MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Basic Financial Statements with Supplementary Information

December 31, 2012 and 2011

(With Independent Auditor's Report Thereon)

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

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Mikunda, Cottrell & Co., Inc.
Certified Public Accountants & Consultants

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Port of Anchorage (the Port), an enterprise fund of the Municipality of Anchorage, Alaska, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Port of Anchorage Fund's basic financial statements as listed in the table of contents. Our responsibility is to express an opinion on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Port of Anchorage as of December 31, 2012 and 2011, and the change in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, these 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, 2012 and 2011, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in 2012 the Port adopted the provisions of Governmental Accounting Standards Board (GASB) Statement number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and the provisions of GASB Statement number 65, *Items Previously Reported as Assets and Liabilities*. These provisions have been retrospectively applied to all periods presented in these financial statements. Our opinion is not modified with respect to this matter.

As discussed in Note 10 to the financial statements, the 2011 financial statements have been restated to correct for a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that management’s discussion and analysis on pages 4 through 13 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.

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

Other Matters, continued

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2013 on our consideration of the Port of Anchorage's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port of Anchorage's internal control over financial reporting and compliance.

Mikunda, Cottrell & Co.

Anchorage, Alaska
May 28, 2013

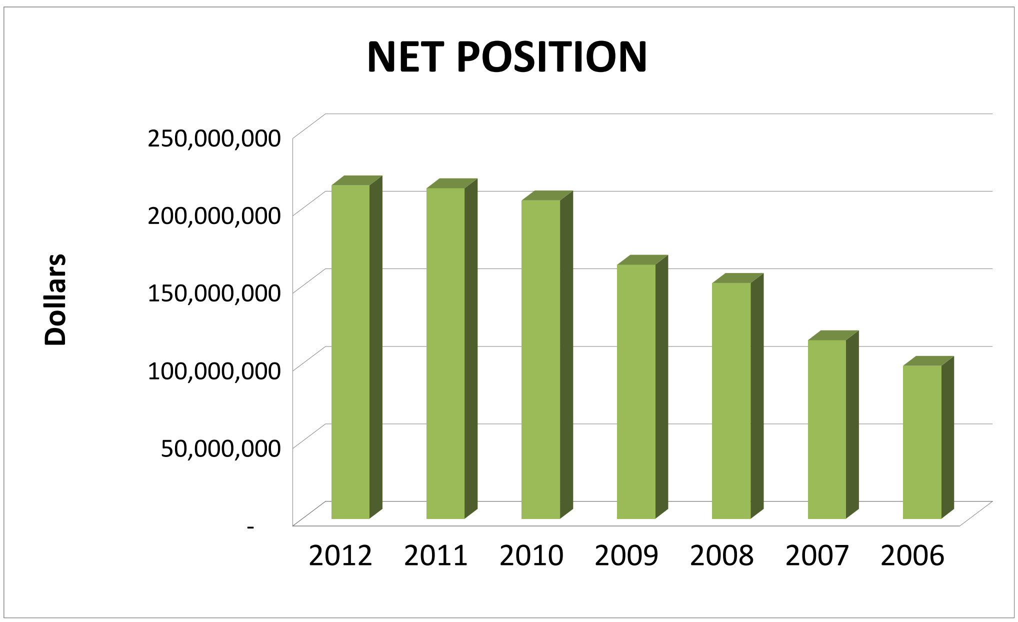
Management's Discussion and Analysis

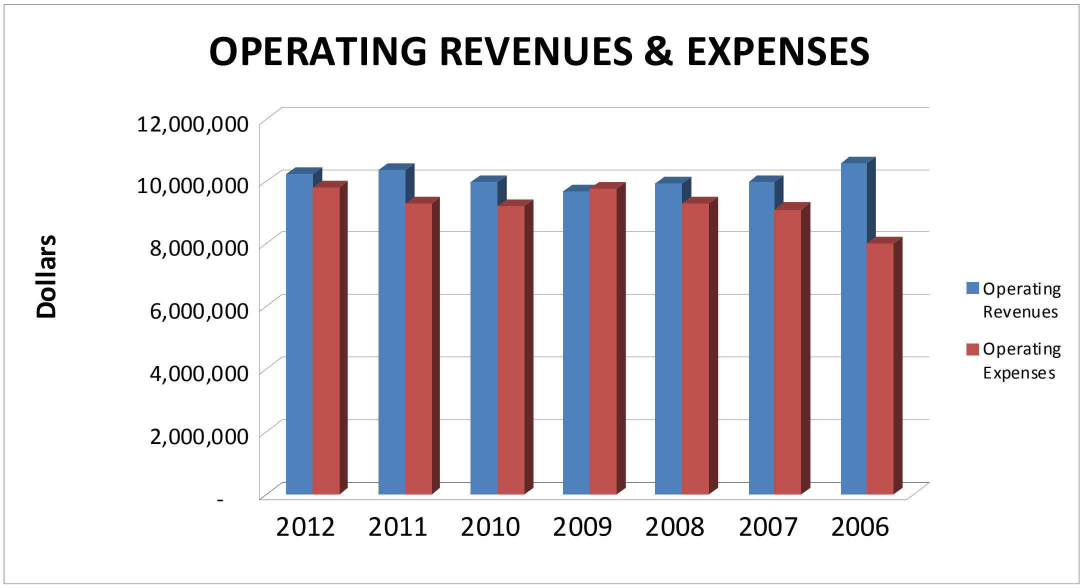
December 31, 2012 and 2011

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, 2012 and 2011. Please read it in conjunction with the Port's financial statements.

FINANCIAL HIGHLIGHTS

- Net Position increased $1,905,429, or 0.89% in 2012 and increased $9,523,557, or 4.68% in 2011.
- Operating Revenues decreased $156,133, or 1.51% in 2012 and increased $385,095, or 3.86% in 2011.
- Operating Expenses increased $483,255, or 5.19% in 2012 and increased $102,816, or 1.12% in 2011.





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 Statements of Net Position; Comparative Statements of Revenues, Expenses, and Changes in Net Position; Comparative Statements of Cash Flows; Notes to the Basic Financial Statements; and Management's Discussion and Analysis. These statements include all assets, liabilities, and deferred inflows/outflows using the accrual basis of accounting.

Statement of Net Position – This statement presents information regarding the Port's assets, liabilities, deferred inflows/outflows and with the difference reported as net position at December 31, 2012 and December 31, 2011. Net position represent total assets and deferred outflows less total liabilities and deferred inflows. The Statement of Net Position classifies assets and liabilities as current and non-current.

Statement of Revenues, Expenses, and Changes in Net Position – This statement presents the Port's operating revenues and expenses and non-operating revenues and expenses for the years ended December 31, 2012 and December 31, 2011 with the difference – income before transfers – being combined with any capital contributions or repayments and transfers to determine the change in net position for the respective year. The change, combined with last year's ending net position total reconciles to the net position 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 Position

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 Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position report information about the Port's activities in a way that helps answer this question.

These two statements report the Port's net position and changes in that position. One can think of the Port's net position, the difference between assets, liabilities, and deferred inflows/outflows, 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 position can be determined by reviewing the following condensed Statements of Net Position as of December 31, 2012, 2011, and 2010. The analysis below focuses on the Port's net position at the end of the year (Table 1) and changes in net position (Table 2) during the year.

TABLE 1
Statement of Net Position

	2012	2011 Restated	2010 Restated
Assets:			
Current and Other Assets	$ 20,295,743	$ 17,570,341	$ 38,754,950
Non-Current Assets	237,686,853	238,289,173	205,463,481
Total Assets	$ 257,982,596	$ 255,859,514	$ 244,218,431
Liabilities:			
Current Liabilities	$ 41,072,613	$ 40,820,916	$ 40,546,345
Non-Current Liabilities	1,875,203	1,909,067	66,112
Total Liabilities	$ 42,947,816	$ 42,729,983	$ 40,612,457
Net Position:			
Net Investment in Capital Assets	74,747,234	75,349,554	65,523,862
Restricted for Capital Construction	130,808,894	127,087,665	116,176,706
Unrestricted	9,478,652	10,692,312	21,905,406
Total Net Position	$ 215,034,780	$ 213,129,531	$ 203,605,974
Change in Net Position	$ 1,905,249	$ 9,523,557	$ 39,779,980

During 2012 the Port's total assets increased by $2.1 million. Non-current assets decreased by $602 thousand due mostly to a reclassification of legal fees and commercial paper fees. Current assets increased by $2.7 million due to an increase in restricted assets. During 2011 the Port's total assets increased by $11.6 million. Non-current assets increased by $32.8 million due mostly to an increase in advances to MARAD and an increase in total capital assets. Current and other assets decreased by $21.2 million due to a decrease in restricted assets.

