MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Basic Financial Statements with Other Information

December 31, 2014 and 2013

(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, which comprise the statements of net position as of December 31, 2014 and 2013, and the related statements of revenue, expenses and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

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, 2014 and 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.

Emphasis of Matter

As discussed in Note 15 to the financial statements, amounts reported for construction work in progress and opening balance equity have been restated to correct for an accounting error. Our opinion is not modified with respect to this 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, 2014, 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.

Other Information
Our audit 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 26, 2015 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 27, 2015

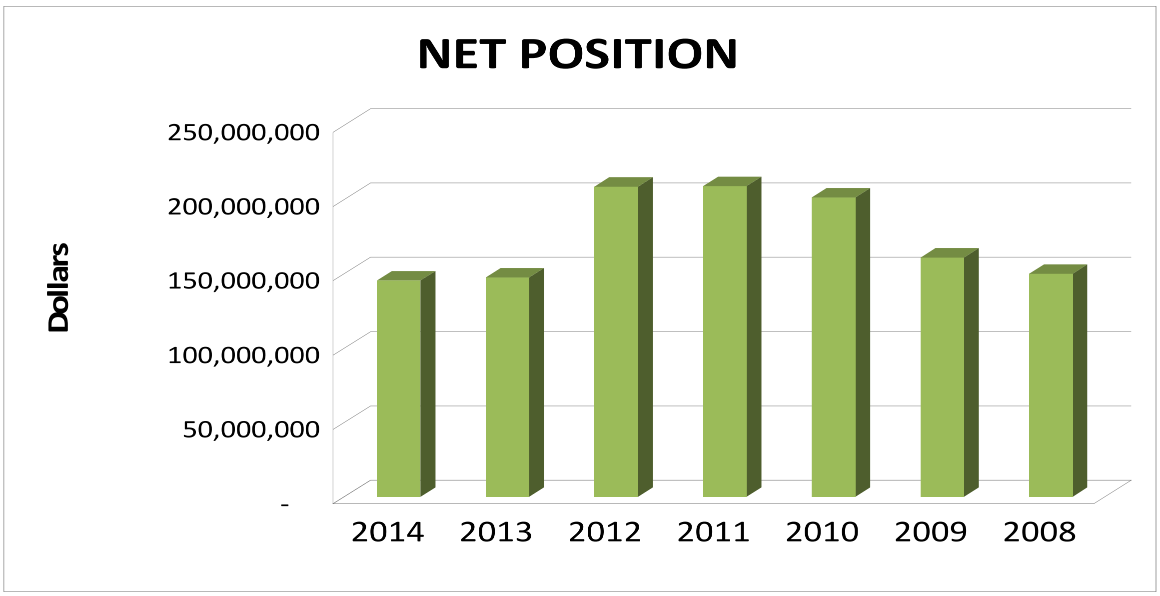
Management's Discussion and Analysis

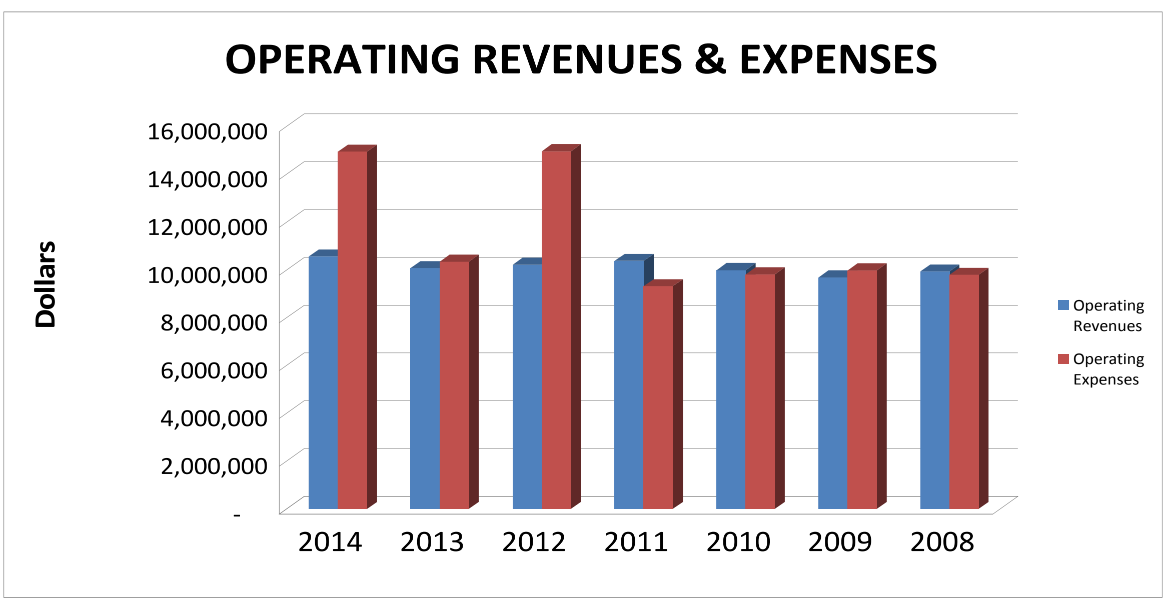
December 31, 2014 and 2013

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, 2014 and 2013. Please read it in conjunction with the Port's financial statements.

FINANCIAL HIGHLIGHTS

- Net Position decreased $2,055,296, or 1.4% in 2014 and decreased $61,025,896, or 29% in 2013.
- Operating Revenues increased $493,222, or 4.9% in 2014 and increased $145,839, or 1.4% in 2013.
- Operating Expenses increased $4,600,262, or 58% in 2014 and decreased $4,617,550, or 31% in 2013, as restated.





Management's Discussion and Analysis

December 31, 2014 and 2013

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, 2014 and December 31, 2013. 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, 2014 and December 31, 2013 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 reports 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 Statement of Net Position as of December 31, 2014, 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

	2014	2013 (restated)	2012 (restated)
Assets:			
Current and Other Assets	$ 20,550,972	$ 21,157,706	$ 20,295,743
Non-Current Assets	168,338,131	169,851,113	237,686,853
Total Assets	188,889,103	191,008,819	257,982,596
Liabilities:			
Current Liabilities	1,348,188	597,538	41,072,613
Non-Current Liabilities	41,908,990	41,891,874	1,875,203
Total Liabilities	43,257,178	42,489,412	42,947,816
Net Position:			
Net Investment in Capital Assets	128,338,131	129,018,927	68,425,571
Restricted for Capital Construction	1,659,452	-	130,808,894
Unrestricted	15,634,342	18,668,294	9,478,652
Total Net Position	$ 145,631,925	$ 147,687,221	$ 208,713,117
Change in Net Position	$ (2,055,296)	$ (61,025,896)	$ (4,416,414)

During 2014 the Port's total assets decreased by $2.1 million. Non-Current assets decreased by $1.5 million. Current Assets decreased by $607 thousand primarily due to an increase in the construction cash pool. 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 2014 the Port's total liabilities increased by $767,766 all due to an increase in construction accounts payable. In 2013 the Port's total liabilities decreased by $458,404 primarily due to a decrease in construction accounts payable.

