



Municipality of Anchorage, Alaska  
Water Utility Fund  
Basic Financial Statements  
and Supplementary Information

December 31, 2010 and 2009  
(with Independent Auditors' Report Thereon)



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

Basic Financial Statements and Supplementary Information

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

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

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the Water Utility Fund, an enterprise fund of the Municipality of Anchorage, Alaska, as of and for the years ended December 31, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Water Utility Fund's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Water Utility Fund and do not purport to, and do not, present fairly the financial position of the Municipality of Anchorage, Alaska as of December 31, 2010 and 2009, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility Fund as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion on it.

The accompanying statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
May 18, 2011

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

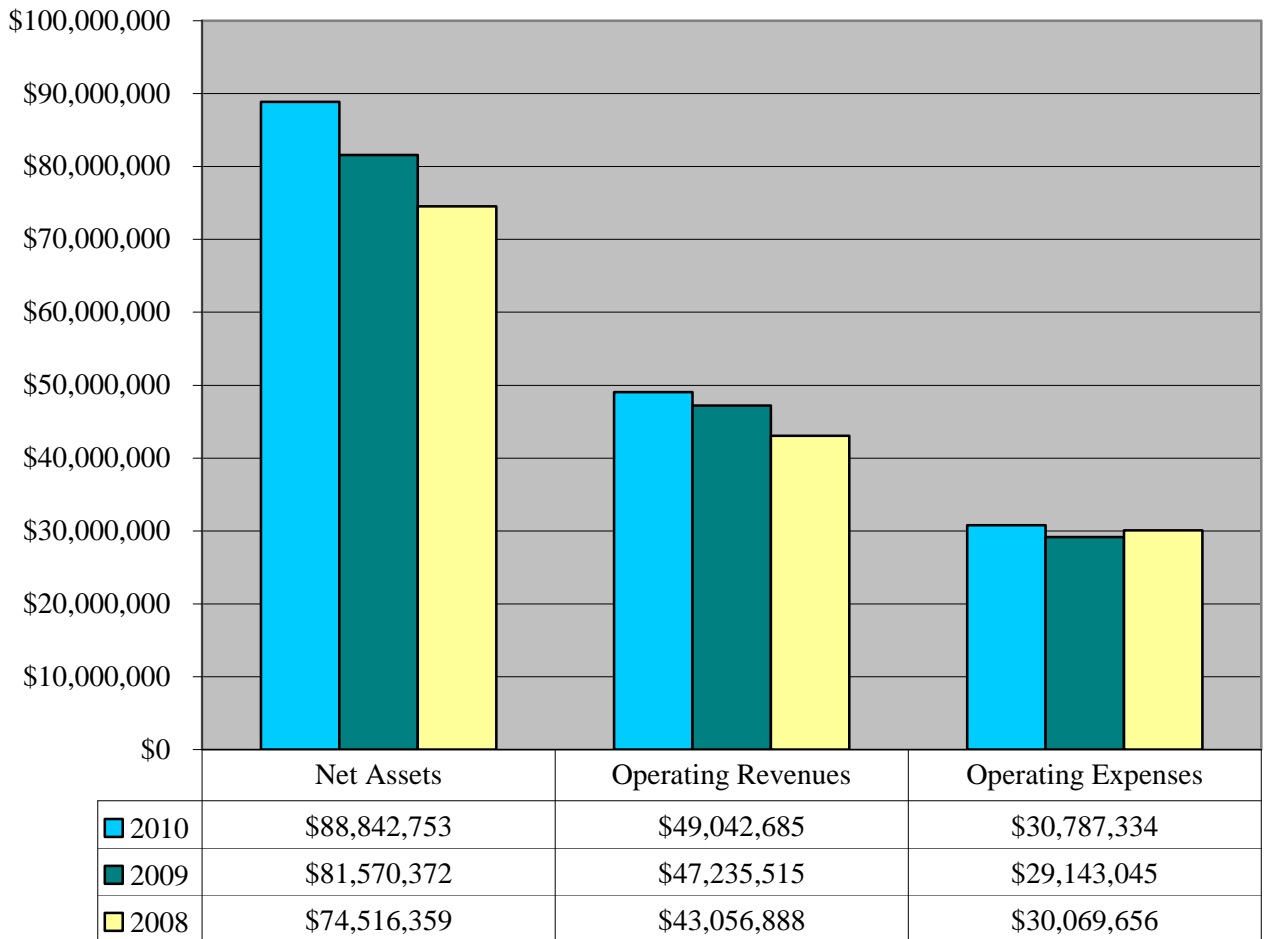
Management's Discussion and Analysis

December 31, 2010 and 2009

This section of the Municipality of Anchorage Water Utility (Utility) annual financial report presents the analysis of the Utility's financial performance during the years ending December 31, 2010 and 2009. Please read it in conjunction with the Utility's financial statements.

**Financial Highlights**

- Net Capital Assets increased by \$18,830,000, or 4% in 2010 and \$30,400,000, or 7% in 2009.
- Net Assets increased by \$7,270,000, or 9% in 2010 and \$7,050,000, or 9% in 2009.
- Operating Revenues increased by \$1,810,000, or 4% in 2010 and \$4,180,000, or 10% in 2009.
- Operating Expenses increased by \$1,640,000, or 6% in 2010 and decreased by \$930,000, or 3% in 2009.



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

Management's Discussion and Analysis

December 31, 2010 and 2009

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

This annual report consists of the following financial statements: Balance Sheets; Statements of Revenues, Expenses, and Changes in Net Assets; Statements of Cash Flows; Notes to the Basic Financial Statements; Management's Discussion and Analysis; and Statistical Section. These statements include all assets and liabilities using the accrual basis of accounting.

*Balance Sheets* – This statement presents information regarding the Utility's assets, liabilities and net assets. Net assets represent the total assets less total liabilities. The Balance Sheet classifies assets and liabilities as current and non-current.

*Statements of Revenues, Expenses, and Changes in Net Assets* – This statement presents 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 assets for the year. That change, combined with last year's ending net assets total reconciles to the net assets total at the end of this year.

*Statements of Cash Flows* – This statement reports 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 the beginning-of-year cash reconciles to cash and cash-equivalents balance at the end of the year. The Utility presents its Statement of Cash Flows using the direct method of reporting operating cash flows.

<b>Analysis of the Financial Statements</b>
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***Net Assets***

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 Balance Sheets and the Statements of Revenues, Expenses, and Changes in Net Assets report information about the Utility's activities in a way that helps answer this question.

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

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

Management's Discussion and Analysis

December 31, 2010 and 2009

Changes in the Utility's net assets can be determined by reviewing the following condensed Summary of Net Assets as of December 31, 2010, 2009, and 2008. The analysis below focuses on the Utility's net assets at the end of the year (Table 1) and changes in net assets (Table 2) during the year.

**Table 1  
Summary of Net Assets**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Assets:</b>			
Net capital assets	\$ 495,261,516	476,435,111	446,033,545
Current and other assets	47,088,137	46,517,845	65,253,288
Total assets	<u>542,349,653</u>	<u>522,952,956</u>	<u>511,286,833</u>
<b>Liabilities:</b>			
Net debt outstanding	210,800,660	200,244,093	197,151,556
Current and other liabilities	242,706,240	241,138,491	239,618,918
Total liabilities	<u>453,506,900</u>	<u>441,382,584</u>	<u>436,770,474</u>
<b>Net assets:</b>			
Invested in capital assets net of debt	61,104,205	59,545,318	54,759,830
Restricted	7,456,016	7,366,317	2,720,647
Unrestricted	20,282,532	14,658,737	17,035,882
Total net assets	<u>\$ 88,842,753</u>	<u>81,570,372</u>	<u>74,516,359</u>
Change in net assets	<u>\$ 7,272,381</u>	<u>7,054,013</u>	

In 2010, the Utility's total assets increased by \$19.4 million. Net capital assets increased by \$18.8 million due to new plant additions (see MD&A Table 3A and note 3). Major additions to plant in service in 2010 were transmission and distribution plant of \$31.4 million, pumping plant of \$2 million, treatment plant of \$2.1 million, source supply plant of \$2.5 million and general plant of \$3.1 million. Current and other assets had a slight increase of \$0.6 million.

Total liabilities increased by \$12.1 million from 2009 to 2010. Net debt outstanding increased by \$10.6 million due to additional low interest State of Alaska loans of \$19 million offset by debt principal payments (see note 4). Current and other liabilities increased by \$1.6 million primarily due to a \$2.2 million net increase of contributions in aid of construction (see note 6).

In 2009, the Utility's total assets increased by \$11.7 million. Net capital assets increased by \$30.4 million due to new plant additions. Major additions to plant in service in 2009 were transmission and distribution plant of \$27.2 million, pumping plant of \$3.3 million, water treatment plant of \$1.8 million and general plant and other of \$4.7 million. Current and other assets decreased by \$18.7 million in 2009 primarily due to a \$26.0 million reduction in cash and investments restricted for capital construction, and \$6.6 million receivable increase from the Wastewater Utility Capital Project Fund.

Total liabilities increased by \$4.6 million in 2009. Net debt outstanding increased \$3.1 million due to additional low interest State of Alaska loans of \$8.2 million offset by debt principal payments (see note 4).



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

December 31, 2010 and 2009

Current and other liabilities increased \$1.5 million in 2009 primarily due to \$8.4 million increase of contributions in aid of construction, net of amortization of \$5.5 million (see note 6).

Changes in the Utility's net assets can be determined by reviewing the following condensed Summary of Revenues, Expenses, and Changes in Net Assets for the years ended December 31, 2010, 2009, and 2008.

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues:			
Residential sales	\$ 32,947,963	31,909,734	29,847,959
Commercial sales	10,670,791	9,995,106	8,383,736
Public fire protection	3,835,662	3,698,074	3,500,243
Hydrant use charges	231,509	264,254	189,242
Miscellaneous	1,356,760	1,368,347	1,135,708
Nonoperating revenues	1,814,454	2,948,763	1,699,880
Total revenues	<u>50,857,139</u>	<u>50,184,278</u>	<u>44,756,768</u>
Operating expenses:			
Source of supply	3,103,951	2,752,625	2,633,254
Water treatment	4,443,589	4,130,606	4,187,959
Transmission and distribution	5,652,247	5,961,552	5,795,812
Customer accounts	2,366,630	2,223,347	2,391,825
Administrative and general	7,172,416	6,873,012	7,617,978
Depreciation, net of amortization	8,048,501	7,201,903	7,442,828
Nonoperating expenses	6,082,866	8,081,207	8,954,717
Total expenses	<u>36,870,200</u>	<u>37,224,252</u>	<u>39,024,373</u>
Income before transfers and special items	13,986,939	12,960,026	5,732,395
Transfers:			
Transfer to other funds	(6,717,558)	(6,112,876)	(5,762,882)
Transfer from other funds	3,000	206,863	162,315
Total transfers	<u>(6,714,558)</u>	<u>(5,906,013)</u>	<u>(5,600,567)</u>
Special items:			
Net pension obligation write-off	-	-	1,165,721
Net other postemployment benefits obligation write-off	-	-	165,709
Total special items	<u>-</u>	<u>-</u>	<u>1,331,430</u>
Change in net assets	7,272,381	7,054,013	1,463,258
Beginning net assets	<u>81,570,372</u>	<u>74,516,359</u>	<u>73,053,101</u>
Ending net assets	<u>\$ 88,842,753</u>	<u>81,570,372</u>	<u>74,516,359</u>

