9,985	2,085	37,179
Equity	14,350	10,000	9,000	7,000	7,000	8,000	55,350
Total	<u>\$ 16,112</u>	<u>18,500</u>	<u>14,650</u>	<u>16,197</u>	<u>16,985</u>	<u>10,085</u>	<u>92,529</u>

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Statistical Section (unaudited)

Table 8

Production Comparison by Facility

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Water treatment facilities production system data:					
Produced yearly: ⁽¹⁾					
Ship Creek Facility	904.0	476.0	463.2	298.2	0.0 ⁽³⁾
Anchorage Wells	344.4	31.5	99.2	548.0	762.8
Eklutna Facility	7,043.8	7,457.1	7,754.6	7,841.0	7,215.4
Girdwood Wells	96.4	90.7	119.1	124.1	105.9
Total	<u>8,388.6</u>	<u>8,055.3</u>	<u>8,436.1</u>	<u>8,811.3</u>	<u>8,084.1</u>
Average daily production: ⁽²⁾					
Ship Creek Facility	2.5	1.3	1.3	0.8	0.0 ⁽³⁾
Anchorage Wells	0.9	0.1	0.3	1.5	2.1
Eklutna Facility	19.3	20.4	21.2	21.5	19.8
Girdwood Wells	0.3	0.2	0.3	0.3	0.3
Total	<u>23.0</u>	<u>22.0</u>	<u>23.1</u>	<u>24.1</u>	<u>22.2</u>
Peak daily production: ⁽¹⁾					
Ship Creek Facility	14.4	9.0	9.7	6.3	0.0 ⁽³⁾
Anchorage Wells	9.0	2.1	14.7	17.3	17.3
Eklutna Facility	29.5	29.1	29.4	29.9	25.3
Girdwood Wells	0.6	0.5	0.6	0.7	0.6
Total ⁽⁴⁾	<u>53.5</u>	<u>40.7</u>	<u>54.4</u>	<u>54.2</u>	<u>43.2</u>
Design capacity by source: ⁽²⁾					
Ship Creek Facility	17.7				
Anchorage Wells	18.0				
Eklutna Facility	32.0				
Girdwood Wells	1.3				
Total	<u>69.0</u>				
Miles of water mains:	851	851	849	848	847
Number of hydrants (public):	6,116	6,104	6,088	6,069	6,051

⁽¹⁾ Million Gallons (MG)

⁽²⁾ Million Gallons per Day (MGD)

⁽³⁾ Ship Creek facility treated no water due to ongoing construction and capital improvements.

⁽⁴⁾ Total water contribution coming into the water treatment facilities on a specific day.

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Statistical Section (unaudited)

Table 9

Detailed Schedule of Plant in Service (In Thousands)

	Water Plant				Balance 12/31/22
	Balance 01/01/22	Additions	Retirements	Reclass	
Plant in service:					
Tangible plant:					
Source of supply:					
Source of supply/land	\$ 622	—	—	—	622
Structures & improvements	1,885	—	—	—	1,885
Wells & spring	10,148	44	—	—	10,192
Supply mains	31,963	—	—	—	31,963
Pumping plant:					
Structures & improvements	12,456	—	—	—	12,456
Other power production equipment	146	—	—	—	146
Electric pumping equipment	1,434	49	—	—	1,483
Diesel pumping equipment	149	—	—	—	149
Booster pumping equipment	3,386	—	(29)	—	3,357
Treatment plant:					
Structures & improvements	89,710	98	—	1,826	91,634
Water treatment equipment	28,389	3,375	(1,689)	—	30,075
Transmission plant:					
Transmission & distribution land	5,010	—	—	—	5,010
Structures & improvements	672	—	—	—	672
Distribution reservoir & standpipes	48,562	2,253	—	—	50,815
Protective coatings	8,126	—	—	—	8,126
Transmission & distribution mains	583,851	6,469	—	—	590,320
Cathodic protection	2,769	—	—	—	2,769
Services	29,322	1,059	—	—	30,381
Meters	1,910	—	—	—	1,910
Hydrants	11,254	489	—	—	11,743
Land and land rights	1,237	—	—	—	1,237
General plant:					
Structures & improvements	22,268	18	—	(1,826)	20,460
Office furniture	753	—	(83)	—	670
Computer equipment	3,464	5	—	—	3,469
Vehicles (light duty)	3,030	707	—	—	3,737
Transportation equipment (heavy duty)	4,449	—	—	—	4,449
Store equipment	1,144	—	—	—	1,144
Tools, shop & garage equipment	672	13	(44)	—	641
Laboratory equipment	115	—	(100)	—	15
Power operated equipment	2,268	—	—	—	2,268
Communication equipment	5,205	81	(22)	—	5,264
Miscellaneous equipment	725	21	(85)	—	661
Total tangible plant	917,094	14,681	(2,052)	—	929,723
Intangible plant	6,504	120	—	—	6,624
Total plant in service	923,598	14,801	(2,052)	—	936,347
Plant acquisition adjustment	3,502	—	—	—	3,502
Property held for future use	911	—	—	—	911
Leased right to use assets	—	104	—	—	104
Construction work in progress	13,673	10,640	(12,012)	—	12,301
Total plant	\$ 941,684	25,545	(14,064)	—	953,165

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Statistical Section (unaudited)

Table 9 (Continued)

Detailed Schedule of Depreciation and Amortization (In Thousands)

