



MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Basic Financial Statements with Other Information

December 31, 2016 and 2015

(With Independent Auditor's Report Thereon)

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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, 2016 and 2015, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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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, 2016 and 2015, 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 12 to the financial statements, in 2015 the Port of Anchorage adopted the provisions of Governmental Accounting Standards Board (GASB) Statement 68, Accounting and Financial Reporting for Pensions. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements present only the Port Fund and do not purport to, and do not, present fairly the financial position of the Municipality of Anchorage, Alaska as of December 31, 2016 and 2015, the changes in its financial position, or where applicable, its cash flows for the years 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 through 14, the Schedule of Net Pension Liability and the Schedule of Pension Contributions on page 43, 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 for the year ended December 31, 2016 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 July 27, 2017 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 effectiveness of the Port of Anchorage's 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
July 27, 2017

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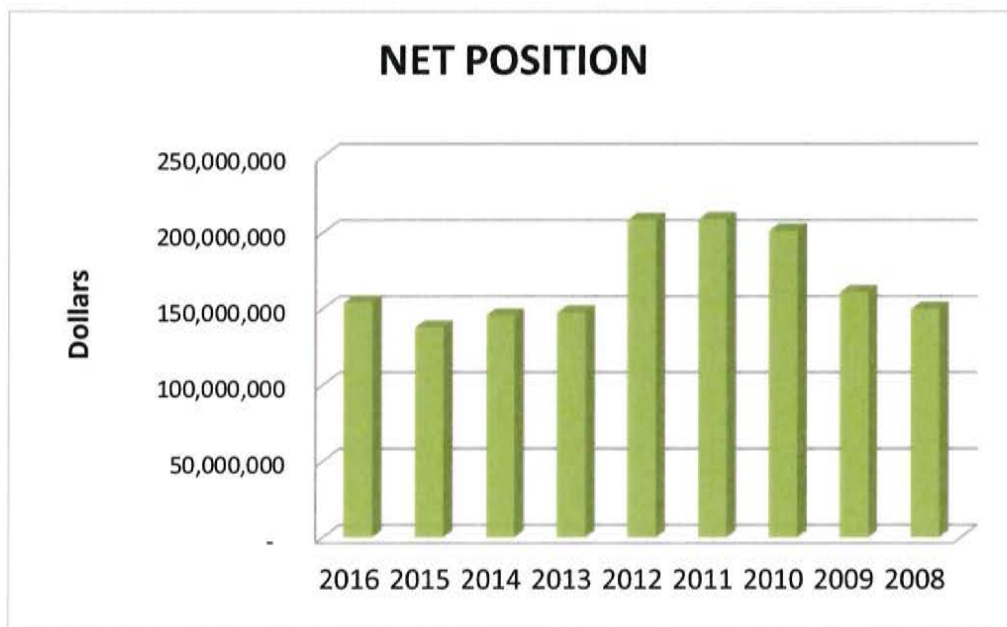
Management's Discussion and Analysis

December 31, 2016 and 2015

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, 2016 and 2015. Please read it in conjunction with the Port's financial statements.

FINANCIAL HIGHLIGHTS

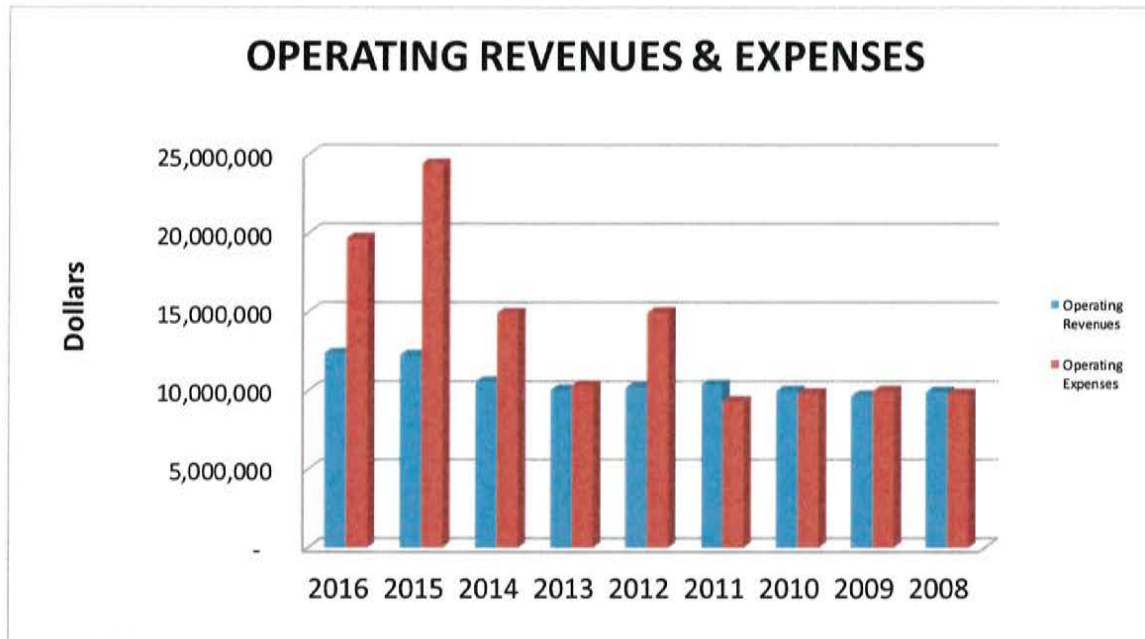
- Net Position increased \$16,444,902 or 11.9% in 2016 primarily due to \$12.6 million in legal settlements paid to the Port by its contractors involved in the Port Intermodal Expansion Litigation settlement.
- Operating Revenues increased \$116,116 or 0.9% in 2016 and increased \$1,708,347 or 16.2% in 2015.
- Operating Expenses decreased \$4,742,349 or -19.4% in 2016 primarily due to a decrease in Other Services and Charges and increased \$9,481,054 or 63.4% in 2015 primarily due to an increase in Other Services and Charges as a result of expensing costs recorded in Construction Work in Progress determined to be an expense rather than a capital expenditure.



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Management's Discussion and Analysis

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

Statements of Net Position – These statement present information regarding the Port's assets, liabilities, deferred inflows/outflows of resources and with the difference reported as net position at December 31, 2016 and December 31, 2015. Net position represents the total assets and deferred outflows of resources less total liabilities and deferred inflows of resources. The Statements of Net Position classify assets and liabilities as current and non-current.

Statements of Revenues, Expenses, and Changes in Net Position – These statements present the Port's operating revenues and expenses and non-operating revenues and expenses for the years ended December 31, 2016 and December 31, 2015 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 (restated) ending net position total reconciles to the net position total at the end of this year.

Statements of Cash Flows – These statements report cash and cash equivalent activities for the year resulting from operating activities, non-capital and related financing activities, capital and related

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Management's Discussion and Analysis

December 31, 2016 and 2015

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 Statements 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 Statements of Net Position and Statements 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 of resources, 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, 2016, 2015, and 2014. 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
Summary of Net Position

	2016	2015	2014
Assets:			
Current and Other Assets	\$ 28,228,217	\$ 18,446,569	\$ 20,550,972
Non-Current Assets	171,876,881	163,713,052	168,338,131
Total Assets	200,105,098	182,159,621	188,889,103
Deferred Outflows of Resources	446,838	195,619	-
Total Assets and Deferred Outflows of Resources	\$ 200,551,936	\$ 182,355,240	\$ 188,889,103
Liabilities:			
Current Liabilities	2,292,424	1,109,143	1,348,188
Non-Current Liabilities	43,962,353	43,387,749	41,908,990
Total Liabilities	46,254,777	44,496,892	43,257,178
Deferred Inflows of Resources	22,453	28,544	-
Total Liabilities and Deferred Inflows of Resources	46,277,230	44,525,436	43,257,178
Net Position:			
Net Investment in Capital Assets	131,317,508	123,153,679	128,338,131
Restricted for Capital Construction	5,003,116	2,077,591	1,659,452
Unrestricted	17,954,082	12,598,534	15,634,342
Total Net Position	\$ 154,274,706	\$ 137,829,804	\$ 145,631,925

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During 2016 the Port's total assets increased by \$17.9 million. Non-Current assets increased by \$8.1 million primarily due to a \$13.1 million increase in construction work in progress off set by a \$5.0 million decrease in net capital assets. Current assets increased \$9.8 million primarily due to a increase in equity in the general and construction cash pool by \$5.0 million and \$1.4 million respectively; and an addition of a new restricted cash account of \$2.3 million required pursuant to contractor settlements on the Port Intermodal Expansion Project. During 2015 the Port's total assets decreased by \$6.7 million. Non-Current assets decreased by \$4.6 million. Current Assets decreased by \$2.1 million primarily due to a decrease in the equity in the capital acquisition and construction account.

During 2016 the Port's total liabilities increased by \$1.8 million primarily due to an increase in accounts payable and capital acquisition and construction accounts and retainages of \$.8 million and \$.37 million respectively. Current liabilities increased by \$1,183,281 primarily due to increases in capital acquisition and construction accounts and retainage payable. Non-current liabilities increased by \$.5 million likewise to recognize an increase to net pension liability as noted above. During 2015 the Port's total liabilities increased by \$1.2 million to recognize a net pension liability pursuant to the implementation of GASB 68 (see Note 12 – Other Accounting Matters). Current liabilities decreased by \$239,045 primarily due to a decrease in capital acquisition and construction accounts and retainage payable. Non-current liabilities increased by \$1.2 million likewise to recognize a net pension liability as noted above. During 2014 the Port's total liabilities increased by \$767,766 all due to an increase in construction accounts payable.

Changes in the Port's net position can be determined by reviewing the following condensed Summary of Revenues, Expenses, and Changes in Net Position for the years ending December 31, 2016, 2015, and 2014 (Table 2).

During 2016 the Port's Operating revenues overall increased by \$116,116 or .9% and in 2015 Operating revenues overall increased by \$1.7 million. This was mostly due to additions in petroleum related wharfage (liquid bulk) and industrial park lease rental revenue.

During 2016 the Port's Operating expenses overall decreased by \$4.7 million, which was primarily attributable to transactions in work in progress expensed in 2015. After an evaluation of the costs incurred to date on the Anchorage Port Modernization project, the determination was made that the expenses were noncapitalizable expenses.

