MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Basic Financial Statements with Supplementary Information

December 31, 2013 and 2012

(With Independent Auditor's Report Thereon)

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

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Independent Auditor's 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, an enterprise fund of the Municipality of Anchorage, Alaska, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Port of Anchorage's basic financial statements as listed in the table of contents.

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.

Opinion

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, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Port Fund as of December 31, 2012, were audited by other auditors whose report dated May 28, 2013, expressed an unmodified opinion on those statements.

Emphasis of Matter

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, 2013, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-13 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.

Supplementary and Other Information
Our audit for the year ended December 31, 2013 was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port of Anchorage's basic financial statements. The statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The 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 30, 2014 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 the 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.

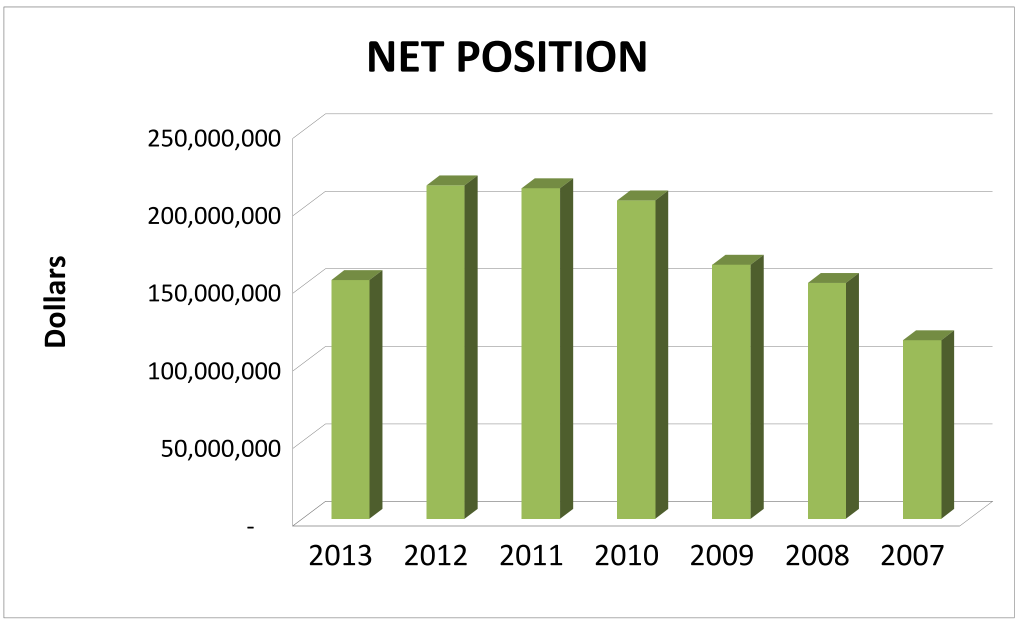
BDO USA, LLP

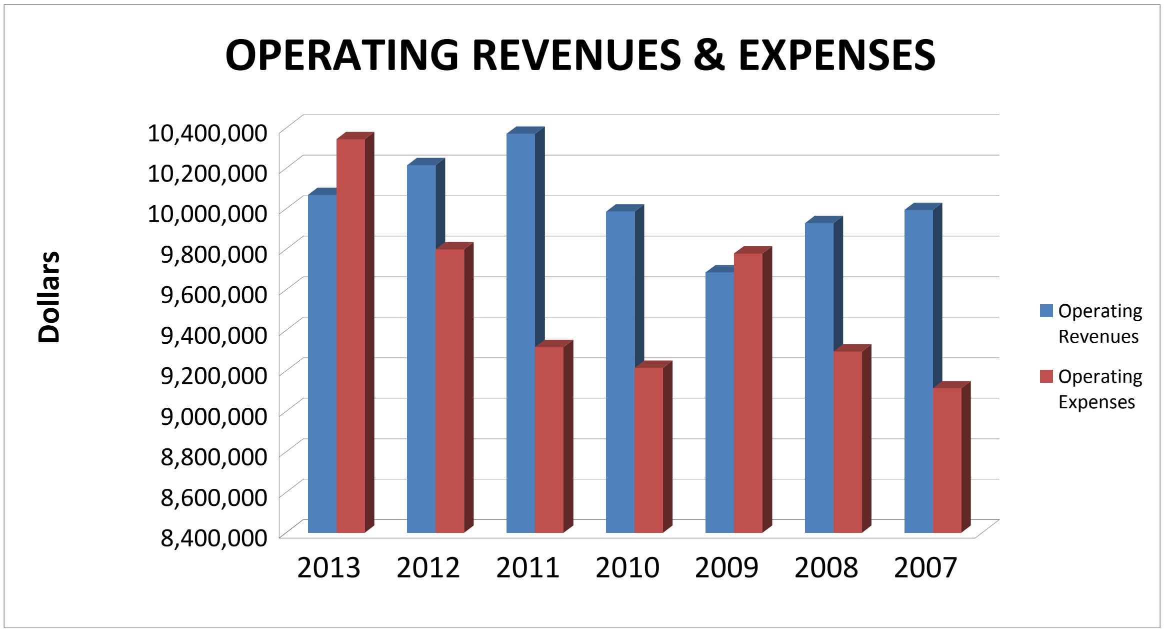
Anchorage, Alaska
May 30, 2014

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, 2013 and 2012. Please read it in conjunction with the Port's financial statements.

FINANCIAL HIGHLIGHTS

- Net Position decreased $61,025,896, or 28% in 2013 and increased $1,905,249, or 0.89% in 2012.
- Operating Revenues decreased $145,839, or 1.4% in 2013 and increased $156,133, or 1.5% in 2012.
- Operating Expenses increased $544,197, or 5.6% in 2013 and increased $483,255, or 5.2% in 2012.





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, 2013 and December 31, 2012. Net position represents the 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, 2013 and December 31, 2012 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, 2013, 2013, and 2012. 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

	2013	2012	2011
Assets:			
Current and Other Assets	$ 21,157,706	$ 20,295,743	$ 17,570,341
Non-Current Assets	175,340,590	237,686,853	238,289,173
Total Assets	$ 196,498,296	$ 257,982,596	$ 255,859,514
Liabilities:			
Current Liabilities	$ 597,538	$ 41,072,613	$ 40,820,916
Non-Current Liabilities	41,891,874	1,875,203	1,909,067
Total Liabilities	$ 42,489,412	$ 42,947,816	$ 42,729,983
Net Position:			
Net Investment in Capital Assets	135,340,590	74,747,234	75,349,554
Restricted for Capital Construction	-	130,808,894	127,087,665
Unrestricted	18,668,294	9,478,652	10,692,312
Total Net Position	$ 154,008,884	$ 215,034,780	$ 213,129,531
Change in Net Position	$ (61,025,896)	$ 1,905,249	$ 9,523,557

During 2013 the Port's total assets decreased by $61 million. Non-Current assets decreased by $62 million mostly due to the write off of the advances to MARAD. Current Assets increased by $862 thousand primarily due to an increase in the construction cash pool. 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 2013 the Port's total liabilities decreased by $458,404 all due to a decrease in construction accounts payable. In 2012 the Port's total liabilities increased by $217,833 primarily due to an increase in accounts payable.

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, 2013, 2012, and 2011 (Table 2).

