



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

Basic Financial Statements

December 31, 2006 and 2005

(With Independent Auditors' Report Thereon)

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

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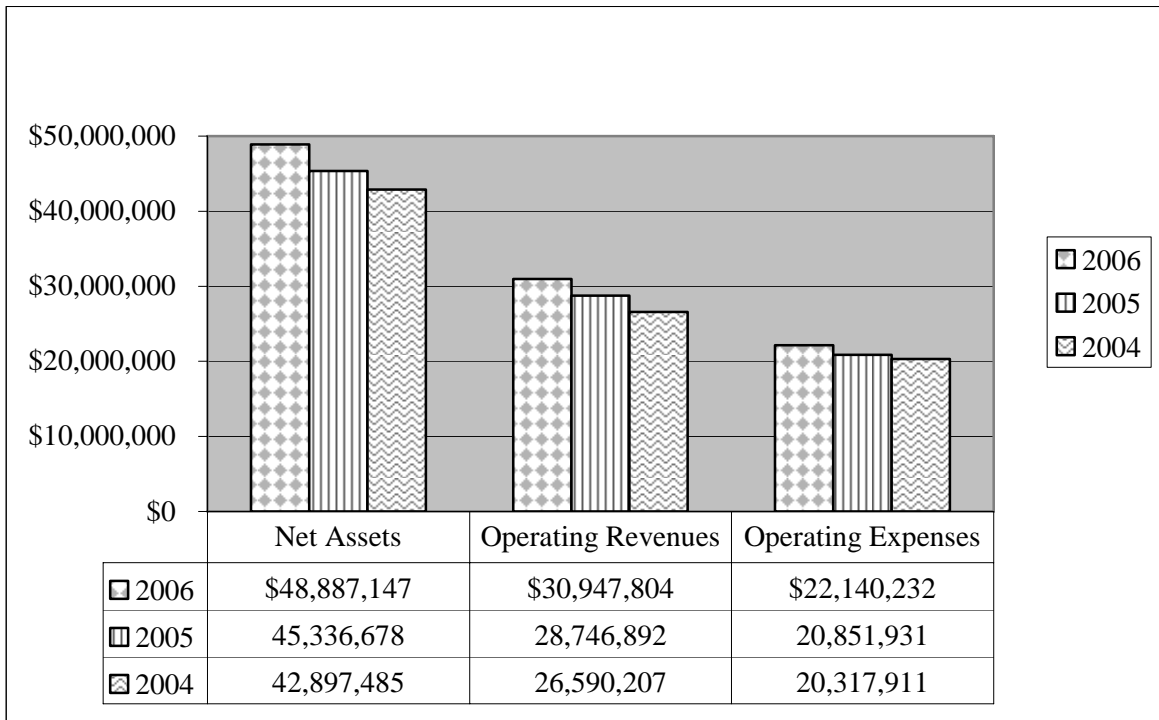
Management's Discussion and Analysis

December 31, 2006 and 2005

This section of the Municipality of Anchorage Wastewater Utility (Utility) annual financial report presents the analysis of the Utility's financial performance during the years ending December 31, 2006 and 2005. Please read it in conjunction with the Utility's financial statements.

Financial Highlights

- Net Capital Assets increased by \$3,700,000, or 1% in 2006 and \$3,040,000, or 1% in 2005.
- Net Assets increased by \$3,550,000, or 8% in 2006 and \$2,440,000, or 6% in 2005.
- Operating Revenues increased by \$2,200,000, or 8% in 2006 and \$2,160,000, or 8% in 2005.
- Operating Expenses increased by \$1,290,000 or 6% in 2006 and \$530,000, or 3% 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.

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 Financial Statements; and

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Management's Discussion and Analysis

December 31, 2006 and 2005

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 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 will need to also consider other non-financial factors such as changes in economic conditions, population growth, the regulatory environment, and new or changed legislation.

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Management's Discussion and Analysis

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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	\$ 283,344,476	279,646,814	276,607,013
Current and other assets	15,651,920	14,713,186	18,238,072
Total assets	<u>298,996,396</u>	<u>294,360,000</u>	<u>294,845,085</u>
Liabilities:			
Net debt outstanding	62,415,986	65,570,183	69,268,779
Current and other liabilities	187,693,263	183,453,139	182,678,821
Total liabilities	<u>250,109,249</u>	<u>249,023,322</u>	<u>251,947,600</u>
Net assets:			
Invested in capital assets net of debt	38,676,658	34,631,669	28,988,076
Restricted	343,448	418,507	2,010,871
Unrestricted	9,867,041	10,286,502	11,898,538
Total net assets	<u>\$ 48,887,147</u>	<u>45,336,678</u>	<u>42,897,485</u>
Change in net assets	\$ 3,550,469	2,439,193	

During 2006, the Utility's total assets increased by \$4.6 million. Net capital assets increased by \$3.7 million due to an increase in construction work in progress. Current and other assets increased by nearly \$1 million mostly due to an increase in the general cash pool.

The Utility's total liabilities have increased by \$1.1 million in 2006. Net debt outstanding decreased by nearly \$3.2 million. Although the Utility received \$2.7 million in long term loans in 2006, it made \$5.9 million in long term debt payments. Current and other liabilities increased primarily due to a \$6.6 million increase in interfund payable (capital projects fund) and a \$3.8 million decrease in contributions in aid of construction, net of amortization.

During 2005, net capital assets increased by \$3.0 million due to increased construction work in progress and capital contributions from private developers. The decrease in current and other assets of \$3.5 million is due to a significant reduction in restricted assets. Restricted assets decreased due to decreases in the construction cash pool of \$2.0 million and revenue bond debt service investments of \$1.6 million. The decrease in total liabilities of \$2.9 million from 2004 is primarily because of a 5% decrease in net debt outstanding. Although no bonds were sold in 2005, \$3.2 million in low interest loans were received from the State of Alaska and \$6.1 million of bond payments were made.

**MUNICIPALITY OF ANCHORAGE, ALASKA
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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 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**