During 2012 the Port's total liabilities increased by $217,833 primarily due to an increase in accounts payable. In 2011 the Port's total liabilities increased by $2.1 million, due mostly to a $1.87 million increase in non-current liabilities as a result of future obligations on land transferred to the Port from the US Military.

Changes in the Port's net position can be determined by reviewing the following condensed Statements of Revenues, Expenses, and Changes in Net Position for the years ending December 31, 2012, 2011, and 2010 (Table 2).

TABLE 2

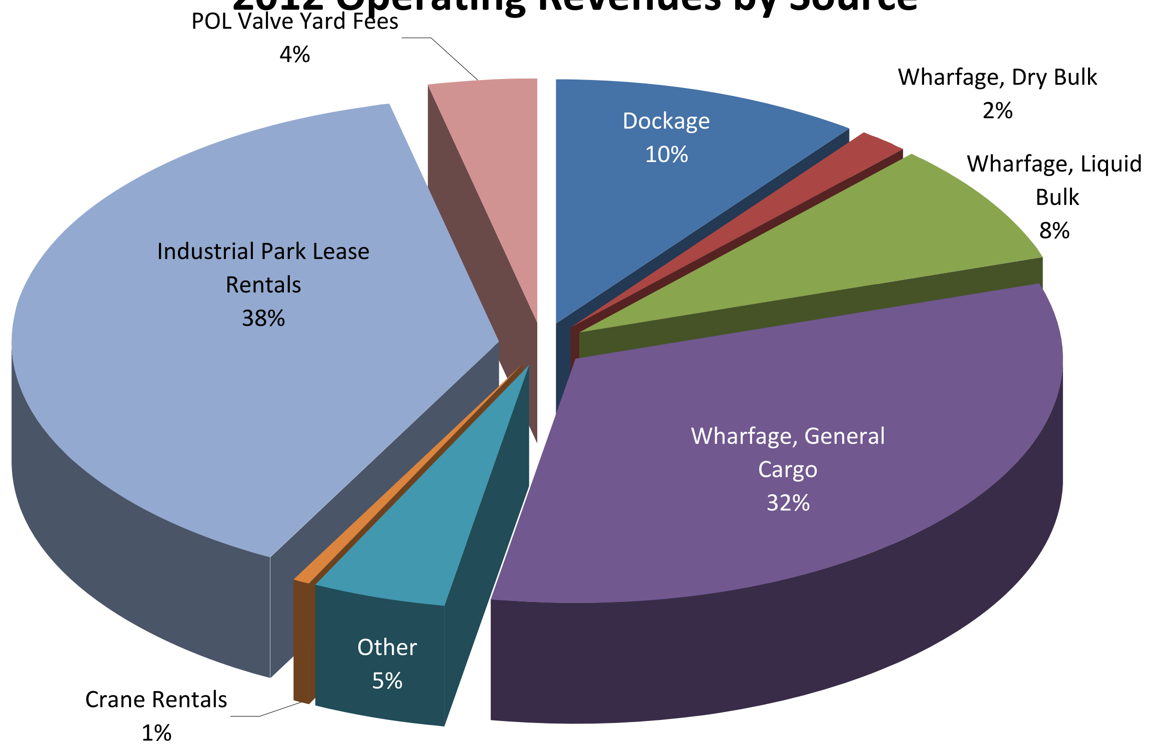
Statement of Revenues, Expenses, and Changes in Net Position

	2012	2011 Restated	2010 Restated
Operating Revenues:			
Dockage	$ 1,055,158	$ 991,289	$ 845,214
Wharfage, Dry Bulk	156,981	167,018	73,172
Wharfage, Liquid Bulk	821,064	908,131	866,712
Wharfage, General Cargo	3,349,776	3,428,694	3,296,428
Industrial Park Lease Rentals	3,939,395	4,110,620	4,333,539
Crane Rentals	56,300	52,500	61,908
POL Valve Yard Fees	367,674	473,869	300,212
Other	468,519	238,879	208,720
Total Operating Revenues	10,214,867	10,371,000	9,985,905
Operating Expenses:			
Personnel Services	2,439,965	2,346,795	2,250,784
Supplies	297,664	246,179	193,627
Other Services and Charges	2,669,872	2,046,062	1,754,989
Charges from Other Departments	398,176	345,748	347,435
Depreciation	3,994,110	4,331,748	4,666,881
Total Operating Expenses	9,799,787	9,316,532	9,213,716
Operating Income (loss)	415,080	1,054,468	772,189
Nonoperating Revenues (Expenses)			
Non-Operating Revenues	1,847,906	1,881,134	2,441,717
Non-Operating Expenses	(2,057,618)	(2,171,765)	(1,963,486)
Net Non-Operating Revenues	(209,712)	(290,631)	478,231
Income Before Capital Contributions and Transfers	205,368	763,837	1,250,420
Capital Contributions and Transfers	1,699,881	8,759,720	39,659,317
Change in Net Position	1,905,249	9,523,557	40,909,737
Net Position, beginning Restated	213,129,531	203,605,974	162,696,237
Net Position, ending	$ 215,034,780	$ 213,129,531	$ 203,605,974

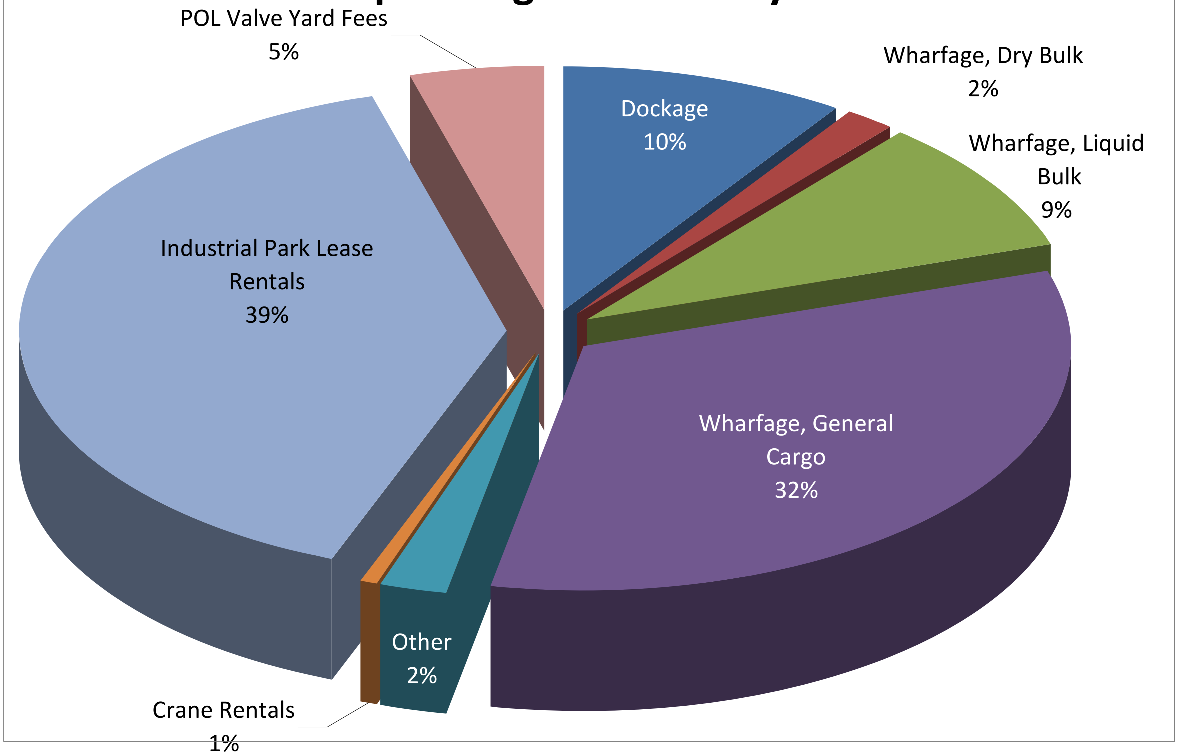
Operating revenues overall decreased in 2012 by $156,133. This was mostly due to a reduction in overall wharfage and Industrial Park Lease Rental revenue from the US Coast Guard termination of its lease with the Port.

