



Municipality of Anchorage, Alaska Water Utility Fund

Basic Financial Statements
and Other Information

December 31, 2016 and 2015
(with independent Auditor's Report Thereon)



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

Basic Financial Statements, Required Supplementary Information and Other
Information

December 31, 2016 and 2015

(With Independent Auditor's Report Thereon)

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

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Water Utility Fund, an enterprise fund of the Municipality of Anchorage, Alaska, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Water Utility's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility Fund, as of December 31, 2016 and 2015 and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America

Emphasis of Matter

As discussed in Note 13 to the financial statements, in 2015 the Water Utility Fund adopted the provisions of Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements present only the 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, 2016 and 2015, the changes in its financial position, or where applicable, its cash flows for the years ended in accordance with accounting principles generally accepted in the United States. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-13, and the Schedules of the Utility's Information on the Net Pension Liability and Pension Contributions on page 55, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2017 on our consideration of the Water Utility Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Utility Fund's internal control over financial reporting and compliance.

BDO USA, LLP

Anchorage, Alaska
July 28, 2017

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

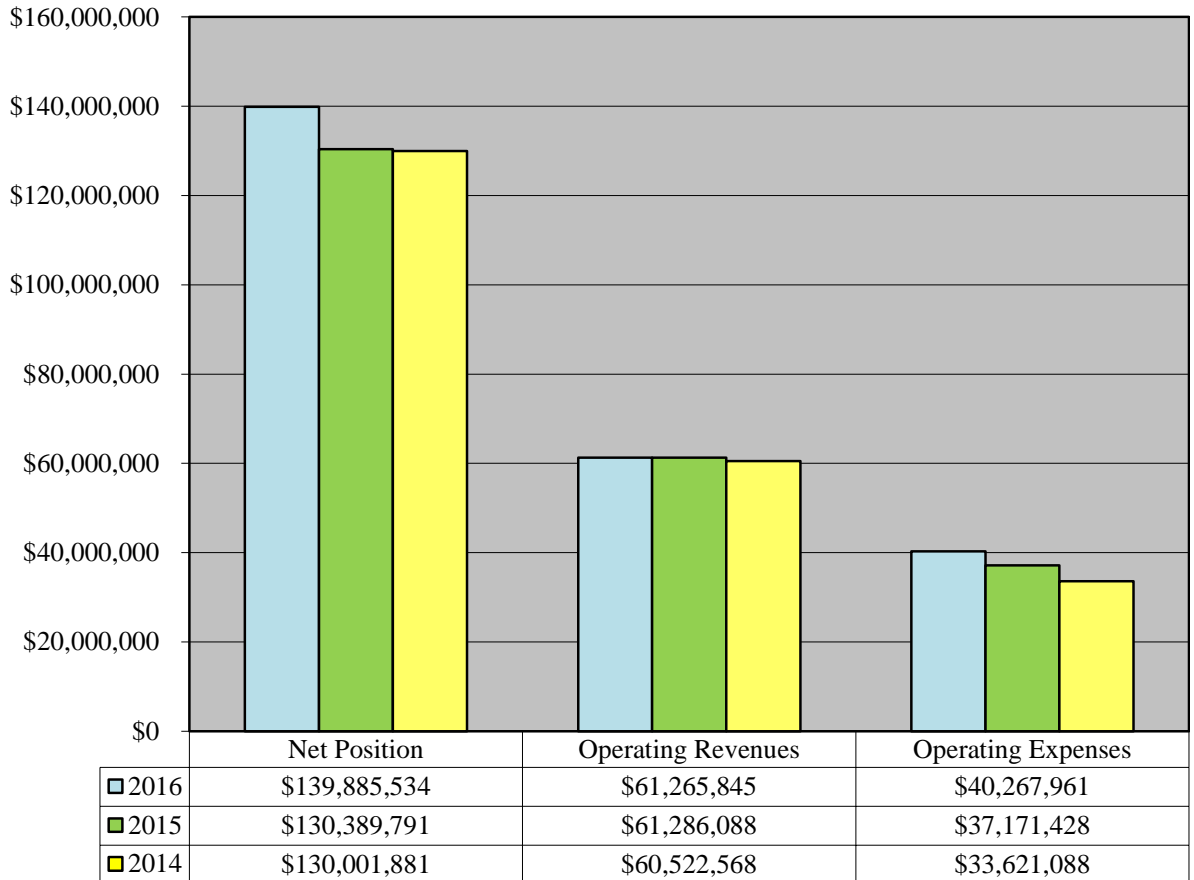
Management's Discussion and Analysis

December 31, 2016 and 2015

This section of the Municipality of Anchorage Water Utility (Utility) annual financial report presents the analysis of the Utility's financial performance during the years ending December 31, 2016 and 2015. Please read it in conjunction with the Utility's financial statements.

Financial Highlights

- Net capital assets increased by \$11,050,000, or 2% in 2016 and \$12,950,000, or 2% in 2015.
- Net position increased \$9,500,000, or 7% in 2016 and an overall change of \$390,000, or 0.3% in 2015. The overall change in 2015 includes the effect of the statement for GASB 68 adoption. The 2015 change in net position was \$11,450,000, or 9%.
- Operating revenues decreased by \$20,000, or less than 1% in 2016 and \$760,000, or 1% in 2015.
- Operating expenses increased by \$3,100,000, or 8% in 2016 and \$3,550,000, or 11% in 2015.



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

Management's Discussion and Analysis

December 31, 2016 and 2015

Overview of the Financial Report

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

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

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

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

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

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

Management's Discussion and Analysis

December 31, 2016 and 2015

Analysis of the Financial Statements

Net Position

One of the most important questions asked about the Utility's finances is, "Is the Utility, as a whole, better off or worse off as a result of the year's activities?" The Statements of Net Position and Statements of Revenues, Expenses, and Changes in Fund Net Position report information about the Utility's activities in a way that helps answer this question.

These two statements report the Utility's net position and the changes in net position. One can think of the Utility's net position, the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, as one way to measure financial health or financial position. Over time, increases or decreases in the Utility's net position are an indicator of whether its financial health is improving or deteriorating. However, one will need to also consider other non-financial factors such as changes in economic conditions, population growth, the regulatory environment, and new or changed legislation.

Changes in the Utility's net position can be determined by reviewing the following condensed Summary of Fund Net Position as of December 31, 2016, 2015, and 2014. 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**

	2016	2015	2014
Assets and deferred outflows of resources:			
Net capital assets	\$ 543,017,365	531,962,839	519,017,658
Current and other assets	60,225,043	54,848,741	50,054,524
Deferred outflows of resources	5,354,987	3,066,975	1,593,873
Total assets and deferred outflows of resources	608,597,395	589,878,555	570,666,055
Liabilities and deferred inflows of resources:			
Net debt outstanding	228,807,288	222,777,524	211,628,356
Current and other liabilities	27,559,963	20,115,387	9,744,873
Deferred inflows of resources	212,344,610	216,595,853	219,290,945
Total liabilities and deferred inflows of resources	468,711,861	459,488,764	440,664,174
Net position:			
Net investment in capital assets	107,292,781	95,647,932	90,685,159
Restricted	5,134,352	5,069,426	5,954,180
Unrestricted	27,458,401	29,672,433	33,362,542
Total net position	\$ 139,885,534	130,389,791	130,001,881
Net position - beginning, as restated for 2015	130,389,791	118,940,051	
Change in fund net position	\$ 9,495,743	11,449,740	

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Management's Discussion and Analysis

December 31, 2016 and 2015

The Utility's total assets and deferred outflows of resources increased by \$18.7 million in 2016. Net capital assets increased by \$11.1 million due to a decrease in construction work in progress of \$4 million, by new plant additions of \$32.5 million, which was reduced by depreciation of \$17.3 million (see Note 3), net retirements of \$0.2 million, and an increase of \$0.1 million in plant acquisition adjustment (see Table 3A and Note 3). Current and other assets increased by \$5.3 million due to a \$2.2 million increase in general cash pool equity, a \$0.9 million increase in other current assets and a \$2.6 million increase in restricted assets, netted by a \$0.4 million decrease in non-current assets. Deferred outflows of resources increased by \$2.3 million.

Total liabilities and deferred inflows of resources increased by \$9.2 million in 2016. Net debt outstanding increased by \$6 million, due to additional low interest State of Alaska loans totaling \$10 million and additional long term loans totaling \$5.5 million, offset by debt principal payments of \$9.2 million and bond premium/discount amortization of \$0.3 million (see Table 4 and Note 4). Current and other liabilities increased by \$7.5 million, and deferred inflows of resources decreased by \$4.3 million due to a decrease in contributions in aid of construction of \$4.2 million (see Note 5) and a decrease in deferred inflow of resources related to the net pension liability of \$.1 million.

The Utility's total assets and deferred outflows of resources increased by \$19.2 million in 2015. Net capital assets increased by \$12.9 million due to an increase in construction work in progress of \$3.5 million, by new plant additions of \$26.4 million, which was reduced by depreciation of \$16.8 million and retirements of \$0.2 million (Table 3A and Note 3). Current and other assets increased by \$4.8 million due to a \$6.1 million increase in general cash pool equity, netted by a \$1.3 million decrease in restricted and non-current assets. Deferred outflows of resources increased by \$1.5 million.

Total liabilities and deferred inflows of resources increased by \$18.8 million in 2015. Net debt outstanding increased by \$11.1 million, due to additional low interest State of Alaska loans totaling \$9.4 million and additional long term loans totaling \$11 million, offset by debt principal payments of \$9 million and bond premium/discount amortization of \$0.3 million (see Table 4 and Note 4). Current and other liabilities increased by \$10.4 million, and deferred inflows of resources decreased by \$2.7 million due to a decrease in contributions in aid of construction of \$3.0 million (see Note 5) and an increase in deferred inflow of net pension liability of \$0.3 million.

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

Management's Discussion and Analysis

December 31, 2016 and 2015

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, 2016, 2015, and 2014.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues:			
Residential sales	\$ 42,015,251	41,418,518	41,140,290
Commercial sales	13,161,432	13,779,579	13,480,806
Public fire protection	4,763,741	4,762,806	4,763,798
Miscellaneous	1,325,421	1,325,185	1,137,674
Nonoperating revenues	<u>1,109,371</u>	<u>372,551</u>	<u>1,642,512</u>
Total revenues	<u>62,375,216</u>	<u>61,658,639</u>	<u>62,165,080</u>
Operating expenses:			
Source of supply	2,644,919	2,294,037	2,399,969
Pumping Plant	207,585	218,802	188,979
Water treatment	5,177,673	5,750,805	4,939,102
Transmission and distribution	7,061,922	7,251,444	5,976,990
Customer accounts	2,728,929	2,256,107	2,247,178
Administrative and general	11,608,173	9,209,184	7,635,177
Depreciation, net of amortization	10,838,760	10,191,049	10,233,693
Nonoperating expenses	<u>5,296,515</u>	<u>5,916,567</u>	<u>6,575,718</u>
Total expenses	<u>45,564,476</u>	<u>43,087,995</u>	<u>40,196,806</u>
Income before transfers	<u>16,810,740</u>	<u>18,570,644</u>	<u>21,968,274</u>
Transfers:			
Transfer to other funds	<u>7,314,997</u>	<u>7,120,904</u>	<u>7,341,047</u>
Change in fund net position	<u>9,495,743</u>	<u>11,449,740</u>	<u>14,627,227</u>
Net position - beginning, as restated for 2015	<u>130,389,791</u>	<u>118,940,051</u>	<u>115,374,654</u>
Net position - ending	<u>\$ 139,885,534</u>	<u>130,389,791</u>	<u>130,001,881</u>

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

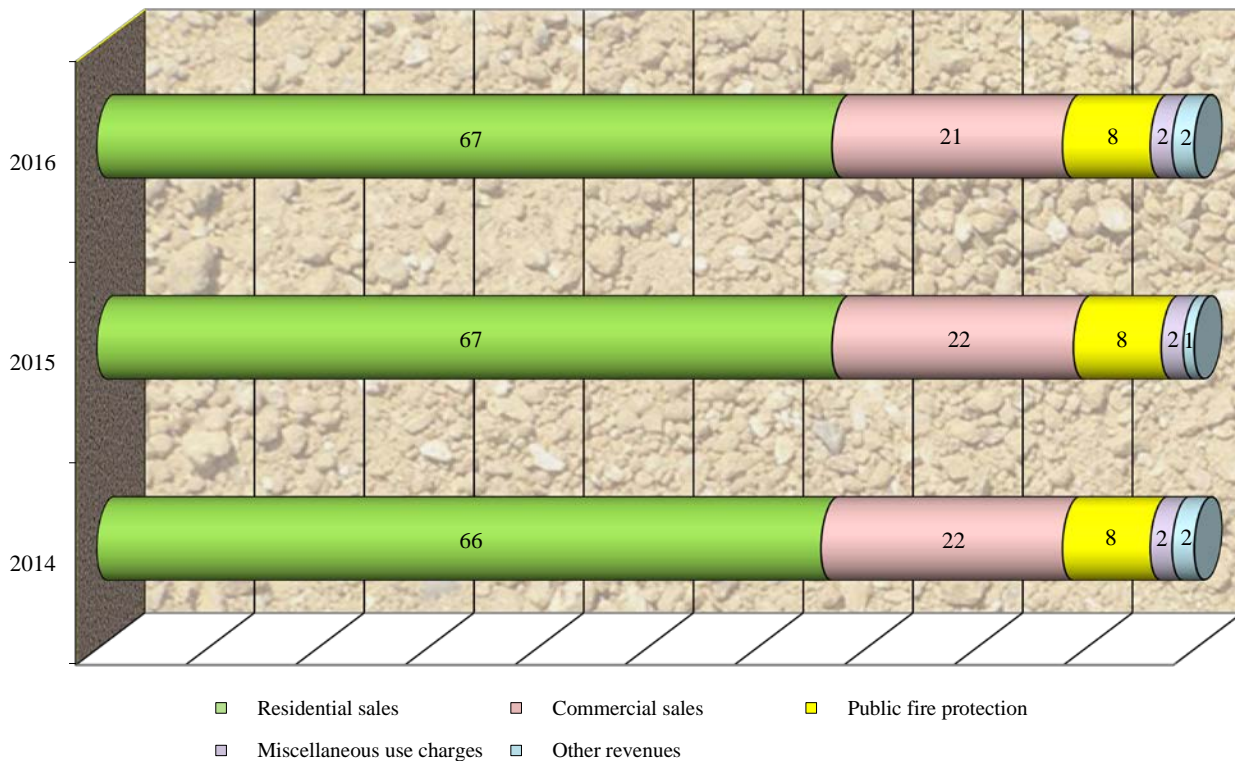
Management's Discussion and Analysis

December 31, 2016 and 2015

During 2016, net position increased by \$9.5 million and total revenues increased by \$0.7 million. Operating revenues decreased by less than \$0.1 million. Non-operating revenues increased by \$0.7 million primarily due to an increase in short term investment income of \$0.5 million, and an increase in the 2016 State of Alaska on behalf pension (PERS) liability payment of \$0.2 million from prior year.

