



Municipality of Anchorage, Alaska Wastewater Utility Fund

Basic Financial Statements
and Other Information

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



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

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Independent Auditor's Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wastewater Utility Fund, as of December 31, 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 14 to the financial statements, in 2015 the Wastewater Utility Fund adopted the provisions of Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements present only the Wastewater Utility Fund and do not purport to, and do not present fairly the financial position of the Municipality of Anchorage, Alaska as of December 31, 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 Schedule of the Utility's Information on the Net Pension Liability and Pension Contributions on page 53, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

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

BDO USA, LLP

Anchorage, Alaska
July 28, 2017

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

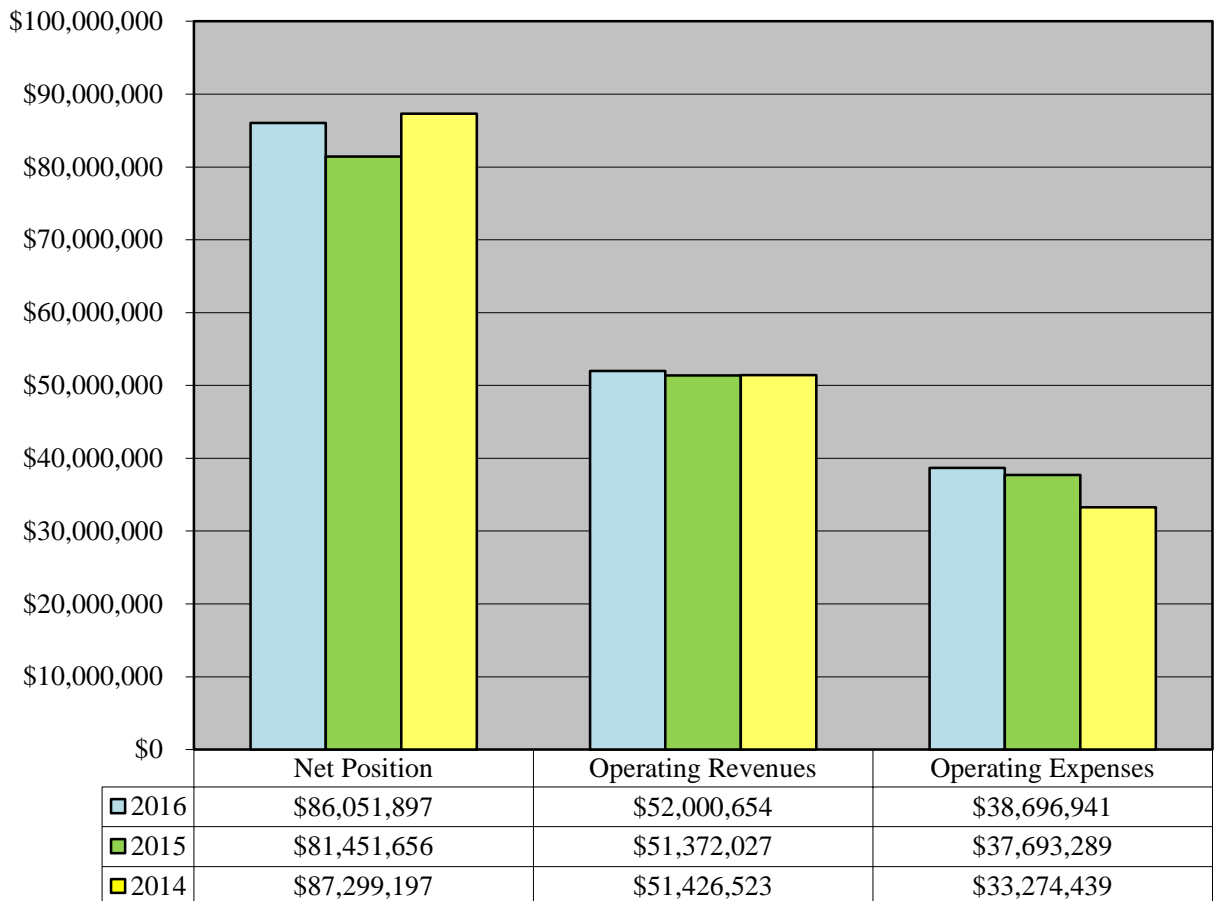
Management's Discussion and Analysis

December 31, 2016 and 2015

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

Financial Highlights

- Net capital assets increased by \$4,830,000, or 1% in 2016 and \$14,410,000, or 4% in 2015.
- Net position increased by \$4,600,000, or 6% in 2016. The overall change in net position from 2014 to 2015 was a decrease of \$5,840,000, or 7% which includes the effect of the restatement for GASB 68 adoption. The change in net position from 2015 operations was \$5,800,000, or 7%.
- Operating revenues increased by \$630,000, or 1% in 2016 and decreased by \$50,000, or <1% in 2015.
- Operating expenses increased by \$1,000,000, or 3% in 2016 and \$4,419,000, or 13% in 2015.



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

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

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

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

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

Management's Discussion and Analysis

December 31, 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	\$ 407,184,785	402,356,310	387,943,397
Current and other assets	46,727,783	40,934,261	39,599,558
Deferred outflows of resources	4,213,328	1,890,683	—
Total assets and deferred outflows of resources	458,125,896	445,181,254	427,542,955
Liabilities and deferred inflows of resources:			
Net debt outstanding	173,847,697	166,951,790	163,919,960
Current and other liabilities	24,915,939	21,562,007	8,296,557
Deferred inflows of resources	173,310,363	175,215,801	168,027,241
Total liabilities and deferred inflows of resources	372,073,999	363,729,598	340,243,758
Net position:			
Net investment in capital assets	62,030,494	61,077,608	58,308,145
Restricted	—	—	1,757,531
Unrestricted	24,021,403	20,374,048	27,233,521
Total net position	\$ 86,051,897	81,451,656	87,299,197
Net position - beginning, as restated for 2015	81,451,656	75,643,999	
Change in fund net position	\$ 4,600,241	5,807,657	

MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER UTILITY FUND

Management's Discussion and Analysis

December 31, 2016 and 2015

The Utility's total assets and deferred outflows of resources increased by \$12.9 million in 2016. Net capital assets increased by \$4.8 million due to new plant additions of \$12.7 million, an increase in construction work in progress of \$6.1 million; offset by additions to accumulated depreciation of \$10.3 million and retirements of \$3.7 million (see Table 3A and Note 3). Current and other assets increased by \$5.8 million due to increases in the general cash pool of \$3.2 million, construction cash pool of \$1.2 million, customer accounts receivable of \$1.8 million, non-current assets of \$1.5 million; offset by decreases in restricted customer deposits of \$1.9 million. Deferred outflows of resources increased by \$2.3 million.

Total liabilities and deferred inflows of resources increased by \$8.3 million in 2016. Net debt outstanding increased by \$6.9 million due to a \$12.8 million increase in long-term loans offset by payments of \$5.9 million (see Table 4 and Note 4). Current and other liabilities increased by \$3.3 million. Deferred inflows of resources, which are made up of contributions in aid of construction and deferred inflows related to net pension liability, decreased by \$1.9 million during the year (see Note 5).

The Utility's total assets and deferred outflows of resources increased by \$17.6 million in 2015. Net capital assets increased by \$14.4 million due to new plant additions of \$36.8 million, offset by a net decrease in construction work in progress of \$8.3 million, and additions to accumulated depreciation of \$14.1 million (see Table 3A and Note 3). Current and other assets increased by \$1.3 million due to increases in the general cash pool of \$4.2 million, prepaids and inventory of \$0.2 million, other non-current assets of \$1.0 million, and restricted customer deposits of \$0.6 million; offset by decreases in restricted interim rate escrow investment of \$2.3 million, construction cash pool of \$1.7 million, customer accounts receivable of \$0.6 million, and unbilled special assessments of \$0.1 million. Deferred outflows of resources increased by \$1.9 million.

Total liabilities and deferred inflows of resources increased by \$23.5 million in 2015. Net debt outstanding increased by \$3.0 million due to an increase in long-term loans which offset the reduction in revenue bonds (see Table 4 and Note 4). Current and other liabilities increased by \$13.3 million. Deferred inflows of resources, which are made up of contributions in aid of construction and deferred inflows related to net pension liability, increased by \$7.2 million during the year (see Note 5).

**MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER 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 ending 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	\$ 37,893,050	37,088,555	36,940,272
Commercial sales	11,452,312	11,428,098	11,570,728
Public authorities	1,689,185	1,787,593	1,904,326
Miscellaneous	966,107	1,067,781	1,011,197
Nonoperating revenues	905,225	426,135	315,102
Total revenues	<u>52,905,879</u>	<u>51,798,162</u>	<u>51,741,625</u>
Operating expenses:			
Collection system	3,688,007	3,827,027	2,499,636
Pumping Plant	1,058,299	1,076,981	1,097,794
Treatment	12,298,174	12,866,287	11,783,731
Customer accounts	2,218,552	2,383,285	1,992,089
Administrative and general	10,683,888	9,173,295	8,057,301
Depreciation, net of amortization	8,750,021	8,366,414	7,843,888
Nonoperating expenses	3,904,428	3,004,321	4,163,539
Total expenses	<u>42,601,369</u>	<u>40,697,610</u>	<u>37,437,978</u>
Income before transfers	<u>10,304,510</u>	<u>11,100,552</u>	<u>14,303,647</u>
Transfers:			
Transfers to other funds	5,704,269	5,292,895	5,588,171
Change in fund net position	4,600,241	5,807,657	8,715,476
Net position - beginning, as restated for 2015	<u>81,451,656</u>	<u>75,643,999</u>	<u>78,583,721</u>
Net position - ending	<u>\$ 86,051,897</u>	<u>81,451,656</u>	<u>87,299,197</u>