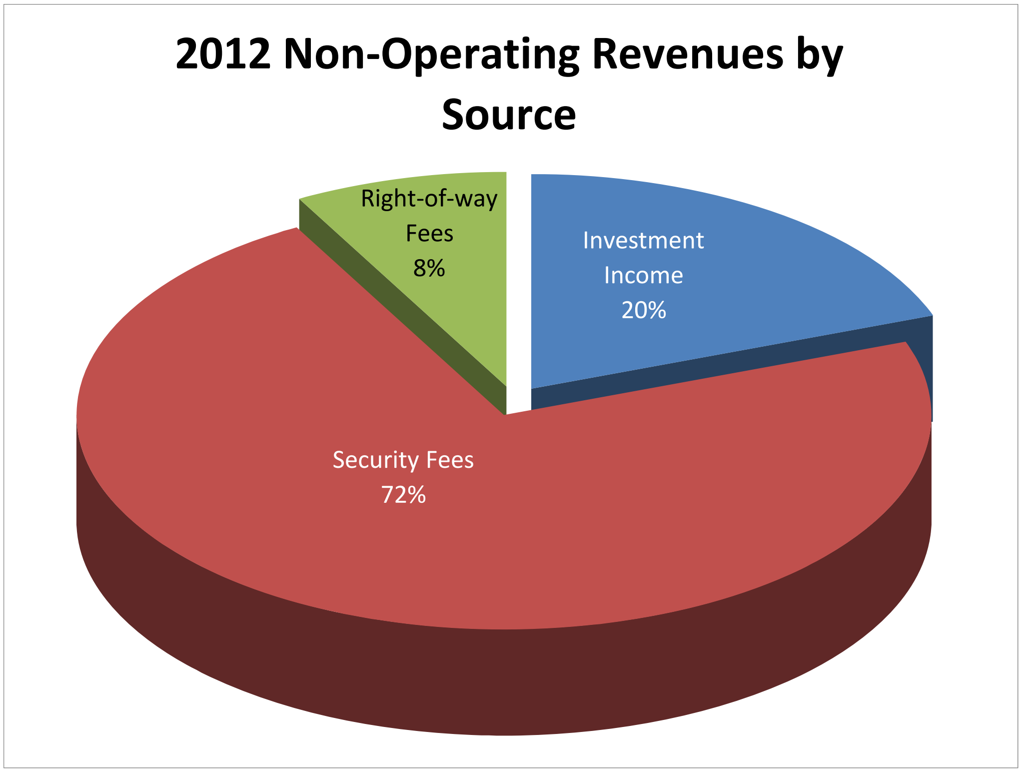
Operating expenses increased by $483,255, which was primarily attributable to an increase in legal fees related to the Port Expansion Project.