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Management's Discussion and Analysis

December 31, 2016 and 2015

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

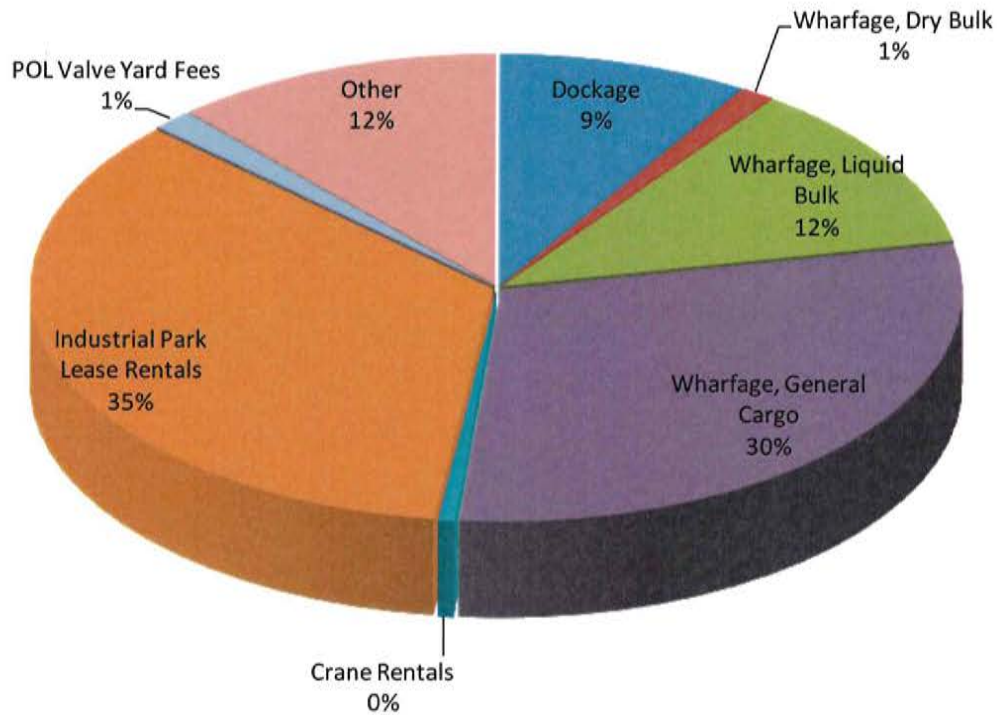
	2016	2015	2014
Operating Revenues:			
Dockage	\$ 1,089,224	\$ 1,142,837	\$ 1,061,272
Wharfage, Dry Bulk	148,896	181,234	179,256
Wharfage, Liquid Bulk	1,463,035	1,682,558	900,922
Wharfage, General Cargo	3,670,375	3,608,772	3,414,255
Industrial Park Lease Rentals	4,326,069	4,363,254	4,182,255
Crane Rentals	72,488	105,858	43,375
POL Valve Yard Fees	176,713	191,560	231,774
Other	1,439,913	994,524	549,141
Total Operating Revenues	<u>\$ 12,386,713</u>	<u>\$ 12,270,597</u>	<u>\$ 10,562,250</u>
Operating Expenses:			
Personnel Services	3,146,242	2,529,141	2,540,648
Supplies	151,245	126,534	186,802
Other Services and Charges Restated	7,718,973	13,444,548	3,564,257
Charges from Other Departments	951,146	591,109	626,392
Depreciation	7,715,345	7,733,968	8,026,147
Total Operating Expenses	<u>19,682,951</u>	<u>24,425,300</u>	<u>14,944,246</u>
Operating Loss	<u>(7,296,238)</u>	<u>(12,154,703)</u>	<u>(4,381,996)</u>
Nonoperating Revenues (Expenses)			
Non-Operating Revenues	14,577,663	1,954,080	1,747,839
Non-Operating Expenses	(2,045,726)	(2,076,089)	(1,764,761)
Net Non-Operating Revenues	<u>12,531,937</u>	<u>(122,009)</u>	<u>(16,922)</u>
Income Before Capital Contributions and Transfers	<u>5,235,699</u>	<u>(12,276,712)</u>	<u>(4,398,918)</u>
Capital Contributions and Transfers and Special Item	<u>11,209,203</u>	<u>5,778,567</u>	<u>2,343,622</u>
Change in Net Position	<u>16,444,902</u>	<u>(6,498,145)</u>	<u>(2,055,296)</u>
Net Position, beginning restated	<u>137,829,804</u>	<u>144,327,949</u>	<u>147,687,221</u>
Net Position, ending	<u>\$ 154,274,706</u>	<u>\$ 137,829,804</u>	<u>\$ 145,631,925</u>

MUNICIPALITY OF ANCHORAGE, ALASKA
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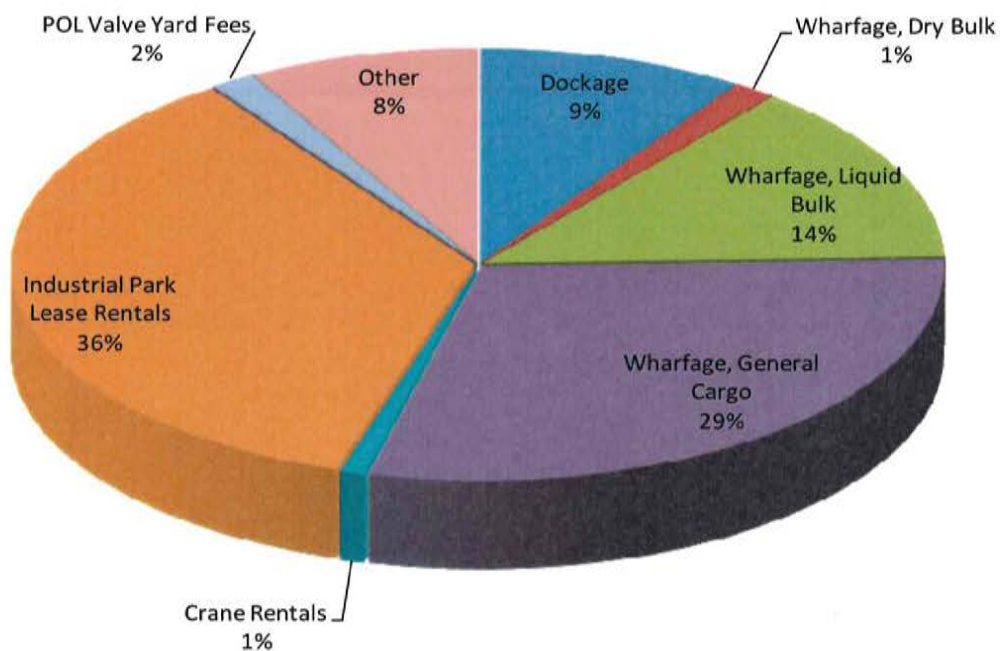
Management's Discussion and Analysis

December 31, 2016 and 2015

2016 Operating Revenues by Source



2015 Operating Revenues by Source

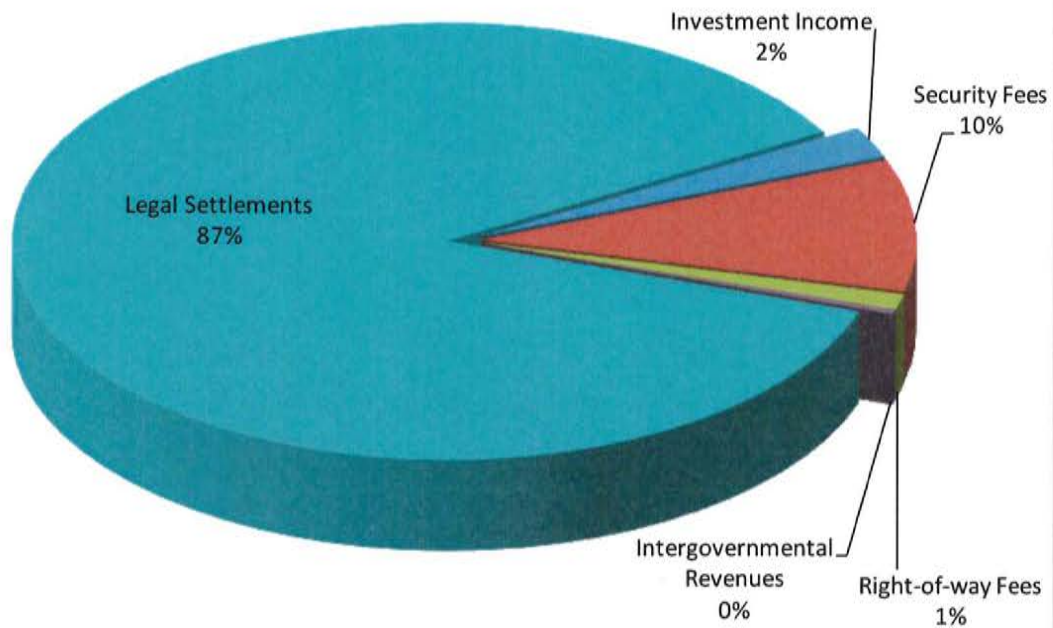


MUNICIPALITY OF ANCHORAGE, ALASKA
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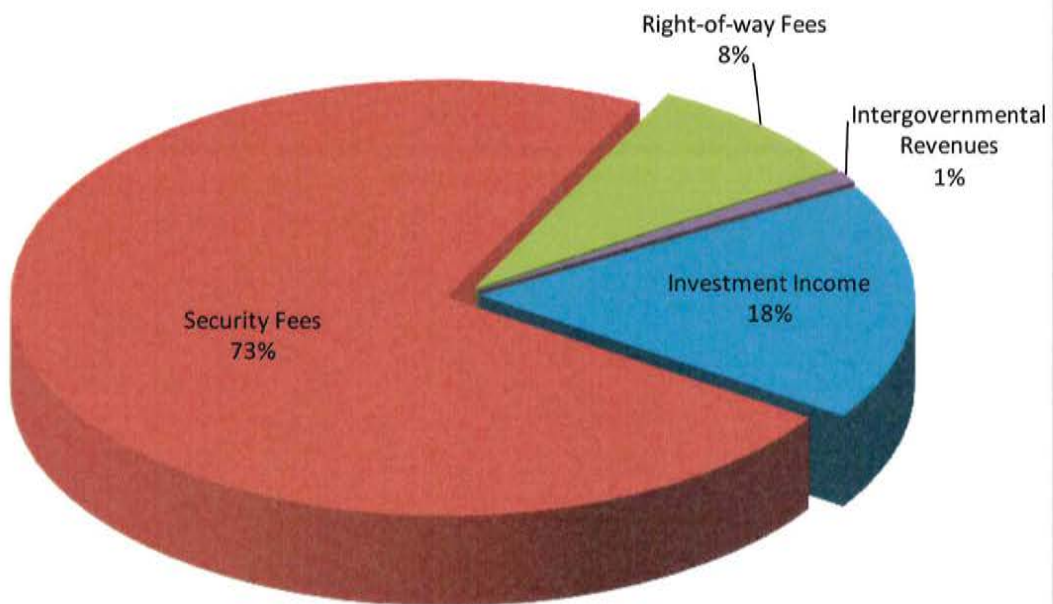
Management's Discussion and Analysis