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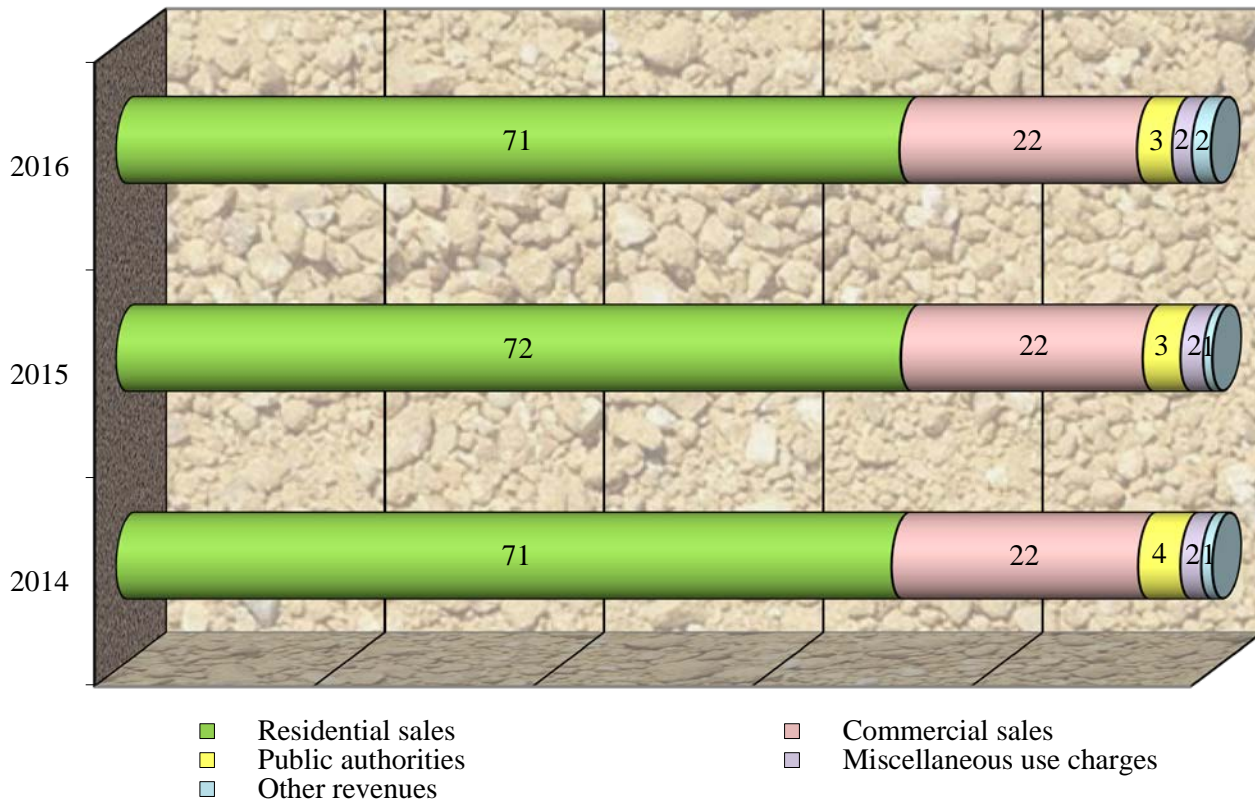
Management's Discussion and Analysis

December 31, 2016 and 2015

During 2016, net position increased by \$4.6 million and total revenues increased by \$1.1 million. Operating revenues increased by \$0.6 million, and non-operating revenues increased by \$0.5 million. Non-operating revenues increased by \$0.5 million primarily due to a 2016 State of Alaska on behalf pension (PERS) payment and investment income on short term investments.

During 2015, net position increased by \$5.8 million and total revenues increased by \$.06 million. Operating revenues decreased by \$.04 million, and non-operating revenues increased by \$0.1 million. A significant portion of the decrease in operating revenues was due to decreases in discharges from septic haulers and public authorities. Non-operating revenues increased by \$0.1 million primarily due to an increase in investment income and a 2016 State of Alaska on behalf pension (PERS) liability payment.

Revenues by Source in %



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

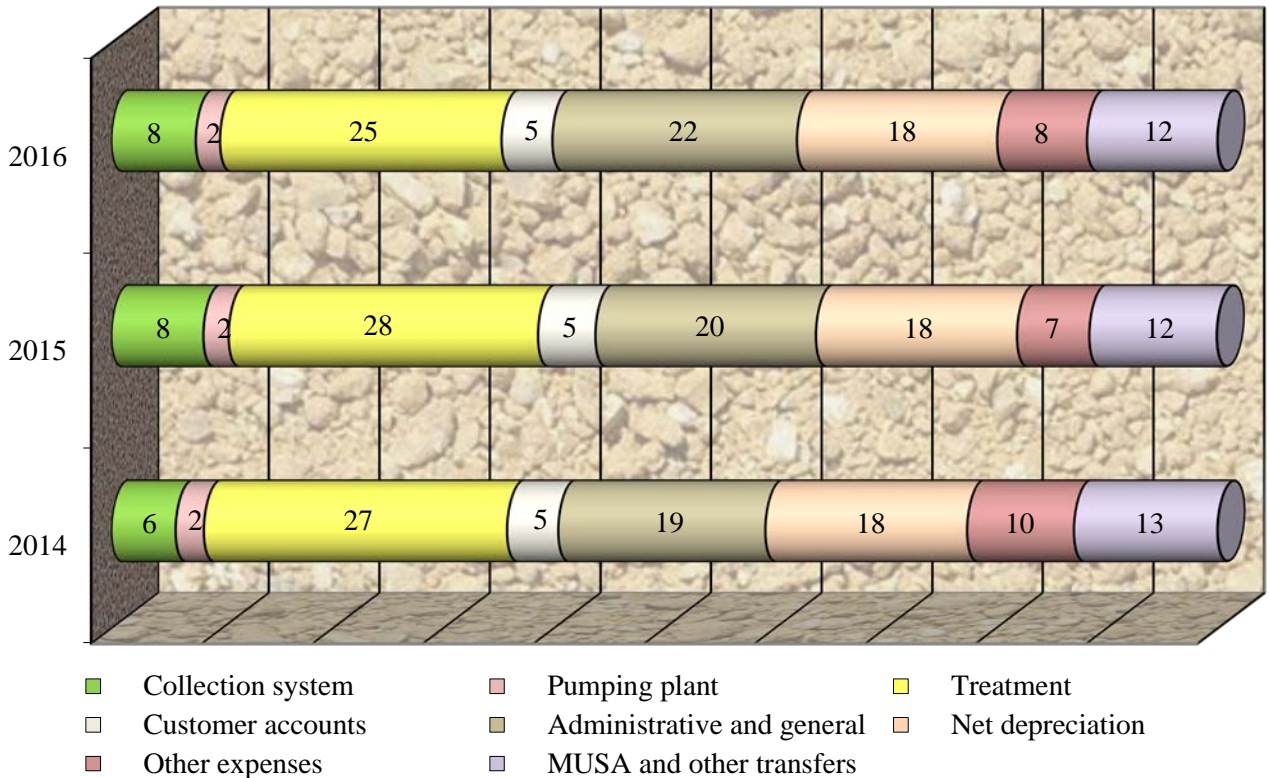
Management's Discussion and Analysis

December 31, 2016 and 2015

Total expenses increased by \$1.9 million in 2016 over 2015, with operating expenses increasing by \$1.0 million and non-operating expenses increasing by \$0.9 million. The increase in operating expenses was primarily due to an increase in administrative expense of \$1.5 million and net depreciation expense of \$0.4 million; offset by decreases in treatment plant expense of \$0.6 million, customer accounts expense of \$0.2 million, and collection system expense decreasing \$0.1 million. Non-operating expenses increased by \$0.9 million due to a decrease in allowance for funds used during construction of \$0.8 million and an increase in interest and fee expense \$0.1 million. The Municipal Utility Service Assessment (MUSA) and other transfers increased by \$0.4 million.

Total expenses increased by \$3.2 million in 2015 over 2014, with operating expenses increasing by \$4.4 million and non-operating expenses decreasing by \$1.2 million. The increase in operating expenses was primarily due to an increase in administrative expenses of \$1.1 million comprised of State of Alaska on-behalf (PERS) expenses (see Note 7). The remainder of the increase in operating expenses was due to collection increasing \$1.3 million, Pumping decreasing by \$.02 million, treatment increasing by \$1.1 million, customer accounts expenses increasing by \$0.4 million, and net depreciation expense increased by \$0.5 million. Non-operating expenses decreased by \$1.2 million due to an increase in allowance for funds used during construction offsetting interest expense. The Municipal Utility Service Assessment (MUSA) and other transfers decreased by less than \$0.3 million.

Expenses by Source in %



**MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER 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**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Intangible plant	\$ 3,237,186	3,770,694	4,203,312
Collection plant	230,114,046	229,651,402	219,142,622
Treatment & disposal plant	106,652,800	107,088,553	91,994,683
Pumping plant	12,156,560	12,313,180	12,413,307
General plant land	4,203,352	4,203,352	4,203,352
General plant	35,742,910	36,431,066	38,841,732
Net plant in service	<u>392,106,854</u>	<u>393,458,247</u>	<u>370,799,008</u>
Property held for future use	1,379,931	1,379,931	1,379,931
Construction work in progress	13,698,000	7,518,132	15,764,458
Total net capital assets	<u>\$ 407,184,785</u>	<u>402,356,310</u>	<u>387,943,397</u>
Increase in net capital assets	<u>\$ 4,828,475</u>	<u>14,412,913</u>	

Net capital assets increased by \$4.8 million in 2016 comprised of plant additions of \$12.7 million, a net increase in construction work in progress of \$6.1 million, offset by depreciation of \$14.8 million. Retirements, net of salvage and cost of removal added \$0.8 million. The plant category that increased the most at gross during the year was collection plant, which had additions of \$7.3 million, and general plant, which had additions of \$3.3 million. Treatment and disposal plant had additions of \$1.9 million, and pumping plant had additions of \$0.2 million (see Table 3B and Note 3).