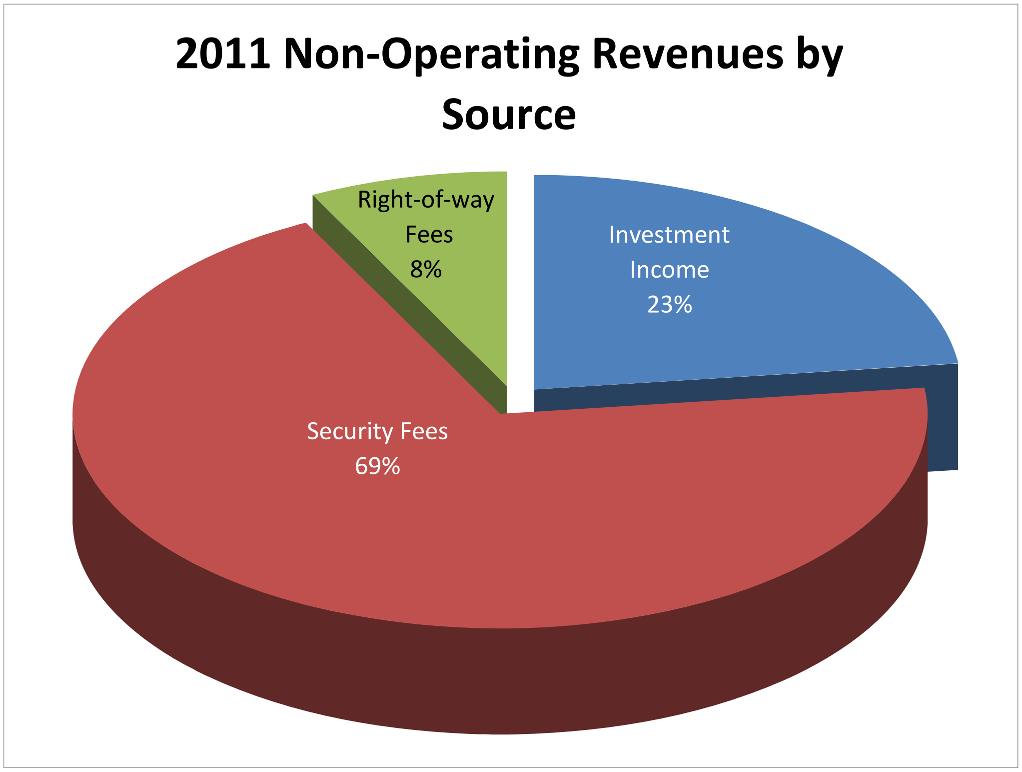
2012 Operating Revenues by Source

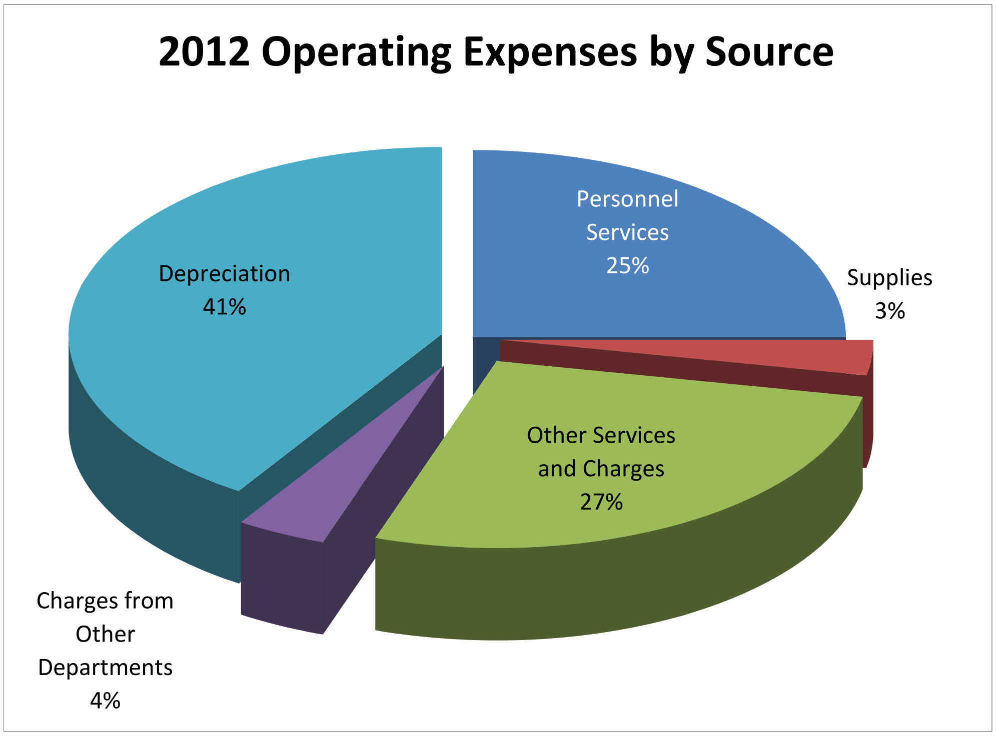


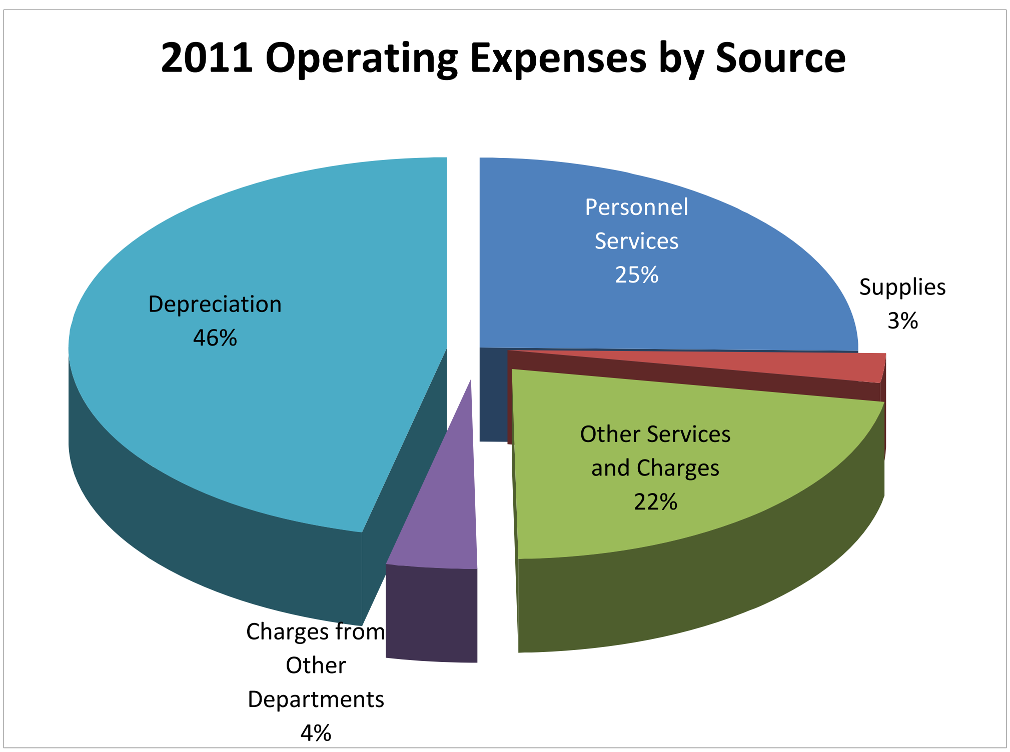
2011 Operating Revenues by Source

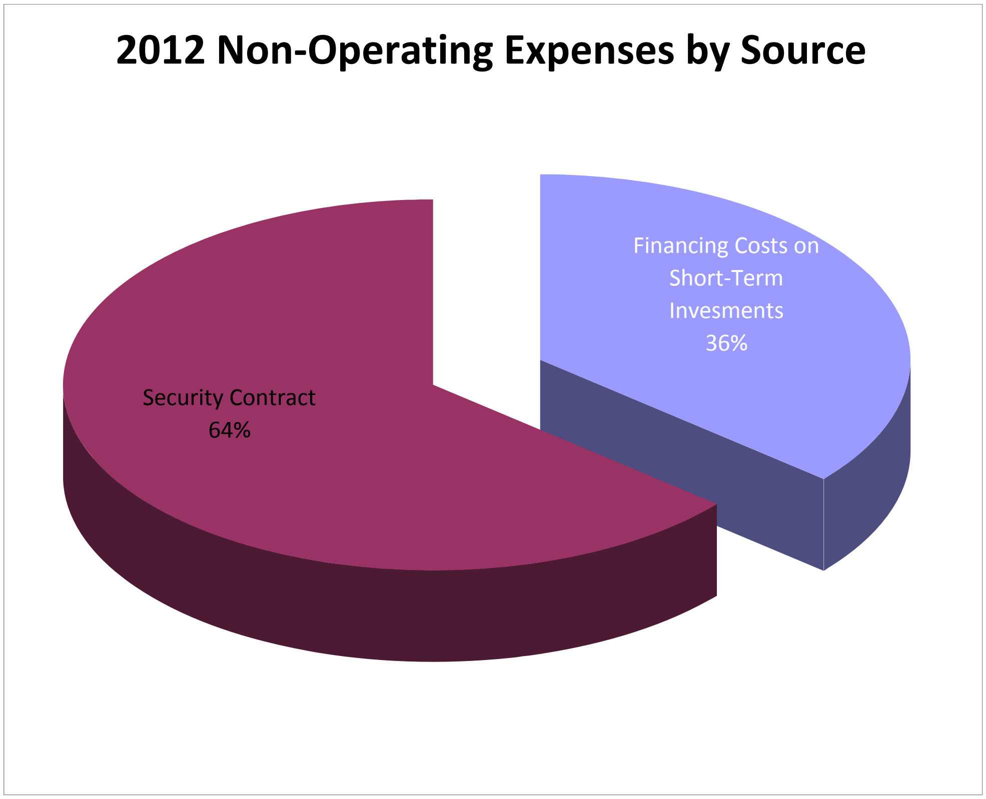


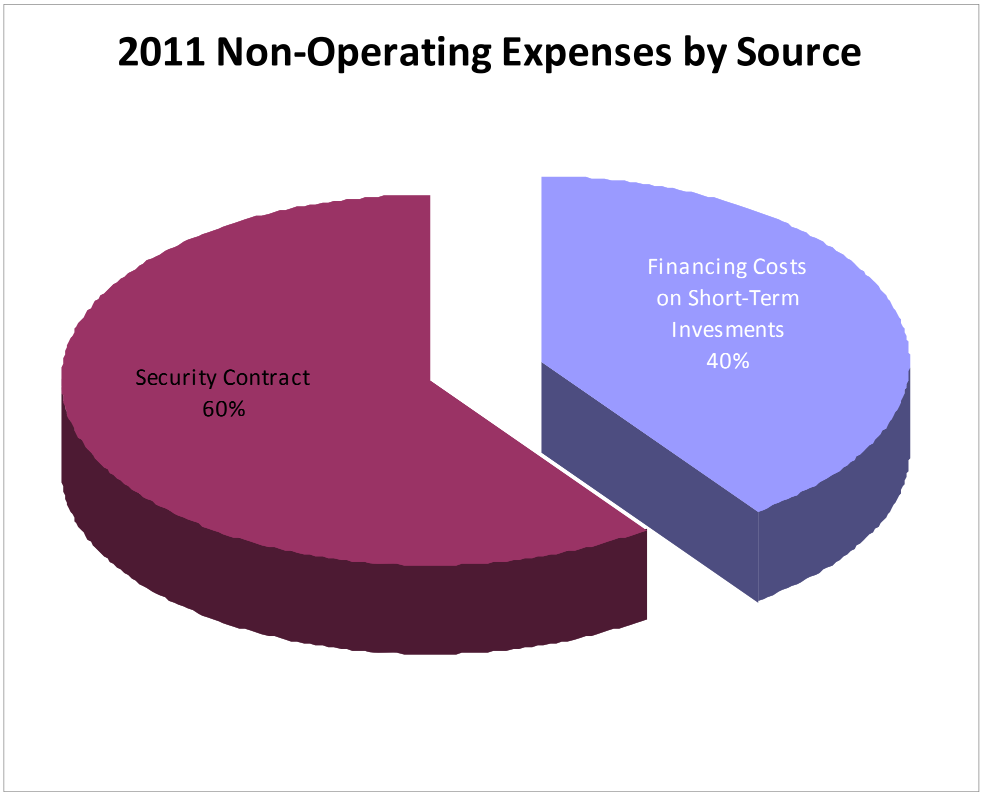

2012 Non-Operating Revenues by Source
Right-of-way Fees 8%
Investment Income 20%
Security Fees 72%


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


2012 Operating Expenses by Source
Personnel Services 25%
Supplies 3%
Other Services and Charges 27%
Charges from Other Departments 4%
Depreciation 41%


2011 Operating Expenses by Source
Personnel Services 25%
Supplies 3%
Other Services and Charges 22%
Charges from Other Departments 4%
Depreciation 46%


2012 Non-Operating Expenses by Source
Financing Costs on Short-Term Invesments 36%
Security Contract 64%


2011 Non-Operating Expenses by Source
Financing Costs on Short-Term Invesments 40%
Security Contract 60%

CAPITAL ASSETS AND DEBT

Capital Assets

The following table summarizes the Port's capital assets, at cost, as of December 31, 2012, 2011, and 2010.