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2016 Non-Operating Revenues by Source



2015 Non-Operating Revenues by Source

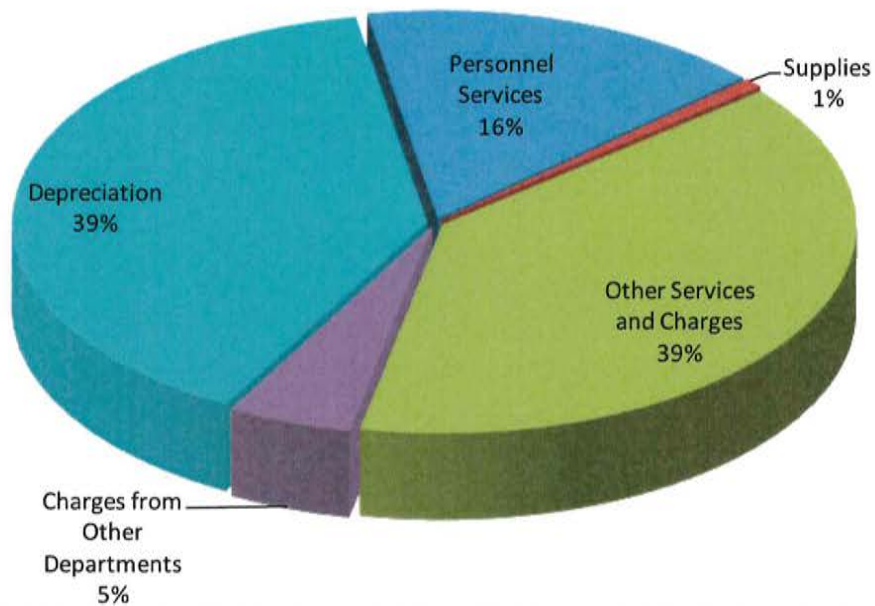


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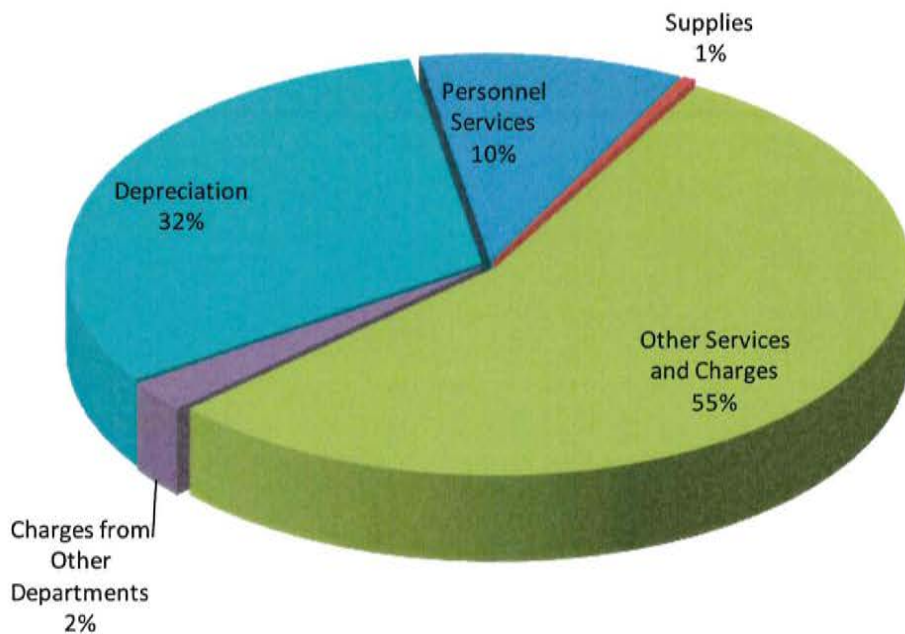
Management's Discussion and Analysis

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2016 Operating Expenses by Source



2015 Operating Expenses by Source

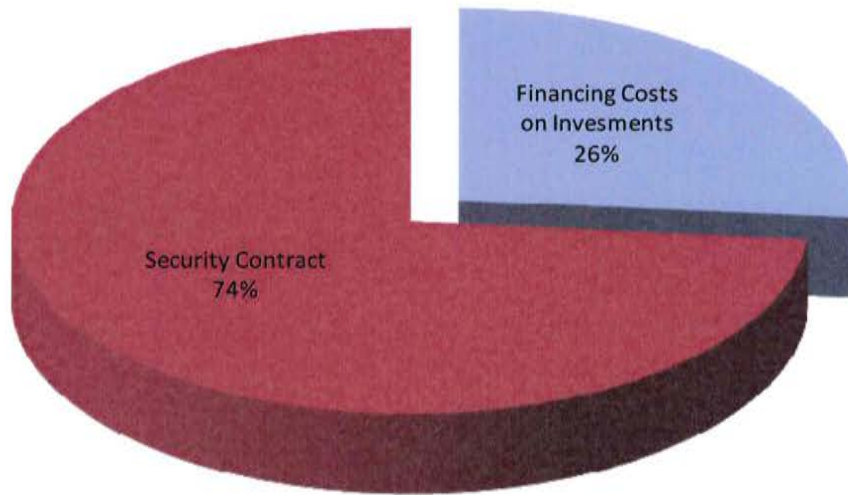


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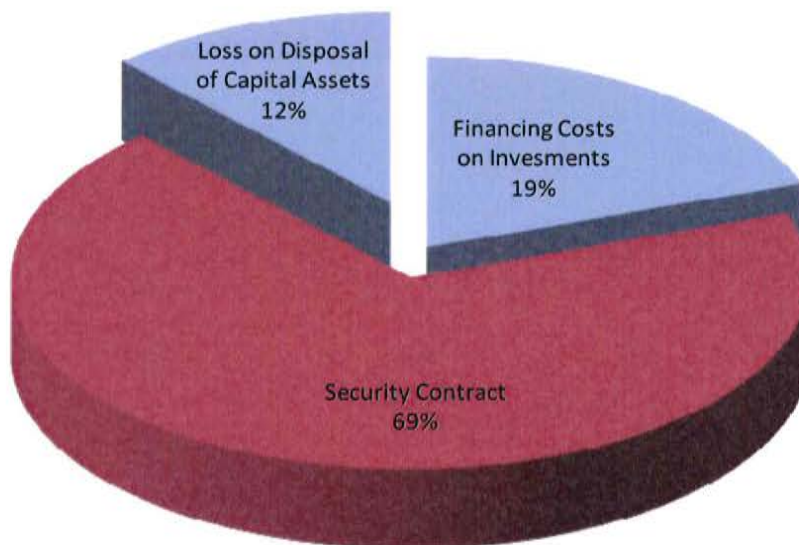
Management's Discussion and Analysis

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2016 Non-Operating Expenses by Source



2015 Non-Operating Expenses by Source



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Management's Discussion and Analysis

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CAPITAL ASSETS AND DEBT

Capital Assets

The following table summarizes the Port's capital assets, at cost, as of December 31, 2016, 2015 and 2014.

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

	2016	2015	2014
Capital Assets			
Land	\$ 20,101	\$ 20,101	\$ 20,101
Infrastructure	45,779	48,821	50,748
Buildings	3,025	3,176	2,415
Building Improvements	18	35	52
Land Improvements	86,647	88,182	88,981
Vehicles	324	-	4
Machinery and Equipment	1,993	2,631	2,902
Computer Equipment	12	17	18
Office Equipment	-	-	1
Art	21	21	21
Total Capital Assets	157,920	162,984	165,243
Construction Work in Progress	13,397	170	3,095
Total	\$ 171,317	\$ 163,154	\$ 168,338
Increase/(Decrease) in Net Capital Assets	\$ 8,163	\$ (5,184)	\$ (679)

2016 major additions include:

- Dock Pile Enhancements \$1,969

Construction work in progress increased by \$13.2 million in 2016.

Debt

In June 2013, the Port entered into a \$40,000,000 Revolving Credit Agreement (Agreement) with a commercial bank. 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, 2015 was \$40,000,000. On June 20, 2016 the Municipality and its commercial bank amended the Revolving Credit Agreement under and same terms and conditions but with a revised expiration date of June 20, 2019. 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, 2019.

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Management's Discussion and Analysis

December 31, 2016 and 2015

ECONOMIC FACTORS AND BUDGETS AND RATES

The 2016 budget anticipated Port operating revenues of \$10.9 million and \$6.9 million in non-operating revenues. Actual 2016 operating revenues earned amounted to \$12.4 million, or \$1.4 million over budget projections. Actual 2016 non-operating revenues including capital contributions earned amounted to \$27.9 million, or \$20.9 million over budget projections. The increase in operating revenue was attributable to a continued higher than projected petroleum traffic at the port and an increase in miscellaneous revenues. The contributing factors to the variance between 2016 budget and actual non-operating revenues was due to the direct funding from the State of Alaska in the amount of \$13.3 million for grant related expenditures and \$12.6 million in legal settlements between the Port and its contractors involved in the Port Modernization project.

The 2016 budget anticipated Port operating expenses of \$27 million. Actual 2016 operating expenses incurred amounted to \$19.7 million or \$3.2 million under budget projections. The contributing factor to the variance between 2016 budget and actual operating expenses was due to a \$3.7 million decrease in other services and charges as a result of lower than anticipated transactions in construction work in progress that were anticipated to not be capitalizable and expected to be expensed in 2016.

The 2015 budget anticipated Port operating revenues of \$11 million and \$1.5 million in non-operating revenues. Actual 2015 operating revenues earned amounted to \$12.2 million, or \$1.2 million over budget projections. Actual 2015 non-operating revenues including capital contributions earned amounted to \$10.2 million or \$8.8 million over budget projections. The increase in operating revenue was directly attributable to the higher than projected petroleum traffic at the Port. These additional port calls resulted in added dockage and wharfage operating revenues of \$1.2 million. The contributing factors to the variance between 2015 budget and actual non-operating revenues was due to the increase in direct funding from the State of Alaska in the amount of \$7.8 million for grant related expenditures and other intergovernmental revenue of \$433 thousand.