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

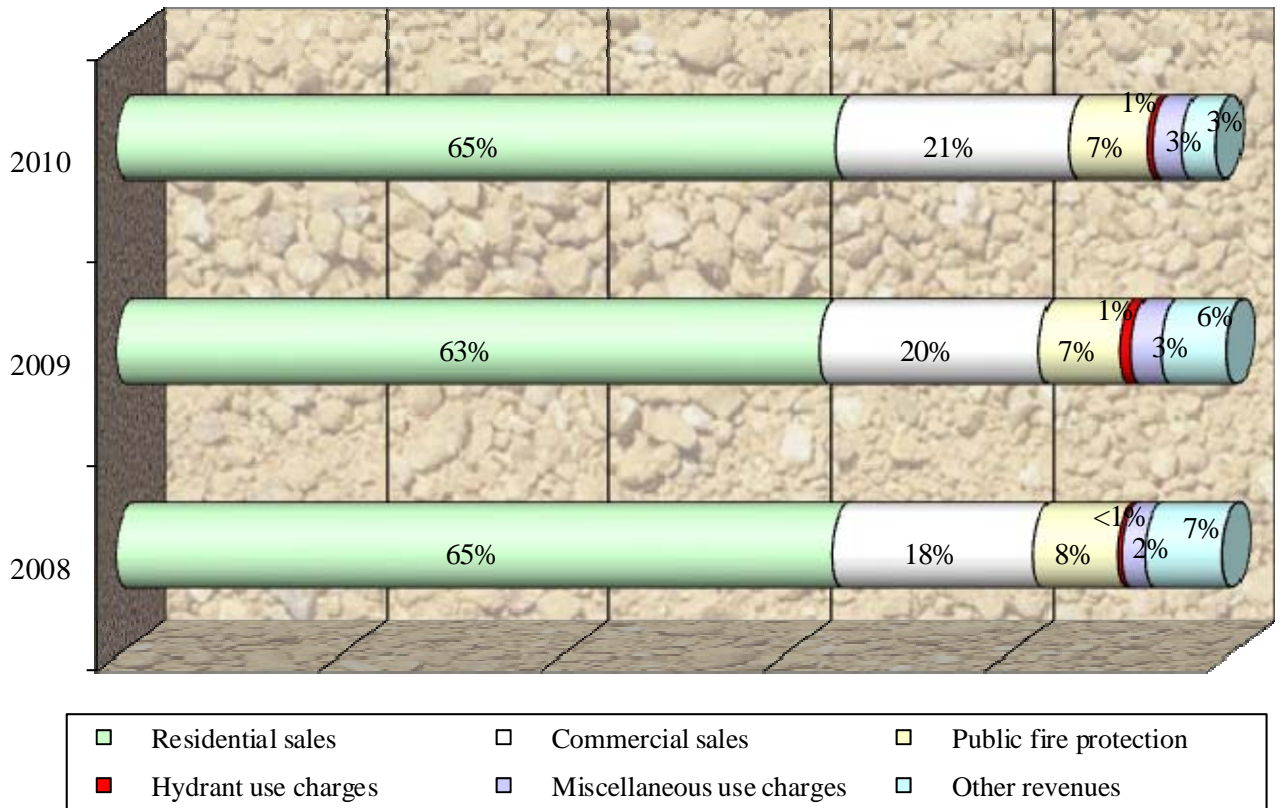
Management's Discussion and Analysis

December 31, 2010 and 2009

During 2010 net assets increased by \$7.3 million. Operating revenues increased by \$1.8 million primarily due to a 2.5% rate increase effective January 1, 2010 and a small growth in customers accounts of 0.26%. Non-operating revenues decreased by \$1.1 million due primarily to a \$1.6 million decrease in short term investment income and a \$0.5 million increase in miscellaneous income due to a gain on disposal of property held for future use.

Net assets increased \$7.1 million during 2009. Operating revenues increased by \$4.2 million due to the RCA approved interim rate increase of 7.0% effective January 1, 2009, increased consumption due to warmer and dryer summer months and slight customer growth. Non-operating revenues increased by \$1.2 million due to \$1.9 million increase in short-term investment income and a decrease of \$0.7 million in intergovernmental revenue.

**Revenues by Source**



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

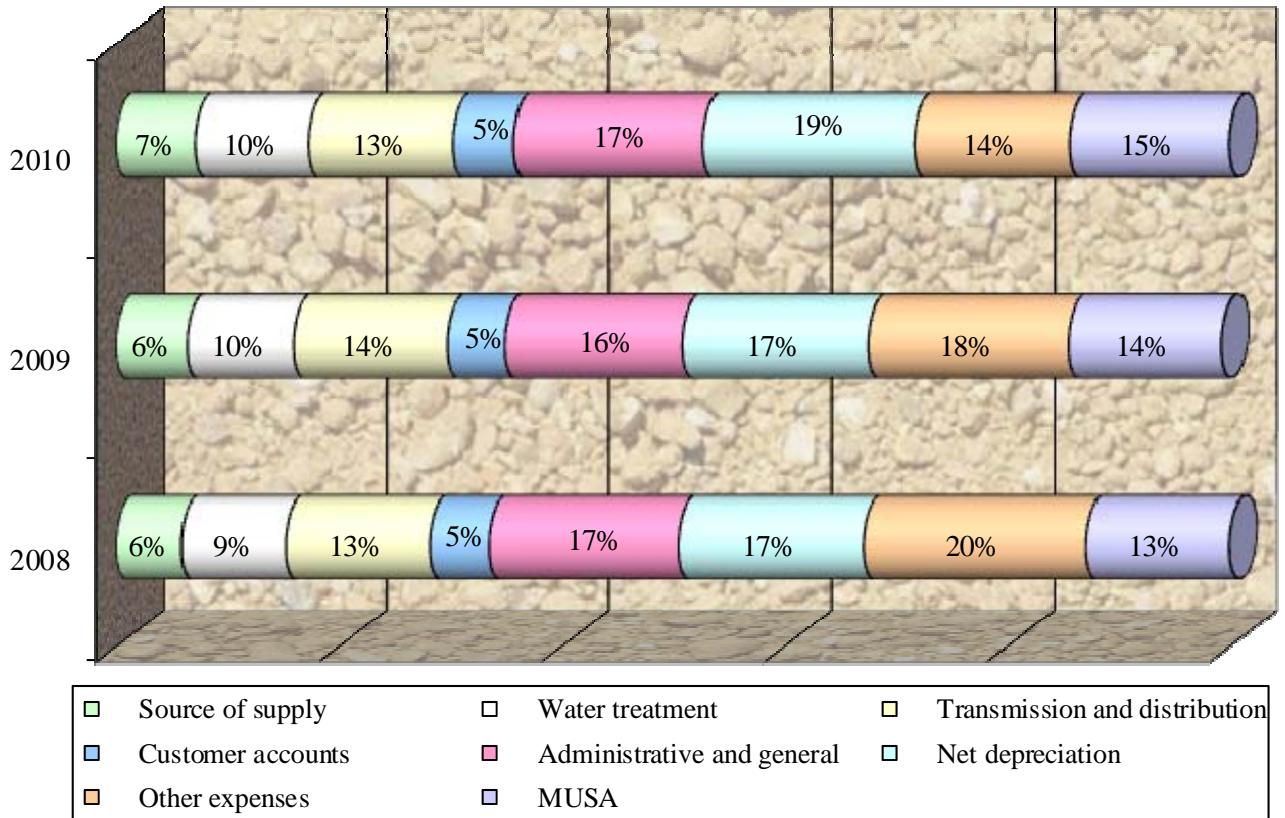
Management's Discussion and Analysis

December 31, 2010 and 2009

Operating expenses increased by \$1.6 million in 2010. The increase was due primarily to a \$0.8 million increase in depreciation expense associated with increased plant in service. Additional contributing factors were increases in fuel, chemical and utility costs.

Operating expenses decreased by \$0.9 million in 2009. This decrease was due primarily to a \$0.2 million decrease in depreciation expense, a result of the new depreciation rates ordered by the Regulatory Commission and implemented as of January 2009, in addition to a \$0.7 million decrease in administrative and general expenses.

**Expenses by Source**



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

Management's Discussion and Analysis

December 31, 2010 and 2009

*Capital Assets and Debt*

**Capital Assets**

The following table summarizes the Utility's capital assets, net of accumulated depreciation, as of December 31, 2010, 2009 and 2008.

**Table 3A  
Capital Assets, Net of Accumulated Depreciation**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Miscellaneous intangible plant	\$ 629,593	753,032	864,785
Source of supply plant	23,711,954	22,151,317	22,998,256
Pumping plant	10,841,715	9,195,462	5,831,074
Water treatment plant	46,001,408	45,489,272	45,236,689
Transmission & distribution plant	367,516,870	344,150,638	324,375,368
General plant land	762,256	762,256	762,256
General plant	<u>31,344,139</u>	<u>31,402,505</u>	<u>29,585,617</u>
Net plant in service	480,807,935	453,904,482	429,654,045
Plant acquisition adjustment	1,416,237	1,531,014	1,645,790
Property held for future use	80,000	1,985,619	1,985,619
Construction work in progress	<u>12,957,344</u>	<u>19,013,996</u>	<u>12,748,091</u>
Net capital assets	<u>\$ 495,261,516</u>	<u>476,435,111</u>	<u>446,033,545</u>
Increase in net capital assets	<u>\$ 18,826,405</u>	<u>30,401,566</u>	

Total net capital assets increased by \$18.8 million in 2010. Construction work in progress decreased by \$6.0 million during 2010. In 2010, the decrease in construction work in progress was due to additions of \$30.2 million netted by deletions of \$36.2 million.

Total net capital assets increased by \$30.4 million in 2009. Construction work in progress increased by \$6.3 million during 2009. In 2009, the increase in construction work in progress was due to additions of \$41 million netted by deletions of \$34.7 million.

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

December 31, 2010 and 2009

**Table 3B**

**Capital Assets, 2010 Major Additions – gross (millions)**

<u>Transmission and Distribution Plant</u>		<u>Treatment Plant</u>	
Hillside water transmission mains	\$ 11.0	Ship Creek roof upgrade	\$ 1.3
Northern Communities water extension	2.5	Eklutna polymer upgrade	0.6
Goldenview reservoir	3.8	Other miscellaneous projects	<u>0.2</u>
Hiland Road water intertie phase II	0.5	Total Treatment Plant	<u>\$ 2.1</u>
Hiland Road water intertie phase III	4.1		
Alaska Village	2.1	<u>Source of Supply</u>	
Norm-Newt Drive. water upgrade	0.5	Well 7 capacity upgrade	<u>\$ 2.5</u>
G Street 6th-7th water main	0.7		
Cordova and 1st Ave	0.7		
Aircraft Drive	0.7	<u>General Plant</u>	
Norfolk booster station upgrade	0.6	3000 Arctic HVAC	\$ 1.1
Other miscellaneous projects	<u>4.2</u>	Other miscellaneous projects	<u>2.0</u>
Total Transmission and Distribution Plant	<u>\$ 31.4</u>	Total General Plant	<u>\$ 3.1</u>
 <u>Pumping Plant</u>			
Norfolk booster station upgrade	\$ 1.8		
Other miscellaneous projects	<u>0.2</u>		
Total Pumping Plant	<u>\$ 2.0</u>	Total Additions	<u>\$ 41.1</u>

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

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

Management's Discussion and Analysis

December 31, 2010 and 2009

**Debt**

Changes in the Utility's debt are shown in the following table as of December 31, 2010, 2009, and 2008. The table includes only debt having a long-term component.

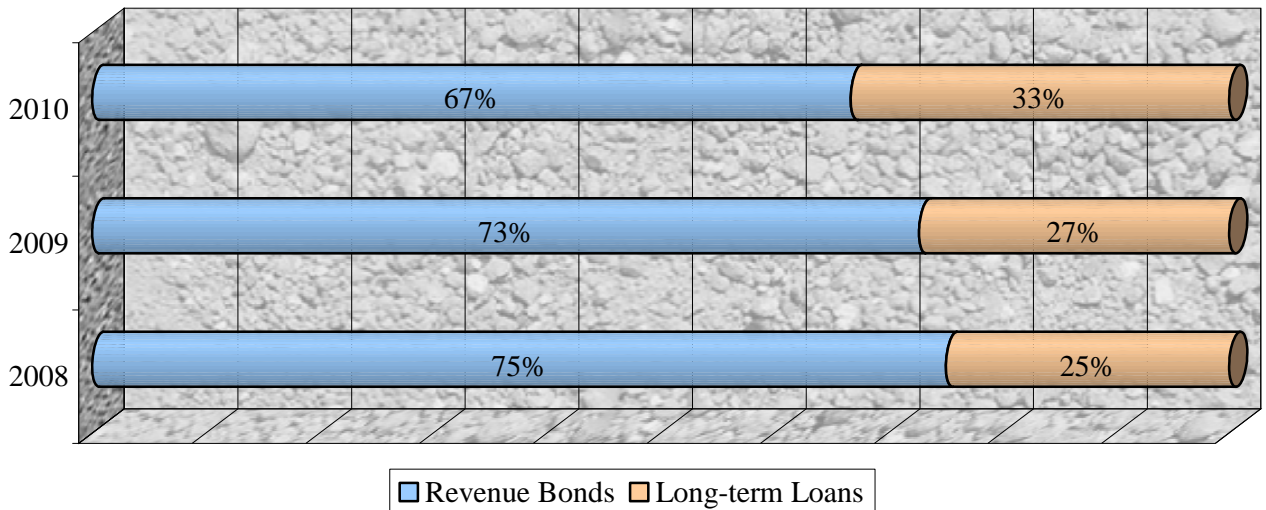
**Table 4  
Net Debt**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenue bonds, net	\$ 140,633,037	145,651,758	148,037,582
Long-term loans	70,167,623	54,592,335	49,113,974
Total net debt	<u>\$ 210,800,660</u>	<u>200,244,093</u>	<u>197,151,556</u>
Increase in net debt	<u>\$ 10,556,567</u>	<u>3,092,537</u>	

The Utility did not issue bonds in 2010 but did receive approximately \$19.0 million from the State of Alaska Drinking Water Loan Program to finance capital improvements. Bond principal payments totaled \$5.3 million while loan principal payments totaled \$3.4 million.