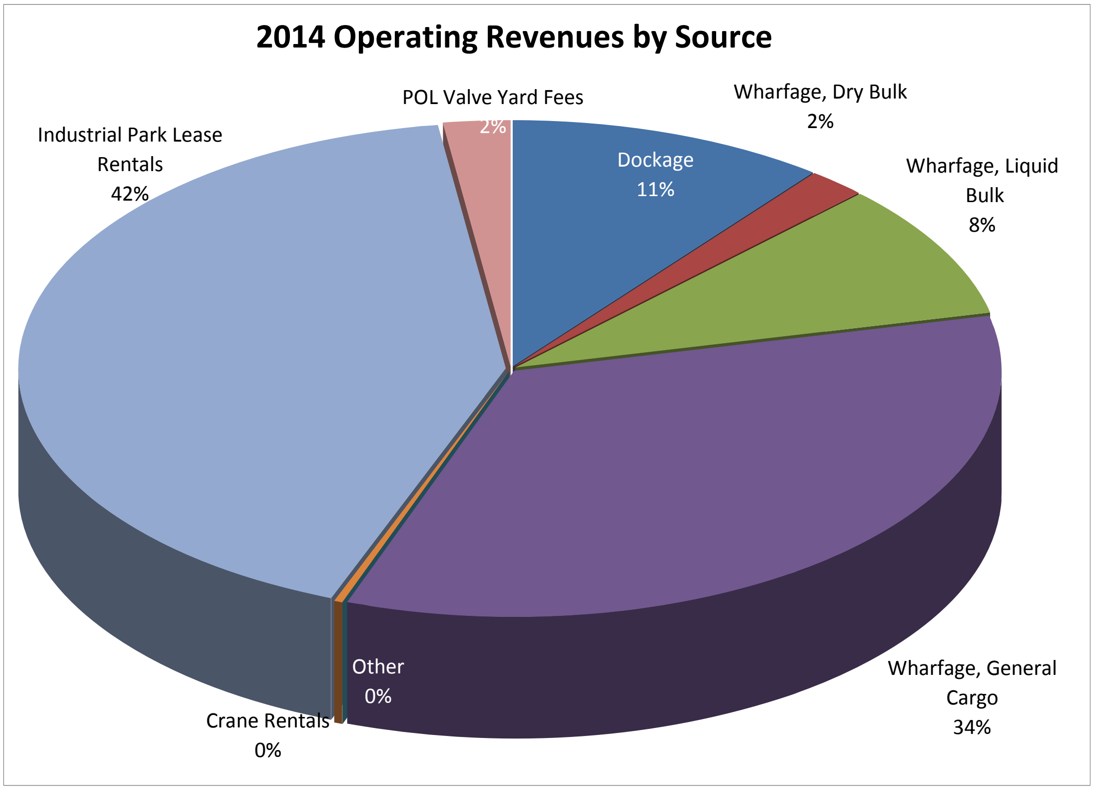
Changes in the Port's net position can be determined by reviewing the following condensed Statement of Revenues, Expenses, and Changes in Net Position for the years ending December 31, 2014, 2013, and 2012 (Table 2).

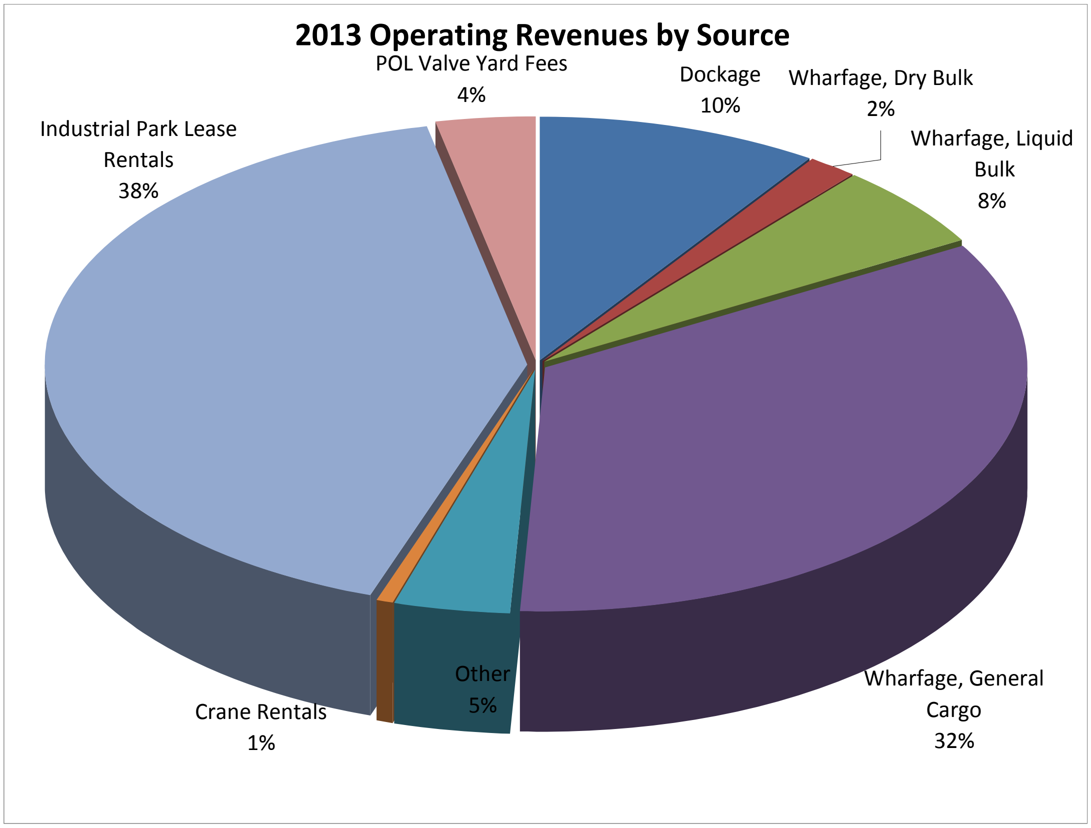
Operating revenues overall increased in 2014 by $493,222. This was mostly due to additions in petroleum related wharfage (liquid bulk).

Operating expenses increased by $4,600,262, which was primarily attributable to an increase in depreciation expense due to numerous adjustments to capital assets and capitalization of construction work in progress.

TABLE 2
Statement of Revenues, Expenses, and Changes in Net Position

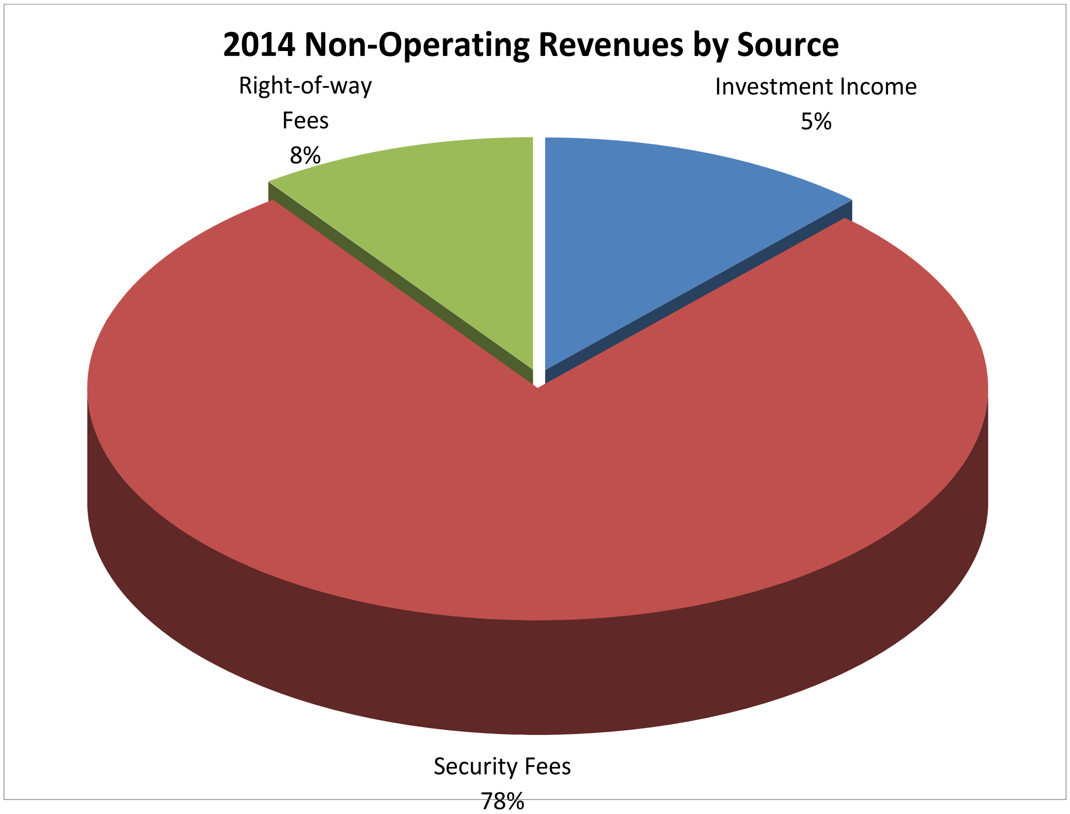
	2014	2013 (restated)	2012 (restated)
Operating Revenues:			
Dockage	$ 1,061,272	$ 956,080	$ 1,055,158
Wharfage, Dry Bulk	179,256	153,813	156,981
Wharfage, Liquid Bulk	900,922	570,819	821,064
Wharfage, General Cargo	3,414,255	3,440,514	3,349,776
Industrial Park Lease Rentals	4,182,255	4,172,846	3,939,395
Crane Rentals	43,375	59,025	56,300
POL Valve Yard Fees	231,774	330,359	367,674
Other	549,141	385,572	468,519
Total Operating Revenues	10,562,250	10,069,028	10,214,867
Operating Expenses:			
Personnel Services	2,540,648	2,543,727	2,439,965
Supplies	186,802	220,651	298,077
Other Services and Charges	3,564,257	3,000,933	4,946,952
Charges from Other Departments	626,392	518,417	3,282,430
Depreciation	8,026,147	4,060,256	3,994,110
Total Operating Expenses	14,944,246	10,343,984	14,961,534
Operating Loss	(4,381,996)	(274,956)	(4,746,667)
Nonoperating Revenues (Expenses)			
Non-Operating Revenues	1,747,839	1,564,589	1,847,906
Non-Operating Expenses	(1,764,761)	(2,032,144)	(3,217,534)
Net Non-Operating Revenues	(16,922)	(467,555)	(1,369,628)
Loss Before Capital Contributions and Transfers	(4,398,918)	(742,511)	(6,116,295)
Capital Contributions, Transfers and Special Item	2,343,622	(60,283,385)	1,699,881
Change in Net Position	(2,055,296)	(61,025,896)	(4,416,414)
Net Position, beginning	147,687,221	208,713,117	213,129,531
Net Position, ending	$ 145,631,925	$ 147,687,221	$ 208,713,117