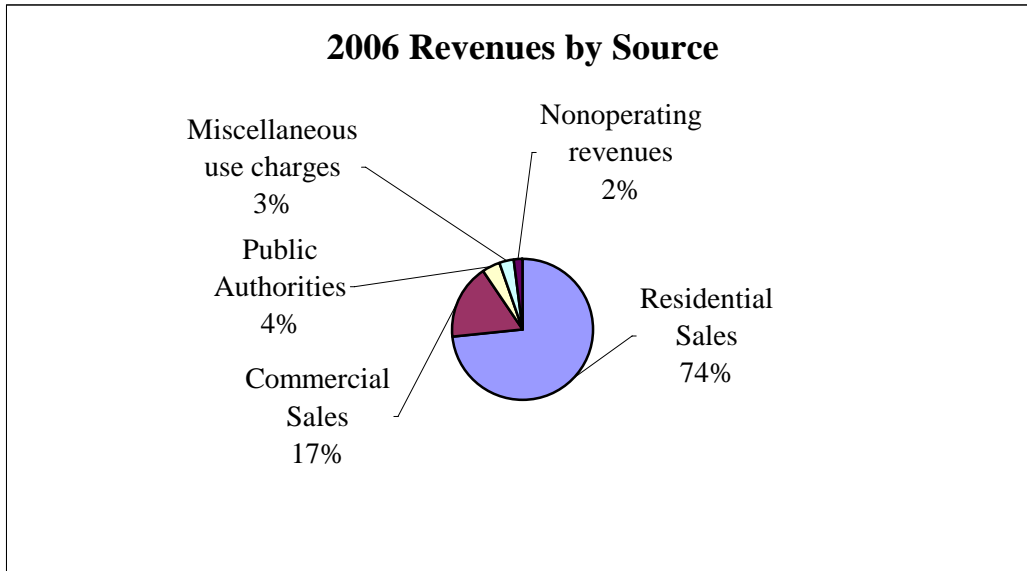
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues:			
Residential sales	\$ 23,120,932	21,902,294	19,845,302
Commercial sales	5,450,412	5,171,140	4,780,645
Public authorities	1,284,405	608,930	866,062
Miscellaneous use charges	1,092,055	1,064,528	1,098,198
Nonoperating revenues	<u>590,251</u>	<u>421,226</u>	<u>211,901</u>
Total revenues	<u>31,538,055</u>	<u>29,168,118</u>	<u>26,802,108</u>
Operating expenses:			
Collection system	2,977,980	3,080,191	2,961,572
Treatment plant	7,154,758	6,345,587	6,035,475
Customer service	1,777,556	1,568,588	1,614,683
Administrative and general	6,041,484	5,407,254	5,210,208
Depreciation	4,188,454	4,450,311	4,495,973
Nonoperating expenses	<u>1,779,355</u>	<u>1,796,565</u>	<u>1,842,608</u>
Total expenses	<u>23,919,587</u>	<u>22,648,496</u>	<u>22,160,519</u>
Income before transfers	7,618,468	6,519,622	4,641,589
Transfer – MUSA payment to Municipality	<u>(4,067,999)</u>	<u>(4,080,429)</u>	<u>(2,290,291)</u>
Change in net assets	3,550,469	2,439,193	2,351,298
Beginning net assets	<u>45,336,678</u>	<u>42,897,485</u>	<u>40,546,187</u>
Ending net assets	<u>\$ 48,887,147</u>	<u>45,336,678</u>	<u>42,897,485</u>

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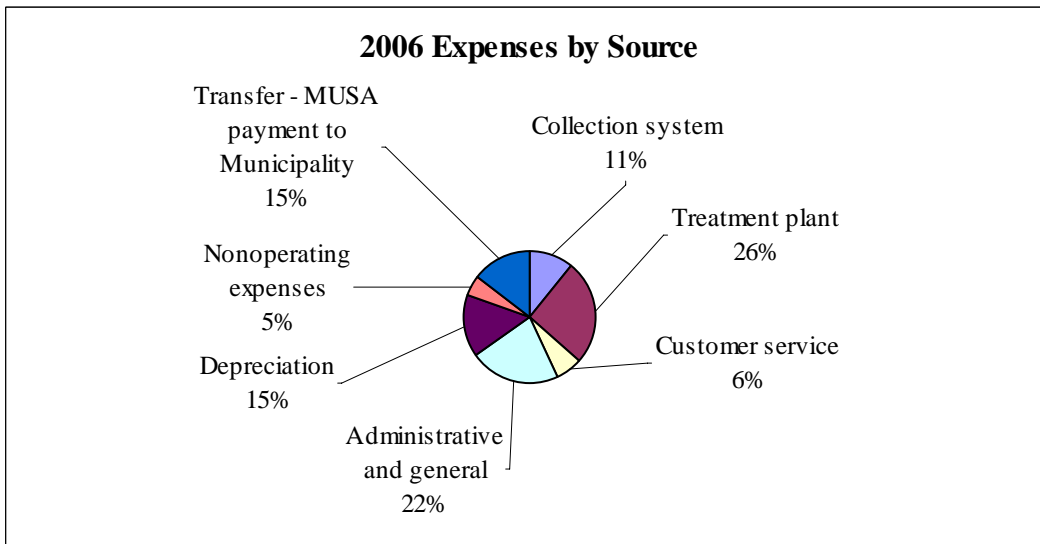
Management's Discussion and Analysis

December 31, 2006 and 2005

Net assets increased during 2006. Operating revenues increased by \$2.2 million from 2005 due to customer growth and a Regulatory Commission of Alaska (RCA) approved interim rate increase of 4.01% effective January 9, 2006, that was increased to 10.6% in June 5, 2006.



Operating expenses increased by less than \$1.3 million from 2005; however, they did not exceed budgeted amounts. A contributing factor is the increase in labor costs, including retirement benefits.



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

December 31, 2006 and 2005

Net assets grew during 2005. Operating revenues increased by \$2.2 million from 2004 due to customer growth and an RCA-approved interim rate increase of 6.83% effective February 18, 2005 through August 1, 2005, after which the increase was reduced to 3.82%. Operating expenses increased by approximately \$500 thousand. Severe winter conditions and increased gas and electric prices played a role in the operating expense 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	\$ 181,892	204,861	127,440
Collection plant	180,944,140	180,934,317	179,453,458
Wastewater treatment plant	60,901,893	62,803,242	54,135,232
General plant land	3,985,212	3,985,212	3,985,212
General plant	<u>25,582,000</u>	<u>23,861,805</u>	<u>18,501,266</u>
Net plant in service	271,595,137	271,789,437	256,202,608
Property held for future use	1,379,931	1,379,931	1,379,931
Construction work in progress	<u>10,369,408</u>	<u>6,477,446</u>	<u>19,024,474</u>
Total net capital plant	<u>\$ 283,344,476</u>	<u>279,646,814</u>	<u>276,607,013</u>
Increase in net capital plant	\$ 3,697,662	3,039,801	

Net capital plant growth increased slightly from 2005 to 2006. Major 2006 additions include:

- Collection Plant \$4.8 million
- General Plant \$4.3 million

Construction work in progress increased by \$3.9 million during 2006 and decreased by \$12.5 million during 2005. The 2006 increase resulted from \$12.4 million in additions partially offset by closures to plant in service of \$8.5 million. The 2005 decrease resulted from \$11.5 million in additions offset by \$24.0 million in closures to plant in service.

Total net capital assets increased \$3.0 million during 2005. Major additions included \$5.8 million in additions to collection plant, \$8.9 million in additions to treatment plant, and \$8.0 million in additions to general plant.

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

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Management's Discussion and Analysis

December 31, 2006 and 2005

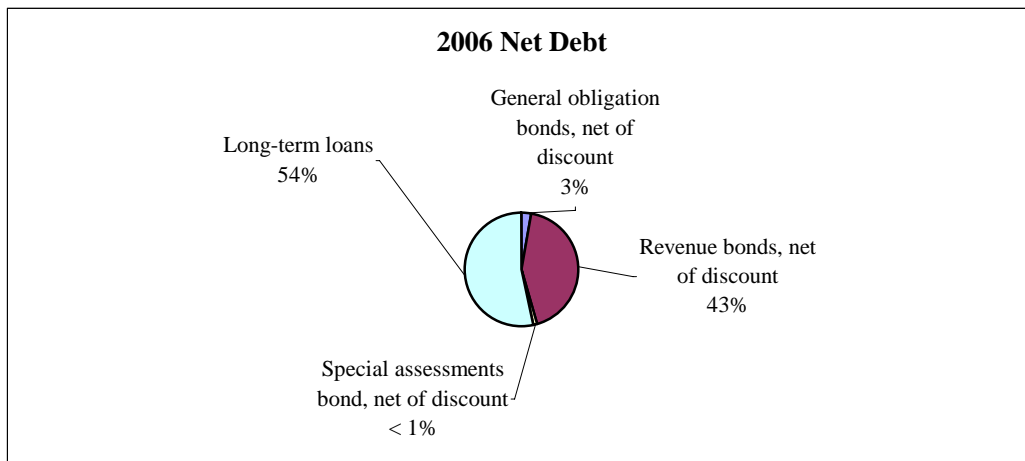
Debt

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>
General obligation bonds, net of discount	\$ 1,798,224	5,858,117	11,269,820
Revenue bonds, net of discount	26,928,818	27,008,298	27,127,888
Special assessments bond, net of discount	8,770	13,279	17,841
Bond total	<u>28,735,812</u>	<u>32,879,694</u>	<u>38,415,549</u>
Long-term loans	<u>33,680,174</u>	<u>32,690,489</u>	<u>30,853,230</u>
Total net debt	<u>\$ 62,415,986</u>	<u>65,570,183</u>	<u>69,268,779</u>
Decrease in net debt	\$ (3,154,197)	(3,698,596)	