In 2009, the Utility issued \$49.7 million in revenue refunding bonds to defease \$50.4 million in 1998 and 1999 revenue bonds. Approximately \$8.2 million was received from the State of Alaska Drinking Water Loan Program to finance capital improvements. Bond principal payments totaled \$4.1 million, while loan principal payments totaled \$2.8 million.

**Net Debt by Type**



Additional information on the Utility's long-term obligations can be found in note 4, 5, and 6.

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

Management's Discussion and Analysis

December 31, 2010 and 2009

<b>Economic Factors and Next Year's Budgets and Rates</b>
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***Budgetary Matters***

The 2011 budget anticipates revenue increases due primarily to a requested rate increase of 8% effective January 1, 2011. The Regulatory Commission of Alaska (RCA) initially approved only a 1.96% increase on an interim basis effective January 1. After reviewing additional evidence and legal arguments, the Commission approved the full requested 8% increase over 2010 water rates effective March 24, 2011. The 8% increase remains interim and refundable pending full review by the RCA. A final decision on the increase is not anticipated earlier than February 2012.

2011 operating expenses are budgeted to increase 10.1% over the 2010 budget. Increases are expected due to higher utility, chemical, depreciation and MUSA expenses.

***Regulatory Matters***

The Utility meets the criteria, and accordingly, follows the accounting and reporting requirements of Accounting Standards Codification No. 980, "Regulated Operations" (ASC 980). The Utility's rates are regulated by the Regulatory Commission of Alaska (RCA), and as a result, revenues intended to recover certain costs are provided either before or after the costs are incurred, resulting in regulatory assets or liabilities.

For information regarding current on-going regulatory matters, see note 12.

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

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

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

Balance Sheets

December 31, 2010 and 2009

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Capital assets:		
Plant in service, at cost	\$ 709,261,666	673,760,883
Less accumulated depreciation	(228,453,731)	(219,856,401)
Net plant in service	480,807,935	453,904,482
Plant acquisition adjustment less amortization of \$1,905,707 in 2010 and \$1,790,930 in 2009	1,416,237	1,531,014
Plant held for future use	80,000	1,985,619
Construction work in progress	12,957,344	19,013,996
Net capital assets	495,261,516	476,435,111
Restricted assets:		
Current:		
Equity in bond and grant capital acquisition and construction pool	12,686,946	10,610,237
Revenue bond debt service investments	5,000,537	4,981,276
Interim rate escrow investments	2,455,479	2,385,041
Capital projects investments	-	1,300
Non-current:		
Customer deposits	366,327	538,397
Total restricted assets	20,509,289	18,516,251
Current assets:		
Equity in general cash pool	16,024,576	11,864,976
Accrued interest receivable	122,041	129,131
Accounts receivable:		
Utility customers, less estimated uncollectibles of \$96,779 in 2010 and \$93,282 in 2009	3,324,194	4,040,293
Other, less estimated uncollectibles of \$86,470 in 2010 and \$82,795 in 2009	67,423	156,510
Interfund loan receivable from Wastewater Utility Capital Projects Fund	-	6,583,628
Special assessments receivable	77,981	89,665
Unbilled reimbursable projects	132,847	393,025
Inventory of materials and supplies, at average cost	1,586,708	1,539,907
Total current assets	21,335,770	24,797,135
Non-current deferred charges and other assets:		
Unamortized cost of debt issuance	1,332,327	1,495,972
Unbilled special assessments	1,101,491	1,063,962
Other	2,809,260	644,525
Total non-current deferred charges and other assets	5,243,078	3,204,459
Total assets	\$ 542,349,653	522,952,956

See accompanying notes to basic financial statements.



<b>Liabilities and Net Assets</b>	<b>2010</b>	<b>2009</b>
Net assets:		
Invested in capital assets, net of related debt	\$ 61,104,205	59,545,318
Restricted	7,456,016	7,366,317
Unrestricted	<u>20,282,532</u>	<u>14,658,737</u>
Total net assets	<u>88,842,753</u>	<u>81,570,372</u>
Non-current liabilities:		
Compensated absences payable	94,640	251,716
Pollution remediation obligation	155,000	145,000
Revenue bonds payable	136,486,000	141,246,000
Less unamortized discounts and losses	(3,798,908)	(4,424,771)
Plus unamortized premiums	<u>3,185,945</u>	<u>3,575,529</u>
Net revenue bonds payable	<u>135,873,037</u>	<u>140,396,758</u>
Alaska drinking water loans payable	<u>66,017,870</u>	<u>51,450,906</u>
Total non-current liabilities	<u>202,140,547</u>	<u>192,244,380</u>
Current liabilities:		
Accounts payable	682,188	1,127,835
Accrued payroll	1,055,524	855,690
Compensated absences payable	1,190,614	1,008,799
Accrued interest	1,586,427	1,467,961
Pollution remediation obligation	20,000	10,000
Long-term obligations maturing within one year	<u>8,909,753</u>	<u>8,396,429</u>
Total current liabilities	<u>13,444,506</u>	<u>12,866,714</u>
Liabilities payable from restricted assets:		
Current:		
Capital acquisition and construction accounts and retainages payable	1,490,173	1,872,678
Non-current:		
Customer deposits payable	<u>366,327</u>	<u>538,397</u>
Total liabilities payable from restricted assets	<u>1,856,500</u>	<u>2,411,075</u>
Deferred liabilities:		
Other deferred credits	21,750	19,550
Contributions in aid of construction, net of amortization	<u>236,043,597</u>	<u>233,840,865</u>
Total deferred liabilities	<u>236,065,347</u>	<u>233,860,415</u>
Total liabilities	<u>453,506,900</u>	<u>441,382,584</u>
Total liabilities and net assets	<u>\$ 542,349,653</u>	<u>522,952,956</u>

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2010 and 2009

	<b>2010</b>	<b>2009</b>
Operating revenues:		
Charges for sales and services:		
Residential sales	\$ 32,947,963	31,909,734
Commercial sales	10,670,791	9,995,106
Total charges for sales and services	43,618,754	41,904,840
Other:		
Public fire protection	3,835,662	3,698,074
Hydrant use charges	231,509	264,254
Miscellaneous	1,356,760	1,368,347
Total other	5,423,931	5,330,675
Total operating revenues	49,042,685	47,235,515
Operating expenses:		
Source of supply	3,103,951	2,752,625
Water treatment	4,443,589	4,130,606
Transmission and distribution	5,652,247	5,961,552
Customer accounts	2,366,630	2,223,347
Administrative and general	7,172,416	6,873,012
Total operations	22,738,833	21,941,142
Depreciation, net of amortization	8,048,501	7,201,903
Total operating expenses	30,787,334	29,143,045
Operating income	18,255,351	18,092,470
Non-operating revenues (expenses):		
Investment income – short-term investments	1,240,449	2,856,542
Water property rental	84,369	90,723
Miscellaneous non-operating revenues	489,636	1,498
Interest on long-term obligations	(6,304,392)	(7,539,671)
Allowance for funds used during construction	1,440,042	921,091
Amortization of bond premium/discount	(224,026)	(486,604)
Amortization of debt expense	(163,385)	(157,923)
Interest expense – other	(831,105)	(818,100)
Total non-operating revenues (expenses)	(4,268,412)	(5,132,444)
Income before transfers	13,986,939	12,960,026
Transfers:		
Transfer to other funds	(6,717,558)	(6,112,876)
Transfer from other funds	3,000	206,863
Total transfers	(6,714,558)	(5,906,013)
Change in net assets	7,272,381	7,054,013
Net assets – beginning	81,570,372	74,516,359
Net assets – ending	\$ 88,842,753	81,570,372

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended December 31, 2010 and 2009

	<b>2010</b>	<b>2009</b>
Cash flows from operating activities:		
Receipts from customers and users	\$ 49,834,432	44,647,062
Refunds to customers and users	(595,913)	-
Payments to employees	(14,739,555)	(13,755,548)
Payments to vendors	(6,300,123)	(6,135,489)
Internal activity – payments made to other funds	(2,934,383)	(2,204,997)
Net cash provided by operating activities	25,264,458	22,551,028
Cash flows from non-capital and related financing activities:		
Transfers to other funds	(6,717,558)	(6,112,876)
Transfers from other funds	3,000	206,863
Net cash used by non-capital and related financing activities	(6,714,558)	(5,906,013)
Cash flows from capital and related financing activities:		
Principal payments on long-term obligations	(5,255,000)	(4,098,226)
Interest payments on long-term obligations	(7,017,031)	(8,554,690)
Acquisition and construction of capital assets	(27,204,017)	(40,608,604)
Capital contributions – intergovernmental	3,277,127	5,904,277
Capital contributions – customer/special assessments	312,253	301,479
Proceeds from (payments to) bond sales	18,860	(2,497,545)
Proceeds from Alaska Drinking Water Fund loans	18,988,298	8,243,511
Principal payments on Alaska Drinking Water Fund loans	(3,413,010)	(2,765,150)
Proceeds from (payments on) loan to Wastewater Utility Capital Projects Fund	6,583,628	(6,583,628)
Net cash used by capital and related financing activities	(13,708,892)	(50,658,576)
Cash flows from investing activities:		
Proceed from (payments on) purchase or sale and maturity of investments	(2,101,017)	26,186,556
Interest received	1,247,539	2,752,990
Net cash provided (used) by investing activities	(853,478)	28,939,546
Net increase (decrease) in cash	3,987,530	(5,074,015)
Cash, beginning of year	12,403,373	17,477,388
Cash, end of year	\$ 16,390,903	12,403,373
Cash and cash equivalents		
Equity in general cash pool	16,024,576	11,864,976
Customer deposits	366,327	538,397
Cash and cash equivalents, end of year	\$ 16,390,903	12,403,373

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 18,255,351	18,092,470
Transfer to escrow account	(70,438)	(2,385,041)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Allowance for uncollectible accounts	7,172	816
Depreciation, net of amortization	8,048,501	7,201,903
Water property rentals	84,369	90,723
Miscellaneous non-operating revenues	489,636	1,498
Changes in assets and liabilities increasing (decreasing) cash:		
Accounts receivable and other receivables	809,698	(531,648)
Unbilled reimbursable projects	260,178	(17,324)
Inventories	(46,801)	13,326
Customer deposits payable	(172,070)	183,439
Deferred charges and other assets	(2,202,264)	(463,474)
Accounts payable and other liabilities	(445,647)	(15,616)
Accrued payroll liabilities	199,834	285,814
Compensated absences payable	24,739	94,167
Pollution remediation obligation	20,000	-
Other deferred credits	2,200	(25)
Net cash provided by operating activities	<u>\$ 25,264,458</u>	<u>22,551,028</u>
Non-cash investing, capital, and financing activities:		
Contributed capital – private development	\$ 4,899,735	2,678,593
Capital purchases on account, net	583,356	1,274,920
Total non-cash investing, capital, and financing activities	<u>\$ 5,483,091</u>	<u>3,953,513</u>

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

Notes to Basic Financial Statements

December 31, 2010 and 2009

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

The Anchorage Water Utility (Utility) began in 1919 as a general government function of the City of Anchorage's Public Works Department and later evolved into an enterprise fund. In the early 1970's the Utility became its own department of the City and following unification of the City of Anchorage and the Greater Anchorage Area Borough, now exists as a public utility of the Municipality of Anchorage (Municipality). The Utility, whose service area equals 125 square miles of metropolitan Anchorage, from Eklutna to Girdwood, collects water from two major surface watersheds and many deep underground wells. In 2005, the Assembly authorized the Utility to be governed by a Board of Directors. The accompanying financial statements include the activities of the Water Utility Fund.

The Utility is an Enterprise Fund. Enterprise Funds are used to account for operations where the intent is that costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or change in net assets is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The Utility has not elected to apply certain pronouncements of the Financial Accounting Standards Board as permitted by Governmental Accounting Standards Board Statement No. 20.

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 and liabilities associated with the operation of these funds are included on the balance sheet. Net assets are segregated into Invested in Capital Assets, Net of Related Debt; Restricted and Unrestricted.

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

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

Notes to Basic Financial Statements

December 31, 2010 and 2009

**(a) *Regulated Operations***

The Utility meets the criteria, and accordingly, follows the accounting and reporting requirements of Accounting Standards Codification No. 980 “Regulated Operations” (ASC 980). 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 a deferred liability. For rate-making purposes the Utility amortizes contributions in aid of construction over the life of the respective utility plant as a reduction of depreciation expense and a reduction of deferred liability. 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 Statement of Revenues, Expenses, and Changes in Net Assets includes AFUDC as an item of other income in a manner that indicates the basis for the amount capitalized.

**(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 cash pool is treated as a cash equivalent for cash flow purposes. Investments are recorded at fair value. Interest on 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 cash pool, regardless of maturity period, since the various funds use the general cash pool essentially as a demand deposit account. The bond and grant capital acquisition and construction pool consists only of investments that cannot be used as a demand deposit account; therefore the investments, regardless of maturity, have been excluded from the definition of cash.