	Accumulated Depreciation and Amortization				Balance 12/31/22	Net Book Value of Plant
	Balance 01/01/22	Additions	Retirements	Reclass		
Plant in service:						
Tangible plant:						
Source of supply:						
Source of supply/land	\$ —	—	—	—	—	622
Structures & improvements	807	26	—	—	833	1,052
Wells & spring	3,743	236	—	—	3,979	6,213
Supply mains	23,459	230	—	—	23,689	8,274
Pumping plant:						
Structures & improvements	4,789	306	—	—	5,095	7,361
Other power production equipment	84	10	—	—	94	52
Electric pumping equipment	1,276	54	—	—	1,330	153
Diesel pumping equipment	108	7	—	—	115	34
Booster pumping equipment	1,318	99	(29)	—	1,388	1,969
Treatment plant:						
Structures & improvements	32,205	1,218	—	503	33,926	57,708
Water treatment equipment	15,783	564	(1,689)	—	14,658	15,417
Transmission plant:						
Transmission & distribution land	—	—	—	—	—	5,010
Structures & improvements	531	8	—	—	539	133
Distribution reservoir & standpipes	24,183	1,177	—	—	25,360	25,455
Protective coatings	3,627	410	—	—	4,037	4,089
Transmission & distribution mains	202,136	9,717	—	—	211,853	378,467
Cathodic protection	222	111	—	—	333	2,436
Services	19,875	172	—	—	20,047	10,334
Meters	1,736	66	—	—	1,802	108
Hydrants	4,929	256	—	—	5,185	6,558
Land and land rights	—	—	—	—	—	1,237
General plant:						
Structures & improvements	8,874	343	—	(503)	8,714	11,746
Office furniture	294	37	(83)	—	248	422
Computer equipment	861	1,002	—	—	1,863	1,606
Vehicles (light duty)	3,172	238	—	—	3,410	327
Transportation equipment (heavy duty)	2,358	57	—	—	2,415	2,034
Store equipment	462	46	—	—	508	636
Tools, shop & garage equipment	231	30	(44)	—	217	424
Laboratory equipment	96	11	(100)	—	7	8
Power operated equipment	752	80	—	—	832	1,436
Communication equipment	2,694	646	(22)	—	3,318	1,946
Miscellaneous equipment	144	43	(85)	—	102	559
Total tangible plant	360,749	17,200	(2,052)	—	375,897	553,826
Intangible plant	5,346	625	—	—	5,971	653
Total plant in service	366,095	17,825	(2,052)	—	381,868	554,479
Plant acquisition adjustment	3,141	98	—	—	3,239	263
Property held for future use	—	—	—	—	—	911
Leased right to use assets	—	5	—	—	5	99
Construction work in progress	—	—	—	—	—	12,301
Total plant	\$ 369,236	17,928	(2,052)	—	385,112	568,053



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Water Utility Fund, an enterprise fund of the Municipality of Anchorage, Alaska, and the related notes to the financial statements, which collectively comprise the Water Utility Fund’s basic financial statements, and have issued our report thereon dated January 31, 2024.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control, described in the accompanying Schedule of Findings and Responses as items 2022-001, that we consider to be a material weakness.



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Water Utility Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

Water Utility Fund's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Water Utility Fund's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The Water Utility Fund's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Water Utility Fund'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 Water Utility Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, P.C.

Anchorage, Alaska
January 31, 2024

Municipality of Anchorage, Alaska Water Utility Fund

Schedule of Findings and Responses Year Ended December 31, 2022

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	<u> X </u> yes <u> </u> no
Significant deficiency(ies) identified?	<u> </u> yes <u> X </u> (none reported)
Noncompliance material to financial statements noted?	<u> </u> yes <u> X </u> no

Section II - Financial Statement Findings

Finding 2022-001 **Timeliness in Closure of Books and Records and Accuracy of Financial Reporting - Material Weakness in Internal Control over Financial Reporting**

Criteria *Governmental Accounting Standards Board Concepts Statement No. 1, Objectives of Financial Reporting*, identifies the objectives of external financial reporting by state and local government entities. These objectives encompass concepts of financial reporting that will promote useful financial information for state and local governments to its users. GASB Concepts Statement No. 1 specifically states "If financial reports are to be useful, they must be issued soon enough after the reported events to affect decisions. Timeliness alone does not make information useful, but the passage of time usually diminishes the usefulness that the information otherwise would have had."

Condition The Municipality of Anchorage (the Municipality) failed to perform closure of books and records in a timely manner after its fiscal year end. This resulted in a delay to produce required reconciliations and final period-ending trial balances utilized in the production of financial reporting. The Water Utility Fund relies on the Municipality to account for certain balances, including cash and investments held in the Central Treasury, pension and other postemployment benefits, and grants.

Cause There were limited personnel resources at the Municipality to assist in the timely completion of the Municipality's close of books and records for its fiscal year end and accuracy in financial reporting.

Effect or potential effect The delay in timing and material revisions to the financial report resulted in delays for disseminating financial reporting information to the Utility's regulatory oversight bodies and creditors.

Recommendation Management should work with the Municipality to prepare timely reconciliations of the accounts that affect the Utility.

Views of responsible officials Management agrees with the finding. Management will work with the Municipality to improve timeliness.



Anchorage Water & Wastewater Utility



Municipality of Anchorage, Alaska Water Utility Fund

Corrective Action Plan Year Ended December 31, 2022

Finding 2022-001	Timeliness in Closure of Books and Records and Accuracy of Financial Reporting - Material Weakness in Internal Control over Financial Reporting
Planned Corrective Action Plan:	The Utility uses a general ledger program that is a Municipality of Anchorage (MOA)-wide system. The Utility can only close periods when all of MOA is ready to close periods, and vice versa. The Utility will work with MOA to improve the timeliness of these closures, as they relate to the Utility.
Completion Date:	June 30, 2024
Contact:	Jack Broyles, Jr. AWWU CFO, AWWU Finance Director 907-786-5623

