MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Basic Financial Statements with Supplementary Information

December 31, 2011 and 2010

(With Independent Auditor's Report Thereon)

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the Port of Anchorage (the Port), an enterprise fund of the Municipality of Anchorage, Alaska, as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Port's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Port of Anchorage and do not purport to and do not, present fairly the financial position of the Municipality of Anchorage, Alaska, as of December 31, 2011 and 2010, and the changes in financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Anchorage as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

3601 "C" Street, Suite 600 * Anchorage, Alaska 99503 * (907) 278-8878 * Fax (907) 278-5779 * www.mcc-cpa.com

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

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Mikunda, Cottrell & Co.

May 21, 2012
Anchorage, Alaska

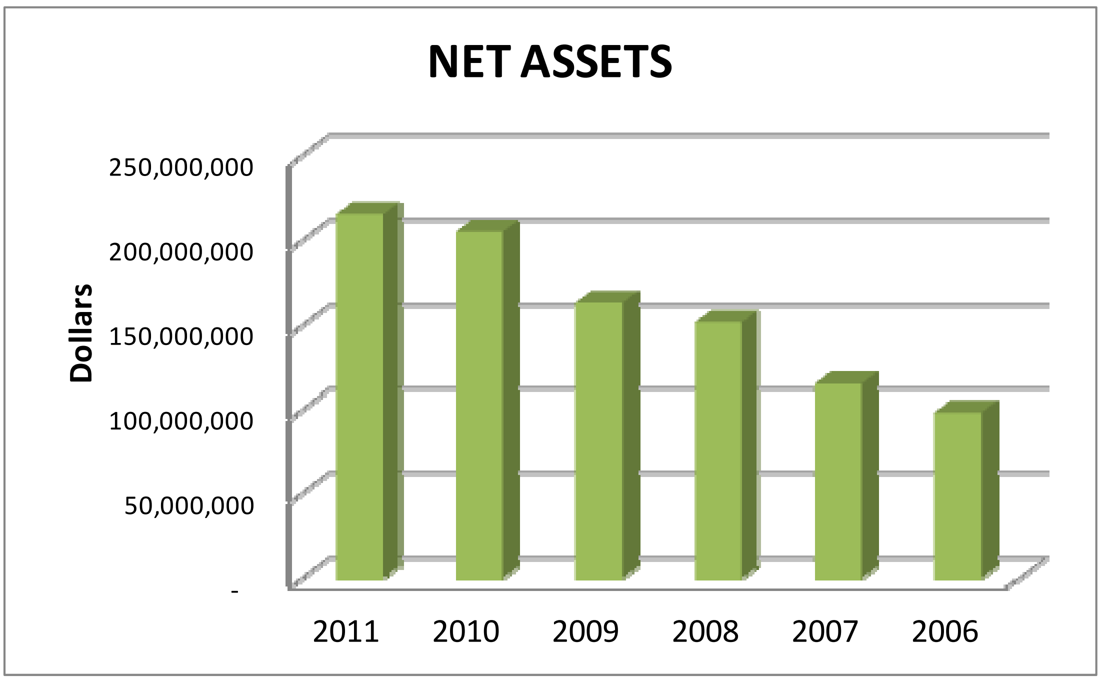
Management's Discussion and Analysis

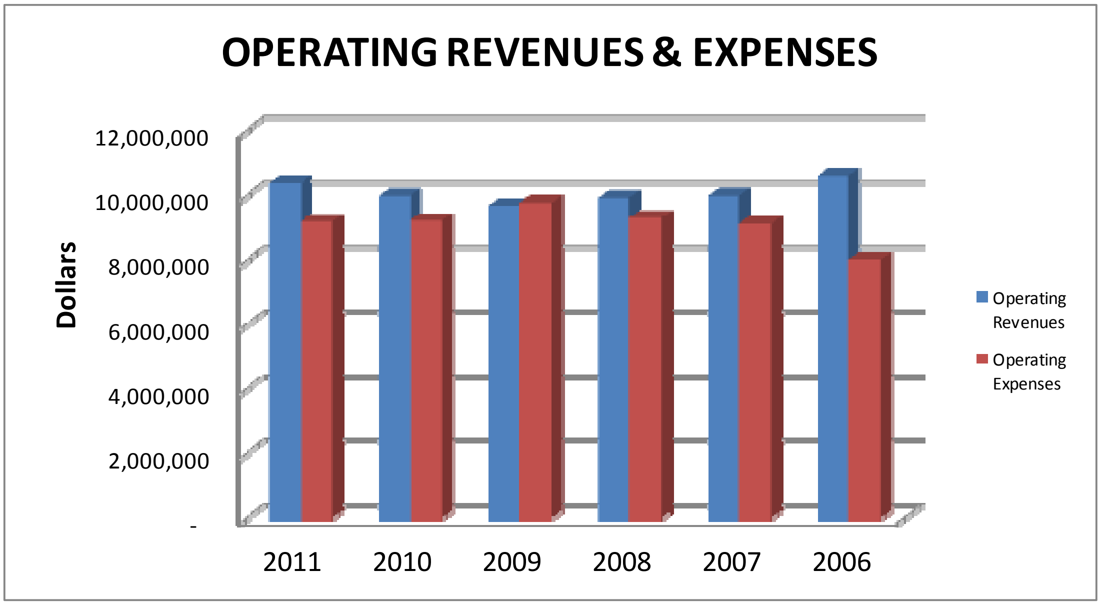
December 31, 2011 and 2010

This section of the Municipality of Anchorage Port of Anchorage (Port) enterprise activity annual financial report presents the analysis of the Port's financial performance during the years ending December 31, 2011 and 2010. Please read it in conjunction with the Port's financial statements.

FINANCIAL HIGHLIGHTS

- Net Assets increased $10,521,415, or 5.12% in 2011 and increased $41,601,462, or 25.39% in 2010.
- Operating Revenues increased $385,095, or 3.86% in 2011 and increased $300,382, or 3.10% in 2010.
- Operating Expenses decreased $28,234, or .31% in 2011 and decreased $565,758, or 5.78% in 2010.





OVERVIEW OF THE FINANCIAL REPORT

The Port reports as an enterprise fund of the Municipality of Anchorage (Municipality), while charging customers for services it provides. A commission consisting of nine members oversees the Port's tariff issues. The commission recommends tariff rates, fees, and charges imposed by the Port for its services to the Anchorage Assembly for approval.

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

Balance Sheet – This statement presents information regarding the Port's assets, liabilities, and net assets at December 31, 2011 and December 31, 2010. Net assets represent total assets less total liabilities. The Balance Sheet classifies assets, liabilities, and net assets as current and non-current.

Statement of Revenues, Expenses, and Changes in Net Assets – This statement presents the Port's operating revenues and expenses and non-operating revenues and expenses for the years ended December 31, 2011 and December 31, 2010 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 respective year. The change, combined with last year's ending net assets total reconciles to the net assets total at the end of this year.

Statement 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 Port 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 Port's finances is, "Is the Port, as a whole, better off or worse off as a result of the year's activities?" The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets report information about the Port's activities in a way that helps answer this question.

These two statements report the Port's net assets and changes in them. One can think of the Port's net assets, the difference between assets and liabilities, as one way to measure financial health or whether 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 and new or changed legislation.

Changes in the Port's net assets can be determined by reviewing the following condensed Summary of Net Assets as of December 31, 2011, 2010, and 2009. The analysis below focuses on the Port'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

	2011	2010	2009
Assets:			
Non-Current Assets	$ 241,108,513	$ 207,284,963	$ 161,182,986
Current and Other Assets	17,570,341	38,754,950	43,281,297
Total Assets	$ 258,678,854	$ 246,039,913	$ 204,464,283
Liabilities:			
Non-Current Liabilities	$ 1,909,067	$ 66,112	$ 40,971
Current Liabilities	40,820,916	40,546,345	40,597,318
Total Liabilities	$ 42,729,983	$ 40,612,457	$ 40,638,289
Net Assets:			
Invested in Capital Assets, Net of Related Debt	78,168,894	67,345,344	62,382,985
Restricted for Capital Construction	127,320,955	116,176,706	87,779,180
Unrestricted	10,459,022	21,905,406	13,663,829
Total Net Assets	$ 215,948,871	$ 205,427,456	$ 163,825,994
Change in Net Assets	$ 10,521,415	$ 41,601,462	$ 11,613,847

During 2011 the Port's total assets increased by $12.6 million. Non-current assets increased by $33.9 million due mostly to a $23 million increase in advances to MARAD and an increase in total capital assets due to a $10.3 million land transfer from the US Military. Current assets decreased by $21.2 million due to a decrease in restricted assets. During 2010 the Port's total assets increased by $41.6 million. Non-current assets increased by $46.1 million due mostly to an increase in advances to MARAD and an increase in total capital assets. Current and other assets decreased by $4.5 million due to a decrease in restricted assets. In 2009 a reclass entry was also made to reduce the Port's construction cash pool by $22.2 million and establishing an interfund receivable.

During 2011 the Port's total liabilities increased by $2.1 million due mostly to a $1.87 million increase in deferred credits as a result of future obligations on land transferred to the Port from the US Military. In 2010 the Port's total liabilities decreased by $.0258 million attributable to a $.0509 decrease in current liabilities in 2010 offset by a corresponding $.0251 increase in non-current liabilities resulting from an increase compensated absences payable.

Changes in the Port's net assets can be determined by reviewing the following condensed Summary of Revenues, Expenses, and Changes in Net Assets for the years ending December 31, 2011, 2010, and 2009 (Table 2).