Net capital assets increased by \$14.4 million in 2015 comprised of plant additions of \$36.8 million, a net decrease in construction work in progress of \$8.3 million, and by depreciation of \$14.1 million. The plant category that increased the most at gross during the year was treatment plant, which increased by \$18 million, and collection plant, which increased by \$17.1 million. General plant increased by \$1.4 million, pumping plant increased by \$0.2 million, and intangible plant increased by \$0.1 million (see Table 3B and Note 3).

**MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER 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>Collection Plant</u>		<u>General Plant</u>	
Fish Crk Interceptr Rehab	\$ 1.7	Inspection Technology-SWR	\$ 0.6
S15-007 Railroad Term Res Ph3	1.0	King St Archive Bldg Exp	0.6
S15-006 Huffman TimbersB1L1-43	0.7	Jet 94945 Jet 94946	0.5
Downtown Pipe Replacement-SWR	0.6	GIS Application Dev-SWR	0.4
Girdwood MH I-I PhVII	0.4	Line Trk 94218 Comb Clnr 94940	0.4
S15-012 Alutiiq TR A B	0.4	Vehicles-SWR14	0.3
ARRC Campbell Crk Rehab-SWR	0.3	Other Miscellaneous Projects	<u>0.5</u>
S14-022 Westgate	0.3	Total General Plant	<u>\$ 3.3</u>
S14-025 Resolution Pointe Ph 3	0.3		
S15-003 The Terraces Ph 8	0.3	<u>Treatment and Disposal Plant</u>	
S15-005 Coronado B1 Lts 5-9	0.3	AWWTF Disinfection Upgr	\$ 1.6
S13-009 Eagle Crossing Ph J	0.2	AWWTF Clarifier4 Res-Paint	0.1
Wonder Park PhIII-SWR	0.2	AWWTF Gravity Thickener3 Rehab	0.1
S15-010 Communications TR 3	0.1	Other Miscellaneous Projects	<u>0.1</u>
Other Miscellaneous Projects	<u>0.5</u>	Total Treatment and Disposal plant	<u>\$ 1.9</u>
Total Collection Plant	<u>\$ 7.3</u>		
		<u>Sewer Pumping Plant</u>	
		Other Miscellaneous Projects	\$ <u>0.2</u>
		Total Sewer Pumping Plant	<u>\$ 0.2</u>
		<u>Total Additions</u>	<u>\$ 12.7</u>

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

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

December 31, 2016 and 2015

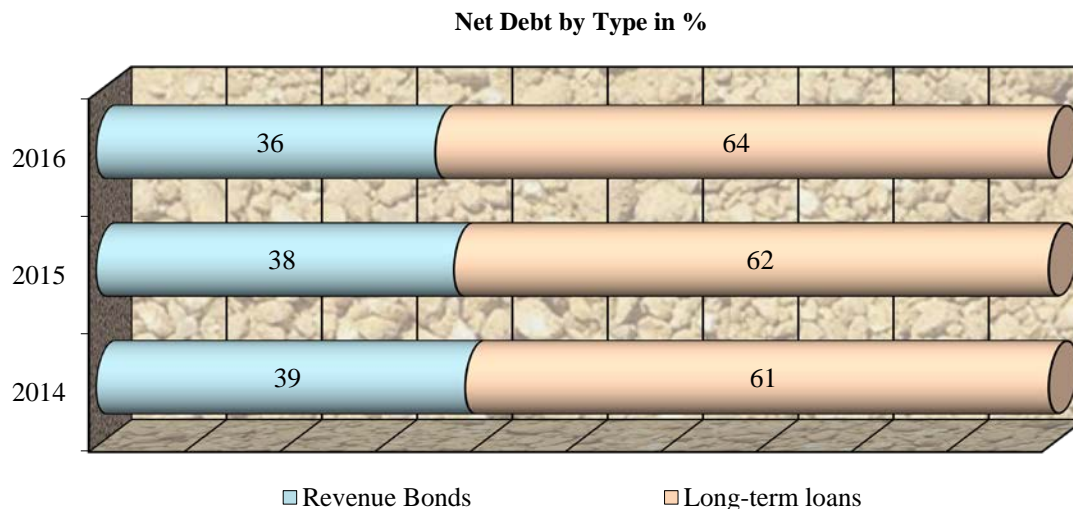
Debt

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	\$ 61,927,835	62,752,283	63,540,653
Long-term loans	<u>111,919,862</u>	<u>104,199,507</u>	<u>100,379,307</u>
Total net debt	<u>\$ 173,847,697</u>	<u>166,951,790</u>	<u>163,919,960</u>
Increase in net debt	<u>\$ 6,895,907</u>	<u>3,031,830</u>	

The Utility did not issue bonds in either 2016 or 2015, but did receive approximately \$8.8 million and \$5.4 million, respectively, from the State of Alaska Clean Water Loan Program (see Note 4(e)) to finance capital improvements. In addition, the Utility borrowed other loans payable of \$4 million and \$3.5 million in 2016 and 2015, respectively. Bond and loan principal payments totaled \$0.8 million and \$5.1 million, respectively, in 2016, compared to 2015 bond and loan principal payments of \$0.8 million and \$5 million, respectively.



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

**MUNICIPALITY OF ANCHORAGE, ALASKA
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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 revenue increases due to the combined effects of a modest customer growth and a rate increase of 9.5% effective January 3, 2017. Interest earnings are budgeted to increase approximately 65% over 2016 budget.

2017 operating expenses are budgeted to increase 4.9% over the 2016 budget due to a 1.9% budget increase in labor and a 5.4% budget increase in non-labor in addition to a 30.3% increase in Intra-governmental Charges from General Government. The Municipal Service Assessment is budgeted to increase 7.4% and depreciation expense is budgeted to decrease 1%.

Regulatory Matters

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

For information regarding current on-going regulatory matters see Note 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 information can be found at: www.awwu.biz.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER 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	\$ 660,014,100	651,034,021
Less accumulated depreciation	(267,907,246)	(257,575,774)
Net plant in service	392,106,854	393,458,247
Property held for future use	1,379,931	1,379,931
Construction work in progress	13,698,000	7,518,132
Net capital assets	407,184,785	402,356,310
Non-current assets:		
Unamortized cost of debt issuance	529,223	579,119
Unbilled special assessments	1,835,453	2,151,536
Other	7,224,114	5,341,364
Total non-current assets	9,588,790	8,072,019
Restricted assets:		
Current:		
Equity in bond and grant capital acquisition and construction pool	1,792,062	613,003
Non-current:		
Customer deposits	266,623	2,146,700
Total restricted assets	2,058,685	2,759,703
Current assets:		
Equity in general cash pool	29,457,679	26,294,975
Accrued interest receivable	27,756	25,848
Accounts receivable:		
Utility customers, less estimated uncollectibles of \$116,287 in 2016 and \$140,204 in 2015	4,447,419	2,703,471
Other, less estimated uncollectibles of \$39,407 in 2016 and \$56,930 in 2015	414,435	379,768
Special assessments receivable	88,399	102,257
Unbilled reimbursable projects	6,837	11,039
Prepays	138,960	129,363
Inventory of materials and supplies, at average cost	498,823	455,818
Total current assets	35,080,308	30,102,539
Total assets	453,912,568	443,290,571
Deferred outflows of resources:		
Deferred outflows of resources related to net pension liability	4,213,328	1,890,683
Total assets and deferred outflows of resources	\$ 458,125,896	445,181,254

See accompanying notes to basic financial statements.

Liabilities, Deferred Inflows of Resources, and Net Position

	2016	2015
Net position:		
Net investment in capital assets	\$ 62,030,494	61,077,608
Unrestricted	24,021,403	20,374,048
Total net position	86,051,897	81,451,656
Non-current liabilities:		
Net pension liability	18,992,829	14,330,178
Compensated absences payable	334,740	262,532
Pollution remediation obligation	575,750	354,000
Revenue bonds payable	60,675,000	61,515,000
Less unamortized discounts	(33,043)	(40,409)
Plus unamortized premiums	445,878	477,692
Net revenue bonds payable	61,087,835	61,952,283
Alaska Clean Water Fund loans payable	69,844,102	66,453,618
Loan payable-other	36,651,000	32,651,000
Total non-current liabilities	187,486,256	176,003,611
Current liabilities:		
Accounts payable	707,516	1,216,146
Accrued payroll	802,291	765,126
Compensated absences payable	896,845	885,498
Accrued interest	1,197,657	1,107,726
Pollution remediation obligation	55,000	60,000
Long-term obligations maturing within one year	6,264,760	5,894,889
Total current liabilities	9,924,069	9,929,385
Liabilities payable from restricted assets:		
Current:		
Capital acquisition and construction accounts payable	1,086,688	434,101
Non-current:		
Customer deposits payable	266,623	2,146,700
Total liabilities payable from restricted assets	1,353,311	2,580,801
Total liabilities	198,763,636	188,513,797
Deferred inflows of resources:		
Contributions in aid of construction, net of amortization	173,098,656	174,939,915
Deferred inflows of resources related to net pension liability	211,707	275,886
Total deferred inflows of resources	173,310,363	175,215,801
Total liabilities and deferred inflows of resources	372,073,999	363,729,598
Total liabilities, deferred inflows of resources and net position	\$ 458,125,896	445,181,254

See accompanying notes to basic financial statements.