TABLE 2

Statement of Revenues, Expenses, and Changes in Net Position

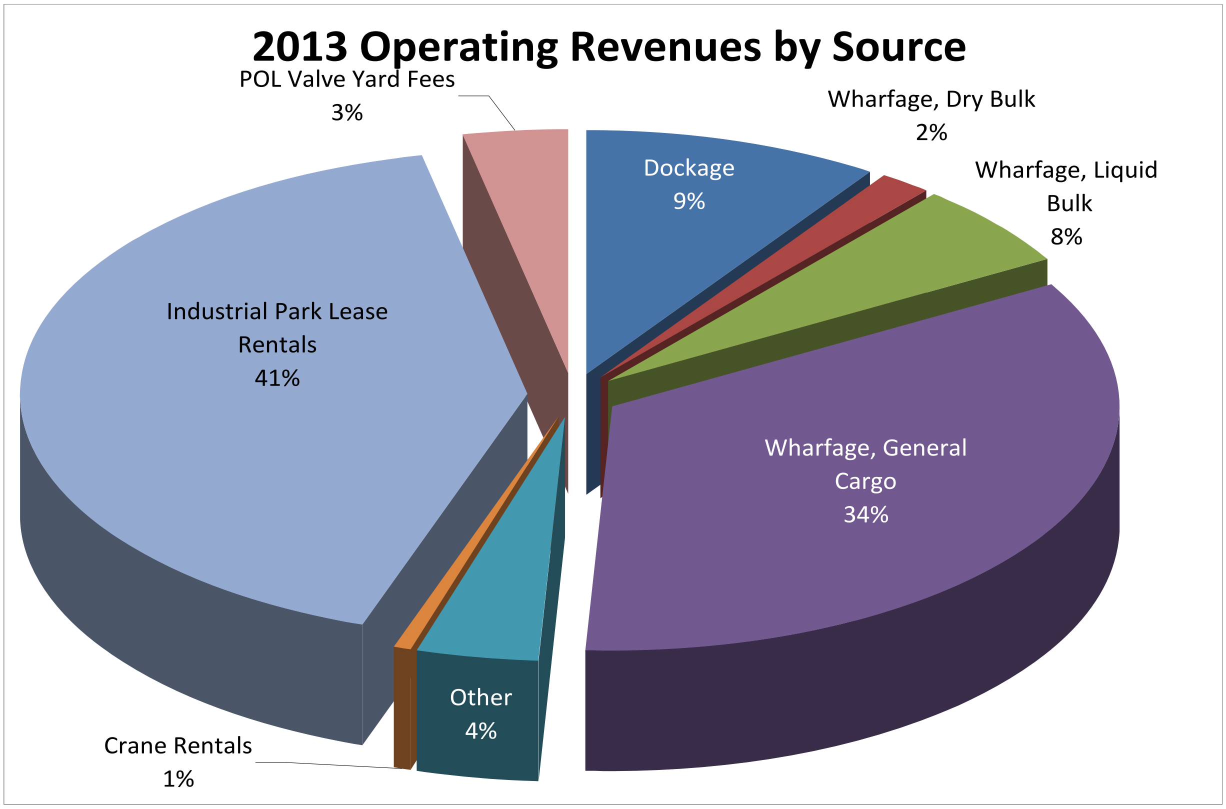
	2013	2012	2011
Operating Revenues:			
Dockage	$ 956,080	$ 1,055,158	$ 991,289
Wharfage, Dry Bulk	153,813	156,981	167,018
Wharfage, Liquid Bulk	570,819	821,064	908,131
Wharfage, General Cargo	3,440,514	3,349,776	3,428,694
Industrial Park Lease Rentals	4,172,846	3,939,395	4,110,620
Crane Rentals	59,025	56,300	52,500
POL Valve Yard Fees	330,359	367,674	473,869
Other	385,572	468,519	238,879
Total Operating Revenues	10,069,028	10,214,867	10,371,000
Operating Expenses:			
Personnel Services	2,543,727	2,439,965	2,346,795
Supplies	220,651	297,664	246,179
Other Services and Charges	3,000,933	2,669,872	2,046,062
Charges from Other Departments	518,417	398,176	345,748
Depreciation	4,060,256	3,994,110	4,331,748
Total Operating Expenses	10,343,984	9,799,787	9,316,532
Operating Income (loss)	(274,956)	415,080	1,054,468
Nonoperating Revenues (Expenses)			
Non-Operating Revenues	1,564,589	1,847,906	1,881,134
Non-Operating Expenses	(2,032,144)	(2,057,618)	(2,171,765)
Net Non-Operating Revenues	(467,555)	(209,712)	(290,631)
Income Before Capital Contributions and Transfers	(742,511)	205,368	763,837
Capital Contributions, Transfers and Special Item	(60,283,385)	1,699,881	8,759,720
Change in Net Position	(61,025,896)	1,905,249	9,523,557
Net Position, beginning	215,034,780	213,129,531	203,605,974
Net Position, ending	$ 154,008,884	$ 215,034,780	$ 213,129,531

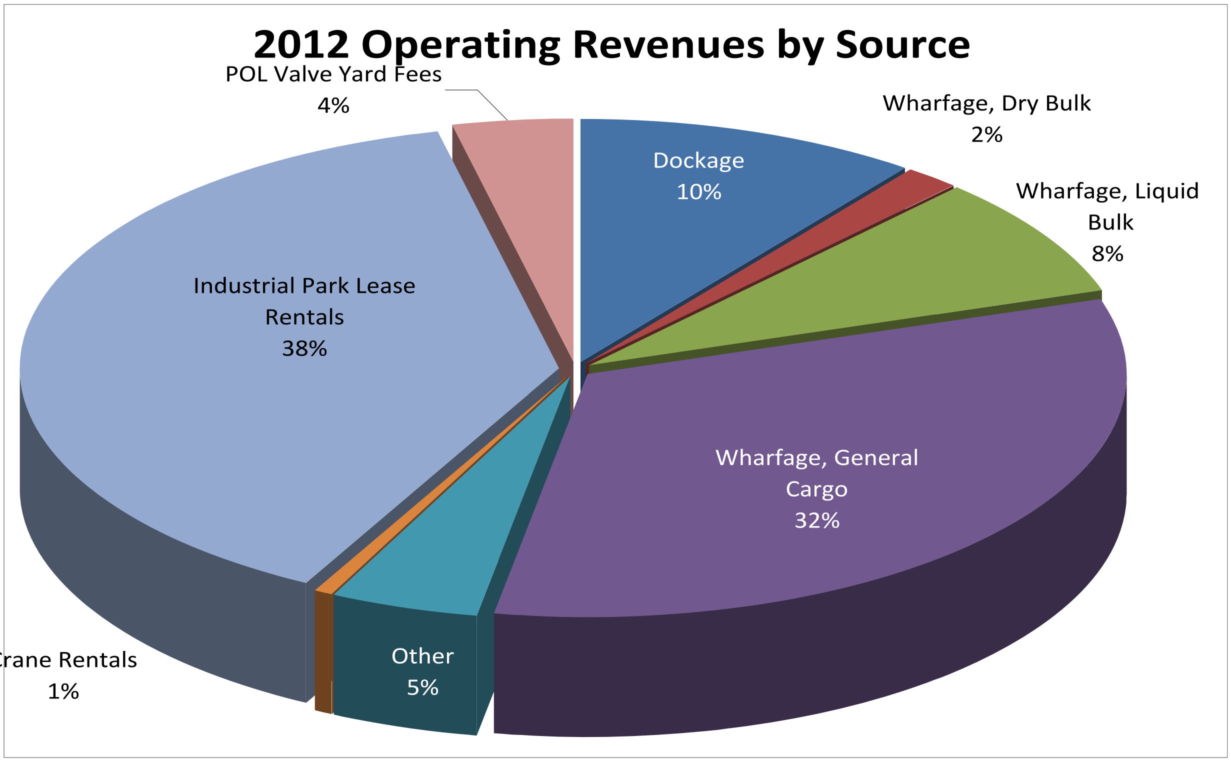
Operating revenues overall decreased in 2013 by $145,836. This was mostly due to a reduction in petroleum related wharfage (liquid bulk).