During 2006 approximately \$2.7 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 \$4.2 million, while loan payments totaled \$1.7 million. The general obligation bond principal balance decreased \$4.1 million due to the impact of principal payments made.

In 2006, the Utility's net pension obligation increased \$400 thousand due primarily to the actuarially-determined employer contribution rate continuing to exceed the State of Alaska-determined employer contribution rate.

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During 2005, approximately \$3.2 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 \$5.6 million, while loan payments totaled \$1.4 million. The general obligation bond principal balance decreased \$5.5 million due to the impact of principal payments made.

In 2005, the Utility's net pension obligation increased \$300 thousand due 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 25-28 of this report.

Economic Factors and Next Year's Budgets and Rates

The 2007 budget anticipated substantial revenue increases, due to the combined effects of modest customer growth and an anticipated rate increase of 13.0% effective January 1. An interim rate increase was approved by the RCA of 9.5% effective January 1. The proposed permanent rate increase of 13.0% is still under review by the RCA.

Operating expenses were budgeted to increase by 10% 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 85% 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 8.06% and 6.83% for 2004 and 2005, respectively. The RCA approved these 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 in the rate case, and AWWU settling all issues except MUSA on contributed plant. As part of the stipulation, the Utility reduced the interim rates by 3.01%, effective August, 1, 2005. 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. Revenue collected subject to refunds approximated \$4,900,000 through December 31, 2006.

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Management's Discussion and Analysis

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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 revenue requirement study (RRS) with the RCA on November 10, 2005, requesting a permanent rate increase of 10.6% effective January 1, 2006. However, the RCA suspended the filing and eliminated MUSA on contributed plant from interim refundable rates, granting only a 4.01% increase regardless of the Alaska Superior Court stay allowing continued collection of MUSA on contributed plant in interim refundable rates pending resolution of the 2004/2005 rate case appeal. The Utility filed a complaint with the Court, asked that the stay apply to the 2006 rate case, and that the complaint be consolidated with the appeal. On May 26, 2006, the Court issued two Orders. The first Order denied the Utility's request for consolidation. On the second Order, the Court issued a preliminary injunction to require the RCA to immediately allow the Utility to implement requested interim rates. On June 29, 2006 ASU filed a Cost of Service Study (COSS) based on this RRS as ordered by the RCA. On October 2, 2006, ASU and RAPA, the only intervener to the rate case, filed a settlement agreement with the RCA settling all disputed issues in the RRS with the exception of the outstanding MUSA on contributed plant issue. On October 27, 2006 the RCA accepted this agreement. The ASU COSS associated with this rate case is currently under review with a hearing scheduled for October 25, 2007.

2007 Rate Case

The Utility filed a rate case with the RCA on November 1, 2006 requesting a permanent rate increase of 13.0% effective January 1, 2007. At the same time, ASU requested a 9.5% interim rate increase effective January 1, 2007 if the Commission 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 filing, and granted ASU interim refundable rates effective January 1, 2007. RAPA is once again an 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 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 Wastewater 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 Wastewater 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. Our audit included 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 Wastewater Utility Fund of the Municipality of Anchorage'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 Wastewater Utility Fund and do not purport to, and do not, present fairly the financial position of the Municipality of Anchorage, Alaska, as of December 31, 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 Wastewater 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 U.S. generally accepted accounting principles.

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 express no opinion on it.

KPMG LLP

June 27, 2007

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

Balance Sheets

December 31, 2006 and 2005

Assets	2006	2005
Capital assets:		
Plant in service, at cost	\$ 448,450,727	441,182,678
Less accumulated depreciation	<u>(176,855,590)</u>	<u>(169,393,241)</u>
Net plant in service	271,595,137	271,789,437
Plant held for future use	1,379,931	1,379,931
Construction work in progress	<u>10,369,408</u>	<u>6,477,446</u>
Net capital assets	<u>283,344,476</u>	<u>279,646,814</u>
Restricted assets:		
Current:		
Revenue bond debt service investments	495,001	600,060
Noncurrent:		
Customer deposits	473,744	469,218
Special assessment debt service account	<u>10,842</u>	<u>14,926</u>
Total restricted assets	<u>979,587</u>	<u>1,084,204</u>
Current assets:		
Equity in general cash pool	8,596,385	7,853,499
Accrued interest receivable	45,922	98,055
Grants receivable	176,323	70,822
Accounts receivable:		
Utility customers, less estimated uncollectibles of \$62,905 in 2006 and \$66,665 in 2005	2,642,929	2,426,579
Other, less estimated uncollectibles of \$16,804 in 2006 and \$8,632 in 2005	274,517	71,011
Special assessments receivable	233,686	306,696
Unbilled reimbursable projects	<u>243,437</u>	<u>260,267</u>
Total current assets	<u>12,213,199</u>	<u>11,086,929</u>
Noncurrent deferred charges and other assets:		
Unamortized debt expense	340,585	360,948
Unbilled special assessments	1,603,268	2,152,877
Other	515,281	28,228
	<u>2,459,134</u>	<u>2,542,053</u>
Total noncurrent deferred charges and other assets	<u>2,459,134</u>	<u>2,542,053</u>
Total assets	<u>\$ 298,996,396</u>	<u>294,360,000</u>

See accompanying notes to basic financial statements.

Liabilities and Net Assets	2006	2005
Net assets:		
Invested in capital assets, net of related debt	\$ 38,676,658	34,631,669
Restricted for debt service	343,448	418,507
Unrestricted	9,867,041	10,286,502
Total net assets	<u>48,887,147</u>	<u>45,336,678</u>
Noncurrent liabilities:		
Compensated absences	154,031	208,516
Net pension obligation	852,337	488,728
Revenue bonds payable:	26,655,000	27,175,000
Less unamortized discount	(246,182)	(261,702)
Net revenue bonds payable	<u>26,408,818</u>	<u>26,913,298</u>
General obligation bonds payable:	1,440,000	1,870,000
Less unamortized discount	(6,561)	(11,365)
Less deferred loss on refunding	(65,215)	(105,518)
Net general obligation bonds payable	<u>1,368,224</u>	<u>1,753,117</u>
Special assessment bonds payable:	8,814	13,621
Less unamortized discount	(44)	(342)
Net special assessment bonds payable	<u>8,770</u>	<u>13,279</u>
Alaska clean water loan payable	<u>31,955,066</u>	<u>31,070,764</u>
Total noncurrent liabilities	<u>60,747,246</u>	<u>60,447,702</u>
Current liabilities:		
Accounts payable	739,661	287,858
Compensated absences	919,248	850,781
Accrued interest	849,137	746,209
Interfund payable – capital projects fund	10,184,995	3,541,036
Military revenue payable	—	279,178
Long-term obligations maturing within one year	2,675,108	5,819,725
Total current liabilities	<u>15,368,149</u>	<u>11,524,787</u>
Liabilities payable from restricted assets:		
Current:		
Capital acquisition and construction accounts and retainages payable	1,453,273	711,411
Noncurrent:		
Customer deposits payable	473,744	469,218
Total liabilities payable from restricted assets	<u>1,927,017</u>	<u>1,180,629</u>
Deferred revenue:		
Other deferred credits	—	(33,722)
Deferred liabilities:		
Contributions in aid of construction, net of amortization	172,066,837	175,903,926
Total liabilities	<u>250,109,249</u>	<u>249,023,322</u>
Total liabilities and net assets	<u>\$ 298,996,396</u>	<u>294,360,000</u>

**MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER 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	\$ 23,120,932	21,902,294
Commercial sales	5,450,412	5,171,140
Public authorities	1,284,405	608,930
Total charges for sales and services	29,855,749	27,682,364
Other miscellaneous services	1,092,055	1,064,528
Total operating revenues	30,947,804	28,746,892
Operating expenses:		
Collection system	2,977,980	3,080,191
Treatment plant	7,154,758	6,345,587
Customer accounts	1,777,556	1,568,588
Administrative and general	6,041,484	5,407,254
Depreciation, net of amortization	4,188,454	4,450,311
Total operating expenses	22,140,232	20,851,931
Operating income	8,807,572	7,894,961
Nonoperating revenues (expenses):		
Investment income – short-term investments	215,428	421,226
Interest on long-term obligations	(1,531,041)	(1,738,078)
Allowance for funds used during construction	322,026	574,921
Amortization of bond discount	(20,526)	(40,247)
Amortization of debt expense	(60,762)	(126,122)
Interest expense – other	(489,052)	(467,039)
Intergovernmental revenue	374,823	—
Total nonoperating expenses	(1,189,104)	(1,375,339)
Income before transfers	7,618,468	6,519,622
Transfer – MUSA payment to Municipality	4,067,999	4,080,429
Change in net assets	3,550,469	2,439,193
Net assets – beginning	45,336,678	42,897,485
Net assets – ending	\$ 48,887,147	45,336,678

See accompanying notes to basic financial statements.

**MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER 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	\$ 29,762,991	27,159,140
Payments to employees	(9,736,088)	(9,108,654)
Payments to vendors	(3,976,947)	(3,536,669)
Internal activity – payments made to other funds	(6,434,586)	(7,467,100)
Net cash provided by operating activities	9,615,370	7,046,717
Cash flows from noncapital and related financing activities:		
Intergovernmental revenue	374,823	—
Cash flows from capital and related financing activities:		
Principal payments on long-term obligations	(4,204,807)	(5,634,808)
Interest payments on long-term obligations	(1,917,165)	(2,255,353)
Acquisition and construction of capital assets	(12,597,869)	(11,116,047)
Capital contributions – intergovernmental	453,439	979,803
Capital contributions – customer/special assessments	1,017,357	919,373
Proceeds from Alaska clean water loans	2,653,488	3,238,758
Repayments to Alaska clean water loans	(1,663,803)	(1,401,499)
Net proceeds from loan from primary government	6,643,959	5,536,843
Net cash used by capital and related financing activities	(9,615,401)	(9,732,930)
Cash flows from investing activities:		
Cash received for purchase or sales and maturity of investments	105,059	1,592,364
Interest received	267,561	431,093
Net cash provided by investing activities	372,620	2,023,457
Net increase (decrease) in cash	747,412	(662,756)
Cash, beginning of year	8,322,717	8,985,473
Cash, end of year	\$ 9,070,129	8,322,717
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 8,807,572	7,894,961
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, net of amortization	4,188,454	4,450,311
Allowance for uncollectible accounts	4,409	(3,161)
MUSA payment to Municipality	(4,067,999)	(4,080,429)
Changes in assets and liabilities that increase (decrease) cash:		
Accounts receivable and other receivables	(347,171)	(852,639)
Grants receivable	(105,501)	(35,853)
Unbilled reimbursable projects	16,830	(110,005)
Customer deposits payable	4,526	98,640
Deferred charges and other assets	62,556	198,334
Accounts payable and other liabilities	640,381	(817,420)
Deferred credits	33,722	—
Compensated absences	13,982	(21,528)
Net pension obligation	363,609	325,506
Net cash provided by operating activities	\$ 9,615,370	7,046,717
Noncash investing, capital, and financing activities:		
Contributed capital – private development	\$ 1,347,986	1,339,109
Capital purchases on account, net	274,106	144,552
Total noncash investing, capital, and financing activities	\$ 1,622,092	1,483,661

See accompanying notes to basic financial statements.

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

Notes to Basic Financial Statements

December 31, 2006 and 2005

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

The Anchorage Wastewater Utility (Utility) began as a fragmented system owned by the City of Anchorage, military, public, and private interests. In the late 1960's the Greater Anchorage Area Borough unified these systems creating the Utility. In the early 1970's the Utility began charging rates and by the mid 1980's evolved into an enterprise fund and now exists as a public utility of the Municipality of Anchorage. The Utility, whose service area is the entire Municipality of Anchorage, serves residential, commercial and military accounts in metropolitan Anchorage from Eklutna to Girdwood. The Utility's treatment plants in Anchorage, Eagle River and Girdwood operate 24 hours per day, discharging treated wastewater into Cook Inlet, Eagle River and Glacier Creek. In 2005, the Assembly authorized the Utility be governed by a Board of Directors by passing AO 2005-107. The accompanying financial statements include the activities of the Wastewater Utility Fund.

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

(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

MUNICIPALITY OF ANCHORAGE, ALASKA
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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 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.

(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 wastewater plant in service are at original cost of contracted services, direct labor and materials, interest and indirect overhead charges.

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

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

December 31, 2006 and 2005

Estimated lives of major plant and equipment categories follow:

Pumping and treatment plant	10-64 years
Collection plant	50-85 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 \$970,000 and \$880,000 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 \$1,981,633 and \$1,906,334 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.

(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.

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

Notes to Basic Financial Statements

December 31, 2006 and 2005

(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 reinvested from the bond proceeds. The next bond sale is scheduled for 6/07.

(2) Cash and Investments

As of December 31, 2006, Anchorage had the following investments with maturities as noted. The Utility's cash and investments represent 0% of the Anchorage Central Treasury.

Investment Type	Investment Maturities (in years)				
	Fair Value	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.

MUNICIPALITY OF ANCHORAGE, ALASKA
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Notes to Basic Financial Statements

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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;
- 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, 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 S&P’s Rating Service or the equivalent by another nationally recognized rating agency;

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

Notes to Basic Financial Statements

December 31, 2006 and 2005

- 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.

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

<u>Investment type</u>	<u>Maximum holdings</u>	<u>Investment holding percentage 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
		100%

(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.

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

Notes to Basic Financial Statements

December 31, 2006 and 2005

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.

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 & 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 & 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	+
	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.

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.

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

December 31, 2006 and 2005

(d) 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.