During 2015, net position increased by \$11.4 million and total revenues decreased by \$0.5 million. Operating revenues increased by \$0.8 million, due to a 0.54% increase in customers during the year. Non-operating revenues decreased by \$1.3 million primarily due to a decrease of \$1.2 million due to a gain on the disposition of non-utility property in 2014, a decrease in short term investment income of \$0.2 million, and a 2015 State of Alaska on behalf pension (PERS) liability payment of \$0.1 million.

Revenues by Source in %



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

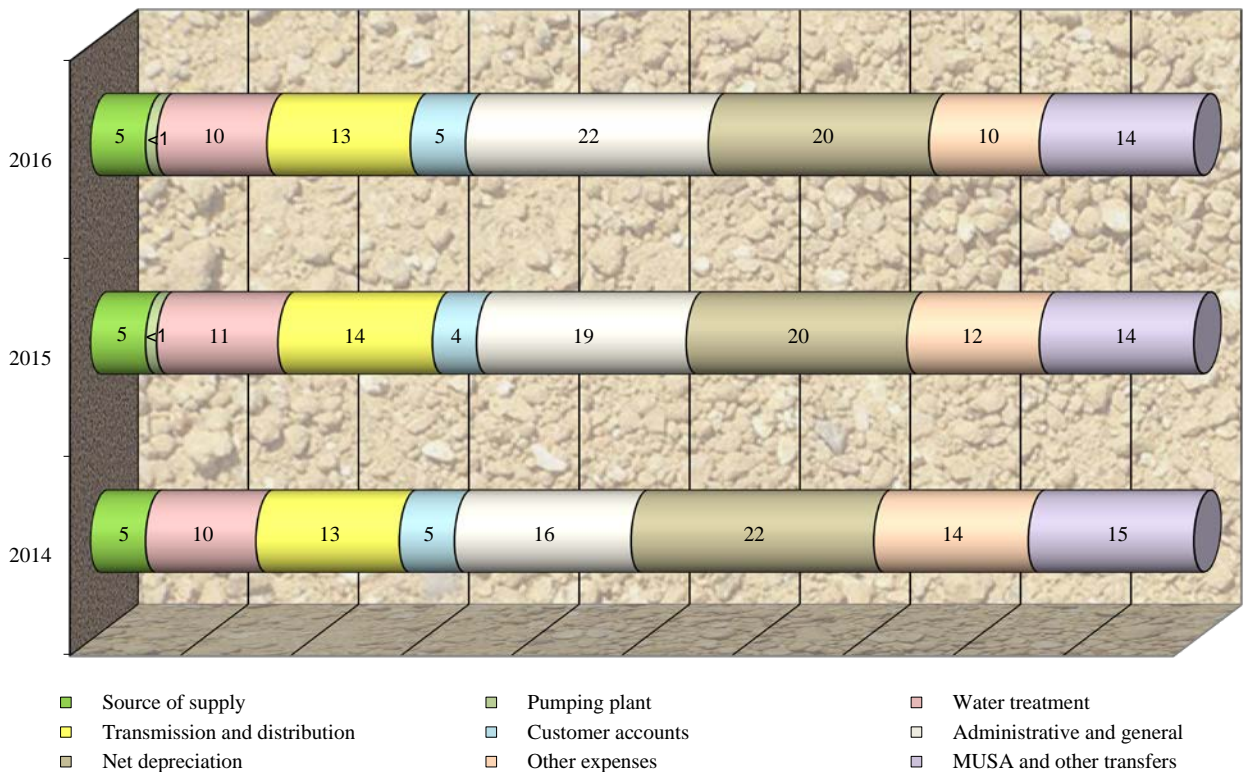
Management's Discussion and Analysis

December 31, 2016 and 2015

Total expenses increased by \$2.5 million in 2016 when compared to 2015, with operating expenses increasing by \$3.1 million, and non-operating expenses decreasing by \$0.6 million. The increase in operating expenses was primarily due to an increase in administrative expenses of \$2.4 million comprised of State of Alaska on-behalf pension (PERS) liability expense of \$2.7 million (see Note 7), and an additional increase of \$0.3 million in other administrative expenses offset by a decrease of \$0.6 million in outside services employed. The remainder of the change in operating expenses was due to decreases of \$0.6 million in water treatment, a decrease in transmission and distribution of \$0.2 million; offset by increases of \$0.4 million for source of supply expense, \$0.5 million for customer account expense, and \$0.6 million of depreciation expense.

Total expenses increased by \$2.9 million in 2015 when compared to 2014, with operating expenses increasing by \$3.6 million, and non-operating expenses decreasing by \$0.7 million. The increase in operating expenses was primarily due to an increase in administrative expenses of \$1.6 million comprised of State of Alaska on-behalf pension (PERS) liability expense of \$1 million (see Note 7), and an additional increase of \$0.6 million other administrative expenses. The remainder of the increase in operating expenses was due to increases of \$1.3 million in transmission and distribution, \$0.8 million in water treatment; offset by decreases of \$0.1 million in source of supply.

Expenses by Source in %



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

Management's Discussion and Analysis

December 31, 2016 and 2015

Capital Assets and Debt

Capital Assets

The following table summarizes the Utility's net capital assets, as of December 31, 2016, 2015 and 2014.

**Table 3A
Net Capital Assets**

	2016	2015	2014
Intangible plant	\$ 1,877,186	2,332,513	2,787,840
Source of supply plant	19,226,422	19,990,584	20,589,477
Pumping plant	11,321,633	10,730,085	11,163,473
Treatment plant	54,450,361	46,175,916	40,665,721
Transmission & distribution plant	410,193,113	402,058,307	395,083,418
General plant land	1,297,531	1,297,531	762,256
General plant	28,503,024	29,319,472	31,266,797
Net plant in service	526,869,270	511,904,408	502,318,982
Plant acquisition adjustment	907,579	842,355	957,132
Property held for future use	506,623	506,623	506,623
Construction work in progress	14,733,893	18,709,453	15,234,921
Total net capital assets	\$ 543,017,365	531,962,839	519,017,658
Increase in net capital assets	\$ 11,054,526	12,945,181	

Net capital assets increased by \$11.1 million in 2016. Net plant in service increased by \$15 million comprised of \$32.5 million of additions to plant offset by depreciation of \$17.3 million and net retirements of \$0.2 million. The plant category that increased the most during the year was transmission and distribution plant, which had additions of \$18.4 million. Water treatment plant had additions of \$10.1 million, general plant had additions of \$2.9 million, pumping plant added \$1 million, source of supply plant added \$0.1 million, and intangible plant as well as general plant land remained the same during 2016 (see Note 3 and Table 3B). Construction work in progress decreased by \$4 million and net plant acquisition adjustment increased by \$0.1 million during 2016.

Net capital assets increased by \$12.9 million in 2015. Net plant in service increased by \$9.6 million comprised of \$26.4 million of additions to plant offset by depreciation of \$16.8 million. The plant category that increased the most at gross during the year was transmission and distribution plant, which increased by \$16.6 million. Water treatment plant increased by \$7.2 million, general plant increased by \$1.8 million, source of supply plant increased by \$0.3 million, and land by \$0.5 million during 2015 (see Note 3 and Table 3B). Construction work in progress increased by \$3.5 million and net plant acquisition adjustment decreased by \$0.1 million during 2015.

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

Management's Discussion and Analysis

December 31, 2016 and 2015

**Table 3B
Capital Assets, 2016 Major Additions – gross
(amounts expressed in millions)**

<u>Transmission and Distribution Plant</u>		<u>Water Treatment Plant</u>	
PRV Vault Rehab	\$ 4.2	SCWTF Heat_Exchanger	\$ 7.5
ARRC Yard Rehab-WTR	3.9	EWTF Generator_Repl	1.3
Wesleyan Chkmt-Queen Rehab-WTR	2.0	EWTF Filter-to-Waste	0.9
Eagle River 690PZ Intertie	1.5	EWTF HVAC Rehab	0.3
ADOT Glenn-Muldoon WTM	1.1	Other Miscellaneous Projects	0.1
Calais Subd Rehab-WTR	0.8	Total Water Treatment Plant	\$ <u>10.1</u>
PME 64th LO-Norm Upgr-WTR	0.7		
W15-006 Huffman Timbers B1L1-43	0.7	<u>General Plant</u>	
32nd Ave Hiland Upland-WTR	0.4	SCWTF Heat Exchanger	\$ 0.7
Specking-Jarvis Rehab-WTR	0.4	Case Loader 96835 96836	0.4
Utilities Acqn-WTR	0.4	GIS Application Dev-WTR	0.4
PME Dimond Blvd-WTM	0.3	Vac Truck 94950	0.4
South Central Utility Acqn-WTR	0.3	Vehicles-WTR14	0.3
W14-025 Resolution Pointe Ph 3	0.3	OM Mobile Sedimentation Tank	0.1
W14-022 Westgate	0.4	Other Miscellaneous Projects	0.6
W15-003 The Terraces Ph 8	0.4	Total General Plant	\$ <u>2.9</u>
22ndAve Wayne-Illian Rehab-WTR	0.1		
Reservoir Mixer Upgr	0.1	<u>Water Pump Plant</u>	
Other Miscellaneous Projects	0.4	347 Zone Conversion-WTR	\$ 0.9
Total Transmission and Distribution Plant	\$ <u>18.4</u>	Abbott Pump Upgr-WTR	0.1
		Total Water Pump Plant	\$ <u>1.0</u>
		<u>Source of Supply Plant</u>	
		Well 10-11 Capacity Rehab	\$ 0.1
		Total Source of Supply	\$ <u>0.1</u>
		Total Additions	\$ <u><u>32.5</u></u>

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

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

Management's Discussion and Analysis

December 31, 2016 and 2015

Debt

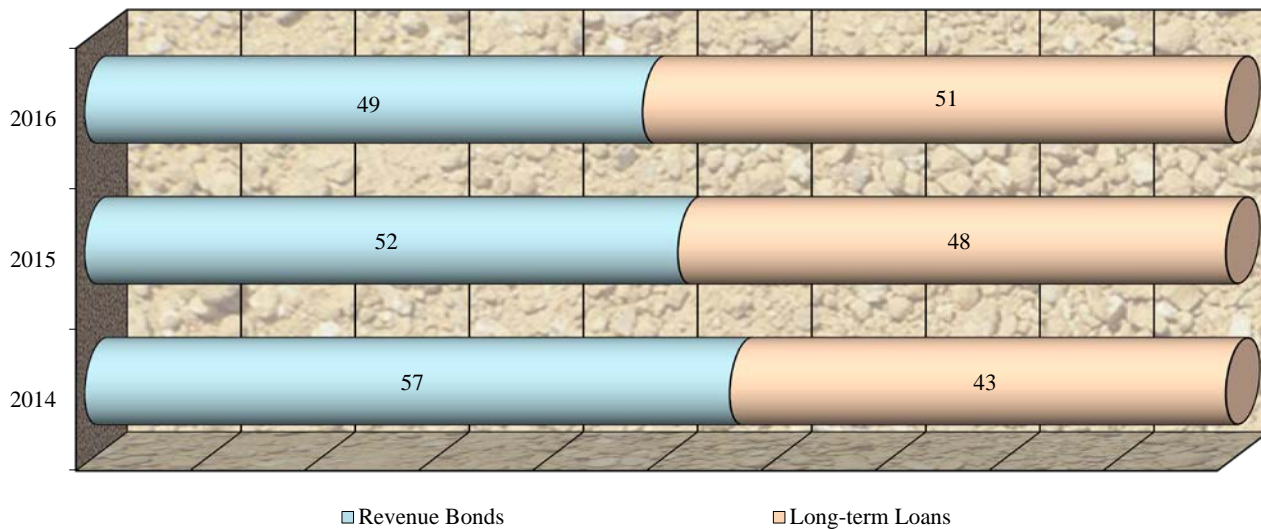
Changes in the Utility's debt are shown in the following table as of December 31, 2016, 2015, and 2014. The table includes only debt having a long-term component.

**Table 4
Net Debt**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Revenue bonds, net	\$ 111,892,402	115,829,433	119,646,695
Long-term loans	<u>116,914,886</u>	<u>106,948,091</u>	<u>91,981,662</u>
Total net debt	<u>\$ 228,807,288</u>	<u>222,777,524</u>	<u>211,628,357</u>
Increase in net debt	<u>\$ 6,029,764</u>	<u>11,149,167</u>	

The Utility did not issue bonds in either 2016 or 2015, but did receive approximately \$10 million and \$9.4 million, respectively, from the State of Alaska Drinking Water Loan Program (see Note 4) to finance capital improvements. In addition, the Utility borrowed \$5.5 million and \$11 million in 2016 and 2015, respectively, in other loans payable. Bond and loan principal payments totaled \$3.7 million and \$5.5 million, compared to 2015 principal payments of \$3.6 million and \$5.4 million.

Net Debt by Type in %



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

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

Management's Discussion and Analysis

December 31, 2016 and 2015

Economic Factors and Next Year's Budgets and Rates

Budgetary Matters

The 2017 budget anticipates operating revenue similar to 2016 actual revenue due to no rate increases in 2017.

2017 operating expenses are budgeted to increase 4.2% over the 2016 budget due to a 4.8% budget increase in labor and 1.0% budget increase in non-labor in addition to a 73.7% increase in Intra-governmental Charges from General Government. The Municipal Service Assessment is budgeted to increase 5.4% and depreciation expense is budgeted to increase 0.7%.

Regulatory Matters

The Utility applies all applicable provisions of the Governmental Accounting Standards Board (GASB) which has authority for setting accounting standards for governmental entities. The Utility's rates are regulated by the 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 10.