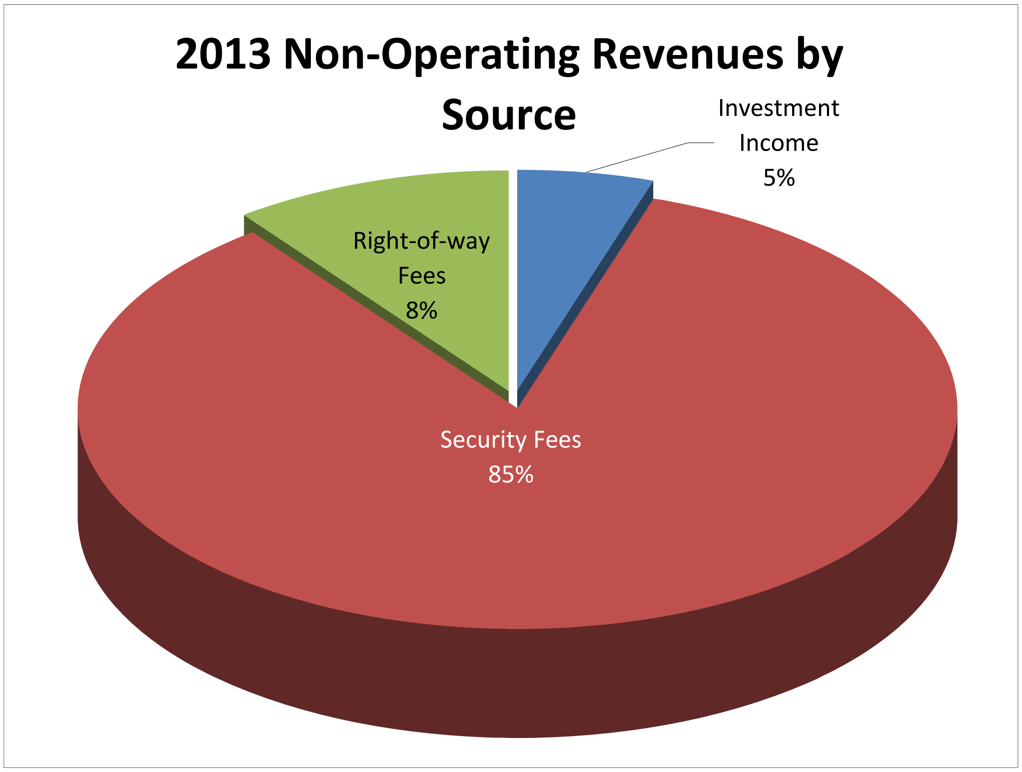
Operating expenses increased by $544,197, which was primarily attributable to an increase in legal fees related to the Port Expansion Project as well as the intergovernmental charges.