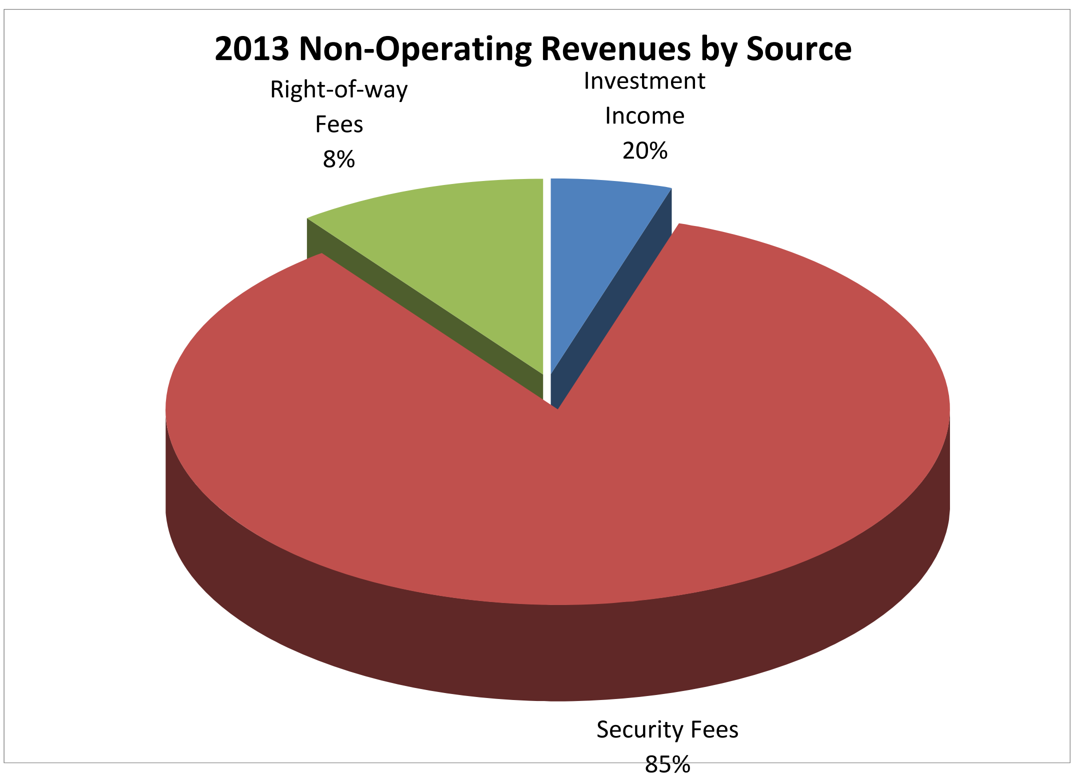

2014 Operating Revenues by Source
POL Valve Yard Fees
2%
Wharfage, Dry Bulk
2%
Industrial Park Lease Rentals
42%
Dockage
11%
Wharfage, Liquid Bulk
8%
Other
0%
Wharfage, General Cargo
34%
Crane Rentals
0%

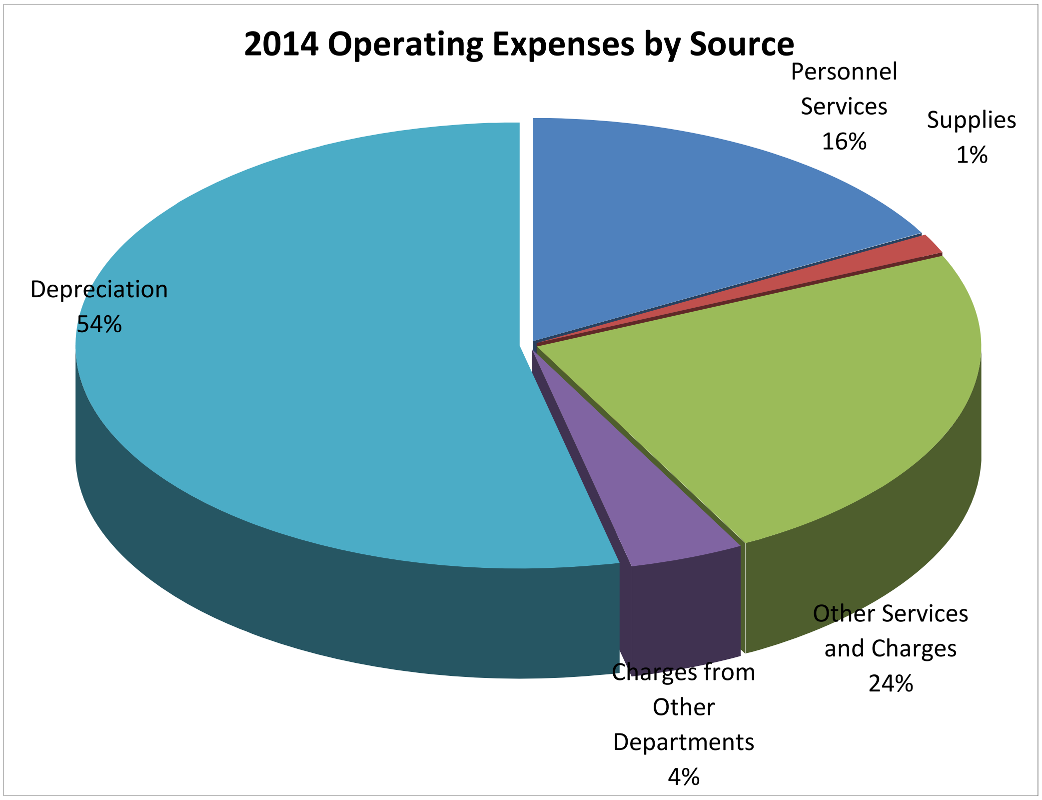

2013 Operating Revenues by Source
POL Valve Yard Fees
4%
Dockage
10%
Wharfage, Dry Bulk
2%
Industrial Park Lease Rentals
38%
Wharfage, Liquid Bulk
8%
Other
5%
Wharfage, General Cargo
32%
Crane Rentals
1%