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

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

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Charges for sales and services:		
Residential sales	\$ 37,893,050	37,088,555
Commercial sales	11,452,312	11,428,098
Public authorities	1,689,185	1,787,593
Total charges for sales and services	<u>51,034,547</u>	<u>50,304,246</u>
Miscellaneous	966,107	1,067,781
Total operating revenues	<u>52,000,654</u>	<u>51,372,027</u>
Operating expenses:		
Collection system	3,688,007	3,827,027
Pumping plant	1,058,299	1,076,981
Treatment	12,298,174	12,866,287
Customer accounts	2,218,552	2,383,285
Administrative and general	10,683,888	9,173,295
Total operations	<u>29,946,920</u>	<u>29,326,875</u>
Depreciation, net of amortization	8,750,021	8,366,414
Total operating expenses	<u>38,696,941</u>	<u>37,693,289</u>
Operating income	<u>13,303,713</u>	<u>13,678,738</u>
Non-operating revenues:		
Investment income - short-term investments	494,810	239,607
PERS on-behalf	401,308	179,073
Miscellaneous revenue	9,107	7,455
Total non-operating revenues	<u>905,225</u>	<u>426,135</u>
Non-operating expenses:		
Interest expense-revenue bonds	2,996,719	3,031,958
Amortization of bond premium/discount	(24,448)	(23,370)
Amortization of debt expense	49,896	52,802
Interest and fees-loans	1,500,941	1,344,865
Allowance for funds used during construction	(620,094)	(1,435,149)
Miscellaneous expenses	1,414	33,215
Total non-operating expenses	<u>3,904,428</u>	<u>3,004,321</u>
Income before transfers	<u>10,304,510</u>	<u>11,100,552</u>
Transfers:		
Transfers to other funds	5,704,269	5,292,895
Change in fund net position	4,600,241	5,807,657
Net position – beginning, as restated for 2015	81,451,656	75,643,999
Net position – ending	<u>\$ 86,051,897</u>	<u>81,451,656</u>

See accompanying notes to basic financial statements.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER 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	\$ 50,658,730	50,901,948
Refunds to customers and users	—	(2,317,531)
Payments to employees	(16,054,393)	(15,231,955)
Payments to vendors	(10,858,514)	(7,439,870)
Internal activity – payments made (to) from other funds	(4,438,322)	96,630
Net cash provided by operating activities	19,307,501	26,009,222
Cash flows from non-capital and related financing activities:		
Transfers to other funds	(5,704,269)	(5,292,895)
Net cash used by non-capital and related financing activities	(5,704,269)	(5,292,895)
Cash flows from capital and related financing activities:		
Principal payments on revenue bonds	(800,000)	(765,000)
Interest payments and fees on long-term obligations	(4,407,729)	(4,584,788)
Acquisition and construction of capital assets	(15,066,412)	(20,977,313)
Capital contributions – intergovernmental	345,151	4,262,740
Capital contributions – customer/special assessments	574,187	416,239
Proceeds from loan payable – other	4,000,000	3,500,000
Proceeds from Alaska Clean Water Fund loans	8,815,244	5,388,405
Principal payments on Alaska Clean Water Fund loans	(5,094,889)	(5,068,205)
Net cash used by capital and related financing activities	(11,634,448)	(17,827,922)
Cash flows from investing activities:		
Interest received	492,902	218,195
Net cash provided by investing activities	492,902	218,195
Net increase in cash	2,461,686	3,106,600
Cash, beginning of year	29,054,678	25,948,078
Cash, end of year	\$ 31,516,364	29,054,678
Cash and cash equivalents		
Equity in general cash pool	29,457,679	26,294,975
Equity in bond and grant capital acquisition and construction pool	1,792,062	613,003
Customer deposits	266,623	2,146,700
Cash and cash equivalents, end of year	\$ 31,516,364	29,054,678

See accompanying notes to basic financial statements.

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

Statements of Cash Flows, Continued

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 13,303,713	13,678,738
Transfer (to) from escrow account	—	2,317,531
Adjustments to reconcile operating income to net cash provided by operating activities:		
Allowance for uncollectible accounts	(41,440)	97,989
Depreciation, net of amortization	8,750,021	8,366,414
PERS relief	401,308	179,073
Miscellaneous non-operating revenues (expenses)	7,693	(25,760)
Changes in assets, deferred outflows and inflows of resources, and liabilities increasing (decreasing) cash:		
Accounts receivable and other receivables	(1,723,317)	492,685
Unbilled reimbursable projects	4,202	2,996
Inventories	(43,005)	(63,732)
Customer deposits payable	(1,880,077)	615,509
Prepays	(9,597)	(99,689)
Unbilled special assessments and other non-current assets	(1,566,667)	(1,007,272)
Accounts payable	(508,630)	691,031
Accrued payroll liabilities	37,165	311,706
Compensated absences payable	83,555	(18,180)
Pollution remediation obligation	216,750	(30,000)
Customer refund payable	—	(560,000)
Deferred outflows of resources related to net pension liability	(2,322,645)	(1,338,189)
Net pension liability	4,662,651	3,474,538
Deferred inflows of resources related to net pension liability	(64,179)	(1,076,166)
Net cash provided by operating activities	<u>\$ 19,307,501</u>	<u>26,009,222</u>
Non-cash investing, capital and financing activities:		
Contributed capital – private development	\$ 3,800,266	8,350,448
Capital purchases on account, net	353,855	689,987
Total non-cash investing, capital and financing activities	<u>\$ 4,154,121</u>	<u>9,040,435</u>

See accompanying notes to basic financial statements.

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

Notes to Basic Financial Statements

December 31, 2016 and 2015

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

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

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

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

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

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

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

Notes to Basic Financial Statements

December 31, 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 a deferred inflow of resources. Consequently, contributions in aid of construction are recorded as a regulatory liability in the accompanying financial statements. The Utility's rates also include an allowance for the cost of funds used during construction (AFUDC), which is capitalized in the accompanying financial statements. The Statements of Revenues, Expenses, and Changes in Fund Net Position include AFUDC as an item of other income in a manner that indicates the basis for the amount capitalized. As a regulated operation, the Utility applies the accounting and reporting requirements applicable to regulated operations to the accounting for debt issuance costs. Accordingly, the Utility's debt issuance costs are recorded as an asset and are being amortized over the life of the debt.

(b) Cash Pool and Investments

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

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

(c) Flow Assumptions for Restricted Resources

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

(d) Inventories

Inventories are valued at average cost.

(e) Deferred Outflows of Resources

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

(f) Deferred Inflows of Resources

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

**MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER 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 procedure, and remaining life technique. The Utility's depreciation model is approved by the RCA. Additions to wastewater plant in service are at original cost of contracted services, direct labor and materials, interest and indirect overhead charges.

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

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

The estimated lives of major plant and equipment categories follow:

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

(h) Operating Revenues and Expenses

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

(i) Unbilled Revenues

Utility revenues are based on cycle billings rendered to customers monthly. The Utility accrues an estimate of revenue at year-end for services provided but not yet billed, which is included in the Accounts Receivable balance. The Utility accrued \$1,540,000 and \$1,620,000 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
WASTEWATER 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
WASTEWATER 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 effects on previously reported net income.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER 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
WASTEWATER 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
WASTEWATER 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
WASTEWATER 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	\$ 5,838,362	38,651	—	5,877,013
Collection plant	395,217,708	7,246,796	(38,401)	402,426,103
Pumping plant	17,294,024	158,873	(71,656)	17,381,241
Treatment and disposal plant	165,964,949	1,943,932	(44,470)	167,864,411
General plant – land	4,203,352	—	—	4,203,352
General plant	62,515,626	3,284,978	(3,538,624)	62,261,980
	<u>651,034,021</u>	<u>12,673,230</u>	<u>(3,693,151)</u>	<u>660,014,100</u>
Less accumulated depreciation	(257,575,774)	(14,836,668)	4,505,196	(267,907,246)
Net plant in service	393,458,247	(2,163,438)	812,045	392,106,854
Property held for future use	1,379,931	—	—	1,379,931
Construction work in progress	7,518,132	16,111,247	(9,931,379)	13,698,000
	<u>\$ 402,356,310</u>	<u>13,947,809</u>	<u>(9,119,334)</u>	<u>407,184,785</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 \$246,369, and cost of removal charges of \$1,058,414. The Utility’s 2017 construction budget is \$33,650,000.

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

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

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

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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 Clean Water Fund to fund capital improvement projects. These loans enter repayment status one year after the initiation of operation of the facilities with the loan terms included in the contract. These loans have repayment terms of up to 20 years. In 2016, the Utility obtained additional low interest loans of \$8,815,244.

In March 2013, the Utility entered into a Loan Agreement for up to \$60,000,000 with a commercial bank. 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 \$4,000,000 through this agreement to bring the loan balance to \$36,651,000. Under the terms of the Loan Agreement, the Utility pays fees quarterly of 0.5% per annum based upon the amount of the authorized, but not drawn, loan amount calculated on a weekly basis. The interest rate on the loan varies. As of December 31, 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	Principal Balance December 31, 2016
Revenue Bonds:					
2004 Wastewater Revenue Bonds	06/10/04	\$ 22,620,000	3.00 - 5.125%	2007 - 2034	\$ 3,100,000
2007 Wastewater Revenue & Refunding Bonds	06/28/07	59,665,000	4.00 - 5.00%	2008 - 2037	58,415,000
Total Revenue Bonds		<u>82,285,000</u>			<u>61,515,000</u>
Long-Term Revolving Loans:					
127061 Girdwood Wastewater	4/24/95	1,565,161	1.50%	1999 - 2018	186,145
127071 Eagle River TID ER-3	10/30/95	2,073,031	1.50%	1999 - 2018	245,969
127081 Misc Wastewater Projects	5/8/95	2,071,475	1.50%	2002 - 2021	584,147
127091 Chester Creek Pump Stn R&R	6/11/97	959,587	1.50%	1999 - 2018	114,774
127101 FY97 Misc Wastewater Projects	6/11/97	2,250,000	1.50%	2009 - 2028	1,350,000
127111 Equipment - Wastewater 1998	1/21/98	286,051	1.50%	2001 - 2020	64,829
127131 Chester Creek Sewer Trunk Study	4/2/98	300,127	1.50%	2004 - 2023	105,044
127141 Facility Replace & Rehab Proj 1998	1/21/98	1,305,252	1.50%	2009 - 2028	756,704
127151 Operations Facilities, Phase II	1/21/98	1,138,248	1.50%	2006 - 2022	340,564
127211 FY99 Misc Small Sewer R&R, Phs I	7/23/01	1,410,000	1.50%	2003 - 2022	473,240
127271 C-5-7 Trunk Sewer Upgrade	5/19/03	2,229,617	1.50%	2007 - 2026	1,197,645
127281 Asplund Facility Solids Handling	1/21/00	4,290,279	1.50%	2002 - 2021	1,074,892
127291 Operations Facility, Phase III	3/18/03	3,608,588	1.50%	2004 - 2023	1,416,186
127301 Septic System Site Upgrade	1/21/00	500,000	1.50%	2004 - 2023	174,681
127371 Old Glenn Hwy	2/22/08	2,000,000	1.50%	2012 - 2031	1,500,000
127421 B-4AB Sewer Trunk Upgrade	8/20/01	2,370,748	1.50%	2003 - 2022	708,316
127451 SCADA Sewer	6/18/04	13,000,000	1.50%	2009 - 2028	7,893,518
127481 Asplund WW Treatment Facility	6/18/04	4,200,000	1.50%	2006 - 2025	2,045,251
127611 Asplund Facility Utilador	12/5/12	2,100,000	1.50%	2014 - 2033	1,785,000
127631 Asplund Process Impr	1/30/08	8,000,000	1.50%	2009 - 2028	4,800,000
127641 (C-F) Interceptor Upgrade	12/16/09	41,858	1.50%	2010 - 2019 **	12,557
127651 C-2(A,B) Sewer Improvements	8/1/07	1,700,000	1.50%	2010 - 2029	1,104,997
127661 King-Rovenna Sewer Upgrade	8/1/07	1,613,129	1.50%	2010 - 2029	1,048,534
127671 C-5-N Campbell Lake	8/7/07	941,788	1.50%	2010 - 2029	612,162
127691 ER WWTF Gravity Thickener	12/28/07	201,970	1.50%	2010 - 2029	131,281