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

Statements of Net Position

December 31, 2016 and 2015

Assets and Deferred Outflows of Resources

	2016	2015
Capital assets:		
Plant in service, at cost	\$ 830,935,790	802,248,528
Less accumulated depreciation	(304,066,520)	(290,344,120)
Net plant in service	526,869,270	511,904,408
Plant acquisition adjustment less amortization of \$2,594,365 in 2016 and \$2,479,589 in 2015	907,579	842,355
Property held for future use	506,623	506,623
Construction work in progress	14,733,893	18,709,453
Net capital assets	543,017,365	531,962,839
Non-current assets:		
Unamortized cost of debt issuance	702,991	784,025
Unbilled special assessments	1,410,063	1,693,912
Other	4,350,456	4,356,921
Total non-current assets	6,463,510	6,834,858
Restricted assets:		
Current:		
Equity in bond and grant capital acquisition and construction pool	4,222,552	1,524,082
Revenue bond debt service investments	5,134,352	5,069,426
Cash for unredeemed mini bonds	105,000	185,000
Non-current:		
Customer deposits	257,496	323,104
Total restricted assets	9,719,400	7,101,612
Current assets:		
Equity in general cash pool	36,343,020	34,125,523
Accrued interest receivable	351,069	248,339
Accounts receivable:		
Utility customers, less estimated uncollectibles of \$104,050 in 2016 and \$54,258 in 2015	4,615,361	4,515,109
Other, less estimated uncollectibles of \$30,833 in 2016 and \$25,374 in 2015	898,483	63,809
Special assessments receivable	73,222	80,936
Unbilled reimbursable projects	60,017	48,974
Prepays	144,829	127,204
Inventory of materials and supplies, at average cost	1,556,132	1,702,377
Total current assets	44,042,133	40,912,271
Total assets	603,242,408	586,811,580
Deferred outflows of resources:		
Unamortized loss on refunded bond issues	985,193	1,272,547
Deferred outflows of resources related to net pension liability	4,369,794	1,794,428
Total deferred outflows of resources	5,354,987	3,066,975
Total assets and deferred outflows of resources	\$ 608,597,395	589,878,555

See accompanying notes to basic financial statements.

Liabilities, Deferred Inflows of Resources, and Net Position

	2016	2015
Net position:		
Net investment in capital assets	\$ 107,292,781	95,647,932
Restricted	5,134,352	5,069,426
Unrestricted	27,458,401	29,672,433
Total net position	139,885,534	130,389,791
Non-current liabilities:		
Net pension liability	19,698,145	13,600,625
Compensated absences payable	347,170	249,166
Pollution remediation obligation	31,000	68,500
Revenue bonds payable	106,690,000	110,545,000
Less unamortized discounts	(9,386)	(13,787)
Plus unamortized premium	1,356,788	1,588,220
Net revenue bonds payable	108,037,402	112,119,433
Alaska Drinking Water Fund loans payable	82,883,568	78,291,084
Loan payable – other	28,625,600	23,125,600
Total non-current liabilities	239,622,885	227,454,408
Current liabilities:		
Accounts payable	701,796	1,820,352
Accrued payroll	792,080	734,236
Compensated absences payable	935,365	946,712
Accrued interest	1,600,071	1,493,520
Pollution remediation obligation	15,000	20,000
Long-term obligations maturing within one year	9,260,718	9,241,407
Total current liabilities	13,305,030	14,256,227
Liabilities payable from restricted assets:		
Current:		
Capital acquisition and construction accounts payable	3,076,840	674,172
Mini bonds payable	105,000	185,000
Non-current:		
Customer deposits payable	257,496	323,104
Total liabilities payable from restricted assets	3,439,336	1,182,276
Total liabilities	256,367,251	242,892,911
Deferred inflows of resources:		
Contributions in aid of construction, net of amortization	212,125,041	216,334,012
Deferred inflows of resources related to net pension liability	219,569	261,841
Total deferred inflows of resources	212,344,610	216,595,853
Total liabilities and deferred inflows of resources	468,711,861	459,488,764
Total liabilities, deferred inflows of resources and net position	\$ 608,597,395	589,878,555

See accompanying notes to basic financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Statement of Revenues, Expenses, and Changes in Fund Net Position
Years Ended December 31, 2016 and 2015

	2016	2015
Operating revenues:		
Charges for sales and services:		
Residential sales	\$ 42,015,251	41,418,518
Commercial sales	13,161,432	13,779,579
Public fire protection	4,763,741	4,762,806
Total charges for sales and services	59,940,424	59,960,903
Miscellaneous	1,325,421	1,325,185
Total operating revenues	61,265,845	61,286,088
Operating expenses:		
Source of supply	2,644,919	2,294,037
Pumping plant	207,585	218,802
Water treatment	5,177,673	5,750,805
Transmission and distribution	7,061,922	7,251,444
Customer accounts	2,728,929	2,256,107
Administrative and general	11,608,173	9,209,184
Total operations	29,429,201	26,980,379
Depreciation, net of amortization	10,838,760	10,191,049
Total operating expenses	40,267,961	37,171,428
Operating income	20,997,884	24,114,660
Nonoperating revenues:		
Investment income – short-term investments	690,983	201,063
PERS on-behalf	416,209	169,958
Miscellaneous revenue	2,179	1,530
Total non-operating revenues	1,109,371	372,551
Nonoperating expenses:		
Interest expense – revenue bonds	5,217,686	5,368,897
Amortization of bond premium/discount	60,323	74,063
Amortization of debt expense	81,034	88,659
Interest expense and fees – loans	1,496,100	1,429,940
Allowance for funds used during construction	(1,566,014)	(1,084,232)
Miscellaneous expenses	7,386	39,240
Total non-operating expenses	5,296,515	5,916,567
Income before transfers	16,810,740	18,570,644
Transfers:		
Transfers to other funds	7,314,997	7,120,904
Change in fund net position	9,495,743	11,449,740
Net position – beginning, as restated for 2015	130,389,791	118,940,051
Net position – ending	\$ 139,885,534	130,389,791

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Receipts from customers and users	\$ 60,049,231	59,622,910
Refunds to customers and users	—	(2,169,648)
Payments to employees	(15,714,640)	(16,971,468)
Payments to vendors	(8,427,654)	(7,925,129)
Internal activity – payments made from other funds	(1,860,893)	4,162,131
Net cash provided by operating activities	34,046,044	36,718,796
Cash flows from non-capital and related financing activities:		
Transfers to other funds	(7,314,997)	(7,120,904)
Net cash used by non-capital and related financing activities	(7,314,997)	(7,120,904)
Cash flows from capital and related financing activities:		
Principal payments on long-term obligations	(3,710,000)	(3,570,000)
Interest payments and fees on long-term obligations	(6,607,235)	(6,776,377)
Acquisition and construction of capital assets	(22,698,092)	(27,884,913)
Capital contributions – intergovernmental	32,452	(9,111)
Capital contributions – customer/special assessments	532,065	282,443
Proceeds from loan payable – other	5,500,000	11,000,000
Proceeds from Alaska Drinking Water Fund loans	9,998,202	9,378,767
Principal payments on Alaska Drinking Water Fund loans	(5,531,407)	(5,412,338)
Net cash used by capital and related financing activities	(22,484,015)	(22,991,529)
Cash flows from investing activities:		
Purchases of investments	(64,926)	8,138
Interest received	588,253	147,042
Net cash provided by investing activities	523,327	155,180
Net increase in cash	4,770,359	6,761,543
Cash, beginning of year	36,157,709	29,396,166
Cash, end of year	\$ 40,928,068	36,157,709
Cash and cash equivalents		
Equity in general cash pool	36,343,020	34,125,523
Equity in bond and grant capital acquisition and construction pool	4,222,552	1,524,082
Customer deposits	257,496	323,104
Cash for unredeemed mini bonds	105,000	185,000
Cash and cash equivalents, end of year	\$ 40,928,068	36,157,709

See accompanying notes to basic financial statements.

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

Statements of Cash Flows, Continued

Years ended December 31, 2016 and 2015

	2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 20,997,884	24,114,660
Transfer from (to) escrow account	—	1,881,616
Adjustments to reconcile operating income to net cash provided by operating activities:		
Allowance for uncollectible accounts	55,251	(20,923)
Depreciation, net of amortization	10,838,760	10,191,049
PERS on behalf	416,209	169,958
Miscellaneous non-operating revenue (expense)	(5,207)	(37,709)
Changes in assets, deferred outflows and inflows of resources, and liabilities increasing (decreasing) cash:		
Accounts receivable and other receivables	(982,463)	172,089
Unbilled reimbursable projects	(11,043)	(37,071)
Inventories	146,245	(24,802)
Customer deposits payable	(65,608)	(72,927)
Prepays	(17,625)	(90,295)
Unbilled special assessments and other non-current assets	290,314	43,936
Accounts payable	(1,118,556)	1,161,059
Accrued payroll	57,844	(900,798)
Compensated absences payable	86,657	(17,254)
Pollution remediation obligation	(42,500)	—
Mini bonds transfer	(80,000)	185,000
Customer refund payable	—	(1,005,000)
Deferred outflows of resources related to net pension liability	(2,575,366)	(1,270,062)
Net pension liability	6,097,520	3,297,648
Deferred inflows of resources related to net pension liability	(42,272)	(1,021,378)
Net cash provided by operating activities	\$ 34,046,044	36,718,796
Non-cash investing, capital and financing activities:		
Contributed capital – private development	\$ 2,237,380	3,341,938
Capital purchases on account, net	100,796	1,151,706
Total non-cash investing, capital and financing activities	\$ 2,338,176	4,493,644

See accompanying notes to basic financial statements.

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

Notes to Basic Financial Statements

December 31, 2016 and 2015

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

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

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

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

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

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

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

Notes to Basic Financial Statements

December 31, 2016 and 2015

(a) Regulated Operations

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

(b) Cash Pool and Investments

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

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

(c) Flow Assumptions for Restricted Resources

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

(d) Inventories

Inventories are valued at average cost.

(e) Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then. At December 31, 2016 and 2015, the Utility had deferred outflows of resources from pension related items and unamortized loss on refunded bond issues.

(f) Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources until that time. At December 31, 2016 and

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2016 and 2015

2015, the Utility had deferred inflows of resources from contributions in aid of construction and pension related items.

(g) Property, Plant, and Equipment

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

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

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

The estimated lives of major plant and equipment categories follow:

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

(h) Operating Revenues and Expenses

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

(i) Unbilled Revenues

Utility revenues are based on cycle billings rendered to customers monthly. The Utility accrues an estimate of revenue at year-end for services provided but not yet billed, which is included in the Accounts Receivable balance. The Utility accrued \$1,710,000 and \$1,850,000 for the years ended December 31, 2016 and 2015, respectively.

(j) Accrued Leave

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

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2016 and 2015

(k) Intra governmental Charges

Certain functions of the Municipality of a general and administrative nature are centralized and the related costs are allocated to the various funds of the Municipality, including the Utility. Such costs allocated to the Utility totaled approximately \$1.0 million for the years ended December 31, 2016 and 2015.

(l) Risk Management and Self-Insurance

The Municipality is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; illness of and injuries to employees; unemployment; and natural disasters. The Municipality utilizes three risk management funds to account for and finance its uninsured risks of loss.

The Municipality provides coverage up to the maximum of \$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 2016, 2015 or 2014.

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

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

Claims payable represent estimates of claims to be paid based upon past experience modified for current trends and information. The ultimate amount of losses incurred through December 31, 2016, is dependent upon future developments. At December 31, 2016, claims incurred but not reported included in the liability accounts of the Municipality are \$16,040,708 in the General Liability/Workers' Compensation Fund and Medical/Dental Self Insurance Fund.

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

Notes to Basic Financial Statements

December 31, 2016 and 2015

Changes in the funds' claim liability amounts in 2016 and 2015 are as follows:

	Balance January 1, 2016	Current Year Claims and Changes in Estimates	Claims Payment	Balance December 31, 2016
General Liability/Workers' Compensation	\$ 25,886,494	\$ 10,308,057	\$ (10,301,317)	\$ 25,893,234
Medical/Dental	8,901,956	48,366,051	(48,883,245)	8,384,762
Unemployment	66,596	276,999	(267,515)	76,080
	<u>\$ 34,855,046</u>	<u>\$ 58,951,107</u>	<u>\$ (59,452,077)</u>	<u>\$ 34,354,076</u>

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

At December 31, 2016, the Medical and Dental Self Insurance Fund had unrestricted net position of \$528,796, a decrease of \$737,017 from 2015. The decrease in net position is due to increase in reserves for medical and dental claims by margin of 5 percent to the actuarial estimates.

At December 31, 2016, the General Liability and Workers' Compensation Fund had a deficit of \$5,113,340, an increase in the deficit of \$1,908,247 from 2015. The deficit is due to increased reserves for workers' comp claims based on actuarial estimates.

(m) Reclassification

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

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

Notes to Basic Financial Statements

December 31, 2016 and 2015

(2) Cash and Investments

At December 31, 2016, the Municipality had the following cash and investments, with fixed income maturities as noted:

Investment Type	Fair Value*	Fixed Income Investment Maturities (in years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
Petty Cash	\$ 73,366				
Central Treasury - Restricted					
Cash & Money Market Funds	47,692,839	-	-	-	-
Repurchase Agreements	2,902,556	2,902,556	-	-	-
Commercial Paper	299,827	299,827	-	-	-
Certificates of Deposit	240,900	240,900	-	-	-
U.S. Treasuries	13,307,427	4,282,430	7,879,780	1,145,217	-
U.S. Agencies	39,384,533	20,020,719	18,380,009	500,338	483,467
Municipal Bonds	19,726	-	-	19,726	-
Asset-Backed Securities**	3,944,233	83,298	2,604,572	591,869	664,493
Corporate Fixed Income Securities	16,708,812	6,771,159	5,691,704	3,973,028	272,921
	<u>\$ 124,500,853</u>	<u>\$ 34,600,889</u>	<u>\$ 34,556,065</u>	<u>\$ 6,230,178</u>	<u>\$ 1,420,881</u>
Central Treasury - Unrestricted					
Cash & Money Market Funds	6,556,270	-	-	-	-
Repurchase Agreements	34,032,002	34,032,002	-	-	-
Commercial Paper	3,515,419	3,515,419	-	-	-
Certificates of Deposit	2,824,520	2,824,520	-	-	-
U.S. Treasuries	123,312,501	17,495,823	92,389,185	13,427,493	-
U.S. Agencies	66,705,430	54,756,761	413,700	5,866,387	5,668,582
Municipal Bonds	231,288	-	-	231,288	-
Asset-Backed Securities**	46,245,507	976,652	30,538,202	6,939,573	7,791,080
Corporate Fixed Income Securities	137,193,556	20,676,137	66,734,333	46,583,129	3,199,957
	<u>\$ 420,616,493</u>	<u>\$ 134,277,314</u>	<u>\$ 190,075,420</u>	<u>\$ 73,047,870</u>	<u>\$ 16,659,619</u>

* Market value plus accrued income.