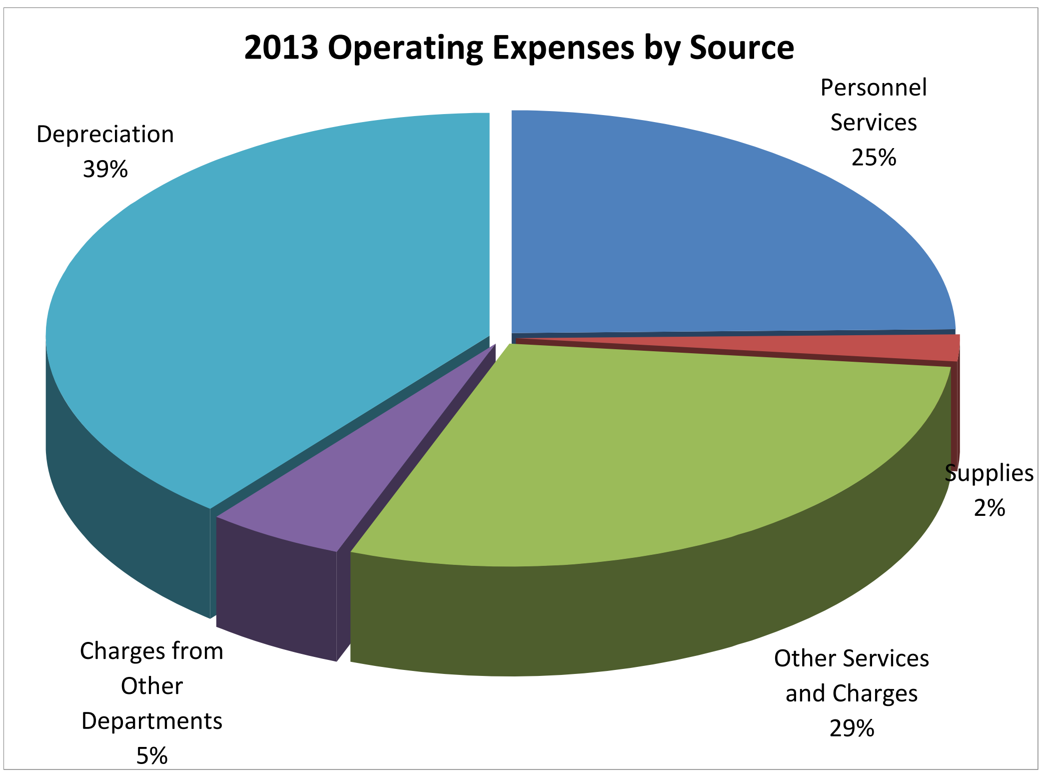
Management's Discussion and Analysis

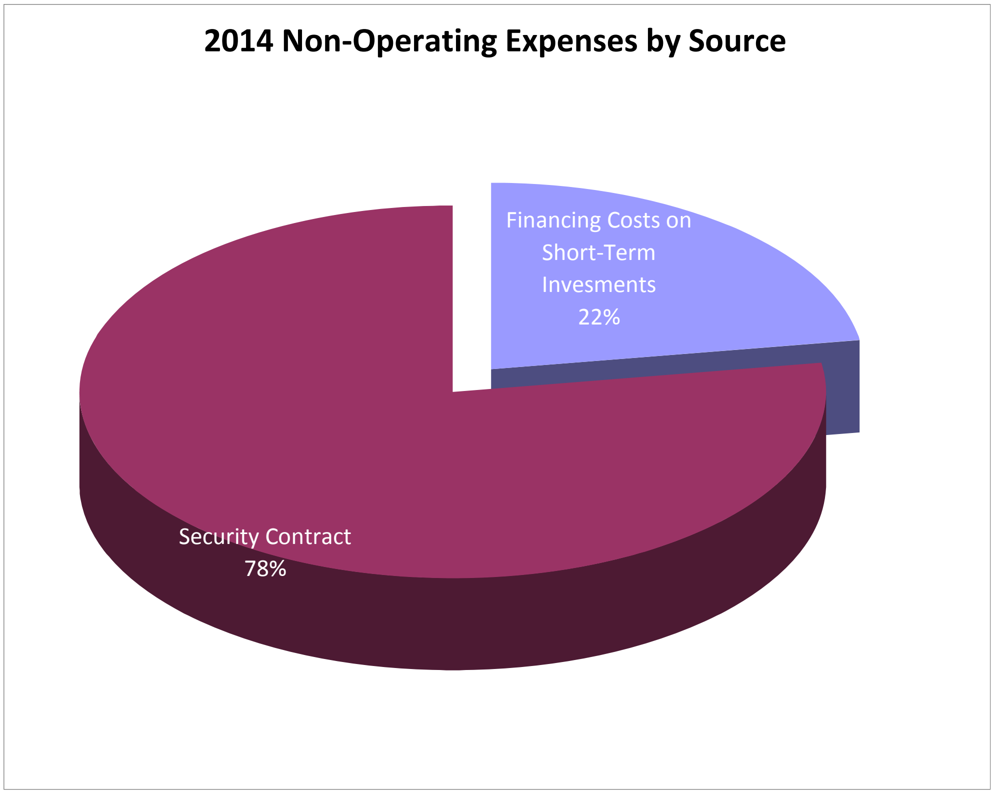
December 31, 2014 and 2013

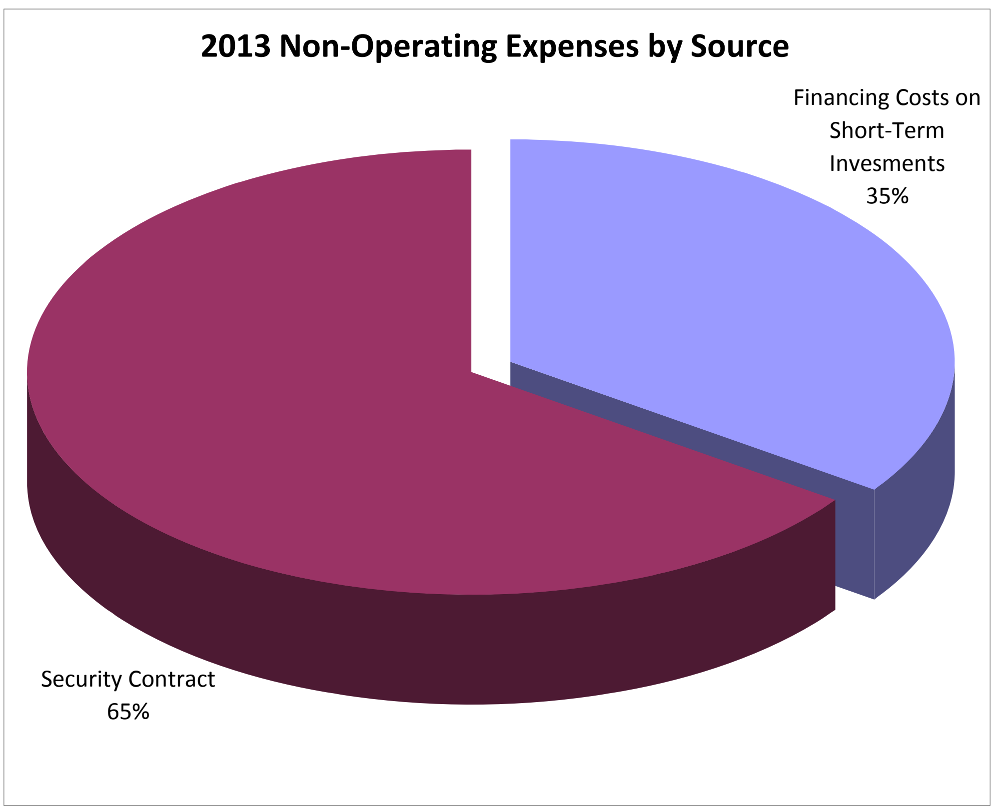





2014 Operating Expenses by Source
Personnel Services 16%
Supplies 1%
Depreciation 54%
Other Services and Charges 24%
Charges from Other Departments 4%


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


2014 Non-Operating Expenses by Source
Financing Costs on Short-Term Invesments 22%
Security Contract 78%


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

CAPITAL ASSETS AND DEBT

Capital Assets

The following table summarizes the Port's capital assets, at cost, as of December 31, 2014, 2013, and 2012.

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

	2014	2013 (restated)	2012 (restated)
Capital Assets			
Land	$ 20,101	$ 20,102	$ 20,102
Infrastructure	50,748	54,462	14,821
Buildings	2,415	2,535	2,332
Building Improvements	52	69	86
Land Improvements	88,981	80,148	20,366
Vehicles	4	64	130
Machinery and Equipment	2,902	3,060	1,167
Computer Equipment	18	27	13
Computer Software	-	2	5
Office Equipment	1	-	1
Art	21	21	21
Total Capital Assets	165,243	160,490	59,044
Construction Work in Progress	3,095	8,529	15,703
Total	$ 168,338	$ 169,019	$ 74,747
Increase/(Decrease) in Net Capital Assets	$ (681)	$ 95,104	$ (602)

2014 major additions include:

- Dock Piling Enhancements $ 2.7 million
- Machinery and Equipment and other improvements $ 428 thousand
- Backlands Leveling Land Improvement $ 9 million

Construction work in progress decreased by $5,434 thousand in 2014.