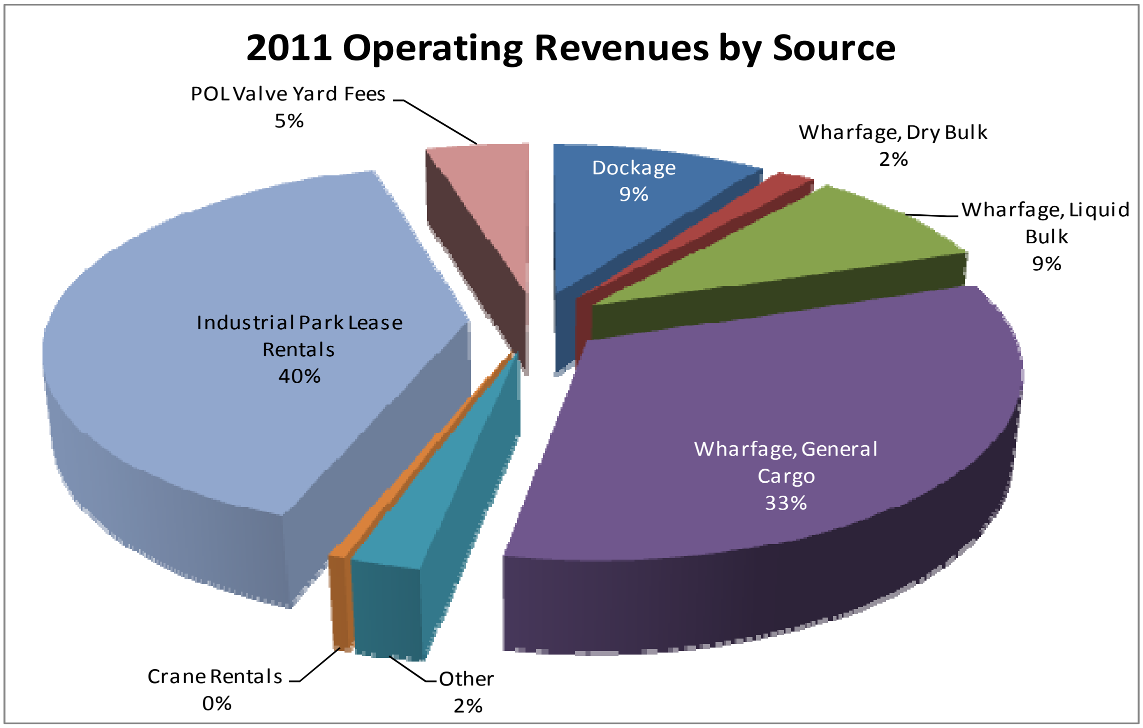
TABLE 2

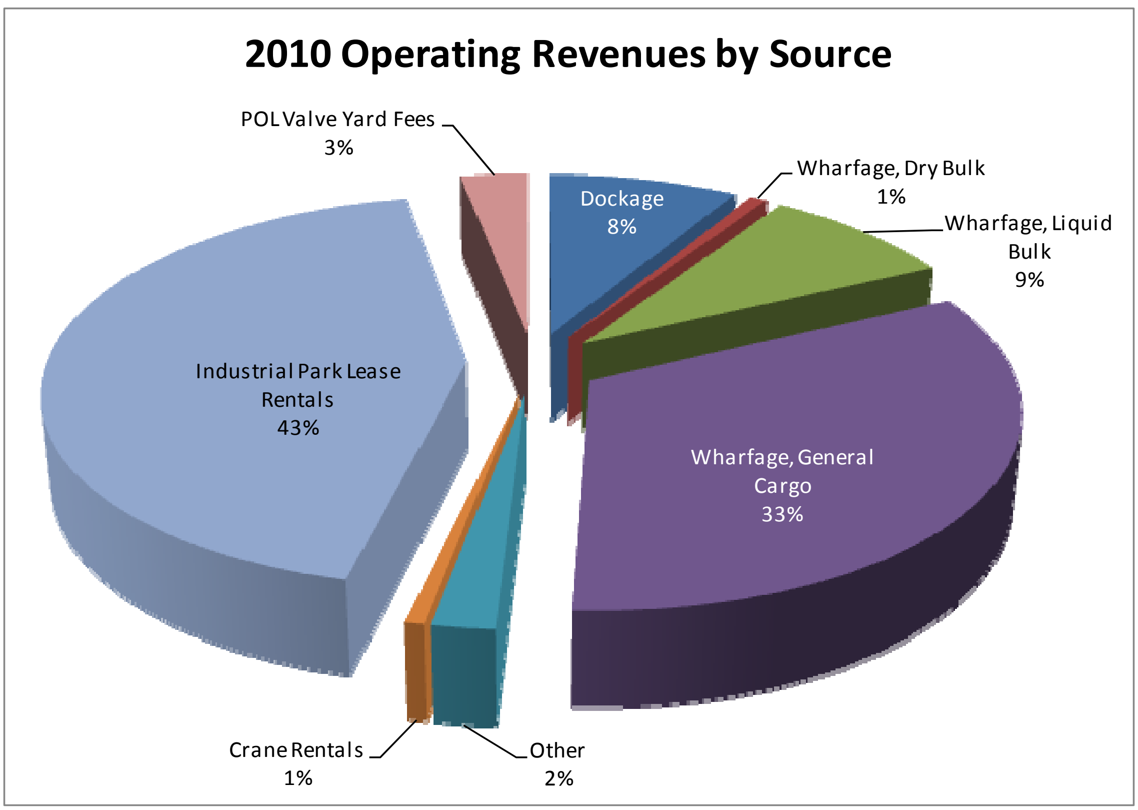
Summary of Revenues, Expenses, and Changes in Net Assets

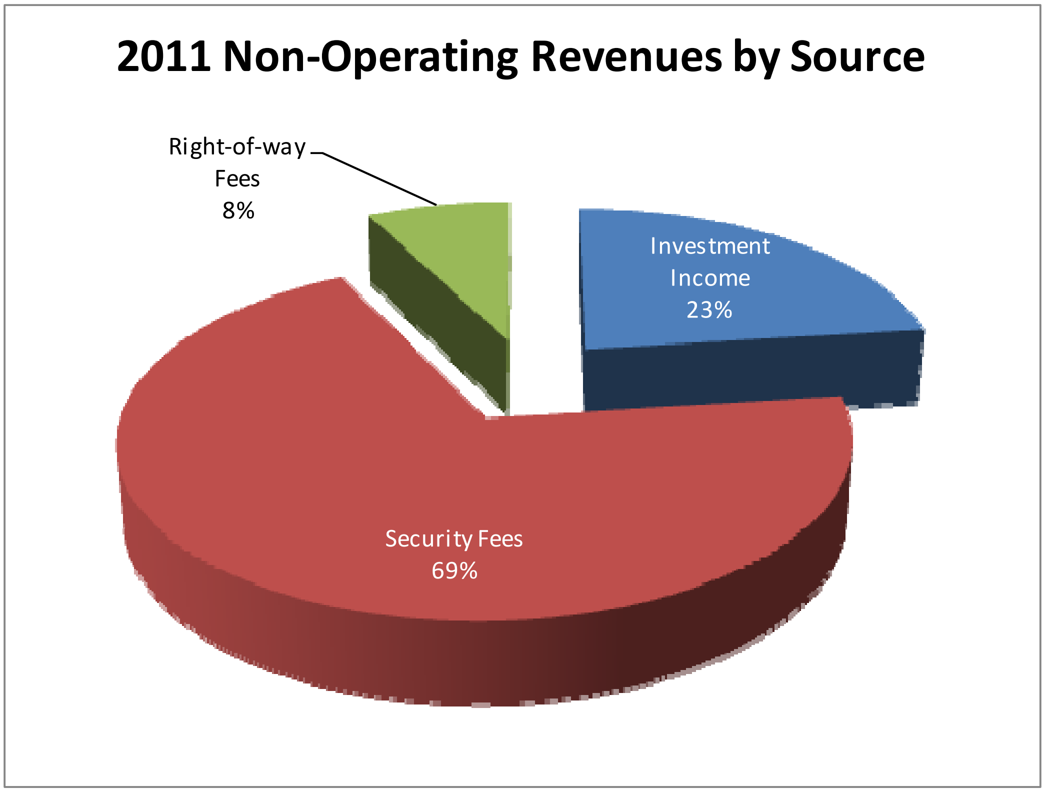
	2011	2010	2009
Operating Revenues:			
Dockage	$ 991,289	$ 845,214	$ 705,081
Wharfage, Dry Bulk	167,018	73,172	71,343
Wharfage, Liquid Bulk	908,131	866,712	490,956
Wharfage, General Cargo	3,428,694	3,296,428	3,613,275
Industrial Park Lease Rentals	4,110,620	4,333,539	4,301,791
Crane Rentals	52,500	61,908	48,435
POL Valve Yard Fees	473,869	300,212	358,443
Other	238,879	208,720	96,199
Total Operating Revenues	10,371,000	9,985,905	9,685,523
Operating Expenses:			
Personnel Services	2,346,795	2,250,784	2,318,382
Supplies	246,179	193,627	199,428
Other Services and Charges	1,915,012	1,754,989	2,115,068
Charges from Other Departments	345,748	347,435	486,147
Depreciation	4,331,748	4,666,881	4,660,449
Total Operating Expenses	9,185,482	9,213,716	9,779,474
Operating Income (loss)	1,185,518	772,189	(93,951)
Nonoperating Revenues (Expenses)			
Non-Operating Revenues	1,881,134	2,441,717	3,498,309
Non-Operating Expenses	(1,304,957)	(1,271,761)	(1,430,699)
Net Non-Operating Revenues	576,177	1,169,956	2,067,610
Income Before Capital Contributions and Transfers	1,761,695	1,942,145	1,973,659
Capital Contributions and Transfers	8,759,720	39,659,317	9,640,188
Change in Net Assets	10,521,415	41,601,462	11,613,847
Net Assets, beginning	205,427,456	163,825,994	152,212,147
Net Assets, ending	$ 215,948,871	$ 205,427,456	$ 163,825,994

