



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

Basic Financial Statements

December 31, 2006 and 2005

(With Independent Auditors' Report Thereon)

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

Table of Contents

	Pages
Management's Discussion and Analysis	1-9
Independent Auditors' Report	10-11
Balance Sheets	12-13
Statements of Revenues, Expenses, and Changes in Net Assets	14
Statements of Cash Flows	15
Notes to Basic Financial Statements	16-37
Statistical Section	
Financial Ratios	38
Table 1 – Total Accounts	39
Table 2 – Current Water Rates	40
Table 3 – Revenues and Expenses Budget to Actual	41
Table 4 – Debt Principal by Issue	42
Table 5 – Capital Improvement Program	43
Table 6 – Production Comparison by Facility	44

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

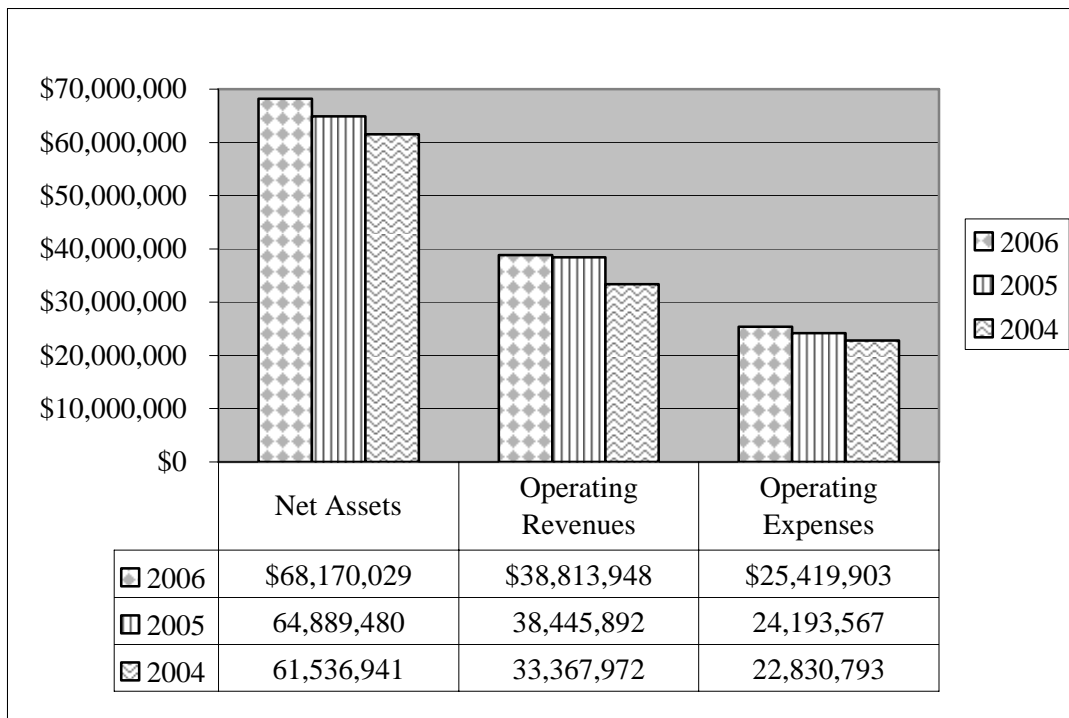
Management's Discussion and Analysis

December 31, 2006 and 2005

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, 2006 and 2005. Please read it in conjunction with the Utility's financial statements.

Financial Highlights

- Net Capital Assets increased by \$17,030,000, or 4% in 2006 and \$5,620,000, or 1% in 2005.
- Net Assets increased by \$3,280,000, or 5% in 2006 and \$3,350,000, or 5% in 2005.
- Operating Revenues increased by \$370,000, or 1% in 2006 and \$5,080,000, or 15% in 2005.
- Operating Expenses increased by \$1,230,000, or 5% in 2006 and \$1,360,000, or 6% in 2005.



Overview of the Financial Report

The Utility reports as an enterprise fund of the Municipality of Anchorage (MOA), while charging customers for services it provides. 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.

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

Management's Discussion and Analysis

December 31, 2006 and 2005

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 Basic Financial Statements; and Management's Discussion and Analysis. 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 total assets less total liabilities. The Balance Sheet classifies assets, liabilities, and net assets 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 nonoperating 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 beginning-of-year cash reconciles to cash and cash-equivalents at the end of the year. The Utility presents its Statement of Cash Flows using the direct method of reporting operating cash flows.

Analysis of the Financial Statements

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 help 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, 2006 and 2005

Changes in the Utility's net assets can be determined by reviewing the following condensed Summary of Net Assets as of December 31, 2006, 2005, and 2004. 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**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Assets:			
Net capital assets	\$ 409,133,079	392,104,401	386,479,583
Current and other assets	26,484,427	27,911,417	31,749,157
Total assets	<u>435,617,506</u>	<u>420,015,818</u>	<u>418,228,740</u>
Liabilities:			
Net debt outstanding	117,072,618	115,892,201	119,151,167
Current and other liabilities	250,374,859	239,234,137	237,540,632
Total liabilities	<u>367,447,477</u>	<u>355,126,338</u>	<u>356,691,799</u>
Net assets:			
Invested in capital assets net of debt	48,591,592	43,273,165	35,761,284
Restricted	4,588,759	5,198,682	10,754,413
Unrestricted	14,989,678	16,417,633	15,021,244
Total net assets	<u>\$ 68,170,029</u>	<u>64,889,480</u>	<u>61,536,941</u>
Change in net assets	\$ 3,280,549	3,352,539	—

During 2006, the Utility's net capital assets increased by \$17 million. Net additions to plant in service (reference Table 3) and an increase of \$14.9 million in construction work in progress are the primary components of this change. A decrease in current and other assets of \$1.4 million was driven by a decrease of \$0.5 million in restricted assets (fewer investment dollars in revenue bond debt service); a decrease of \$0.7 million in current assets (less equity in the general cash pool and a reduction in overall receivables at year-end); and a decrease of \$0.2 million in non-current assets.

The change in total liabilities during 2006 of \$12.3 million resulted from additions of \$2.7 to noncurrent liabilities (major components of the change include increases in net pension obligation and long-term debt); \$6.8 million in current liabilities (continued intergovernmental borrowing for capital projects); a \$0.3 million decrease in restricted liabilities; and a net increase of contributions in aid of construction.

During 2005, net capital assets increased by \$5.6 million due to an increase in construction work in progress and capital contributions from private developers. A decrease in current and other assets of \$3.8 million is due primarily to a significant decrease in revenue bond debt service investment of \$6.0 million offset by an increase in equity in general cash pool of \$3.7 million. This results in an increase of \$1.8 million of total assets. The decrease in total liabilities of \$1.6 million from 2004 is primarily because of a 3% decrease in net debt

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

Management's Discussion and Analysis

December 31, 2006 and 2005

outstanding. Although the Utility received \$2.0 million in long-term loans in 2005, it made \$6.0 million in debt payments in loans, assessment bonds, and revenue bonds.

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, 2006, 2005, and 2004.

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

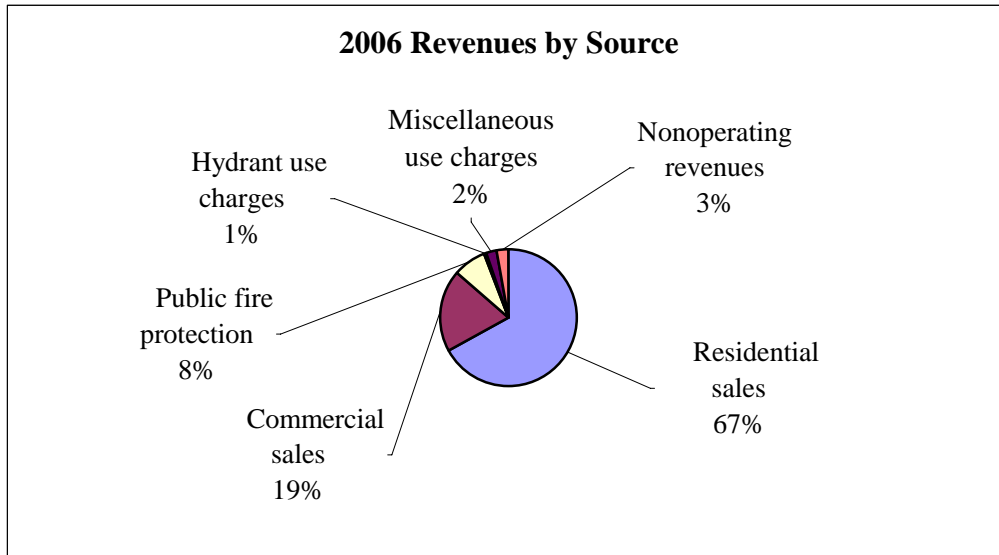
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues:			
Residential sales	\$ 26,715,769	26,540,322	22,607,657
Commercial sales	7,705,635	7,722,796	6,769,304
Public fire protection	3,159,859	2,978,185	2,761,514
Hydrant use charges	228,126	238,842	232,180
Miscellaneous	1,004,559	965,747	997,317
Nonoperating revenues	1,089,187	768,245	320,607
Total revenues	<u>39,903,135</u>	<u>39,214,137</u>	<u>33,688,579</u>
Operating expenses:			
Source of supply	2,490,969	2,586,959	2,430,419
Water treatment	3,508,359	3,200,402	3,014,217
Transmission and distribution	5,182,635	5,432,550	4,434,442
Customer accounts	2,089,651	1,944,632	2,093,070
Administrative and general	6,116,053	5,568,614	5,121,906
Depreciation, net of amortization	6,032,236	5,460,410	5,736,739
Nonoperating expenses	5,725,116	5,936,913	5,652,988
Total expenses	<u>31,145,019</u>	<u>30,130,480</u>	<u>28,483,781</u>
Income before transfers	8,758,116	9,083,657	5,204,798
Transfer – MUSA payment to Municipality	<u>(5,477,567)</u>	<u>(5,731,118)</u>	<u>(3,261,718)</u>
Change in net assets	3,280,549	3,352,539	1,943,080
Beginning net assets	<u>64,889,480</u>	<u>61,536,941</u>	<u>59,593,861</u>
Ending net assets	<u>\$ 68,170,029</u>	<u>64,889,480</u>	<u>61,536,941</u>