The 2015 budget anticipated Port operating expenses of \$19.9 million. Actual 2015 operating expenses incurred amounted to \$26.9 million or \$6.9 million over budget projections. The contributing factor to the variance between 2015 budget and actual operating expenses was due to a \$6.9 million increase in other services and charges whose major component were transactions in construction work in progress that were determined to not be capitalizable and expensed in 2015.

In 2014, the Port undertook a review of its tariff rates terms and conditions. Following the review of its tariff the completion of a Revenue Requirements Study by an independent contractor, the Port Commission proposed, and the Anchorage Assembly approved, the rates, terms and conditions of the Port's Terminal Tariff No. 8 effective January 1, 2015. Tariff No. 8 includes annual rate increases effective January 1, 2015 through December 31, 2019.

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.portofanc.com/business/finances/>

MUNICIPALITY OF ANCHORAGE, ALASKA
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Statements of Net Position

December 31, 2016 and 2015

	2016	2015
CURRENT ASSETS		
Cash	\$ 150	\$ 150
Equity in General Cash Pool	16,076,128	10,113,362
Capital Acquisition and Construction Accounts	5,597,709	4,229,634
Accrued Interest on Investments	70,971	33,544
Accounts Receivable	1,030,918	1,512,785
Prepaid Items and Deposits	120,146	150,424
Parts Inventory	329,079	329,079
Total Unrestricted Current Assets	<u>23,225,101</u>	<u>16,368,978</u>
Restricted Assets:		
Intergovernmental Receivables	2,703,116	2,077,591
Restricted Cash- Settlement Set Aside	2,300,000	-
Total Restricted Current Assets	<u>5,003,116</u>	<u>2,077,591</u>
Total Current Assets	<u>28,228,217</u>	<u>18,446,569</u>
NON-CURRENT ASSETS		
Capital Assets:		
Capital Assets, at Cost	275,634,066	272,982,449
Less: Accumulated Depreciation	<u>(117,713,990)</u>	<u>(109,998,645)</u>
Net Capital Assets	157,920,076	162,983,804
Construction Work in Progress	13,397,432	169,875
Total Capital Assets	<u>171,317,508</u>	<u>163,153,679</u>
Capital Inventory	559,373	559,373
Total Non-Current Assets	<u>171,876,881</u>	<u>163,713,052</u>
Total Assets	<u>200,105,098</u>	<u>182,159,621</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflow of Net Pension Liability	446,838	195,619
Total Deferred Outflows of Resources	<u>446,838</u>	<u>195,619</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 200,551,936</u>	<u>\$ 182,355,240</u>

The notes are an integral part of these financial statements.

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Statements of Net Position

December 31, 2016 and 2015

	2016	2015
CURRENT LIABILITIES		
Accounts Payable	1,288,081	484,280
Capital Acquisition and Construction Accounts and Retainages Payable	656,863	280,177
Compensated Absences Payable	163,200	167,525
Accrued Payroll Liabilities	139,054	141,580
Accrued Interest Payable	45,226	35,581
Total Unrestricted Current Liabilities	<u>2,292,424</u>	<u>1,109,143</u>
Total Current Liabilities	<u>2,292,424</u>	<u>1,109,143</u>
NON-CURRENT LIABILITIES		
Other Non-Current Liabilities	1,815,250	1,830,252
Compensated Absences Payable	132,850	74,831
Net Pension Liability	2,014,253	1,482,666
Notes Payable	40,000,000	40,000,000
Total Non-Current Liabilities	<u>43,962,353</u>	<u>43,387,749</u>
Total Liabilities	<u>46,254,777</u>	<u>44,496,892</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflow of Net Pension Liability	22,453	28,544
Total Deferred Inflows of Resources	<u>22,453</u>	<u>28,544</u>
NET POSITION		
Net Investment in Capital Assets	131,317,508	123,153,679
Restricted for Capital Construction	5,003,116	2,077,591
Unrestricted	17,954,082	12,598,534
Total Net Position	<u>154,274,706</u>	<u>137,829,804</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 200,551,936</u></u>	<u><u>\$ 182,355,240</u></u>

The notes are an integral part of these financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Statements of Revenues, Expenses, and Changes in Net Position

For The Years Ended December 31, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Charges for Sales and Services:		
Dockage	\$ 1,089,224	\$ 1,142,837
Wharfage, Dry Bulk	148,896	181,234
Wharfage, Liquid Bulk	1,463,035	1,682,558
Wharfage, General Cargo	3,670,375	3,608,772
Storage Revenue	265,309	327,061
Office Rental	121,887	114,462
Utilities	30,040	45,232
Miscellaneous	1,022,677	507,769
Total Charges for Sales and Services	<u>7,811,443</u>	<u>7,609,925</u>
Other:		
Crane Rentals	72,488	105,858
Industrial Park Lease Rentals	4,326,069	4,363,254
POL Value Yard Fees	176,713	191,560
Total Other	<u>4,575,270</u>	<u>4,660,672</u>
Total Operating Revenues	<u>12,386,713</u>	<u>12,270,597</u>
OPERATING EXPENSES		
Operations:		
Personnel Services	2,828,390	2,507,200
PERS On-behalf and Pension Expenses	317,852	21,941
Supplies	151,245	126,534
Other Services and Charges	7,718,973	13,444,548
Charges from Other Departments	951,146	591,109
Total Operations	<u>11,967,606</u>	<u>16,691,332</u>
Depreciation	<u>7,715,345</u>	<u>7,733,968</u>
Total Operating Expenses	<u>19,682,951</u>	<u>24,425,300</u>
Operating Loss	(7,296,238)	(12,154,703)
NON-OPERATING REVENUES (EXPENSES)		
Intergovernmental Revenues- PERS On-behalf	43,575	18,075
Legal Settlements	12,600,000	-
Investment Income-Short Term Investments	344,945	344,603
Security Fees	1,421,294	1,426,724
Right-of-Way Fees	167,849	164,678
Interest on Long-Term Obligations	(541,719)	(407,004)
Security Contract	(1,504,007)	(1,425,306)
Loss on Disposal of Capital Assets	-	(243,779)
Total Non-Operating Revenues (Expenses)	<u>12,531,937</u>	<u>(122,009)</u>
Gain (Loss) before Contributions and Transfers	5,235,699	(12,276,712)
CONTRIBUTIONS AND TRANSFERS		
Capital Contributions	13,323,471	7,834,571
Transfers to Other Funds:		
Municipal Service Assessment	(2,114,268)	(2,056,004)
Total Contributions and Transfers	<u>11,209,203</u>	<u>5,778,567</u>
Change in Net Position	16,444,902	(6,498,145)
Net Position, January 1, as restated	137,829,804	144,327,949
Net Position, December 31	<u>\$ 154,274,706</u>	<u>\$ 137,829,804</u>

The notes are an integral part of these financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Statements of Cash Flows

For The Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 12,868,580	\$ 12,499,366
Payments to Employees	(2,777,222)	(2,524,906)
Payments to Vendors	(7,051,141)	(13,690,662)
Internal Activity - Payments Made to Other Funds	(951,146)	(591,109)
Net Cash Provided (Used) by Operating Activities	<u>2,089,071</u>	<u>(4,307,311)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer to Other Funds	(2,114,268)	(2,056,004)
Security Contract	(82,713)	1,418
Right of Way & Security Fees	167,849	164,678
Net Cash Used by Non-Capital Financing Activities	<u>(2,029,132)</u>	<u>(1,889,908)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(15,502,488)	(2,762,657)
Proceeds from Disposition of Capital Assets	-	3,084
Capital Claims and Judgements	12,600,000	-
Financing Costs on Long-Term Obligations	(532,074)	(404,731)
Grant Proceeds Capital	12,697,946	6,152,664
Net Cash Provided by Capital and Related Financing Activities	<u>9,263,384</u>	<u>2,988,360</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income	307,518	358,336
Net Cash Provided by Investing Activities	<u>307,518</u>	<u>358,336</u>
Net Increase (Decrease) in Cash	9,630,841	(2,850,523)
Cash, January 1	14,343,146	17,193,669
Cash, December 31	<u>\$ 23,973,987</u>	<u>\$ 14,343,146</u>
COMPONENTS OF CASH		
Cash	\$ 150	\$ 150
Cash in Central Treasury	16,076,128	10,113,362
Restricted Cash	2,300,000	-
Capital Acquisition and Construction Accounts	5,597,709	4,229,634
Cash and Cash Equivalents, December 31	<u>\$ 23,973,987</u>	<u>\$ 14,343,146</u>

The notes are an integral part of these financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Statements of Cash Flows

For The Years Ended December 31, 2016 and 2015

	2016	2015
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY		
OPERATING ACTIVITIES		
Operating Loss	\$ (7,296,238)	\$ (12,154,703)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation	7,715,345	7,733,968
PERS Relief- Noncash Expenses	43,575	18,075
Changes in Assets, Deferred Inflows and Outflows of Resources, and Liabilities Which Increase		
(Decrease) Cash:		
Accounts Receivable	481,867	228,769
Prepaid Items and Deposits	30,278	(110,483)
Deferred Outflows of Resources Related to Pensions	(251,219)	(133,806)
Accounts Payable	803,801	2,664
Compensated Absences Payable	53,694	10,437
Net Pension Liability	531,587	268,144
Other Non-Current Liabilities	(15,002)	(11,761)
Accrued Payroll Liability	(2,526)	(35,892)
Deferred Inflows of Resources Related to Pensions	(6,091)	(122,723)
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,089,071</u>	<u>\$ (4,307,311)</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Capital Purchases on Account	\$ 656,853	\$ 280,177
Capital Inventory Additions, net of sale	-	559,373
Total Noncash Investing, Capital, and Financing Activities	<u>\$ 656,853</u>	<u>\$ 839,550</u>

The notes are an integral part of these financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Notes to Basic Financial Statements

December 31, 2016 and 2015

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 23 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. 8 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, deferred outflows, liabilities and deferred inflows 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 statements 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.

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Notes to Basic Financial Statements

December 31, 2016 and 2015

(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 \$5,003,116 and \$2,077,591 at December 31, 2016 and 2015, 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 \$329,079 at December 31, 2016 and 2015, 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) Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then. At December 31, 2016 and 2015, the Port had deferred outflows of resources from pension related items.

(f) 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.

(g) Compensated Absences Payable

The Port records compensated absences payable, which includes cashable sick leave, when earned.

(h) Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources until then. At December 31, 2016 and 2015, the Port had deferred inflows of resource for pension related items.