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

(a) Municipal Central Treasury

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

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

Both externally and internally managed investments are subject to the primary investment objectives outlined in AMC 6.50.030, in priority order as follows: safety of principal, liquidity, return on

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2016 and 2015

investment and duration matching. Consistent with these objectives, AMC 6.50.030 authorizes investments that meet the following rating and issuer requirements:

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

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2016 and 2015

- Mortgage Backed Securities, including generic mortgage-backed pass-through securities issued by Ginnie Mae, Freddie Mac, and Fannie Mae, as well as non-agency mortgage-backed securities, Collateralized Mortgage Obligations (CMOs), or Commercial Mortgage-Backed Securities (CMBS), which must have a credit rating of AA- or better by Standard & Poor's or the equivalent by another nationally recognized rating agency.
- Debt issued by the Tennessee Valley Authority.
- Money Market Mutual Funds rated Am or better by Standard & Poor's, or the equivalent by another nationally recognized rating agency, as long as they consist of allowable securities as outlined above.
- The Alaska Municipal League Investment Pool (AMLIP).
- Mutual Funds consisting of allowable securities as outlined above.
- Interfund Loans from a Municipal Cash Pool to a Municipal Fund.

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

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

The Investment Management Agreement (IMA) for each external manager and the policy and procedures (P&P) applicable to the internally managed investments provide additional guidelines for each portfolio's investment mandate. The IMA and P&P limit the concentration of investments for the working capital portfolio and the internally managed portfolio at the time new investments are purchased as follows:

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

Notes to Basic Financial Statements

December 31, 2016 and 2015

Investment Type	Concentration Limit	Working Capital Portfolio Holding % at December 31, 2016	Internally Managed Portfolio Holding % at December 31, 2016
U.S. Government Securities*	50% to 100% of investment portfolio	52%	51%
Repurchase Agreements	0% to 50% of investment portfolio	25%	0%
Certificates of Deposit**	0% to 50% of investment portfolio Maximum 5% per issuer	0%	0%
Bankers Acceptances	0% to 25% of investment portfolio Maximum 5% per issuer	0%	0%
Commercial Paper	0% to 15% of investment portfolio Maximum 5% per issuer	0%	0%
Corporate Bonds	0% to 15% of investment portfolio Maximum 5% per issuer	8%	8%
Alaska Municipal League Investment Pool (AMLIP)***	0% to 25% of investment portfolio	0%	0%
Money Market Mutual Funds****	0% to 25% of investment portfolio	15%	41%
Dollar Denominated Fixed Income Securities, other than those listed herein, rated by at least one nationally recognized rating agency	0% to 15% of investment portfolio Maximum 5% per issuer	0%	0%
		100%	100%

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

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

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

****Internally Managed Portfolio, 2016, includes amounts in excess of \$21 million held in anticipation of planned spending. Excluding these amounts, the Internally Managed Portfolio meets the Concentration Limit.

(b) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The externally managed portfolios of the Municipal Central Treasury, the Police and Fire Retiree Medical Trust, and the Police and Fire Retirement Pension Trust utilize the duration method to measure exposure to interest rate risk. All other funds disclose interest rate risk through the segmented time distribution tables within this note, which categorize fixed income investments according to their maturities.

Duration is a measure of an investment's sensitivity to interest rate changes, and represents the sensitivity of an investment's market price to a one percent change in interest rates. The effective duration of an investment is determined by its expected future cash flows, factoring in uncertainties introduced through options, prepayments, and variable rates. The effective duration of a pool is the average fair value weighted effective duration of each security in the pool.

AMC 6.50.030 requires the Working Capital Portfolio have a duration of zero to 270 days. At December 31, 2016, the Working Capital Portfolio had a duration of 0.16 years, or approximately 58 days. AMC 6.50.030 also requires that the Contingency Reserve Portfolio have an average duration within half a year of its benchmark. At December 31, 2016, the Contingency Reserve Portfolio had a duration of 1.88 years as compared to its benchmark, Barclays 1-3 Year Government Index, which had a duration of 1.92 years. AMC 6.50.030 requires the Strategic Reserve Portfolio have a maximum duration no greater than one year in excess of its benchmark. At December 31, 2016, the Strategic Reserve Portfolio had a duration of 3.88 years as compared to its benchmark, Barclays Intermediate Government/Corporate Index, which had a duration of 3.86 years.

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The effective durations of the externally managed portfolios of the Municipal Central Treasury (working capital, contingency reserve and strategic reserve) at December 31, 2016, were 0.16 years, 1.88 years, and 3.88 years, respectively, which are within the required durations per the policy.

(c) Credit Risk

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

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

At December 31, 2016, the Municipal Central Treasury's investment in marketable debt securities, excluding U.S. Treasury and Agency securities, totaled \$208,464,246. The distribution of ratings on these securities was as follows:

Moody's	S&P
Aaa 16%	AAA 17%
Aa 6%	AA 5%
A 21%	A 21%
Baa 23%	BBB 25%
Ba or Lower 20%	BB or Lower 20%
Not Rated 14%	Not Rated 12%
100%	100%

At December 31, 2016, securities in the MOA Trust had an investment of \$39,921,998 in commingled fixed income funds with a weighted average credit quality rating of BBB.

(d) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure when the amount invested in a single issuer exceeds 5 percent or more of total investments. Investments issued or explicitly guaranteed by the

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U.S. Government, as well as mutual funds and other pooled investments, are exempted from this requirement.

At December 31, 2016, the Municipal Central Treasury had no investments in any single issuer exceeding 5 percent of total investments.

(e) Custodial Credit Risk

Custodial credit risk is the risk, in event of the failure of a depository institution, that an entity will not be able to recover deposits or collateral securities in the possession of an outside party. For investments, custodial credit risk is the risk, in event of the failure of the counterparty to a transaction, that an entity will not be able to recover the value of the investment or collateral securities in the possession of an outside party.

At December 31, 2016, the Municipal Central Treasury had bank deposit carrying amounts totaling \$50,179,132, of which \$500,000 was covered by federal depository insurance. Bank deposits of \$13,478,739 were secured by collateral held by a third party and deposits of \$36,200,393 were secured by collateral held at the depository bank. 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, 2016 cash deposits and investments were not exposed to custodial risk.

(f) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Municipality has no specific policy addressing foreign currency risk; however foreign currency risk is managed through the requirements of AMC 6.50.030 and the asset allocation policies of each portfolio.

The Municipal Central Treasury is not exposed to foreign currency risk because AMC 6.50.030 explicitly prohibits the purchase of securities not denominated in U.S. Dollars. At December 31, 2016, all debt obligations held in the Municipal Central Treasury were payable in U.S. Dollars.

(g) Fair Value Measurements

At December 31, 2016, 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 investments 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.

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- Cash and short-term collective investments such as money market funds are valued at amortized cost.
- 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.
- Common stocks are valued at the closing price reported on the active market on which the individual securities traded.
- 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 the daily closing price as reported by the fund. These funds publish their daily NAV and transact at that price. The commingled funds held are deemed to be actively traded.
- Domestic equity 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 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.
- U.S. Tips are valued at the closing price reported on the active market on which the individual securities traded.

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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
- 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, 2016:

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Investment Type:	December 31, 2016	Fair Value Measurements Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Petty Cash	\$ 73,366		
Central Treasury- Unrestricted			
Investments Measured at Fair Value			
Repurchase Agreements	\$ 34,032,002	\$ -	\$ 34,032,002
Commercial Paper	3,515,419	-	3,515,419
U.S. Treasuries	123,312,501	123,312,501	-
U.S. Agencies	66,705,430	-	66,705,430
Municipal Bonds	231,288	-	231,288
Asset-backed Securities	46,245,507	-	46,245,507
Corporate Securities	137,193,556	-	137,193,556
	<u>411,235,703</u>	<u>123,312,501</u>	<u>287,923,202</u>
Investments Measured at Amortized Cost			
Cash & Money Market Funds	6,556,270		
Certificates of Deposits	2,824,520		
	<u>9,380,790</u>		
Total Central Treasury- Unrestricted	<u><u>\$ 420,616,493</u></u>		
Central Treasury- Restricted			
Investments Measured at Fair Value			
Repurchase Agreements	\$ 2,902,556	\$ -	\$ 2,902,556
Commercial Paper	299,827	-	299,827
U.S. Treasuries	13,307,427	13,307,427	-
U.S. Agencies	39,384,533	-	39,384,533
Municipal Bonds	19,726	-	19,726
Asset-backed Securities	3,944,233	-	3,944,233
Corporate Securities	16,708,812	-	16,708,812
	<u>76,567,114</u>	<u>13,307,427</u>	<u>63,259,687</u>
Investments Measured at Amortized Cost			
Cash & Money Market Funds	47,692,839		
Certificates of Deposits	240,900		
	<u>47,933,739</u>		
Total Central Treasury- Restricted	<u><u>\$ 124,500,853</u></u>		

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(3) Capital Assets

Capital assets for the year ended December 31, 2016 follow:

	December 31, 2015	Additions	Retirements	December 31, 2016
Intangible plant	\$ 4,594,622	0	0	4,594,622
Source of supply plant	44,052,525	136,277	(197,741)	43,991,061
Pumping plant	15,403,500	1,045,400	0	16,448,900
Water treatment plant	85,659,201	10,107,467	(17,464)	95,749,204
Transmission and distribution plant	595,455,756	18,297,922	(355,882)	613,397,796
General plant - land	1,297,531	0	0	1,297,531
General plant	55,785,393	2,946,863	(3,275,580)	55,456,676
	802,248,528	32,533,929	(3,846,667)	830,935,790
Less accumulated depreciation	(290,344,120)	(17,307,157)	3,584,757	(304,066,520)
Net plant in service	511,904,408	15,226,772	(261,910)	526,869,270
Plant acquisition adjustment	3,321,944	180,000	0	3,501,944
Less accumulated amortization	(2,479,589)	(114,776)	0	(2,594,365)
Property held for future use	506,623	0	0	506,623
Construction work in progress	18,709,453	26,264,174	(30,239,734)	14,733,893
	<u>\$ 531,962,839</u>	<u>41,556,170</u>	<u>(30,501,644)</u>	<u>543,017,365</u>

Any transfers of assets between plant categories are reported in the "Additions" column of plant in service along with the additions for the year. There were no transfers for the year ended December 31, 2016. Net salvage, consisting of auction proceeds from the sale of assets less any costs of removal or abandonment, is reported in the "Retirements" column for accumulated depreciation. For the year ended December 31, 2016 there were salvage proceeds of \$311,360, and cost of removal charges of \$49,449. The Utility's 2017 construction budget is \$32,963,000.

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

	December 31, 2014	Additions	Retirements	December 31, 2015
Intangible plant	\$ 4,594,622	0	0	4,594,622
Source of supply plant	42,564,185	255,299	1,233,041	44,052,525
Pumping plant	15,395,620	7,880	0	15,403,500
Water treatment plant	78,459,899	7,199,302	0	85,659,201
Transmission and distribution plant	578,922,173	16,624,371	(90,788)	595,455,756
General plant - land	762,256	535,275	0	1,297,531
General plant	55,336,869	1,757,460	(1,308,936)	55,785,393
	<u>776,035,624</u>	<u>26,379,587</u>	<u>(166,683)</u>	<u>802,248,528</u>
Less accumulated depreciation	<u>(273,716,642)</u>	<u>(16,813,197)</u>	<u>185,719</u>	<u>(290,344,120)</u>
Net plant in service	502,318,982	9,566,390	19,036	511,904,408
Plant acquisition adjustment	3,321,944	0	0	3,321,944
Less accumulated amortization	(2,364,812)	(114,777)	0	(2,479,589)
Property held for future use	506,623	0	0	506,623
Construction work in progress	15,234,921	26,544,071	(23,069,539)	18,709,453
	<u>\$ 519,017,658</u>	<u>35,995,684</u>	<u>(23,050,503)</u>	<u>531,962,839</u>

Any transfers of assets between plant categories are reported in the "Additions" column of plant in service along with the additions for the year. There were no transfers for the year ended December 31, 2015. Net salvage, consisting of auction proceeds from the sale of assets less any costs of removal or abandonment, is reported in the "Retirements" column for accumulated depreciation. For the year ended December 31, 2015 there were salvage proceeds of \$4,853, and cost of removal charges of \$15,898. The "Retirements" column also contains a \$1,244,621 adjustment for the acquisition of utility plant placed in service prior to being owned by the Utility. The Utility's 2016 construction budget was \$32,226,000.

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(4) Long-Term Obligations

(a) Long-Term Obligations Issued

The Utility issues revenue bonds to provide funds for capital construction and refunding of earlier bond issues. These bonds are generally issued as 30-year serial bonds with varying amounts of principal maturing each year. The Utility did not issue any bonds in 2016.

The Utility obtains low interest loans from the State of Alaska, Department of Environmental Conservation Alaska Drinking Water Fund to fund capital improvement projects. These loans enter repayment status one year after the initiation of operation of the facilities with the loan terms included in the contract. These loans have repayment terms of up to 20 years. In 2016, the Utility obtained additional low interest loans of \$9,998,202.

In March 2013, the Utility entered into a Loan Agreement for up to \$75,000,000 with a commercial bank. In May 2015, the Utility reduced the commitment under the Loan Agreement to \$40,000,000. In 2017, the agreement was amended to extend the lending term for up to two additional years, expiring in March of 2019. In 2016, the Utility obtained additional loans of \$5,500,000 through this agreement to bring the loan balance to \$28,625,600. Under the terms of the Loan Agreement, the Utility pays fees quarterly of 0.5% per annum based upon the amount of the authorized, but not drawn, loan amount calculated on a weekly basis. The interest rate on the loan varies. As of December 31, 2016, the interest rate for the loan was 1.22%; 0.72% plus a 0.5% lender margin.