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

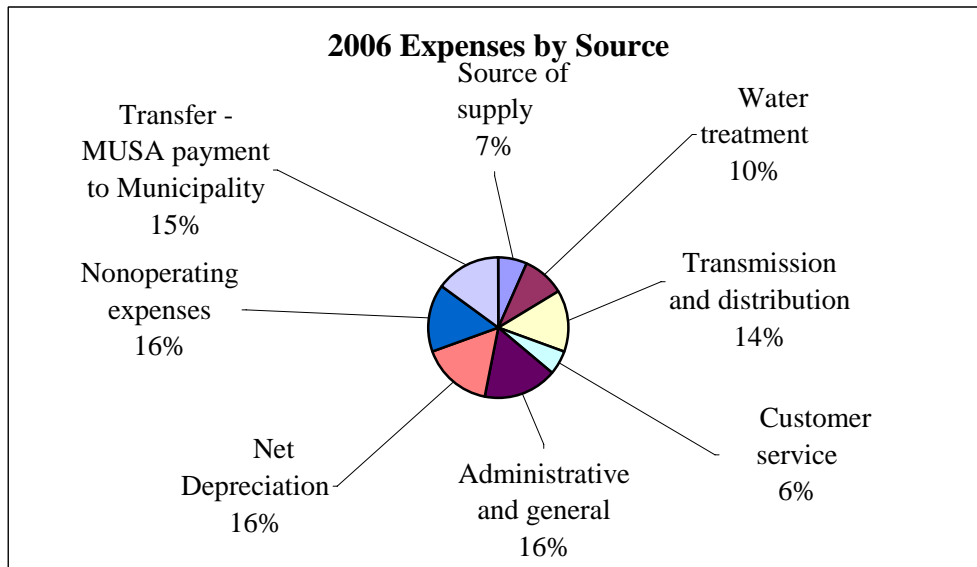
Management's Discussion and Analysis

December 31, 2006 and 2005

Net assets increased during 2006. Operating revenues increased by \$0.4 million from 2005 due to customer growth and a Regulatory Commission of Alaska (RCA) approved interim rate increase of 8.9%, effective May 30, 2006.



Operating expenses increased by \$1.2 million from 2005, however they did not exceed budgeted amounts. Severe winter conditions and a rise in gas and electric prices played a role in the increase of operating expenses from 2005. Another contributing factor is the increase in labor costs, including retirement benefits.



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

Management's Discussion and Analysis

December 31, 2006 and 2005

Net assets grew during 2005. Operating revenues increased by \$5.1 million from 2004 due to an RCA-approved interim rate increase of 7.76%, effective February, 2005, combined with modest customer growth. Operating expenses increased by \$1.3 million from 2004, however, they did not exceed budgeted amounts. Severe winter conditions and increased gas and electric prices played a role in the operating expenses increases from 2004. Another contributing factor is the increase in labor costs, including retirement benefits.

Capital Assets and Debt

Capital Assets

The following table summarizes the Utility's capital assets, net of accumulated depreciation, as of December 31, 2006, 2005 and 2004.

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Miscellaneous intangible plant	\$ 991,302	340,226	315,733
Source of supply plant	24,898,520	26,651,353	27,716,752
Pumping plant	2,315,611	2,495,154	2,591,545
Water treatment plant	48,157,593	49,553,308	50,746,288
Transmission and distribution plant	275,561,481	273,584,556	269,436,712
General plant	<u>26,838,837</u>	<u>23,816,965</u>	<u>17,891,784</u>
Net plant in service	378,763,344	376,441,562	368,698,814
Plant acquisition adjustment	1,875,342	1,990,119	2,104,895
Property held for future use	1,985,619	2,072,931	2,072,931
Construction work in progress	<u>26,508,774</u>	<u>11,599,789</u>	<u>13,602,943</u>
Total net capital plant	<u>\$ 409,133,079</u>	<u>392,104,401</u>	<u>386,479,583</u>
Increase in net capital plant	\$ 17,028,678	5,624,818	—

Net capital plant growth increased significantly from 2005 to 2006 due to major additions in 2006. Those major additions include:

- Transmission and distribution \$7.8 million
- General plant \$5.1 million

Construction work in progress increased by \$14.9 million during 2006 and in 2005 decreased by \$2 million from 2004. The 2006 increase resulted from \$27.5 million in additions partially offset by \$12.6 million in closures to plant in service. The 2005 decrease resulted from \$15.4 million in additions offset by \$17.4 million in closures to plant in service.

Total net capital assets increased \$5.6 million during 2005. Major additions included \$9.8 million in additions to transmission and distribution plant and approximately \$8.6 million to general plant.

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

Management's Discussion and Analysis

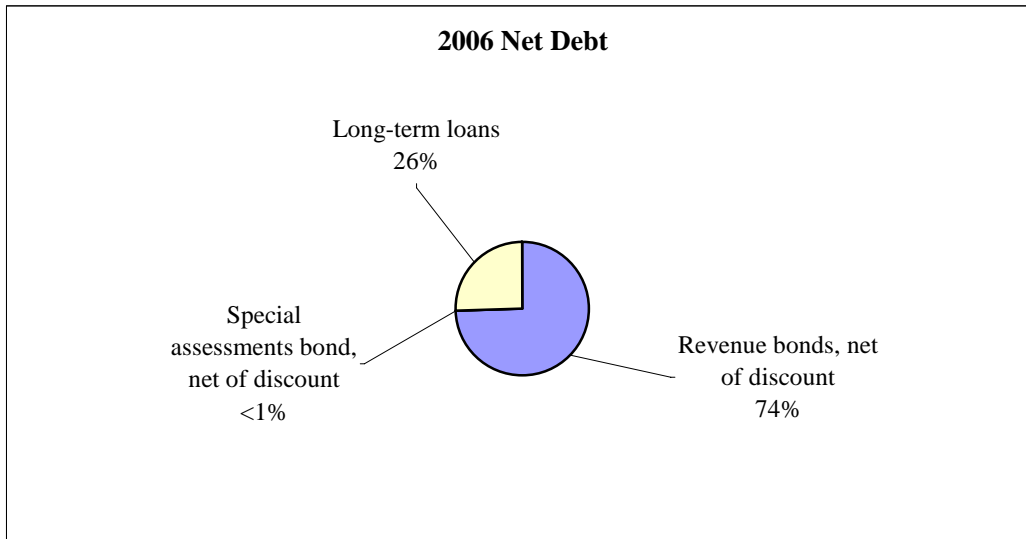
December 31, 2006 and 2005

Additional information on the Utility's capital assets can be found in note 3 on pages 24-25 of this report.

Debt

Changes in the Utility's debt are shown in the following table as of December 31, 2006, 2005, and 2004. The table includes only debt having a long-term component.

	Table 4 Net Debt		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenue bonds, net of discount	\$ 87,092,720	91,784,181	96,229,821
Special assessments bond, net of discount	100,861	173,167	254,522
Bond total	87,193,581	91,957,348	96,484,343
Long-term loans	29,879,037	23,934,853	22,666,824
Total net debt	<u>\$ 117,072,618</u>	<u>115,892,201</u>	<u>119,151,167</u>
Increase (decrease) in net debt	\$ 1,180,417	(3,258,966)	—



During 2006, approximately \$6.9 million was received in low interest loans from the State of Alaska to finance capital improvements. No bonds were sold in 2006. Bond payments totaled \$5.5 million, while loan payments totaled \$931 thousand.

In 2006, the Utility's net pension obligation increased \$225 thousand due primarily to the actuarially-determined employer contribution rate continuing to exceed the State of Alaska-determined employer contribution rate.

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Management's Discussion and Analysis

December 31, 2006 and 2005

During 2005, approximately \$2 million was received in low interest loans from the State of Alaska to finance capital improvements. No bonds were sold in 2005. Bond payments totaled approximately \$5.3 million, while loan payments totaled approximately \$760 thousand.

In 2005, the Utility's net pension obligation increased \$450 thousand due primarily to the actuarially-determined employer contribution rate continuing to exceed the State of Alaska-determined employer contribution rate.

Additional information on the Utility's long-term obligations can be found in note 4 on pages 25-29 of this report.

Economic Factors and Next Year's Budgets and Rates

The 2007 budget anticipated revenue increases, due to the combined effects of modest customer growth and an anticipated rate increase of 14.5% effective January 1. A 7.0% interim rate increase was approved by the Regulatory Commission of Alaska (RCA) effective January 1. The proposed permanent rate increase of 14.5% is still under review by the RCA.

Operating expenses were budgeted to increase by 11% from 2006. Increases are expected due to higher wage and benefit costs; higher commodity, utility, and fuel costs; and higher depreciation costs.