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Notes to Basic Financial Statements

December 31, 2016 and 2015

(i) 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 \$951,146 and \$591,109 for the years ended December 31, 2016 and 2015, respectively, which does not include the Port's payments to the Municipality's risk management programs.

(j) 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 Municipality utilizes three risk management funds to account for and finance its uninsured risks of loss.

The Municipality provides coverage up to the maximum of \$3,000,000 per occurrence for automobile and general liability claims and for each workers' compensation claim. No settled claim exceeded this commercial coverage in 2016, 2015 or 2014.

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

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

Claims payable represent estimates of claims to be paid based upon past experience modified for current trends and information. The ultimate amount of losses incurred through December 31, 2016, is dependent upon future developments. At December 31, 2016, claims incurred but not reported included in the liability accounts are \$16,040,708 in the General Liability/Workers' Compensation Fund and Medical/Dental Self Insurance Fund.

Changes in the funds' claim liability amounts in 2016 and 2015 are as follows:

	Balance January 1, 2016	Current Year Claims and Changes in Estimates	Claims Payment	Balance December 31, 2016
General Liability/Workers' Compensation	\$ 25,886,494	\$ 10,308,057	\$ (10,301,317)	\$ 25,893,234
Medical/Dental	8,901,956	48,366,051	(48,883,245)	8,384,762
Unemployment	66,596	276,999	(267,515)	76,080
	<u>\$ 34,855,046</u>	<u>\$ 58,951,107</u>	<u>\$ (59,452,077)</u>	<u>\$ 34,354,076</u>

	Balance January 1, 2015	Current Year Claims and Changes in Estimates	Claims Payment	Balance December 31, 2015
General Liability/Workers' Compensation	\$ 18,030,928	\$ 14,931,121	\$ (7,075,555)	\$ 25,886,494
Medical/Dental	7,086,801	60,749,094	(58,933,939)	8,901,956
Unemployment	98,411	281,210	(313,025)	66,596
	<u>\$ 25,216,140</u>	<u>\$ 75,961,425</u>	<u>\$ (66,322,519)</u>	<u>\$ 34,855,046</u>

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Notes to Basic Financial Statements

December 31, 2016 and 2015

At December 31, 2016, the Medical and Dental Self Insurance Fund had unrestricted net position of \$528,796, a decrease of \$737,017 from 2015. The decrease in net position is due to increase in reserves for medical and dental claims by margin of 5 percent to the actuarial estimates.

At December 31, 2016, the General Liability and Worker's Compensation Fund had a deficit of \$5,113,340, an increase in the deficit of \$1,908,247 from 2015. The deficit is due to increased reserves for worker's comp claims based on actuarial estimates.

(k) 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 – CASH AND INVESTMENTS

At December 31, 2016, the Municipality had the following cash and investments, with fixed income maturities as noted:

Investment Type	Fair Value*	Fixed Income Investment Maturities (in years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
Petty Cash	\$ 73,366				
Central Treasury - Restricted					
Cash & Money Market Funds	47,692,839	-	-	-	-
Repurchase Agreements	2,902,556	2,902,556	-	-	-
Commercial Paper	299,827	299,827	-	-	-
Certificates of Deposit	240,900	240,900	-	-	-
U.S. Treasuries	13,307,427	4,282,430	7,879,780	1,145,217	-
U.S. Agencies	39,384,533	20,020,719	18,380,009	500,338	483,467
Municipal Bonds	19,726	-	-	19,726	-
Asset-Backed Securities**	3,944,233	83,298	2,604,572	591,869	664,493
Corporate Fixed Income Securities	16,708,812	6,771,159	5,691,704	3,973,028	272,921
	<u>\$ 124,500,853</u>	<u>\$ 34,600,889</u>	<u>\$ 34,556,065</u>	<u>\$ 6,230,178</u>	<u>\$ 1,420,881</u>
Central Treasury - Unrestricted					
Cash & Money Market Funds	6,556,270	-	-	-	-
Repurchase Agreements	34,032,002	34,032,002	-	-	-
Commercial Paper	3,515,419	3,515,419	-	-	-
Certificates of Deposit	2,824,520	2,824,520	-	-	-
U.S. Treasuries	123,312,501	17,495,823	92,389,185	13,427,493	-
U.S. Agencies	66,705,430	54,756,761	413,700	5,866,387	5,668,582
Municipal Bonds	231,288	-	-	231,288	-
Asset-Backed Securities**	46,245,507	976,652	30,538,202	6,939,573	7,791,080
Corporate Fixed Income Securities	137,193,556	20,676,137	66,734,333	46,583,129	3,199,957
	<u>\$ 420,616,493</u>	<u>\$ 134,277,314</u>	<u>\$ 190,075,420</u>	<u>\$ 73,047,870</u>	<u>\$ 16,659,619</u>

* Market value plus accrued income.

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

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Notes to Basic Financial Statements

December 31, 2016 and 2015

(a) 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.

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Notes to Basic Financial Statements

December 31, 2016 and 2015

- 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:

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Notes to Basic Financial Statements

December 31, 2016 and 2015

Investment Type	Concentration Limit	Working Capital Portfolio Holding % at December 31, 2016	Internally Managed Holding % at December 31, 2016
U.S. Government Securities*	50% to 100% of investment portfolio	52%	51%
Repurchase Agreements	0% to 50% of investment portfolio	25%	0%
Certificates of Deposit**	0% to 50% of investment portfolio	0%	0%
	Maximum 5% per issuer		
Bankers Acceptances	0% to 25% of investment portfolio	0%	0%
	Maximum 5% per issuer		
Commercial Paper	0% to 15% of investment portfolio	0%	0%
	Maximum 5% per issuer		
Corporate Bonds	0% to 15% of investment portfolio	8%	8%
	Maximum 5% per issuer		
Alaska Municipal League Investment Pool (AMLIP)***	0% to 25% of investment portfolio	0%	0%
Money Market Mutual Funds****	0% to 25% of investment portfolio	15%	41%
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-sponsored 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.

****Internally Managed Portfolio, 2016, includes amounts in excess of \$21 million held in anticipation of planned spending. Excluding these amounts, the Internally Managed Portfolio meets the Concentration Limit.

(b) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The externally managed portfolios of the Municipal Central Treasury, the Police and Fire Retiree Medical Trust, and the Police and Fire Retirement Pension 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 one 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, 2016, the Working Capital Portfolio had a duration of 0.16 years, or approximately 58 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, 2016, the Contingency Reserve Portfolio had a duration of 1.88 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, 2016, the Strategic Reserve Portfolio had a duration of 3.88 years as compared to its benchmark, Barclays Intermediate Government/Corporate Index, which had a duration of 3.86 years.

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Notes to Basic Financial Statements

December 31, 2016 and 2015

The effective durations of the externally managed portfolios of the Municipal Central Treasury (working capital, contingency reserve and strategic reserve) at December 31, 2016, were 0.16 years, 1.88 years, and 3.88 years, respectively, which are within the required durations per the policy.

(c) 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 percent 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 percent invested in repurchase agreements or certificates of deposit, including unsecured certificates of deposit, ii) 25 percent 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 percent invested in certificates of deposit secured by other than U.S. Government securities, and iv) 15 percent 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, 2016, the Municipal Central Treasury's investment in marketable debt securities, excluding U.S. Treasury and Agency securities, totaled \$208,464,246. The distribution of ratings on these securities was as follows:

Moody's		S&P	
Aaa	16%	AAA	17%
Aa	6%	AA	5%
A	21%	A	21%
Baa	23%	BBB	25%
Ba or Lower	20%	BB or Lower	20%
Not Rated	14%	Not Rated	12%
	<u>100%</u>		<u>100%</u>

Moody's		S&P	
Aaa	1%	AAA	1%
Aa	6%	AA	7%
A	36%	A	38%
Baa	44%	BBB	41%
Ba or Lower	0%	BB or Lower	0%
Not Rated	13%	Not Rated	13%
	<u>100%</u>		<u>100%</u>

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

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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, 2016, 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, 2016, the Municipal Central Treasury had bank deposit carrying amounts totaling \$50,179,132, of which \$500,000 was covered by federal depository insurance. Bank deposits of \$13,478,793 were secured by collateral held by a third party and deposits of \$36,200,393 were secured by collateral held at the depository bank. 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. As of December 31, 2016 cash deposits and investments were not exposed to custodial risk.

(d) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Municipality has no specific policy addressing foreign currency risk; however foreign currency risk is managed through the requirements of AMC 6.50.030 and the asset allocation policies of each portfolio.

The Municipal Central Treasury is not exposed to foreign currency risk because AMC 6.50.030 explicitly prohibits the purchase of securities not denominated in U.S. Dollars. At December 31, 2016, all debt obligations held in the Municipal Central Treasury were payable in U.S. Dollars.

(e) Fair Value Measurements

At December 31, 2016, the Municipality had the following cash and investments, valued as follows:

- Asset-backed securities are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.
- Cash and short-term collective investments such as money market funds are valued at amortized cost.
- Certificates of deposit are valued at the daily price quoted by the financial institution holding the investment for the Municipality.

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- Commercial paper is valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.
- Corporate bonds are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.
- Municipal bonds are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.
- Repurchase agreements are valued at the daily closing price as reported using the daily price quoted by the financial institution holding the investment for the Municipality.
- U.S. treasuries are valued at the closing price reported on the active market on which the individual securities traded.
- U.S. agencies are valued using pricing models maximizing the use of observable inputs for similar securities.