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

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
		\$ 29,268,896

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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	\$ 229,685	—	—	229,685
Pumping plant	7,494,770	305,035	—	7,799,805
Wastewater treatment plant	96,991,154	381,157	—	97,372,311
Collection plant	291,602,231	4,836,424	(229,061)	296,209,594
General plant – Land	3,985,212	—	—	3,985,212
General plant	<u>40,879,626</u>	<u>4,292,537</u>	<u>(2,318,043)</u>	<u>42,854,120</u>
Total plant in service, gross	441,182,678	9,815,153	(2,547,104)	448,450,727
Less accumulated depreciation	<u>(169,393,241)</u>	<u>(10,009,453)</u>	<u>2,547,104</u>	<u>(176,855,590)</u>
Net plant in service	271,789,437	(194,300)	—	271,595,137
Plant acquisition adjustment	910,422	—	—	910,422
Less accumulated amortization	(910,422)	—	—	(910,422)
Plant held for future use	1,379,931	—	—	1,379,931
Construction work in progress	<u>6,477,446</u>	<u>12,385,865</u>	<u>(8,493,903)</u>	<u>10,369,408</u>
Total net capital assets	<u>\$ 279,646,814</u>	<u>12,191,565</u>	<u>(8,493,903)</u>	<u>283,344,476</u>

The Utility's 2007 construction budget is \$27,344,000.

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

December 31, 2006 and 2005

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

	December 31, 2004	Additions	Retirements	December 31, 2005
Miscellaneous intangible plant	\$ 136,234	93,451	—	229,685
Pumping plant	4,984,215	2,510,555	—	7,494,770
Wastewater treatment plant	88,057,189	8,933,965	—	96,991,154
Collection plant	285,879,414	6,184,768	(461,951)	291,602,231
General plant – Land	3,985,212	—	—	3,985,212
General plant	34,483,332	7,998,918	(1,602,624)	40,879,626
	<u>417,525,596</u>	<u>25,721,657</u>	<u>(2,064,575)</u>	<u>441,182,678</u>
Total plant in service, gross				
Less accumulated depreciation	(161,322,988)	(10,134,828)	2,064,575	(169,393,241)
	<u>256,202,608</u>	<u>15,586,829</u>	<u>—</u>	<u>271,789,437</u>
Net plant in service				
Plant acquisition adjustment	910,422	—	—	910,422
Less accumulated amortization	(910,422)	—	—	(910,422)
Plant held for future use	1,379,931	—	—	1,379,931
Construction work in progress	19,024,474	11,560,068	(24,107,096)	6,477,446
	<u>276,607,013</u>	<u>27,146,897</u>	<u>(24,107,096)</u>	<u>279,646,814</u>
Total net capital assets \$				

(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 Clean 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 \$2,653,488.

**MUNICIPALITY OF ANCHORAGE, ALASKA
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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:					
2004 Wastewater Revenue bonds	6/10/2004	\$ 22,620,000	3.00 – 5.125	2007 – 2034	\$ 22,620,000
1999 Sewer Revenue Bonds	10/15/1999	5,180,000	4.50 – 6.00	2000 – 2029	4,555,000
Total revenue bonds		<u>27,800,000</u>			<u>27,175,000</u>
General obligation bonds:					
1993 GO Refunding	6/15/1993	19,245,000	2.20 – 5.40	1993 – 2010	187,000
Total General obligation bonds		<u>19,245,000</u>			<u>187,000</u>
Assessment bonds:					
Consolidated Special Assess District #3	11/1/1990	78,959	7.625 – 8.00%	1992 – 2010	8,814
Total assessment bonds		<u>78,959</u>			<u>8,814</u>
Long-term loans:					
127011 Eagle River STP	9/6/1989	7,718,497	1.50	1993 – 2012	2,350,202
127041 Pt. Woronzof Phase V	4/26/1993	2,443,128	1.50	1995 – 2014	1,172,753
127061 Girdwood Wastewater	4/24/1995	1,565,161	1.50	1999 – 2018	1,038,086
127071 Eagle River TID ER-3	10/30/1995	2,073,031	1.50	1999 – 2018	1,371,714
127081 Misc Wastewater Projects	5/8/1995	2,071,475	1.50	2002 – 2021	1,629,727
127091 Chester Creek Pump Station 48" Emergency Sewer R&R	6/11/1997	959,587	1.50	1999 – 2018	640,068
127101 FY97 Misc Wastewater Projects	6/11/1997	1,861,491	1.50	2008 – 2027*	1,861,491
127111 Equipment – Wastewater 1998	1/21/1998	286,051	1.50	2001 – 2020	210,975
127131 Chester Creek Sewer Trunk Study	4/2/1998	300,127	1.50	2004 – 2023	255,108
127141 Facility Replacement and Rehabilitation Project, 1998	1/21/1998	1,305,252	1.50	2008 – 2027*	1,261,174
127151 Operations Facilities, Phase II	1/21/1998	1,138,248	1.50	2003 – 2022	908,169
127161 Wastewater Data Processing	3/12/1998	1,182,000	1.50	2008 – 2027*	1,182,000
127211 FY99 Miscellaneous Small Sewer R&R, Phase I	7/23/2001	1,410,000	1.50	2003 – 2022	1,173,821
127271 C-5-7 Trunk Sewer Upgrade	5/19/2003	1,944,590	1.50	2008 – 2027*	1,944,590
127281 Asplund Wastewater Treatment Facility Solids Handling	01/21/200	4,290,279	1.50	2007 – 2026	3,224,675
127291 Operations Facility, Phase III	3/18/2003	1,997,943	1.50	2004 – 2023	1,698,252
127301 Septic System Site Upgrade	1/21/2000	500,000	1.50	2004 – 2023	424,226
127421 B-4AB Sewer Trunk Upgrade	8/20/2001	2,370,748	1.50	2003 – 2022	1,888,841
127451 SCADA Sewer	6/18/2004	5,425,934	1.50	2008 – 2027*	5,425,934
127481 Asplund Wastewater Treatment Facility Process Improvements	6/18/2004	4,200,000	1.50	2006 – 2025	4,018,368
Total long-term loans		<u>45,043,542</u>			<u>33,680,174</u>
Total long-term debt		<u>\$ 92,167,501</u>			<u>\$ 61,050,988</u>

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

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

Notes to Basic Financial Statements

December 31, 2006 and 2005

(b) Revenue Bond Coverage Requirements

The Utility's Schedule of Revenue Bond Coverage for the last seven 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	
2000	\$ 25,719,749	1,131,036	13,461,586	13,389,199	110,000	260,057	370,057	36.18
2001	24,848,166	1,102,733	13,650,933	12,299,966	75,000	291,318	366,318	33.58
2002	25,593,935	952,980	14,189,645	12,357,270	80,000	288,093	368,093	33.57
2003	25,318,049	725,096	14,717,225	11,325,920	85,000	284,573	369,573	30.65
2004	26,802,108	886,986	15,821,938	11,867,156	90,000	707,312	797,312	14.88
2005	29,168,118	919,373	16,401,620	13,685,871	90,000	1,365,706	1,455,706	9.40
2006	31,163,232	1,017,357	17,951,778	14,228,811	95,000	1,361,319	1,456,319	9.77

(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 1.15.