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Long-term obligations outstanding at December 31, 2016 follow:

Description	Original Issue Date	Total Issue Amount	Interest Rates	Maturity Range	2016
Revenue Bonds:					
2004 Water revenue & refunding bonds	5/26/04	\$ 18,595,000	5.125%	2005 - 2021	\$ 1,050,000
2007 Water revenue & refunding bonds	6/28/07	91,315,000	5.00%	2008 - 2037	87,230,000
2009 Water refunding bonds	12/16/09	49,680,000	5.00%	2009 - 2014	22,265,000
Total revenue bonds		<u>159,590,000</u>			<u>110,545,000</u>
Long-term Revolving Loans:					
127201 Airport water project, phs 1B	6/6/00	2,334,756	1.50%	2000 - 2019	412,660
127231 ER Reservoir/wtr trans main	6/6/00	2,000,000	1.50%	2002 - 2021	572,156
127241 Loop wtr trans main phase V	7/25/00	5,039,233	1.50%	2002 - 2021	1,446,047
127251 Service reservoir No. 6	7/25/00	3,723,056	1.50%	2002 - 2021	1,065,678
127261 19th Spenard upgrade	9/16/08	770,000	1.50%	2010 - 2029	500,500
127321 Disinfection alternative wtr upg	3/22/02	755,000	1.50%	2002 - 2021	218,971
127331 68th Pebble-Baby Bear	9/30/08	300,000	1.50%	2009 - 2028	180,000
127361 Christen Dr upgrade	9/8/09	1,350,000	1.50%	2010 - 2029	877,500
127381 South addition woodstave upgrd	8/27/01	922,354	1.50%	2004 - 2023	324,943
127411 Loop wtr trans main phase VI	3/2/01	1,305,776	1.50%	2002 - 2021	375,071
127441 Daryl Industry Way	9/30/08	420,000	1.50%	2011 - 2030	294,000
127461 DeBarr-Klevin-Hoyt upgrade	12/4/09	1,000,000	1.50%	2010 - 2029	650,000
127471 SCADA water	8/4/04	4,000,000	1.50%	2006 - 2025	1,967,060
127491 Girdwood wtr supply imprvmnts	6/23/04	2,135,300	1.50%	2010 - 2029	1,303,682
127531 Loop wtr trans main phase IV	10/31/06	12,306,151	1.50%	2010 - 2029	7,998,998
127541 SCADA water II	12/1/04	6,500,000	1.50%	2009 - 2028	3,575,000
127571 88th Ave wtr trans main	10/31/06	1,850,696	1.50%	2009 - 2028	1,110,418
127581 Pine Debarr San Rob wtr upgrd	9/8/07	870,014	1.50%	2010 - 2029	565,509
127731 Arctic 32nd - 36th wtr upgrd	11/24/06	404,234	1.50%	2009 - 2028	242,540
127771 East Bluff upgrade	10/9/06	317,763	1.50%	2009 - 2028	190,658
127781 Sullivan-Ben Boeke wtr upgrd	10/9/06	2,189,753	1.50%	2008 - 2027	1,204,364
127791 Hiland Rd water intertie	6/25/10	8,700,000	1.50%	2011 - 2030	6,090,000
127811 Island-Kodiak Kalgin water	6/7/10	570,541	1.50%	2011 - 2030	399,379
127831 Klatt Rd - NSH-PZ intertie	9/10/07	621,600	1.50%	2008 - 2027	337,369
127851 Northern Comm. extension	6/3/08	1,402,434	1.50%	2013 - 2032	1,051,825
127861 So. Anchorage wtr extension	10/12/11	3,427,000	1.50%	2013 - 2032	2,741,600

Loans continued on next page.

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Description	Original Issue Date	Total Issue Amount	Interest Rates	Maturity Range	2016
127871 Debarr-Muldoon-Turpin upgrd	9/28/07	\$ 3,034,740	1.50%	2009 - 2028	\$ 1,820,844
127901 SCADA water III	9/7/07	5,300,000	1.50%	2009 - 2028	2,915,000
127931 Hillside Transmission Main	7/10/08	9,500,000	1.50%	2011 - 2030	6,650,000
127941 2006 Misc Water Projects	4/8/08	846,000	1.50%	2008 - 2027	490,214
127961 NE Improvements Phase 1	7/8/08	929,107	1.50%	2010 - 2029	603,920
127991 Sand Lake Wtr Extension	2/10/10	280,719	1.50%	2011 - 2030	196,503
130141 Calais Subdivision Wtr Rehab	10/8/14	2,387,512	1.50%	2018-2037 *	2,387,512
130151 Knik View Intertie	7/21/08	715,946	1.50%	2011 - 2030	501,162
130161 Norm-Newt Drive	12/17/08	1,768,400	1.50%	2010 - 2029	1,149,460
130181 Ship Creek WTF Improvements	10/3/14	15,039	1.50%	2018-2037 *	15,039
130221 San Ernesto Upgrade	12/17/08	1,567,218	1.50%	2010 - 2029	1,018,692
130241 South Addition Phase IV Proj	2/2/09	1,164,317	1.50%	2010 - 2029	756,806
130271 Well 7 Capacity Upgrade	2/28/11	1,775,766	1.50%	2011 - 2030	1,243,036
130331 Seward Hwy Northern Lts Blvd	12/5/12	1,100,000	1.50%	2014 - 2033	880,000
130341 Bayshore Subdv Wtr Upgrade	9/23/14	3,609,488	1.50%	2018-2037	3,609,488
130351 North Sitka Water Upgrade	4/13/12	1,300,000	1.50%	2016-2035	1,235,000
130371 ARRC Yard 12" Wtr Rehab	10/8/14	2,224,533	1.50%	2018-2037 *	2,224,533
130401 Wonder PK Water Upgrd PHII	4/24/13	2,500,000	1.50%	2018-2037 *	2,500,000
130411 Sand Lake Area Wtr Ph II	11/16/12	850,818	1.50%	2014 - 2033	725,284
130431 68th Ave Redhawk Intertie	12/4/09	632,444	1.50%	2010 - 2029	411,089
130441 3000 Arctic HVAC Upgrade	6/24/11	1,046,759	1.50%	2012 - 2031	785,069
130471 Downtown CIPP Wtr Upgrade	10/15/10	1,414,951	1.50%	2011 - 2030	990,466
130491 2-Way Radio Water Upgrade	2/17/10	299,248	1.50%	2010 - 2019	94,762
130561 41st 41st Cope Northstar Water	3/14/12	1,346,010	1.50%	2014 - 2033	1,144,108
130841 Girdwood Wtr Improv	12/14/11	2,000,000	1.50%	2013 - 2032	1,500,000
130921 Golden View Reservoir	2/2/11	2,808,878	1.50%	2011 - 2030	1,966,215
130941 Ship Crk WTF Heat Exchange	11/1/12	8,700,000	1.50%	2018-2037 *	8,700,000
131021 G Street - 7th Water Main	12/29/10	502,468	1.50%	2011 - 2030	351,728
131031 Eklutna WTF Roof & Window	6/7/10	1,556,106	1.50%	2011 - 2030	1,089,274
131151 Wesleyan Dr-Checkmate Wtr Rehab	12/16/16	293,324	1.50%	2018 - 2037 *	293,324
131281 Ship Creek WTF Roof	3/23/11	1,130,742	1.50%	2011 - 2030	791,519
131441 San Roberto-Klevin/Hoyt Wtr Upgrd	10/6/14	737,524	1.50%	2016 - 2035	700,648
131451 22nd Ave-Wayune-Illian Water Rehab	2/4/15	1,352,663	1.50%	2018 - 2037 *	1,352,663
131461 Denali Wtr Rehab	10/5/16	1,500,000	1.50%	2018 - 2037 *	1,500,000
Total Long-Term Loans		<u>131,406,381</u>			<u>88,289,286</u>
Loan Payable-other	3/15/13	28,625,600	1.22%	2019	28,625,600
Total Long-Term Debt		<u>\$ 319,621,981</u>			<u>\$ 227,459,886</u>

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

**MUNICIPALITY OF ANCHORAGE, ALASKA
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(b) Revenue Bond Coverage Requirements

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

The Utility's Schedule of Revenue Bond Coverage for the last 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	
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

- (1) Excludes allowance for funds used during construction, includes non-operating revenue except for payments received for PERS on-behalf from State of Alaska. Excludes \$832,477 revenue in 2016 associated with prior years.
- (2) Assessment collections represent payments made by benefited property owners.
- (3) Excludes depreciation, for years 2015 and 2016 PERS on-behalf and pension expense; but includes special items and transfers to other funds.
- (4) Required minimum coverage is 1.15.

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(c) Total Debt Service Coverage Requirements

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

Fiscal Year	Revenue (1)	Assessment Collections (2)	Operating Expenses (3)	Amount Available For Debt Service (4)	Current Year Debt Service Requirements			Coverage (5)
					Principal (4)	Interest (4)	Total	
2014	\$ 62,165,080	471,667	30,728,442	31,908,305	12,232,610	6,784,585	19,017,195	1.68
2015	61,488,681	282,443	33,931,325	27,839,799	8,982,338	6,568,498	15,550,836	1.79
2016	61,126,530	532,065	32,848,108	28,810,487	9,241,407	6,308,412	15,549,819	1.85

- (1) Excludes allowance for funds used during construction, includes non-operating revenue except for payments received for PERS on-behalf from State of Alaska. Excludes \$832,477 revenue in 2016 associated with prior years.
- (2) Assessment collections represent payments made by benefited property owners.
- (3) Excludes depreciation, for years 2015 and 2016 PERS on-behalf and pension expense; but includes special items and transfers to other funds.
- (4) Represents total principal and interest payments on all debt: Revenue bonds, Alaska Drinking Water Fund and loan payable-other. Does not include Mini-Bonds of \$1,956,000 repaid in 2014 as there were no debt service coverage requirements.
- (5) Required minimum coverage is 1.15.

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(d) Debt Service Requirements

Debt service requirements to maturity follow:

Year	Revenue Bonds		Long-term Loans		Total
	Principal	Interest	Principal	Interest	
2017	\$ 3,855,000	5,099,536	5,405,718	1,330,297	15,690,551
2018	3,985,000	4,965,958	6,693,185	1,379,039	17,023,182
2019	4,155,000	4,795,591	35,335,479	1,142,856	45,428,926
2020	4,350,000	4,608,929	6,553,535	1,042,208	16,554,672
2021	4,535,000	4,421,124	6,568,607	943,904	16,468,635
2022 - 2026	20,660,000	19,157,716	28,740,451	3,356,129	71,914,296
2027 - 2031	26,425,000	13,932,662	20,437,468	1,308,977	62,104,107
2032 - 2036	34,570,000	6,489,505	6,499,422	328,755	47,887,682
2037	8,010,000	200,250	681,021	10,215	8,901,486
TOTAL	110,545,000	63,671,271	116,914,886	10,842,380	301,973,537
	(3,855,000)		(5,405,718)		Current Portion of Principal
	(9,386)		--		Unamortized Discounts
	1,356,788		--		Unamortized Premiums
	<u>\$ 108,037,402</u>		<u>111,509,168</u>		Total Long Term Portion

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(e) Long-Term Obligations

Changes in long-term obligations for the year ending December 31, 2016 follow:

Description	December 31, 2015	Additions	Deletions	December 31, 2016	Amounts Due Within One Year
Revenue bonds	\$ 114,255,000	—	(3,710,000)	110,545,000	3,855,000
Long-term revolving loans	83,822,491	9,998,202	(5,531,407)	88,289,286	5,405,718
Long-term loans payable	23,125,600	5,500,000	—	28,625,600	—
Total debt	221,203,091	15,498,202	(9,241,407)	227,459,886	9,260,718
Unamortized discounts	(13,787)	—	4,401	(9,386)	—
Unamortized premiums	1,588,220	—	(231,432)	1,356,788	—
Total debt, net	222,777,524	15,498,202	(9,468,438)	228,807,288	9,260,718
Compensated absences	1,195,878	1,547,903	(1,461,246)	1,282,535	935,365
Pollution remediation obligation	88,500	—	(42,500)	46,000	15,000
Total long-term, net	\$ 224,061,902	17,046,105	(10,972,184)	230,135,823	

Changes in long-term obligations for the year ending December 31, 2015 follow:

Description	December 31, 2014	Additions	Deletions	December 31, 2015	Amounts Due Within One Year
Revenue bonds	\$ 117,825,000	—	(3,570,000)	114,255,000	3,710,000
Long-term revolving loans	79,856,062	9,378,767	(5,412,338)	83,822,491	5,531,407
Long-term loans payable	12,125,600	11,000,000	—	23,125,600	—
Total debt	209,806,662	20,378,767	(8,982,338)	221,203,091	9,241,407
Unamortized discounts	(19,632)	—	5,845	(13,787)	—
Unamortized premiums	1,841,327	—	(253,107)	1,588,220	—
Total debt, net	211,628,357	20,378,767	(9,229,600)	222,777,524	9,241,407
Compensated absences	1,213,132	1,535,188	(1,552,442)	1,195,878	946,712
Pollution remediation obligation	88,500	—	—	88,500	20,000
Total long-term, net	\$ 212,929,989	21,913,955	(10,782,042)	224,061,902	

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(5) Deferred Inflows of Resources

Contributions in Aid of Construction (CIAC) for the year ended December 31, 2016 follow:

	<u>December 31, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2016</u>
Contributions in Aid of Construction				
Customer:				
Special assessments	\$ 49,057,431	137,007	(12,173)	49,182,265
Private development	141,535,172	2,522,302	(284,922)	143,772,552
Other	1,037,984	0	(1,037,984)	0
Intergovernmental	198,639,016	0	(20,464)	198,618,552
Total CIAC	<u>390,269,603</u>	<u>2,659,309</u>	<u>(1,355,543)</u>	<u>391,573,369</u>
Accumulated Amortization				
Customer	(92,624,722)	(3,437,969) *	1,335,079	(94,727,612)
Intergovernmental	(81,310,870)	(3,430,311)	20,464	(84,720,717)
Total amortization	<u>(173,935,591)</u>	<u>(6,868,280)</u>	<u>1,355,543</u>	<u>(179,448,328)</u>
Net CIAC	<u>\$ 216,334,012</u>	<u>(4,208,971)</u>	<u>0</u>	<u>212,125,041</u>

* Includes \$285,107 in accumulated amortization from South Central Utilities, Inc. acquisition in July 2016.