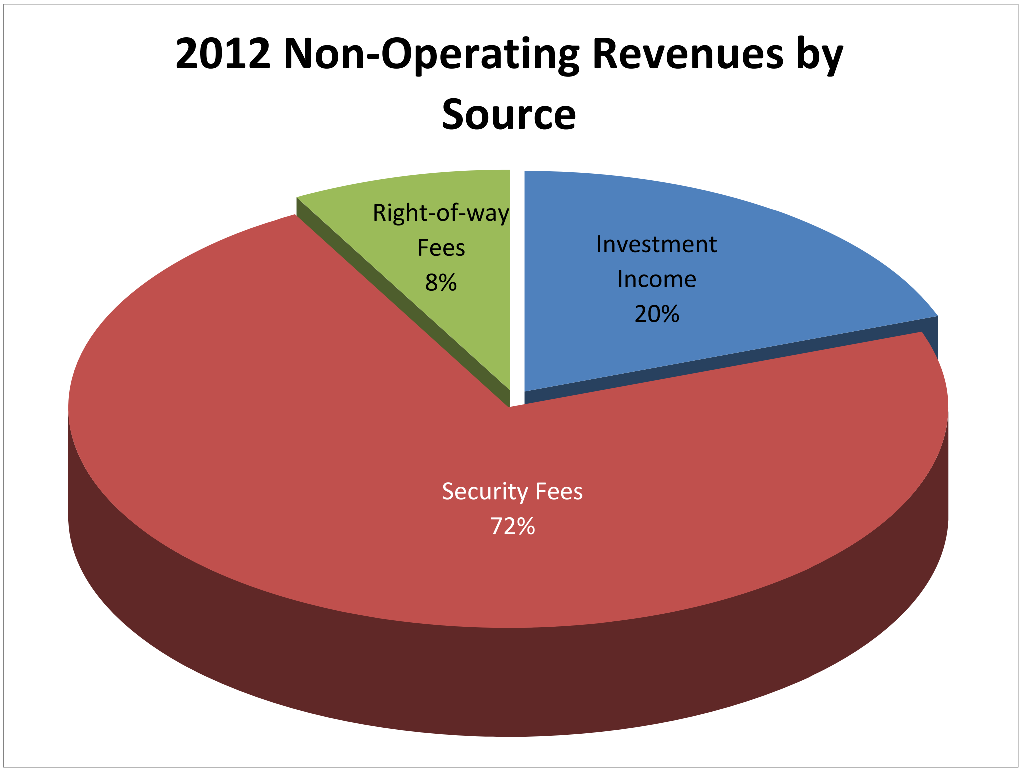
Management's Discussion and Analysis

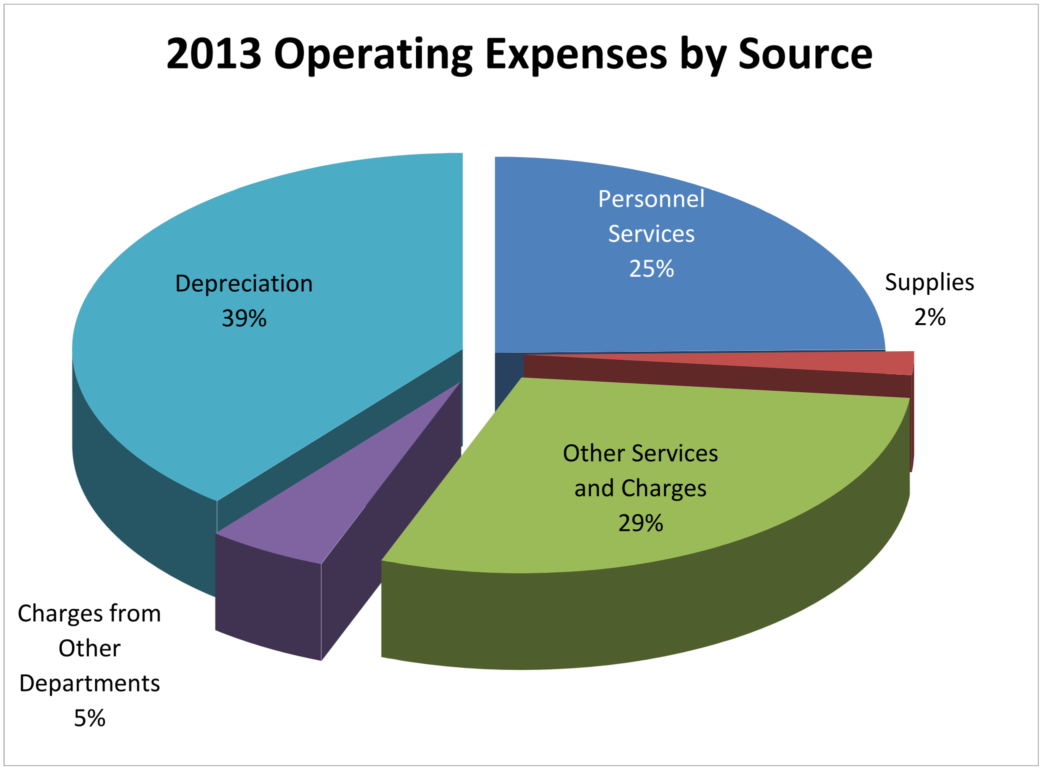
December 31, 2013 and 2012

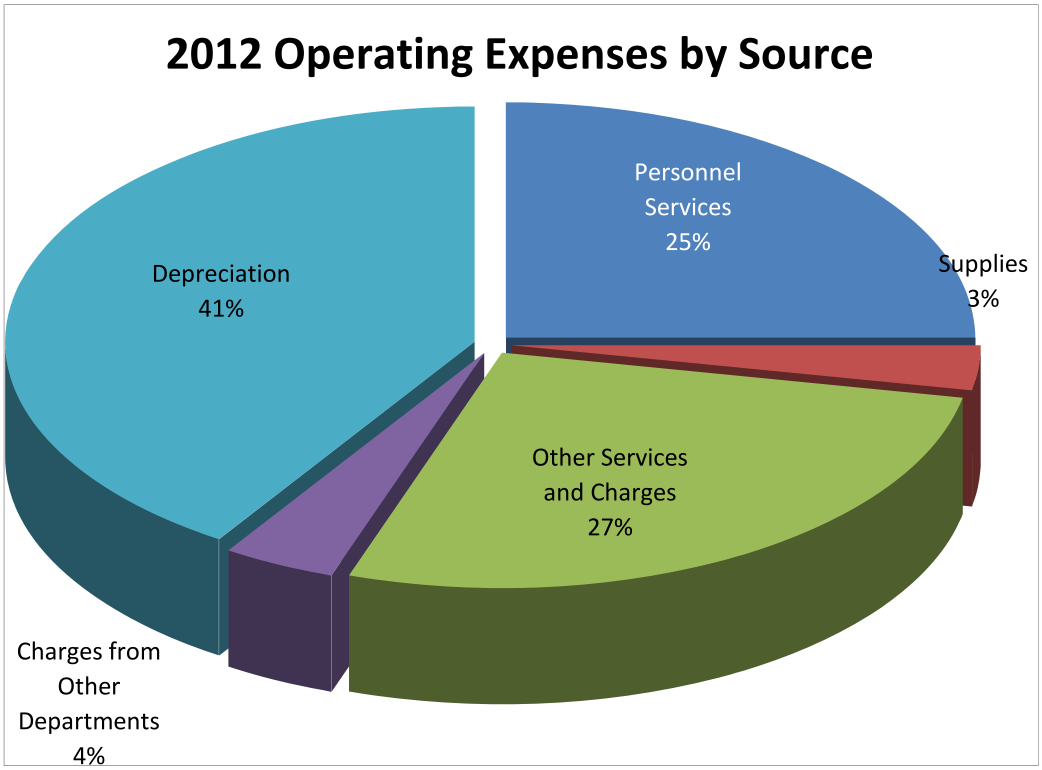


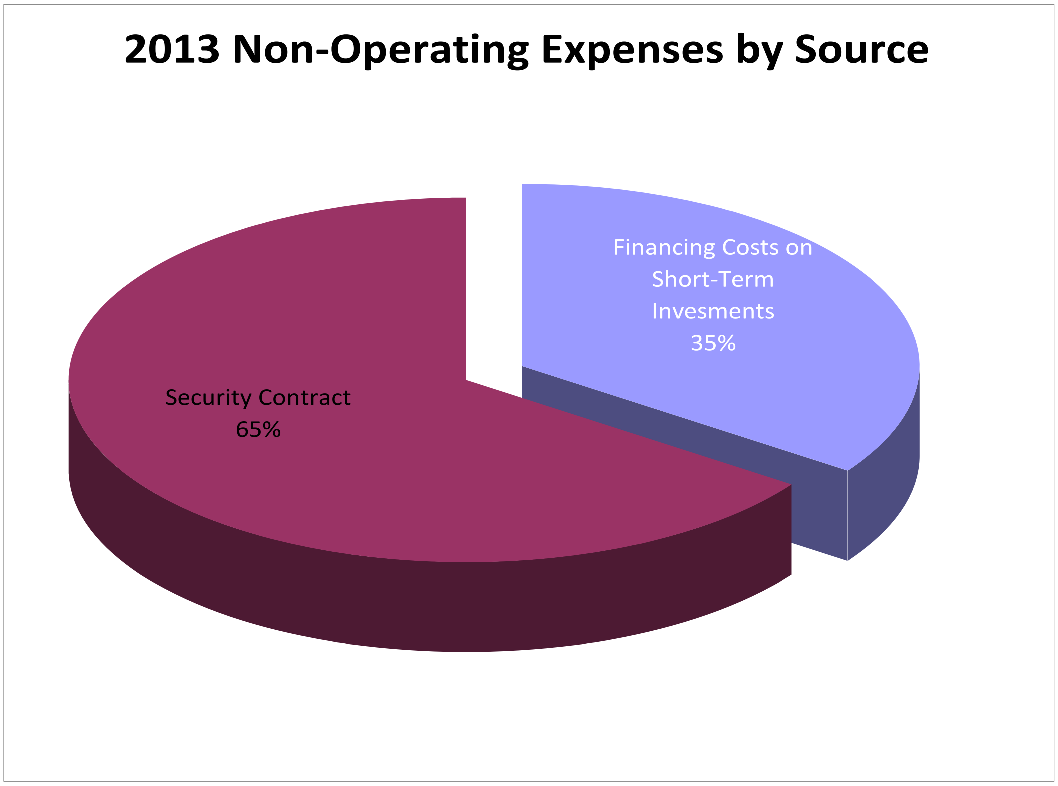


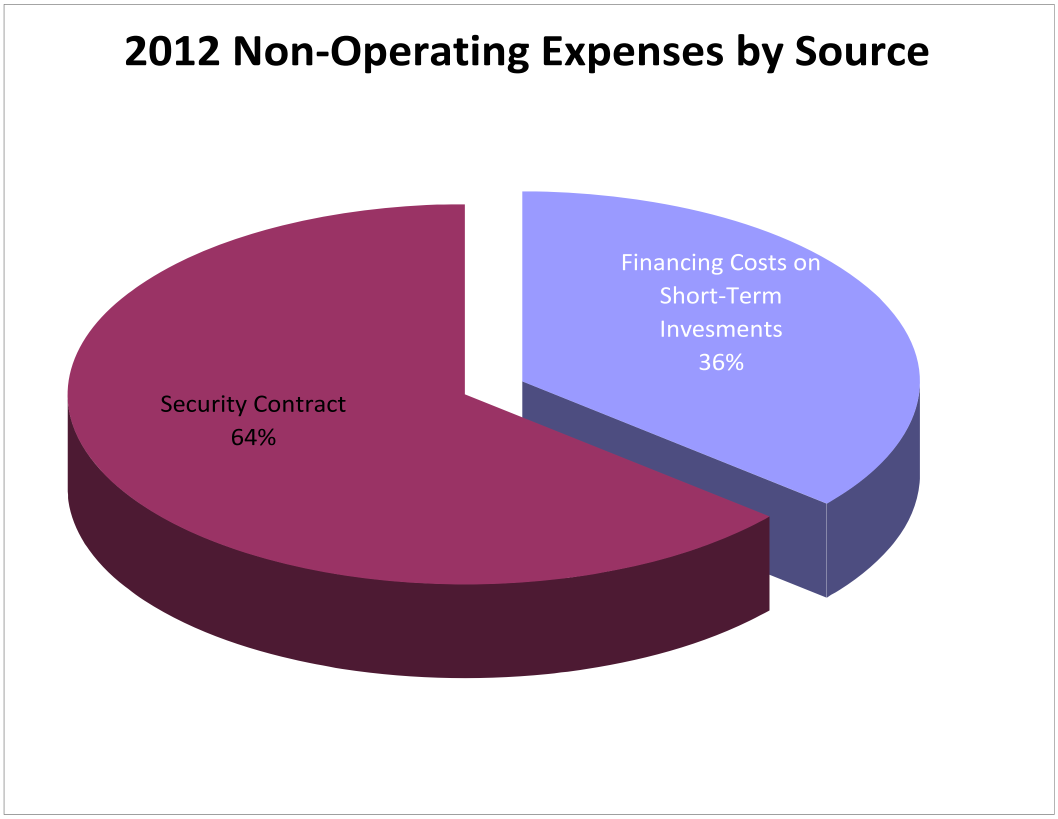

2013 Non-Operating Revenues by Source
Investment Income 5%
Right-of-way Fees 8%
Security Fees 85%


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


2013 Operating Expenses by Source
Personnel Services 25%
Supplies 2%
Other Services and Charges 29%
Charges from Other Departments 5%
Depreciation 39%


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


2013 Non-Operating Expenses by Source
Financing Costs on Short-Term Invesments 35%
Security Contract 65%


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

CAPITAL ASSETS AND DEBT

Capital Assets

The following table summarizes the Port's capital assets, at cost, as of December 31, 2013, 2012, and 2011.

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

	2013	2012	2011
Capital Assets			
Land	$ 20,102	$ 20,102	$ 20,076
Infrastructure	54,462	14,821	17,399
Buildings	2,535	2,332	2,468
Building Improvements	69	86	80
Land Improvements	80,148	20,366	19,213
Vehicles	64	130	199
Machinery and Equipment	3,060	1,167	945
Computer Equipment	27	13	15
Computer Software	2	5	10
Office Equipment	-	1	2
Art	21	21	14
Total Capital Assets	160,490	59,044	60,421
Construction Work in Progress	14,850	15,703	14,928
Total	$ 175,340	$ 74,747	$ 75,349
Increase/(Decrease) in Net Capital Assets	$ 100,593	$ (602)	$ 9,825

2013 major additions include:

- Dock Piling Enhancements $ 1.3 million
- Machinery and Equipment and other improvements $ 2.4 million
- Security Check Point 1 Building Replacement $ 317 thousand
- Infrastructure from MARAD Advances $ 60 million
- Land Improvements from MARAD Advances $ 42 million

Construction work in progress decreased by $853 thousand in 2013.

Debt

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 $215,000,000 as an interim financing program for the port expansion project. 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). On June 24, 2013 all of the outstanding notes were refinanced with the proceeds from a Revolving Credit Agreement with a commercial bank.

ECONOMIC FACTORS AND BUDGETS AND RATES

The 2013 budget anticipated Port operating revenues of $10.73 million and $1.8 million in non-operating revenues. Actual 2013 operating revenues earned amounted to $10.1 million, or $660 thousand under budget projections. Actual 2013 non-operating revenues earned amounted to $1.7 million or $120,746 under budget projections. The contributing factors to the variance between 2013 budget and actual operating revenues was due to the unexpected decline in wharfage related to petroleum products coming into the Port via tanker. The significant variance between 2013 budget and actual non-operating revenues was due to the loss in short term interest revenue of $72,903 and a small drop in the security fees of $43,824.