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

	2012	2011 Restated	2010 Restated
Capital Assets			
Land	$ 20,102	$ 20,076	$ 9,717
Infrastructure	14,821	17,399	20,187
Buildings	2,332	2,468	2,632
Building Improvements	86	80	98
Land Improvements	20,366	19,213	19,318
Vehicles	130	199	267
Machinery and Equipment	1,167	945	1,236
Computer Equipment	13	15	20
Computer Software	5	10	2
Office Equipment	1	2	2
Art	21	14	14
Total Capital Assets	59,044	60,421	53,493
Construction Work in Progress	15,703	14,928	12,031
Total	$ 74,747	$ 75,349	$ 65,524
Increase/(Decrease) in Net Capital Assets	$ (602)	$ 9,825	$ 3,142

2012 major additions include:

- Dock Piling Enhancements $ 2.1 million
- Machinery and Equipment and other improvements $ 465 thousand

Construction work in progress increased by $775 thousand in 2012.

Debt

During 2012, 2011 and 2010, 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 2012 budget anticipated Port operating revenues of $12.25 million and $1.5 million in non-operating revenues. Actual 2012 operating revenues earned amounted to $10.2 million, or $2 million under budget projections. Actual 2012 non-operating revenues earned amounted to $1.8 million or $348,075 over budget projections. The contributing factors to the variance between 2012 budget and actual operating revenues was the Port overestimated by $1.4 million wharfage revenues as well as overestimated by $661,105 industrial park lease revenue. The significant variance between 2012 budget and actual non-operating revenues was that the Port had underestimated short term interest revenue by $261,027.

The 2012 budget anticipated Port operating expenses of $11.6 million. Actual 2012 operating expenses incurred amounted to $9.8 million or $1.8 million under budget projections. The contributing factors to the variance between 2012 budget and actual operating expenses was due to a $713,130 overestimation of depreciation expense; a $293,038 overestimation of other services and charges expense; and finally a $807,571 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. The Port's tariff rates will be reviewed again in late 2013.

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.portofalaska.com/operations/finances.html

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Comparative Statements of Net Position

December 31, 2012 and 2011

	2012	2011 (restated)
ASSETS		
CURRENT ASSETS		
Cash	$ 150	$ 150
Equity in General Cash Pool	10,465,545	11,503,130
Interest Receivable	59,606	71,232
Accounts Receivable, Net	1,035,216	1,149,557
Prepaid Items and Deposits	44,088	42,985
Parts Inventory	329,025	329,915
Total Unrestricted Current Assets	11,933,630	13,096,969
Restricted Assets:		
Intergovernmental Receivables	479,964	92,036
Bond and Acquisition and Construction Accounts	7,882,149	4,381,336
Total Restricted Current Assets	8,362,113	4,473,372
Total Current Assets	20,295,743	17,570,341
NON-CURRENT ASSETS		
Capital Assets:		
Capital Assets, at Cost	149,644,233	147,026,954
Less: Accumulated Depreciation	(90,599,968)	(86,605,858)
Net Capital Assets	59,044,265	60,421,096
Construction Work in Progress	15,702,969	14,928,458
Total Capital Assets	74,747,234	75,349,554
Restricted Assets:		
Advances to MARAD	162,939,619	162,939,619
Total Non-Current Assets	237,686,853	238,289,173
TOTAL ASSETS	$ 257,982,596	$ 255,859,514
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	$ 270,505	$ 247,941
Compensated Absences Payable	158,022	147,316
Accrued Payroll Liabilities	151,248	100,333
Total Unrestricted Current Liabilities	579,775	495,590
Current Liabilities Payable from Restricted Assets:		
Notes Payable	40,000,000	40,000,000
Capital Acquisition and Construction Accounts and Retainages Payable	492,838	325,326
Total Current Liabilities	41,072,613	40,820,916
NON-CURRENT LIABILITIES		
Other Non-Current Liabilities	1,855,154	1,866,198
Compensated Absences Payable	20,049	42,869
Total Non-Current Liabilities	1,875,203	1,909,067
Total Liabilities	42,947,816	42,729,983
NET POSITION		
Net Investment in Capital Assets	74,747,234	75,349,554
Restricted for Capital Construction	130,808,894	127,087,665
Unrestricted	9,478,652	10,692,312
Total Net Position	215,034,780	213,129,531
TOTAL LIABILITIES AND NET POSITION	$ 257,982,596	$ 255,859,514

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 Position

For The Years Ended December 31, 2012 and 2011

	2012	2011 (restated)
OPERATING REVENUES		
Charges for Sales and Services:		
Dockage	$ 1,055,158	$ 991,289
Wharfage, Dry Bulk	156,981	167,018
Wharfage, Liquid Bulk	821,064	908,131
Wharfage, General Cargo	3,349,776	3,428,694
Storage Revenue	139,190	1,210
Office Rental	60,014	40,864
Utilities	15,810	17,704
Miscellaneous	253,505	179,101
Total Charges for Sales and Services	5,851,498	5,734,011
Other:		
Crane Rentals	56,300	52,500
Industrial Park Lease Rentals	3,939,395	4,110,620
POL Value Yard Fees	367,674	473,869
Total Other	4,363,369	4,636,989
Total Operating Revenues	10,214,867	10,371,000
OPERATING EXPENSES		
Operations:		
Personnel Services	2,439,965	2,346,795
Supplies	297,664	246,179
Other Services and Charges	2,669,872	2,046,062
Charges from Other Departments	398,176	345,748
Total Operations	5,805,677	4,984,784
Depreciation	3,994,110	4,331,748
Total Operating Expenses	9,799,787	9,316,532
Operating Income	415,080	1,054,468
NON-OPERATING REVENUES (EXPENSES)		
Investment Income-Short Term Investments	361,027	433,059
Security Fees	1,340,280	1,306,697
Right-of-Way Fees	146,599	141,378
Financing Costs on Short-Term Obligations	(744,704)	(866,808)
Security Contract	(1,312,914)	(1,304,957)
Total Non-Operating Expenses	(209,712)	(290,631)
Income Before Capital Contributions and Transfers	205,368	763,837
Capital Contributions	2,216,290	9,337,718
Municipal Service Assessment	(516,409)	(537,498)
Transfers to Other Funds	-	(40,500)
Change in Net Position	1,905,249	9,523,557
Net Position, Beginning	213,129,531	203,605,974
Net Position, Ending	$ 215,034,780	$ 213,129,531

The notes are an integral part of these financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Comparative Statements of Cash Flows

For The Years Ended December 31, 2012 and 2011

	2012	2011 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$ 11,816,087	$ 11,787,875
Payments to Employees	(2,401,164)	(2,356,722)
Payments to Vendors	(4,270,033)	(3,542,036)
Internal Activity - Payments Made to Other Funds	(398,176)	(345,748)
Net Cash Provided by Operating Activities	4,746,714	5,543,369
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers to Other Funds	(516,409)	(577,998)
Net Cash Used by Non-Capital and Related Financing Activities	(516,409)	(577,998)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments to MARAD	-	(23,000,000)
Acquisition and Construction of Capital Assets	(3,223,388)	(3,667,364)
Financing Costs on Short-Term Obligations	(744,704)	(866,808)
Capital Contributions and Grant Proceeds	1,828,362	969,651
Net Cash Used by Capital and Related Financing Activities	(2,139,730)	(26,564,521)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	372,653	517,157
Net Cash Provided by Investing Activities	372,653	517,157
Net Increase (Decrease) in Cash	2,463,228	(21,081,993)
Cash, Beginning of Year	15,884,616	36,966,609
Cash, End of Year	$ 18,347,844	$ 15,884,616
COMPONENTS OF CASH		
Cash and Cash Equivalents	$ 10,465,695	$ 11,503,280
Bonds and Acquisition and Construction Accounts	7,882,149	4,381,336
Cash and Cash Equivalents, End of Year	$ 18,347,844	$ 15,884,616

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Comparative Statements of Cash Flows, continued