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 2013, 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 2014 budget anticipated Port operating revenues of $10.6 million and $1.7 million in non-operating revenues. Actual 2014 operating revenues earned amounted to $10.6 million, or $16 thousand under budget projections. Actual 2014 non-operating revenues earned amounted to $4.6 million or $2.9 million over budget projections. The contributing factors to the variance between 2014 budget and actual non-operating revenues was due to the increase in direct funding from the State of Alaska in the amount of $2.4 million and a small increase in right-of-way fees of $40,968.

The 2014 budget anticipated Port operating expenses of $13.3 million. Actual 2014 operating expenses incurred amounted to $16.3 million or $3 million over budget projections. The contributing factor to the variance between 2013 budget and actual operating expenses was due to a $3.5 million underestimation of depreciation.

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 were reviewed in 2014 and changed effective January 1, 2015.

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, 2014 and 2013

	2014	2013 (restated)
ASSETS		
CURRENT ASSETS		
Cash	$ 150	$ 150
Equity in General Cash Pool	10,205,074	6,951,590
Bond and Acquisition and Construction Accounts	6,988,445	12,888,924
Interest Receivable	47,277	72,435
Accounts Receivable, Net	1,281,554	851,980
Prepaid Items and Deposits	39,941	38,845
Parts Inventory	329,079	329,025
Total Unrestricted Current Assets	18,891,520	21,132,949
Restricted Assets:		
Intergovernmental Receivables	1,659,452	24,757
Total Restricted Current Assets	1,659,452	24,757
Total Current Assets	20,550,972	21,157,706
NON-CURRENT ASSETS		
Capital Assets:		
Capital Assets, Not Being Depreciated	23,217,753	28,651,523
Capital Assets, Being Depreciated, Net	145,120,378	140,367,404
Total Non-Current Assets	168,338,131	169,018,927
TOTAL ASSETS	$ 188,889,103	$ 190,176,633

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, 2014 and 2013

LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	$ 481,616	$ 296,212
Capital Acquisition and Construction Accounts and Retainages Payable	490,850	8,468
Compensated Absences Payable	164,942	160,791
Accrued Payroll Liabilities	177,472	132,067
Accrued Interest Payable	33,308	-
Total Unrestricted Current Liabilities	1,348,188	597,538
NON-CURRENT LIABILITIES		
Other Non-Current Liabilities	1,842,013	1,844,401
Compensated Absences Payable	66,977	47,473
Notes Payable	40,000,000	40,000,000
Total Non-Current Liabilities	41,908,990	41,891,874
TOTAL LIABILITIES	43,257,178	42,489,412
NET POSITION		
NET POSITION		
Net Investment in Capital Assets	128,338,131	129,018,927
Restricted for Capital Construction	1,659,452	-
Unrestricted	15,634,342	18,668,294
Total Net Position	145,631,925	147,687,221
TOTAL LIABILITIES AND NET POSITION	$ 188,889,103	$ 190,176,633

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, 2014 and 2013

	2014	2013 (restated)
OPERATING REVENUES		
Charges for Sales and Services:		
Dockage	$ 1,061,272	$ 956,080
Wharfage, Dry Bulk	179,256	153,813
Wharfage, Liquid Bulk	900,922	570,819
Wharfage, General Cargo	3,414,255	3,440,514
Storage Revenue	230,883	49,168
Office Rental	135,041	73,884
Utilities	28,675	15,462
Miscellaneous	154,542	247,058
Total Charges for Sales and Services	6,104,846	5,506,798
Other:		
Crane Rentals	43,375	59,025
Industrial Park Lease Rentals	4,182,255	4,172,846
POL Value Yard Fees	231,774	330,359
Total Other	4,457,404	4,562,230
Total Operating Revenues	10,562,250	10,069,028
OPERATING EXPENSES		
Operations:		
Personnel Services	2,540,648	2,543,727
Supplies	186,802	220,651
Other Services and Charges	3,564,257	3,000,933
Charges from Other Departments	626,392	518,417
Total Operations	6,918,099	6,283,728
Depreciation	8,026,147	4,060,256
Total Operating Expenses	14,944,246	10,343,984
Operating Loss	(4,381,996)	(274,956)
NON-OPERATING REVENUES (EXPENSES)		
Investment Income-Short Term Investments	211,006	78,006
Security Fees	1,361,865	1,325,901
Right-of-Way Fees	174,968	160,682
Financing Costs on Long-Term Obligations	(397,024)	(707,003)
Security Contract	(1,367,737)	(1,325,141)
Total Non-Operating Revenues (Expenses)	(16,922)	(467,555)
Loss Before Capital Contributions and Transfers	(4,398,918)	(742,511)
Capital Contributions	2,882,353	1,811,983
Municipal Service Assessment	(533,731)	(530,886)
Transfers to Other Funds	(5,000)	(2,431)
Extraordinary Item MARAD Writeoff	-	(61,562,051)
Change in Net Position	(2,055,296)	(61,025,896)
Net Position, Beginning (restated)	147,687,221	208,713,117
Net Position, Ending	$ 145,631,925	$ 147,687,221

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, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$ 11,669,509	$ 11,738,847
Payments to Employees	(2,471,588)	(2,532,715)
Payments to Vendors	(4,936,876)	(4,526,528)
Internal Activity - Payments Made to Other Funds	(626,392)	(518,417)
Net Cash Provided by Operating Activities	3,634,653	4,161,187
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers to Other Funds	(538,731)	(533,317)
Net Cash Used by Non-Capital and Related Financing Activities	(538,731)	(533,317)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(6,863,023)	(3,760,414)
Financing Costs on Short-Term Obligations	(363,716)	(707,003)
Grant Proceeds Capital	1,247,658	2,267,190
Net Cash Used by Capital and Related Financing Activities	(5,979,081)	(2,200,227)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	236,164	65,177
Net Cash Provided by Investing Activities	236,164	65,177
Net Increase in Cash	(2,646,995)	1,492,820
Cash, Beginning of Year	19,840,664	18,347,844
Cash, End of Year	$ 17,193,669	$ 19,840,664
COMPONENTS OF CASH		
Cash	$ 150	$ 150
Cash in Central Treasury	10,205,074	6,951,740
Bonds and Acquisition and Construction Accounts	6,988,445	12,888,924
Cash and Cash Equivalents, End of Year	$ 17,193,669	$ 19,840,664

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, 2014 and 2013

		2014		2013
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Loss	$	(4,381,996)	$	(274,956)
Adjustments to Reconcile Operating Income to Net Cash				
Provided by Operating Activities:				
Depreciation		8,026,147		4,060,256
Security Contract		(1,367,737)		(1,325,141)
Security Fees		1,361,865		1,325,901
Right-of-Way Fees		174,968		160,682
Changes in Assets and Liabilities Which Increase (Decrease) Cash:				
Accounts Receivable		(429,574)		183,236
Prepaid Items and Deposits		(1,096)		5,243
Accounts Payable		185,404		25,707
Compensated Absences Payable		23,655		30,193
Other Non-Current Liabilities		(2,388)		(10,753)
Accrued Payroll Liability		45,405		(19,181)
Net Cash Provided by Operating Activities	$	3,634,653	$	4,161,187
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Capital Purchases on Account	$	490,850	$	8,468
Capital Additions from MARAD Advances		-		101,377,568
	$	490,850	$	101,386,036

The notes are an integral part of these financial statements.

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 the State of Alaska's population, handles 90 percent of the consumer goods of Alaska and is one of 22 Strategic Seaports designated by the Department of Defense. 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 a modernization project that began in 2014. This project targets four marine terminals that are in need of replacement. 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 Statement 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. At this time the Port has restricted assets of $1,659,452 and $24,575 at December 31, 2014 and 2013, respectively.

(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 $329,079 and $329,025 at December 31, 2014 and 2013, 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. Land, construction in progress, and art are not depreciated. The Port depreciates all other 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 $626,392 and $518,417 for the years ended December 31, 2014 and 2013, respectively, which does not include the Port's payments to the Municipality's risk management programs.

(h) Risk Management and Self-Insurance

The Municipality 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 $2,500,000 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 2014 or 2013 while one claim exceeded this coverage in 2012.

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

The Municipality's 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, 2014, is dependent upon future developments. At December 31, 2014, claims incurred but not reported included in the liability accounts are $14,212,666 in the General Liability/Workers' Compensation Fund and the Medical/Dental Self Insurance Fund.