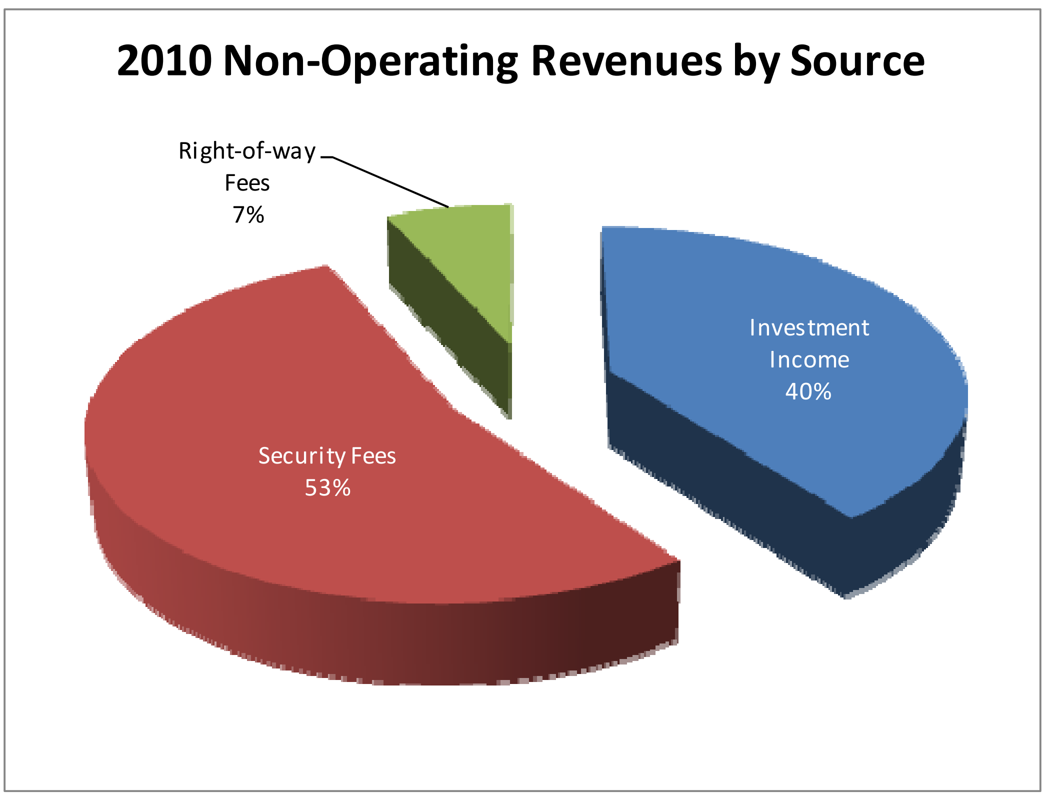
Operating revenues overall increased in 2011 by $385,095, a majority of which was attributable to an increase in dockage and POL valve yard fees. Industrial Park Lease Rental revenue, however, decreased in 2011 by $222,919 due mostly to the US Coast Guard termination of its lease with the Port.

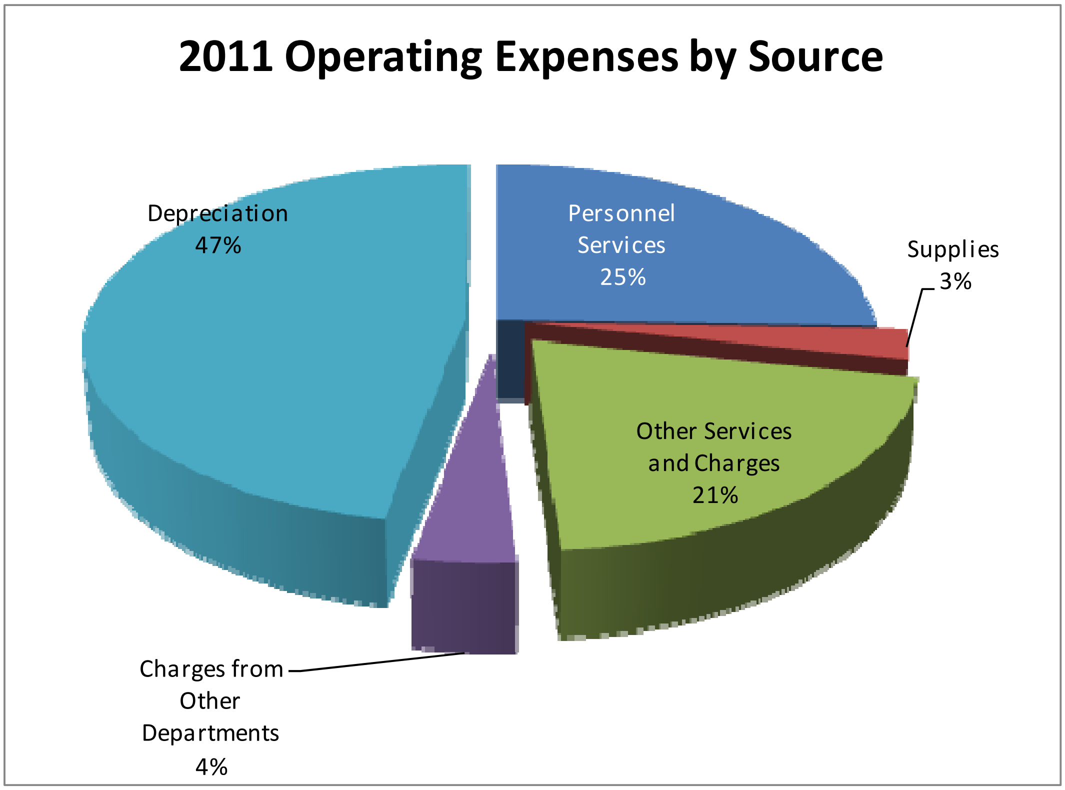
Operating expenses decreased by $28,234, a majority of which was attributable to a combination of decreases in depreciation expense of $335,133 offset by increases in Other Services and Charges and Personnel Services of $256,034.

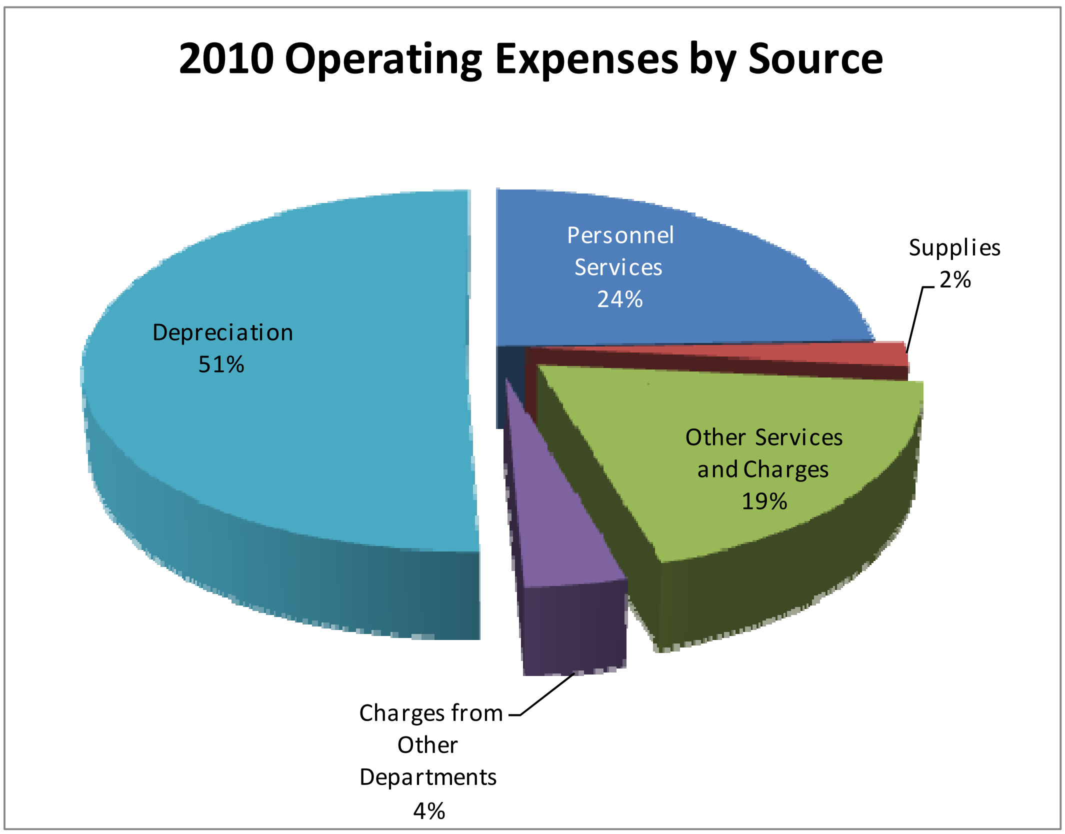

2011 Operating Revenues by Source
POL Valve Yard Fees 5%
Dockage 9%
Wharfage, Dry Bulk 2%
Wharfage, Liquid Bulk 9%
Industrial Park Lease Rentals 40%
Wharfage, General Cargo 33%
Crane Rentals 0%
Other 2%

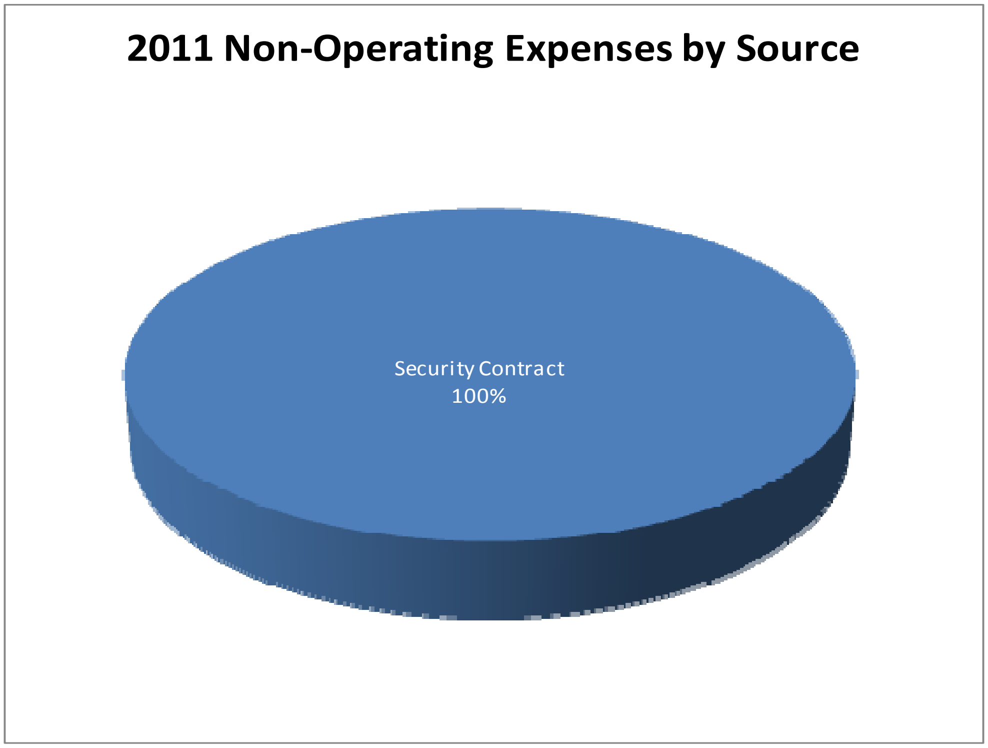

2010 Operating Revenues by Source
POL Valve Yard Fees 3%
Dockage 8%
Wharfage, Dry Bulk 1%
Wharfage, Liquid Bulk 9%
Industrial Park Lease Rentals 43%
Wharfage, General Cargo 33%
Crane Rentals 1%
Other 2%