(c) Debt Service Requirements

Debt service requirements to maturity are as follows:

Year	General obligation bonds		Revenue bonds		Special assessments		Long-term loans		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2007	\$ 430,000	99,640	520,000	1,350,269	5,609	705	1,725,108	391,130	4,522,461
2008	455,000	77,065	535,000	1,332,419	801	257	2,215,882	787,486	5,403,910
2009	480,000	52,950	555,000	1,313,078	1,202	192	2,235,317	458,206	5,095,945
2010	505,000	27,270	575,000	1,291,456	1,202	96	2,255,056	424,170	5,079,250
2011	—	—	605,000	1,267,938	—	—	2,275,104	389,825	4,537,867
2012-2016	—	—	3,445,000	5,913,305	—	—	9,684,143	1,462,651	20,505,099
2017-2021	—	—	4,405,000	4,953,655	—	—	8,282,150	769,067	18,409,872
2022-2026	—	—	5,700,000	3,646,253	—	—	4,505,016	235,245	14,086,514
2027-2031	—	—	6,660,000	1,947,234	—	—	502,398	8,325	9,117,957
2032-2034	—	—	4,175,000	328,385	—	—	—	—	4,503,385
	<u>1,870,000</u>	<u>256,925</u>	<u>27,175,000</u>	<u>23,343,992</u>	<u>8,814</u>	<u>1,250</u>	<u>33,680,174</u>	<u>4,926,105</u>	<u>91,262,260</u>
	(430,000)		(520,000)		—		(1,725,108)		Current portion of principal
	(6,561)		(246,182)		(44)		—		Unamortized discounts
	<u>(65,215)</u>		<u>—</u>		<u>—</u>		<u>—</u>		Unamortized loss
	<u>\$ 1,368,224</u>		<u>26,408,818</u>		<u>8,770</u>		<u>31,955,066</u>		Total long-term portion

**MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER 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
General obligation bonds	\$ 5,975,000	—	(4,105,000)	1,870,000	430,000
Revenue bonds	27,270,000	—	(95,000)	27,175,000	520,000
Assessment bonds	13,621	—	(4,807)	8,814	—
Long-term loans	32,690,489	2,653,488	(1,663,803)	33,680,174	1,725,108
Net pension obligation	488,728	363,609	—	852,337	—
Compensated absences	1,059,297	933,230	(919,248)	1,073,279	919,248
Total debt	67,497,135	3,950,327	(6,787,858)	64,659,604	\$ 3,594,356
Unamortized discounts	273,409	—	(20,622)	252,787	
Unamortized loss	105,518	—	(40,303)	65,215	
Total debt, net of discounts	\$ 67,118,208	3,950,327	(6,726,933)	64,341,602	

Description	December 31, 2004	Additions	Deletions	December 31, 2005	Amounts due within one year
General obligation bonds	\$ 11,515,000	—	(5,540,000)	5,975,000	4,105,000
Revenue bonds	27,360,000	—	(90,000)	27,270,000	95,000
Assessment bonds	18,429	—	(4,808)	13,621	—
Long-term loans	30,853,230	3,238,758	(1,401,499)	32,690,489	1,619,725
Net pension obligation	163,222	647,079	(321,573)	488,728	—
Compensated absences	1,080,825	829,252	(850,780)	1,059,297	850,781
Total debt	70,990,706	4,715,089	(8,208,660)	67,497,135	\$ 6,670,506
Unamortized discounts	266,673	45,240	(38,504)	273,409	
Unamortized loss	211,207	—	(105,689)	105,518	
Total debt, net of discounts	\$ 70,512,826	4,669,849	(8,064,467)	67,876,062	

(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
WASTEWATER 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:

General obligation bonds	\$	6,445,000
Revenue bonds		<u>6,300,000</u>
	\$	<u><u>12,745,000</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	\$ 44,759,724	182,485	—	44,942,209
Private development	98,838,195	1,347,986	(189,469)	99,996,712
Other	25,980	—	—	25,980
Intergovernmental	131,841,492	453,439	—	132,294,931
Paid in capital	<u>6,882,286</u>	<u>—</u>	<u>—</u>	<u>6,882,286</u>
Total CIAC, gross	<u>282,347,677</u>	<u>1,983,910</u>	<u>(189,469)</u>	<u>284,142,118</u>
Accumulated Amortization:				
Customer	(54,530,653)	(2,490,724)	189,469	(56,831,908)
Intergovernmental	(51,224,869)	(2,642,046)	—	(53,866,915)
Paid in capital	<u>(688,229)</u>	<u>(688,229)</u>	<u>—</u>	<u>(1,376,458)</u>
Total amortization	<u>(106,443,751)</u>	<u>(5,820,999)</u>	<u>189,469</u>	<u>(112,075,281)</u>
Net CIAC	<u>\$ 175,903,926</u>	<u>(3,837,089)</u>	<u>—</u>	<u>172,066,837</u>

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

Notes to Basic Financial Statements

December 31, 2006 and 2005

	<u>December 31, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2005</u>
Contributed Plant:				
Customer:				
Special assessments	\$ 44,123,682	636,042	—	44,759,724
Private development	97,504,908	1,622,440	(289,153)	98,838,195
Other	25,980	—	—	25,980
Intergovernmental	130,861,689	979,803	—	131,841,492
Paid in capital	6,882,286	—	—	6,882,286
Total CIAC, gross	<u>279,398,545</u>	<u>3,238,285</u>	<u>(289,153)</u>	<u>282,347,677</u>
Accumulated Amortization:				
Customer	(52,236,170)	(2,583,636)	289,153	(54,530,653)
Intergovernmental	(48,812,217)	(2,412,652)	—	(51,224,869)
Paid in capital	—	(688,229)	—	(688,229)
Total amortization	<u>(101,048,387)</u>	<u>(5,684,517)</u>	<u>289,153</u>	<u>(106,443,751)</u>
Net CIAC	<u>\$ 178,350,158</u>	<u>(2,446,232)</u>	<u>—</u>	<u>175,903,926</u>

(7) Net Assets

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

	<u>2006</u>	<u>2005</u>
Net capital assets	\$ 283,344,476	279,646,814
Less: Net revenue bonds payable, long-term	26,408,818	26,913,298
Net general obligation bonds payable, long-term	1,368,224	1,753,117
Net special assessment bonds payable, long-term	8,770	13,279
Alaska clean water loans payable, long-term	31,955,066	31,070,764
Long-term obligations maturing within one year	2,675,108	5,819,725
Interfund payable – capital projects fund	10,184,995	3,541,036
Contributions in aid of construction, net	172,066,837	175,903,926
	<u>\$ 38,676,658</u>	<u>34,631,669</u>

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

	<u>2006</u>	<u>2005</u>
Revenue bond debt service investments	\$ 495,001	600,060
Less: accrued interest to be paid from bond debt service investment	151,553	181,553
	<u>\$ 343,448</u>	<u>418,507</u>

**MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER 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 Tiers 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
WASTEWATER 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:

	Tiers I - III pension
Contribution rates:	3.98%
Employee - 1/1/06-6/30/06	3.98
Employee - 7/1/06-12/31/06	14.67
Employer - actuarially required 1/1/06-6/30/06	17.03
Employer - actuarially required 7/1/06-12/31/06	4.94
Employer - adjusted actual 1/1/06-6/30/06	10.84
Employer - adjusted actual 7/1/06-12/31/06	June 30, 2003
Actuarial valuation date 1/1/06-6/30/06	June 30, 2004
Actuarial valuation date 7/1/06-12/31/06	Projected unit credit
Actuarial cost method	Level dollar, open
Amortization method	Fixed 25 years
Amortization period	Market value
Asset valuation method	
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:

	Tiers I – III pension
Annual required contribution (ARC)	\$ 1,189,754
Interest on the net pension obligation (NPO)	47,774
Adjustment to the ARC	(37,156)
Annual pension cost (APC)	1,200,372
Contribution made	927,113
Increase in NPO	273,259
NPO, beginning of year	488,728
Adjustment for re-allocation of NPO between Water and Wastewater Utilities	86,308
Adjustment for 2005 interest and ARC adjustment	
Adjustment for 2005 interest and ARC adjustment	4,042
NPO, beginning of year, as adjusted	579,078
NPO, end of year	\$ 852,337

**MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER 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	75,529	71%	192,947
2005	1,106,018	65	579,078
2006	1,200,372	77	852,337

Annual covered payroll was \$7,478,740 and \$7,772,599 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
WASTEWATER 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 & 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 \$2,031 to PERS Tier IV for retirement, retiree medical, and it contributed \$876 to PERS Tier IV for Health Reimbursement Arrangement on behalf of its employees. Employee contributions to the plan totaled \$2,148.

(d) On-Behalf Payments

During 2006 the State of Alaska contributed \$374,823 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
WASTEWATER UTILITY FUND

Notes to Basic Financial Statements

December 31, 2006 and 2005

(11) Wastewater Treatment Facilities Discharge Permits

The Environmental Protection Agency's National Pollutant Discharge Elimination System permits for all three wastewater treatment facilities expired in 2005. The Eagle River treatment facility's permit was reissued – effective May 1, 2006. This permit is valid for five years from the date of issuance. The Asplund and Girdwood treatment facilities' permits have been administratively extended. All requirements stay in effect indefinitely until the new permits are issued. Renewals are expected in 2007. Currently only the Asplund facility has a Section 301(h) waiver of secondary treatment.

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 8.06% and 6.83% for 2004 and 2005, respectively. The RCA approved these 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 in the rate case, and AWWU settling all issues except MUSA on contributed plant. As part of the stipulation, the Utility reduced the interim rates by 3.01%, effective August 1, 2005. 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. Revenue collected subject to refunds approximated \$4,900,000 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.

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

Notes to Basic Financial Statements

December 31, 2006 and 2005

(b) 2006 Rate Case

The Utility filed a revenue requirement study (RRS) with the RCA on November 10, 2005, requesting a permanent rate increase of 10.6% effective January 1, 2006. However, the RCA suspended the filing and eliminated MUSA on contributed plant from interim refundable rates, granting only a 4.01% increase regardless of the Alaska Superior Court stay allowing continued collection of MUSA on contributed plant in interim refundable rates pending resolution of the 2004/2005 rate case appeal. The Utility filed a complaint with the Court, asked that the stay apply to the 2006 rate case, and that the complaint be consolidated with the appeal. On May 26, 2006, the Court issued two Orders. The first Order denied the Utility's request for consolidation. On the second Order, the Court issued a preliminary injunction to require the RCA to immediately allow the Utility to implement requested interim rates. On June 29, 2006 ASU filed a Cost of Service Study (COSS) based on this RRS as ordered by the RCA. On October 2, 2006, ASU and RAPA, the only intervener to the rate case, filed a settlement agreement with the RCA settling all disputed issues in the RRS with the exception of the outstanding MUSA on contributed plant issue. On October 27, 2006 the RCA accepted this agreement. The ASU COSS associated with this rate case is currently under review with a hearing scheduled for October 25, 2007.

(c) 2007 Rate Case

The Utility filed a rate case with the RCA on November 1, 2006 requesting a permanent rate increase of 13.0% effective January 1, 2007. At the same time, ASU requested a 9.5% interim rate increase effective January 1, 2007 if the Commission 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 filing, and granted ASU interim refundable rates effective January 1, 2007. RAPA is once again an 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
WASTEWATER 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)	0.79	0.96	1.12	0.40	0.62
Quick ratio (quick assets/current liabilities)	0.79	0.96	1.12	0.40	0.62
Return on Investment (change in net assets/total assets)	1.0%	0.4%	1.0%	1.5%	2.0%
Return on Equity (change in net assets/net assets)	5.3	2.4	5.7	8.6	12.5
Debt to equity as a percent of capital structure (Outstanding debt/ capital structure over net assets/capital structure)	<u>53%</u> 47%	<u>56%</u> 44%	<u>58%</u> 42%	<u>49%</u> 51%	<u>52%</u> 48%
Operating margin (operating income/operating revenues)	0.28	0.27	0.24	0.26	0.30
Revenue bond debt coverage (amount available for revenue bond debt service/revenue bond principal & interest)	9.77	9.40	14.88	30.65	33.57
Weighted cost of long term debt	3.38%	3.59%	3.93%	3.68%	3.90%

**MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER 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	51,708	51,351	50,704	50,183	49,459
Commercial	3,564	3,541	3,485	3,456	3,410
Total	<u>55,272</u>	<u>54,892</u>	<u>54,189</u>	<u>53,639</u>	<u>52,869</u>
Growth rate	0.69%	1.30%	1.03%	1.46%	

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

Statistical Section (unaudited)
Table 2

Current Wastewater Rates

Type of Service	2007 ⁽¹⁾	2006 ⁽²⁾	2005 ⁽³⁾
Metered:			
Customer charge (per account)	\$ 5.45	5.00	4.50
Inflow and infiltration charge	3.85	3.50	3.15
Residential usage (per 1,000 gallons)	2.73	2.34	2.25
Commercial – low strength (TSS≤ 275 mg/liter)	2.61	2.38	2.15
Commercial – medium strength (TSS>275 mg/liter and ≤450 mg/liter)	2.97	2.71	2.45
Commercial – high strength (TSS>450 mg/liter)	3.64	3.32	3.00
Unmetered:			
Customer charge (per account)	5.45	5.00	4.50
Residential, including I&I charge (per unit)	23.30	21.30	19.25
Commercial, including I&I charge (depends on activity)	11.60 to 1,152.60	10.00 to 989.85	9.60 to 951.70

⁽¹⁾ Rates effective 1/1/07

⁽²⁾ Rates effective 6/5/06

⁽³⁾ Rates effective 8/1/05

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

Statistical Section (unaudited)