The 2013 budget anticipated Port operating expenses of $13.9 million. Actual 2013 operating expenses incurred amounted to $10.3 million or $3.6 million under budget projections. The contributing factors to the variance between 2012 budget and actual operating expenses was due to a $190,167 overestimation of charges from other departments; a $455,341 overestimation of depreciation; and finally a $2.7 million overestimation of personnel services and other miscellaneous expenses primarily related to the Port Expansion legal 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 2014.

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/business/finances.html

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Comparative Statements of Net Position

December 31, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash	$ 150	$ 150
Equity in General Cash Pool	6,951,590	10,465,545
Interest Receivable	72,435	59,606
Accounts Receivable, Net	851,980	1,035,216
Prepaid Items and Deposits	38,845	44,088
Parts Inventory	329,025	329,025
Total Unrestricted Current Assets	8,244,025	11,933,630
Restricted Assets:		
Intergovernmental Receivables	24,757	479,964
Bond and Acquisition and Construction Accounts	12,888,924	7,882,149
Total Restricted Current Assets	12,913,681	8,362,113
Total Current Assets	21,157,706	20,295,743
NON-CURRENT ASSETS		
Capital Assets:		
Capital Assets, at Cost	254,745,376	149,644,233
Less: Accumulated Depreciation	(94,255,091)	(90,599,968)
Net Capital Assets	160,490,285	59,044,265
Construction Work in Progress	14,850,305	15,702,969
Total Capital Assets	175,340,590	74,747,234
Restricted Assets:		
Advances to MARAD	-	162,939,619
Total Non-Current Assets	175,340,590	237,686,853
TOTAL ASSETS	$ 196,498,296	$ 257,982,596

The notes are an integral part of these financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Comparative Statements of Net Position

December 31, 2013 and 2012

LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	$ 296,212	$ 270,505
Compensated Absences Payable	160,791	158,022
Accrued Payroll Liabilities	132,067	151,248
Total Unrestricted Current Liabilities	589,070	579,775
Current Liabilities Payable from Restricted Assets:		
Notes Payable	-	40,000,000
Capital Acquisition and Construction Accounts and Retainages Payable	8,468	492,838
Total Current Liabilities	597,538	41,072,613
NON-CURRENT LIABILITIES		
Other Non-Current Liabilities	1,844,401	1,855,154
Compensated Absences Payable	47,473	20,049
Total Unrestricted Non-Current Liabilities	1,891,874	1,875,203
Non-Current Liabilities Payable from Restricted Assets:		
Notes Payable	40,000,000	-
Total Restricted Non-Current Liabilities	40,000,000	-
Total Non-Current Liabilities	41,891,874	1,875,203
TOTAL LIABILITIES	42,489,412	42,947,816
NET POSITION		
NET POSITION		
Net Investment in Capital Assets	135,340,590	74,747,234
Restricted for Capital Construction	-	130,808,894
Unrestricted	18,668,294	9,478,652
Total Net Position	154,008,884	215,034,780
TOTAL LIABILITIES AND NET POSITION	$ 196,498,296	$ 257,982,596

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Comparative Statements of Revenues, Expenses and Changes in Net Position