**(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 Charges***

Unamortized debt expense consisting of bond issue costs and other expenditures not qualifying as capital assets are deferred and amortized over the life of the related bond issue or over their estimated useful life.

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

Notes to Basic Financial Statements

December 31, 2010 and 2009

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

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

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

The Utility implemented new depreciation rates in 2009, as a result of the RCA approving a new depreciation study in 2008. In addition to the new rates, the Utility has employed amortization accounting for specific General Plant accounts and changed its accounting policy with respect to net salvage to include 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.

Estimated lives of major plant and equipment categories follow:

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

**(g) 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.

**(h) 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 sold but not billed. The Utility accrued \$1,370,000 and \$1,510,000 for the years ended December 31, 2010 and 2009, respectively.

**(i) Accrued Leave**

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

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

Notes to Basic Financial Statements

December 31, 2010 and 2009

**(j) *Intra-governmental Charges***

Certain functions of the Municipality of a general and administrative nature are centralized and the related cost is allocated to the various funds of the Municipality, including the Utility. Such costs allocated to the Utility totaled \$1.1 and \$1.3 million for the years ended December 31, 2010 and 2009, respectively.

The December 31, 2009 intra-governmental charge amount presented is restated from prior year to reflect the allocated costs of services performed by the Municipality for the Utility.

**(k) *Risk Management and Self-Insurance***

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

The Municipality provides coverage up to the maximum of \$2,000,000 per occurrence for automobile and general liability claims and \$1,000,000 for each workers' compensation claim. The Municipality had two settled claims exceed this commercial coverage in 2010 and no claims exceed this coverage in 2009 and 2008.

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, 2010, is dependent upon future developments. At December 31, 2010, claims incurred but not reported included in the liability accounts are \$12,267,731 in the Municipality's General Liability/Workers' Compensation Fund and Medical/Dental Self Insurance Fund.



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

Notes to Basic Financial Statements

December 31, 2010 and 2009

Changes in the Municipality's funds' claim liability amounts in 2010 and 2009 follow:

	<b>Liability Balance January 1</b>	<b>Claims and Changes in Estimates</b>	<b>Claims Payment</b>	<b>Liability Balance December 31</b>
2010:				
General Liability/Workers'				
Compensation	\$ 16,192,805	8,648,832	(8,557,092)	16,284,545
Medical/Dental	7,354,588	48,760,422	(49,528,532)	6,586,478
Unemployment	130,070	740,907	(701,661)	169,316
	<u>\$ 23,677,463</u>	<u>58,150,161</u>	<u>(58,787,285)</u>	<u>23,040,339</u>
2009:				
General Liability/Workers'				
Compensation	\$ 15,196,223	7,760,952	(6,764,370)	16,192,805
Medical/Dental	5,260,400	48,329,738	(46,235,550)	7,354,588
Unemployment	52,174	365,352	(287,456)	130,070
	<u>\$ 20,508,797</u>	<u>56,456,042</u>	<u>(53,287,376)</u>	<u>23,677,463</u>

The Municipality's Medical and Dental Self Insurance Fund had negative unrestricted net assets of \$3,675,255 at December 31, 2010. Medical and Dental rates were increased by 23% in 2011 to offset the deficit.

**(l) Reclassification**

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

**(m) Interfund Loan Receivable – Wastewater Utility Capital Projects Fund**

When the Utility borrows from the Municipality's Central Treasury to fund capital projects, the Municipality assesses a monthly fee. The fee is based on the investment earnings rate, plus 49 basis points. When the Utility sells bonds or secures loans from the Alaska Drinking Water Fund, the cash pool is reimbursed from these proceeds. In 2009, the Water Utility loaned the Wastewater Utility \$6.8 million to fund wastewater capital projects. The loan was repaid in full in 2010.

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

Notes to Basic Financial Statements

December 31, 2010 and 2009

**(2) Cash and Investments**

At December 31, 2010, the Municipality had the following cash and investments, with fixed income maturities as noted:

<u>Investment Type</u>	<u>Fair Value*</u>	<u>Fixed Income Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
Petty Cash	\$ 117,876	-	-	-	-
Master Lease Agreement	916,526	-	-	-	-
Interim Rate Escrow Investments	6,124,010	-	-	-	-
Central Treasury - Unrestricted					
Cash & Money Market Funds	3,243,614	-	-	-	-
Repurchase Agreements	1,896,359	-	-	-	-
Commercial Paper	14,249,556	14,249,556	-	-	-
Certificates of Deposit	12,563,744	12,563,744	-	-	-
U.S. Treasuries	73,336,492	6,246,975	50,005,108	16,955,148	129,261
U.S. TIPS	1,850,037	-	1,850,037	-	-
U.S. Agencies	69,600,680	58,598,271	3,260,862	3,444,617	4,296,930
Foreign Governments & Agencies	5,077,381	5,077,381	-	-	-
Municipal Bonds	757,289	-	221,556	382,408	153,325
Asset-Backed Securities**	48,479,549	1,035,016	16,012,527	11,006,774	20,425,232
Corporate Fixed Income Securities	89,789,495	31,418,796	45,106,846	10,650,338	2,613,515
Payables	(12,377,306)	-	-	-	-
	<u>\$ 308,466,890</u>	<u>129,189,739</u>	<u>116,456,936</u>	<u>42,439,285</u>	<u>27,618,263</u>
Central Treasury - Restricted					
Cash & Money Market Funds	\$ 8,140,396	-	-	-	-
Repurchase Agreements	693,655	-	-	-	-
Commercial Paper	22,329,299	22,329,299	-	-	-
Certificates of Deposit	6,870,490	6,870,490	-	-	-
Bankers' Acceptances	2,430,781	2,430,781	-	-	-
U.S. Treasuries	32,361,234	7,821,048	18,291,005	6,201,900	47,281
U.S. TIPS	676,712	-	676,712	-	-
U.S. Agencies***	93,019,433	29,059,734	61,127,974	1,259,982	1,571,743
Foreign Governments & Agencies	6,968,288	6,968,288	-	-	-
Municipal Bonds	277,003	-	81,041	139,878	56,084
Asset-Backed Securities**	17,732,982	378,591.00	5,857,106	4,026,088	7,471,197
Corporate Fixed Income Securities	52,154,560	25,949,768	21,353,103	3,895,710	955,979
Payables	(4,527,405)	-	-	-	-
	<u>\$ 239,127,428</u>	<u>101,807,999</u>	<u>107,386,941</u>	<u>15,523,558</u>	<u>10,102,284</u>

\* Market value plus accrued income.

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

\*\*\* \$661,900 in callable 1-5 year notes are expected to be called within the next year and are classified as *Less Than 1*.

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

Notes to Basic Financial Statements

December 31, 2010 and 2009

The Utility's unrestricted cash and investments represent 5.2% of the unrestricted Municipal Central Treasury. The Utility's restricted cash and investments represent 8.6% of the restricted Municipal Central Treasury.

*(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.

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

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

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

Notes to Basic Financial Statements

December 31, 2010 and 2009

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

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

- Structured Investment Vehicles.
- Asset Backed Commercial Paper.
- Short Sales.
- Securities not denominated in U.S. Dollars.
- Commodities.
- Real Estate Investments.

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

Notes to Basic Financial Statements

December 31, 2010 and 2009

- 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:

<u>Investment Type</u>	<u>Concentration Limit</u>	<u>Working Capital Portfolio Holding % at 12/31/2010</u>	<u>Internally Managed Portfolio Holding % at 12/31/2010</u>
U.S. Government Securities*	50% to 100% of investment portfolio	52%	62%
Repurchase Agreements	0% to 50% of investment portfolio	0%	2%
Certificates of Deposit**	0% to 50% of investment portfolio Maximum 5% per issuer	10%	2%
Bankers' Acceptances	0% to 25% of investment portfolio Maximum 5% per issuer	0%	2%
Commercial paper	0% to 15% of investment portfolio Maximum 5% per issuer	12%	13%
Corporate Bonds	0% to 15% of investment portfolio Maximum 5% per issuer	17%	11%
Alaska Municipal League Investment Pool (AMLIP)***	0% to 25% of investment portfolio	0%	0%
Money Market Mutual Funds	0% to 25% of investment portfolio	5%	4%
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	4%	4%
		<u>100%</u>	<u>100%</u>

\*Includes debt obligations issued or guaranteed by the U.S. government, U.S. agencies or U.S. government-sponsored corporations, including corporate debt issued under the FDIC's Temporary Liquidity Guarantee program.

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

\*\*\*The Working Capital Portfolio may not be invested in AMLIP.

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

December 31, 2010 and 2009

**(b) Interest Rate Risk**

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

Duration is a measure of an investment's sensitivity to interest rate changes, and represents the sensitivity of an investment's market price to a 1% 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.

The effective durations of the externally managed portfolios of the Municipal Central Treasury (working capital, contingency reserve and strategic reserve) at December 31, 2010, were 0.26 years, 1.73 years, and 3.58 years, respectively.

**(c) Credit Risk**

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

At December 31, 2010, the Municipal Central Treasury's investment in commercial paper totaled \$36,578,855, and was rated A-1 by Standard & Poor's and P-1 by Moody's. All commercial paper is purchased with a maturity of 270 days or less. The Municipality Central Treasury's investment in marketable debt securities, excluding U.S. Treasury and Agency securities, totaled \$214,007,512 at December 31, 2010. The distribution of ratings on these securities was as follows:

<b>Moody's</b>		<b>S&amp;P</b>	
Aaa	38%	AAA	40%
Aa	18%	AA	12%
A	23%	A	27%
Baa	12%	BBB	12%
Ba or lower	1%	BB or lower	1%
Not Rated	8%	Not Rated	8%
	100%		100%

At December 31, 2010, the Municipality's Central Treasury was invested in Asset Backed Securities and Mortgage Backed Securities valued at \$2,651,964 which fell below the minimum credit rating of AA-/Aa3 required by AMC 6.50.030. These circumstances resulted from the downgrade of investments held in the contingency reserve and strategic reserve portfolios. Securities falling outside of compliance are divested as soon as it is prudent to do so.

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

December 31, 2010 and 2009

**(d) Concentration of Credit Risk**

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

At December 31, 2010, the Municipality held a total of \$79,261,553 in securities issued by the Federal National Mortgage Association (FNMA). These investments comprised 8.9% of the total portfolio and 12.5% (\$68,651,256) of the Municipal Central Treasury.

**(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, 2010, the Municipal Central Treasury had bank deposit carrying amounts totaling \$17,259,852, of which \$893,147 was covered by federal depository insurance. Bank deposits of \$13,808,356 were secured by collateral held at the depository bank, and additional bank deposits of \$533,460 were secured by a tri-party collateral agreement. The tri-party collateral agreement requires that collateral be transferred to the custodian of the tri-party agreement and held in the pledging bank's name on behalf of the Municipality. Additional bank balances of \$2,590,014 were invested in overnight repurchase agreements. Repurchase agreement investments were also collateralized through a tri-party collateral agreement. 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.

**(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, 2010 all debt obligations held in the Municipality Central Treasury were payable in U.S. Dollars.

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

Notes to Basic Financial Statements

December 31, 2010 and 2009

**(3) Capital Assets**

Capital assets for the year ended December 31, 2010 follow:

	<b>December 31, 2009</b>	<b>Additions</b>	<b>Retirements</b>	<b>December 31, 2010</b>
Intangible plant	\$ 1,245,591	-	-	1,245,591
Source of supply plant	45,831,505	2,514,505	(31,234)	48,314,776
Pumping plant	12,110,841	1,991,161	(168,155)	13,933,847
Treatment plant	76,463,305	2,075,172	(8,704)	78,529,773
Transmission and distribution plant	487,212,951	31,375,476	(869,223)	517,719,204
General plant - land	762,256	-	-	762,256
General plant	50,134,434	3,165,312	(4,543,527)	48,756,219
	<u>673,760,883</u>	<u>41,121,626</u>	<u>(5,620,843)</u>	<u>709,261,666</u>
Less accumulated depreciation	<u>(219,856,401)</u>	<u>(14,183,824)</u>	<u>5,586,494</u>	<u>(228,453,731)</u>
Net plant in service	453,904,482	26,937,802	(34,349)	480,807,935
Plant acquisition adjustment	3,321,944	-	-	3,321,944
Less accumulated amortization	(1,790,930)	(114,777)	-	(1,905,707)
Plant held for future use	1,985,619	-	(1,905,619)	80,000
Construction work in progress	19,013,996	30,165,241	(36,221,893)	12,957,344
	<u>\$ 476,435,111</u>	<u>56,988,266</u>	<u>(38,161,861)</u>	<u>495,261,516</u>

Transfers of assets between plant categories are reported in additions to plant in service. There are no transfers for the year ended December 31, 2010. Auction proceeds, resulting from the sale of assets, are netted against retirements to accumulated depreciation. Auction proceeds are \$34,349 for the year ended December 31, 2010. Cost of removal, resulting from the retirement, or abandonment of assets, is reported as reduction to accumulated depreciation in the retirements column. For the year ended 2010 there were no cost of removal charges. The Utility's 2011 construction budget is \$36,281,000.