Table 3

Revenues and Expenses – Budget to Actual

	<u>Budget</u>	<u>Actual</u>	Variance Favorable / (Unfavorable)
Operating revenue:			
Residential sales	\$ 23,840,000	23,120,932	(719,068)
Commercial sales	5,740,000	5,450,412	(289,588)
Public authorities	1,040,000	1,284,405	244,405
Miscellaneous service revenue	1,090,000	1,092,055	2,055
Total operating revenues	<u>31,710,000</u>	<u>30,947,804</u>	<u>(762,196)</u>
Nonoperating revenue:			
Investment income – short-term investments	50,000	85,748	35,748
Interest on assessments	—	129,680	129,680
Other nonoperating revenue	—	374,823	374,823
Total nonoperating revenue	<u>50,000</u>	<u>590,251</u>	<u>540,251</u>
Total revenues	<u>31,760,000</u>	<u>31,538,055</u>	<u>(221,945)</u>
Collection system expense:			
Operations	1,411,800	1,146,924	264,876
Maintenance	2,208,200	1,831,056	377,144
Total collection system expense	<u>3,620,000</u>	<u>2,977,980</u>	<u>642,020</u>
Treatment plant expense:			
Operations	6,503,200	6,299,117	204,083
Maintenance	886,800	855,641	31,159
Total treatment plant expense	<u>7,390,000</u>	<u>7,154,758</u>	<u>235,242</u>
Customer accounts expense	1,980,000	1,777,556	202,444
Administrative and general expense	6,370,000	6,041,484	328,516
Depreciation, net of amortization	5,720,000	4,188,454	1,531,546
Total operating expenses	<u>25,080,000</u>	<u>22,140,232</u>	<u>2,939,768</u>
Other expense:			
Municipal utility service assessment	4,380,000	4,067,999	312,001
Interest on long-term obligations	2,080,000	1,531,041	548,959
Other interest expense	578,000	489,052	88,948
Amortization of debt expense	80,000	81,288	(1,288)
Allowance for funds used during construction	(450,000)	(322,026)	(127,974)
Total other expenses	<u>6,668,000</u>	<u>5,847,354</u>	<u>820,646</u>
Total expenses	<u>31,748,000</u>	<u>27,987,586</u>	<u>3,760,414</u>
Increase in net assets	<u>\$ 12,000</u>	<u>3,550,469</u>	<u>3,538,469</u>

**MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER 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:							
06/10/04	Wastewater Revenue	\$ 22,620,000	22,620,000	—	—	22,620,000	420,000
10/15/99	Sewer Revenue	5,180,000	4,650,000	—	95,000	4,555,000	100,000
	Total revenue bonds	<u>27,800,000</u>	<u>27,270,000</u>	<u>—</u>	<u>95,000</u>	<u>27,175,000</u>	<u>520,000</u>
GO Bonds:							
06/27/02	GO Ref – Series A	13,080,000	3,695,000	—	3,695,000	—	—
06/15/93	GO Refunding	19,245,000	2,280,000	—	410,000	1,870,000	430,000
	Total GO bonds	<u>32,325,000</u>	<u>5,975,000</u>	<u>—</u>	<u>4,105,000</u>	<u>1,870,000</u>	<u>430,000</u>
Assessment Bonds:							
11/01/90	Con Spl Assmnt Dist #3	78,959	13,621	—	4,807	8,814	—
	Total assessment bonds	<u>78,959</u>	<u>13,621</u>	<u>—</u>	<u>4,807</u>	<u>8,814</u>	<u>—</u>
Alaska Clean Water (ACW) Loans:							
09/06/89	127011 – ER WWTP	7,718,497	2,718,810	—	368,608	2,350,202	377,267
04/26/93	127041 – Pt Woronzof Ph V	2,443,128	1,308,438	—	135,685	1,172,753	139,070
04/24/95	127061 – GW WWTP	1,565,161	1,116,510	—	78,424	1,038,086	79,600
10/30/95	127071 – ER TID	2,073,031	1,475,343	—	103,629	1,371,714	105,183
05/08/95	127081 – FY96 Misc WW	2,071,475	1,725,976	—	96,249	1,629,727	97,693
06/11/97	127091 – Chester Em R&R	959,587	687,973	—	47,905	640,068	49,080
06/11/97	127101 – FY97 Misc WW	1,861,491	1,861,491	—	—	1,861,491	—
01/21/98	127111 – Equipment 1998	286,051	224,428	—	13,453	210,975	13,655
04/02/98	127131 – Chster Ck Trunk Stdy	300,127	270,115	—	15,007	255,108	15,006
01/21/98	127141 – Fac Repl & Rehab 98	1,305,252	534,972	770,280	44,078	1,261,174	—
01/21/98	127151 – Operations Fac II	1,138,248	964,930	—	56,761	908,169	56,761
03/12/98	127161 – WW Data Processing	1,182,000	1,182,000	—	—	1,182,000	—
07/23/01	127211 – FY99 Misc WW	1,410,000	1,238,312	—	64,491	1,173,821	65,458
05/19/03	127271 – C-5-7 Trunk Upgrade	1,944,590	1,944,590	—	—	1,944,590	84,095
01/21/00	127281 – Asplund Solids Hand	4,290,279	3,439,653	—	214,978	3,224,675	214,978
03/18/03	127291 – Operations Fac III	1,997,943	1,798,148	—	99,896	1,698,252	99,897
01/21/00	127301 – Septage Rec St Upgr	500,000	449,180	—	24,954	424,226	24,955
08/20/01	127421 – B-4AB Swr Trunk Upg	2,370,748	2,006,894	—	118,053	1,888,841	118,053
06/18/04	127451 – SCADA Swr	5,425,934	3,542,726	1,883,208	—	5,425,934	—
06/18/04	127481 – Asplund WWTF Impr	4,200,000	4,200,000	—	181,632	4,018,368	184,357
	Total ACW loans	<u>45,043,542</u>	<u>32,690,489</u>	<u>2,653,488</u>	<u>1,663,803</u>	<u>33,680,174</u>	<u>1,725,108</u>
	Total debt	<u>\$ 105,247,501</u>	<u>65,949,110</u>	<u>2,653,488</u>	<u>5,868,610</u>	<u>62,733,988</u>	<u>2,675,108</u>

**MUNICIPALITY OF ANCHORAGE, ALASKA
WASTEWATER 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>	<u>Six year Total</u>
Project category:							
General plant	\$ 21,071	12,587	11,935	12,973	19,827	10,143	88,536
Repair and rehabilitation	5,947	8,329	8,020	8,618	8,800	14,500	54,214
Trunk/interceptors	116	2,872	4,637	4,140	3,649	5,000	20,414
Improvement districts	210	212	220	220	220	220	1,302
Total	<u>\$ 27,344</u>	<u>24,000</u>	<u>24,812</u>	<u>25,951</u>	<u>32,496</u>	<u>29,863</u>	<u>164,466</u>
Source of funding:							
Debt	\$ 25,344	22,000	22,812	23,951	30,496	27,863	152,466
Equity	2,000	2,000	2,000	2,000	2,000	2,000	12,000
Total	<u>\$ 27,344</u>	<u>24,000</u>	<u>24,812</u>	<u>25,951</u>	<u>32,496</u>	<u>29,863</u>	<u>164,466</u>

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

Statistical Section (unaudited)

Table 6

Production Comparison by Facility

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Wastewater treatment facility (WWTF) system data:				
Million gallons per day (MGD):				
Asplund WWTF				
Minimum daily flow	23.80	22.90	24.10	22.50
Maximum daily flow	51.47	51.10	52.80	42.00
Average daily flow	28.10	28.20	29.30	28.30
Eagle River WWTF				
Minimum daily flow	1.16	1.19	1.18	1.16
Maximum daily flow	2.02	2.24	2.00	1.72
Average daily flow	1.52	1.52	1.52	1.44
Girdwood WWTF				
Minimum daily flow	0.25	0.29	0.26	0.28
Maximum daily flow	1.47	1.51	1.46	1.76
Average daily flow	0.44	0.45	0.46	0.44
Miles of line:				
Interceptors	45	45	45	45
Trunks	84	84	82	80
Laterals	625	610	596	591
Total	<u>754</u>	<u>739</u>	<u>723</u>	<u>716</u>
	Current			
	capacity			
Million gallons per day (MGD):				
Asplund WWTF	58.00			
Eagle River WWTF	2.50			
Girdwood WWTF	0.77			
Total	<u>61.27</u>			