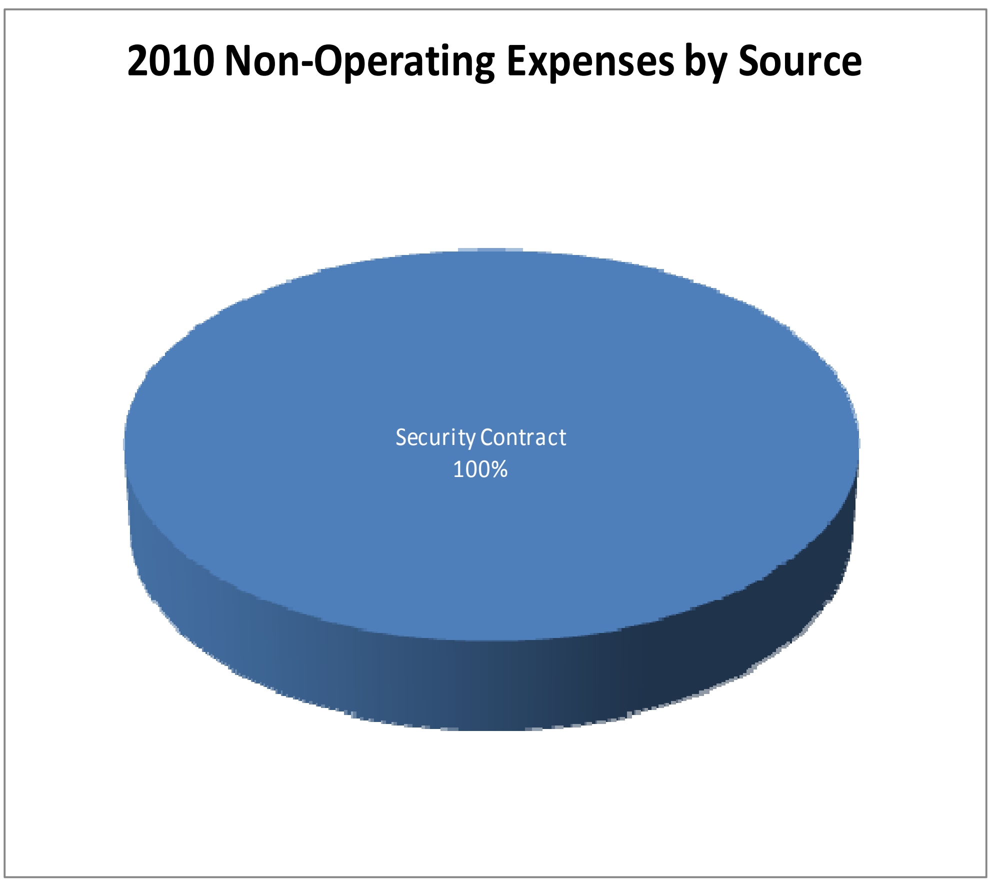

2011 Non-Operating Revenues by Source
Right-of-way Fees 8%
Investment Income 23%
Security Fees 69%


2010 Non-Operating Revenues by Source
Right-of-way Fees 7%
Investment Income 40%
Security Fees 53%


2011 Operating Expenses by Source
Depreciation 47%
Personnel Services 25%
Supplies 3%
Other Services and Charges 21%
Charges from Other Departments 4%


2010 Operating Expenses by Source
Depreciation 51%
Personnel Services 24%
Supplies 2%
Other Services and Charges 19%
Charges from Other Departments 4%


2011 Non-Operating Expenses by Source
Security Contract
100%


2010 Non-Operating Expenses by Source
Security Contract
100%

CAPITAL ASSETS AND DEBT

Capital Assets
The following table summarizes the Port's capital assets, at cost, as of December 31, 2011, 2010, and 2009.

TABLE 3
Capital Assets
(net of accumulated depreciation, in thousands)

	2011	2010	2009
Capital Assets			
Land	$ 20,076	$ 9,717	$ 9,717
Infrastructure	17,399	20,187	22,806
Buildings	2,468	2,632	2,729
Building Improvements	80	98	119
Land Improvements	19,213	19,318	20,344
Vehicles	199	267	336
Machinery and Equipment	945	1,236	1,792
Computer Equipment	15	20	20
Computer Software	10	2	-
Office Equipment	2	2	2
Art	14	14	14
Total Capital Assets	60,421	53,493	57,879
Construction Work in Progress	17,748	13,852	4,503
Total	$ 78,169	$ 67,345	$ 62,382
Increase/(Decrease) in Net Capital Assets	$ 10,824	$ 4,963	$ (1,557)

2011 major additions include:

- Whittier-Anchorage Pipeline Tank Farm — $ 10.3 million
- Dock Piling Sleeves — $ 786 thousand
- Machinery and Equipment and other improvements — $ 214 thousand

Construction work in progress increased by $3.9 million in 2011.

Debt
During 2011, 2010 and 2009, no additional debt was incurred from the initial $40 million of outstanding debt issued in 2008. This debt is shown on the Port's financial statements as a current liability since the lending term on commercial paper cannot exceed 270 days (less than one year). Although the Port's expansion project is expected to continue until 2019, the Municipality anticipates reissuing notes as the previous ones mature during the construction phase of the expansion project. This method of financing is an interim measure until the outstanding balance of the commercial paper can be refunded by long-term Port Revenue Bonds.

ECONOMIC FACTORS AND BUDGETS AND RATES

The 2011 budget anticipated Port operating revenues of $12,073,430 and $1,583,150 in non-operating revenues. Actual 2011 operating revenues earned amounted to $10,371,000, or $1,702,430 under budget projections. Actual 2011 non-operating revenues earned amounted to $1,881,134 or $297,984 over budget projections. The contributing factors to the variance between 2011 budget and actual operating revenues was the Port overestimated by $1,016,798 dockage and wharfage revenues as well as overestimated by $779,100 industrial park lease revenue. The significant variance between 2011 budget and actual non-operating revenues was that the Port had underestimated short term interest revenue by $333,059.

The 2011 budget anticipated Port operating expenses of $10,452,820. Actual 2011 operating expenses incurred amounted to $9,185,482 or $1,267,338 under budget projections. The contributing factors to the variance between 2011 budget and actual operating expenses was due to a $246,412 overestimation of charges from other municipal departments; a $291,742 underestimation of depreciation expense; a $271,068 overestimation of other services and charges expense; and finally a $492,085 overestimation of personnel services and other miscellaneous expenses.

In 2009, the Port undertook a review of its tariff rates terms and conditions. Following the review of its tariff the Port Commission proposed, and the Anchorage Assembly approved, the rates, terms and conditions of the Port's Terminal Tariff No. 7 effective January 1, 2011.

CONTACTING THE PORT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Port's customers, taxpayers, investors, and creditors with a general overview of the Port's finances and to demonstrate the Port's accountability for the money it receives. For questions about this report, or for additional financial information contact the Municipality of Anchorage Port of Anchorage Department, 2000 Anchorage Port Road, Anchorage, AK 99501.

General information can be found at: http://www.muni.org/port/index.cfm

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Comparative Balance Sheets

December 31, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash	$ 150	$ 150
Equity in General Cash Pool	11,503,130	20,729,372
Interest Receivable	71,232	155,330
Accounts Receivable, Net	1,149,557	1,118,357
Prepaid Items and Deposits	42,985	35,158
Parts Inventory	329,915	329,915
Total Unrestricted Current Assets	13,096,969	22,368,282
Restricted Assets:		
Intergovernmental Receivables	92,036	149,581
Bond and Acquisition and Construction Accounts	4,381,336	16,237,087
Total Restricted Current Assets	4,473,372	16,386,668
Total Current Assets	17,570,341	38,754,950
NON-CURRENT ASSETS		
Advances to MARAD	162,939,619	139,939,619
Capital Assets:		
Capital Assets, at Cost	147,026,954	135,535,297
Less: Accumulated Depreciation	(86,605,858)	(82,042,204)
Net Capital Assets	60,421,096	53,493,093
Construction Work in Progress	17,747,798	13,852,251
Total Capital Assets	78,168,894	67,345,344
Total Non-Current Assets	241,108,513	207,284,963
TOTAL ASSETS	$ 258,678,854	$ 246,039,913
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	$ 247,941	$ 171,762
Compensated Absences Payable	147,316	134,623
Accrued Payroll Liabilities	100,333	99,710
Notes Payable	40,000,000	40,000,000
Total Unrestricted Current Liabilities	40,495,590	40,406,095
Current Liabilities Payable from Restricted Assets:		
Capital Acquisition and Construction Accounts and Retainages Payable	325,326	140,250
Total Current Liabilities	40,820,916	40,546,345
NON-CURRENT LIABILITIES		
Deferred Credits	1,866,198	-
Compensated Absences Payable	42,869	66,112
Total Non-Current Liabilities	1,909,067	66,112
Total Liabilities	42,729,983	40,612,457
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	78,168,894	67,345,344
Restricted for Capital Construction	127,320,955	116,176,706
Unrestricted	10,459,022	21,905,406
Total Net Assets	215,948,871	205,427,456
TOTAL LIABILITIES AND NET ASSETS	$ 258,678,854	$ 246,039,913

The notes are an integral part of these financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Comparative Statements of Revenues, Expenses and Changes in Net Assets