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

December 31, 2010 and 2009

Capital assets for the year ended December 31, 2009 follow:

	<b>December 31, 2008</b>	<b>Additions</b>	<b>Retirements</b>	<b>December 31, 2009</b>
Intangible plant	\$ 1,233,907	11,684	-	1,245,591
Source of supply plant	45,921,926	67,053	(157,474)	45,831,505
Pumping plant	8,843,993	3,314,887	(48,039)	12,110,841
Treatment plant	74,687,897	1,775,408	-	76,463,305
Transmission and distribution plant	460,714,935	27,213,014	(714,998)	487,212,951
General plant - land	762,256	-	-	762,256
General plant	<u>47,301,958</u>	<u>4,637,050</u>	<u>(1,804,574)</u>	<u>50,134,434</u>
	639,466,872	37,019,096	(2,725,085)	673,760,883
Less accumulated depreciation	<u>(209,812,827)</u>	<u>(13,223,353)</u>	<u>3,179,779</u>	<u>(219,856,401)</u>
Net plant in service	429,654,045	23,795,743	454,694	453,904,482
Plant acquisition adjustment	3,321,944	-	-	3,321,944
Less accumulated amortization	(1,676,154)	(114,776)	-	(1,790,930)
Plant held for future use	1,985,619	-	-	1,985,619
Construction work in progress	<u>12,748,091</u>	<u>40,960,307</u>	<u>(34,694,402)</u>	<u>19,013,996</u>
	<u>\$ 446,033,545</u>	<u>64,641,274</u>	<u>(34,239,708)</u>	<u>476,435,111</u>

Transfers of assets between plant categories are reported in additions to plant in service. There are no transfers for the year ended December 31, 2009. Auction proceeds, resulting from the sale of assets, are netted against retirements to accumulated depreciation. Auction proceeds are \$22,833 for the year ended December 31, 2009. Cost of removal, resulting from the retirement, or abandonment of assets, is reported as reduction to accumulated depreciation in the retirements column. Cost of removal is \$477,526 for the year ended December 31, 2009.

**(4) Long-Term Obligations**

*(a) Long-Term Obligations Issued*

The Utility obtains low interest loans from the State of Alaska, Department of Environmental Conservation Alaska Drinking Water Fund to fund capital improvement projects. These loans enter repayment status one year after the initiation of operation of the facilities with the loan terms included in the contract. In 2010, the Utility obtained additional low interest loans of \$18,988,298.

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 for 2010. In 2009, the Utility issued revenue refunding bonds for \$49,680,000 (see note 5).

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

December 31, 2010 and 2009

Long-term obligations outstanding at December 31, 2010 follow:

Description	Original Issue Date	Total Issue Amount	Interest Rates	Maturity Range	Principal Balance December 31, 2010
Revenue Bonds:					
2004 Water Revenue & Refunding Bonds	05/26/2004	\$ 18,595,000	2.00-5.125%	2005 - 2021	3,220,000
2004 Junior Lien Water Revenue Bonds	10/12/2004	2,000,000	4.35%	2014	1,956,000
2007 Water Revenue & Refunding Bonds	06/28/2007	91,315,000	4.00-5.00%	2008 - 2037	90,985,000
2009 Water Refunding Bonds	12/16/2009	49,680,000	1.50-5.00%	2009 - 2014	45,085,000
Total Revenue Bonds		161,590,000			141,246,000
Long-Term Loans:					
127201 Airport Water Project, Phase 1B	09/01/1999	2,334,756	1.50%	2000 - 2019	1,184,688
127231 ER Rsvr/Wtr Trans Main	06/06/2000	2,000,000	1.50%	2002 - 2021	1,204,825
127241 Loop Wtr Trans Main Phs V	07/25/2000	5,039,233	1.50%	2002 - 2021	3,045,032
127251 Service Reservoir No. 6	07/25/2000	3,723,056	1.50%	2002 - 2021	2,244,065
127261 19th Spenard Upgrade	09/18/2008	770,000	1.50%	2010 - 2029	731,500
127321 Disinfec Alternative Wtr Upgrd	03/12/2002	755,000	1.50%	2002 - 2021	461,101
127331 68th Pebble-Baby Bear	09/30/2008	300,000	1.50%	2009 - 2028	270,000
127361 Christen Dr Upgrade	09/08/2009	1,350,000	1.50%	2010 - 2029	1,282,500
127381 S. Addition Woodstave Upgrd	08/27/2001	922,354	1.50%	2004 - 2023	603,466
127411 Loop Wtr Trans Main Phs VI	03/02/2001	1,305,776	1.50%	2002 - 2021	789,811
127441 Daryl Industry Way	09/30/2008	420,000	1.50%	2011 - 2030	420,000
127461 DeBarr-Klevin-Hoyt Upgrade	12/04/2009	1,000,000	1.50%	2010 - 2029	950,000
127471 SCADA Water	08/04/2004	4,000,000	1.50%	2006 - 2025	3,139,392
127491 Girdwood Wtr Supply Imprvmnts	06/23/2004	2,135,300	1.50%	2010 - 2029	1,905,382
127531 Loop Wtr Trans Main Phs IV	10/31/2006	12,306,151	1.50%	2010 - 2029	11,690,843
127541 SCADA Water II	12/01/2004	6,500,000	1.50%	2009 - 2028	5,525,000
127571 88th Ave Wtr Trans Main	10/31/2006	1,850,696	1.50%	2009 - 2028	1,665,626
127581 Pine Debarr San Rob Wtr Upgrd	09/28/2007	870,014	1.50%	2010 - 2029	826,513
127731 Arctic 32nd - 36th Wtr Upgrd	11/24/2006	404,234	1.50%	2009 - 2028	363,811
127771 East Bluff Upgrade	10/09/2006	317,763	1.50%	2009 - 2028	285,987
127781 Sullivan-Ben Boeke Wtr Upgrd	10/09/2006	2,189,753	1.50%	2008 - 2027	1,861,289
127791 Hiland Rd Water Intertie	06/25/2010	8,700,000	1.50%	2011 - 2030	8,700,000
127811 Island-Kodiak Kalgin Water	06/07/2010	531,552	1.50%	2011 - 2030	531,552
127831 Klatt Rd - NSH-PZ Intertie	09/10/2007	621,600	1.50%	2008 - 2027	521,389
127851 Old Glenn Highway	06/03/2008	812,319	1.50%	2012 - 2031*	812,319

Loans continued on next page.

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

December 31, 2010 and 2009

Description	Original Issue Date	Total Issue Amount	Interest Rates	Maturity Range	Principal Balance December 31, 2010
127871 Debarr-Muldoon-Turpin Upgrd	09/28/2007	3,034,740	1.50%	2009 - 2028	2,731,266
127901 SCADA Water	10/08/2007	5,300,000	1.50%	2009 - 2028	4,505,000
127911 Wtr Data Processing Project	02/03/2009	600,000	1.00%	2010 - 2014	360,000
127931 Hillside Transmission Main	07/10/2008	317,094	1.50%	2011 - 2030	317,094
127941 2006 Misc Water Projects	04/04/2008	846,000	1.50%	2008 - 2027	725,634
127961 NE Improvements Phase 1	07/08/2008	929,107	1.50%	2010 - 2029	882,652
127991 Sand Lake Extension	02/10/2010	280,719	1.50%	2011 - 2030	280,719
130151 Knik View Intertie	07/21/2008	715,946	1.50%	2011 - 2030	715,946
130161 Norm-Newt Drive	12/17/2008	1,768,400	1.50%	2010 - 2029	1,679,980
130221 San Ernesto Upgrade	12/17/2008	1,567,218	1.50%	2010 - 2029	1,488,857
130241 South Addition Phase IV	01/29/2009	1,164,317	1.50%	2010 - 2029	1,106,101
130431 68th Ave Redhawk Intertie	12/04/2009	632,444	1.50%	2010 - 2029	600,822
130471 Downtown CIPP Wtr Upgrade	10/15/2010	1,414,951	1.50%	2011 - 2030	1,414,951
130491 2-Way Radio Water Upgrade	02/17/2010	299,248	1.50%	2010 - 2029	284,286
131021 G Street - 7th Water Main	12/29/2010	502,118	1.50%	2011 - 2030	502,118
131031 Eklutna WTF Roof & Window	06/07/2010	<u>1,556,106</u>	1.50%	2011 - 2030	<u>1,556,106</u>
Total Long-Term Loans		<u>82,087,965</u>			<u>70,167,623</u>
Total Long-Term Debt		\$ <u>243,677,965</u>			<u>211,413,623</u>

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

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

Notes to Basic Financial Statements

December 31, 2010 and 2009

**(b) Revenue Bond Coverage Requirements**

The debt service on Parity Water Bonds is paid from a special fund designated as the “Anchorage Water Revenue Bond Fund” (Parity Water Bond Fund”). The Municipality is obligated to make payments into the Parity Water Bond Fund no later than the date due sufficient to pay the principal and interest on the Parity Water Bonds as it becomes due and payable. Within the Parity Water Bond Fund is a reserve account created for the purpose of further securing the repayment of the Parity Water Bonds.

The Utility’s Schedule of Revenue Bond Coverage for the last ten years follows:

Fiscal Year	Revenue (1)	Assessment Collections (2)	Operating Expenses (3)	Amount Available For Debt Service (4)	Current Year Debt Service Requirements (Accrual Basis)			Coverage (5)
					Principal (4)	Interest (4)	Total	
2001	30,724,971	627,537	13,785,272	17,567,236	4,060,000	5,540,110	9,600,110	1.83
2002	31,158,976	523,688	15,428,722	16,253,942	4,220,000	5,358,150	9,578,150	1.70
2003	30,602,246	452,608	15,449,834	15,605,020	4,400,000	5,165,863	9,565,863	1.63
2004	33,688,579	560,866	17,094,054	17,155,391	4,595,000	5,277,793	9,872,793	1.74
2005	39,214,137	475,004	18,733,157	20,955,984	5,185,000	5,394,050	10,579,050	1.98
2006	39,480,462	605,444	18,964,994	21,120,912	5,375,000	5,174,576	10,549,576	2.00
2007	44,755,119	292,321	26,714,777	18,332,663	3,960,000	5,549,972	9,509,972	1.93
2008	44,264,376	326,820	27,725,271	16,865,925	4,250,000	7,836,288	12,086,288	1.40
2009	50,391,141	301,479	28,054,018	22,638,602	4,095,000	7,632,687	11,727,687	1.93
2010	50,860,138	312,253	29,456,391	21,716,000	5,255,000	6,094,343	11,349,343	1.91

- (1) Excludes interest restricted for construction, interest on advanced grants and amortization of premiums on investments, includes antenna revenue and special items.
- (2) Assessment collections represent payments made by benefited property owners.
- (3) Excludes depreciation and Public Employees Retirement System relief distributed to labor, but includes Municipal Utilities Service Agreement as per the 2007 bond covenants.
- (4) Does not include Mini-Bonds as they have no debt service requirements.
- (5) Required minimum coverage is 1.15.