Contributions in Aid of Construction (CIAC) for the year ended December 31, 2015 follow:

	<u>December 31, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2016</u>
Contributions in Aid of Construction				
Customer:				
Special assessments	\$ 49,057,431	137,007	(12,173)	49,182,265
Private development	141,535,172	2,522,302	(284,922)	143,772,552
Other	1,037,984	0	(1,037,984)	0
Intergovernmental	198,639,016	0	(20,464)	198,618,552
Total CIAC	<u>390,269,603</u>	<u>2,659,309</u>	<u>(1,355,543)</u>	<u>391,573,369</u>
Accumulated Amortization				
Customer	(92,624,722)	(3,437,969) *	1,335,079	(94,727,612)
Intergovernmental	(81,310,870)	(3,430,311)	20,464	(84,720,717)
Total amortization	<u>(173,935,591)</u>	<u>(6,868,280)</u>	<u>1,355,543</u>	<u>(179,448,328)</u>
Net CIAC	<u>\$ 216,334,012</u>	<u>(4,208,971)</u>	<u>0</u>	<u>212,125,041</u>

* Includes \$285,107 in accumulated amortization from South Central Utilities, Inc. acquisition in July 2016.

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(6) Net Position

Net position invested in capital assets is comprised of:

	2016	2015
Capital assets, net of depreciation	\$ 543,017,365	\$ 531,962,839
Less: Revenue bonds payable long-term	108,037,402	112,119,433
Less: Unamortized Loss on Refunded Bonds	(985,193)	(1,272,547)
Less: Unspent debt proceeds	(4,222,552)	(1,524,082)
Alaska Drinking Water Fund loans payable, long-term	82,883,568	78,291,084
Loans payable - other	28,625,600	23,125,600
Long-term obligations maturing within one year	9,260,718	9,241,407
Contributions in aid of construction, net	212,125,041	216,334,012
Net investment in capital assets, net of related debt	\$ 107,292,781	\$ 95,647,932

Restricted net position is comprised of:

	2016	2015
Revenue bond debt service investments	\$ 5,134,352	\$ 5,069,426

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(7) Pensions

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

(a) Defined Benefit Pension Plans

Public Employees Retirement System (PERS I-III)

General Information about the Plan

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

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

The Plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. That report is available via the internet at <http://doa.alaska.gov/drb/pers>. Actuarial valuation reports, audited financial statements, and other detailed plan information are also available on this website. They may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by phoning (907) 465-4460.

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

Historical Context and Special Funding Situation

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

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

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

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

Employee Contribution Rates

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

Employer and Other Contribution Rates

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

Employer Effective Rate

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

ARM Board Adopted Rate

This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined and used to calculate annual Plan funding requirements, without regard to the statutory rate cap or the GASB accounting rate. Prior to July 1, 2015, there were no constraints or restrictions on the actuarial cost method or other assumptions used in the ARM Board valuation. Effective July 1, 2015, the Legislature requires the ARM Board to adopt employer contribution rates for past service liabilities using a level percent of pay method over a closed 25 year term which ends in 2039. This will result in lower ARM Board Rates in future years (as demonstrated in the contribution rate tables below).

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On-behalf Contribution Rate

This is the rate paid in by the State as an on-behalf payment under the current statute. The statute requires the State to contribute, based on funding availability, an on-behalf amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. However, in state fiscal year 2015, the State Legislature appropriated a one-time contribution to the Plan in the amount of \$1 billion. As a result, the On-behalf Contribution Rate for State Fiscal Year 2015 (July 1, 2014 through June 30, 2015) significantly exceeds the statutory amount. In the governmental fund financial statements, on-behalf contribution amounts have been recognized as additional revenues and expenditures during the calendar year 2016. On the proprietary fund and government-wide financial statements, the on-behalf amounts are included in revenue and expense only to the extent they are applicable to the measurement period, which is the same as the State's fiscal year ending June 30, 2016.

GASB Rate

This is the rate used to determine the long-term pension and healthcare liability for plan accounting purposes in accordance with generally accepted accounting principles as established by GASB. Certain actuarial methods and assumptions for this rate calculation are mandated by GASB. Additionally, the GASB Rate disregards all future Medicare Part D payments. For Fiscal Year 2016, the rate uses an 8.00 percent pension discount rate and a 4.55 percent healthcare discount rate.

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

Contribution rates for the years ended June 30, 2016 and June 30, 2017 were determined in the June 30, 2013 and June 30, 2014 actuarial valuations, respectively. Utility contribution rates for the 2016 calendar year were as follows:

January 1, 2016 to June 30, 2016	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate	GASB Rate
Pension	13.25%	19.04%	3.63%	37.79%
Postemployment healthcare	8.75%	8.15%	1.56%	58.73%
Total Contribution Rates	22.00%	27.19%	5.19%	96.52%

July 1, 2016 to December 31, 2016	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate	GASB Rate
Pension	14.96%	20.34%	4.14%	24.49%
Postemployment healthcare	7.04%	5.80%	0.00%	56.64%
Total Contribution Rates	22.00%	26.14%	4.14%	81.13%

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In 2016, the Utility was credited with the following contributions into the pension plan.

	Measurement Period	Utility's Fiscal Year
	July 1, 2015 to June 30, 2016	January 1, 2016 to December 31, 2016
Employer contributions (including DBUL)	\$ 1,027,975	\$ 1,114,822
Nonemployer contributions (on-behalf)	371,212	400,778
Total Contributions	\$ 1,399,187	\$ 1,515,600

In addition, employee contributions to the Plan totaled \$414,628 during the Utility's calendar year.

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

At December 31, 2016, 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:

Utility proportionate share of NPL	2016 \$ 19,698,145
State's proportionate share of NPL associated with the Utility	2,482,045
Total Net Pension Liability	\$ 22,180,190

The Utility recognized \$19,698,145 in net pension liability. The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 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, 2016 measurement date, the Municipality's proportion was 7.76 percent, which was an increase of 1.60 percent from its proportion measured as of June 30, 2015. The Utility represents approximately 4.54 percent of the total net pension liability of the Municipality.

For the year ended December 31, 2016, the Utility recognized pension expense of \$3,814,464. Of this amount, \$334,582 was recorded as on-behalf revenue and expense for additional contributions paid by the State. At December 31, 2016, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Measurement Period June 30, 2016	
	Outflows of Resources	Inflows of Resources
Difference between expected and actual experience	\$ 1,811	\$ (219,569)
Changes in assumptions	90,853	-
Net difference between projected and actual earnings on pension plan investments	1,936,241	-
Changes in proportion and differences between Utility contributions and proportionate share of contributions	1,747,464	-
Utility contributions subsequent to the measurement date	593,425	-
Total Deferred Outflows and Deferred Inflows Related to Pensions	\$ 4,369,794	\$ (219,569)

The \$593,425 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, 2017. The Utility's total deferred inflows and outflows related to pensions. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Net Amortization of Deferred Outflows and Deferred Inflows of Resources
2017	\$ 1,801,977
2018	452,156
2019	791,541
2020	511,126
Total Amortization	\$ 3,556,800

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement period, and rolled forward to the measurement date of June 30, 2016. The actuarial valuation for the year ended June 30, 2015 (latest available) was prepared by Conduent HR Services. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2009 to June 30, 2013, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience.

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Inflation	3.12%
Salary Increases	Graded by service, from 9.66% to 4.92% for Peace Officers/Firefighters. Graded by age and service, from 8.55% to 4.34% for all others.
Investment Return / Discount Rate	8.00% net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and real rate of return over 4.88%.
Mortality (Pre-termination)	Based upon 2010-2013 actual mortality experience, 60% of male rates and 65% of female rates of post-termination mortality rates. Deaths are assumed to be occupational 70% of the time for Peace Officers/Firefighters, 50% of the time for Others.
Mortality (Post-termination)	96% of all rates of the RP-2000 table, 2000 Base Year projected to 2018 with Projection Scale BB.

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

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

Discount Rate

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

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Discount Rate Sensitivity

The following presents the Utility's proportionate share of the net pension liability calculated using the discount rate of 8 percent, 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 (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	<u>Proportional Share</u>	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
Utility's proportionate share of the net pension liability	0.35241%	\$ 25,370,213	\$ 19,698,145	\$ 14,914,017

Pension Plan Fiduciary Net Position

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

(b) Defined Contribution Pension Plans

Public Employees Retirement System (PERS IV)

Plan Information

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

The Plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. That report is available via the internet at <http://doa.alaska.gov/drb/pers>. Actuarial valuation reports, audited financial statements, and other detailed plan information are also available on this website. They may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by phoning (907) 465-4460.

Plan Participation and Benefit Terms

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

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

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Plan Contribution Requirements

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

	<u>1/1 - 6/30</u>	<u>7/1 - 12/31</u>
Employee Contribution	<u>8.00%</u>	<u>8.00%</u>
Employer Contribution		
Retirement	5.00%	5.00%
Health Reimbursement Arrangement *	3.00%	3.00%
Retiree Medical Plan	1.68%	1.18%
Death & Disability Benefit	<u>0.22%</u>	<u>0.17%</u>
Total Employer Contribution	<u>9.90%</u>	<u>9.35%</u>

Health Reimbursement Arrangement

Alaska Statute 39.30.370 requires that the employer contribute “an amount equal to three percent of the employer’s average annual employee compensation.” For actual remittance, this amount is calculated as a flat rate per full time employee and a flat rate per hour for part time employees. Prior to July 1, 2016 a flat rate of approximately \$2,005 per year for full time employees and \$1.28 per part time hour worked was paid. For pay periods ending after July 1, 2016, a flat rate of approximately \$2,049 per year for full time employees and \$1.31 per part time hour worked were paid.

For the year ended December 31, 2016, the Utility contributed \$176,236 to PERS IV for retirement and retiree medical, and \$91,750 to PERS IV for Health Reimbursement Arrangement on-behalf of its employees. Employee contributions to the Plan totaled \$281,959.

(8) 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.

(9) Environmental Issues

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

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

Notes to Basic Financial Statements

December 31, 2016 and 2015

The Utility used the expected cash flow technique to measure the liability. The Utility estimated a reasonable range of potential outlays of \$15,000 to \$255,000 and multiplied those outlays by their probability of occurring to estimate a pollution remediation obligation of \$46,000. The potential for a material change in the estimate is possible depending upon the response received from ADEC.

(10) Regulatory Matters

(a) 2015-2016 Rates

The current water rates have been in effect since June 5, 2015. Based on a 2012 test year revenue requirement filing, the RCA accepted a stipulation between AWWU and the Office of the Attorney General, Regulatory Affairs and Public Advocacy section (RAPA) and approving a permanent rate increase of 2.26% effective June 5, 2015. Anchorage Water Utility (AWU) has not submitted a rate filing since the 2015 rate increase.

(b) Acquisitions

AWWU entered into a Purchase and Sale Agreement with Southcentral Utilities Inc. (SUI) to acquire SUI's distribution assets. AWWU filed a joint application to amend AWU's CPCN No. 122 to incorporate customers from Southcentral Utilities in AWU's service area and to allow SUI to discontinue service and cancel its Provisional CPCN No. 6088. AWWU received approval from the RCA to expand the service area for AWU on March 31, 2016 and began service to customers in the new service areas on July 18, 2016. As a result of the acquisition AWWU gained 65 customers, resulting in an increase of annual revenues of approximately \$40,000.

(11) Interfund Transfers

The composition of interfund transfers for the year ended December 31, 2016 follows:

<u>Description</u>	<u>Amount</u>
Transfers to other funds:	
Municipal utility service assessment	\$ 7,314,997
Total transfers	<u>\$ 7,314,997</u>

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

<u>Description</u>	<u>Amount</u>
Transfers to other funds:	
Municipal utility service assessment	\$ 7,113,584
ERP project labor	7,320
Total transfers	<u>\$ 7,120,904</u>

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

Notes to Basic Financial Statements

December 31, 2016 and 2015

(12) Subsequent Events

Subsequent to December 31, 2016, the Utility entered into loan agreements for an additional \$1.8 million from the Alaska Drinking Water Fund to be used for capital construction projects to be drawn as needed.

In March 2017, the Municipality authorized the issuance of Water Revenue Refunding Bonds. These bonds, if issued, would refund all or a portion of the following issues: 2004 Water Senior Lien Revenue Bonds with a remaining outstanding balance of \$1.1 million, 2007 Water Senior Lien Revenue Bonds with a remaining outstanding balance of \$87.2 million, 2009 Water Senior Lien Revenue Bonds with a remaining outstanding balance of \$22.3 million, and any or all outstanding Subordinate Lien Water Revenue Loans. Details of the Water Utility outstanding revenue bonds and loans are disclosed in Note 4(a) - Long-term Obligations.

In July 2017, the Water Utility issued \$10 million in Water Revenue Refunding Bonds 2017 Series A to partially refund the Water Utility Commercial Bank Loans. These bonds have a variable interest rate and are set to mature in July 2027. The outstanding loan balance of the loans at December 31, 2016 was \$28,625,600.

(13) Other Accounting Matters

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

As discussed in Note 7 to the financial statements, the Municipality participates in the Alaska Public Employees Retirement System (PERS) plan and the Police and Fire Retirement Pension System. In 2015, the Municipality adopted the provisions of GASB Statement No. 68 Accounting and Financial Reporting for Pensions, which, among other accounting and reporting criteria, requires the Municipality to recognize its proportional share of the Net Pension Liability (and related deferred inflow/outflow accounts), as of the beginning of the Municipality’s fiscal year. As a result of the implementation of this statement, the Municipality has recorded an opening balance adjustment for 2015 to reflect opening balance pension liabilities and related accounts and to decrease opening net position as follows:

	Opening Net Position, as Originally Presented	Change in Accounting Principle Adjustment	Opening Net Position, as Restated
Water Utility	130,001,881	(11,061,830)	118,940,051

(14) New Accounting Pronouncements

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

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

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

Notes to Basic Financial Statements

December 31, 2016 and 2015

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

GASB 83 Certain Asset Retirement Obligations: The provisions of this Statement are required to be implemented for the 2019 financial reporting period.

GASB 85 Omnibus 2017: The provisions of this Statement are required to be implemented for the 2018 financial reporting period.

GASB 86 Certain Debt Extinguishment Issues: The provisions of this Statement are required to be implemented for the 2018 financial reporting period.

GASB 87 Leases: The provisions of this Statements are required to be implemented for the 2020 financial reporting period.