For The Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Charges for Sales and Services:		
Dockage	$ 991,289	$ 845,214
Wharfage, Dry Bulk	167,018	73,172
Wharfage, Liquid Bulk	908,131	866,712
Wharfage, General Cargo	3,428,694	3,296,428
Storage Revenue	1,210	7,245
Office Rental	40,864	37,394
Utilities	17,704	19,485
Miscellaneous	179,101	144,596
Total Charges for Sales and Services	5,734,011	5,290,246
Other:		
Crane Rentals	52,500	61,908
Industrial Park Lease Rentals	4,110,620	4,333,539
POL Valve Yard Fees	473,869	300,212
Total Other	4,636,989	4,695,659
Total Operating Revenues	10,371,000	9,985,905
OPERATING EXPENSES		
Operations:		
Personnel Services	2,346,795	2,250,784
Supplies	246,179	193,627
Other Services and Charges	1,915,012	1,754,989
Charges from Other Departments	345,748	347,435
Total Operations	4,853,734	4,546,835
Depreciation	4,331,748	4,666,881
Total Operating Expenses	9,185,482	9,213,716
Operating Income	1,185,518	772,189
NON-OPERATING REVENUES (EXPENSES)		
Investment Income-Short Term Investments	433,059	974,656
Security Fees	1,306,697	1,305,539
Right-of-Way Fees	141,378	161,522
Security Contract	(1,304,957)	(1,271,761)
Total Non-Operating Revenues	576,177	1,169,956
Income Before Capital Contributions and Transfers	1,761,695	1,942,145
Capital Contributions	9,337,718	40,170,090
Municipal Service Assessment	(537,498)	(507,773)
Transfers to Other Funds	(40,500)	(3,000)
Change in Net Assets	10,521,415	41,601,462
Net Assets, beginning	205,427,456	163,825,994
Net Assets, ending	$ 215,948,871	$ 205,427,456

The notes are an integral part of these financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA
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Comparative Statements of Cash Flows

For The Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$ 11,787,875	$ 10,873,326
Payments to Employees	(2,356,722)	(2,245,972)
Payments to Vendors	(3,397,796)	(3,212,121)
Payments for Interfund Services	(345,748)	(347,435)
Net Cash Provided by Operating Activities	5,687,609	5,067,798
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Decrease in Amounts Due from Other Funds	-	22,225,306
Transfers to Other Funds (MESA Payment Included)	(577,998)	(510,773)
Net Cash Provided/(Used) by Non-Capital and Related Financing Activities	(577,998)	21,714,533
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments to MARAD	(23,000,000)	(41,139,618)
Acquisition and Construction of Capital Assets	(4,678,412)	(9,546,039)
Capital Contributions	969,651	40,049,234
Net Cash Used by Capital and Related Financing Activities	(26,708,761)	(10,636,423)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	-	5,126,356
Purchases of Investments	-	13,596
Interest Received	517,157	999,448
Net Cash Provided by Investing Activities	517,157	6,139,400
Net Increase (Decrease) in Cash	(21,081,993)	22,285,308
Cash, beginning of Year	36,966,609	14,681,301
Cash, end of Year	$ 15,884,616	$ 36,966,609
COMPONENTS OF CASH		
Cash and Cash Equivalents	$ 11,503,280	$ 20,729,522
Capital Acquisition and Construction Accounts	4,381,336	16,237,087
Cash and Cash Equivalents, end of year	$ 15,884,616	$ 36,966,609

MUNICIPALITY OF ANCHORAGE, ALASKA
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Comparative Statements of Cash Flows, continued

For The Years Ended December 31, 2011 and 2010

	2011	2010
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	$ 1,185,518	$ 772,189
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	4,331,748	4,666,881
Security Contract	(1,304,957)	(1,271,761)
Security Fees	1,306,697	1,305,539
Right-of-Way Fees	141,378	161,522
Changes in Assets and Liabilities Which Increase (Decrease) Cash:		
Accounts Receivable	(31,200)	(465,286)
Prepaid Items and Deposits	(7,827)	7,747
Accounts Payable	76,179	509
Compensated Absences Payable	(10,550)	15,111
Deferred Revenue and Deposits	-	(114,354)
Accrued Payroll Liability	623	(10,299)
Net Cash Provided by Operating Activities	$ 5,687,609	$ 5,067,798
Noncash Contribution of Land Received, Net of Deferred Credit Issued	$ 8,425,612	$ -

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Anchorage (Port) first began operations in September 1961. It had capacity to berth one marine cargo ship at a time, and more than 38,000 tons of marine cargo moved across its single berth that year. Since 1964, the Port has expanded to a five-berth terminal providing facilities for the movement of containerized freight, bulk petroleum and cement. Today, millions of tons of materials move across its docks each year. The Port serves 85 percent of Alaska's population and handles 90 percent of the consumer goods of Alaska. The Port is the major gateway for Alaska's water-borne commerce and a vital element of the regional economy.

The Port's steady growth in the past decade is expected to continue into the future. To keep pace with the future trends in the shipping industry and to better serve its existing clients, the Port is currently undergoing an intermodal expansion program that began in 2003. This expansion program targets two main facility improvements – road and rail extension and marine terminal redevelopment. The road and rail extension will improve cargo flow, substantially reduce traffic conflicts outside of Port boundaries, improve local air quality and support new and growing military requirements (U.S. Coast Guard Maritime Safety and Security Team [MSST] and U.S. Army Military Combat Forces). The marine terminal redevelopment will upgrade crane reach and provide a deeper draft to accommodate larger ships, condemn and demolish damaged or dilapidated structures and expand commercial dock space.

The accompanying financial statements reflect the activities of the Port. The Port is an enterprise fund of the Municipality of Anchorage (Municipality). Enterprise funds are established to finance and account for the operation and maintenance of facilities and services such as those of the Port that are predominately self-supported by user charges. User Charges for the Port are established in the Port of Anchorage Terminal Tariff No. 7 and through contractual Terminal Preferential Usage Agreements as recommended by the Anchorage Port Commission, and approved by the Anchorage Municipal Assembly and reported to the Federal Maritime Commission.

The accounting records and accompanying financial statements conform to Generally Accepted Accounting Principles (GAAP). 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 and expenses are recognized in the period incurred.

Accounting and reporting treatment applied to the Port is accounted for on a flow of economic resources measurement focus. As such, all assets and liabilities associated with the operation of both the operating and capital fund for the Port are included on the Balance Sheet. Net Assets as shown on the Balance Sheet are segregated into the following categories: Invested in Capital Assets, Net of Related Debt; Restricted for Capital Construction; and Unrestricted.

(a) Cash Pool and Investments

The Municipality uses a central treasury to account for all cash and investments. 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 capital cash pools are treated as a cash equivalent for cash flow purposes. Investments are recorded at fair value. Interest on cash pool investments is allocated to the Port each month based on its monthly closing cash pool equity balances.

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

(b) Restricted Assets

It is the Port's policy to first use restricted assets to make certain payments when both restricted and unrestricted assets are available for the same purpose. "Intergovernmental receivables" represent grant receivables due from state and federal governments. Advances to MARAD represent transfers by the Port for non-federal amounts for Port expansion, including grants received from the State of Alaska.

(c) Parts Inventory

Parts inventory is valued at cost using the specific identification method and is expensed when used (consumption method). The value of the Port's inventory totaled $329,915 at December 31, 2011, and 2010, respectively.

(d) Capital Assets

Capital assets are stated at cost. To be considered for capitalization, the cost of an asset must exceed $5,000 and the service life must exceed more than one year. The Port depreciates its assets using a straight-line method and whole life convention. Additions to plant in service are recorded at original cost of contracted services, direct labor and materials, interest and indirect overhead charges.

Estimated lives of major plant and equipment categories follow:

Building Improvements	10-20 years
Buildings	5-44 years
Computers	3-10 years
Infrastructure	3-40 years
Land Improvements	5-40 years
Machinery and Equipment	3-20 years
Office Equipment	5-20 years
Vehicles	5-7 years

(e) Operating Revenues and Expenses

Operating revenues and expenses result from providing services in connection with the Port's principal ongoing operations. Non-operating revenues and expenses include those revenues and expenses not directly related to the Port's principal ongoing operations.

(f) Accrued Leave

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

(g) Intergovernmental 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 Port. Charges from other departments to the Port totaled $345,748 and $347,435 for the years ended December 31, 2011 and 2010, respectively, which does not include the Port's payments to the Municipality's risk management programs.

(h) Risk Management and Self-Insurance

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

The primary government provides coverage up to the maximum of $2,000,000 per occurrence for automobile and general liability claims and $1,000,000 for each workers' compensation claim ($2,000,000 for firefighters). Two settled claims exceeded this commercial coverage in 2010 while no claims exceeded this coverage in 2011 and 2009.

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

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

Claims payable represent estimates of claims to be paid based upon past experience modified for current trends and information. The ultimate amount of losses incurred through December 31, 2011, is dependent upon future developments. At December 31, 2011, claims incurred but not reported included in the liability accounts are $14,307,162 in the General Liability/Workers' Compensation Fund and Medical/Dental Self Insurance Fund.

Changes in the Municipality's claim liability amounts in 2010 and 2011 are as follows:

	Liability Balance January 1	Current Year Claims and Changes in Estimates	Claims Paid	Liability Balance December 31
2010:				
General Liability/Workers' Compensation	$ 16,192,805	$ 8,648,832	$ (8,557,092)	$ 16,284,545
Medical/Dental	7,354,588	48,760,422	(49,528,532)	6,586,478
Unemployment	130,070	740,907	(701,661)	169,316
	$ 23,677,463	$ 58,150,161	$ (58,787,285)	$ 23,040,339
2011:				
General Liability/Workers' Compensation	$ 16,284,545	$ 12,979,419	$ (8,178,281)	$ 21,085,683
Medical/Dental	6,586,478	49,651,504	(48,425,213)	7,812,769
Unemployment	169,316	522,267	(585,017)	106,566
	$ 23,040,339	$ 63,153,190	$ (57,188,511)	$ 29,005,018

At December 31, 2011 the Medical and Dental Self Insurance Fund had negative unrestricted net assets of $1,036,071, an improvement of $2,639,184 from 2010. Medical and Dental rates were increased by 11.5% in 2012 to offset the deficit.