Non-operating costs were anticipated to increase by 40% from 2006. The change is due primarily to higher interest expense resulting from increasing interest rates combined with the impact of additional debt incurred to fund the Utility's capital program.

Regulatory Matters

2004/2005 Rate Case

The Utility filed a two-stage rate increase with the Regulatory Commission of Alaska (RCA) on January 9, 2004, requesting permanent rate increases of 14.20% and 7.17% for 2004 and 2005, respectively. The RCA approved 13.61% and 7.76% interim refundable rate increases effective February 24, 2004 and February 18, 2005, respectively. On July 8, 2005, the RCA accepted a stipulation between the Regulatory Affairs and Public Advocacy (RAPA) section of the Attorney General, the only intervener to the rate case, and AWWU settling all issues except MUSA on contributed plant. On September 2, 2005 the RCA issued an order establishing the Utility's revenue requirement that excluded MUSA on contributed plant, and requiring a recalculated revenue requirement, a refund calculation, a proposed timeline for refunds, and new tariff sheets. The Utility filed an appeal with the Alaska Superior Court (Court). On December 21, 2005, the Court issued a stay of the RCA's final order, allowing the Utility to continue collecting MUSA on contributed plant in interim rates pending resolution of the appeal. Revenues collected subject to refund approximate \$8,700,000 through December 31, 2006.

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

Management's Discussion and Analysis

December 31, 2006 and 2005

The Utility vigorously pursued its appeal and its suit to permit the inclusion of MUSA on contributed plant in its rates. AWWU's opening brief was filed on June 6, 2006, reply brief was filed on September 18, 2006, and oral arguments were heard before the Court on March 1, 2007. On June 25, 2007, the Court upheld the RCA's earlier order. The Utility plans to appeal this ruling. The Utility believes that the chance of it ultimately being required to refund the revenue collected is reasonably possible, but not probable, and therefore has not recorded a liability for a refund payable.

2006 Rate Case

The Utility filed a rate case with the RCA on November 10, 2005, requesting a permanent rate increase of 8.9% effective January 1, 2006. RAPA was the only intervener to this rate case. On December 27, 2005, the RCA rejected the filing, citing the lack of a corresponding Cost of Service Study (COSS). The Utility refiled its 2006 rate case, including a COSS, on February 17, 2006. On March 15, 2006, the RCA again rejected the filing, stating that the requirements of the order had not been satisfied because the COSS, though complete, was marked draft and subject to change pending the outcome of local public process. The AWWU Board held a public hearing and approved the recommendation of the study that no cost of service adjustments were necessary to the Utility's rate design. The Utility then refiled its 2006 rate case and COSS on April 14, 2006, requesting for the third time an 8.9% across the board interim and refundable rate increase. On May 30, 2006 the RCA issued an order granting the full interim rates. The RCA hearing was held on January 16 through 18, 2007. Contested issues presented to the RCA at the hearing included return on equity, whether the Utility's known and measurable PERS costs should be recoverable through rates, and other smaller operating expense items. These contested issues total \$2.4 million on an annualized basis, excluding the impact of the MUSA dispute. AWWU expects an order by July 1, 2007. The Utility believes that the chance of it ultimately being required to refund the revenue collected is reasonably possible, but not probable, and therefore has not recorded a liability for a refund payable.

2007 Rate Case

The Utility filed a rate case with the RCA on November 1, 2006 requesting a permanent rate increase of 14.5% effective January 1, 2007. At the same time, AWU requested a 7.0% interim rate increase effective January 1, 2007 if the RCA decided to suspend the filing for further review. On December 18, 2006 the RCA consolidated the AWU and ASU rate cases into one docket, suspended the filings, and granted AWU interim refundable rates effective January 1, 2007. RAPA is once again the only intervener to this rate case. The RCA hearing for this rate case is scheduled to begin October 29, 2007.

Contacting the Utility's Financial Management
--

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

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



KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

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

We have audited the accompanying financial statements of the Water Utility Fund of the Municipality of Anchorage, Alaska as of and for the years ended December 31, 2006 and 2005, 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 audits.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Water Utility Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 2006 and 2005 and the changes in its financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility Fund of the Municipality of Anchorage, Alaska, as of December 31, 2006 and 2005, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1 through 9 and schedule of funding progress in note 8 are not a required part of the basic financial statements but are 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 express no opinion on it.



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

KPMG LLP

June 27, 2007

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

Balance Sheets

December 31, 2006 and 2005

Assets	2006	2005
Capital assets:		
Plant in service, at cost	\$ 568,204,217	556,728,449
Less accumulated depreciation	<u>(189,440,873)</u>	<u>(180,286,887)</u>
Net plant in service	378,763,344	376,441,562
Plant acquisition adjustment, less amortization of \$1,446,602 in 2006 and \$1,331,824 in 2005	1,875,342	1,990,119
Plant held for future use	1,985,619	2,072,931
Construction work in progress	<u>26,508,774</u>	<u>11,599,789</u>
Net capital assets	<u>409,133,079</u>	<u>392,104,401</u>
Restricted assets:		
Current:		
Revenue bond debt service investments	4,001,279	3,445,158
Noncurrent:		
Customer deposits	463,894	349,859
Revenue bond debt service investments	715,000	1,888,653
Special assessment debt service account	<u>73,101</u>	<u>115,310</u>
Total restricted assets	<u>5,253,274</u>	<u>5,798,980</u>
Current assets:		
Equity in general cash pool	14,231,559	14,804,060
Accrued interest receivable	74,987	60,634
Grants receivable	—	187,860
Accounts receivable:		
Utility customers, less estimated uncollectibles of \$61,155 in 2006 and \$65,084 in 2005	3,423,386	3,207,622
Other, less estimated uncollectibles of \$53,595 in 2006 and \$120,209 in 2005	58,853	69,106
Special assessments receivable	77,263	94,352
Inventory of materials and supplies, at average cost	1,800,035	1,642,711
Unbilled reimbursable projects	<u>386,358</u>	<u>667,095</u>
Total current assets	<u>20,052,441</u>	<u>20,733,440</u>
Noncurrent deferred charges and other assets:		
Unamortized debt expense	316,488	330,178
Unbilled special assessments	726,296	1,015,602
Other	<u>135,928</u>	<u>33,217</u>
Total noncurrent deferred charges and other assets	<u>1,178,712</u>	<u>1,378,997</u>
Total assets	<u>\$ 435,617,506</u>	<u>420,015,818</u>

See accompanying notes to basic financial statements.

Liabilities and Net Assets	2006	2005
	<u> </u>	<u> </u>
Net assets:		
Invested in capital assets, net of related debt	\$ 48,591,592	43,273,165
Restricted for debt service	4,588,759	5,198,682
Unrestricted	14,989,678	16,417,633
Total net assets	<u>68,170,029</u>	<u>64,889,480</u>
Noncurrent liabilities:		
Compensated absences	160,756	208,516
Net pension obligation	909,934	684,814
Revenue bonds payable:	88,995,000	92,965,000
Less unamortized discount	(1,684,339)	(1,857,566)
Less deferred loss on refunding	(4,177,941)	(4,698,253)
Net revenue bonds payable	<u>83,132,720</u>	<u>86,409,181</u>
Special assessment bonds payable:	101,187	176,379
Less unamortized discount	(326)	(3,212)
Net special assessment bonds payable	<u>100,861</u>	<u>173,167</u>
Alaska drinking water loan payable	28,993,394	23,160,649
Total noncurrent liabilities	<u>113,297,665</u>	<u>110,636,327</u>
Current liabilities:		
Accounts payable	971,240	443,852
Compensated absences	959,384	850,781
Accrued interest	2,188,175	2,137,511
Interfund payable – capital projects fund	11,524,671	4,118,118
Long-term obligations maturing within one year	4,845,643	6,149,204
Total current liabilities	<u>20,489,113</u>	<u>13,699,466</u>
Liabilities payable from restricted assets:		
Current:		
Capital acquisition and construction accounts and retainages payable	1,252,607	1,619,769
Noncurrent:		
Customer deposits payable	463,894	349,859
Total liabilities payable from restricted assets	<u>1,716,501</u>	<u>1,969,628</u>
Deferred liabilities:		
Contributions in aid of construction, net of amortization	231,944,198	228,820,917
Total liabilities	<u>367,447,477</u>	<u>355,126,338</u>
Total liabilities and net assets	<u>\$ 435,617,506</u>	<u>420,015,818</u>

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2006 and 2005

	2006	2005
Operating revenues:		
Charges for sales and services:		
Residential sales	\$ 26,715,769	26,540,322
Commercial sales	7,705,635	7,722,796
Total charges for sales and services	34,421,404	34,263,118
Other:		
Public fire protection	3,159,859	2,978,185
Hydrant use charges	228,126	238,842
Miscellaneous	1,004,559	965,747
Total other	4,392,544	4,182,774
Total operating revenues	38,813,948	38,445,892
Operating expenses:		
Source of supply	2,490,969	2,586,959
Water treatment	3,508,359	3,200,402
Transmission and distribution	5,182,635	5,432,550
Customer accounts	2,089,651	1,944,632
Administrative and general	6,116,053	5,568,614
Depreciation, net of amortization	6,032,236	5,460,410
Total operating expenses	25,419,903	24,193,567
Operating income	13,394,045	14,252,325
Nonoperating revenues (expenses):		
Investment income – short-term investments	639,014	740,995
Water property rental	27,500	27,250
Interest on long-term obligations	(5,106,829)	(5,311,518)
Allowance for funds used during construction	704,299	587,732
Amortization of bond discount	(607,997)	(673,390)
Amortization of debt expense	(109,055)	(116,652)
Interest expense – other	(605,534)	(423,085)
Intergovernmental revenue	422,673	—
Total nonoperating expenses	(4,635,929)	(5,168,668)
Income before transfers	8,758,116	9,083,657
Transfer – MUSA payment to Municipality	5,477,567	5,731,118
Change in net assets	3,280,549	3,352,539
Net assets – beginning	64,889,480	61,536,941
Net assets – ending	\$ 68,170,029	64,889,480