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

Notes to Basic Financial Statements

December 31, 2010 and 2009

(c) *Debt Service Requirements*

Debt service requirements to maturity follow:

Year	Revenue Bonds		Long-term Loans		Total
	Principal	Interest	Principal	Interest	
2011	\$ 4,760,000	6,206,089	4,149,753	884,065	15,999,907
2012	5,810,000	6,000,111	4,205,411	997,986	17,013,508
2013	6,015,000	5,785,568	4,220,678	926,587	16,947,833
2014	6,836,000	5,588,355	4,116,173	863,876	17,404,404
2015	3,570,000	5,393,402	4,131,902	802,133	13,897,437
2016 - 2020	20,055,000	24,713,250	20,762,118	3,076,150	68,606,518
2021 - 2025	21,180,000	20,105,971	17,354,125	1,598,781	60,238,877
2026 - 2030	24,485,000	15,146,101	11,186,847	421,174	51,239,122
2031 - 2035	32,905,000	8,157,935	40,616	609	41,104,160
2036 - 2037	15,630,000	791,250	-	-	16,421,250
	<u>141,246,000</u>	<u>97,888,032</u>	<u>70,167,623</u>	<u>9,571,361</u>	<u>318,873,016</u>
	(4,760,000)		(4,149,753)	Current Portion of Principal	
	(3,798,908)		-	Unamortized Discounts and Losses	
	3,185,945		-	Unamortized Premiums	
	<u>\$ 135,873,037</u>		<u>66,017,870</u>	Total Long Term Portion	

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

Notes to Basic Financial Statements

December 31, 2010 and 2009

(d) *Long-Term Obligations*

Changes in long-term obligations for the year ending December 31, 2010 follow:

Description	December 31, 2009	Additions	Deletions	December 31, 2010	Amounts Due Within One Year
Revenue bonds	\$ 146,501,000	-	(5,255,000)	141,246,000	4,760,000
Long-term loans	54,592,335	18,988,298	(3,413,010)	70,167,623	4,149,753
Total debt	201,093,335	18,988,298	(8,668,010)	211,413,623	8,909,753
Unamortized discounts and losses	(4,424,771)	-	625,863	(3,798,908)	-
Unamortized premiums	3,575,529	-	(389,585)	3,185,945	-
Total debt, net	200,244,093	18,988,298	(8,431,732)	210,800,660	8,909,753
Compensated absences	1,260,515	1,596,265	(1,571,526)	1,285,254	1,190,614
Pollution remediation obligation	155,000	20,000	-	175,000	20,000
Total long-term, net	\$ 201,659,608	20,604,563	(10,003,257)	212,260,914	

Changes in long-term obligations for the year ending December 31, 2009 follow:

Description	December 31, 2008	Additions	Deletions	December 31, 2009	Amounts Due Within One Year
Revenue bonds	\$ 151,365,000	49,680,000	(54,544,000)	146,501,000	5,255,000
Long-term loans	49,113,974	8,243,511	(2,765,150)	54,592,335	3,141,429
Total debt	200,478,974	57,923,511	(57,309,150)	201,093,335	8,396,429
Unamortized discounts and losses	(4,561,836)	(1,221,751)	1,358,816	(4,424,771)	-
Unamortized premiums	1,234,418	2,415,384	(74,273)	3,575,529	-
Total debt, net	197,151,556	59,117,144	(56,024,607)	200,244,093	8,396,429
Compensated absences	1,166,348	1,101,769	(1,007,602)	1,260,515	1,008,799
Pollution remediation obligation	155,000	-	-	155,000	10,000
Total long-term, net	\$ 198,472,904	60,218,913	(57,032,209)	201,659,608	

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

Notes to Basic Financial Statements

December 31, 2010 and 2009

**(5) Refunded Bond Issues**

The Utility follows the provisions of Governmental Accounting Standards Board Statement No. 23 (GASB 23), Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities. GASB 23 generally requires that gains and losses from current refunding and advance refundings that result in the defeasance of debt be deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt. The unamortized gain or loss is reported as an addition to or reduction of the new debt liability.

In 2009 the Utility issued \$49,680,000 in Water Revenue Refunding Bonds. The proceeds from these bonds were used to fully defease the 1998 Senior Lien Water Revenue and Refunding Bonds in the amount of \$10,120,000 and the 1999 Water Revenue and Refunding Bonds in the amount of \$40,325,000, and to pay costs of issuance of the bonds. As a result of the refunding, the Utility reduced its total debt service requirement by \$9,677,110 which resulted in an economic gain of \$5,848,119.

**(6) Defeasance of Debt**

In prior years, the Utility defeased certain general obligation and revenue bonds by placing the proceeds of the new bonds and other available funds in irrevocable trusts with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, trust account assets and liabilities for defeased bonds are not included in the Utility's financial statements. At December 31, 2010, the amount of defeased debt outstanding on 2004 revenue bonds amounted to \$11,175,000.

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

Notes to Basic Financial Statements

December 31, 2010 and 2009

**(7) Deferred Liabilities**

Contributions in Aid of Construction (CIAC) for the years ended December 31, 2010 and 2009 follow:

	<u>December 31, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2010</u>
<b>Contributions in Aid of Construction</b>				
Customer:				
Special assessments	\$ 47,622,209	275,970	-	47,898,179
Private development	127,194,393	4,899,735	(149,656)	131,944,472
Other	3,372,367	-	-	3,372,367
Intergovernmental	<u>193,436,956</u>	<u>3,277,127</u>	<u>(498,934)</u>	<u>196,215,149</u>
Total CIAC	<u>371,625,925</u>	<u>8,452,832</u>	<u>(648,590)</u>	<u>379,430,167</u>

**Accumulated Amortization**

Customer	(76,234,299)	(2,638,662)	149,656	(78,723,305)
Intergovernmental	<u>(61,550,761)</u>	<u>(3,611,438)</u>	<u>498,934</u>	<u>(64,663,265)</u>
Total amortization	<u>(137,785,060)</u>	<u>(6,250,100)</u>	<u>648,590</u>	<u>(143,386,570)</u>
Net CIAC	<u>\$ 233,840,865</u>	<u>2,202,732</u>	<u>-</u>	<u>236,043,597</u>

	<u>December 31, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2009</u>
<b>Contributions in Aid of Construction</b>				
Customer:				
Special assessments	\$ 47,211,666	410,543	-	47,622,209
Private development	124,834,614	2,678,593	(318,814)	127,194,393
Other	3,372,367	-	-	3,372,367
Intergovernmental	<u>187,827,491</u>	<u>5,904,277</u>	<u>(294,812)</u>	<u>193,436,956</u>
Total CIAC	<u>363,246,138</u>	<u>8,993,413</u>	<u>(613,626)</u>	<u>371,625,925</u>

**Accumulated Amortization**

Customer	(73,905,012)	(2,648,101)	318,814	(76,234,299)
Intergovernmental	<u>(58,357,447)</u>	<u>(3,488,126)</u>	<u>294,812</u>	<u>(61,550,761)</u>
Total amortization	<u>(132,262,459)</u>	<u>(6,136,227)</u>	<u>613,626</u>	<u>(137,785,060)</u>
Net CIAC	<u>\$ 230,983,679</u>	<u>2,857,186</u>	<u>-</u>	<u>233,840,865</u>



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

Notes to Basic Financial Statements

December 31, 2010 and 2009

**(8) Net Assets**

Net assets invested in capital assets, net of related debt is comprised of:

	<b>2010</b>	<b>2009</b>
Net capital assets	\$ 495,261,516	476,435,111
Less: Net revenue bonds payable long-term	135,873,037	140,396,758
Less: Unspent debt proceeds	(12,686,946)	(17,195,165)
Alaska Drinking Water loans payable, long-term	66,017,870	51,450,906
Long-term obligations maturing within one year	8,909,753	8,396,429
Contributions in aid of construction, net	236,043,597	233,840,865
Invested in capital assets, net of related debt	\$ 61,104,205	59,545,318

Restricted net assets are comprised of:

	<b>2010</b>	<b>2009</b>
Revenue bond debt service investments	\$ 5,000,537	4,981,276
Interim rate escrow investments	2,455,479	2,385,041
Restricted net assets	\$ 7,456,016	7,366,317

**(9) Retirement Plans**

*State of Alaska Public Employees' Retirement System*

**(a) Plan Descriptions**

The Utility participates in the State of Alaska Public Employees' Retirement System (PERS). Employees hired prior to July 1, 2006, and employees hired after July 1, 2006 who have PERS enrollment from prior employment, participate in PERS Tiers I-III, a defined benefit public employee retirement system. Employees hired after July 1, 2006 who have no prior PERS participating employment participate in PERS Tier IV, a defined contribution plan with a component of defined benefit post-employment healthcare.

The defined benefit plan was originally established as an agent multiple-employer plan, but was converted by legislation to a cost-sharing plan, effective July 1, 2008. Under the cost-sharing arrangement, the State of Alaska Division of Retirement and Benefits will no longer track individual employer assets and liabilities. Rather all plan costs and past service liabilities will be shared among all participating employers. Both plans are administered by the State of Alaska (State) to provide pension, post-employment healthcare, death and disability benefits to eligible employees.

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All full-time and regular part-time Utility employees are eligible to participate in PERS if they are employed fifteen hours or more per week. For both the defined benefit plan and the defined contribution plan, benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

Each fiscal year, PERS issues publicly available financial reports that include financial statements and required supplementary information. They may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203, by phoning (907) 465-4460, or via the web at [www.state.ak.us/drb/pers/](http://www.state.ak.us/drb/pers/).

**(b) Funding Policy and Annual Pension and Post-Employment Healthcare Cost - PERS Tier I-III Defined Benefit Plan**

Participating employees are required to contribute 6.75% of their annual covered salary. Employer contribution rates are established by state statute. Employer contribution rates are established annually by a state sanctioned management board. The funding policy for PERS provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due.

The employer contribution rate is statutorily capped at 22% of annual covered salary. State legislation currently provides that the State of Alaska will contribute any amount over 22% such that the total contribution equals the Alaska Retirement Management Board adopted rate, but not the same as the Governmental Accounting Standards Board (GASB) Statement 45 accounting rate.

Detailed contribution rates for the plan for the year ended 2010 are as follows:

	<b>Employee Rate</b>		<b>Contractual Rate</b>		<b>ARM Board Adopted Rate</b>		<b>GASB 45*</b>	
	<u>1/1 to 6/30/10</u>	<u>7/1 to 12/31/10</u>	<u>1/1 to 6/30/10</u>	<u>7/1 to 12/31/10</u>	<u>1/1 to 6/30/10</u>	<u>7/1 to 12/31/10</u>	<u>1/1 to 6/30/10</u>	<u>7/1 to 12/31/10</u>
Pension	2.50%	2.41%	8.16%	7.85%	10.25%	9.98%	10.72%	13.49%
Postemployment Healthcare	<u>4.25%</u>	<u>4.34%</u>	<u>13.84%</u>	<u>14.15%</u>	<u>17.40%</u>	<u>17.98%</u>	<u>53.96%</u>	<u>55.87%</u>
<b>Total Contribution Rate</b>	<u>6.75%</u>	<u>6.75%</u>	<u>22.00%</u>	<u>22.00%</u>	<u>27.65%</u>	<u>27.96%</u>	<u>64.68%</u>	<u>69.36%</u>

\* This rate uses a 4.5% OPEB discount rate and disregards future Medical Part D payments

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**(c) Annual Pension and Post-employment Healthcare Cost**

The Utility is required to contribute 22% of covered payroll, subject to a wage floor. In addition, the State contributed approximately 5.65% from January 1 through June 30 and 5.96% between July 1 and December 31, 2010 of covered payroll to the Plan. In accordance with the provisions of GASB Statement Number 24, the Municipality has recorded the state contribution in the General Fund in the amount of \$9,867,535 as a PERS on-behalf payment. The Utility did not recognize any portion of the revenue or expense related to this contribution. Because the Utility is not statutorily obligated for these payments, this amount has been excluded from pension and OPEB cost as described here. Pension and OPEB payments for the thirty months from July 1, 2008 to December 31, 2010 are shown below:

Year	Annual Pension Cost	Annual OPEB Cost	Total Benefit Cost (TBC)	Anchorage Contributions	% of TBC Contributed
2010	\$ 992,197	1,090,937	2,083,134	2,083,134	100%
2009	709,672	1,278,546	1,988,218	1,988,218	100%
7/1 to 12/31/2008	272,261	641,980	914,241	914,241	100%

**(d) Funding Policy and Annual Pension and Post-employment HealthCare Costs– PERS Tier IV Defined Contribution Plan**

Employees first enrolling into PERS after July 1, 2006 participate in PERS Tier IV. PERS Tier IV is a defined contribution retirement plan that includes a component of defined benefit post-employment healthcare. The plan requires both employer and employee contributions. Employees may make additional contributions into the plan, subject to limitations. Contribution rates are as follows:

	<b>TIER IV</b>	
	<u>1/1 - 6/30</u>	<u>7/1 - 12/31</u>
Employee Contribution	<u>8.00%</u>	<u>8.00%</u>
Employer Contribution		
Retirement	5.00%	5.00%
Health Reimbursement Arrangement *	3.00%	3.00%
Retiree Medical Plan	0.83%	0.55%
Death & Disability Benefit	<u>0.30%</u>	<u>0.31%</u>
Total Employer Contribution	<u>9.13%</u>	<u>8.86%</u>

\*Health Reimbursement Arrangement - AS 39.30.370 requires that the employer contribute “an amount equal to three percent of the employer’s average annual employee compensation.” For actual remittance, this amount is calculated as a flat rate per full time employee and a flat rate per hour for part time employees. Prior to July 1, 2010 a rate of \$65.37 per full time employee per pay period and \$1.09 per part time hour

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worked was paid. For pay periods ending after July 1, 2010, a rate of \$66.18 per full time employee pay period and \$1.10 per part time hour worked was paid.

For the year ended December 31, 2010, the Utility contributed \$116,245 to PERS Tier IV for retirement and retiree medical, and it contributed \$51,376 to PERS Tier IV for Health Reimbursement Arrangement on-behalf of its employees. Employee contributions to the plan totaled \$148,941.

Under the newly adopted cost-sharing arrangement for the PERS defined benefit plan (Tiers I–III), the state statute employer contribution rate of 22%, includes Tier IV employees. In addition to the amounts above, the Utility contributed approximately 13.14% on Tier IV employee payroll. This amount was applied to the obligation of the PERS defined benefit plan and is included in the contributions (ARC) recorded in the defined benefit cost-sharing plan.