The Municipality utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Municipality determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principle or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: quoted prices for identical assets or liabilities in active markets
- Level 2 Inputs: quoted prices for similar assets or liabilities in active or inactive markets; or inputs other than quoted prices that are observable
- Level 3 Inputs: significant unobservable inputs for assets or liabilities

The Municipality categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Municipality has the following recurring fair value measurements as of December 31, 2016:

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Investment Type:	December 31, 2016	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Petty Cash	\$ 73,366		
Central Treasury- Unrestricted			
Investments Measured at Fair Value			
Repurchase Agreements	\$ 34,032,002	\$ -	\$ 34,032,002
Commercial Paper	3,515,419	-	3,515,419
U.S. Treasuries	123,312,501	123,312,501	-
U.S. Agencies	66,705,430	-	66,705,430
Municipal Bonds	231,288	-	231,288
Asset-backed Securities	46,245,507	-	46,245,507
Corporate Securities	137,193,556	-	137,193,556
	<u>411,235,703</u>	<u>123,312,501</u>	<u>287,923,202</u>
Investments Measured at Amortized Cost			
Cash & Money Market Funds	6,556,270		
Certificates of Deposits	<u>2,824,520</u>		
	<u>9,380,790</u>		
Total Central Treasury- Unrestricted	<u>\$ 420,616,493</u>		

Investment Type:	December 31, 2016	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Central Treasury- Restricted			
Investments Measured at Fair Value			
Repurchase Agreements	\$ 2,902,556	\$ -	\$ 2,902,556
Commercial Paper	299,827	-	299,827
U.S. Treasuries	13,307,427	13,307,427	-
U.S. Agencies	39,384,533	-	39,384,533
Municipal Bonds	19,726	-	19,726
Asset-backed Securities	3,944,233	-	3,944,233
Corporate Securities	16,708,812	-	16,708,812
	<u>76,567,114</u>	<u>13,307,427</u>	<u>63,259,687</u>
Investments Measured at Amortized Cost			
Cash & Money Market Funds	47,692,839		
Certificates of Deposits	<u>240,900</u>		
	<u>47,933,739</u>		
Total Central Treasury- Restricted	<u>\$ 124,500,853</u>		

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NOTE 3—Accounts Receivable

The Port reports accounts receivable on its Statement of Net Position net of allowances for uncollectable accounts. At December 31, 2016 and 2015, the Port reported gross receivables of \$1,030,918 and \$1,512,785, respectively. At December 31, 2016 and 2015, the Port determined that no allowance for uncollectable accounts was necessary because all receivable balances were in current status.

NOTE 4 — PORT MODERNIZATION PROJECT

The Port of Anchorage serves 87% of the State of Alaska's population and is one of only 23 designated Department of Defense Strategic Seaports. In an effort to ensure the continued and safe operations of all lines of business at the Port of Anchorage, the Municipality of Anchorage has embarked on project to modernize the infrastructure at the Port. In 2015, the work on this project continued in the design phase. The existing marine terminals have reached the end of their design life and suffer from severe corrosion on the wharf piling. This project is slated to 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, upon completion, will enable the Port to accommodate larger ships in the future by allowing for a harbor depth increase from 35 feet to 45 feet. In an effort to modernize the container business at the Port, three new container cranes with the ability to reach across vessels from 9 containers wide to 14 containers wide are being planned. The current funding for this project is through reimbursable grants from the State of Alaska.

NOTE 5 — CAPITAL ASSETS

Capital assets for the year ended December 31, 2016 are as follows:

Capital Assets (in thousands)				
	Balance 01/01/16	Additions	Retirements	Balance 12/31/16
CAPITAL ASSETS				
Land	\$ 20,101	\$ -	\$ -	\$ 20,101
Infrastructure	129,198	330	-	129,528
Buildings	7,069	-	-	7,069
Building Improvements	377	-	-	377
Land Improvements	103,939	1,969	-	105,908
Vehicles	616	349	-	965
Machinery and Equipment	11,351	-	-	11,351
Computer Equipment	145	3	-	148
Computer Software	18	-	-	18
Office Equipment	148	-	-	148
Art	21	-	-	21
Total plant in service, gross	272,983	2,651	-	275,634
Less Accumulated Depreciation	(109,999)	(7,715)	-	(117,714)
Net plant in service	162,984	(5,064)	-	157,920
CONSTRUCTION WORK IN PROGRESS	170	23,078	9,851	13,397
TOTAL NET CAPITAL ASSETS	\$ 163,154	\$ 18,014	\$ 9,851	\$ 171,317

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Capital assets for the year ended December 31, 2015 are as follows:

Capital Assets (in thousands)				
	Balance 01/01/15	Additions	Retirements	Balance 12/31/15
CAPITAL ASSETS				
Land	\$ 20,101	\$ -	\$ -	\$ 20,101
Infrastructure	127,460	1,738	-	129,198
Buildings	6,169	900	-	7,069
Building Improvements	377	-	-	377
Land Improvements	101,448	2,491	-	103,939
Vehicles	633	-	17	616
Machinery and Equipment	11,011	340	-	11,351
Computer Equipment	138	9	2	145
Computer Software	18	-	-	18
Office Equipment	148	-	-	148
Art	21	-	-	21
Total plant in service, gross	267,524	5,478	19	272,983
Less Accumulated Depreciation	(102,281)	(7,734)	(16)	(109,999)
Net plant in service	165,243	(2,256)	3	162,984
CONSTRUCTION WORK IN PROGRESS	3,095	4,727	7,652	170
TOTAL NET CAPITAL ASSETS	\$ 168,338	\$ 2,471	\$ 7,655	\$ 163,154

NOTE 6 – LEASE AGREEMENTS

The Port has leased to unrelated third parties 200 acres of space in the Port Industrial Park. The 2016 carrying value of the leased assets is \$10,563,938 with a cost of \$15,878,994 and accumulated depreciation of \$5,315,056. The 2015 carrying value of the leased assets is \$10,763,582 with a cost of \$15,878,994 and accumulated depreciation of \$5,115,412. The leases provide for five-year rental adjustment intervals. Future minimum payments to be received are as follows (in thousands):

Years	Amount
2017	4,366
2018	4,360
2019	4,359
2020	2,748
2021	1,277
2022-2026	6,091
2027-2031	5,767
2032-2036	4,789
2037-2041	2,810
2042-2046	2,669
Total	<u>\$ 39,236</u>
Lease Revenue for 2016	<u>\$ 4,326</u>

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NOTE 7 – 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, 2015 was \$40,000,000. On June 20, 2016 the Municipality and its commercial bank amended the Revolving Credit Agreement under the same terms and conditions but with a revised expiration date of June 20, 2019. 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, 2019. 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 2016 the monthly interest rates on the note ranged from a low of 1.033% to a high of 1.313%. The amount of interest expense recognized on the note in 2016 and 2015 was \$541,719 and \$407,004, respectively. 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.

	Balance January 1, 2016	Additions	Reductions	Balance December 31, 2016	Amount Due within 1 Year
Long-Term Obligations					
Revolving credit agreement	\$ 40,000,000	\$ -	\$ -	\$ 40,000,000	\$ -
Compensated absences payable	242,356	175,932	122,238	296,050	163,200
Net Pension Liability	1,482,666	531,587	-	2,014,253	-
Total long-term obligations	\$ 41,725,022	\$ 707,519	\$ 122,238	\$ 42,310,303	\$ 163,200

	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015	Amount Due within 1 Year
Long-Term Obligations					
Revolving credit agreement	\$ 40,000,000	\$ -	\$ -	\$ 40,000,000	\$ -
Compensated absences payable	231,919	186,201	175,764	242,356	167,525
Net Pension Liability	1,214,522	268,144	-	1,482,666	-
Total long-term obligations	\$ 41,446,441	\$ 454,345	\$ 175,764	\$ 41,725,022	\$ 167,525

NOTE 8 – 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 Statements of Net Position as a non-current liability totaling \$1,815,250 and \$1,830,252 at December 31, 2016 and 2015, respectively. See Note 9 for a description of environmental issues affecting this land.

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NOTE 9 – ENVIRONMENTAL ISSUES

Tract J (discussed in Note 8), and Tract H 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. For the years ending December 31, 2016 and 2015, the monitoring and reporting costs for Tract H was \$1,636 and \$1,127, respectively. For the years ending December 31, 2016 and 2015, the monitoring and reporting costs for Tract J was \$18,010 and \$11,761, respectively.

NOTE 10 – PENSIONS

State of Alaska Public Employees' Retirement System

(a) Defined Benefit Pension Plans

Public Employees Retirement System (PERS I-III)

General Information About the Plan

The Port participates in the Alaska Public Employees' Retirement System (PERS I-III or the Plan). PERS I-III is a cost-sharing multiple employer plan which covers eligible State and local government employees, other than teachers. The Plan was established and is administered by the State of Alaska Department of Administration. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

The Plan provides for retirement, death and disability, and post-employment health care benefits. There are three tiers of employees, based on entry date. For all tiers within the Defined Benefit (DB) plan, full retirement benefits are generally calculated using a formula comprised of a multiplier times the average monthly salary (AMS) times the number of years of service. The multiplier is increased at longevity milestone markers for most employees. Police and Fire employees accrue benefits at an accelerated rate. The tiers within the Plan establish differing criteria regarding normal retirement age, early retirement age, and the criteria for calculation of AMS, COLA adjustments, and Other Post-Employment Benefits (OPEB) benefits. A complete benefit comparison chart is available at the website noted below.

The Plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. That report is available via the internet at <http://doa.alaska.gov/drb/pers>. Actuarial valuation reports, audited financial statements, and other detailed plan information are also available on this website. 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 or by phoning (907) 465-4460.

The PERS I-III DB Plan was closed to new entrants effective June 30, 2006. New employees hired after that date participate in the PERS IV Defined Contribution (DC) Plan described later in the note.

Historical Context and Special Funding Situation

In April 2008, the Alaska Legislature passed legislation converting the previously existing PERS plan from an agent-multiple employer plan to a cost-sharing plan with an effective date of July 1, 2008. In connection with this conversion, the State of Alaska passed additional legislation which statutorily capped the employer contribution rate, established a state funded "on-behalf" contribution (subject to funding availability), and required that employer contributions be calculated against all PERS eligible wages, including wages paid to participants of the PERS Tier IV defined contribution plan described later in this note.

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Alaska Statute requires the State of Alaska to contribute to the Plan an amount such that, when combined with the employer contribution, is sufficient to pay the Plan's past service liability contribution rate as adopted by the Alaska Retirement Management Board.

Although current statutes call for the State of Alaska to contribute to the Plan, the Alaska Department of Law determined that the statute does not create a legal obligation to assume the liabilities of the Plan; rather it establishes a contribution mechanism to provide employer relief against the rising contribution rates. This relief payment is subject to funding availability, and therefore not legally mandated. As a result, the State initially determined that the Plan is not in a special funding situation. Following much discussion with various stakeholders, participant communities, attorneys, auditors, and the GASB, itself the State has subsequently reversed its position on this matter, and as of June 30, 2015, the State did record the liability presuming that the current statute does constitute a special funding situation as the legislation is currently written. It is important to note that the Alaska Legislature has the power and authority to change the aforementioned statute through the legislative process, and it is likely that the State will pursue efforts to do so in a future legislative session.

For the current year financial statements, management has treated AS 39.35.255 as constituting a special funding situation under GASB Statement No. 68 rules and has recorded all pension related liabilities, deferred inflows and outflows of resources, and disclosures on this basis.