For The Years Ended December 31, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Charges for Sales and Services:		
Dockage	$ 956,080	$ 1,055,158
Wharfage, Dry Bulk	153,813	156,981
Wharfage, Liquid Bulk	570,819	821,064
Wharfage, General Cargo	3,440,514	3,349,776
Storage Revenue	49,168	139,190
Office Rental	73,884	60,014
Utilities	15,462	15,810
Miscellaneous	247,058	253,505
Total Charges for Sales and Services	5,506,798	5,851,498
Other:		
Crane Rentals	59,025	56,300
Industrial Park Lease Rentals	4,172,846	3,939,395
POL Value Yard Fees	330,359	367,674
Total Other	4,562,230	4,363,369
Total Operating Revenues	10,069,028	10,214,867
OPERATING EXPENSES		
Operations:		
Personnel Services	2,543,727	2,439,965
Supplies	220,651	297,664
Other Services and Charges	3,000,933	2,669,872
Charges from Other Departments	518,417	398,176
Total Operations	6,283,728	5,805,677
Depreciation	4,060,256	3,994,110
Total Operating Expenses	10,343,984	9,799,787
Operating Income (Loss)	(274,956)	415,080
NON-OPERATING REVENUES (EXPENSES)		
Investment Income-Short Term Investments	78,006	361,027
Security Fees	1,325,901	1,340,280
Right-of-Way Fees	160,682	146,599
Financing Costs on Long-Term Obligations	(707,003)	(744,704)
Security Contract	(1,325,141)	(1,312,914)
Total Non-Operating Expenses	(467,555)	(209,712)
Income Before Capital Contributions and Transfers	(742,511)	205,368
Capital Contributions	1,811,983	2,216,290
Municipal Service Assessment	(530,886)	(516,409)
Transfers to Other Funds	(2,431)	-
Extraordinary Item MARAD Writeoff	(61,562,051)	-
Change in Net Position	(61,025,896)	1,905,249
Net Position, Beginning	215,034,780	213,129,531
Net Position, Ending	$ 154,008,884	$ 215,034,780

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, 2013 and 2012

		2013		2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	$	11,738,847	$	11,816,087
Payments to Employees		(2,532,715)		(2,401,164)
Payments to Vendors		(4,526,528)		(4,270,033)
Internal Activity - Payments Made to Other Funds		(518,417)		(398,176)
Net Cash Provided by Operating Activities		4,161,187		4,746,714
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES				
Transfers to Other Funds		(533,317)		(516,409)
Net Cash Used by Non-Capital and Related Financing Activities		(533,317)		(516,409)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and Construction of Capital Assets		(3,760,414)		(3,223,388)
Financing Costs on Short-Term Obligations		(707,003)		(744,704)
Capital Contributions and Grant Proceeds		2,267,190		1,828,362
Net Cash Used by Capital and Related Financing Activities		(2,200,227)		(2,139,730)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Received		65,177		372,653
Net Cash Provided by Investing Activities		65,177		372,653
Net Increase in Cash		1,492,820		2,463,228
Cash, Beginning of Year		18,347,844		15,884,616
Cash, End of Year	$	19,840,664	$	18,347,844
COMPONENTS OF CASH				
Cash and Cash Equivalents	$	6,951,740	$	10,465,695
Bonds and Acquisition and Construction Accounts		12,888,924		7,882,149
Cash and Cash Equivalents, End of Year	$	19,840,664	$	18,347,844

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Comparative Statements of Cash Flows, continued

For The Years Ended December 31, 2013 and 2012

		2013		2012
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income	$	(274,956)	$	415,080
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation		4,060,256		3,994,110
Security Contract		(1,325,141)		(1,312,914)
Security Fees		1,325,901		1,340,280
Right-of-Way Fees		160,682		146,599
Changes in Assets and Liabilities Which Increase (Decrease) Cash:				
Accounts Receivable		183,236		114,341
Prepaid Items and Deposits		5,243		(1,103)
Accounts Payable		25,707		22,564
Compensated Absences Payable		30,193		(12,114)
Other Non-Current Liabilities		(10,753)		(11,044)
Accrued Payroll Liability		(19,181)		50,915
Net Cash Provided by Operating Activities	$	4,161,187	$	4,746,714
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Capital Purchases on Account	$	8,468	$	492,838
Capital Additions from MARAD Advances		101,377,568		-
	$	101,386,036	$	492,838

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 87 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 U.S. 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 at December 31, 2013 and 2012, 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 $518,417 and $398,176 for the years ended December 31, 2013 and 2012, 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 $2,000,000 for each workers' compensation claim. No settled claim exceeded this commercial coverage in 2013 while one claim exceeded this coverage in 2012 and two claims exceeded this coverage in 2011.

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, 2013, is dependent upon future developments. At December 31, 2013, claims incurred but not reported included in the liability accounts are $13,209,194 in the General Liability/Workers' Compensation Fund and the Medical/Dental Self Insurance Fund.

Changes in the funds' claim liability amounts in 2012 and 2013 are as follows:

	Balance January 1	Changes in Estimates	Claims Payment	Balance December 31
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
2013:				
General Liability/Workers' Compensation	16,714,555	8,977,822	(7,208,027)	18,484,350
Medical/Dental	7,028,349	52,485,460	(52,580,535)	6,933,274
Unemployment	118,632	443,265	(467,147)	94,750
	$ 23,861,536	$ 61,906,547	$ (60,255,709)	$ 25,512,374

At December 31, 2013 the Medical and Dental Self Insurance Fund had unrestricted net position of $4,135,683, an improvement of $3,039,665 from 2012. Medical and Dental rates were increased by 3% in 2013 to ensure an adequate reserve.

At December 31, 2013, the General Liability and Worker's Compensation Fund had positive unrestricted net position of $2,903,134; Insurance rates will be increased to offset deficits in 2012 and 2011.

(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, 2013, 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	$ 79,248				
Central Treasury - Unrestricted					
Cash & Money Market Funds	14,255,638				
Repurchase Agreements	23,542,999	23,542,999	-	-	-
Certificates of Deposit	439,022	-	439,022	-	-
U.S. Treasuries	105,646,902	16,223,373	76,964,966	12,458,563	-
U.S. Agencies	57,262,333	37,320,678	9,129,088	5,492,536	5,320,031
Asset-Backed Securities**	35,197,308	601,917	22,029,294	3,091,833	9,474,264
Corporate Fixed Income Securities	86,504,980	18,512,013	55,688,579	10,782,349	1,522,039
Payables	(9,877,635)				
	$ 312,971,547	$ 96,200,980	$ 164,250,949	$ 31,825,281	$ 16,316,334
Central Treasury - Restricted					
Cash & Money Market Funds	33,570,362				
Repurchase Agreements	10,223,809	10,223,809	-	-	-
Certificates of Deposit	937,917	747,267	190,650	-	-
U.S. Treasuries	48,951,461	7,045,180	36,496,011	5,410,270	-
U.S. Agencies***	58,279,956	34,606,794	18,977,684	2,385,195	2,310,283
Asset-Backed Securities**	15,284,823	261,388	9,566,467	1,342,663	4,114,305
Corporate Fixed Income Securities	39,104,614	9,577,912	24,183,385	4,682,355	660,962
Payables	(4,289,473)				
	$ 202,063,469	$ 62,462,350	$ 89,414,197	$ 13,820,483	$ 7,085,550

* Market value plus accrued income.

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

The Port's unrestricted cash and investments represent 2.3% of the unrestricted Municipal Central Treasury. The Port's restricted cash and investments represent 6.4% of the restricted Municipal Central Treasury.