**(10) 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.

**(11) Environmental Issues**

Beginning in 1993, in accordance with the State of Alaska Department of Environmental Conservation (ADEC) regulations, the Utility commenced activities to remove three leaking, underground fuel storage tanks and the surrounding contaminated soils. Additional contamination was identified on the affected property (unrelated to the tank leakage) requiring additional removal of soils. An ADEC report indicates the Utility performed some groundwater sampling at the site, but there is no documentation indicating a groundwater characterization had been completed. In 2010, the Utility completed additional site characterization and will submit work plans for 2011 and beyond for ADEC approval while working towards closure of the case on this site.

The Utility used the expected cash flow technique to measure the liability. The Utility estimated a reasonable range of potential outlays of \$160,000 to \$240,000 and multiplied those outlays by their probability of occurring to estimate a pollution remediation obligation of \$175,000. The potential for a material change in the estimate is possible depending upon the response received from ADEC.

**(12) Regulatory Matters**

**(a) MUSA Remand**

On September 2, 2005, the Regulatory Commission of Alaska (RCA) issued an order establishing a revenue requirement for the Utility’s rates that excluded Municipal Utility Service Assessment (MUSA) expense (an *ad valorem* payment in lieu of taxes to municipal government) associated with the portion of the Utility’s plant balances funded by contributions. The Superior Court upheld the Commission decision in 2005 in an appeal filed by the Utility. On September 4, 2009, the Supreme Court issued a unanimous decision finding no reasonable basis for the 2005 exclusion of MUSA from the Utility’s revenue requirement. The Court remanded the case to the

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RCA for further proceedings. The Utility submitted written direct testimony in the remand proceeding on December 18, 2009. The remand proceeding concluded following additional written testimony from the Regulatory Affairs and Public Advocacy section of the Alaska Department of Law (RAPA) and the Utility and a public hearing held July 21 through July 27, 2010. A final decision on the MUSA matter was originally due from the RCA by October 25, 2010, but has been extended to June 23, 2011.

Revenue collected subject to refunds approximated \$21.5 million through December 31, 2010, of which approximately \$3.3 million was associated with revenues collected in 2010. The Utility is unable to determine the likely outcome of this case, and therefore has not recorded a liability for a refund payable.

**(b) 2007 Test Year / 2009 Rates**

The Utility filed a revenue requirement study on November 14, 2008, requesting an interim and refundable rate increase of 7.0%. The RCA granted the requested interim rate increase effective January 1, 2009. On February 10, 2010 the RCA issued Order U-08-157(10) (Order 10) finding no refund necessary for revenues collected during 2009. The Utility determined that the RCA's Order 10 calculations were in error and a refund was in fact required. The Utility filed corrected calculations in a compliance filing on February 23, 2010 and an informal conference was held at the Commission on May 5, 2010 to discuss the corrected revenue requirement calculations. A final order was issued by the RCA on October 26, 2010 approving the corrected revenue requirement calculation and requiring the Utility to pay refunds on revenues collected in 2009. The Utility distributed \$0.6 million in refunds (including interest) to its customers in December 2010 and January 2011.

**(c) 2008 Test Year / 2010 Rates**

The Utility filed a revenue requirement study on November 10, 2009, requesting an interim and refundable rate increase of 2.5%. On June 17, 2010 the RCA accepted a settlement agreement between the Utility and RAPA that established a permanent rate level that included the 2.5% rate increase.

**(d) 2009 Test Year / 2011 Rates**

On November 10, 2010 the Utility filed a revenue requirement study requesting an interim refundable rate increase of 8.0%. The RCA issued Order U-10-101(1) (Order 1) on December 27, 2010 granting a lower interim rate increase of 1.96% to be effective January 1, 2011. On January 10, 2011 the Utility filed a Petition for Reconsideration of Order 1 and requested a hearing on interim rates. The requested public hearing involving the Utility, RAPA and the Federal Executive Agency (FEA) representing the Department of Defense, was conducted on February 15, 2011. The hearing provided the Utility an opportunity to present evidence to the RCA of the financial damage that the Utility would incur if higher interim rates could not be approved. After reviewing additional evidence and legal arguments, the Commission approved the full requested 8% increase over 2010 water rates effective March 24, 2011. The 8% increase remains interim

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and refundable pending full review by the RCA. A final decision on the increase is not anticipated earlier than February 2012.

**(13) Interfund Transfers**

The composition of interfund transfers as of December 31, 2010 follows:

<u>Description</u>	<u>Amount</u>
Transfer to other funds:	
Municipal utility service assessment	\$ <u>6,717,558</u>
Transfer from other funds:	
Transfer for vehicle	\$ <u>3,000</u>

The composition of interfund transfers as of December 31, 2009 follows:

<u>Description</u>	<u>Amount</u>
Transfer to other funds:	
Municipal utility service assessment	\$ <u>6,112,876</u>
Transfer from other funds:	
Municipal utility service assessment 2008 refund	\$ <u>206,863</u>

**(14) Subsequent Events**

*State of Alaska Loans*

Subsequent to December 31, 2010, the Utility received \$14.9 million in loans from the State of Alaska Drinking Water Fund for capital construction projects.

## **STATISTICAL SECTION**

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Financial ratios:</b>					
Current ratio (current assets / current liabilities)	1.59	1.93	1.95	2.45	0.98
Quick ratio (quick assets / current liabilities)	1.47	1.81	1.82	2.31	0.89
Return on investment (change in net assets / total assets)	1.3%	1.3%	0.3%	1.0%	0.8%
Return on equity (change in net assets / net assets)	8.2%	8.6%	2.0%	6.7%	4.8%
Debt to equity as a percent of capital structure (outstanding debt / capital structure over net assets / capital structure)	<u>70%</u> 30%	<u>71%</u> 29%	<u>72%</u> 28%	<u>72%</u> 28%	<u>63%</u> 37%
Operating margin (operating income / operating revenues)	37%	38%	30%	32%	35%
Revenue bond debt coverage (amount available for revenue bond debt service / revenue bond principal & interest)	1.91	1.93	1.40	1.93	2.00
Weighted cost of long term debt (Sum of interest rates multiplied by percentage of total amounts outstanding for bonds, long-term loans, and amortization of bond discounts and transaction costs)	3.70%	4.01%	4.59%	4.80%	5.41%



**MUNICIPALITY OF ANCHORAGE, ALASKA**  
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 Statistical Section (unaudited)

Table 1  
 Total Accounts

<u>Type of service</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Residential	51,416	51,302	51,177	51,026	50,832
Commercial	3,560	3,533	3,520	3,499	3,484
Total	<u>54,976</u>	<u>54,835</u>	<u>54,697</u>	<u>54,525</u>	<u>54,316</u>
Growth rate	0.26%	0.25%	0.32%	0.38%	

**MUNICIPALITY OF ANCHORAGE, ALASKA**  
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Statistical Section (unaudited)  
Table 2  
Current Water Rates

Type of Service	2010 <sup>(1)</sup>	2009 <sup>(2)</sup>	2008 <sup>(3)</sup>	2007 <sup>(4)</sup>	2006 <sup>(5)</sup>
Metered:					
Customer charge (per account)	\$ 10.59	10.33	9.65	9.65	9.00
Meter rate					
(Depending on meter size ranging between 5/8" to 8")	5.27 to	5.14 to	4.80 to	4.80 to	4.50 to
	279.18	272.37	254.55	254.55	237.90
Metered usage rate (per 1,000 gallons):					
Residential	4.09	3.99	3.73	3.73	3.48
Commercial	4.09	3.99	3.73	3.73	3.48
Unmetered:					
Customer charge (per account)	10.59	10.33	9.65	9.65	9.00
Residential (per unit)	29.45	28.73	26.85	26.85	25.10
Commercial:					
3/4"	41.73	40.71	38.05	38.05	35.55
1"	84.12	82.07	76.70	76.70	71.70
1 1/2"	219.95	214.59	200.55	200.55	187.45
2"	398.34	388.62	363.20	363.20	339.45

<sup>(1)</sup> Rates effective 1/1/10

<sup>(2)</sup> Rates effective 1/1/09

<sup>(3)</sup> Rates effective 1/1/07

<sup>(4)</sup> Rates effective 1/1/07

<sup>(5)</sup> Rates effective 5/30/06

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

Statistical Section (unaudited)

Table 3

Revenues and Expenses - Budget to Actual

	Budget	Actual	Variance Favorable / (Unfavorable)
Operating revenues:			
Residential sales	\$ 33,060,000	32,947,963	(112,037)
Commercial sales	9,339,000	10,670,791	1,331,791
Public fire protection	3,876,000	3,835,662	(40,338)
Hydrant use charges	325,000	231,509	(93,491)
Miscellaneous	1,250,000	1,356,760	106,760
Total operating revenues	<u>47,850,000</u>	<u>49,042,685</u>	<u>1,192,685</u>
Nonoperating revenues:			
Investment income - short-term investments	900,000	1,240,449	340,449
Water property rental	30,000	84,369	54,369
Transfers from other funds	—	3,000	3,000
Miscellaneous non-operating revenue	—	489,636	489,636
Total non-operating revenues	<u>930,000</u>	<u>1,817,454</u>	<u>887,454</u>
Total revenues	<u>48,780,000</u>	<u>50,860,139</u>	<u>2,080,139</u>
Expenses:			
Source of supply:			
Operations	3,353,000	2,586,998	766,002
Maintenance	365,000	516,953	(151,953)
Total source of supply	<u>3,718,000</u>	<u>3,103,951</u>	<u>614,049</u>
Water treatment:			
Operations	3,907,900	3,767,873	140,027
Maintenance	446,100	675,716	(229,616)
Total treatment	<u>4,354,000</u>	<u>4,443,589</u>	<u>(89,589)</u>
Transmission and distribution:			
Operations	2,051,000	1,948,916	102,084
Maintenance	4,200,000	3,703,331	496,669
Total transmission and distribution	<u>6,251,000</u>	<u>5,652,247</u>	<u>598,753</u>
Customer accounts	2,441,000	2,366,630	74,370
Administrative and general	8,286,000	7,172,416	1,113,584
Depreciation, net of amortization	8,000,000	8,048,501	(48,501)
Total operating expenses	<u>33,050,000</u>	<u>30,787,334</u>	<u>2,262,666</u>
Other expenses:			
Transfers to other funds	6,650,000	6,717,558	(67,558)
Interest on long-term obligations	8,400,000	7,135,497	1,264,503
Amortization of debt expense	700,000	387,411	312,589
Allowance for funds used during construction	(620,000)	(1,440,042)	820,042
Total other expenses	<u>15,130,000</u>	<u>12,800,424</u>	<u>2,329,576</u>
Total expenses	<u>48,180,000</u>	<u>43,587,758</u>	<u>4,592,242</u>
Increase in net assets	<u>\$ 600,000</u>	<u>7,272,381</u>	<u>6,672,381</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

WATER UTILITY FUND

Statistical Section (unaudited)