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Receipts from customers and users	\$ 38,685,088	36,863,178
Payments to employees	(12,575,071)	(11,271,618)
Payments to vendors	(6,400,601)	(6,317,135)
Internal activity – payments made to other funds	(5,234,554)	(6,506,783)
Net cash provided by operating activities	14,474,862	12,767,642
Cash flows from non-capital and related financing activities:		
Water property rentals	27,500	27,250
Intergovernmental revenue	422,673	—
Net cash provided by non-capital and related financing activities	450,173	27,250
Cash flows from capital and related financing activities:		
Principal payments on long-term obligations	(5,457,129)	(5,270,193)
Interest payments on long-term obligations	(5,661,699)	(5,779,708)
Acquisition and construction of capital assets	(26,706,423)	(14,832,944)
Capital contributions – intergovernmental	7,243,376	1,564,974
Capital contributions – customer/special assessments	605,444	475,004
Proceeds from Alaska drinking water loans	6,874,977	2,024,485
Repayments to Alaska drinking water loans	(930,793)	(756,454)
Net proceeds from loan from primary government	7,406,553	6,701,261
Net cash used by capital and related financing activities	(16,625,694)	(15,873,575)
Cash flows from investing activities:		
Cash received for purchase or sales and maturity of investments	617,532	6,007,950
Interest received	624,661	733,783
Net cash provided by investing activities	1,242,193	6,741,733
Net increase (decrease) in cash	(458,466)	3,663,050
Cash, beginning of year	15,153,919	11,490,869
Cash, end of year	\$ 14,695,453	15,153,919
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 13,394,045	14,252,325
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, net of amortization	6,032,236	5,460,410
Allowance for uncollectible accounts	(70,543)	33,532
MUSA payment to Municipality	(5,477,567)	(5,731,118)
Changes in assets and liabilities that increase (decrease) cash:		
Accounts receivable and other receivables	213,636	(919,678)
Grants receivable	187,860	216,809
Unbilled reimbursable projects	280,737	(284,981)
Inventories	(157,324)	(139,302)
Customer deposits payable	114,035	(43,175)
Deferred charges and other assets	(112,711)	(36,317)
Accounts payable and other liabilities	(215,505)	(473,602)
Compensated absences	60,843	(21,528)
Net pension obligation	225,120	454,267
Net cash provided by operating activities	\$ 14,474,862	12,767,642
Noncash investing, capital, and financing activities:		
Contributed capital – private development	\$ 1,216,717	1,218,648
Capital purchases on account, net	375,731	450,745
Total noncash investing, capital, and financing activities	\$ 1,592,448	1,669,393

See accompanying notes to basic financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2006, and 2005

(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 by passing AO 2005-107. 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. 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 for Debt Service; 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, 2006, and 2005

(a) *Financial Accounting Standards Board Statement No. 71, Accounting for the Effects of Certain Types of Regulation (SFAS 71)*

The Utility meets the criteria, and accordingly, follows the accounting and reporting requirements of SFAS 71. 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 the Utility records as contributed plant in service and deferred liability. For rate-making purposes the Utility amortizes contributed plant 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 reported at fair value. Interest on cash pool investments is allocated to the Utility based on its monthly closing cash pool equity balances.

For purposes of the Statement of Cash Flows, the Utility has defined cash as the demand deposits and all investments maintained in the general 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 discounts is deferred and amortized over the life of the related bond issue using the interest method.

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

Notes to Basic Financial Statements

December 31, 2006, and 2005

(f) Property, Plant, and Equipment

Property, plant, and equipment is stated at cost. To be considered for capitalization, the cost of an asset must exceed \$5,000 and the service life of the retirement unit affected must increase by more than one year. The Utility's depreciation model is composed of the straight-line method, broad group and Equal Life Group procedures, and whole life technique. 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.

Estimated lives of major plant and equipment categories follow:

Source of supply plant	40-55 years
Pumping and treatment plant	18-66 years
Transmission and distribution plant	30-70 years
General plant	7-45 years
Equipment and vehicles	7-25 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 yet billed. The Utility accrued \$1,140,000 and \$1,060,000 for the years ended December 31, 2006 and 2005, respectively.

(i) Accrued Leave

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

(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 \$2,408,040 and \$2,116,784 for the years ended December 31, 2006 and 2005, respectively, which does not include the Utility's payments to the Municipality's risk management programs.

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2006, and 2005

(k) Risk Management

The Municipality self-insures to the extent of \$2,000,000 for automobile and general liability claims. Workers' Compensation is self-insured to the extent of \$1,000,000 per occurrence. Coverage in excess of these amounts is insured by private carriers. At December 31, 2006, general liability and workers compensation paid by the Municipality was \$7,096,740. The Municipality has established reserves of \$13,522,232 as of December 31, 2006, including \$8,476,378 of claims incurred but not reported.

The Municipality reinstated its self-insured medical/dental/vision/life benefit claims plan in 2005. During 2006, the plan paid \$36,981,186 in claims. The Municipality has established reserves of \$4,949,843 as of December 31, 2006, including \$3,512,869 of claims incurred but not reported.

Unemployment compensation expense is based on actual claims paid by the State of Alaska and reimbursed by the government. No provision has been made for claims incurred but not paid by the State of Alaska at December 31, 2006.

(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 Payable – Capital Projects Fund

When the Utility borrows from the Anchorage 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 the cash pool is reimbursed from the bond proceeds. The next bond sale is scheduled for June 2007.

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

Notes to Basic Financial Statements

December 31, 2006, and 2005

(2) Cash and Investments

As of December 31, 2006, the Municipality had the following investments with maturities as noted. The Utility's cash and investments represent 1.9% of the Anchorage Central Treasury.

Investment type	Fair value	Investment maturities (in years)			
		Less than 1	1 – 5	6 – 10	More than 10
Central treasury:					
Debt securities:					
Repurchase agreements	\$ 17,440,447	17,440,447	—	—	—
U.S. treasuries	1,220,982	1,220,982	—	—	—
U.S. agencies	247,051,076	229,139,957	17,911,119	—	—
Commercial paper	65,424,255	65,424,255	—	—	—
Corporate notes	40,278,980	36,523,880	3,755,100	—	—
	<u>371,415,740</u>	<u>349,749,521</u>	<u>21,666,219</u>	<u>—</u>	<u>—</u>
Short-term instruments:					
Money market funds	42,535,631	42,535,631	—	—	—
Cash in bank	2,229,162	2,229,162	—	—	—
	<u>\$ 416,180,533</u>	<u>394,514,314</u>	<u>21,666,219</u>	<u>—</u>	<u>—</u>

(a) Anchorage Central Treasury

As of December 31, 2006, Anchorage Central Treasury had bank deposit carrying amounts of \$2,229,162 of which \$677,088 was covered by federal depository insurance. Additional bank balances of \$24,164,953 were invested in overnight repurchase agreements. Bank carrying amounts in excess of federal insurance coverage and repurchase agreement investments were covered by a tri-party collateral agreement. The agreement requires eligible securities with a market value not less than the uninsured deposit balances be transferred to and held by Anchorage's collateral custodian. The eligible securities are held by the custodian in the pledging bank's name on behalf of Anchorage. Eligible securities are defined by the agreement as 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.

In seeking to ensure the preservation of investment principal, Anchorage Municipal Code 6.50.030 and Central Treasury investment policy authorize the purchase of investments which 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;
- Commercial paper, including asset-backed commercial paper, rated at least "A-1" by Standard & Poor's (S&P) or "P-1" by Moody's or "F-1" by Fitch;

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2006, and 2005

- 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 S&P or "P-1" by Moody's or "F-1" by Fitch and 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 Moody's sovereign rating for bank deposits of "Aaa", or an S&P sovereign rating 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;
- Bank deposits or certificates of deposit secured by federal depository insurance or collateralized by obligations insured or guaranteed by the United States or agencies with rated banks or banks with a main or branch office within Anchorage;
- Dollar denominated corporate debt instruments rated BBB- or better by S&P's Rating Service (investment grade) or the equivalent by another nationally recognized rating agency;
- Dollar denominated corporate debt instruments, rated below BBB- by S&P's Rating Service (investment grade) or the equivalent by another nationally recognized rating agency, including emerging markets;
- Asset Backed Securities (ABS), other than commercial paper, collateralized by: credit cards, automobile loans, leases and other receivables which must have a credit rating of AA- or above by S&P's Rating Service or the equivalent by another nationally recognized rating agency;
- Mortgage Backed Securities, including generic mortgage-backed pass-through securities issued by GNMA, FHLMC, FNMA, Nonagency mortgage-backed securities, Collateralized Mortgage Obligations (CMOs), or Commercial mortgage-backed securities (CMBS), which must have a credit rating of AA- or better by S&P's Rating Service or the equivalent by another nationally recognized rating agency;
- Fixed income derivative instruments used in an un-levered manner to implement Portfolio strategies;
- Money Market Mutual Funds rated "Am" or better by S&P's Rating Service, or the equivalent by another nationally recognized rating agency;
- Alaska Municipal League Investment Pool; and
- Mutual Fund Investments consisting of a diversified mutual fund, registered under the Securities Act of 1933 and Investment Company Act of 1940.