REQUIRED SUPPLEMENTARY INFORMATION

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

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

Years 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	Utility's Proportionate Share of the State of Alaska's Proportionate Share of the Net Pension Liability	Total Utility Net Pension Liability	Utility's Proportion of the Covered Payroll	Utility's Proportionate Share of the Net Pension Liability as a Percentage of Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	2016	4.53878%	\$ 19,698,145	\$ 2,482,045	\$ 22,180,190	\$ 9,225,738	213.51%	59.55%
2015	2015	4.54952%	13,600,625	3,642,874	17,243,499	8,854,612	153.60%	63.96%

Schedule of Utility Contributions

Years Ended December 31,	Measurement Period Ended June 30,	Utility's Proportion of the Contractually Required Contribution	Utility's Proportion of the Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	Utility's Proportion of the Covered Payroll	Utility's Proportion of the Contributions as a Percentage of Covered Payroll
2016	2016	\$ 1,114,822	\$ 1,114,822	\$ -	\$ 9,402,941	11.856%
2015	2015	995,274	995,274	-	9,061,450	10.984%

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Required Supplementary Information
Pension Plans

December 31, 2016

Public Employees Retirement System - Defined Benefit

In accordance with GASB Statement No. 82, "Covered Payroll" is defined as payroll on which contributions to the pension plan are based. Because a portion of the 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 Information on the Net Pension Liability

- This table is presented based on the Plan measurement date. For December 31, 2016, the Plan measurement date is June 30, 2016.
- There were no changes in benefit terms from the prior measurement period.
- There were no changes in assumptions from the prior measurement period.
- There were no changes in 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, 2016 allocated the net pension liability based on the present value of contributions for fiscal year 2018 through 2039, as determined by projections based on the June 30, 2015 actuarial valuation. This is the same allocation method used for the measurement period June 30, 2015.

Schedule of Utility's Contributions

- This table is based on the Utility's contributions for each year presented. A portion of these contributions are included in the plan measurement results, while a portion of the contributions are reported as a deferred outflows of resources on the basic financial statements.

STATISTICAL SECTION

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Financial ratios:					
Current ratio (current assets / current liabilities)	3.31	2.87	2.53	1.96	1.55
Quick ratio (quick assets / current liabilities)	3.19	2.75	2.41	1.85	1.45
Return on investment (change in net position / total assets)	1.6%	1.9%	2.6%	2.2%	1.5%
Return on equity (change in net position / net position)	6.8%	8.8%	11.3%	10.5%	7.9%
Debt to equity as a percent of capital structure (outstanding debt / capital structure over net position / capital structure)	<u>62%</u> 38%	<u>63%</u> 37%	<u>62%</u> 38%	<u>65%</u> 35%	<u>67%</u> 33%
Operating margin (operating income / operating revenues)	34%	39%	44%	46%	39%
Revenue bond debt coverage (note 4b) (amount available for revenue bond debt service / revenue bond principal & interest)	3.22	3.11	3.05	2.50	2.10
Total debt coverage (note 4c) (amount available for total debt service / total principal & interest)	1.85	1.79	1.68	1.60	—
Weighted cost of long term debt (Sum of interest rates multiplied by percentage of total amounts outstanding for bonds, long-term loans, and amortization of bond discounts and transaction costs)	3.13%	3.20%	3.51%	3.69%	3.52%

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

<u>Customer Type</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Residential	52,599	52,421	52,162	51,884	51,703
Commercial	3,695	3,734	3,692	3,673	3,659
Total	<u>56,294</u>	<u>56,155</u>	<u>55,854</u>	<u>55,557</u>	<u>55,362</u>
Growth rate	0.25%	0.54%	0.53%	0.35%	

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

Type of Service	2016 ⁽¹⁾	2015 ⁽²⁾	2014 ⁽³⁾	2013 ⁽⁴⁾	2012 ⁽⁵⁾
Metered:					
Customer charge (per account)	\$ 13.15	13.15	13.37	12.86	12.13
Meter rate (per meter)					
(Depending on meter size ranging between 5/8" to 8")	6.53 to	6.53 to	6.65 to	6.39 to	6.03 to
	346.44	346.44	352.33	338.78	319.60
Volume rate (per 1,000 gallons):					
Residential	5.08	5.08	5.17	4.97	4.69
Commercial	5.08	5.08	5.17	4.97	4.69
Unmetered:					
Customer charge (per account)	13.15	13.15	13.37	12.86	12.13
Residential (per dwelling unit)	36.55	36.55	37.17	35.74	33.72
Commercial (per service connection)					
Service Size:					
3/4"	51.78	51.78	52.67	50.64	47.77
1"	104.39	104.39	106.16	102.08	96.30
1 1/2"	272.94	272.94	277.59	266.91	251.80
2"	494.30	494.30	502.72	483.38	456.02

(1) Rates effective 6/5/15.

(2) Rates effective 6/5/15. Rate increase of 2.26% was approved by the Regulatory Commission of Alaska effective 6/5/15 as Final and Permanent.

(3) Rates effective 1/1/14. Rate increase of 4.0% was approved by the Regulatory Commission of Alaska effective 1/1/14 as Interim and Refundable.

(4) Rates effective 1/1/13.

(5) Rates effective 1/1/12.

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

Table 3
Revenues and Expenses - Budget to Actual

	2016 Budget	2016 Actual	Variance Favorable / (Unfavorable)
Operating Revenue			
Charges for services	\$ 59,600,000	59,940,423	340,423
Miscellaneous	981,000	1,325,422	344,422
Total Operating Revenue	60,581,000	61,265,845	684,845
Non Operating Revenue			
Investment Income	310,000	674,457	364,457
Other Income	130,000	418,389	288,389
Total Non Operating Revenue	440,000	1,092,846	652,846
Total Revenue	61,021,000	62,358,691	1,337,691
Operating Expenses			
Labor			
Labor and Benefits	15,650,560	15,188,596	461,964
Overtime	448,000	561,431	(113,431)
Total Labor	16,098,560	15,750,027	348,533
Non Labor			
Non Labor	9,326,847	8,387,490	939,357
Travel	82,000	52,296	29,704
Transfers (MUSA and gross receipts)	7,280,000	7,314,997	(34,997)
Depreciation and Amortization	11,427,000	11,084,146	342,854
Total Non Labor	28,115,847	26,838,929	1,276,918
Total Direct Cost	44,214,407	42,588,956	1,625,451
Charges from other departments	1,534,140	1,480,296	53,844
Charges to other departments	(375,000)	(375,000)	-
Total Operating Expense	45,373,547	43,694,252	1,679,295
Non Operating Expense			
Interest on bonded debt	5,365,000	5,217,686	147,314
Amortization of debt expense	295,000	124,830	170,170
Other interest expense	1,800,000	1,496,100	303,900
Interest during construction	(500,000)	(1,566,014)	1,066,014
Total Non Operating Expense	6,960,000	5,272,602	1,687,398
Total Expenses	52,333,547	48,966,854	3,366,693
Increase in Net Position	8,687,453	13,391,837	4,704,384
Appropriation:			
Total Expenses	52,333,547	48,966,854	
Less: Non cash items not appropriated			
Depreciation and amortization	11,427,000	11,084,146	
Amortization of debt expense	295,000	124,830	
Interest during construction	(500,000)	(1,566,014)	
PERS on-behalf expense	-	416,210	
PERS GASB 68 expense	-	3,479,882	
Total Non-Cash	11,222,000	9,642,962	
Total Appropriated Expenses	\$ 41,111,547	39,323,892	1,787,655

MUNICIPALITY OF ANCHORAGE, ALASKA

WATER UTILITY FUND

Statistical Section (unaudited)

Table 4

Debt Principal by Issue

Description	Original Issue Date	Total Issue Amount	Principal Balance 12/31/2015	2016 New(Retired) Debt	2016 Principal Payments	Principal Balance 12/31/2016	Current Portion
Revenue Bonds							
2004 Water Revenue & Refunding Bonds	05/26/2004	\$ 18,595,000	1,460,000	—	410,000	1,050,000	430,000
2007 Water Revenue & Refunding Bonds	06/28/2007	91,315,000	87,800,000	—	570,000	87,230,000	600,000
2009 Water Refunding Bonds	12/16/2009	49,680,000	24,995,000	—	2,730,000	22,265,000	2,825,000
Total Revenue Bonds		159,590,000	114,255,000	—	3,710,000	110,545,000	3,855,000
Alaska Drinking Water (ADW) Loans							
127201 - Airport Water Project, Phase 1B	06/06/2000	2,334,756	546,167	—	133,507	412,660	135,510
127231 - ER Rsvrv/Wtr Trans Main	06/06/2000	2,000,000	681,564	—	109,408	572,156	111,049
127241 - Loop Wtr Trans Main Phs V	07/25/2000	5,039,233	1,722,561	—	276,514	1,446,047	280,662
127251 - Service Reservoir No. 6	07/25/2000	3,723,056	1,269,458	—	203,780	1,065,678	206,837
127261 - 19th Spenard Upgrade	09/16/2008	770,000	539,000	—	38,500	500,500	38,500
127321 - Disinfection Alt. Upgrade	03/22/2002	755,000	260,843	—	41,872	218,971	42,500
127331 - 68th Pebble-Baby Bear	09/30/2008	300,000	195,000	—	15,000	180,000	15,000
127361 - Christen Dr Upgrade	09/08/2009	1,350,000	945,000	—	67,500	877,500	67,500
127381 - S. Addition Woodstave Upgrd	08/27/2001	922,354	371,364	—	46,421	324,943	46,421
127411 - Loop Wtr Trans Main Phs VI	03/02/2001	1,305,776	446,793	—	71,722	375,071	72,797
127441 - Daryl Industry Way	09/30/2008	420,000	315,000	—	21,000	294,000	21,000
127461 - DeBarr-Klevin-Hoyt Upgrade	12/04/2009	1,000,000	700,000	—	50,000	650,000	50,000
127471 - SCADA Water	08/04/2004	4,000,000	2,169,793	—	202,733	1,967,060	205,774
127491 - Girdwood Wtr Supply Imprvmnts	06/23/2004	2,135,300	1,403,966	—	100,284	1,303,682	100,283
127531 - Loop Wtr Trans Main Phs IV	10/31/2006	12,306,151	8,614,306	—	615,308	7,998,998	615,308
127541 - SCADA Water II	12/01/2004	6,500,000	3,900,000	—	325,000	3,575,000	—
127571 - 88th Ave Wtr Trans Main	10/31/2006	1,850,696	1,202,952	—	92,534	1,110,418	92,535
127581 - Pine Debarr San Rob Wtr Upgrd	09/08/2007	870,014	609,010	—	43,501	565,509	43,501
127731 - Arctic 32nd - 36th Wtr Upgrd	11/24/2006	404,234	262,752	—	20,212	242,540	20,212
127771 - East Bluff Upgrade	10/09/2006	317,763	206,546	—	15,888	190,658	15,888
127781 - Sullivan-Ben Boeke Wtr Upgrd	10/09/2006	2,189,753	1,313,851	—	109,487	1,204,364	109,488
127791 - Hiland Rd Water Intertie	06/25/2010	8,700,000	6,525,000	—	435,000	6,090,000	435,000
127811 - Island-Kodiak Kalgin Water	06/07/2010	570,541	427,906	—	28,527	399,379	28,527
127831 - Klatt Rd - NSH-PZ Intertie	09/10/2007	621,600	368,039	—	30,670	337,369	30,670
127851 - N Comm Extension	06/03/2008	1,402,434	1,121,947	—	70,122	1,051,825	70,122
127861 - So. Anchorage Wtr Extension	10/12/2011	3,427,000	2,912,950	—	171,350	2,741,600	171,350
127871 - Debarr-Muldoon-Turpin Upgrd	09/28/2007	3,034,740	1,972,581	—	151,737	1,820,844	151,737
127901 - SCADA Water III	09/07/2007	5,300,000	3,180,000	—	265,000	2,915,000	—
127931 - Hillside Transmission Main	07/10/2008	9,500,000	7,125,000	—	475,000	6,650,000	475,000
127941 - 2006 Misc Water Projects	04/08/2008	846,000	530,926	—	40,712	490,214	41,322
127961 - NE Improvements Phase 1	07/08/2008	929,107	650,375	—	46,455	603,920	46,455
127991 - Sand Lake Wtr Extension	02/10/2010	280,719	210,539	—	14,036	196,503	14,036
130141 - Calais Subdivision Wtr Rehab	10/08/2014	2,387,512	1,680,622	706,890	—	2,387,512	—
130151 - Knik View Intertie	07/21/2008	715,946	536,960	—	35,798	501,162	35,797
130161 - Norm-Newt Drive	12/17/2008	1,768,400	1,237,880	—	88,420	1,149,460	88,420
130181 - Ship Creek WTF Improvements	10/03/2014	15,039	15,039	—	—	15,039	—
130221 - San Ernesto Upgrade	12/17/2008	1,567,218	1,097,053	—	78,361	1,018,692	78,361
130241 - South Addition Phase IV Proj	02/02/2009	1,164,317	815,022	—	58,216	756,806	58,216
130271 - Well 7 Capacity Upgrade	02/28/2011	1,775,766	1,331,825	—	88,789	1,243,036	88,788
130331 - Seward Hwy Northern Lts Blvd	12/05/2012	1,100,000	935,000	—	55,000	880,000	55,000
130341 - Bayshore Subdivision Wtr Upgrade	09/23/2014	3,609,488	3,428,005	181,483	—	3,609,488	180,474
130351 - North Sitka Water Upgrade	04/13/2012	1,300,000	1,300,000	—	65,000	1,235,000	65,000
130371 - ARRC Yard 12" Water Rehab	10/08/2014	2,224,533	216,525	2,008,008	—	2,224,533	—
130401 - Wonder Pk Water Upgrade Ph II	04/24/2013	2,500,000	2,500,000	—	—	2,500,000	125,000
130411 - Sand Lake Area Water Ph II	11/16/2012	850,818	767,947	—	42,663	725,284	42,664
130431 - 68th Ave Redhawk Intertie	12/04/2009	632,444	442,711	—	31,622	411,089	31,622
130441 - 3000 Arctic HVAC Upgrade	06/24/2011	1,046,759	837,407	—	52,338	785,069	52,338
130471 - Downtown CIPP Wtr Upgrade	10/15/2010	1,414,951	1,061,213	—	70,747	990,466	70,748
130491 - 2-Way Radio Water Upgrade	02/17/2010	299,248	126,349	—	31,587	94,762	31,587
130561 - 41st Cope Northstar Water	03/14/2012	1,346,010	1,211,409	—	67,301	1,144,108	67,301
130841 - Girdwood Wtr Improv	12/14/2011	2,000,000	1,600,000	—	100,000	1,500,000	100,000
130921 - Golden View Reservoir	02/02/2011	2,808,878	2,106,659	—	140,444	1,966,215	140,444
130941 - Ship Creek WTF Heat Exchanger	11/01/2012	8,700,000	3,495,658	5,204,342	—	8,700,000	—
131021 - G Street - 7th Water Main	12/29/2010	502,468	376,851	—	25,123	351,728	25,123
131031 - Eklutna WTF Roof & Window	06/07/2010	1,556,106	1,167,079	—	77,805	1,089,274	77,805
131151 - Wesleyan Dr-Checkmate Wtr Rehab	12/16/2016	293,324	—	293,324	—	293,324	—
131281 - Ship Creek WTF Roof	03/23/2011	1,130,742	848,056	—	56,537	791,519	56,537
131441 - San Roberto-Klevin/Hoyt Water	10/06/2014	737,524	737,524	—	36,876	700,648	36,876
131451 - 22nd Ave Wayne-Illian Water Rehab	02/04/2015	1,352,663	1,248,508	104,155	—	1,352,663	67,633
131461 - Denali Wtr Rehab	10/05/2016	1,500,000	—	1,500,000	—	1,500,000	75,000
Total ADW Loans		131,406,381	83,822,491	9,998,202	5,531,407	88,289,286	5,405,718
Loan Payable-Other							
Loan Payable-Other	03/15/2013	28,625,600	23,125,600	5,500,000	—	28,625,600	—
Total Loan Payable-Other		28,625,600	23,125,600	5,500,000	—	28,625,600	—
Total Long-Term Debt		\$ 319,621,981	221,203,091	15,498,202	9,241,407	227,459,886	9,260,718