Table 4

Debt Principal by Issue

Description	Original Issue Date	Total Issue Amount	Principal Balance 12/31/2009	2010 New (Retired) Debt	2010 Principal Payments	Principal Balance 12/31/2010	Current Portion
<b>Revenue Bonds</b>							
2004 Rev Refunding	05/26/04	\$ 18,595,000	3,765,000	—	545,000	3,220,000	200,000
2004 Rev Mini-bond	10/12/04	2,000,000	1,956,000	—	—	1,956,000	—
2007 Wtr Ref Rev Bond	06/28/07	91,315,000	91,100,000	—	115,000	90,985,000	795,000
2009 Wtr Refunding Bond	12/16/09	49,680,000	49,680,000	—	4,595,000	45,085,000	3,765,000
Total revenue bonds		161,590,000	146,501,000	—	5,255,000	141,246,000	4,760,000
<b>Alaska Drinking Water (ADW) Loans</b>							
127201 - Airport 1B	09/01/99	2,334,756	1,306,786	—	122,099	1,184,688	123,930
127231 - ER Reservoir	06/06/00	2,000,000	1,304,883	—	100,058	1,204,825	101,559
127241 - Anch Loop Phase V	07/25/00	5,039,233	3,297,916	—	252,884	3,045,032	256,677
127251 - Service Reservoir	07/25/00	3,723,056	2,430,431	—	186,365	2,244,065	189,160
127261 - 19th Spenard Upgrade	09/16/08	770,000	770,000	—	38,500	731,500	38,500
127321 - Disinfection Alt. Upgrade	03/22/02	755,000	499,395	—	38,294	461,101	38,868
127331 - 68th Pebble-Baby Bear	09/30/08	300,000	285,000	—	15,000	270,000	15,000
127361 - Christen Dr Upgrade	09/08/09	1,350,000	650,000	700,000	67,500	1,282,500	67,500
127381 - South Add Woodstave	08/27/01	922,354	649,887	—	46,420	603,466	46,420
127411 - Anch Loop Phase VI	03/02/01	1,305,776	855,403	—	65,592	789,811	66,576
127441 - Daryl Industry Wy Upgr	09/30/08	420,000	28,659	391,341	—	420,000	21,000
127461 - DeBarr-Klevin-Hoyt Upgrd	12/04/09	1,000,000	430,000	570,000	50,000	950,000	50,000
127471 - SCADA Water	08/04/04	4,000,000	3,324,800	—	185,408	3,139,392	188,189
127491 - GW Supply Improv I,II,III	06/23/04	2,135,300	2,005,665	—	100,283	1,905,382	100,283
127531 - Anch Loop Phase IV	10/31/06	12,306,151	12,306,151	—	615,308	11,690,843	615,308
127541 - SCADA Water II	12/01/04	6,500,000	5,850,000	—	325,000	5,525,000	325,000
127571 - 88th Ave. Main	10/31/06	1,850,696	1,758,161	—	92,535	1,665,626	92,535
127581 - Pine Debar Upgrade	09/08/07	870,014	870,014	—	43,501	826,513	43,501
127731 - Arctic Upgrade	11/24/06	404,234	384,022	—	20,212	363,811	20,212
127771 - Est Bluff Upgrade	10/09/06	317,763	301,875	—	15,888	285,987	15,888
127781 - Sullivan-Boeke Upgrade	10/09/06	2,189,753	1,970,777	—	109,488	1,861,289	109,488
127791 - Hiland Rd Water Intertie	06/25/10	8,700,000	—	8,700,000	—	8,700,000	435,000
127811 - Island-Kodiak Kalgin Water	06/07/10	531,552	—	531,552	—	531,552	26,578
127831 - Klatt Rd-NSH-PZ	09/10/07	621,600	552,059	—	30,670	521,389	30,670
127851 - Old Glenn Hwy	06/03/08	812,319	666,608	145,711	—	812,319	—
127871 - Debar-Turpin Upgrade	09/28/07	3,034,740	2,883,003	—	151,737	2,731,266	151,737
127901 - SCADA Water III	10/08/07	5,300,000	4,770,000	—	265,000	4,505,000	265,000
127911 - Wtr Data Processing Proj	02/03/09	600,000	480,000	—	120,000	360,000	120,000
127931 - Hillside Trans. Main	07/10/08	317,094	317,094	—	—	317,094	15,855
127941 - 2006 Misc Wtr Projects	04/04/08	846,000	762,866	—	37,232	725,634	37,791
127961 - NE Improvements Phs 1	07/08/08	929,107	929,107	—	46,455	882,652	46,455
127991 - Sand Lake Extension	02/10/10	280,719	—	280,719	—	280,719	14,036
130151 - Knik View Intertie	07/21/08	715,946	13,373	702,573	—	715,946	35,797
130161 - Norm-Newt Drive	12/17/08	1,768,400	668,400	1,100,000	88,420	1,679,980	88,420
130221 - San Ernesto Upgrade	12/17/08	1,567,218	500,000	1,067,218	78,361	1,488,857	78,361
130241 - South Add. Phs. IV Proj	01/29/09	1,164,317	500,000	664,317	58,216	1,106,101	58,216
130431 - 68th Ave Redhawk Intertie	12/04/09	632,444	270,000	362,444	31,622	600,822	31,622
130471 - Dwtwn CIPP Wtr Upgrade	10/15/10	1,414,951	—	1,414,951	—	1,414,951	70,748
130491 - 2-Way Radio Wtr Upgrade	02/17/10	299,248	—	299,248	14,962	284,286	14,962
131021 - G Street - 7th Water Main	12/29/10	502,118	—	502,118	—	502,118	25,106
131031 - Ekltn WTF Roof & Window	06/07/10	1,556,106	—	1,556,106	—	1,556,106	77,805
Total ADW loans		82,087,965	54,592,335	18,988,298	3,413,010	70,167,623	4,149,753
Total debt		\$ 243,677,965	201,093,335	18,988,298	8,668,010	211,413,623	8,909,753

**MUNICIPALITY OF ANCHORAGE, ALASKA**  
**WATER UTILITY FUND**  
Statistical Section (unaudited)  
Table 5  
Capital Improvement Program  
(Dollars in thousands)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<b>Six Year Total</b>
Project category:							
General plant	\$ 13,187	10,411	6,393	8,535	8,688	13,197	60,411
Repair and rehabilitation	18,244	24,924	30,572	29,115	27,711	20,274	150,840
Transmission/distribution	<u>4,850</u>	<u>1,425</u>	<u>1,410</u>	<u>725</u>	<u>1,121</u>	<u>5,379</u>	<u>14,910</u>
Total AWWU funded	36,281	36,760	38,375	38,375	37,520	38,850	226,161
Grants	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>12,000</u>
Total	<u><u>38,281</u></u>	<u><u>38,760</u></u>	<u><u>40,375</u></u>	<u><u>40,375</u></u>	<u><u>39,520</u></u>	<u><u>40,850</u></u>	<u><u>238,161</u></u>
Source of funding:							
Debt	32,281	34,760	35,875	33,375	28,520	29,850	194,661
Equity	<u>4,000</u>	<u>2,000</u>	<u>2,500</u>	<u>5,000</u>	<u>9,000</u>	<u>9,000</u>	<u>31,500</u>
Total AWWU Funded	36,281	36,760	38,375	38,375	37,520	38,850	226,161
Grants	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>12,000</u>
Total	<u><u>\$ 38,281</u></u>	<u><u>38,760</u></u>	<u><u>40,375</u></u>	<u><u>40,375</u></u>	<u><u>39,520</u></u>	<u><u>40,850</u></u>	<u><u>238,161</u></u>

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

Statistical Section (unaudited)

Table 6

Production Comparison by Facility

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Water treatment facilities (WTF) production and usage data:					
Water produced yearly (millions of gallons):					
Ship Creek WTF	0.2	27.7	124.9	143.6	122.1
Wells	664.4	969.4	529.0	921.9	1,442.7
Eklutna WTF	7,729.4	8,212.9	7,878.6	8,177.8	7,964.8
Total	<u>8,394.0</u>	<u>9,210.0</u>	<u>8,532.5</u>	<u>9,243.3</u>	<u>9,529.6</u>
Average daily water demand Millions of Gallons per Day (MGD):					
Ship Creek WTF	0.1	0.1	0.3	0.4	0.3
Wells	1.8	2.7	1.4	2.5	3.9
Eklutna WTF	21.2	22.5	21.6	22.4	21.8
Total	<u>23.1</u>	<u>25.3</u>	<u>23.3</u>	<u>25.3</u>	<u>26.0</u>
Minimum daily water demand (All facilities)					
	16.2	24.4	16.0	14.7	18.4
Peak production day:					
Ship Creek WTF	0.2	11.8	9.0	10.0	10.1
Wells	12.6	19.0	10.2	15.4	14.9
Eklutna WTF	28.2	35.4	31.8	34.7	31.5
Total <sup>(1)</sup>	<u>41.0</u>	<u>66.2</u>	<u>51.0</u>	<u>60.1</u>	<u>56.5</u>
Four hour peak demand (All facilities) <sup>(2)</sup>					
	41.6	56.2	43.8	55.6	50.4
<b>Current Capacity</b>					
Source <sup>(3)</sup> :					
Ship Creek WTF	20				
Wells	20				
Eklutna WTF	35				
Total	<u>75</u>				
Miles of water mains <sup>(4)</sup>					
	834	829	828	823	820
Number of hydrants <sup>(5)</sup> :					
Public	5,874	5,851	5,817	5,785	5,746
Private	1,357	1,356	1,204	1,156	1,125

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

<sup>(2)</sup> Equals water coming into the water treatment facility plus water usage from the reservoirs.

<sup>(3)</sup> Max design capacity MGD

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

Statistical Section (unaudited)

Table 7

Detailed Schedule of Water Plant in Service (In Thousands)

	Water Plant			Balance 12/31/10
	Balance 01/01/10	Additions	Retirements	
Water plant in service:				
Tangible plant:				
Source of supply:				
Source of supply/land	\$ 747	-	-	747
Structures & improvements	2,313	-	-	2,313
Collecting & impound reservoir	4,813	13	(31)	4,795
Wells & spring	6,393	2,502	-	8,895
Supply mains	31,565	-	-	31,565
Pumping plant:				
Structures & improvements	9,894	1,869	(139)	11,624
Other power production equipment	234	-	-	234
Electric pumping equipment	769	59	(23)	805
Diesel pumping equipment	52	-	-	52
Booster pumping equipment	1,161	63	(6)	1,218
Treatment plant:				
Structures & improvements	62,481	1,422	-	63,903
Water treatment equipment	13,982	653	(8)	14,627
Transmission plant:				
Transmission & distribution-land	3,699	-	-	3,699
Structures & improvements	559	-	-	559
Distribution reservoir & standpipes	35,281	3,751	(842)	38,190
Transmission & distribution mains	421,064	26,973	(27)	448,010
Services	17,089	325	-	17,414
Meters	2,138	-	-	2,138
Hydrants	7,384	327	-	7,711
Land and land rights	762	-	-	762
General plant:				
Structures & improvements	17,514	1,583	-	19,097
Office furniture	424	-	-	424
Office equipment	36	-	-	36
Computer equipment	11,653	1,239	(3,902)	8,990
Vehicles (light duty)	2,038	221	(333)	1,926
Transportation equipment (heavy duty)	1,920	122	(247)	1,795
Store equipment	59	-	-	59
Tools, shop & garage equipment	447	-	(6)	441
Laboratory equipment	132	-	-	132
Power operated equipment	469	-	-	469
Communication equipment	15,284	-	(36)	15,248
Miscellaneous equipment	159	-	(21)	138
Total tangible plant	672,515	41,122	(5,621)	708,016
Intangible plant	1,246	-	-	1,246
Total water plant in service	673,761	41,122	(5,621)	709,262
Acquisition adjustment	3,322	-	-	3,322
Property held for future use	1,986	-	(1,906)	80
Construction work in progress	19,014	30,165	(36,222)	12,957
Total water plant	\$ 698,083	71,287	(43,749)	725,621

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

Statistical Section (unaudited)

Table 7 (Continued)

Detailed Schedule of Depreciation and Amortization (In Thousands)

	Accumulated Depreciation and Amortization				Net Book Value of Plant
	Balance	Additions	Retirements	Balance	
	01/01/10			12/31/10	
Water plant in service:					
Tangible plant:					
Source of supply:					
Source of supply/land	\$ -	-	-	-	747
Structures & improvements	884	40	-	924	1,389
Collecting & impound reservoir	3,399	81	(31)	3,449	1,346
Wells & spring	3,026	144	-	3,170	5,725
Supply mains	16,371	688	-	17,059	14,506
Pumping plant:					
Structures & improvements	1,627	262	(139)	1,750	9,874
Other power production equipment	94	8	-	102	132
Electric pumping equipment	769	20	(23)	766	39
Diesel pumping equipment	52	-	-	52	-
Booster pumping equipment	372	55	(5)	422	796
Treatment plant:					
Structures & improvements	20,194	1,191	-	21,385	42,518
Water treatment equipment	10,780	372	(8)	11,144	3,483
Transmission plant:					
Transmission & distribution-land	-	-	-	-	3,699
Structures & improvements	354	15	-	369	190
Distribution reservoir & standpipes	10,910	819	(842)	10,887	27,303
Transmission & distribution mains	110,700	6,792	(27)	117,465	330,545
Services	17,060	175	-	17,235	179
Meters	1,068	84	-	1,152	986
Hydrants	2,971	124	-	3,095	4,616
Land and land rights	-	-	-	-	762
General plant:					
Structures & improvements	4,876	348	-	5,224	13,873
Office furniture	115	21	-	136	288
Office equipment	36	-	-	36	-
Computer equipment	5,244	1,478	(3,902)	2,820	6,170
Vehicles (light duty)	1,693	166	(333)	1,526	400
Transportation equipment (heavy duty)	1,567	102	(213)	1,456	339
Store equipment	23	2	-	25	34
Tools, shop & garage equipment	310	21	(6)	325	116
Laboratory equipment	116	6	-	122	10
Power operated equipment	343	25	-	368	101
Communication equipment	4,318	1,011	(36)	5,293	9,955
Miscellaneous equipment	91	10	(21)	80	58
Total tangible plant	<u>219,363</u>	<u>14,060</u>	<u>(5,586)</u>	<u>227,837</u>	<u>480,179</u>
Intangible plant	493	124	-	617	629
Total water plant in service	<u>219,856</u>	<u>14,184</u>	<u>(5,586)</u>	<u>228,454</u>	<u>480,808</u>
Acquisition adjustment	1,791	115	-	1,906	1,416
Property held for future use	-	-	-	-	80
Construction work in progress	-	-	-	-	12,957
Total water plant	<u>\$ 221,647</u>	<u>14,299</u>	<u>(5,586)</u>	<u>230,360</u>	<u>495,261</u>