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

Both externally and internally managed investments are subject to the primary investment objectives outlined in 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, 2013	Internally Managed Portfolio Holding % at December 31, 2013
U.S. Government Securities*	50% to 100% of investment portfolio	50%	57%
Repurchase Agreements	0% to 50% of investment portfolio	23%	2%
Certificates of Deposit**	0% to 50% of investment portfolio Maximum 5% per issuer	0%	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	0%	0%
Corporate Bonds	0% to 15% of investment portfolio Maximum 5% per issuer	16%	2%
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%	38%
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%	0%
		100%	100%

*Includes debt obligations issued or guaranteed by the U.S. government, U.S. agencies or U.S. government-sponsered corporations.

**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, the Police and Fire Retiree Medical Trust, and the Police and Fire Retirement Trust 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 percent 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, 2013, were 0.27 years, 1.69 years, and 3.62 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.

The Anchorage Central Treasury's investment in marketable debt securities, excluding U.S. Treasury and Agency securities, totaled $176,721,398 at December 31, 2013. The distribution of ratings on these securities was as follows:

Moody's		S&P	
Aaa	19%	AAA	15%
Aa	8%	AA	12%
A	26%	A	31%
Baa	22%	BBB	14%
Ba or Lower	0%	BB or Lower	0%
Not Rated	25%	Not Rated	28%
	100%		100%

At December 31, 2013, Anchorage's Central Treasury was invested in Asset Backed Securities and Mortgage Backed Securities valued at $245,473 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, 2013, Anchorage had no investments in any single issuer exceeding 5 percent of total investments.

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, 2013, the Anchorage Central Treasury had bank deposit carrying amounts totaling $43,133,702, of which $500,000 was covered by federal depository insurance. Bank deposits of $11,701,070 were secured by collateral held by a third party and deposits of $30,932,632 were secured by collateral held at the depository bank. An additional $1,160,000 was invested in overnight repurchase agreements and was secured by collateral held by a third party. 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.

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 investigated the scope and cause of the problems and determines the most appropriate course of action in order to complete the project.

The investigative reports concluded the project design was flawed and that significant aspects of the work performed was constructed incorrectly. In March 2013, Anchorage filed suit against the engineers involved in the bulkhead design and ICRC, the project manager under contract with MARAD, to recover damages sustained as a result of design defects and faulty project oversight. That case is pending before the United States District Court of Alaska. In February 2014 Anchorage filed suit against MARAD to recover damages sustained as a result of its mishandling of the project. That case is pending before the United States Court of Federal Claims in Washington DC. There has been no reimbursement of damages to date.

In the meantime, the project is moving forward. A project management consultant team has been engaged and is proceeding with work to develop a project management plan; a new design concept; regulatory and environmental compliance data and other planning information required to proceed with the work.

NOTE 4 – CAPITAL ASSETS

Capital assets for the year ended December 31, 2013 are as follows:

	Capital Assets (in thousands)			
	Balance 01/01/13	Additions	Retirements	Balance 12/31/13
CAPITAL ASSETS				
Land	$ 20,102	$ -	$ -	$ 20,102
Infrastructure	85,395	42,022	-	127,417
Buildings	5,852	317	-	6,169
Building Improvements	377	-	-	377
Land Improvements	28,443	60,698	-	89,141
Vehicles	632	-	-	632
Machinery and Equipment	8,546	2,442	405	10,583
Computer Equipment	110	27	-	137
Computer Software	18	-	-	18
Office Equipment	148	-	-	148
Art	21	-	-	21
Total plant in service, gross	149,644	105,506	405	254,745
Less Accumulated Depreciation	(90,600)	(4,060)	(405)	(94,255)
Net plant in service	59,044	101,446	-	160,490
CONSTRUCTION WORK IN PROGRESS	15,703	3,282	4,135	14,850
TOTAL NET CAPITAL ASSETS	$ 74,747	$ 104,728	$ 4,135	$ 175,340

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

NOTE 5 – LEASE AGREEMENTS

The Port has leased to unrelated third parties 200 acres of space in the Port Industrial Park. The 2013 carrying value of the leased assets is $11,295,350 with a cost of $15,878,994 and accumulated depreciation of $4,583,644. The 2012 carrying value of the leased assets is $11,879,005 with a cost of $17,941,810 and accumulated depreciation of $6,062,805. The leases provide for five-year rental adjustment intervals. Future minimum payments to be received are as follows (in thousands):

Years		Amount
2014		3,936
2015		3,717
2016		709
2017		313
2018-2022		1,190
2023-2027		997
2028-2032		649
Total	$	11,511
Lease Revenue for 2013	$	4,173

NOTE 6 – LONG TERM OBLIGATIONS

In June 2013, the Anchorage Assembly authorized the establishment of a short term borrowing program in an amount not to exceed $40,000,000 as an interim financing program for the port expansion project. In June 2013 the Municipality entered into a $40,000,000 Revolving Credit Agreement (Agreement) with a commercial bank as a short term borrowing program. A draw in the amount of $40,000,000 under the Agreement on June 24, 2013 was used to refinance the Port's outstanding commercial paper notes. The outstanding balance under the Agreement as of December 31, 2013 was $40,000,000. It is anticipated that the amount outstanding under the Agreement will be refunded by long term revenue bonds on or before the Commitment Expiration Date of June 20, 2016. Any amount outstanding is required to be repaid on the Commitment Expiration Date, if any amount is still outstanding on that date. Any amount may be repaid prior to that date at the option of the Port. During 2013 the monthly interest rates on the short term loan ranged from a low of 0.974% to a high of 0.996%. The amount of interest paid on the short term note in 2013 was $167,768. The Port financial statements show the Agreement's note as a non-current liability since the lending term under the Agreement is up to three years.

Long Term Obligations		Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013
Revolving credit agreement	$	-	40,000,000	-	40,000,000
Compensated absences payable		178,071	174,572	144,379	208,264
Total long term obligations	$	178,071	40,174,572	144,379	40,208,264

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 $1,844,401 at December 31, 2013. 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. Currently the funds are sitting in construction work in progress to be capitalized with the infrastructure assets from the Port Expansion project mentioned in Note 3.

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)(effective July 1, 2004).

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 2013, 2012 and 2011. Total employer contributions for 2013, 2012, and 2011 were $1,589,080, $1,676,002, and $1,542,746, 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 2013 are as follows:

	Employee Rate		Contractual Rate		ARM Board Adopted Rate		GASB 43*	
	1/1 to 6/30/13	7/1 to 12/31/13	1/1 to 6/30/13	7/1 to 12/31/13	1/1 to 6/30/13	7/1 to 12/31/13	1/1 to 6/30/13	7/1 to 12/31/13
Pension	2.97%	3.48%	9.67%	10.64%	15.75%	18.38%	24.95%	0.00%
Postemployment Healthcare	3.78%	3.27%	12.33%	11.36%	20.09%	17.30%	39.93%	0.00%
Total Contribution Rate	6.75%	6.75%	22.00%	22.00%	35.84%	35.68%	64.88%	0.00%

* This rate uses an 8% pension discount rate and 5.41% healthcare discount rate from 1/1/2013 to 12/31/2013 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 13.84% from January 1 through June 30 and 13.68% between July 1 and December 31, 2013 of covered payroll to the Plan. In accordance with the provisions of GASB Statement 24, Anchorage has recorded the state contribution in the General Fund in the amount of $25,984,106 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, 2011 to December 31, 2013 are shown in thousands below:

Year		Annual Pension Cost		Annual OPEB Cost		Total Benefit Cost (TBC)		Port Contributions	% of TBC Contributed
2013	$	91,180	$	96,908	$	188,088	$	188,088	100%
2012	$	77,805	$	99,245	$	177,050	$	177,050	100%
2011	$	74,065	$	83,317	$	157,382	$	157,382	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	0.48%	0.48%
Death & Disability Benefit	0.14%	0.20%
Total Employer Contribution	8.62%	8.68%

*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, 2013 a rate of $71.09 per full time employee per pay period and $1.18 per part time hour worked was paid. For pay periods ending after July 1, 2013, a rate of $72.95 per full time employee per pay period and $1.22 per part time hour worked were paid.