At December 31, 2011, the General Liability and Worker's Compensation Fund had negative unrestricted net assets of $4,714,225. Insurance rates will be increased to offset the deficit.

(i) Interfund Payable/Receivable – Capital Projects Fund

In the event that the Port 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 a margin negotiated between the Municipality and the Port. When the Port sells commercial paper, the cash pool will be reimbursed from the debt proceeds. In the event that other funds borrow from the Port, the Port will receive the investment earnings.

NOTE 2 – PORT CASH AND INVESTMENTS

At December 31, 2011, Anchorage had the following cash and investments, with fixed income maturities as noted:

		Fixed Income Investment Maturities (in years)			
Investment Type	Fair Value*	Less Than 1	1 - 5	6 - 10	More Than 10
Petty Cash	$ 77,012	$ -	$ -	$ -	$ -
Master Lease Agreement	656,850				
Central Treasury - Unrestricted					
Cash & Money Market Funds	7,539,501	-	-	-	-
Repurchase Agreements	881,793	-	-	-	-
Commercial Paper	1,933,453	1,933,453	-	-	-
Certificates of Deposit	1,616,710	1,616,710	-	-	-
U.S. Treasuries	104,100,064	3,152,242	80,795,315	20,152,507	-
U.S. TIPS	5,551,418	2,458,157	828,842	2,264,419	-
U.S. Agencies	74,143,910	51,022,181	14,956,744	6,846,843	1,318,142
Asset-Backed Securities**	46,577,956	-	21,009,958	6,480,127	19,087,871
Corporate Fixed Income Securities	85,620,130	22,515,236	48,637,867	12,020,730	2,446,297
Payables	(9,466,377)	-	-	-	-
	$ 318,498,558	$ 82,697,979	$ 166,228,726	$ 47,764,626	$ 22,852,310
Central Treasury - Restricted					
Cash & Money Market Funds	$ 19,189,854	$ -	$ -	$ -	$ -
Repurchase Agreements	215,720	-	-	-	-
Commercial Paper	16,724,246	16,724,246	-	-	-
Certificates of Deposit	1,566,532	1,566,532	-	-	-
U.S. Treasuries	25,466,807	771,157	19,765,586	4,930,064	-
U.S. TIPS	1,358,087	601,358	202,766	553,963	-
U.S. Agencies***	43,488,698	34,637,047	6,854,188	1,674,996	322,467
Foreign Governments & Agencies	4,296,742	4,296,742	-	-	-
Asset-Backed Securities**	11,394,727	-	5,139,829	1,585,284	4,669,614
Corporate Fixed Income Securities	51,962,172	36,524,331	11,898,659	2,940,725	598,457
Payables	(2,315,833)	-	-	-	-
	$ 173,347,752	$ 95,121,413	$ 43,861,028	$ 11,685,032	$ 5,590,538
MOA Trust Fund					
Cash & Money Market Funds	$ 452,766	$ -	$ -	$ -	$ -
Fixed Income Funds	39,109,698	-	-	39,109,698	-
Domestic Equities & Equity Funds	41,332,405	-	-	-	-
International Equities & Equity Funds	29,164,245	-	-	-	-
Real Estate Funds	6,755,142	-	-	-	-
	$ 116,814,256	$ -	$ -	$ 39,109,698	$ -

*** Market value plus accrued income.

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

*** $11,531,699 in callable 1-5 year notes are expected to be called within the next year and are classified as Less Than 1.

The Port's unrestricted cash and investments represent 3.6% of the unrestricted Municipal Central Treasury. The Port's restricted cash and investments represent 2.5% of the restricted Municipal treasury.

Anchorage Central Treasury

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

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

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

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

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

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

The Investment Management Agreement (IMA) for each external manager and the policy and procedures (P&P) applicable to the internally managed investments provide additional guidelines for each portfolio's investment mandate.

The IMA and P&P limit the concentration of investments for the working capital portfolio and the internally managed portfolio at the time new investments are purchased as follows:

Investment Type	Concentration Limit	Working Capital Portfolio Holding % at	Internally Managed Portfolio Holding % at
U.S. Government Securities*	50% to 100% of investment portfolio	69%	56%
Repurchase Agreements	0% to 50% of investment portfolio	0%	1%
Certificates of Deposit**	0% to 50% of investment portfolio Maximum 5% per issuer	2%	1%
Bankers' Acceptances	0% to 25% of investment portfolio Maximum 5% per issuer	0%	0%
Commercial paper	0% to 15% of investment portfolio Maximum 5% per issuer	2%	18%
Corporate Bonds	0% to 15% of investment portfolio Maximum 5% per issuer	16%	7%
Alaska Municipal League Investment Pool (AMLIP)***	0% to 25% of investment portfolio	0%	0%
Money Market Mutual Funds	0% to 25% of investment portfolio	11%	12%
Dollar Denominated Fixed Income Securities, other than those listed herein, rated by at least one nationally recognized rating agency	0% to 15% of investment portfolio Maximum 5% per issuer	0%	5%
		100%	100%

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

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

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

Interest Rate Risk

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

Duration is a measure of an investment's sensitivity to interest rate changes, and represents the sensitivity of an investment's market price to a 1% change in interest rates. The effective duration of an investment is determined by its expected future cash flows, factoring in uncertainties introduced through options, prepayments, and variable rates. The effective duration of a pool is the average fair value weighted effective duration of each security in the pool.

The effective durations of the externally managed portfolios of the Anchorage Central Treasury (working capital, contingency reserve and strategic reserve) at December 31, 2011, were 0.35 years, 1.68 years, and 3.70 years, respectively.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For fixed income securities, this risk is generally expressed as a credit rating. At December 31, 2011, the Anchorage Central Treasury's investment in commercial paper totaled $18,657,700, and was rated A-1 by Standard & Poor's and P-1 by Moody's. All commercial paper is purchased with a maturity of 270 days or less. The Anchorage Central Treasury's investment in marketable debt securities, excluding U.S. Treasury and Agency securities, totaled $205,626,554 at December 31, 2011. The distribution of ratings on these securities was as follows:

Moody's		S&P	
Aaa	39%	AAA	19%
Aa	14%	AA	24%
A	18%	A	26%
Baa	13%	BBB	12%
Ba or lower	1%	BB or lower	1%
Not Rated	15%	Not Rated	18%
	100%		100%

At December 31, 2011, Anchorage's Central Treasury was invested in Asset Backed Securities and Mortgage Backed Securities valued at $1,253,814 which fell below the minimum credit rating of AA-/Aa3 required by AMC 6.50.030. These circumstances resulted from the downgrade of investments held in the contingency reserve and strategic reserve portfolios. Securities falling outside of compliance are divested as soon as it is prudent to do so.

Concentration of Credit Risk

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

At December 31, 2011, Anchorage had no investments in any single issuer exceeding 5% of net assets.

Custodial Credit Risk

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

At December 31, 2011, the Anchorage Central Treasury had bank deposit carrying amounts totaling $24,303,426, of which $1,879,079 was covered by federal depository insurance. Bank deposits of $21,200,665 were secured by collateral held at the depository bank, and additional bank deposits of $1,097,512 were secured by a tri-party collateral agreement. The tri-party collateral agreement requires that collateral be transferred to the custodian of the tri-party agreement and held in the pledging bank's name on behalf of Anchorage. Additional bank balances of $1,097,512 were invested in overnight repurchase agreements. Repurchase agreement investments were also collateralized through a tri-party collateral agreement. All collateral consists of obligations issued, or fully insured or guaranteed as to payment of principal and interest, by the United States of America, an agency thereof or a United States government sponsored corporation, with market value not less than the collateralized deposit balances.

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 requirements of AMC 6.50.030 and the asset allocation policies of each portfolio.

The Anchorage Central Treasury is not exposed to foreign currency risk because AMC 6.50.030 explicitly prohibits the purchase of securities not denominated in U.S. Dollars. At December 31, 2011 all debt obligations held in the Anchorage Central Treasury were payable in U.S. Dollars.

NOTE 3 – PORT EXPANSION

In March 2003, the Municipality and the U.S. Department of Transportation Maritime Administration (MARAD) entered into a Memorandum of Understanding (MOU) with respect to funding and administering the Port of Anchorage Intermodal Expansion Project. In November 2011, a new Memorandum of Agreement between the parties was executed in respect to funding and administering the project. This agreement is in effect until May 31, 2012 and can be extended by mutual agreement.

Under this agreement, the Port is responsible for providing overall program requirements and direction for the Port Expansion to MARAD. The Port also is required to review all plans, specifications and status reports submitted by the primary contractor and subcontractors before they are submitted to MARAD for inclusion in its permanent federal project files. The agreement also requires the Port to provide all documentation required for MARAD to request interagency funding transfers of amounts received directly from other federal agencies through annual Congressional Appropriations for Port Expansion. Finally, the Port is responsible for executing periodic transfers of non-federal amounts for Port Expansion to MARAD, including grants received from the State of Alaska.

Because MARAD administers the construction of the project, the Port only recognizes capital assets upon transfer of the assets from MARAD. In addition to the funds that the Port contributes to the expansion project, which are recorded as Advances to MARAD on the balance sheet, other federal agencies contribute funds directly to MARAD. Accordingly, those federal funds are not recorded on the Port's financial statements until such time that the completed asset is transferred to the Port from MARAD.

At the end of 2011, cumulative transfers to MARAD by the Port total $163,400,001, of which $162,939,619 is shown on the balance sheet as "Advances to MARAD" and $460,382 are included in capital assets.

The table below provides the detail of all life-to-date transfers to MARAD, as of December 31, 2011:

Source of Contribution	Amounts
State Grants	$ 89,990,164
Commercial Paper	40,000,000
Port Funds	33,409,837
Total Contributions	$ 163,400,001

In February 2011, the Port entered into an agreement with the Department of Defense to acquire 48 acres of undeveloped land for fair market value of $10,305,000. In exchange, the Port has committed to provide a permanent access road connecting Joint Base Elmendorf-Richardson to the Port and to accept responsibility for the environmental condition of the transferred land and is reflected on the Port's balance sheet as a deferred credit totaling $1,866,198. In connection with this transaction, the Port has recognized a capital contribution in the amount of $8,425,612.