For The Years Ended December 31, 2012 and 2011

	2012	2011 (restated)
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$ 415,080	$ 1,054,468
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	3,994,110	4,331,748
Security Contract	(1,312,914)	(1,304,957)
Security Fees	1,340,280	1,306,697
Right-of-Way Fees	146,599	141,378
Changes in Assets and Liabilities Which Increase (Decrease) Cash:		
Accounts Receivable	114,341	(31,200)
Prepaid Items and Deposits	(1,103)	(7,827)
Accounts Payable	22,564	62,989
Compensated Absences Payable	(12,114)	(10,550)
Other Non-Current Liabilities	(11,044)	-
Accrued Payroll Liability	50,915	623
Net Cash Provided by Operating Activities	$ 4,746,714	$ 5,543,369
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Capital Purchases on Account	$ 492,838	$ 325,326
Contributed Capital and Equipment	-	8,425,612
	$ 492,838	$ 8,750,938

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, break bulk freight and cement. Today, approximately 4 million tons of material moves 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 U.S. Army Military Combat Force requirements. The marine terminal redevelopment will upgrade crane reach and provide a deeper draft to accommodate larger ships and improve 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 Statements of Net Position. Net position as shown on the statement is segregated into the following categories: Net Investment in Capital Assets; 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 $329,025 and $329,915 at December 31, 2012 and 2011, 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 $398,176 and $345,748 for the years ended December 31, 2012 and 2011, 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. One settled claim exceeded this commercial coverage in 2012 while two claims exceeded this coverage in 2011 and no claims exceeded this coverage in 2010.

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

All Anchorage 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, 2012, is dependent upon future developments. At December 31, 2012, claims incurred but not reported included in the liability accounts are $14,155,429 in the General Liability/Workers' Compensation Fund and the Medical/Dental Self Insurance Fund.

Changes in the funds' claim liability amounts in 2011 and 2012 are as follows:

	Balance January 1	Changes in Estimates	Claims Payment	Balance December 31
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
2012:				
General Liability/Workers' Compensation	$ 21,085,683	7,983,278	(12,354,406)	16,714,555
Medical/Dental	7,812,769	51,146,314	(51,930,734)	7,028,349
Unemployment	106,566	458,412	(446,346)	118,632
	$ 29,005,018	59,588,004	(64,731,486)	23,861,536

At December 31, 2012 the Medical and Dental Self Insurance Fund had unrestricted net position of $1,096,018, an improvement of $2,132,089 from 2011. Medical and Dental rates were increased by 11.5% in 2012 to offset the deficit in 2011.

At December 31, 2012, the General Liability and Worker's Compensation Fund had negative unrestricted net position of $1,590,344; 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.

(j) Change in Accounting Principle

The Port has adopted newly issued Governmental Accounting Standards Board (GASB) pronouncements 63 and 65, resulting in a change in presentation financial statements. The new pronouncements require reporting two new categories of accounts. Certain items previously reported as assets are now categorized as deferred outflows. A deferred outflow represents the consumption of the government's net position or fund balance that is applicable to a future reporting period. Other items previously categorized as liabilities are now categorized as deferred inflows. A deferred inflow represents the acquisition of net assets or fund balance that is applicable to a future reporting period. The residual net balance of all of the accounts is now called net position. At December 31, 2012 and 2011, the Port had no items reported as deferred outflows or deferred inflows. The adoption of these statements has no effect on previously reported net assets.

NOTE 2 – PORT CASH AND INVESTMENTS

At December 31, 2012, 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	$ 98,599				
Master Lease Agreement	2,104,181				
Central Treasury - Unrestricted					
Cash & Money Market Funds	8,974,027				
Repurchase Agreements	28,899,991	28,899,991	-	-	
Commercial Paper	542,294	542,294	-	-	-
Certificates of Deposit					
U.S. Treasuries	117,932,446	9,968,090	94,631,575	12,351,876	980,905
U.S. Agencies	35,859,264	21,874,386	13,501,462	483,416	-
Asset-Backed Securities**	58,423,918	494,929	22,753,176	14,245,733	20,930,080
Corporate Fixed Income Securities	74,844,939	13,247,946	49,460,822	11,411,786	724,385
Payables	(14,816,273)				
	$ 310,660,606	$ 75,027,636	$ 180,347,035	$ 38,492,811	$ 22,635,370
Central Treasury - Restricted					
Cash & Money Market Funds	8,447,658				
Repurchase Agreements	9,802,252	9,802,252	-	-	-
Commercial Paper	9,920,209	9,920,209	-	-	-
U.S. Treasuries	40,000,135	3,380,960	32,096,984	4,189,489	332,702
U.S. Agencies***	57,459,058	51,566,885	5,728,209	163,964	-
Foreign Governments & Agencies	2,761,724	2,761,724	-	-	-
Asset-Backed Securities**	19,816,130	167,869	7,717,386	4,831,845	7,099,030
Corporate Fixed Income Securities	28,904,919	8,012,552	16,776,040	3,870,631	245,696
Payables	(5,025,360)				
	$ 172,086,725	$ 85,612,451	$ 62,318,619	$ 13,055,929	$ 7,677,428

* Market value plus accrued income.

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

*** $31,669,965 in callable 1-5 year notes are expected to be called w ithin the next year and are classified as Less Than 1.

The Port's unrestricted cash and investments represent 3.3% of the unrestricted Municipal Central Treasury. The Port's restricted cash and investments represent 4.6% of the restricted Municipal Central 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 December 31, 2012	Internally Managed Portfolio Holding % at December 31, 2012
U.S. Government Securities*	50% to 100% of investment portfolio	42%	63%
Repurchase Agreements	0% to 50% of investment portfolio	27%	13%
Certificates of Deposit**	0% to 50% of investment portfolio Maximum 5% per issuer	0%	0%
Bankers Acceptances	0% to 25% of investment portfolio Maximum 5% per issuer	0%	0%
Commercial Paper	0% to 15% of investment portfolio Maximum 5% per issuer	1%	13%
Corporate Bonds	0% to 15% of investment portfolio Maximum 5% per issuer	10%	5%
Alaska Municipal League Investment Pool (AMLIP)***	0% to 25% of investment portfolio	0%	0%
Money Market Mutual Funds	0% to 25% of investment portfolio	20%	2%
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%	4%
		100%	100%

*Includes debt obligations issued or guaranteed by the U.S. government, U.S. agencies or U.S. government-sponsered 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, 2012, were 0.45 years, 1.68 years, and 3.65 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, 2012, the Anchorage Central Treasury's investment in commercial paper totaled $10,462,503, 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 $184,168,245 at December 31, 2012. The distribution of ratings on these securities was as follows:

Moody's		S&P	
Aaa	21%	AAA	17%
Aa	10%	AA	11%
A	23%	A	31%
Baa	20%	BBB	14%
Ba or lower	0%	BB or lower	0%
Not Rated	26%	Not Rated	27%
	100%		100%

At December 31, 2012, Anchorage's Central Treasury was invested in Asset Backed Securities and Mortgage Backed Securities valued at $1,948,319 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, 2012, Anchorage had no investments in any single issuer exceeding 5% of net position.

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, 2012, the Anchorage Central Treasury had bank deposit carrying amounts totaling $30,312,810, of which $500,000 was covered by federal depository insurance. Bank deposits of $2,002,762 were secured by collateral held by a third party, and deposits of $27,810,048 were secured by collateral held at the depository bank. An additional $9,620,013 was 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

The Municipality Of Anchorage (Anchorage) is in the process of expanding its port facilities. The multi-year project began in 2003. From March 2003 to October 2011 Anchorage and the Federal Maritime Administration ("MARAD") operated under a Memorandum of Understanding, which was revised in October 2011 and renamed a Memorandum of Agreement. The 2011 Agreement was operational until May 31, 2012. Both contracts outlined the project administrative and funding responsibilities of the parties. The project encountered problems and work was suspended while Anchorage investigates the scope and cause of the problems and determines the most appropriate course of action in order to complete the project.