For the year ended December 31, 2013, the Port contributed $33,016 to PERS Tier IV for retirement and retiree medical, and $4,320 to PERS Tier IV for Health Reimbursement Arrangement on-behalf of its employees. Employee contributions to the plan totaled $13,577.

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 12.38% on Police & Fire Tier IV employee payroll and approximately 13.32% 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 – New Accounting Pronouncements

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates. The following new accounting standards will be implemented in the coming years:

- 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.

- GASB 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. This standard is required to be implemented for the 2014 financial reporting period.

- GASB 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement No. 68, which is required to be implemented for the 2015 financial reporting period.

NOTE 11 – Subsequent Events

Subsequent to December 31, 2013, the Port Expansion executive committee executed a new project management contract with CH2MHILL. It is a 5 year not to exceed $30 million contract for the completion of the Port expansion project.

NOTE 12 - PORT EXTRAORDINARY ITEM

In 2003, the Port and the Federal Maritime Administration (MARAD) began a project to expand the Port, operating under a Memorandum of Understanding (MOU). The MOU appointed MARAD as the project manager and $163 million was advanced to MARAD which derived from state and local sources. In 2012, investigative reports determined that the project design was flawed and that significant aspects of the work performed was constructed incorrectly. (See Note 3- Port Expansion for discussion on subsequent legal issues). In 2013, it was determined that some of the assets built with the advances were viable for use. The Port capitalized $101,377,568 in land improvements and infrastructure, leaving $61,562,051 remaining in advances related to assets that will never be realized. Since this transaction is infrequent in occurrence and unusual in nature, and was outside management's control, the Port reported this write-off as an extraordinary item.

STATISTICAL SECTION

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Statistical Section (Unaudited)

COMPARATIVE DETAIL SCHEDULE OF ACTUAL REVENUES BY SOURCE

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Dockage	$ 956,080	$ 1,055,158	$ 991,289	$ 845,214	$ 705,081	$ 842,096	$ 828,548	$ 825,540	$ 669,302	$ 659,717
Wharfage, Dry Bulk	153,813	156,981	167,018	73,172	71,343	126,338	132,514	153,306	123,324	138,826
Wharfage, Liquid Bulk	570,819	821,064	908,131	866,712	490,956	522,305	695,566	858,866	1,217,553	1,109,093
Wharfage, General Cargo	3,440,514	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
Terminal Lease/Rental		-	-	-	-	-	-	-	154,189	396,779
Storage Revenue	49,168	139,190	1,210	7,245	-	4,160	13,215	8,788	101,960	55,660
Office Rental	73,884	60,014	40,864	37,394	31,167	27,699	23,964	35,038	24,330	25,158
Utilities	15,462	15,810	17,704	19,485	7,510	10,198	10,635	17,980	15,870	12,585
Crane Rentals	59,025	56,300	52,500	61,908	48,435	48,076	140,012	26,695	39,493	124,036
Industrial Park Lease	4,172,846	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
Investment Income - Long-Term		-	-	-	11,186	35,828	85,171	103,927	145,760	186,093
Investment Income - Short-Term	78,006	361,027	433,059	974,656	2,031,824	218,893	2,342,556	1,819,458	1,058,201	130,470
Right-of-Way Fees	160,682	146,599	141,378	161,522	140,074	177,083	181,227	145,000	145,000	143,869
POL Value Yard Fees	330,359	367,674	473,869	300,212	358,443	485,400	499,385	498,133	457,858	458,476
Security Fees	1,325,901	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	247,059	253,505	179,101	144,596	57,522	(19,511)	57,035	158,154	64,481	121,412
Subtotal	11,633,618	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
Capital Contributions	1,811,983	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	$ 13,445,601	$ 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

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 2004 - 2013

Commodities Across Facility	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Freight NOS (not otherwise specified)	4,897	15,333	2	-	124	215	478	19,740	73	142
Bulk Dry Goods	119,271	119,939	118,280	109,228	81,494	116,789	124,089	134,921	148,959	122,855
Petroleum, NOS	2,615	1,454	2,052	1,660	2,032	2,648	2,618	2,888	4,505	4,148
Vans, Flats, Containers	1,742,704	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
Vehicles	-	-	864	-	1,473	10,725	5,381	1,158	4,057	2,877
Petroleum, Shoreside	952,631	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
Petroleum, Dockside	586,041	829,900	931,931	922,426	573,352	577,236	699,727	968,684	1,351,393	1,216,896
TOTAL TONS	3,408,159	3,748,877	4,135,214	3,962,962	3,798,272	4,370,277	4,316,392	4,347,289	5,101,816	4,628,010

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Statistical Section (Unaudited)

FINANCIAL RATIOS

Description	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Current Ratio (current assets / current liabilities)	35.41	0.49	0.43	0.96	1.07	0.74	31.07	141.87	18.36	17.64
Quick Ratio (quick assets / current liabilities)	13.25	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)	-31.06%	1%	4%	17%	6%	19%	3%	6%	4%	3%
Return on Equity (change in net position / net position)	-39.62%	1%	4%	20%	7%	24%	3%	6%	4%	3%
(outstanding debt / capital structure over net assets / capital	20%	16%	16%	16%	20%	21%	N/A	N/A	1%	3%
(outstanding debt/capital structure over net position/ capital structure)	80%	84%	84%	84%	80%	79%	N/A	N/A	99%	97%
Operating margin (operating income / operating revenue)	-3%	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 unamortized

PORT OF ANCHORAGE
2014-2019 CAPITAL IMPROVEMENT PROGRAM SUMMARY
(000's Omitted)

PROJECT CATEGORY	2014	2015	2016	2017	2018	2019	TOTAL
Port Intermodal Expansion Project (*)	251,500.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	261,500.00
Repairs & Renovations	3,172.00	3,298.00	3,430.00	3,568.00	3,710.00	3,858.00	21,036.00
Equipment	500.00	-	-	-	-	-	500.00
TOTAL	255,172.00	5,298.00	5,430.00	5,568.00	5,710.00	5,858.00	283,036.00

SOURCE OF FUNDING	2013	2014	2015	2016	2017	2018	TOTAL
State/Fed Grants & Bonds	252,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	262,000.00
Equity / Operations	3,172.00	3,298.00	3,430.00	3,568.00	3,710.00	3,858.00	21,036.00
TOTAL	255,172.00	5,298.00	5,430.00	5,568.00	5,710.00	5,858.00	283,036.00

(*) 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 2013 BILLINGS
HIGHEST TO LOWEST

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

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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 Port of Anchorage, an enterprise fund of the Municipality of Anchorage, Alaska, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Port Fund's basic financial statements and have issued our report thereon dated May 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Port of Anchorage'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 the Port Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port 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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Port of Anchorage'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.

BDO USA, LLP

Anchorage, Alaska
May 30, 2014