Loans continued on next page.

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Description	Original Issue Date	Total Issue Amount	Interest Rates	Maturity Range	Principal Balance December 31, 2016
127701 Girdwood WWTF Improvements	12/16/09	\$ 10,778,946	1.50%	2015 - 2034	\$ 9,701,051
127721 San Ernesto Hoyt Upgrade	12/22/08	404,000	1.50%	2010 - 2029	262,600
127741 Septage Improvements	10/29/08	1,800,000	1.50%	2011 - 2030	1,260,000
130031 Asplund Improvements	1/18/08	2,701,000	1.50%	2009 - 2028	1,485,550
130061 W. 71st Ave Sewer Rehab	10/31/14	300,000	1.50%	2016 - 2035	285,000
130071 Pump Station Upgrade	12/16/09	3,519,908	1.50%	2013 - 2032	2,815,926
130081 Sand Lake Sewer Extension	2/17/10	600,000	1.50%	2011 - 2030	420,000
130091 Asplund Generator Upgrade	10/16/08	5,963,373	1.50%	2011 - 2030	4,174,361
130101 Minnesota-Benson Sewer Upgrade	6/16/09	395,625	1.50%	2009 - 2028	237,375
130131 Arctic 32nd-36th Upgrade	7/9/08	437,275	1.50%	2009 - 2028	262,365
130171 Asplund Disinfection Study & Upgrade	4/30/10	7,156,657	1.50%	2017 - 2036	7,156,657
130191 Pump Station 10 Upgrade	12/12/08	3,283,217	1.50%	2011 - 2030	2,298,252
130301 Cope Dorbrant Upgrade	9/9/08	927,746	1.50%	2011 - 2030	649,422
130311 Douglas St Sewer	9/9/08	117,000	1.50%	2008 - 2027	64,350
130321 ER WWTR Improvements	11/5/08	4,746,427	1.50%	2010 - 2029	3,134,511
130361 Downtown Sewer Upgrade	10/6/09	280,000	1.50%	2010 - 2029	182,000
130621 Benson Dawson-Cheechako Upgrade	3/16/10	447,878	1.50%	2010 - 2029	291,121
130631 AWWTF Screen, Hdwks HWS & Code	12/22/16	449,632	1.50%	2018 - 2037	449,632
130681 Wonder Park Sewer Upgrade Ph II	3/31/10	1,500,000	1.50%	2017 - 2036	1,500,000
130711 Iris Way Sewer Upgrade	3/19/10	408,359	1.50%	2010 - 2029	265,433
130781 Wonder Park Upgrade PHII	11/15/16	3,741,971	1.50%	2018 - 2037	3,741,971
130801 Downtown Pipe R&R	10/6/16	404,585	1.50%	2017 - 2036	404,585
131081 Rovenna Pipe Upgrade	7/22/11	820,741	1.50%	2014 - 2033	656,593
131091 ERWTF Clarifier Upgrade	7/22/11	1,330,806	1.50%	2011 - 2030	999,414
131111 Chester Creek Sewer	9/20/11	420,000	1.50%	2012 - 2031	315,000
131121 HVAC Control System King St	11/21/12	237,012	1.50%	2012 - 2031	177,759
131391 Sand Lake Area Swr Phase II	11/21/12	140,000	1.50%	2014 - 2033	119,000
131401 Fish Creek Interceptor Rehab Proj	10/20/14	2,232,498	1.50%	2018- 2037 *	2,232,498
Total Long-Term Loans		<u>115,701,565</u>			<u>75,268,862</u>
Loan payable-other	3/15/13	36,651,000	1.22%	2019	36,651,000
Total Long-Term Debt		<u>\$ 234,637,565</u>			<u>\$ 173,434,862</u>

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

** 10 Year repayment schedule.

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(b) Revenue Bond Coverage Requirements

The Utility is required to maintain a minimum coverage ratio for revenue bonds. The Utility's Schedule of Revenue Bond Coverage for the last 3 years follows:

Fiscal Year	Revenue (1)	Assessment Collections (2)	Operating Expenses (3)	Amount Available For Debt Service	<u>Current Year Debt Service Requirements</u>			Coverage (4)
					Principal	Interest	Total	
2014	\$ 51,741,625	351,374	31,018,722	21,074,277	730,000	3,069,950	3,799,950	5.55
2015	51,619,089	416,239	34,440,698	17,594,630	765,000	3,037,578	3,802,578	4.63
2016	51,591,772	574,187	32,974,054	19,191,905	800,000	3,002,719	3,802,719	5.05

- (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 \$912,799 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

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

Fiscal Year	Revenue (1)	Assessment Collections (2)	Operating Expenses (3)	Amount Available For Debt Service	Current Year Debt Service Requirements			Coverage (5)
					Principal (4)	Interest (4)	Total	
2014	\$ 51,741,625	351,374	31,018,722	21,074,277	5,402,093	4,118,817	9,520,910	2.21
2015	51,619,089	416,239	34,440,698	17,594,630	5,833,205	4,429,024	10,262,229	1.71
2016	51,591,772	574,187	32,974,054	19,191,905	5,894,889	3,973,567	9,868,456	1.94

- (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 \$912,799 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 Clean Water Fund and loan payable-other.
- (5) Required minimum coverage is 1.15.

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(d) Debt Service Requirements

Debt service requirements to maturity follow:

<u>Year</u>	<u>Revenue Bonds</u>		<u>Long-term Loans</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2017	\$ 840,000	2,963,719	5,424,760	1,377,740	10,606,219
2018	880,000	2,924,019	5,893,052	985,667	10,682,738
2019	950,000	2,885,131	42,276,657	905,943	47,017,731
2020	1,010,000	2,840,247	5,629,678	824,364	10,304,289
2021	1,090,000	2,788,928	5,621,188	742,726	10,242,842
2022 -2026	10,240,000	12,705,298	24,516,759	2,573,502	50,035,559
2027- 2031	17,785,000	9,394,272	16,247,353	971,288	44,397,913
2032 - 2036	23,315,000	4,377,665	5,989,209	201,220	33,883,094
2037 - 2038	5,405,000	135,125	321,206	2,011	5,863,342
TOTAL	<u>61,515,000</u>	<u>41,014,404</u>	<u>111,919,862</u>	<u>8,584,461</u>	<u>223,033,727</u>
	(840,000)		(5,424,760)	Current Portion of Principal	
	(33,043)		—	Unamortized Discount	
	445,878		—	Unamortized Premium	
	<u>\$ 61,087,835</u>		<u>106,495,102</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	\$ 62,315,000	—	(800,000)	61,515,000	840,000
Long-term revolving loans	71,548,507	8,815,244	(5,094,889)	75,268,862	5,424,760
Long-term loans payable	32,651,000	4,000,000	—	36,651,000	—
Total debt	<u>166,514,507</u>	<u>12,815,244</u>	<u>(5,894,889)</u>	<u>173,434,862</u>	<u>6,264,760</u>
Unamortized discounts	(40,409)	—	7,366	(33,043)	—
Unamortized premiums	477,692	—	(31,814)	445,878	—
Total debt, net	<u>166,951,790</u>	<u>12,815,244</u>	<u>(5,919,337)</u>	<u>173,847,697</u>	<u>6,264,760</u>
Compensated absences	1,148,030	1,492,479	(1,408,924)	1,231,585	896,845
Pollution remediation obligation	414,000	216,750	—	630,750	55,000
Total long-term, net	<u>\$ 168,513,820</u>	<u>14,524,473</u>	<u>(7,328,261)</u>	<u>175,710,032</u>	

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

Description	December 31, 2014	Additions	Deletions	December 31, 2015	Amounts Due Within One Year
Revenue bonds	\$ 63,080,000	—	(765,000)	62,315,000	800,000
Long-term revolving loans	71,228,307	5,388,405	(5,068,205)	71,548,507	5,094,889
Long-term loans payable	29,151,000	3,500,000	—	32,651,000	—
Total debt	<u>163,459,307</u>	<u>8,888,405</u>	<u>(5,833,205)</u>	<u>166,514,507</u>	<u>5,894,889</u>
Unamortized discounts	(48,940)	—	8,531	(40,409)	—
Unamortized premiums	509,593	—	(31,901)	477,692	—
Total debt, net	<u>163,919,960</u>	<u>8,888,405</u>	<u>(5,856,575)</u>	<u>166,951,790</u>	<u>5,894,889</u>
Compensated absences	1,166,210	1,617,537	(1,635,717)	1,148,030	885,498
Pollution remediation obligation	444,000	—	(30,000)	414,000	60,000
Total long-term, net	<u>\$ 165,530,170</u>	<u>10,505,942</u>	<u>(7,522,292)</u>	<u>168,513,820</u>	