Changes in the funds' claim liability amounts in 2013 and 2014 are as follows:

	Balance January 1	Changes in Estimates	Claims Payment	Balance December 31
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
2014:				
General Liability/Workers' Compensation	18,484,350	8,590,527	(9,043,949)	18,030,928
Medical/Dental	6,933,274	47,412,207	(47,258,680)	7,086,801
Unemployment	94,750	364,529	(360,868)	98,411
	$ 25,512,374	$ 56,367,263	$ (56,663,497)	$ 25,216,140

At December 31, 2014 the Medical and Dental Self Insurance Fund had unrestricted net position of $10,288,292, an improvement of $6,152,609 from 2013. Medical and Dental rates were increased by 3% in 2014 to ensure an adequate reserve.

At December 31, 2014, the General Liability and Worker's Compensation Fund had positive unrestricted net position of $3,260,400; Insurance rates will be increased to offset deficits in 2012.

(i) Interfund Payable/Receivable – Capital Projects Fund

In the event that the Port borrows from the Municipal 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, 2014, 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	$ 83,018	-	-	-	-
Master Lease Agreement	142,939	-	-	-	-
Interim Rate Increase Escrow	4,199,147	-	-	-	-
Central Treasury - Unrestricted					
Cash & Money Market Funds	2,986,970	-	-	-	-
Repurchase Agreements	32,593,655	32,593,655	-	-	-
Commercial Paper	10,789,411	10,789,411	-	-	-
Certificates of Deposit	3,073,542	3,073,542	-	-	-
U.S. Treasuries	134,396,442	14,675,893	112,009,370	7,711,179	-
U.S. TIPS	5,415,041	-	3,060,896	2,031,989	322,156
U.S. Agencies	60,745,165	49,370,233	1,981,137	5,408,512	3,985,283
Municipal Bonds	221,474	-	-	221,474	-
Asset-Backed Securities**	45,009,290	464,642	30,968,105	4,055,610	9,520,933
Corporate Securities	96,081,983	26,183,785	53,323,687	14,232,077	2,342,434
Payables	(9,356,128)	-	-	-	-
	$381,956,845	$137,151,161	$201,343,195	$33,660,841	$16,170,806
Central Treasury - Restricted					
Cash & Money Market Funds	27,988,270	-	-	-	-
Repurchase Agreements	9,019,845	9,019,845	-	-	-
Commercial Paper	3,984,651	3,984,651	-	-	-
Certificates of Deposit	850,560	850,560	-	-	-
U.S. Treasuries	37,192,365	4,061,351	30,997,051	2,133,963	-
U.S. TIPS	1,498,538	-	847,061	562,325	89,152
U.S. Agencies	38,000,249	24,152,828	11,247,818	1,496,731	1,102,872
Municipal Bonds	61,290	-	-	61,290	-
Asset-Backed Securities**	12,455,701	128,583	8,569,997	1,122,334	2,634,787
Corporate Fixed Income Securities	26,589,366	7,246,003	14,756,596	3,938,531	648,236
Payables	(2,589,179)	-	-	-	-
	$155,051,656	$ 49,443,821	$ 66,418,523	$ 9,315,174	$ 4,475,047

* 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 4.95% of the unrestricted Municipal Central Treasury. The Port's restricted cash and investments represent 1.07% of the restricted Municipal Central Treasury.

The Municipal 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.

The Municipality maintains a comprehensive policy over cash and investments that is designed to mitigate risks while maximizing investment return and providing for operating liquidity. Pursuant to Anchorage Municipal Code (AMC) 6.50.030, the Municipality requires investments to meet specific rating and issuer requirements.

Both externally and internally managed investments are subject to the primary investment objectives outlined in 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, 2014	Internally Managed Holding % at December 31, 2014
U.S. Government Securities*	50% to 100% of investment portfolio	54%	58%
Repurchase Agreements	0% to 50% of investment portfolio	21%	0%
Certificates of Deposit**	0% to 50% of investment portfolio Maximum 5% per issuer	2%	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	0%	4%
Corporate Bonds	0% to 15% of investment portfolio Maximum 5% per issuer	9%	7%
Alaska Municipal League Investment Pool (AMLIP)***	0% to 25% of investment portfolio	0%	0%
Money Market Mutual Funds	0% to 25% of investment portfolio	14%	31%
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 Municipal 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 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.

AMC 6.50.030 requires the Working Capital Portfolio have a duration of zero to 270 days. At December 31, 2014, the Working Capital Portfolio had a duration of .27 years, or approximately 99 days. AMC

6.50.030 also requires that the Contingency Reserve Portfolio have an average duration within half a year of its benchmark. At December 31, 2014, the contingency Reserve Portfolio had a duration of 1.68 years as compared to its benchmark, Barclays 1-3 Year Government Index, which had a duration of

1.92 years. AMC 6.50.030 requires the Strategic Reserve Portfolio have a maximum duration no greater than one-year in excess of its benchmark. At December 31, 2014, the Strategic Reserve Portfolio had a duration of 3.58 years as compared to its benchmark, Barclays Intermediate Government/Corporate Index, which had a duration of 3.88 years.

The effective durations of the externally managed portfolios of the Municipal Central Treasury (working capital, contingency reserve and strategic reserve) at December 31, 2014, were 0.27 years, 1.69 years, and 3.62 years, respectively, which are within the required durations per the policy.

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.

Policy & Procedures (P&P) 24-11 states that the Internally Managed Funds may not have investments in any single issuer exceeding 5 percent of total investments. P&P 24-11 also requires that at least 50% of the portfolio shall be invested in U.S. Government securities or in mutual funds that invest solely in U.S. Government securities. P&P 24-11 limits concentrations by security type based upon portfolio values at the time of purchase. Security type concentration limits are as follows: i) 50% invested in repurchase agreements or certificates of deposit, including unsecured certificates of deposit, ii) 25% invested in banker's acceptances or money market mutual funds or mutual fund investments that invest predominantly in investments permitted by AMC 6.50.030 or the Alaska Municipal League Investment Pool (AMLIP), iii) 20% invested in certificates of deposit secured by other than U.S. Government securities, and iii) 15% invested in commercial paper of dollar denominated fixed income securities, other than those listed previously, rated by at least one nationally recognized rating agency. P&P 24-11 states that bond debt service reserve funds may be invested in securities not exceeding the final maturity date of the bond issue for which they are invested, and investment of any funds that are subject to restrictive covenants contained in an Ordinance or Resolution must be invested in accordance with those covenants.

At December 31, 2014 The Municipal Central Treasury's investment in commercial paper totaled $14,744,062, 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 Municipal Central Treasury's investment in marketable debt securities, excluding U.S. Treasury and Agency securities, totaled $184,214,010 at December 31, 2014. The distribution of ratings on these securities was as follows:

Moody's		S&P	
Aaa	29%	AAA	18%
Aa	5%	AA	8%
A	21%	A	32%
Baa	34%	BBB	23%
Ba or Lower	1%	BB or Lower	0%
Not Rated	10%	Not Rated	19%
	100%		100%

At December 31, 2014, Municipal's Central Treasury was invested in Asset Backed Securities and Mortgage Backed Securities valued at $234,027 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. At December 31, 2014, Anchorage's Central Treasury had no investments in any single issuer exceeding 5 percent of total investments.

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 percent 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, 2014, the Municipal Central Treasury 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, 2014, the Municipal Central Treasury had bank deposit carrying amounts totaling $27,965,546 of which $500,000 was covered by federal depository insurance. Bank deposits of $10,425,008 were secured by collateral held by a third party and deposits of $17,040,538 were secured by collateral held at the depository bank. An additional $4,637,500 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.

AMC 6.50.030 requires that repurchase agreements be secured by obligations of the U.S. government, U.S. agencies, or U.S. government-sponsored corporations and agencies. At December 31, 2014 cash deposits and investments were not exposed to custodial risk.

NOTE 3 – PORT MODERNIZATION PROJECT

In November 2014, Mayor Sullivan selected the concept plan for the Anchorage Port Modernization Project (APMP). The existing marine terminals have reached the end of their design life and suffer from severe corrosion on the wharf piling. The project will replace two general cargo terminals and two petroleum terminals to ensure infrastructure resilience and to accommodate expected growth in core business lines over a 75 year life cycle. The project will enable the Port to accommodate larger ships in the future by allowing for a harbor depth increase from 35 feet to 45 feet. Three new 50-gauge container cranes will increase reach across vessels from 9 containers wide to 14 containers wide. Completion of this project is critically important for the Port to continue to serve 87 percent of the State of Alaska's population and to maintain its role as one of only 22 designated Department of Defense Strategic Seaports.