NOTE 4 – CAPITAL ASSETS

Capital assets for the year ended December 31, 2011 are as follows:

	Capital Assets (in thousands)			
	Balance 01/01/11	Additions	Retirements	Balance 12/31/11
CAPITAL ASSETS				
Land	$ 9,717	$ 10,359	$ -	$ 20,076
Infrastructure	85,491	-	126	85,365
Buildings	5,837	14	-	5,851
Building Improvements	355	-	-	355
Land Improvements	25,526	913	54	26,385
Vehicles	632	-	-	632
Machinery and Equipment	7,709	372	-	8,081
Computer Equipment	102	-	-	102
Computer Software	4	13	-	17
Office Equipment	148	-	-	148
Art	14	-	-	14
Total plant in service, gross	135,535	11,671	180	147,026
Less Accumulated Depreciation	(82,042)	(4,563)	-	(86,605)
Net plant in service	53,493	7,108	180	60,421
CONSTRUCTION WORK IN PROGRESS	13,852	4,924	1,028	17,748
TOTAL NET CAPITAL ASSETS	$ 67,345	$ 12,032	$ 1,208	$ 78,169

Capital assets for the year ended December 31, 2010 are as follows:

	Capital Assets (in thousands)			
	Balance 01/01/10	Additions	Retirements	Balance 12/31/10
CAPITAL ASSETS				
Land	$ 9,717	$ -	$ -	$ 9,717
Infrastructure	85,365	126	-	85,491
Buildings	5,753	84	-	5,837
Building Improvements	355	-	-	355
Land Improvements	25,503	23	-	25,526
Vehicles	632	-	-	632
Machinery and Equipment	7,677	42	10	7,709
Computer Equipment	98	4	-	102
Computer Software	2	2	-	4
Office Equipment	148	-	-	148
Art	14	-	-	14
Total plant in service, gross	135,264	281	10	135,535
Less Accumulated Depreciation	(77,385)	(4,666)	(9)	(82,042)
Net plant in service	57,879	(4,385)	1	53,493
CONSTRUCTION WORK IN PROGRESS	4,503	9,630	281	13,852
TOTAL NET CAPITAL ASSETS	$ 62,382	$ 5,245	$ 282	$ 67,345

At the end of 2011, interest and issuance fees in connection with rolling the commercial paper totaling $919,379 were capitalized into CWIP.

NOTE 5 – LEASE AGREEMENTS

(a) Lease Agreements

The Port has leased to unrelated third parties 72.8 acres of space in the Port Industrial Park. The 2011 carrying value of the leased assets is $4,009,808, with a cost of $9,084,343 and accumulated depreciation of $5,074,535. The 2010 carrying value of the leased assets is $4,308,267, with a cost of $9,084,342 and accumulated depreciation of $4,776,075. The leases provide for five-year rental adjustment intervals. Future minimum payments to be received are as follows (in thousands):

Years	**Amount**
2012	$ 2,190
2013	2,121
2014	1,885
2015	1,649
2016	88
2017-2021	442
2022-2026	383
2027-2031	48
Total	$ 8,806
Lease Revenue for 2011	$ 4,110

NOTE 6 – COMMERCIAL PAPER

In January 2008, the Anchorage Assembly authorized the issuance of Commercial Paper in one or more series in the aggregate principal amount not to exceed two hundred fifteen million dollars ($215,000,000) as an interim financing program for the port expansion project until such time that the outstanding balance of commercial paper notes are refunded by long-term Port Revenue Bonds. The expansion project is expected to continue until 2019. In 2008, commercial paper notes were issued in the amount of $40,000,000 and were shown on the Port Enterprise Fund financial statements as a current liability since the lending term on commercial paper cannot exceed 270 days (less than one year). During 2011 the notes were redeemed and reissued; however, the total balance outstanding remains at $40 million.

NOTE 7 – MITIGATION FUND

The Port's Intermodal Expansion Program involves improvements to land located in intertidal mudflats and near shore sub-tidal waters of Knik Arm. In order to make these improvements, fill material must be brought in and discharged at various locations within the Port of Anchorage. When the addition of this fill material is complete, it will add 138 acres of developable property needed to support the expansion of the Port. Federal permitting is required in order to discharge fill material in United States waters and the Regulatory Division of the Alaska District Corps of Engineers (Corps) has jurisdiction over such matters including the review and issuance of the required permits. The Port has obtained permits in connection with the expansion program.

As part of the permit requirements, the Corps required that a mitigation fund be established for restoration, enhancement, preservation and/or creation of aquatic habitats and functions to offset, as practicable, unavoidable impacts associated with authorized Port improvements within adjacent and/or nearby tributary watersheds of Knik Arm.

The mitigation fund was established through a Memorandum of Agreement (Agreement) between the Corps and the Municipality. That Agreement and subsequent amendments set forth the procedures and processes for the management, financing and administration of the mitigation fund. The Agreement initially recognized the Municipality as the entity responsible for administering the mitigation fund on behalf of the Port. An advisory committee was established to make recommendations to the Corps and the Municipality on proposed projects that offset the ecological losses associated with the authorized Port improvements. Final approval for the allocation and distribution of all mitigation funds rests with the Corps.

From 2006 through 2009 the Port established the mitigation fund account with an initial deposit of $955,988 in FY 2006 as required under the Agreement. These funds must be used for the implementation of eligible mitigation projects. Funds in this account are managed and invested consistent with the provisions of Chapter 6.50 of the Anchorage Municipal Code. Interest earned on the account is used to offset inflation of mitigation project costs, as well as other reasonable costs associated with establishing, maintaining and investing the funds contained within the account. In addition, the Municipality assessed a 5% administrative fee against all deposits into the account as they occurred.

Interest earnings that exceed annual inflation rate percentages times the account balance and less reasonable account management costs were treated as unrestricted earnings of the Port. At the end of 2009 the balance in the mitigation escrow account was $5,126,356.

In 2010 the Corps requested the Municipality transfer funds held in the mitigation fund account and subsequent annual deposits to a third party escrow account. The Municipality in 2010 transferred $6,580,827 to the designated third party escrow account consisting of $5,126,356 of deposits made from 2006 through 2009, $46,703 of interest earned in 2010 and $1,407,768 representing the 2010 annual required deposit. In fulfillment of its obligations the Port made its final deposit in 2011 in the amount of $1,407,850.

NOTE 8 – RETIREMENT PLANS

State of Alaska Public Employees' Retirement System

(a) Plan Descriptions

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

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

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

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

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

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

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

Detailed contribution rates for the Port and actuarial methods for the plan for the year ended 2011 are as follows:

	Employee Rate		**Contractual Rate**		**ARM Board Adopted Rate**		**GASB 45***	
	1/1 to 6/30/11	7/1 to 12/31/11	1/1 to 6/30/11	7/1 to 12/31/11	1/1 to 6/30/11	7/1 to 12/31/11	1/1 to 6/30/11	7/1 to 12/31/11
Pension	2.41%	3.21%	7.85%	10.48%	9.98%	14.65%	13.49%	13.72%
Postemployment Healthcare	4.34%	3.54%	14.15%	11.52%	17.98%	16.11%	55.87%	49.98%
Total Contribution Rate	6.75%	6.75%	22.00%	22.00%	27.96%	30.76%	69.36%	63.70%

* This rate uses a 4.5% OPEB discount rate from 1/1/2011 to 6/30/2011 and 4.70% from 7/1/2011 to 12/31/2011 and disregards future Medical Part D payments.

(c) Annual Pension and Postemployment Healthcare Cost

The Port is required to contribute 22% of covered payroll, subject to a wage floor. In addition, the State contributed approximately 5.96% from January 1 through June 30 and 8.76% between July 1 and December 31, 2011 of covered payroll to the Plan. In accordance with the provisions of GASB Statement Number 24, Anchorage has recorded the state contribution in the General Fund in the amount of $19,733,677 as a PERS on-behalf payment. The Port did not recognize any portion of the revenue or expense related to this contribution. Because the Port is not statutorily obligated for these payments, this amount has been excluded from pension and OPEB cost as described here.

Pension and OPEB payments for the three years from December 31, 2009 to December 31, 2011 are shown below:

Year	Annual Pension Cost	Annual OPEB Cost	Total Benefit Cost (TBC)	Port Contributions	% of TBC Contributed
2011	$ 74,065	$ 83,317	$ 157,382	$ 157,382	100%
2010	$ 70,710	$ 77,747	$ 148,457	$ 148,457	100%
2009	$ 108,940	$ 60,468	$ 169,408	$ 169,408	100%

(d) Funding Policy and Annual Pension and Postemployment Healthcare Costs – PERS Tier IV Defined Contribution Plan

Employees first enrolling into PERS after July 1, 2006 participate in PERS Tier IV. PERS Tier IV is a defined contribution retirement plan that includes a component of defined benefit post-employment 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	
	1/1 - 6/30	7/1 - 12/31
Employee Contribution	8.00%	8.00%
Employer Contribution		
Retirement	5.00%	5.00%
Health Reimbursement Arrangement *	3.00%	3.00%
Retiree Medical Plan	0.55%	0.51%
Death & Disability Benefit	0.31%	0.20%
Total Employer Contribution	8.86%	8.71%

*Health Reimbursement Arrangement - AS 39.30.370 requires that the employer contribute "an amount equal to three percent of the employer's average annual employee compensation." For actual remittance, this amount is calculated as a flat rate per full-time employee and a flat rate per hour for part-time employees. Prior to July 1, 2011 a rate of $66.18 per full time employee per pay period and $1.10 per part time hour worked was paid. For pay periods ending after July 1, 2011, a rate of $68.39 per full time employee per pay period and $1.14 per part time hour worked was paid.

For the year ended December 31, 2011, the Port contributed $12,265 to PERS Tier IV for retirement and retiree medical, and it contributed $5,391 to PERS Tier IV for Health Reimbursement Arrangement on-behalf of its employees. Employee contributions to the plan totaled $16,530.

Under the cost-sharing arrangement for the PERS defined benefit plan (Tiers I–III), the state statute employer contribution rate of 22%, includes Tier IV employees. In addition to the amounts above, the Port contributed approximately 13.29% on Tier IV employee payroll. This amount was applied to the obligation of the PERS defined benefit plan and is included in the contributions (ARC) recorded in the defined benefit cost-sharing plan.