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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	48,314,774	99,971	-	48,414,745
Private development	124,740,619	3,800,266	(19,040)	128,521,845
Other	892,325	-	-	892,325
Intergovernmental	154,062,903	345,151	(57,574)	154,350,480
Total CIAC	<u>328,010,621</u>	<u>4,245,388</u>	<u>(76,614)</u>	<u>332,179,395</u>
Accumulated Amortization				
Customer	(81,393,169)	(3,264,958)	19,040	(84,639,087)
Intergovernmental	(71,677,537)	(2,821,689)	57,574	(74,441,652)
Total amortization	<u>(153,070,706)</u>	<u>(6,086,647)</u>	<u>76,614</u>	<u>(159,080,739)</u>
Net CIAC	<u>174,939,915</u>	<u>(1,841,259)</u>	<u>-</u>	<u>173,098,656</u>

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

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

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(6) Net Position

Net position invested in capital assets is comprised of:

	2016	2015
Capital assets, net of depreciation	\$ 407,184,785	402,356,310
Less: Net revenue bonds payable, long-term	61,087,835	61,952,283
Less: Unspent debt proceeds	(1,792,062)	(613,003)
Alaska Drinking Water loan payable, long-term	69,844,102	66,453,618
Loan payable – other	36,651,000	32,651,000
Long-term obligations maturing within one year	6,264,760	5,894,889
Contributions in aid of construction, net	173,098,656	174,939,915
Net position invested in capital assets	\$ 62,030,494	61,077,608

(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/dr/pers>. Actuarial valuation reports, audited financial statements, and other

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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.

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.

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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).

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:

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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%

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)	\$ 991,171	\$ 1,074,905
Nonemployer contributions (on-behalf)	357,922	386,427
Total Contributions	\$ 1,349,093	\$ 1,461,332

In addition, employee contributions to the Plan totaled \$399,784 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:

	2016
Utility proportionate share of NPL	\$ 18,992,829
State's proportionate share of NPL associated with the Utility	2,393,173
Total Net Pension Liability	\$ 21,386,002

The Utility recognized \$18,992,829 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,

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2015. The Utility represents approximately 4.38 percent of the total net pension liability of the Municipality.

For the year ended December 31, 2016, the Utility recognized pension expense of \$2,598,429. Of this amount, \$322,602 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:

	Measurement Period	
	June 30, 2016	
	Outflows of Resources	Inflows of Resources
Difference between expected and actual experience	\$ 1,746	\$ (211,707)
Changes in assumptions	87,600	-
Net difference between projected and actual earnings on pension plan investments	1,866,918	-
Changes in proportion and differences between Utility contributions and proportionate share of contributions	1,684,901	-
Utility contributions subsequent to the measurement date	572,163	-
Total Deferred Outflows and Deferred Inflows Related to Pensions	\$ 4,213,328	\$ (211,707)

The \$572,163 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	\$ 1,737,463
2018	435,968
2019	763,202
2020	492,825
Total Amortization	\$ 3,429,458

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

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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.

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:

	Proportional Share	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Utility's proportionate share of the net pension liability	0.33979%	\$ 24,461,801	\$ 18,992,829	\$ 14,380,002

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 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:

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

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 \$169,927 to PERS IV for retirement and retiree medical, and \$88,465 to PERS IV for Health Reimbursement Arrangement on-behalf of its employees. Employee contributions to the Plan totaled \$271,865.

(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 has removed four leaking, underground fuel storage tanks and the surrounding contaminated soils. With ADEC approval, the Utility has been conducting groundwater monitoring of these sites since 2011. The Utility received approval to close one of the sites in 2016 (Pump Station 31). The Utility will continue groundwater monitoring at a second site. For a third site (Pump Station 12) the Utility plans to petition ADEC to give the site a cleanup complete designation since average contaminant levels at the site have been decreasing. This same facility experienced an unrelated fuel spill in 2017 as discussed in Note 13 Subsequent Events. In 2016 the Utility experienced a fuel spill for which preliminary actions removed surface and some subsurface contamination. A third party agreed through mediation to pay a portion of the preliminary cleanup costs. The Utility is planning to make improvements at the site which will result in further cleanup and contamination mitigation.

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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 \$443,000 and multiplied those outlays by their probability of occurring to estimate a pollution remediation obligation of \$630,749.50. The potential for a material change in the estimate is possible depending upon the response received from ADEC.

(10) Regulatory Matters

(a) 2015 Test Year / 2017 Rates

On November 16, 2016, the Utility filed a revenue requirement study requesting an interim and refundable rate increase of 9.5%. The Regulatory Commission of Alaska (RCA) approved the rate increase effective January 3, 2017 on a permanent basis without suspension into a docket for further investigation.

(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	\$ <u>5,704,269</u>
Total transfers	\$ <u><u>5,704,269</u></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	\$ 5,285,575
ERP project labor	<u>7,320</u>
Total transfers	\$ <u><u>5,292,895</u></u>

(12) Wastewater Treatment Facilities Discharge Permits

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

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

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Notes to Basic Financial Statements

December 31, 2016 and 2015

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

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

(13) Subsequent Events

Subsequent to December 31, 2016, the Utility entered into loan agreements for an additional \$5.0 million from the State of Alaska Clean Water Fund for capital construction projects to be drawn as needed.

In March 2017, the Municipality authorized the issuance of Wastewater Revenue Refunding Bonds. These bonds, if issued, would refund all or a portion of the following issues: 2004 Wastewater Senior Lien Revenue Bonds with a remaining outstanding balance of \$3.1 million, 2007 Wastewater Senior Lien Revenue Bonds with a remaining outstanding balance of \$58.4 million, and any or all outstanding Subordinate Lien Wastewater Revenue Loans. Details of the Wastewater Utility outstanding revenue bonds are disclosed in Note 4(a).

In July 2017, the Wastewater Utility issued \$20 million in Wastewater Revenue Refunding Bonds 2017 Series B to partially refund the Wastewater 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 \$36,651,000.

Subsequent to December 31, 2016, the Utility experienced a diesel fuel spill at our Pump Station 12 Facility. The quantity of this fuel spill is currently estimated at less than 500 gallons. Preliminary actions have occurred to remove surface contamination, but subsurface contamination remains. The Utility will be required to perform the cleanup in accordance with Alaska Department of Environmental Conservation regulations. It is reasonably possible that a liability has been incurred; however, it is not currently possible to estimate the amount of any potential liability so no liability has been recorded.

(14) Other Accounting Matters

(a) 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, required 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 2015. As a result of the

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implementation of this statement, the Utility has recorded an opening balance adjustment to reflect opening balance pension liabilities and related accounts and to decrease opening net position at January 1, 2015 as follows:

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

(15) 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.

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
WASTEWATER 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	4.37627%	\$ 18,992,829	\$ 2,393,173	\$ 21,386,002	\$ 8,895,399	213.51%	59.55%
2015	2015	4.79356%	14,330,178	3,838,282	18,168,460	9,329,583	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	\$ 1,074,905	\$ 1,074,905	\$ -	\$ 9,066,258	11.856%
2015	2015	1,048,661	1,048,661	-	9,547,517	10.984%

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Notes to the 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 outflow of resources on the basic financial statements.

STATISTICAL SECTION

MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER 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)	3.53	3.03	3.08	2.62	0.74
Quick ratio (quick assets / current liabilities)	3.48	2.99	3.04	2.58	0.72
Return on investment (change in net position / total assets)	1.0%	1.3%	2.0%	2.0%	1.7%
Return on equity (change in net position / net position)	5.4%	7.1%	10.0%	10.5%	9.5%
Debt to equity as a percent of capital structure (outstanding debt / capital structure over net position / capital structure)	<u>67%</u> 33%	<u>67%</u> 33%	<u>65%</u> 35%	<u>67%</u> 33%	<u>66%</u> 34%
Operating margin (operating income / operating revenues)	26%	27%	35%	35%	34%
Revenue bond debt coverage (Note 4b) (amount available for revenue bond debt service / revenue bond principal & interest)	5.05	4.63	5.54	5.26	4.82
Total debt coverage (note 4c) (amount available for total debt service / total principal & interest)	1.94	1.71	2.21	2.11	—
Weighted cost of long term debt (Sum of interest rates multiplied by percentage of total amounts outstanding for bonds, long-term loans, and amortization of bond discounts and transaction costs)	2.76%	2.68%	2.76%	2.72%	3.12%

MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER 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	53,410	53,264	53,016	52,745	52,569
Commercial	3,753	3,733	3,695	3,687	3,682
Total	<u>57,163</u>	<u>56,997</u>	<u>56,711</u>	<u>56,432</u>	<u>56,251</u>
Growth rate	0.29%	0.50%	0.49%	0.32%	

MUNICIPALITY OF ANCHORAGE, ALASKA
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Table 2
Current Wastewater Rates

Type of Service	2016 ⁽¹⁾	2015 ⁽²⁾	2014 ⁽³⁾	2013 ⁽⁴⁾	2012 ⁽⁵⁾
Metered:					
Customer charge (per account)	\$ 7.78	7.78	7.87	7.46	7.14
Residential usage charge (per 1,000 gallons)	5.15	5.15	5.21	4.94	4.73
Commercial – low strength (TSS<= 275 mg/L)	4.53	4.53	4.58	4.34	4.15
Commercial – medium strength (TSS between 275 and 450mg/L)	6.02	6.02	6.09	5.77	5.52
Commercial – high strength (TSS>450 mg/L)	7.02	7.02	7.10	6.73	6.44
Unmetered:					
Customer charge (per account)	7.78	7.78	7.87	7.46	7.14
Residential, usage charge (per dwelling unit)	32.94	32.94	33.31	31.57	30.21
Commercial, usage charge (depends on customer business)	10.85 to 919.61	10.85 to 919.61	10.97 to 929.83	10.40 to 881.36	9.95 to 843.41

⁽¹⁾ Rates effective 6/5/15.