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

Notes to Basic Financial Statements

December 31, 2006, and 2005

Anchorage's Central Treasury investment policy limits the concentration of investments as follows:

<u>Investment type</u>	<u>Maximum holdings</u>	<u>Investment holding % at December 31, 2006</u>
U.S. government securities	100% of investment portfolio	60%
Repurchase agreements	50% of investment portfolio	4
Certificates of deposit, collateralized	50% of investment portfolio	—
Banker's acceptances	25% of investment portfolio 5% per issuer	—
Certificates of deposit, insured	20% of investment portfolio	—
Commercial paper	15% of investment portfolio 5% per issuer	16
Corporate bonds	15% of investment portfolio 5% per issuer	10
Money market mutual funds	15% of investment portfolio 5% per issuer	10
		<u>100%</u>

(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 segmented time method is utilized to disclose information regarding interest rate risk. The segmented time distribution interest rate risk information is provided in the investment table within this note.

As a means of limiting its exposure to fair value losses arising from rising interest rates, Anchorage's Central Treasury investment policy requires investments with maturities exceeding two years to be specifically authorized in writing by the Chief Fiscal Officer and be reviewed by an investment advisory commission. As of December 31, 2006, Anchorage had no Central Treasury investments with maturities in excess of two years.

As of December 31, 2006, Anchorage Central Treasury had corporate notes of \$40,278,980 which have floating interest rates. The corporate notes have maturities not exceeding two years and interest rate adjustments occur every three months.

(c) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

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

Notes to Basic Financial Statements

December 31, 2006, and 2005

As of December 31, 2006, Anchorage's Central Treasury investments in commercial paper had maturities of less than nine months and were rated as follows:

	Fair value	Moody's	Standard and poor's
\$	27,274,902	P-1	A-1+
	38,149,353	P-1	A-1

As of December 31, 2006, Anchorage's Central Treasury's investments in corporate notes were rated as follows:

	Fair value	Moody's	Standard and poor's
\$	8,005,600	Aaa	AAA
	7,504,650	Aa1	AA+
	3,755,100	Aa2	AA
	10,006,250	Aa3	AA-
	6,000,180	NA	A+
	5,007,200	NA	AA-

Repurchase agreement investments were collateralized through tri-party collateral agreements with securities 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 and in an amount having a market value not less than the repurchase agreement investment amounts.

(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 net assets excluding U.S. Government, mutual funds, or other pooled investments.

At December 31, 2006, all investments were in compliance with its investment policies relating to concentration of credit risk and investment allocation with no investments in any single issuer exceeding 5% of total investment market value.

(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.

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

Notes to Basic Financial Statements

December 31, 2006, and 2005

To mitigate custodial credit risk, Anchorage policy requires that all deposits be fully insured or collateralized through a tri-party agreement as described in the Anchorage Central Treasury Section of this note.

(f) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Anchorage has no specific policy addressing foreign currency risk; however foreign currency risk is managed through the asset allocation policies listed above.

As of December 31, 2006, MOA Central Treasury's exposure to foreign currency risk is as follows and represents approximately 7% of total portfolio value:

<u>Investment type</u>	<u>Currency</u>	<u>Fair value</u>
Corporate note:		
Britannia Building	British pound	\$ 9,068,031
Nationwide Building	British pound	20,200,865
		<u>\$ 29,268,896</u>

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

Notes to Basic Financial Statements

December 31, 2006, and 2005

(3) Capital Assets

Capital assets for the year ended December 31, 2006 follow:

	<u>December 31, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2006</u>
Miscellaneous intangible plant	\$ 396,105	724,001	—	1,120,106
Source of supply plant	46,430,803	(687,150)	—	45,743,653
Pumping plant	4,780,974	1,985	—	4,782,959
Water treatment plant	74,624,249	63,648	—	74,687,897
Transmission and distribution plant	392,204,733	7,841,112	(469,603)	399,576,242
General plant – land	—	762,256	—	762,256
General plant	<u>38,291,585</u>	<u>5,065,763</u>	<u>(1,826,244)</u>	<u>41,531,104</u>
Total plant in service, gross	556,728,449	13,771,615	(2,295,847)	568,204,217
Less accumulated depreciation	<u>(180,286,887)</u>	<u>(11,449,833)</u>	<u>2,295,847</u>	<u>(189,440,873)</u>
Net plant in service	376,441,562	2,321,782	—	378,763,344
Plant acquisition adjustment	3,321,944	—	—	3,321,944
Less accumulated amortization	(1,331,825)	(114,777)	—	(1,446,602)
Plant held for future use	2,072,931	—	(87,312)	1,985,619
Construction work in progress	<u>11,599,789</u>	<u>27,510,596</u>	<u>(12,601,611)</u>	<u>26,508,774</u>
Total net capital assets	<u>\$ 392,104,401</u>	<u>29,717,601</u>	<u>(12,688,923)</u>	<u>409,133,079</u>

The Utility's 2007 construction budget is \$35,000,000.

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

Notes to Basic Financial Statements

December 31, 2006, and 2005

Capital assets for the year ended December 31, 2005 follow:

	<u>December 31, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2005</u>
Miscellaneous intangible plant	\$ 337,323	58,782	—	396,105
Source of supply plant	46,430,803	—	—	46,430,803
Pumping plant	4,702,515	78,459	—	4,780,974
Water treatment plant	74,361,392	262,857	—	74,624,249
Transmission and distribution plant	382,590,579	9,841,751	(227,597)	392,204,733
General plant	<u>30,948,642</u>	<u>8,851,374</u>	<u>(1,508,431)</u>	<u>38,291,585</u>
Total plant in service, gross	539,371,254	19,093,223	(1,736,028)	556,728,449
Less accumulated depreciation	<u>(170,672,440)</u>	<u>(11,350,475)</u>	<u>1,736,028</u>	<u>(180,286,887)</u>
Net plant in service	368,698,814	7,742,748	—	376,441,562
Plant acquisition adjustment	3,321,944	—	—	3,321,944
Less accumulated amortization	(1,217,049)	(114,776)	—	(1,331,825)
Plant held for future use	2,072,931	—	—	2,072,931
Construction work in progress	<u>13,602,943</u>	<u>15,438,220</u>	<u>(17,441,374)</u>	<u>11,599,789</u>
Total net capital assets	<u>\$ 386,479,583</u>	<u>23,066,192</u>	<u>(17,441,374)</u>	<u>392,104,401</u>

(4) Long-Term Obligations

(a) Long-Term Obligations Issued

The Utility issues revenue bonds to provide funds for capital construction and refunding of earlier bond issues. These bonds are generally issued as 20-year serial bonds with varying amounts of principal maturing each year. During 2006, the Utility issued no revenue bonds.

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 are to be repaid within 20 years of the initiation of operation of the facilities. In 2006, the Utility obtained additional low interest loans of \$6,874,977.

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

Notes to Basic Financial Statements

December 31, 2006, and 2005

Long-term obligations outstanding at December 31, 2006 follow:

Description	Original issue date	Total issue amount	Interest rates	Maturity range	Principal balance December 31
Revenue bonds:					
1998 Senior Lien Water Revenue and Refunding Bonds	6/1/1998	\$ 28,930,000	4.50 – 5.25%	1998 – 2014	\$ 16,965,000
1999 Water Revenue and Refunding Bonds	10/15/1999	68,515,000	4.30 – 6.00%	2000 – 2019	57,850,000
2004 Water Revenue and Refunding Bonds	5/26/2004	18,595,000	2.00 – 5.125%	2005 – 2034	16,150,000
2004 Junior Lien Water Revenue Bonds	10/12/2004	2,000,000	4.35%	2014	1,990,000
Total revenue bonds		<u>118,040,000</u>			<u>92,955,000</u>
Assessment bonds:					
Consolidated Special Assess District #3	11/1/1990	906,489	7.625 – 8.00%	1992 – 2010	101,187
Total assessment bonds		<u>906,489</u>			<u>101,187</u>
Long-term loans:					
127201 Airport Water Project, Phase 1B	9/1/1999	2,334,756	2.50	2000 – 2019	1,653,837
127231 Eagle River Reservoir/Water Transmission Mains	6/6/2000	2,000,000	2.50	2002 – 2021	1,588,460
127241 Anchorage Loop Water Transmission Main Phase V	7/25/2000	5,039,233	2.50	2002 – 2021	4,015,996
127251 Service Reservoir No. 6	7/25/2000	3,723,056	2.50	2002 – 2021	2,959,626
127321 Disinfection Alternative Water Upgrades	3/12/2002	755,000	2.50	2002 – 2021	607,894
127381 South Addition Woodstave Upgrades	8/27/2001	922,354	2.50	2004 – 2023	789,148
127411 Anchorage Loop Water Transmission Main Phase VI	3/2/2001	1,305,776	2.50	2002 – 2021	1,040,023
127471 SCADA Water	8/4/2004	4,000,000	2.50	2006 – 2025	3,843,411
127491 Girdwood Water Supply Improvements	6/23/2004	2,135,300	2.50	2008 – 2027 *	2,005,665
127531 Anchorage Loop Water Transmission Main Phase IV	10/31/2006	1,024,325	2.50	2008 – 2027 *	1,024,325
127541 SCADA Water II	12/1/2004	6,500,000	2.50	2008 – 2027 *	6,500,000
127571 88th Ave Water Transmission Main	10/31/2006	1,818,986	2.50	2008 – 2027 *	1,818,986
127731 Arctic 32nd – 36th Water Upgrade	11/24/2006	252,596	2.50	2008 – 2027 *	252,596
127781 Sullivan-Ben Boeke Water Upgrade	10/9/2006	1,779,070	2.50	2008 – 2027 *	1,779,070
Total long-term loans		<u>33,590,452</u>			<u>29,879,037</u>
Total long-term debt		<u>\$ 152,536,941</u>			<u>\$ 122,935,224</u>

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

(b) Revenue Bond Coverage Requirements

The revenue bond covenants require the establishment of reserves over five years at least equal to the maximum annual debt service on all outstanding bonds. The revenue bond covenants further stipulate that operating income before depreciation for each year will be equal to at least 1.35 times the debt service requirements for issues prior to 1999; subsequent issues require 1.15 times.