Between 2003 and May 31, 2012, MARAD and/or its contractor, Integrated Concepts and Research Corporation (ICRC), administered the project. To fund the construction costs, Anchorage advanced funds to MARAD and MARAD also received project funding from federal appropriations. Anchorage classifies the advances it has made to MARAD as an asset in the Statement of Net Position and reclassifies the advances to capital assets upon transfer of the completed construction and an accounting of the project costs by MARAD. Project costs which are funded by federal appropriations are also recognized (with a concurrent recognition of contributed capital) upon transfer and accounting of project costs by MARAD. A summary of the advances made by Anchorage to MARAD is provided below:

Source of Contribution	Amounts
State Grants	$ 89,990,164
Commercial Paper	40,000,000
Port Funds	33,409,837
Total Contributions	163,400,001
Captial assets transferred back to the Port	(460,382)
Outstanding balance transferred	$ 162,939,619

The preliminary investigative reports indicate the project design was flawed and that significant aspects of the project completed to date was constructed incorrectly. In March 2013, Anchorage filed suit in the Superior Court for the State of Alaska against the engineers involved in the bulkhead design and ICRC, to recover the damages Anchorage has sustained as a result of design defects and faulty project oversight. There have been no entries made in the accompanying financial statements for the impairment of the project assets, as the analysis of the extent of the impairment is still yet to be determined. There has been no reimbursement of damages to date.

NOTE 4 – CAPITAL ASSETS

Capital assets for the year ended December 31, 2012 are as follows:

	Capital Assets (in thousands)			
	Balance 01/01/12	Additions	Retirements	Balance 12/31/12
CAPITAL ASSETS				
Land	$ 20,076	$ 26	$ -	$ 20,102
Infrastructure	85,365	30	-	85,395
Buildings	5,852	-	-	5,852
Building Improvements	355	22	-	377
Land Improvements	26,385	2,058	-	28,443
Vehicles	632	-	-	632
Machinery and Equipment	8,081	465	-	8,546
Computer Equipment	102	8	-	110
Computer Software	17	1	-	18
Office Equipment	148	-	-	148
Art	14	7	-	21
Total plant in service, gross	147,027	2,617	-	149,644
Less Accumulated Depreciation	(86,606)	(3,994)	-	(90,600)
Net plant in service	60,421	(1,377)	-	59,044
CONSTRUCTION WORK IN PROGRESS	14,928	3,392	2,617	15,703
TOTAL NET CAPITAL ASSETS	$ 75,349	$ 2,015	$ 2,617	$ 74,747

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	11,216	4,740	1,028	14,928
TOTAL NET CAPITAL ASSETS	$ 64,709	$ 11,848	$ 1,208	$ 75,349

NOTE 5 – LEASE AGREEMENTS

The Port has leased to unrelated third parties 200 acres of space in the Port Industrial Park. The 2012 carrying value of the leased assets is $11,897,005, with a cost of $17,941,810 and accumulated depreciation of $6,062,805. The 2011 carrying value of the leased assets is $12,222,166 with a cost of $17,941,810 and accumulated depreciation of $5,719,644. The leases provide for five-year rental adjustment intervals. Future minimum payments to be received are as follows (in thousands):

Years	Amount
2013	$ 3,950
2014	3,735
2015	3,521
2016	552
2017	492
2018-2022	455
2023-2027	332
2028-2032	-
Total	$ 13,037
Lease Revenue for 2012	$ 3,933

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 beyond 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 2012, the notes were redeemed and reissued; however, the total balance outstanding remains at $40,000,000.

NOTE 7 – OTHER NON-CURRENT LIABILITY

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, this obligation is reflected on the Port's Statements of Net Position as a noncurrent liability totaling $1,855,154 at December 31, 2012. In 2011, the Port recognized a capital contribution in the amount of $8,425,612.

NOTE 8 – 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 was brought in and discharged at various locations within the Port of Anchorage. The original long term goal was to 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's original permits have expired and new permits for further expansion program work will be sought.

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 fiscal year 2006 as required under the Agreement. These funds must be used for the implementation of eligible mitigation projects. Funds in this account were managed and invested consistent with the provisions of Chapter 6.50 of the Anchorage Municipal Code. Interest earned on the account was 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 percent 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 9 – RETIREMENT PLANS

State of Alaska Public Employees' Retirement System

(a) Plan Descriptions

All regular employees of The Port are members of a public employees' retirement system except for the maintenance employees who are members of the International Union of Operating Engineers, Local 302 (Local 302).

Local 302 members participate in a union sponsored cost-sharing defined benefit plan. Employer contributions are determined from compensable work hours and the contractual employer contribution rate in effect. The current agreement provides for contributions of $5.00 per hour worked by a covered employee in 2012 and 2011, and $4.50 in 2010. Total employer contributions for 2012, 2011, and 2010 were $1,676,002, $1,542,746, and $1,423,400, respectively. One hundred percent (100%) of Anchorage's required contributions to the Local 302 plan have been made through these contributions to the Local 302 International Operating Engineers Employers Construction Industry Retirement Fund. Each year, Local 302 issues audited financial statements that can be obtained by writing the plan administrator, Welfare and Pension Administration Service, Inc., P.O. Box 34203, Seattle, Washington, 98124.

All Port employees who are members of a public employees' retirement system participate 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 43 accounting rate.

Detailed contribution rates for the Port and actuarial methods for the plan for the year ended 2012 are as follows:

	Employee Rate		Contractual Rate		ARM Board Adopted Rate		GASB 43*	
	1/1 to 6/30/12	7/1 to 12/31/12	1/1 to 6/30/12	7/1 to 12/31/12	1/1 to 6/30/12	7/1 to 12/31/12	1/1 to 6/30/12	7/1 to 12/31/12
Pension	2.97%	2.97%	9.92%	9.67%	15.10%	15.75%	23.10%	24.95%
Postemployment Healthcare	3.78%	3.78%	12.08%	12.33%	18.39%	20.09%	32.74%	39.93%
Total Contribution Rate	6.75%	6.75%	22.00%	22.00%	33.49%	35.84%	55.84%	64.88%

* This rate uses an 8% pension discount rate and 6.88% healthcare discount rate from 1/1/2012 to 12/31/2012 and disregards future Medical Part D payments from 1/1/12 to 6/30/12

(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 11.49% from January 1 through June 30 and 13.84% between July 1 and December 31, 2012 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 $23,583,206 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, 2010 to December 31, 2012 are shown below:

Year	Annual Pension Cost	Annual OPEB Cost	Total Benefit Cost (TBC)	Port Contributions	% of TBC Contributed
2012	$ 77,814	$ 99,236	$ 177,050	$ 177,050	100%
2011	$ 74,065	$ 83,317	$ 157,382	$ 157,382	100%
2010	$ 70,710	$ 77,747	$ 148,457	$ 148,457	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	0.51%	0.48%
Death & Disability Benefit	0.20%	0.14%
Total Employer Contribution	8.71%	8.62%

*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, 2012 a rate of $68.39 per full time employee per pay period and $1.14 per part time hour worked was paid. For pay periods ending after July 1, 2012, a rate of $71.09 per full time employee per pay period and $1.18 per part time hour worked were paid.

For the year ended December 31, 2012, the Port contributed $34,887 to PERS Tier IV for retirement and retiree medical, and $4,662 to PERS Tier IV for Health Reimbursement Arrangement on-behalf of its employees. Employee contributions to the plan totaled $14,464.

Under the newly adopted cost-sharing arrangement for the PERS defined benefit plan (Tiers I – III), the state statute employer contribution rate of 22%, includes Tier IV employees. In addition to the amounts above, Anchorage contributed approximately 13.38% on other 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 10 – Prior Period Adjustment

In 2012, the Port identified certain costs associated with debt issuance and legal fees from prior years were capitalized into construction work in progress in error. The Port has recorded a prior period adjustment to remove these costs from construction work in progress and net position as follows:

	2012	2011
Net Position, beginning, as previously reported	$ 215,948,871	$ 205,427,456
Prior Period Adjustment	(2,819,340)	(1,821,482)
Net Position, beginning, as restated	$ 213,129,531	$ 203,605,974

NOTE 11 – New Accounting Pronouncements

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates. The following new accounting standards were implemented by Anchorage for 2012 reporting:

- GASB 60 – Accounting and Financial Reporting for Service Concession Arrangements. A service concession arrangements is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The transferor reports a capital asset for the facility being operated, a liability for the present value of significant contractual obligations to sacrifice financial resources imposed on the transferor, along with a corresponding deferred inflow of resources. Revenue is recognized by the transferor in a systematic and rational manner over the term of the arrangement. This standard is required to be implemented for the 2012 financial reporting period. Anchorage reviewed all relevant service contracts were a capital asset was involved and found that none of the contracts resulted in a service concession arrangement.