NOTE 9 – New Accounting Pronouncements

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates as follows:

- *GASB 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* – Effective for year end December 31, 2012 – This statement will result in a change to the city's presentation of proprietary fund statements and government-wide statements from a traditional Balance Sheet format to a new Statement of Net Position format which will segregate deferred inflows and deferred outflows from assets and liabilities respectively.
- *GASB 64 – Derivative Instruments: Application of Hedge Accounting Termination Provisions* – Effective for year end December 31, 2013 – This statement provides guidance on proper accounting for Hedge Terminations and clarifies when a termination has occurred.

- *GASB 65 – Items Previously Reported as Assets and Liabilities* – Effective for year end December 31, 2013 – This statement is a companion to GASB statement 63 and establishes accounts to be reclassified as deferred inflows and outflows. In addition, certain items previously reported as assets or liabilities will be moved to the income statement. For example, debt issuance costs will no longer be capitalized and amortized but will be expensed as incurred, certain regulatory assets and liabilities will be reclassified to deferred inflows and outflows.
- *GASB 66 – Technical Corrections – 2012* – Effective for year end December 31, 2013 – This statement contains certain technical corrections to prior GASB statements on the topics of Risk Financing, Operating Leases, Loan Purchases, and Servicing Fees.

The Port is evaluating the potential effect of these statements.

NOTE 10 – Subsequent Events

Subsequent to December 31, 2011, the Port executed a new preferential usage agreement with a major customer which will provide an additional $1,323,000 in lease revenue over the 2012-2015 period.

For the Port Expansion, the State Legislature in 2012 agreed to provide a $48.5 million dollar grant and included another $50 million in a bond package that will go before voters in November 2012.

STATISTICAL SECTION

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Statistical Section (Unaudited)

COMPARATIVE DETAIL SCHEDULE OF ACTUAL REVENUES BY SOURCE

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Dockage	$ 991,289	$ 845,214	$ 705,081	$ 842,096	$ 828,548	$ 825,540	$ 669,302	$ 659,717	$ 747,795	$ 710,017
Wharfage, Dry Bulk	167,018	73,172	71,343	126,338	132,514	153,306	123,324	138,826	133,713	99,292
Wharfage, Liquid Bulk	908,131	866,712	490,956	522,305	695,566	858,866	1,217,553	1,109,093	1,099,559	973,247
Wharfage, General Cargo	3,428,694	3,296,428	3,613,275	3,724,411	3,570,930	3,666,203	3,574,213	3,487,029	3,419,193	3,231,780
Terminal Lease/Rental	-	-	-	-	-	-	154,189	396,779	450,273	437,595
Storage Revenue	1,210	7,245	-	4,160	13,215	8,788	101,960	55,660	(2,766)	137,552
Office Rental	40,864	37,394	31,167	27,699	23,964	35,038	24,330	25,158	28,146	26,046
Utilities	17,704	19,485	7,510	10,198	10,635	17,980	15,870	12,585	15,790	9,840
Crane Rentals	52,500	61,908	48,435	48,076	140,012	26,695	39,493	124,036	24,892	-
Industrial Park Lease	4,110,620	4,333,539	4,301,791	4,158,226	4,029,120	4,341,167	3,636,375	2,746,259	2,519,925	2,532,221
Investment Income - Long-Term	-	-	11,186	35,828	85,171	103,927	145,760	186,093	223,103	256,718
Investment Income - Short-Term	433,059	974,656	2,031,824	218,893	2,342,556	1,819,458	1,058,201	130,470	252,012	556,129
Right-of-Way Fees	141,378	161,522	140,074	177,083	181,227	145,000	145,000	143,869	117,344	141,599
POL Value Yard Fees	473,869	300,212	358,443	485,400	499,385	498,133	457,858	458,476	459,226	370,526
Security Fees	1,306,697	1,305,539	1,312,465	1,541,818	1,586,553	1,145,804	1,569,374	805,469	-	-
Gain on Disposition of Assets	-	-	-	52,470	-	640	-	-	-	-
Reimbursed Cost	-	-	2,760	873,765	-	-	-	-	-	-
Intergovernmental Revenue	-	-	-	57,205	47,046	29,277	529,912	-	-	69,375
Miscellaneous Revenues	179,101	144,596	57,522	(19,511)	57,035	158,154	64,481	121,412	96,692	119,337
Subtotal	12,252,134	12,427,622	13,183,832	12,886,460	14,243,477	13,833,976	13,527,195	10,600,931	9,584,897	9,671,274
Capital Contributions	9,337,718	40,170,090	10,087,667	35,974,275	968,723	2,155,516	-	-	-	-
Transfers From Other Funds	-	-	-	13,855	-	-	-	-	-	-
Special Item - NPO/ OPEB Write-off	-	-	-	93,773	-	-	-	-	-	-
TOTAL	$ 21,589,852	$ 52,597,712	$ 23,271,499	$ 48,968,363	$ 15,212,200	$ 15,989,492	$ 13,527,195	$ 10,600,931	$ 9,584,897	$ 9,671,274

Statistical Section (Unaudited)

CURRENT PORT TARIFF RATES

Type of Service		Wharfage Rate
Aggregates, per Ton	$	1.00
Freight NOS		6.00
Bulk Commodities, Dry, NOS		2.50
Cement		4.50
Cement Bulk through Pipeline		1.37
Coal, Bulk		0.01
Iron or Steel Articles		4.50
Logs		2.50
Lumber		4.50
Chips		3.00
Petroleum or Petroleum Products		
* Inbound/Outbound		0.135
* Transfers		0.004
* Fuel		0.0125
Powder (Explosive)		15.00
Vans or Containers		3.00
Vehicles		10.00

Port of Anchorage Terminal Tariff No. 7.
Tariff Issued 01/1/2011 and Effective 1/1/2011.

TEN-YEAR ANNUAL DOCK TONNAGE 2002- 2011

Commodities Across Facility	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Freight NOS (not otherwise specified)	2	-	124	215	478	19,740	73	142	-	-
Dry Buld Goods	118,280	109,228	81,494	116,789	124,089	134,921	148,959	122,855	150,665	95,599
Petroleum, NOS	2,052	1,660	2,032	2,648	2,618	2,888	4,505	4,148	4,534	2,963
Vans, Flats, Containers	1,705,176	1,736,943	1,713,086	1,831,816	1,785,518	1,722,499	2,081,158	1,760,935	1,677,041	1,609,971
Vehicles	864	-	1,473	10,725	5,381	1,158	4,057	2,877	1,343	-
Petroleum, Shoreside	1,376,909	1,192,705	1,426,711	1,830,848	1,698,581	1,421,133	-	-	-	-
Petroleum, Rail Rack	-	-	-	-	-	76,266	1,511,671	1,520,157	1,338,148	1,056,113
Petroleum, Dockside	931,931	922,426	573,352	577,236	699,727	968,684	1,351,393	1,216,896	1,240,898	1,186,022
TOTAL TONS	4,135,214	3,962,962	3,798,272	4,370,277	4,316,392	4,347,289	5,101,816	4,628,010	4,412,629	3,950,668

FINANCIAL RATIOS

Description	2011	2010	2009	2008	2007	2006	2005	2004
Current Ratio (current assets / current liabilities)	0.43	0.96	1.07	0.74	31.07	141.87	18.36	17.64
Quick Ratio (quick assets / current liabilities)	0.31	0.54	0.89	0.26	10.65	39.66	6.03	5.20
Return on Investment (change in net assets / total assets)	4%	17%	6%	19%	3%	6%	4%	3%
Return on Equity (change in net assets / net assets)	5%	20%	7%	24%	3%	6%	4%	3%
(outstanding debt / capital structure over net assets / capital	16%	16%	20%	21%	N/A	N/A	1%	3%
(outstanding debt/capital structure over net assets/ capital structure)	84%	84%	80%	79%	N/A	N/A	99%	97%
Operating margin (operating income / operating revenue)	11%	8%	-1%	6%	9%	19%	22%	15%

Notes to Financial Ratios:

Quick or Acid-test ratio computed by removing from current assets inventory and restricted current assets.

Debt to Equity ratio assumed in 2004 that total debt included l-t obligations maturing within one year plus non-current portion of debt including unamortized premium less deferred loss on refunding.

PORT OF ANCHORAGE
2012-2017 CAPITAL IMPROVEMENT PROGRAM SUMMARY
(000's Omitted)

PROJECT CATEGORY	2012	2013	2014	2015	2016	2017	TOTAL
Intermodal Expansion Program (*)	6,410	5,500	5,000	5,000	5,000	5,000	31,910
Port Development	323,000	1,900	4,000	4,000	1,000	1,000	334,900
Repairs and Renovation	1,700	1,700	1,700	1,700	1,700	1,700	10,200
Equipment	200	200	200	100	100	100	900
TOTAL	331,310	9,300	10,900	10,800	7,800	7,800	377,910

FUNDING SOURCE	2012	2013	2014	2015	2016	2017	TOTAL
Lease/Revenue Bonds	-	900	3,000	3,000	-	-	6,900
Equity (**)	6,410	5,500	5,000	5,000	5,000	5,000	31,910
Equity/Operations	323,000	1,000	1,000	1,000	1,000	1,000	328,000
Beluga Contributed	1,900	1,900	1,900	1,800	1,800	1,800	11,100
TOTAL	331,310	9,300	10,900	10,800	7,800	7,800	377,910

(*) Federal Grant Matching Portion Remitted and Controlled by MARAD (Maritime Administration) for Port Expansion.
Federal Funds received directly, if any, or MARAD expansion components will be reflected as Work In Progress.
Port Asset Value will be reflected upon completion of the expansion program.
(**) MARAD contribution and Port Development.

TOP TEN CUSTOMER RANKING ON 2011 BILLINGS
HIGHEST TO LOWEST

Rank No.	Customer Name
1	Horizon Lines
2	TOTE Inc
3	Tesoro AK Petroleum
4	Flint Hills
5	Anchorage Fueling & Services
6	Cruise line Agencies of Alaska
7	Anchorage Sand & Gravel
8	Petro Star Inc.
9	US Coast Guard
10	Crowley Petroleum Distribution