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

Notes to Basic Financial Statements

December 31, 2006, and 2005

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

Year	Revenue (1)	Assessment collections (2)	Operating expenses (3)	Amount available for debt service	Current year debt service requirements (accrual basis)			Coverage (4)
					Principal	Interest	Total	
1997	\$ 28,932,947	720,203	14,060,747	15,592,403	1,910,000	2,536,775	4,446,775	3.51
1998	29,414,571	1,275,631	13,693,825	16,996,377	2,405,000	1,805,140	4,210,140	4.04
1999	30,381,736	763,343	14,511,524	16,633,555	2,490,000	1,991,279	4,481,279	3.71
2000	31,068,412	544,581	14,286,981	17,326,012	4,415,000	5,267,792	9,682,792	1.79
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	19,387,667	20,698,239	5,375,000	5,174,576	10,549,576	1.96

(1) Excludes interest restricted for construction, interest on advanced grants, amortization of premiums on investments, and intergovernmental revenue.

(2) Assessment collections represent payments made by benefited property owners.

(3) Excludes depreciation.

(4) Required minimum coverage 1.35 for bonds issued prior to 1999, 1.15 times for bonds in subsequent years.

(c) Debt Service Requirements

Debt service requirements to maturity are as follows:

Year	Revenue bonds		Special assessments		Long-term loans		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2007	\$ 3,960,000	4,979,176	64,391	8,095	885,643	412,460	10,309,765
2008	4,145,000	4,785,016	9,199	2,944	1,553,889	782,990	11,279,038
2009	3,985,000	4,585,716	13,799	2,208	1,577,357	685,987	10,850,067
2010	4,525,000	4,378,294	13,798	1,104	1,601,412	646,553	11,166,161
2011	4,360,000	4,158,466	—	—	1,626,068	606,518	10,751,052
2012-2016	25,630,000	16,866,403	—	—	8,522,303	2,409,944	53,428,650
2017-2021	21,680,000	10,874,007	—	—	8,933,088	1,313,516	42,800,611
2022-2026	14,935,000	4,478,794	—	—	4,485,008	409,074	24,307,876
2027-2031	6,850,000	1,620,782	—	—	694,269	17,357	9,182,408
2032-2034	2,885,000	226,653	—	—	—	—	3,111,653
	92,955,000	\$ 56,953,307	101,187	14,351	29,879,037	7,284,399	187,187,281
	(3,960,000)		—		(885,643)		Current portion of principal
	(1,684,339)		(326)		—		Unamortized discounts
	(4,177,941)		—		—		Unamortized loss
	\$ 83,132,720		100,861		28,993,394		Total long-term portion

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

Notes to Basic Financial Statements

December 31, 2006, and 2005

(d) Debt Obligations

Debt obligations for the years ending December 31 follow:

Description	December 31, 2005	Additions	Deletions	December 31, 2006	Amounts due within one year
Revenue bonds	\$ 98,340,000	—	(5,385,000)	92,955,000	3,960,000
Assessment bonds	176,379	—	(75,192)	101,187	—
Long-term loans	23,934,853	6,874,977	(930,793)	29,879,037	885,643
Net pension obligation	684,814	225,120	—	909,934	—
Compensated absences	1,059,297	1,018,227	(957,384)	1,120,140	959,384
Total debt	124,195,343	8,118,324	(7,348,369)	124,965,298	\$ 5,805,027
Unamortized discounts	(1,860,778)	—	176,113	(1,684,665)	
Unamortized loss	(4,698,253)	—	520,312	(4,177,941)	
Total debt, net of discounts	\$ 117,636,312	8,118,324	(6,651,944)	119,102,692	

Description	December 31, 2004	Additions	Deletions	December 31, 2005	Amounts due within one year
Revenue bonds	\$ 103,525,000	—	(5,185,000)	98,340,000	5,375,000
Assessment bonds	261,571	—	(85,192)	176,379	—
Long-term loans	22,666,824	2,024,485	(756,456)	23,934,853	774,204
Net pension obligation	230,547	454,267	—	684,814	—
Compensated absences	1,080,825	829,252	(850,780)	1,059,297	850,781
Total debt	127,764,767	3,308,004	(6,877,428)	124,195,343	\$ 6,999,985
Unamortized discounts	(2,036,053)	—	175,275	(1,860,778)	
Unamortized loss	(5,266,175)	—	567,922	(4,698,253)	
Total debt, net of discounts	\$ 120,462,539	3,308,004	(6,134,231)	117,636,312	

(5) Refunded Bond Issues

The Utility follows the provisions of Governmental Accounting Standards Board Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities* (GASB 23). 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.

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

Notes to Basic Financial Statements

December 31, 2006, and 2005

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, 2006, the following are considered defeased:

Revenue bonds	\$	27,110,000
General obligation bonds		<u>61,345,000</u>
	\$	<u><u>88,455,000</u></u>

(6) Deferred Liabilities

Contributions in Aid of Construction (CIAC) for the years ending December 31 follow:

	<u>December 31, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2006</u>
Contributed plant:				
Customer:				
Special assessments	\$ 46,477,369	195,562	—	46,672,931
Private development	119,698,846	1,216,717	(252,120)	120,663,443
Other	3,168,072	—	—	3,168,072
Intergovernmental	<u>175,374,850</u>	<u>7,243,376</u>	<u>(46,578)</u>	<u>182,571,648</u>
Total CIAC, gross	<u>344,719,137</u>	<u>8,655,655</u>	<u>(298,698)</u>	<u>353,076,094</u>
Accumulated amortization:				
Customer	(66,720,050)	(2,480,466)	252,120	(68,948,396)
Intergovernmental	<u>(49,178,170)</u>	<u>(3,051,908)</u>	<u>46,578</u>	<u>(52,183,500)</u>
Total amortization	<u>(115,898,220)</u>	<u>(5,532,374)</u>	<u>298,698</u>	<u>(121,131,896)</u>
Net CIAC	<u>\$ 228,820,917</u>	<u>3,123,281</u>	<u>—</u>	<u>231,944,198</u>

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

Notes to Basic Financial Statements

December 31, 2006, and 2005

	December 31, 2004	Additions	Deletions	December 31, 2005
Contributed plant:				
Customer:				
Special assessments	\$ 46,330,245	271,733	(124,609)	46,477,369
Private development	118,293,373	1,421,920	(16,447)	119,698,846
Other	3,168,072	—	—	3,168,072
Intergovernmental	174,069,172	1,564,973	(259,295)	175,374,850
Paid in capital	319,185	—	(319,185)	—
Total CIAC, gross	342,180,047	3,258,626	(719,536)	344,719,137
Accumulated amortization:				
Customer	(64,403,577)	(2,457,529)	141,056	(66,720,050)
Intergovernmental	(46,209,338)	(3,228,127)	259,295	(49,178,170)
Paid in capital	—	(319,185)	319,185	—
Total amortization	(110,612,915)	(6,004,841)	719,536	(115,898,220)
Net CIAC	\$ 231,567,132	(2,746,215)	—	228,820,917

(7) Net Assets

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

	2006	2005
Net capital assets	\$ 409,133,079	392,104,401
Less net revenue bonds payable, long-term	83,132,720	86,409,181
Net special assessment bonds payable, long-term	100,861	173,167
Alaska drinking water loan payable, long-term	28,993,394	23,160,649
Long-term obligations maturing within one year	4,845,643	6,149,204
Interfund payable – capital projects fund	11,524,671	4,118,118
Contributions in aid of construction, net	231,944,198	228,820,917
	\$ 48,591,592	43,273,165

Net assets restricted for debt service is comprised of the following:

	2006	2005
Revenue bond debt service investments	\$ 4,716,279	5,333,811
Less accrued interest to be paid from bond debt service investment	127,520	135,129
	\$ 4,588,759	5,198,682

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

Notes to Basic Financial Statements

December 31, 2006, and 2005

(8) Retirement Plan

State of Alaska Public Employees' Retirement System

(a) Plan Description

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, agent multiple-employer 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 retirement plan that includes a component of defined benefit post-employment health care. Both plans were established and are administered by the State of Alaska (State) to provide pension, post employment healthcare, death and disability benefits to eligible employees.

All full-time Utility employees are eligible to participate in PERS. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

Each fiscal year, PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

(b) Funding Policy and Annual Pension Cost – PERS Tier I – III Defined Benefit Plan

Employee contribution rates are 6.75% as required by State statute. The funding policy for PERS provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due.