⁽²⁾ Rates effective 6/5/15. Rate increase of 4.34% was approved by the Regulatory Commission of Alaska (RCA) effective 6/5/15 as Final and Permanent.

⁽³⁾ Rates effective 1/1/14. Rate increase of 5.5% was approved by the Regulatory Commission of Alaska (RCA) effective 1/1/14 as Interim and Refundable.

⁽⁴⁾ Rates effective 1/1/13.

⁽⁵⁾ Rates effective 1/1/12.

MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER 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	\$ 50,400,000	51,034,547	634,547
Miscellaneous	970,000	966,107	(3,893)
Total Operating Revenue	51,370,000	52,000,654	630,654
Non Operating Revenue			
Investment Income	290,000	494,810	204,810
Other Income	15,000	410,414	395,414
Total Non Operating Revenue	305,000	905,224	600,224
Total Revenue	51,675,000	52,905,878	1,230,878
Operating Expenses			
Labor			
Labor and Benefits	16,506,261	15,463,706	1,042,555
Overtime	414,500	393,744	20,756
Total Labor	16,920,761	15,857,450	1,063,311
Non Labor			
Non Labor	10,472,948	9,687,801	785,147
Travel	68,000	46,175	21,825
Transfers (MUSA and gross receipts)	5,440,000	5,704,269	(264,269)
Depreciation and Amortization	9,750,000	8,928,512	821,488
Total Non Labor	25,730,948	24,366,757	1,364,191
Total Direct Cost	42,651,709	40,224,207	2,427,502
Charges from other departments	1,545,604	1,501,283	44,321
Total Operating Expense	44,197,313	41,725,490	2,471,823
Non Operating Expense			
Interest on bonded debt	3,068,000	2,996,719	71,281
Amortization of debt expense	32,000	25,448	6,552
Other interest expense	2,100,000	1,500,941	599,059
Interest during construction	(450,000)	(620,094)	170,094
Total Non Operating Expense	4,750,000	3,903,014	846,986
Total Expenses	48,947,313	45,628,504	3,318,809
Increase in Net Position	2,727,687	7,277,374	4,549,687
Appropriation			
Total Expenses	48,947,313	45,628,504	
Less: Non cash items not appropriated			
Depreciation and amortization	9,750,000	8,928,512	
Amortization of debt expense	32,000	25,448	
Interest during construction	(450,000)	(620,094)	
PERS on-behalf expense	-	401,308	
PERS GASB 68 expense	-	2,275,827	
Total Non-Cash	9,332,000	8,333,866	
Total Appropriated Expenses	\$ 39,615,313	37,294,638	2,320,675

MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER UTILITY FUND
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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 Wastewater Revenue Bonds	06/10/2004	\$ 22,620,000	3,690,000	—	590,000	3,100,000	—
2007 Wastewater Revenue & Refunding Bonds	06/28/2007	59,665,000	58,625,000	—	210,000	58,415,000	840,000
Total Revenue Bonds		<u>82,285,000</u>	<u>62,315,000</u>	<u>—</u>	<u>800,000</u>	<u>61,515,000</u>	<u>840,000</u>
Alaska Clean Water (ACW) Loans							
127061 - Girdwood Wastewater	04/24/1995	1,565,161	277,159	—	91,014	186,145	92,380
127071 - Eagle River TID ER-3	10/30/1995	2,073,031	366,235	—	120,266	245,969	122,069
127081 - Misc Wastewater Projects	05/08/1995	2,071,475	695,848	—	111,701	584,147	113,377
127091 - Chester Creek Pump Stn R&R	06/11/1997	959,587	170,892	—	56,118	114,774	56,960
127101 - FY97 Misc Wastewater Projects	06/11/1997	2,250,000	1,462,500	—	112,500	1,350,000	112,500
127111 - Equipment - Wastewater 1998	01/21/1998	286,051	80,442	—	15,613	64,829	15,847
127131 - Chester Creek Sewer Trunk Study	04/02/1998	300,127	120,051	—	15,007	105,044	15,006
127141 - Facility Replace & Rehab Proj 1998	01/21/1998	1,305,252	819,763	—	63,059	756,704	63,059
127151 - Operations Facilities, Phase II	01/21/1998	1,138,248	397,324	—	56,760	340,564	56,761
127211 - FY99 Misc Small Sewer R&R, Phs I	07/23/2001	1,410,000	548,084	—	74,844	473,240	75,967
127271 - C-5-7 Trunk Sewer Upgrade	05/19/2003	2,229,617	1,307,892	—	110,247	1,197,645	111,901
127281 - Asplund Facility Solids Handling	01/21/2000	4,290,279	1,289,870	—	214,978	1,074,892	214,978
127291 - Operations Facility, Phase III	03/18/2003	3,608,588	1,618,498	—	202,312	1,416,186	202,312
127301 - Septic System Site Upgrade	01/21/2000	500,000	199,636	—	24,955	174,681	24,954
127371 - Old Glen Hwy	02/22/2008	2,000,000	1,600,000	—	100,000	1,500,000	100,000
127421 - B-4AB Sewer Trunk Upgrade	08/20/2001	2,370,748	826,368	—	118,052	708,316	118,053
127451 - SCADA Sewer	06/18/2004	13,000,000	8,551,311	—	657,793	7,893,518	657,793
127481 - Asplund WW Treatment Facility	06/18/2004	4,200,000	2,256,042	—	210,791	2,045,251	213,953
127611 - Asplund Facility Utilador	12/05/2012	2,100,000	1,890,000	—	105,000	1,785,000	105,000
127631 - Asplund Process Impr	01/30/2008	8,000,000	5,200,000	—	400,000	4,800,000	400,000
127641 - C-F Interceptor Upgrade	12/16/2009	41,858	16,743	—	4,186	12,557	4,186
127651 - C-2(A,B) Sewer Improvements	08/01/2007	1,700,000	1,189,997	—	85,000	1,104,997	85,000
127661 - King-Rovenna Sewer Upgrade	08/01/2007	1,613,129	1,129,190	—	80,656	1,048,534	80,656
127671 - C-5-N Campbell Lake	08/07/2007	941,788	659,252	—	47,090	612,162	47,089
127691 - ER WWTF Gravity Thickener	12/28/2007	201,970	141,379	—	10,098	131,281	10,099
127701 - Girdwood WWTF Improvements	12/16/2009	10,778,946	10,239,999	—	538,948	9,701,051	538,947
127721 - San Ernesto Hoyt Upgrade	12/22/2008	404,000	282,800	—	20,200	262,600	20,200
127741 - Septage Improvements	10/29/2008	1,800,000	1,350,000	—	90,000	1,260,000	90,000
130031 - Asplund Improvements	01/18/2008	2,701,000	1,620,600	—	135,050	1,485,550	—
130061 - W. 71st Ave. Sewer Rehabilitation	10/31/2014	300,000	300,000	—	15,000	285,000	15,000
130071 - Pump Station Upgrade	12/16/2009	3,519,908	2,991,922	—	175,996	2,815,926	175,995
130081 - Sand Lake Swr Extension Proj.	02/17/2010	600,000	450,000	—	30,000	420,000	30,000
130091 - Asplund Generator Upgrade	10/16/2008	5,963,373	4,472,530	—	298,169	4,174,361	298,169
130101 - Minnesota-Benson Swr Upgrd	06/16/2009	395,625	257,156	—	19,781	237,375	19,781
130131 - Arctic 32nd-36th Upgrade	07/09/2008	437,275	284,229	—	21,864	262,365	21,864
130171 - Asplund Disinfection Study & Upgrd	04/30/2010	7,156,657	6,056,110	1,100,547	—	7,156,657	357,833
130191 - Pump Station 10 Upgrade	12/12/2008	3,283,217	2,462,413	—	164,161	2,298,252	164,161
130301 - Cope Dorbrant Upgrade	09/09/2008	927,746	695,809	—	46,387	649,422	46,387
130311 - Douglas St Sewer	09/09/2008	117,000	70,200	—	5,850	64,350	5,850
130321 - ER WWTF Improvements	11/05/2008	4,746,427	3,375,627	—	241,116	3,134,511	241,116
130361 - Downtown Sewer Upgrade	10/06/2009	280,000	196,000	—	14,000	182,000	14,000
130621 - Benson Dawson-Cheechako Upgrd	03/16/2010	447,878	313,515	—	22,394	291,121	22,394
130631 - AWWTF Screen, Hdws & Code	12/22/2016	449,632	—	449,632	—	449,632	—
130681 - Wonder Park Sewer Upgrade Ph II	03/31/2010	1,500,000	540,217	959,783	—	1,500,000	—
130711 - Iris Way Sewer Upgrade	03/19/2010	408,359	285,851	—	20,418	265,433	75,000
130781 - Wonder Park Upgrade PHII	11/15/2016	3,741,971	—	3,741,971	—	3,741,971	20,418
130801 - Downtown Pipe R&R	10/06/2016	404,585	—	404,585	—	404,585	—
131081 - Rovenna Pipe Upgrade	07/22/2011	820,741	697,630	—	41,037	656,593	20,229
131091 - ER WWTF Clarifier Upgrade	07/22/2011	1,330,806	1,066,041	—	66,627	999,414	41,037
131111 - Chester Creek Sewer	09/20/2011	420,000	336,000	—	21,000	315,000	66,628
131121 - HVAC Control System King St	11/21/2012	237,012	189,610	—	11,851	177,759	21,000
131391 - Sand Lake Area Swr Phase II	11/21/2012	140,000	126,000	—	7,000	119,000	11,851
131401 - Fish Creek Interceptor Rehab Proj	10/20/2014	2,232,498	73,772	2,158,726	—	2,232,498	7,000
Total ACW Loans		<u>115,701,565</u>	<u>71,548,507</u>	<u>8,815,244</u>	<u>5,094,889</u>	<u>75,268,862</u>	<u>5,424,760</u>
Loan Payable-Other							
Loan Payable-Other	03/15/2013	36,651,000	32,651,000	4,000,000	—	36,651,000	—
Total Loan Payable-Other		<u>36,651,000</u>	<u>32,651,000</u>	<u>4,000,000</u>	<u>—</u>	<u>36,651,000</u>	<u>—</u>
Total Long-Term Debt		<u>\$ 234,637,565</u>	<u>166,514,507</u>	<u>12,815,244</u>	<u>5,894,889</u>	<u>173,434,862</u>	<u>6,264,760</u>