NOTE 4 – CAPITAL ASSETS

Capital assets for the year ended December 31, 2014 are as follows:

	Capital Assets (in thousands)			
	Balance 01/01/14 (restated)	Additions	Retirements	Balance 12/31/14
CAPITAL ASSETS				
Land	$ 20,101	$ -	$ -	$ 20,101
Infrastructure	127,416	43	-	127,459
Buildings	6,169	-	-	6,169
Building Improvements	377	-	-	377
Land Improvements	89,141	12,307	-	101,448
Vehicles	633	-	-	633
Machinery and Equipment	10,583	428	-	11,011
Computer Equipment	137	1	-	138
Computer Software	18	-	-	18
Office Equipment	149	-	-	149
Art	21	-	-	21
Total plant in service, gross	254,745	12,779	-	267,524
Less Accumulated Depreciation	(94,256)	(8,025)	-	(102,281)
Net plant in service	160,489	4,754	-	165,243
CONSTRUCTION WORK IN PROGRESS	8,529	7,471	12,905	3,095 *
TOTAL NET CAPITAL ASSETS	$ 169,018	$ 12,225	$ 12,905	$ 168,338

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

	Capital Assets (in thousands)			
	Balance 01/01/13	Additions	Retirements	Balance 12/31/2013 (restated)
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)	(4,061)	(405)	(94,256)
Net plant in service	59,044	101,445	-	160,489
CONSTRUCTION WORK IN PROGRESS	15,703	3,282	10,456	8,529
TOTAL NET CAPITAL ASSETS	$ 74,747	$ 104,727	$ 10,456	$ 169,018

*For estimates on costs to completion for Port capital improvements see Table 5 of the Statistical Section.

NOTE 5 – LEASE AGREEMENTS

The Port has leased to unrelated third parties 200 acres of space in the Port Industrial Park. The 2014 carrying value of the leased assets is $11,026,541 with a cost of $15,878,994 and accumulated depreciation of $4,852,453. 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 leases provide for five-year rental adjustment intervals. Future minimum payments to be received are as follows (in thousands):

Years	Amount
2015	$ 3,717
2016	709
2017	313
2018	246
2019-2023	1,162
2024-2028	997
2029-2033	649
Total	$ 7,793
Lease Revenue for 2014	$ 4,182

NOTE 6 – LONG-TERM OBLIGATIONS

In June 2013, the Anchorage Assembly authorized the establishment of a long-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 long-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, 2014 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 still outstanding is required to be repaid on the Commitment Expiration Date. Any amount may be repaid prior to that date at the option of the Port. During 2014 the monthly interest rates on the note ranged from a low of 0.963% to a high of 0.978%. The amount of interest paid on the note in 2014 was $392,265. The Port's 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, 2014	Additions	Reductions	Balance December 31, 2014	Amount Due within 1 Year
Revolving credit agreement	$ 40,000,000	$ -	$ -	$ 40,000,000	$ -
Compensated absences payable	208,264	199,419	175,764	231,919	164,942
Total long-term obligations	$ 40,208,264	$ 199,419	$ 175,764	$ 40,231,919	$ 164,942

NOTE 7 – OTHER NON-CURRENT LIABILITY

In February 2012, the Port entered into an agreement with the Department of Defense to acquire 48 acres of undeveloped land (Tract J) 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 Statement of Net Position as a non-current liability totaling $1,842,013 at December 31, 2014. In 2011, the Port recognized a capital contribution in the amount of $8,425,612. See Note 8 for a description of environmental issues affecting this land.

NOTE 8 – ENVIRONMENTAL ISSUES

Both Tract H and Tract J (discussed in Note 7) at the Port of Anchorage are ADEC designated contaminated sites. The Port is required to submit annual ground water monitoring reports to ADEC for both tracts. In 2014, the monitoring and reporting costs for Tract H was $10,486 and Tract J was $15,623.

NOTE 9 – 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 the Knik Arm Waterway.

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. The funds were recorded as construction work in progress to be capitalized with the infrastructure assets. In 2014, the entire amount $7,988,677 was capitalized into land improvements.

NOTE 10 – 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 2014, 2013 and 2012. Further, seasonal employees are provided for contributions at .75 cents per hour worked in 2014, 2013 and 2012. Total employer contributions (covered and seasonal employees) for 2014, 2013, and 2012 were $1,519,659, $1,588,775, and $1,676,415, 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 of Alaska 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 2014 are as follows:

	Employee Rate		Contractual Rate		ARM Board Adopted Rate		GASB 43*	
	1/1 to 6/30/14	7/1 to 12/31/14	1/1 to 6/30/14	7/1 to 12/31/14	1/1 to 6/30/14	7/1 to 12/31/14	1/1 to 6/30/14	7/1 to 12/31/14
Pension	3.48%	3.26%	10.64%	12.54%	18.38%	25.09%	27.94%	33.05%
Postemployment Healthcare	3.27%	3.49%	11.36%	9.46%	17.30%	18.94%	52.55%	55.07%
Total Contribution Rate	6.75%	6.75%	22.00%	22.00%	35.68%	44.03%	80.49%	88.12%

* This rate uses an 8.00% pension discount rate and 4.90% healthcare discount rate from 1/1/2014 to 12/31/2014 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 13.68% from January 1 through June 30 and 22.03% between July 1 and December 31, 2014 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 $57,184,705 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, 2012 to December 31, 2014 are shown in thousands below:

Year	Annual Pension Cost	Annual OPEB Cost	Total Benefit Cost (TBC)	Port Contributions	% of TBC Contributed
2014	105,111	79,295	184,406	184,406	100%
2013	91,180	96,908	188,088	188,088	100%
2012	77,805	99,245	177,050	177,050	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	TIER IV 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%	1.66%
Death & Disability Benefit	0.20%	0.22%
Total Employer Contribution	8.68%	9.88%

*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, 2014 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, 2014, 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, 2014, the Port contributed $9,573 to PERS Tier IV for retirement and retiree medical, and $3,729 to PERS Tier IV for Health Reimbursement Arrangement on-behalf of its employees. Employee contributions to the plan totaled $11,616.

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 11.28% on Police & Fire Tier IV employee payroll and approximately 12.12% 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 11 – 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 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 has been 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. This standard has been implemented for the 2014 financial reporting period. During the preparation of the financial statements it was determined that this standard did not apply.

- 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.

- GASB 72 – Fair Value Measurement and Application – addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to fair value measurements. This standard is required to be implemented for the 2016 financial reporting period.

NOTE 12 – Subsequent Events

Tariff Rates
Effective January 1, 2015 Port tariff rates will be increasing through the published Terminal Tariff No. 8, 2015 publication.

New Construction-Storage Facility
On April 30, 2015 Delta Western, Inc. (a tenant at the Port) broke ground on their new refined petroleum storage facility. The storage facility will contain a storage tank and a truck rack for distribution. This is the first new construction in four decades for the Port. The first product to be offered from the facility will be methanol which will be shipped to the North Slope Oil Fields. This project is expected to be completed in the fall of 2015.

NOTE 13 – Port of Anchorage Expansion Litigation

The Port was in the process of expanding its facilities. The multi-year project began in 2003. From March 2003 to October 2011, the Port 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 the Port 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, the Port 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, the Port 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 14 - 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 6- 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.