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

Notes to Basic Financial Statements

December 31, 2006, and 2005

The Utility's annual pension cost for the current year and the related information is as follows:

	Tier I – III Pension
Contribution rates:	
Employee – 1/1/06-6/30/06	3.98%
Employee – 7/1/06-12/31/06	3.98
Employer – actuarially required 1/1/06-6/30/06	14.67
Employer – actuarially required 7/1/06-12/31/06	17.03
Employer – adjusted actual 1/1/06-6/30/06	4.94
Employer – adjusted actual 7/1/06-12/31/06	10.84
Actuarial valuation date 1/1/06-6/30/06	June 30, 2003
Actuarial valuation date 7/1/06-12/31/06	June 30, 2004
Actuarial cost method	Projected unit credit
Amortization method	Level dollar, open
Amortization period	Fixed 25 years
Asset valuation method	Market value
Actuarial assumptions:	
Inflation rate	3.50%
Investment return	8.25
Projected salary increase:	
Inflation	3.50
Productivity and merit	2.00
Health cost trend	N/A

The components of annual pension cost for the year ended December 31, 2006 are as follows:

	Tier I – III Pension
Annual required contribution (ARC)	\$ 1,341,637
Interest on the net pension obligation (NPO)	49,724
Adjustment to the ARC	(38,673)
Annual pension cost (APC)	1,352,688
Contribution made	1,045,467
Increase in NPO	307,221
NPO, beginning of year	684,814
Adjustment for re-allocation of NPO between Water and Wastewater Utilities	(86,308)
Adjustment for 2005 interest and ARC adjustment	4,207
NPO, beginning of year, as adjusted	602,713
NPO, end of year	\$ 909,934

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

Notes to Basic Financial Statements

December 31, 2006, and 2005

Three year trend information follows:

<u>Pension</u>	<u>APC</u>	<u>Percentage of APC contributed</u>	<u>NPO</u>
Year ended June 30:			
2004	\$ 703,101	71%	\$ 200,822
2005	1,151,161	65	602,713
2006	1,352,688	77	909,934

Annual covered payroll was \$8,433,473 and \$8,089,848 for the years ended December 31, 2006 and 2005, respectively.

The following represents the Schedule of Funding Progress for the Municipality of Anchorage, including the Utility, in total (in thousands). Funding information is not available for the Utility exclusively.

**Schedule of Funding Progress – Municipality of Anchorage
Required Supplementary Information (unaudited)**

	<u>Actuarial valuation, year ended June 30</u>	<u>Actuarial value of plan assets</u>	<u>Actuarial accrued liability (AAL)</u>	<u>Unfunded Actuarial accrued liability (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
Pension benefits	2003	\$ 396,744	534,420	137,676	74%	\$ 124,211	111%
	2004	402,824	571,767	168,943	70	118,474	143
	2005	422,067	645,658	223,591	65	141,184	158

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

Notes to Basic Financial Statements

December 31, 2006, and 2005

(c) Funding Policy and Annual Pension Cost – PERS Tier IV Retirement Plan

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

	Tier IV
Employee contribution	8.00%
Employer contribution:	
Retirement	5.00
Health reimbursement arrangement*	3.00
Retiree Medical Plan	1.75
Death and disability benefit	0.30
Total employer contribution	10.05%

* Health Reimbursement Arrangement – AS 39.30.370 requires the employer to 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 of \$66.78 per full time employee per pay period and \$1.11 per hour worked for each part time employee.

For the year ended December 31, 2006, the Utility contributed \$2,290 to PERS Tier IV for retirement and retiree medical, and contributed \$987 to PERS Tier IV for the Health Reimbursement Arrangement on behalf of its employees. Employee contributions to the plan totaled \$2,422.

(d) On-Behalf Payments

During 2006 the State of Alaska contributed \$422,673 for pension and post-employment healthcare to the PERS I – III plan on behalf of the Utility. These payments have been recognized as revenues and expenses for 2006.

(9) Contingencies

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

(10) Environmental Issues

The Utility has adopted an aggressive pro-active policy designed to identify and mitigate the potential effects of past, present, and future activity that may result in environmental impact. The Utility records a liability when the likelihood of responsibility for an environmental impact is probable and the cost of mitigating the impact is estimable within reasonable limits.

MUNICIPALITY OF ANCHORAGE, ALASKA
WATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2006, and 2005

(11) Regulatory Matters

(a) 2004/2005 Rate Case

The Utility filed a two-stage rate increase with the Regulatory Commission of Alaska (RCA) on January 9, 2004, requesting permanent rate increases of 14.20% and 7.17% for 2004 and 2005, respectively. The RCA approved 13.61% and 7.76% interim refundable rate increases effective February 24, 2004 and February 18, 2005, respectively. On July 8, 2005, the RCA accepted a stipulation between the Regulatory Affairs and Public Advocacy (RAPA) section of the Attorney General, the only intervener to the rate case, and AWWU settling all issues except MUSA on contributed plant. On September 2, 2005 the RCA issued an order establishing the Utility's revenue requirement that excluded MUSA on contributed plant, and requiring a recalculated revenue requirement, a refund calculation, a proposed timeline for refunds, and new tariff sheets. The Utility filed an appeal with the Alaska Superior Court (Court). On December 21, 2005, the Court issued a stay of the RCA's final order, allowing the Utility to continue collecting MUSA on contributed plant in interim rates pending resolution of the appeal. Revenues collected subject to refund approximate \$8,700,000 through December 31, 2006.

The Utility vigorously pursued its appeal and its suit to permit the inclusion of MUSA on contributed plant in its rates. AWWU's opening brief was filed on June 6, 2006, reply brief was filed on September 18, 2006, and oral arguments were heard before the Court on March 1, 2007. On June 25, 2007, the Court upheld the RCA's earlier order. The Utility plans to appeal this ruling. The Utility believes that the chance of it ultimately being required to refund the revenue collected is reasonably possible, but not probable, and therefore has not recorded a liability for a refund payable.

(b) 2006 Rate Case

The Utility filed a rate case with the RCA on November 10, 2005, requesting a permanent rate increase of 8.9% effective January 1, 2006. RAPA was the only intervener to this rate case. On December 27, 2005, the RCA rejected the filing, citing the lack of a corresponding Cost of Service Study (COSS). The Utility refiled its 2006 rate case, including a COSS, on February 17, 2006. On March 15, 2006, the RCA again rejected the filing, stating that the requirements of the order had not been satisfied because the COSS, though complete, was marked draft and subject to change pending the outcome of local public process. The AWWU Board held a public hearing and approved the recommendation of the study that no cost of service adjustments were necessary to the Utility's rate design. The Utility then refiled its 2006 rate case and COSS on April 14, 2006, requesting for the third time an 8.9% across the board interim and refundable rate increase. On May 30, 2006 the RCA issued an order granting the full interim rates. The RCA hearing was held on January 16 through 18, 2007. Contested issues presented to the RCA at the hearing included return on equity, whether the Utility's known and measurable PERS costs should be recoverable through rates, and other smaller operating expense items. These contested issues total \$2.4 million on an annualized basis, excluding the impact of the MUSA dispute. AWWU expects an order by July 1, 2007. The Utility believes that the chance of it ultimately being required to refund the revenue collected is reasonably possible, but not probable, and therefore has not recorded a liability for a refund payable.

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

Notes to Basic Financial Statements

December 31, 2006, and 2005

(c) 2007 Rate Case

The Utility filed a rate case with the RCA on November 1, 2006 requesting a permanent rate increase of 14.5% effective January 1, 2007. At the same time, AWU requested a 7.0% interim rate increase effective January 1, 2007 if the RCA decided to suspend the filing for further review. On December 18, 2006 the RCA consolidated the AWU and ASU rate cases into one docket, suspended the filings, and granted AWU interim refundable rates effective January 1, 2007. RAPA is once again the only intervener to this rate case. The RCA hearing for this rate case is scheduled to begin October 29, 2007.

STATISTICAL SECTION

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

Statistical Section (unaudited)

Financial Ratios

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Financial ratios:					
Current ratio (current assets/current liabilities)	0.98	1.51	1.55	0.82	1.02
Quick ratio (quick assets/current liabilities)	0.89	1.39	1.40	0.74	0.94
Return on Investment (change in net assets/total assets)	0.8%	0.4%	0.7%	0.8%	1.0%
Return on Equity (change in net assets/net assets)	4.8	2.3	4.9	5.3	6.9
Debt to equity as a percent of capital structure (Outstanding debt/ capital structure over net assets/capital structure)	<u>63%</u> 37%	<u>64%</u> 36%	<u>65%</u> 35%	<u>62%</u> 38%	<u>64%</u> 36%
Operating margin (operating income/operating revenues)	0.35	0.37	0.32	0.34	0.36
Revenue bond debt coverage (amount available for revenue bond debt service/revenue bond principal & interest)	1.96	1.98	1.74	1.63	1.70
Weighted cost of long term debt	5.41%	5.61%	5.01%	5.23%	5.24%

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

Statistical Section (unaudited)
Table 1

Total Accounts

<u>Type of service</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Residential	50,832	50,428	49,788	49,174	48,420
Commercial	3,484	3,478	3,416	3,403	3,342
Total	<u>54,316</u>	<u>53,906</u>	<u>53,204</u>	<u>52,577</u>	<u>51,762</u>
Growth rate	0.76%	1.32%	1.19%	1.57%	