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

Table 5
Revenue Bond Coverage Requirements

Fiscal Year	Revenue (1)	Assessment Collections (2)	Operating Expenses (3)	Amount For Debt Service	Current Year Debt Service Requirements			Coverage (5)
					Principal (4)	Interest (4)	Total	
2007	\$ 44,755,119	292,321	26,714,777	18,332,663	3,960,000	5,549,972	9,509,972	1.93
2008	44,264,376	326,820	27,725,271	16,865,925	4,250,000	7,836,288	12,086,288	1.40
2009	50,391,141	301,479	28,054,018	22,638,602	4,095,000	7,632,687	11,727,687	1.93
2010	50,860,139	312,253	29,456,391	21,716,001	5,255,000	6,094,343	11,349,343	1.91
2011	52,238,591	351,036	30,811,206	21,778,421	4,760,000	6,206,089	10,966,089	1.99
2012	55,900,765	241,708	31,362,002	24,780,471	5,810,000	6,000,111	11,810,111	2.10
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

- (1) Excludes allowance for funds used during construction, includes non-operating revenue except for payments received for PERS on-behalf from State of Alaska. Excludes \$832,477 revenue in 2016 associated with prior years.
- (2) Assessment collections represent payments made by benefited property owners.
- (3) Excludes depreciation, for years 2007 and 2008 PERS on-behalf, for years 2015 and 2016 PERS on-behalf and pension expense; but includes special items and transfers to other funds.
- (4) Does not include Mini-Bonds of \$1,956,000 repaid in 2014 as they have no debt service coverage requirements.
- (5) Required minimum coverage is 1.15.

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Statistical Section (unaudited)

Table 6

Capital Improvement Program (In Thousands)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	Six Year Total
Project category:							
ADOT-MOA Emergency	\$ 2,917	2,824	2,032	2,335	3,908	3,897	17,913
Transmission/Distribution	20,565	23,704	22,315	25,165	23,924	26,825	142,498
Facility Master Plan	1,100	—	650	—	52	250	2,052
IT Hardware/Software	1,795	2,145	1,445	1,520	1,553	1,553	10,011
Miscellaneous Equipment	880	850	850	850	850	850	5,130
Other Plant & Facilities	860	—	—	400	—	—	1,260
Vehicles	966	1,097	868	880	1,264	1,276	6,351
Water Plant	3,880	2,000	4,700	2,850	3,204	1,104	17,738
Total	<u>32,963</u>	<u>32,620</u>	<u>32,860</u>	<u>34,000</u>	<u>34,755</u>	<u>35,755</u>	<u>202,953</u>
Source of funding:							
Debt	21,963	23,620	24,860	28,000	29,755	30,755	158,953
Equity	11,000	9,000	8,000	6,000	5,000	5,000	44,000
Total	<u>\$ 32,963</u>	<u>32,620</u>	<u>32,860</u>	<u>34,000</u>	<u>34,755</u>	<u>35,755</u>	<u>202,953</u>

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Statistical Section (unaudited)

Table 7

Production Comparison by Facility

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013⁽³⁾</u>	<u>2012</u>
Water treatment facilities production and usage data:					
Water produced yearly (millions of gallons):					
Ship Creek Facility	160.9	235.6	156.9	35.6	0.0
Wells	1,001.1	1,110.9	758.8	687.4	266.0
Eklutna Facility	<u>7,137.3</u>	<u>7,309.2</u>	<u>7,181.2</u>	<u>7,767.7</u>	<u>7,808.8</u>
Total	<u><u>8,299.3</u></u>	<u><u>8,655.7</u></u>	<u><u>8,096.9</u></u>	<u><u>8,490.7</u></u>	<u><u>8,074.8</u></u>
Average daily water demand (millions of gallons per day):					
Ship Creek Facility	0.4	0.6	0.4	0.1	0.0
Wells	2.7	3.0	2.1	1.9	0.7
Eklutna Facility	<u>19.6</u>	<u>20.0</u>	<u>19.7</u>	<u>21.3</u>	<u>21.4</u>
Total	<u><u>22.7</u></u>	<u><u>23.6</u></u>	<u><u>22.2</u></u>	<u><u>23.3</u></u>	<u><u>22.1</u></u>
Minimum daily water demand (all facilities):	15.3	17.9	22.0	17.4	16.2
Daily peak production:					
Ship Creek Facility	8.2	9.7	10.1	5.5	0.0
Wells	15.9	17.4	16.3	17.1	7.2
Eklutna Facility	<u>29.0</u>	<u>32.5</u>	<u>28.8</u>	<u>30.3</u>	<u>28.5</u>
Total ⁽¹⁾	<u><u>53.1</u></u>	<u><u>59.6</u></u>	<u><u>55.2</u></u>	<u><u>52.9</u></u>	<u><u>35.7</u></u>
Four hour peak demand (all facilities): ⁽²⁾	60.0	68.8	55.0	40.6	40.6
Maximum Design Capacity					
Source:					
Ship Creek Facility	14				
Wells	18				
Eklutna Facility	<u>35</u>				
Total	<u><u>67</u></u>				
Miles of water mains:	845	843	839	838	837
Number of hydrants (public):	6,027	5,999	5,949	5,917	5,897

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

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

⁽³⁾ Changes made to Wells include Girdwood well productions.

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Statistical Section (unaudited)

Table 8

Detailed Schedule of Water Plant in Service (In Thousands)

	Water Plant			Balance 12/31/16
	Balance 01/01/16	Additions	Retirements	
Water plant in service:				
Tangible plant:				
Source of supply:				
Source of supply/land	\$ 747	—	—	747
Structures & improvements	1,858	—	—	1,858
Wells & spring	9,484	136	(198)	9,422
Supply mains	31,964	—	(1)	31,963
Pumping plant:	—			
Structures & improvements	12,456	—	—	12,456
Other power production equipment	146	—	—	146
Electric pumping equipment	1,434	—	—	1,434
Diesel pumping equipment	149	—	—	149
Booster pumping equipment	1,218	1,046	—	2,264
Treatment plant:				
Structures & improvements	70,182	3,792	—	73,974
Water treatment equipment	15,477	6,316	(18)	21,775
Transmission plant:				
Transmission & distribution land	4,078	—	—	4,078
Structures & improvements	673	—	(1)	672
Distribution reservoir & standpipes	48,443	119	—	48,562
Transmission & distribution mains	512,238	16,940	(356)	528,822
Services	18,895	968	—	19,863
Meters	1,910	—	—	1,910
Hydrants	9,219	272	—	9,491
Land and land rights	1,298	—	—	1,298
General plant:				
Structures & improvements	19,296	3	—	19,299
Office furniture	358	—	—	358
Computer equipment	7,257	787	(3,057)	4,987
Vehicles (light duty)	2,367	250	(121)	2,496
Transportation equipment (heavy duty)	2,659	464	(87)	3,036
Store equipment	1,099	—	—	1,099
Tools, shop & garage equipment	483	338	(9)	812
Laboratory equipment	114	1	—	115
Power operated equipment	776	378	—	1,154
Communication equipment	21,215	722	(1)	21,936
Miscellaneous equipment	161	3	—	164
Total tangible plant	<u>797,654</u>	<u>32,535</u>	<u>(3,849)</u>	<u>826,340</u>
Intangible plant	4,595	—	—	4,595
Total water plant in service	802,249	32,535	(3,849)	830,935
Plant acquisition adjustment	3,322	180	—	3,502
Property held for future use	507	—	—	507
Construction work in progress	18,710	26,264	(30,240)	14,734
Total water plant	<u>\$ 824,788</u>	<u>58,979</u>	<u>(34,089)</u>	<u>849,678</u>

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Statistical Section (unaudited)

Table 8 (Continued)

Detailed Schedule of Water Plant in Service (In Thousands)

	Accumulated Depreciation and Amortization				Net Book Value of Plant
	Balance	Additions	Retirements	Balance	
	01/01/16			12/31/16	
Water plant in service:					
Tangible plant:					
Source of supply:					
Source of supply/land	\$ —	—	—	—	747
Structures & improvements	641	33	—	674	1,184
Wells & spring	2,742	171	(198)	2,715	6,707
Supply mains	20,679	696	—	21,375	10,588
Pumping plant:					
Structures & improvements	2,961	303	—	3,264	9,192
Other power production equipment	40	4	—	44	102
Electric pumping equipment	904	70	—	974	460
Diesel pumping equipment	66	7	—	73	76
Booster pumping equipment	702	70	—	772	1,492
Treatment plant:					
Structures & improvements	26,417	1,369	—	27,786	46,188
Water treatment equipment	13,066	464	(17)	13,513	8,262
Transmission plant:					
Transmission & distribution land	—	—	—	—	4,078
Structures & improvements	456	17	—	473	199
Distribution reservoir & standpipes	17,322	1,117	—	18,439	30,123
Transmission & distribution mains	152,238	8,173	(157)	160,254	368,568
Services	18,296	387	39	18,722	1,141
Meters	1,311	75	2	1,388	522
Hydrants	3,775	156	(2)	3,929	5,562
Land and land rights	—	—	—	—	1,298
General plant:					
Structures & improvements	6,724	372	—	7,096	12,203
Office furniture	161	17	—	178	180
Computer equipment	2,154	1,451	(3,057)	548	4,439
Vehicles (light duty)	2,291	208	(106)	2,393	103
Transportation equipment (heavy duty)	2,101	157	(77)	2,181	855
Store equipment	146	44	—	190	909
Tools, shop & garage equipment	309	10	(9)	310	502
Laboratory equipment	21	7	—	28	87
Power operated equipment	530	57	—	587	567
Communication equipment	11,935	1,405	(1)	13,339	8,597
Miscellaneous equipment	95	8	—	103	61
Total tangible plant	288,083	16,848	(3,583)	301,348	524,992
Intangible plant	2,262	456	—	2,718	1,877
Total water plant in service	290,345	17,304	(3,583)	304,066	526,869
Plant acquisition adjustment	2,480	115	—	2,595	907
Property held for future use	—	—	—	—	507
Construction work in progress	—	—	—	—	14,734
Total water plant	\$ 292,825	17,419	(3,583)	306,661	543,017



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Water Utility Fund, an enterprise fund of the Municipality of Anchorage, Alaska, as of and for the year ended December 31, 2016, 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 July 28, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2016-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

Water Utility Fund's Response to Finding

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

Purpose of this Report

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

BDO USA, LLP

Anchorage, Alaska
July 28, 2017

**MUNICIPALITY OF ANCHORAGE
WATER UTILITY FUND**

Schedule of Findings and Responses
Year Ended December 31, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	_____ yes <u> X </u> no
• Significant deficiency(ies) identified?	<u> X </u> yes _____ no
• Noncompliance material to financial statements noted?	_____ yes <u> X </u> no

Section II - Financial Statement Findings Required to be Reported in Accordance with *Government Auditing Standards*

Finding 2016-001	Accounts Receivable Reconciliation - Significant Deficiency
<i>Criteria or specific requirement</i>	Government Auditing Standards states "management is responsible for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safe guarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported." Internal controls over financial reporting, should allow management to prevent, or detect and correct misstatements on a timely basis.
<i>Condition</i>	Accounts receivable and revenue balances were improperly recorded.
<i>Context</i>	Errors in the interface between the CIS billing module and the general ledger resulted in the duplication of adjustments to accounts receivable since the introduction of the billing module.
<i>Effect</i>	Accounts receivable and revenue were understated by approximately \$156,000 and \$955,000, respectively, as of December 31, 2016.
<i>Cause</i>	Although management had in place controls to review accounts receivable balances, management did not have in place functioning controls to review the accuracy of the adjustments made when converting balances from the billing module into the general ledger.
<i>Recommendation</i>	We encourage management to review the interface between the billing module and the general ledger system and ensure any adjustments in either system are properly supported.
<i>Views of responsible officials and planned corrective actions</i>	See the Corrective Action Plan.



Mayor
Ethan Berkowitz

Anchorage Water & Wastewater Utility

Finance Division



Board Chair
David M. Richards

Summary Schedule of Prior Year Audit Findings Year Ended December 31, 2016

Financial Statement Findings

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

Finding: The *State Schedule of Financial Assistance* and *Schedule of Expenditures of Federal Awards* were incomplete. Financial activity related to State of Alaska Department of Environmental Conservation Clean Water and Drinking Water loans and grants was not communicated in a timely manner to the grant accounting department.

Status Corrected

Anchorage Water & Wastewater Utility  **Clearly**

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Mayor
Ethan Berkowitz

Anchorage Water & Wastewater Utility

Finance Division



Board Chair
David M. Richards

Corrective Action Plan Year Ended December 31, 2016

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

Financial Statement Findings

Finding 2016-001 Accounts Receivable Reconciliation - Significant Deficiency

Corrective Action Plan The Utility has changed the Accounts Receivable Reconciliation procedures to ensure that the CIS Billings system and the General Ledger are fully reconciled and remain in balance. Any differences in the interface between the systems will be accurately corrected in a timely manner.

Expected Completion Date December 31, 2017

Anchorage Water & Wastewater Utility  **Clearly**

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