- GASB 61 – The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34. This standard further clarifies determination and reporting of component units as part of the primary government with regards to fiscal dependency criterion, financial benefit or burden relationship, and blending vs discrete presentation. This standard is required to be implemented for the 2013 financial reporting period, however, Anchorage decided to early implement this standard. All component unit relationships were re-evaluated using the new criteria for the 2012 financial report.

- GASB 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This standard incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations, 2) Accounting Principles Board Opinions, 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This standard is required to be implemented for the 2012 financial reporting period.

- GASB 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This standard provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and defines those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. This standard is required to be implemented for the 2012 financial report period.

- GASB 65 – Items Previously Reported as Assets and Liabilities. This standard establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This standard also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. This standard is required to be implemented for the 2013 financial reporting period, however, Anchorage has decided to early implement this standard since it is significantly linked to GASB Statement No. 63, which is required to be implemented in 2012.

The following standards are either not required to be implemented for the 2012 reporting period or do not have a material affect on Anchorage's financial statements.

- GASB 64 – Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment to GASB Statement No. 53. The objective of this standard is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This standard sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This standard is required to be implemented for the 2012 financial reporting period, however, it does not have a material affect on Anchorage's financial statements.

- GASB 66 – Technical Corrections – 2012 – an amendment to GASB Statements No. 10 and No. 62. This standard amends Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*,* by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported. This standard also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, Accounting for Operating Leases with Scheduled Rent Increases, and result in guidance that is consistent with the requirements in Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, respectively. This standard is required to be implemented for the 2013 financial reporting period.

- GASB 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The objective of this standard is to improve financial reporting by state and local governmental pension plans. This standard results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this standard will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. This standard is required to be implemented for the 2014 financial reporting period.

- GASB 68 – Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. The primary objective of this standard is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This standard results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This standard is required to be implemented for the 2015 financial reporting period.

- GASB 69 – Government Combinations and Disposals of Government Operations. This standard establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this standard, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This standard is required to be implemented for the 2014 financial reporting period.

NOTE 12 – Subsequent Events

Subsequent to December 31, 2012, the Port executed a new lease agreement with a major customer which will provide an additional $638,775 in lease revenue over the 2013-2018 period as well as future dockage and wharfage revenues once the new tenant infrastructure is completed.

For the Port Expansion, $50 million in a bond package was approved by voters in November 2012 and are expected to be issued in 2013.

STATISTICAL SECTION

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Statistical Section (Unaudited)

COMPARATIVE DETAIL SCHEDULE OF ACTUAL REVENUES BY SOURCE

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Dockage	$ 1,055,158	$ 991,289	$ 845,214	$ 705,081	$ 842,096	$ 828,548	$ 825,540	$ 669,302	$ 659,717	$ 747,795
Wharfage, Dry Bulk	156,981	167,018	73,172	71,343	126,338	132,514	153,306	123,324	138,826	133,713
Wharfage, Liquid Bulk	821,064	908,131	866,712	490,956	522,305	695,566	858,866	1,217,553	1,109,093	1,099,559
Wharfage, General Cargo	3,349,776	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
Terminal Lease/Rental	-	-	-	-	-	-	-	154,189	396,779	450,273
Storage Revenue	139,190	1,210	7,245	-	4,160	13,215	8,788	101,960	55,660	(2,766)
Office Rental	60,014	40,864	37,394	31,167	27,699	23,964	35,038	24,330	25,158	28,146
Utilities	15,810	17,704	19,485	7,510	10,198	10,635	17,980	15,870	12,585	15,790
Crane Rentals	56,300	52,500	61,908	48,435	48,076	140,012	26,695	39,493	124,036	24,892
Industrial Park Lease	3,939,395	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
Investment Income - Long-Term	-	-	-	11,186	35,828	85,171	103,927	145,760	186,093	223,103
Investment Income - Short-Term	361,027	433,059	974,656	2,031,824	218,893	2,342,556	1,819,458	1,058,201	130,470	252,012
Right-of-Way Fees	146,599	141,378	161,522	140,074	177,083	181,227	145,000	145,000	143,869	117,344
POL Value Yard Fees	367,674	473,869	300,212	358,443	485,400	499,385	498,133	457,858	458,476	459,226
Security Fees	1,340,280	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	-	-
Miscellaneous Revenues	253,505	179,101	144,596	57,522	(19,511)	57,035	158,154	64,481	121,412	96,692
Subtotal	12,062,773	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
Capital Contributions	2,216,290	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	$ 14,279,063	$ 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

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

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 1/1/2011 and Effective 1/1/2011.

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Statistical Section (Unaudited)

ANNUAL DOCK TONNAGE 2003 - 2012

Commodities Across Facility	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Freight NOS (not otherwise specified)	15,333	2	-	124	215	478	19,740	73	142	-
Bulk Dry Goods	125,293	118,280	109,228	81,494	116,789	124,089	134,921	148,959	122,855	150,665
Petroleum, NOS	1,454	2,052	1,660	2,032	2,648	2,618	2,888	4,505	4,148	4,534
Vans, Flats, Containers	1,735,615	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
Vehicles	-	864	-	1,473	10,725	5,381	1,158	4,057	2,877	1,343
Petroleum, Shoreside	1,046,636	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
Petroleum, Dockside	829,900	931,931	922,426	573,352	577,236	699,727	968,684	1,351,393	1,216,896	1,240,898
TOTAL TONS	3,754,231	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

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Statistical Section (Unaudited)

FINANCIAL RATIOS

Description	2012	2011	2010	2009	2008	2007	2006	2005	2004
Current Ratio (current assets / current liabilities)	0.49	0.43	0.96	1.07	0.74	31.07	141.87	18.36	17.64
Quick Ratio (quick assets / current liabilities)	0.28	0.31	0.54	0.89	0.26	10.65	39.66	6.03	5.20
Return on Investment (change in net position / total assets)	1%	4%	17%	6%	19%	3%	6%	4%	3%
Return on Equity (change in net position / net position)	1%	4%	20%	7%	24%	3%	6%	4%	3%
(outstanding debt / capital structure over net assets / capital	16%	16%	16%	20%	21%	N/A	N/A	1%	3%
(outstanding debt/capital structure over net position/ capital structure)	84%	84%	84%	80%	79%	N/A	N/A	99%	97%
Operating margin (operating income / operating revenue)	4%	10%	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

PORT OF ANCHORAGE
2013-2018 CAPITAL IMPROVEMENT PROGRAM SUMMARY
(000's Omitted)

PROJECT CATEGORY	2013	2014	2015	2016	2017	2018	TOTAL
Port Intermodal Expansion Project (*)	302,800	2,300	2000	2,000	2,000	2,000	313,100
Repairs & Renovations	3,250	3,380	3,514	3,654	3,801	3,953	21,552
Equipment	0	0	200	100	0	0	300
TOTAL	306,050	5,680	5,714	5,754	5,801	5,953	334,952

SOURCE OF FUNDING	2013	2014	2015	2016	2017	2018	TOTAL
State/Fed Grants & Bonds	50,000	252,800	0	0	0	0	302,800
Equity / Operations	3,250	5,680	5,714	5,754	5,801	5,953	32,152
TOTAL	53,250	258,480	5,714	5,754	5,801	5,953	334,952

(*) 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.

TOP TEN CUSTOMER RANKING ON 2012 BILLINGS
HIGHEST TO LOWEST

Rank No.	Customer Name
1	Horizon Lines
2	TOTE Inc
3	Tesoro AK Petroleum
4	Alaska Basic Industries
5	Anchorage Fueling & Services
6	Flint Hills
7	Alaska Maritime Agencies
8	Petro Star
9	Crowley Petroleum
10	Holland America

GOVERNMENT AUDITING STANDARDS

Mikunda, Cottrell & Co., Inc.
Certified Public Accountants & Consultants

An Independently Owned Member
McGladrey Alliance | McGladrey

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Port of Anchorage Fund, an enterprise fund of the Municipality of Anchorage, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Port of Anchorage Fund's basic financial statements, and have issued our report thereon dated May 28, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Port of Anchorage Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Mikunda, Cottrell & Co.

Anchorage, Alaska
May 28, 2013