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

Statistical Section (unaudited)
Table 2

Current water Rates

<u>Type of Service</u>	<u>2007⁽¹⁾</u>	<u>2006⁽²⁾</u>	<u>2005⁽³⁾</u>
Metered:			
Customer charge (per account)	\$ 9.65	9.00	8.25
Meter rate			
(Depending on meter size ranging between 5/8" to 8")	4.80 to 254.55	4.50 to 237.90	4.15 to 218.45
Meter usage rate (per 1,000 gallons):			
Residential	3.73	3.48	3.20
Commercial	3.73	3.48	3.20
Unmetered:			
Customer charge (per account)	9.65	9.00	8.25
Residential (per unit)	26.85	25.10	23.05
Commercial:			
3/4"	38.05	35.55	32.65
1"	76.70	71.70	65.85
1 1/2"	200.55	187.45	172.15
2"	363.20	339.45	311.70

⁽¹⁾ Rates effective 1/1/07

⁽²⁾ Rates effective 6/5/06

⁽³⁾ Rates effective 8/1/05

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

Statistical Section (unaudited)
Table 3

Revenues and Expenses – Budget to Actual

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable / (Unfavorable)</u>
Operating revenues:			
Residential sales	\$ 27,860,000	26,715,769	(1,144,231)
Commercial sales	8,340,000	7,705,635	(634,365)
Public fire protection	3,400,000	3,159,859	(240,141)
Hydrant use charges	290,000	228,126	(61,874)
Miscellaneous use charges	1,020,000	1,004,559	(15,441)
Total operating revenues	<u>40,910,000</u>	<u>38,813,948</u>	<u>(2,096,052)</u>
Nonoperating revenues:			
Investment income – short-term investments	10,000	639,014	629,014
Intergovernmental revenue	—	422,673	422,673
Water property rental	30,000	27,500	(2,500)
Total nonoperating revenues	<u>40,000</u>	<u>1,089,187</u>	<u>1,049,187</u>
Total revenues	<u>\$ 40,950,000</u>	<u>39,903,135</u>	<u>(1,046,865)</u>
Expenses:			
Source of supply expense:			
Operations	\$ 2,727,000	2,207,040	519,960
Maintenance	303,000	283,929	19,071
Total source of supply	<u>3,030,000</u>	<u>2,490,969</u>	<u>539,031</u>
Water treatment expense:			
Operations	3,384,000	3,109,713	274,287
Maintenance	376,000	398,647	(22,647)
Total treatment	<u>3,760,000</u>	<u>3,508,360</u>	<u>251,640</u>
Transmission and distribution expense:			
Operations	1,990,800	1,620,627	370,173
Maintenance	3,539,200	3,562,007	(22,807)
Total transmission and distribution	<u>5,530,000</u>	<u>5,182,634</u>	<u>347,366</u>
Customer accounts expense	2,610,000	2,089,651	520,349
Administrative and general expense	6,400,000	6,116,053	283,947
Depreciation – non-contributed plant	6,820,000	6,032,236	787,764
Total operating expenses	<u>28,150,000</u>	<u>25,419,903</u>	<u>2,730,097</u>
Other expense:			
Municipal utility service assessment	5,920,000	5,477,567	442,433
Interest on long-term obligations	7,300,000	5,712,363	1,587,637
Amortization of debt expense	720,000	717,052	2,948
Allowance for funds used during construction	(1,170,000)	(704,299)	(465,701)
Total other expenses	<u>12,770,000</u>	<u>11,202,683</u>	<u>1,567,317</u>
Total expenses	<u>40,920,000</u>	<u>36,622,586</u>	<u>4,297,414</u>
Increase in net assets	<u>\$ 30,000</u>	<u>3,280,549</u>	<u>3,250,549</u>

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

Statistical Section (unaudited)
Table 4

Debt Principal by Issue

Original Issue Date	Description	Total Issue Amount	December 31 2005 Principal Balance	2006 New (Retired) Debt	2006 Principal Payments	December 31 2006 Principal Balance	Current Portion
Revenue Bonds:							
06/01/98	1998 S. L. water ref.	\$ 25,070,000	16,145,000	—	1,460,000	14,685,000	1,530,000
06/01/98	1998 S. L. water ref.	3,860,000	2,505,000	—	225,000	2,280,000	240,000
10/15/99	1999 Wtr ref rev bond	53,060,000	45,645,000	—	1,330,000	44,315,000	1,385,000
10/15/99	1999 Wtr ref rev bond	15,455,000	13,820,000	—	285,000	13,535,000	300,000
05/26/04	2004 Rev refunding	18,595,000	18,225,000	—	2,075,000	16,150,000	505,000
10/12/04	2004 Rev mini-bond	2,000,000	2,000,000	(3,063)	6,937	1,990,000	—
	Total revenue bonds	118,040,000	98,340,000	(3,063)	5,381,937	92,955,000	3,960,000
Assessment Bonds:							
04/01/90	Con spl assmnt dist #2	590,770	20,000	—	20,000	—	—
11/01/90	Con spl assmnt dist #3	906,489	156,379	—	55,192	101,187	—
	Total assessment bonds	1,497,259	176,379	—	75,192	101,187	—
Alaska Drinking Water (ADW) Loans:							
09/01/99	127201 – Airport 1B	2,334,756	1,760,405	—	106,568	1,653,837	109,233
06/06/00	127231 – ER Reservoir	2,000,000	1,674,882	—	86,422	1,588,460	88,583
07/25/00	127241 – Anch Loop Phase V	5,039,233	4,234,492	—	218,496	4,015,996	223,958
07/25/00	127251 – Service Reservoir	3,723,056	3,120,648	—	161,022	2,959,626	165,048
03/12/02	127321 – Disinfect Alt Upgrade	755,000	640,968	—	33,074	607,894	33,900
08/27/01	127381 – South Add Woodstave	922,354	835,568	—	46,420	789,148	46,420
03/02/01	127411 – Anch Loop Phase VI	1,305,776	1,096,607	—	56,584	1,040,023	57,998
08/04/04	127471 – SCADA Water	4,000,000	4,000,000	—	156,589	3,843,411	160,503
06/23/04	127491 – GW Supply Improv I,II,III	2,135,300	1,571,283	500,000	65,618	2,005,665	—
10/31/06	127531 – Anch Loop Phase IV	1,024,325	—	1,024,325	—	1,024,325	—
12/01/04	127541 – SCADA Water II	6,500,000	5,000,000	1,500,000	—	6,500,000	—
10/31/06	127571 – 88th Ave. Main	1,818,986	—	1,818,986	—	1,818,986	—
11/24/06	127731 – Arctic Upgrade	252,596	—	252,596	—	252,596	—
10/09/06	127781 – Sullivan-Boeke Upgrade	1,779,070	—	1,779,070	—	1,779,070	—
	Total ADW loans	33,590,452	23,934,853	6,874,977	930,793	29,879,037	885,643
	Total debt	\$ 153,127,711	122,451,232	6,871,914	6,387,922	122,935,224	4,845,643

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

Statistical Section (unaudited)
Table 5

Capital Improvement Program

(Dollars in thousands)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	Six year Total
Project category:							
General plant	\$ 8,431	8,458	9,341	10,338	9,861	13,678	60,107
Repair and rehabilitation	13,104	7,926	14,547	8,401	29,031	13,537	86,546
Transmission/distribution	13,262	19,401	7,619	11,711	2,971	7,500	62,464
Improvement districts	203	215	220	220	220	220	1,298
Total	<u>\$ 35,000</u>	<u>36,000</u>	<u>31,727</u>	<u>30,670</u>	<u>42,083</u>	<u>34,935</u>	<u>210,415</u>
Source of funding:							
Debt	\$ 30,000	33,000	28,727	27,670	39,083	31,935	190,415
Equity	5,000	3,000	3,000	3,000	3,000	3,000	20,000
Total	<u>\$ 35,000</u>	<u>36,000</u>	<u>31,727</u>	<u>30,670</u>	<u>42,083</u>	<u>34,935</u>	<u>210,415</u>

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

Statistical Section (unaudited)
Table 6

Production Comparison by Facility

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Water treatment facilities (WTF) production and usage data:				
Water produced yearly (millions of gallons)				
Ship Creek WTF	122.1	130.3	149.6	42.6
Wells	1,442.7	1,697.0	1,947.8	1,301.0
Eklutna WTF	7,964.8	8,276.1	8,300.5	8,100.2
Total	<u>9,529.6</u>	<u>10,103.4</u>	<u>10,397.9</u>	<u>9,443.8</u>
Average daily water demand (Millions of Gallons per Day):				
Ship Creek WTF	0.3	0.4	0.4	0.1
Wells	3.9	4.6	5.3	3.6
Eklutna WTF	21.8	22.6	22.7	22.2
Total	<u>26.0</u>	<u>27.6</u>	<u>28.4</u>	<u>25.9</u>
Minimum daily water demand (All facilities)	18.4	17.2	17.0	17.2
Peak production day:				
Ship Creek WTF	10.1	10.9	12.4	9.0
Wells	14.9	14.2	15.1	15.4
Eklutna WTF	31.5	31.3	33.2	35.1
Total ⁽¹⁾	<u>56.5</u>	<u>56.4</u>	<u>60.7</u>	<u>59.5</u>
Four hour peak demand (All facilities) ⁽²⁾	50.4	81.9	97.4	86.7
	<u>Current Capacity</u>			
Source: Max design capacity				
Million gallons per day (MGD)				
Wells	16			
Ship Creek WTF	24			
Eklutna WTF	35			
Total	<u>75</u>			
Miles of water mains	882	864	808	798
Number of hydrants:				
Public	5,775	5,724	5,645	5,546
Private	1,255	1,115	1,100	1,014

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

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