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Table 5

Revenue Bond Coverage Requirements

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	
2007	\$ 35,566,755	481,651	23,627,253	12,421,153	520,000	1,672,649	2,192,649	5.66
2008	34,954,522	842,664	24,844,546	10,952,640	575,000	3,225,638	3,800,638	2.88
2009	37,346,056	420,981	26,417,349	11,349,688	595,000	3,204,697	3,799,697	2.99
2010	37,853,165	501,616	27,872,010	10,482,771	615,000	3,181,475	3,796,475	2.76
2011	42,523,838	344,946	28,790,317	14,078,467	650,000	3,153,650	3,803,650	3.70
2012	47,373,573	308,997	29,383,573	18,298,997	670,000	3,127,634	3,797,634	4.82
2013	49,606,871	254,484	29,856,569	20,004,786	705,000	3,099,794	3,804,794	5.26
2014	51,741,625	351,374	31,018,722	21,074,277	730,000	3,069,950	3,799,950	5.55
2015	51,619,089	416,239	34,440,698	17,594,630	765,000	3,037,578	3,802,578	4.63
2016	51,591,772	574,187	32,974,054	19,191,905	800,000	3,002,719	3,802,719	5.05

- (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 \$912,799 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) Required minimum coverage is 1.15.

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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	\$ 3,000	4,883	2,285	4,928	2,347	4,000	21,443
Collection System	19,369	23,136	13,480	18,727	24,644	24,711	124,067
Facility Master Plan	600	—	—	—	702	250	1,552
IT Hardware/Software	1,820	2,170	1,455	1,535	1,535	1,535	10,050
Miscellaneous Equipment	850	850	850	850	850	850	5,100
Other Plant & Facilities	2,115	—	—	—	—	—	2,115
Vehicles	966	893	868	880	892	904	5,403
Wastewater Plant	4,930	4,430	17,772	9,980	6,030	4,750	47,892
Total	<u>33,650</u>	<u>36,362</u>	<u>36,710</u>	<u>36,900</u>	<u>37,000</u>	<u>37,000</u>	<u>217,622</u>
Source of funding:							
Debt	23,650	26,362	26,710	26,900	28,000	29,000	160,622
Equity	10,000	10,000	10,000	10,000	9,000	8,000	57,000
Total	<u>\$ 33,650</u>	<u>36,362</u>	<u>36,710</u>	<u>36,900</u>	<u>37,000</u>	<u>37,000</u>	<u>217,622</u>

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

Statistical Section (unaudited)

Table 7

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Wastewater treatment facility (WWTF) system data:					
Asplund WWTF:					
Minimum daily flow	21.2	19.6	17.8	23.2	22.3
Maximum daily flow	34.3	52.2	41.7	52.9	50.2
Average daily flow	26.0	25.3	26.9	28.9	27.7
Peak Flow	52.5	76.4	64.5	67.8	65.5
Yearly Total (mg)	9,509.3	9,237.2	9,799.0	10,529.7	10,128.4
Eagle River WWTF:					
Minimum daily flow	1.2	1.1	1.1	1.2	0.7
Maximum daily flow	1.8	1.9	1.9	2.3	2.1
Average daily flow	1.3	1.3	1.4	1.4	1.4
Peak Flow	4.4	4.4	4.4	4.4	4.4
Yearly Total (mg)	489.7	489.5	498.3	517.7	526.6
Girdwood WWTF:					
Minimum daily flow	0.2	0.2	0.2	0.3	0.2
Maximum daily flow	1.1	1.2	1.3	1.5	1.4
Average daily flow	0.4	0.4	0.4	0.5	0.5
Peak Flow	2.2	1.9	2.2	2.2	2.2
Yearly Total (mg)	141.6	131.3	155.3	170.8	164.5
Miles of line:					
Interceptors	45	45	45	45	45
Trunks	84	84	84	83	83
Laterals	630	628	625	623	622
Total	<u>759</u>	<u>757</u>	<u>754</u>	<u>751</u>	<u>750</u>
Source:					
	<u>Maximum</u>				
	<u>Capacity</u>				
Asplund WWTF	58.0				
Eagle River WWTF	2.5				
Girdwood WWTF	0.6				
Total	<u>61.1</u>				

MUNICIPALITY OF ANCHORAGE, ALASKA

WASTEWATER UTILITY FUND

Statistical Section (unaudited)

Table 8

Detailed Schedule of Wastewater Plant in Service (In Thousands)

	Wastewater Plant			
	Balance	Additions	Retirements	Balance
	01/01/2016			12/31/2016
Wastewater plant in service:				
Tangible plant:				
Collection plant:				
Laterals	\$ 248,863	4,735	(38)	253,560
Trunks	78,367	62	—	78,429
Interceptors	49,198	1,735	—	50,933
Lift stations	18,304	—	—	18,304
Service Lines	485	715	—	1,200
Pumping plant:				
Structures & improvements	9,158	49	(37)	9,170
Receiving wells	2,641	—	—	2,641
Electric pumping equipment	5,495	110	(35)	5,570
Treatment and disposal plant:				
Treatment plant	72,561	—	—	72,561
Treatment & disposal equipment	79,847	1,943	(44)	81,746
Effluent tunnel plant sewer	11,238	—	—	11,238
Outfall sewer lines	2,319	—	—	2,319
Land and land rights	4,203	—	—	4,203
General plant:				
Structures & improvements	25,115	574	—	25,689
Office furniture	139	—	—	139
Computer equipment	6,990	688	(3,215)	4,463
Vehicles (light duty)	2,123	279	(69)	2,333
Transportation equipment (heavy duty)	4,351	1,091	(210)	5,232
Stores equipment	188	—	—	188
Tools, shop, & garage equipment	238	651	—	889
Laboratory equipment	193	—	—	193
Power operated equipment	807	—	—	807
Communication equipment	21,985	—	—	21,985
Miscellaneous equipment	388	—	(43)	345
Total tangible plant	645,196	12,632	(3,691)	654,137
Intangible plant	5,838	39	—	5,877
Total wastewater plant in service	651,034	12,671	(3,691)	660,014
Property held for future use	1,380	—	—	1,380
Construction work in progress	7,518	16,111	(9,931)	13,698
Total wastewater plant	\$ 659,932	28,782	(13,622)	675,092

MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER UTILITY FUND

Statistical Section (unaudited)

Table 8 (continued)

Detailed Schedule of Depreciation and Amortization (In Thousands)

	Accumulated Depreciation and Amortization				Net Book Value of Plant
	Balance	Additions	Retirements	Balance	
	01/01/2016			12/31/2016	
Wastewater plant in service:					
Tangible plant:					
Collection plant:					
Laterals	\$ 99,751	4,527	(38)	104,240	149,320
Trunks	32,271	1,232	—	33,503	44,926
Interceptors	20,091	647	—	20,738	30,195
Lift stations	13,447	364	—	13,811	4,493
Service Lines	5	15	—	20	1,180
Pumping plant:					
Structures & improvements	3,776	139	(36)	3,879	5,291
Receiving wells	343	75	—	418	2,223
Electric pumping equipment	863	99	(35)	927	4,643
Treatment and disposal plant:					
Treatment plant	20,404	907	—	21,311	51,250
Treatment & disposal equipment	32,104	2,325	(1,103)	33,326	48,420
Effluent tunnel plant sewer	4,176	171	—	4,347	6,891
Outfall sewer lines	2,192	35	—	2,227	92
Land and land rights	—	—	—	—	4,203
General plant:					
Structures & improvements	8,341	478	—	8,819	16,870
Office furniture	128	1	—	129	10
Computer equipment	2,296	1,400	(3,216)	480	3,983
Vehicles (light duty)	970	42	(40)	972	1,361
Transportation equipment (heavy duty)	3,978	307	6	4,291	941
Stores equipment	153	6	—	159	29
Tools, shop, & garage equipment	107	33	—	140	749
Laboratory equipment	37	11	—	48	145
Power operated equipment	253	44	—	297	510
Communication equipment	9,690	1,384	—	11,074	10,911
Miscellaneous equipment	132	22	(43)	111	234
Total tangible plant	<u>255,508</u>	<u>14,264</u>	<u>(4,505)</u>	<u>265,267</u>	<u>388,870</u>
Intangible plant	2,067	573	—	2,640	3,237
Total wastewater plant in service	<u><u>257,575</u></u>	<u><u>14,837</u></u>	<u><u>(4,505)</u></u>	<u><u>267,907</u></u>	<u><u>392,107</u></u>
Property held for future use	—	—	—	—	1,380
Construction work in progress	—	—	—	—	13,698
Total wastewater plant	<u><u>\$ 257,575</u></u>	<u><u>14,837</u></u>	<u><u>(4,505)</u></u>	<u><u>267,907</u></u>	<u><u>407,185</u></u>



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Wastewater Utility Fund, an enterprise fund of the Municipality of Anchorage, Alaska, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Wastewater Utility Fund's basic financial statements and have issued our report thereon dated July 28, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that 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 Wastewater Utility Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Wastewater Utility Fund's Response to Finding

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

Purpose of this Report

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

BDO USA, LLP

Anchorage, Alaska
July 28, 2017

**MUNICIPALITY OF ANCHORAGE
WASTEWATER 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 \$1.68 million and \$1.05 million, 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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