Employee Contribution Rates

Regular employees are required to contribute 6.75 percent of their annual covered salary.

Employer and Other Contribution Rates

There are several contribution rates associated with the pension and healthcare contributions and related liabilities. These amounts are calculated on an annual basis.

Employer Effective Rate

This is the contractual employer pay-in rate. Under current legislation, this rate is statutorily capped at 22 percent of eligible wages, subject to a wage floor, and other termination events. This 22 percent rate is calculated on all PERS participating wages, including those wages attributable to employees in the defined contribution plan. Contributions derived from the defined contribution employees are referred to as the Defined Benefit Unfunded Liability (DBUL) contribution.

ARM Board Adopted Rate

This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined and used to calculate annual Plan funding requirements, without regard to the statutory rate cap or the GASB accounting rate. Prior to July 1, 2015, there were no constraints or restrictions on the actuarial cost method or other assumptions used in the ARM Board valuation. Effective July 1, 2015, the Legislature requires the ARM Board to adopt employer contribution rates for past service liabilities using a level percent of pay method over a closed 25 year term which ends in 2039. This will result in lower ARM Board Rates in future years (as demonstrated in the contribution rate tables below).

On-behalf Contribution Rate

This is the rate paid in by the State as an on-behalf payment under the current statute. The statute requires the State to contribute, based on funding availability, an on-behalf amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. However, in state fiscal year 2015, the State Legislature appropriated a one-time contribution to the Plan in the amount of \$1 billion. As a result, the On-behalf Contribution Rate for State Fiscal Year 2015 (July 1, 2014 through June 30,

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2015) significantly exceeds the statutory amount. In the governmental fund financial statements, on-behalf contribution amounts have been recognized as additional revenues and expenditures during the calendar year 2016. On the proprietary fund and government-wide financial statements, the on-behalf amounts are included in revenue and expense only to the extent they are applicable to the measurement period, which is the same as the State's fiscal year ending June 30, 2016.

GASB Rate

This is the Rate used to determine the long-term pension and healthcare liability for plan accounting purposes in accordance with generally accepted accounting principles as established by GASB. Certain actuarial methods and assumptions for this rate calculation are mandated by GASB. Additionally, the GASB Rate disregards all future Medicare Part D payments. For Fiscal Year 2016, the rate uses an 8.00 percent pension discount rate and a 4.55 percent healthcare discount rate.

The GASB Rate and the ARM Board Adopted Rate differ significantly as a direct result of variances in the actuarial methods and assumptions used.

Contribution rates for the years ended June 30, 2016 and June 30, 2017 were determined in the June 30, 2013 and June 30, 2014 actuarial valuations, respectively. Port contribution rates for the 2016 calendar year were as follows:

	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate	GASB Rate
January 1, 2016 to June 30, 2016				
Pension	13.25%	19.04%	3.63%	37.79%
Postemployment healthcare	8.75%	8.15%	1.56%	58.73%
Total Contribution Rates	22.00%	27.19%	5.19%	96.52%

	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate	GASB Rate
July 1, 2016 to December 31, 2016				
Pension	14.96%	20.34%	4.14%	24.49%
Postemployment healthcare	7.04%	5.80%	0.00%	56.64%
Total Contribution Rates	22.00%	26.14%	4.14%	81.13%

In 2016, the Port was credited with the following contributions into the pension plan.

	Measurement Period	Port's Fiscal Year
	July 1, 2015 to June 30, 2016	January 1, 2016 to December 31, 2016
Employer contributions (including DBUL)	\$ 105,112	\$ 113,997
Nonemployer contributions (on-behalf)	37,957	34,213
Total Contributions	\$ 143,069	\$ 148,210

In addition, employee contributions to the Plan totaled \$42,396 during the calendar year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2016, the Port reported a liability for its proportionate share of the net pension liability (NPL) that reflected a reduction for State pension support provided to the Port. The amount recognized by the Port for its proportional share, the related State proportion, and the total were as follows:

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	2016
Port proportionate share of NPL	\$ 2,014,253
State's proportionate share of NPL associated with the Port	253,794
Total Net Pension Liability	<u>\$ 2,268,047</u>

The Port recognized \$2,014,253 in net pension liability. The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 to calculate the net pension liability as of that date. The Port's proportion of the net pension liability was based on a projection of the Municipality's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, including the State, actuarially determined. At the June 30, 2016 measurement date, the Municipality's proportion was 7.76 percent, which was an increase of 1.60 percent from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Port recognized pension expense of \$308,490. Of this amount, \$34,213 was recorded as on behalf revenue and expense for additional contributions paid by the State. At December 31, 2016, the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Measurement Period June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 185	\$ (22,453)
Changes in assumptions	9,290	-
Net difference between projected and actual earnings on pension plan investments	197,984	-
Changes in proportion and differences between Port contributions and proportionate share of contributions	178,681	-
Port contributions subsequent to the measurement date	60,698	-
Total Deferred Outflows and Deferred Inflows Related to Pensions	<u>\$ 446,838</u>	<u>\$ (22,453)</u>

The \$60,698 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Net Amortization of Deferred Outflows and Deferred Inflows of Resources
2017	\$ 184,255
2018	46,234
2019	80,936
2020	52,263
Total Amortization	<u>\$ 363,688</u>

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Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement period, and rolled forward to the measurement date of June 30, 2016. The actuarial valuation for the year ended June 30, 2016 (latest available) was prepared by Conduent HR Services. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2009 to June 30, 2013, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience.

Inflation	3.12%
Salary Increases	Graded by service, from 9.66% to 4.92% for Peace Officers/Firefighters. Graded by age and service, from 8.55% to 4.34% for all others.
Investment Return / Discount Rate	8.00% net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and real rate of return over 4.88%.
Mortality (Pre-termination)	Based upon 2010-2013 actual mortality experience, 60% of male rates and 65% of female rates of post-termination mortality rates. Deaths are assumed to be occupational 70% of the time for Peace Officers/Firefighters, 50% of the time for Others.
Mortality (Post-termination)	96% of all rates of the RP-2000 table, 2000 Base Year projected to 2018 with Projection Scale BB.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding the expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized in the following table (noted that the rates shown below exclude the inflation component):

Asset Class	Long-term Expected Real Rate of Return
Domestic equity	5.35%
International equity	5.55%
Private equity	6.25%
Fixed income	0.80%
Real estate	3.65%
Absolute return	4.70%

Discount Rate

The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that Employer and State contributions will continue to follow the current funding policy which meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Notes to Basic Financial Statements

December 31, 2016 and 2015

rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate Sensitivity

The following presents the Port's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Port's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	Proportional Share	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Port's proportionate share of the net pension liability	0.03603%	\$ 2,594,256	\$ 2,014,253	\$ 1,525,047

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

(b) Defined Contribution Pension Plans

Public Employees Retirement System (PERS IV)

Plan Information

The Port participates in the Alaska Public Employees' Retirement System (PERS IV or the Plan). PERS IV is a Defined Contribution (DC) plan which covers eligible State and local government employees, other than teachers. The Plan was established and is administered by the State of Alaska Department of Administration. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

The Plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. That report is available via the internet at <http://doa.alaska.gov/drb/pers>. Actuarial valuation reports, audited financial statements, and other detailed plan information are also available on this website. 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 or by phoning (907) 465-4460.

Plan Participation and Benefit Terms

The Plan is governed by Section 401(a) of the Internal Revenue Code. A portion of employee wages and a matching employer contributions are made to the Plan before tax. These contributions plus any change in value (interest, gains and losses), and minus any Plan administrative fees or other charges, are payable to the employee or the employee's beneficiary at a future date. The Plan is a participant-directed plan with investment options offered by providers that are selected by the [Alaska Retirement Management \(ARM\) Board](#).

Employees first enrolling into PERS after July 1, 2006 participate in PERS IV. PERS IV is a defined contribution retirement plan that includes a component of defined benefit post-employment health care.

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Notes to Basic Financial Statements

December 31, 2016 and 2015

Plan Contribution Requirements

The plan requires both employer and employee contributions. Employees may make additional contributions into the plan, subject to limitations. Contribution rates are as follows:

	Police/Fire		Others	
	1/1 - 6/30	7/1 - 12/31	1/1 - 6/30	7/1 - 12/31
Employee Contribution	8.00%	8.00%	8.00%	8.00%
Employer Contribution				
Retirement	5.00%	5.00%	5.00%	5.00%
Health Reimbursement Arrangement *	3.00%	3.00%	3.00%	3.00%
Retiree Medical Plan	1.68%	1.18%	1.68%	1.18%
Death & Disability Benefit	1.05%	0.49%	0.22%	0.17%
Total Employer Contribution	10.73%	9.67%	9.90%	9.35%

***Health Reimbursement Arrangement**

Alaska Statute 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, 2016 a flat rate of approximately \$2,005 per year for full time employees and \$1.28 per part time hour worked was paid. For pay periods ending after July 1, 2016, a flat rate of approximately \$2,049 per year for full time employees and \$1.31 per part time hour worked were paid.

For the year ended December 31, 2016, the Port contributed \$180,205 to PERS IV for retirement and retiree medical, and \$93,816 to PERS IV for Health Reimbursement Arrangement on-behalf of its employees. Employee contributions to the plan totaled \$288,308.

NOTE 11 – New Accounting Pronouncements

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates. The following new accounting standards were implemented by the Municipality for 2016 reporting:

- **GASB 72 – Fair Value Measurement and Application.** The provisions of this Statement address 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 an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this statement were applied to the investment balances present in the 2016 CAFR and additional disclosures as required by the statement were presented.
- **GASB 77 – Tax Abatement Disclosures.** The provisions of the Statement address accounting and reporting for tax abatements. Currently, the Municipality does not have any tax abatement agreements so the provisions of this statement were considered, but not applied. The Municipality will continue to review this statements each year to determine if it becomes applicable.

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Notes to Basic Financial Statements

December 31, 2016 and 2015

- GASB 79 – Certain External Investment Pools and Pool Participants. The provisions of this Statement address accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The Municipality participates in an internal investment pool, but does not participate in an external investment pool. This Statement was considered and determined to be not applicable.

The following standards are required to be implemented in the up and coming financial reporting periods.