NOTE 15 – PRIOR PERIOD ADJUSTMENT

In 2014, the Port identified certain costs that were improperly recorded to construction work in progress prior to 2013. During a review of the balance in construction work in progress, the Port determined that the following items should not have been recorded:

Overhead charges that were not capitalizable	$ 5,099,561
Interest expense for the expansion project that was not capitalizable	1,159,916
Other administrative costs that are not capitalizable	62,186
Total decrease to 2013 beginning net position	$ 6,321,663

All of these costs were incurred prior to 2013. The Port has recorded a prior period adjustment in the amount of $6,321,663 to remove these costs from construction work in progress and 2013 beginning net position as follows:

	As Reported	Adjustment	As Restated
Construction work in progress	$ 14,850,305	$ (6,321,663)	$ 8,528,642
Opening net position	215,034,780	(6,321,663)	208,713,117

STATISTICAL SECTION

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Statistical Section (Unaudited)

Table 1

COMPARATIVE DETAIL SCHEDULE OF ACTUAL REVENUES BY SOURCE

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Dockage	$ 1,061,272	$ 956,080	$ 1,055,158	$ 991,289	$ 845,214	$ 705,081	$ 842,096	$ 828,548	$ 825,540	$ 669,302
Wharfage, Dry Bulk	179,256	153,813	156,981	167,018	73,172	71,343	126,338	132,514	153,306	123,324
Wharfage, Liquid Bulk	900,922	570,819	821,064	908,131	866,712	490,956	522,305	695,566	858,866	1,217,553
Wharfage, General Cargo	3,414,255	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
Terminal Lease/Rental	-	-	-	-	-	-	-	-	-	154,189
Storage Revenue	230,883	49,168	139,190	1,210	7,245	-	4,160	13,215	8,788	101,960
Office Rental	135,041	73,884	60,014	40,864	37,394	31,167	27,699	23,964	35,038	24,330
Utilities	28,675	15,462	15,810	17,704	19,485	7,510	10,198	10,635	17,980	15,870
Crane Rentals	43,375	59,025	56,300	52,500	61,908	48,435	48,076	140,012	26,695	39,493
Industrial Park Lease	4,182,255	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
Investment Income - Long-Term	-	-	-	-	-	11,186	35,828	85,171	103,927	145,760
Investment Income - Short-Term	211,006	78,006	361,027	433,059	974,656	2,031,824	218,893	2,342,556	1,819,458	1,058,201
Right-of-Way Fees	174,968	160,682	146,599	141,378	161,522	140,074	177,083	181,227	145,000	145,000
POL Value Yard Fees	231,774	330,359	367,674	473,869	300,212	358,443	485,400	499,385	498,133	457,858
Security Fees	1,361,865	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
Gain on Disposition of Assets	-	-	-	-	-	-	52,470	-	640	-
Reimbursed Cost	-	-	-	-	-	2,760	873,765	-	-	-
Intergovernmental Revenue-Capital	2,882,353	-	-	-	-	-	57,205	47,046	29,277	529,912
Miscellaneous Revenues	154,542	247,059	253,505	179,101	144,596	57,522	(19,511)	57,035	158,154	64,481
Subtotal	15,192,442	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
Capital Contributions	2,882,353	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	$ 18,074,795	$ 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

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Statistical Section (Unaudited)

Table 2

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 NOS	3.00
Petroleum or Petroleum Products	
* Inbound/Outbound	0.135
* Transfers	0.004
* Fuel	0.013
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)

Table 3

TEN-YEAR ANNUAL DOCK TONNAGE REPORT (2005 - 2014)

Commodities Across Facility	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Freight NOS	5,463	4,897	15,333	2	-	124	215	478	19,740	73
Bulk Dry Goods	140,684	119,271	119,939	118,280	109,228	81,494	116,789	124,089	134,921	148,959
Petroleum, NOS	2,031	2,615	1,454	2,052	1,660	2,032	2,648	2,618	2,888	4,505
Vans, Flats, Containers	1,811,136	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
Vehicles	-	-	-	864	-	1,473	10,725	5,381	1,158	4,057
Petroleum, Shoreside	916,050	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
Petroleum, Dockside	580,343	586,041	829,900	931,931	922,426	573,352	577,236	699,727	968,684	1,351,393
TOTAL TONS	3,455,707	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

Notes to Annual Dock Tonnage:
NOS - Not Otherwise Specified

Table 4

FINANCIAL RATIOS

Description	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Current Ratio (current assets / current liabilities)	15.24	35.41	0.49	0.43	0.96	1.07	0.74	31.07	141.87	18.36
Quick Ratio (quick assets / current liabilities)	13.77	13.25	0.28	0.31	0.54	0.89	0.26	10.65	39.66	6.03
Return on Investment (change in net position / total assets)	-1%	-31%	1%	4%	17%	5%	19%	3%	6%	4%
Return on Equity (change in net position / net position)	-1%	-40%	1%	5%	20%	7%	24%	3%	6%	4%
Debt to equity as a percent of capital structure	27%	20%	16%	16%	16%	20%	21%	N/A	N/A	1%
(outstanding debt / capital structure over net position / capital structure	73%	80%	84%	84%	84%	80%	79%	N/A	N/A	99%
Operating margin (operating income (loss) / operating revenue)	-41%	-3%	4%	10%	2%	-3%	1%	8%	19%	22%

Notes to Financial Ratios:
Quick or Acid-test ratio computed by removing from current assets inventory and restricted current assets.

Table 5

PORT OF ANCHORAGE
2015-2019 CAPITAL IMPROVEMENT PROGRAM SUMMARY
(in thousands)

PROJECT CATEGORY	2015	2016	2017	2018	2019	2020	TOTAL
Anchorage Port Moderization Project	13,335	37,670	62,016	80,510	68,597	109,594	371,722
Repairs & Renovations	3,298	3,430	3,568	3,710	3,858	4,012	21,876
Equipment	500	-	-	-	-	-	500
TOTAL	17,133	41,100	65,584	84,220	72,455	113,606	394,098

SOURCE OF FUNDING	2,015	2,016	2,017	2,018	2,019	2,020	TOTAL
State/Fed Grants & Bonds	13,335	37,670	62,016	80,510	68,597	109,594	371,722
Equity / Operations	3,798	3,430	3,568	3,710	3,858	4,012	22,376
TOTAL	17,133	41,100	65,584	84,220	72,455	113,606	394,098

Table 6

TOP TEN CUSTOMER RANKING ON 2014 BILLINGS
HIGHEST TO LOWEST

Rank No.	Customer Name
1	Horizon Lines LLC
2	Totem Ocean Trailer Express
3	Tesoro Alaska Companies INC
4	Anchorage Fueling & Service Co./ASIG
5	Anchorage Sand & Gravel/ABI
6	Petro Star Inc.
7	Cruise Line Agencies of Alaska
8	Flint Hills Resources LP
9	Crowley Petroleum Dist. (CPD Alaska)
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, 2014, 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 27, 2015.

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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiencies in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. (Item 2014-001).

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.

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*.

Port of Anchorage's Response to Findings

The Port of Anchorage's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Port of Anchorage's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

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 27, 2015

MUNICIPALITY OF ANCHORAGE
PORT OF ANCHORAGE FUND

Schedule of Findings and Responses
Year Ended December 31, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unqualified			
Internal control over financial reporting:				
• Material weakness(es) identified?	X	yes		no
• Significant deficiency(ies) identified?		yes		no
• Noncompliance material to financial statements noted?		yes	X	no

Section II - Financial Statement Findings Required to be Reported in Accordance with *Government Auditing Standards*

Finding 2014-001 Reconciliation of Construction Work-in-Progress

Criteria — Section A1.08 of Government Auditing Standards states that "management is responsible for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported." Internal controls over financial reporting, should allow management to prevent, or detect and correct misstatements on a timely basis.

Condition — During 2014 management identified certain errors in the construction work in progress (CWIP) balance including items improperly capitalized in prior years.

Context — Management identified $6.3 million in prior year costs improperly capitalized to CWIP. The opening CWIP balance before adjustment was $14.8 million. Total capital assets balances before adjustment was $175.3 million.

Effect — Management has recorded a $6.3 million restatement to reduce the opening CWIP and net position to reflect this correction.

Cause — Although management had a process in place to review costs for capitalization, these controls did not properly identify items which should have been expensed, rather than capitalized.

Recommendation — During the 2014 audit preparation, management identified these errors. As a result, management has already added additional informational fields to the CWIP tracking spreadsheet to help identify items rolling forward and items for removal from CWIP. We encourage management to use this tool going forward to include an annual detail review and justification of all items remaining in CWIP at year end and encourage an additional level of review of these items prior to audit.

Management Response — Please see the Corrective Action Plan

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Corrective Action Plan
Year Ended December 31, 2014

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Financial Statement Findings

Finding 2014-001 Reconciliation of Construction Work-In-Progress – Material Weakness

Corrective Action Plan

The Finance Department agrees with this finding. The Port has hired a new Director and will be better prepared for the next audit. Finance has added additional information fields in the Construction Work-In-Process (CWIP) tracking spreadsheet that will better identify items that need to be removed or rolled forward. This will assist in ensuring that the reconciliation of CWIP is accurate and up to date.

Expected Completion Date

In progress, FY15