- GASB 74 – Financial Reporting for Postemployment Benefit Plans Other than Pension Plans. The provisions of this Statement are required to be implemented for the 2017 financial reporting period.
- GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. The provisions of this Statement are required to be implemented for the 2018 financial reporting period.
- GASB 80 – Blending Requirements for Certain Component Units, an Amendment of GASB Statement No. 14. The provisions of this Statement are required to be implemented for the 2017 financial reporting period.
- GASB 81 – Irrevocable Split-interest Agreements. The provisions of this Statement are required to be implemented for the 2017 financial reporting period.
- GASB 83 – Certain Asset Retirement Obligations. The provisions of this Statement are required to be implemented for the 2019 financial reporting period.
- GASB 84 – Fiduciary Activities. The provisions of this Statement are required to be implemented for the 2019 financial reporting period.
- GASB 85 – Omnibus 2017. The provisions of this Statement are required to be implemented for the 2018 financial reporting period.
- GASB 86 – Certain Debt Extinguishment Issues. The provisions of this Statement are required to be implemented for the 2018 financial reporting period.
- GASB 87 – Leases. The provisions of this are required to be implemented for the 2020 reporting period.

NOTE 12 – Other Accounting Matters

Change in Accounting Principles – Implementation of GASB Statement No. 68, 71, 73, 78, and 82

As discussed in Note 10 to the financial statements, the Municipality participates in the Alaska Public Employees Retirement System (PERS) plan. In 2015, the Municipality adopted the provisions of GASB Statement No. 68 Accounting and Financial Reporting for Pensions, which, among other accounting and reporting criteria, requires the Municipality to recognize its proportional share of the Net Pension Liability (and related deferred inflow/outflow accounts), as of the beginning of the Municipality's fiscal year. As a result of the implementation of this statement in 2015, the Municipality recorded an opening balance adjustment to reflect opening balance pension liabilities and related accounts and to decrease opening net position as follows:

	Opening Net Position, as Originally Presented	Change in Accounting Principle Adjustment	Opening Net Position, as Restated
Port	145,631,925	(1,303,976)	144,327,949

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Notes to Basic Financial Statements

December 31, 2016 and 2015

NOTE 13 – Subsequent Events

Tariff Rates

Effective January 1, 2017, Port tariff rates will be increasing through the published Terminal Tariff No. 8, 2015 publication.

In 2017, the Port executed settlement agreements totaling \$6,750,000 as more more fully disclosed in Note 14 – “Port of Anchorage Expansion Litigation” below to fully and finally resolve claims, liabilities and damages of the Municipality relative to work performed by defendants on the Port Expansion Project.

NOTE 14 – Port of Anchorage Expansion Litigation

A multi-year expansion project at the Port began in 2003 and continued until May 31, 2012. The project encountered problems and work was suspended while the Port investigated the scope and cause of the problems and determined how to proceed.

Investigative reports concluded the project design was flawed and significant aspects of the work were constructed incorrectly. In March 2013, the Port filed suit to recover damages. In 2016, the Municipality reached an agreement to fully and finally settle, release and resolve any and all claims, liabilities and damages of the Municipality relative to work performed by MKB Constructors, Quality Asphalt Paving and Terracon Consultants for \$5,500,000, \$5,150,000 and \$1,950,000 respectively. In total, these settlements amount to \$12,600,000 recorded in 2016 as legal settlements shown on the Statements of Revenues, Expenses and Changes in Net position as non-operating revenue. As required under two of the settlement agreements the Port restricted \$2,300,000 of the \$12,600,000 contribution to a Port litigation escrow account also recorded in 2016 as Restricted Cash –“Settlement Set Aside” - under the restricted assets section of the Statement of Net Position. The remaining defendants executed settlement agreements as follows: ICRC for \$3,750,000, PND for \$750,000, GeoEngineers for \$750,000 and CH2M Hill for \$1,500,000 each recorded in 2017. An order for dismissal in the US District Court for the District of Alaska was signed on February 22, 2017 closing the case filed in the State of Alaska. The separate action filed in the United States Court of Federal Claims against the U.S. Maritime Administration (MARAD) is ongoing. That case remains active and no claims have been asserted against the Municipality.

In the meantime, the project is moving forward. A project management consultant team has been engaged; a new design concept has been approved by stakeholders and the Port; regulatory and environmental compliance data is being assembled and a test pile program is underway to evaluate alternative ways of installing pile and mitigating environmental impacts.

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Port's Information on the Net Pension Liability

Year Ended December 31,	Measurement Period Ended June 30,	Port's Proportion of the Net Pension Liability	Port's Proportionate Share of the Net Pension Liability	Port's Proportionate Share of the State of Alaska's Proportionate Share of the Net Pension Liability	Total Port Net Pension Liability	Port's Proportion of the Covered Payroll	Port's Proportionate Share of the Net Pension Liability as a percentage of Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	2016	0.46412%	\$ 2,014,253	\$ 253,794	\$ 2,268,047	\$ 943,387	213.51%	59.55%
2015	2015	0.49596%	1,482,666	397,126	1,879,792	965,281	153.60%	63.96%

Schedule of Port Contributions

Year Ended December 31,	Measurement Period Ended June 30,	Port's Proportion of the Contractually Required Contribution	Port's Proportion of the Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	Port's Proportion of the Covered Payroll	Port's Proportion of the Contributions as a Percentage of Covered Payroll
2016	2016	\$ 113,997	\$ 113,997	\$ -	\$ 961,507	11.856%
2015	2015	108,499	108,499	-	987,830	10.984%

Notes to Required Supplementary Information

In accordance with GASB Statement No. 82, "Covered Payroll" is defined as payroll on which contributions to the pension plan are based. Because a portion of the Port's contributions to the Plan (the DBUL) are based on Defined Contribution Wages, covered payroll reported here includes all PERS participating wages (both Defined Benefit and Defined Contribution).

Both pension tables are intended to present 10 years of information. Additional year's information will be added to the schedules as it becomes available.

Schedule of Port's Information on the Net Pension Liability

- This table is presented based on the Plan measurement date. For December 31, 2016, the Plan measurement date is June 30, 2016.
- There were no changes in benefit terms from the prior measurement period.
- There were no changes in assumptions from the prior measurement period.
- There were no changes in the allocation methodology from the prior measurement period. The measurement period ended June 30, 2016 allocated the net pension liability based on the present value of contributions for fiscal year 2018 through 2039, as determined by projections based on the June 20, 2015 actuarial valuation. This is the same allocation method used for the measurement period June 30, 2015.

Schedule of Port's Contributions

- This table is based on the Port's contributions during calendar year 2016. A portion of these contributions are included in the plan measurement results, while a portion of the contributions are reported as a deferred outflow on the December 31, 2016 basic financial statements.

STATISTICAL SECTION

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Statistical Section (Unaudited)

Table 1

COMPARATIVE DETAIL SCHEDULE OF ACTUAL REVENUES BY SOURCE

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Dockage	\$ 1,089,224	\$ 1,142,837	\$ 1,061,272	\$ 956,080	\$ 1,055,158	\$ 991,289	\$ 845,214	\$ 705,081	\$ 842,096	\$ 828,548
Wharfage, Dry Bulk	148,896	181,234	179,256	153,813	156,981	167,018	73,172	71,343	126,338	132,514
Wharfage, Liquid Bulk	1,463,035	1,682,558	900,922	570,819	821,064	908,131	866,712	490,956	522,305	695,566
Wharfage, General Cargo	3,670,375	3,608,772	3,414,255	3,440,514	3,349,776	3,428,694	3,296,428	3,613,275	3,724,411	3,570,930
Storage Revenue	265,309	327,061	230,883	49,168	139,190	1,210	7,245	-	4,160	13,215
Office Rental	121,887	114,462	135,041	73,884	60,014	40,864	37,394	31,167	27,699	23,964
Utilities	30,040	45,232	28,675	15,462	15,810	17,704	19,485	7,510	10,198	10,635
Crane Rentals	72,488	105,858	43,375	59,025	56,300	52,500	61,908	48,435	48,076	140,012
Industrial Park Lease	4,326,069	4,363,254	4,182,255	4,172,846	3,939,395	4,110,620	4,333,539	4,301,791	4,158,226	4,029,120
Investment Income - Long-Term	-	-	-	-	-	-	-	11,186	35,828	85,171
Investment Income - Short-Term	344,945	344,603	211,006	78,006	361,027	433,059	974,656	2,031,824	218,893	2,342,556
Right-of-Way Fees	167,849	164,678	174,968	160,682	146,599	141,378	161,522	140,074	177,083	181,227
POL Value Yard Fees	176,713	191,560	231,774	330,359	367,674	473,869	300,212	358,443	485,400	499,385
Security Fees	1,421,294	1,426,724	1,361,865	1,325,901	1,340,280	1,306,697	1,305,539	1,312,465	1,541,818	1,586,553
Gain on Disposition of Assets	-	-	-	-	-	-	-	-	52,470	-
Reimbursed Cost	-	-	-	-	-	-	-	2,760	873,765	-
Intergovernmental Revenue-Capital	43,575	18,075	2,882,353	-	-	-	-	-	57,205	47,046
Legal Settlements	12,600,000	-	-	-	-	-	-	-	-	-
Miscellaneous Revenues	1,022,677	507,769	154,542	247,059	253,505	179,101	144,596	57,522	(19,511)	57,035
Subtotal	26,964,377	14,224,677	15,192,442	11,633,618	12,062,773	12,252,134	12,427,622	13,183,832	12,886,460	14,243,477
Capital Contributions	13,323,471	7,834,571	2,882,353	1,811,983	2,216,290	9,337,718	40,170,090	10,087,667	35,974,275	968,723
Transfers From Other Funds	(2,114,268)	(2,056,004)	-	-	-	-	-	-	13,855	-
Special Item - NPO/OPEB Write-off	-	-	-	-	-	-	-	-	93,773	-
TOTAL	\$ 38,173,580	\$ 20,003,244	\$ 18,074,795	\$ 13,445,601	\$ 14,279,063	\$ 21,589,852	\$ 52,597,712	\$ 23,271,499	\$ 48,968,363	\$ 15,212,200

**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	\$ 1.09
Freight NOS	\$ 6.49
Bulk Commodities, Dry, NOS	\$ 2.71
Cement	\$ 4.87
Cement, Bulk through Pipeline	\$ 1.49
Coal, Bulk	\$ 0.01
Iron or Steel Articles	\$ 4.87
Logs	\$ 2.71
Lumber	\$ 4.87
Chips NOS	\$ 3.25
Petroleum or Petroleum Products	
* Inbound/Outbound	\$ 0.14
* Transfers	\$ 0.00
* Fuel	\$ 0.01
Powder (Explosive)	\$ 16.22
Vans or Containers	\$ 3.12
Vehicles	\$ 10.82

Port of Anchorage Terminal Tariff No. 8.
Tariff Issued 1/1/2015 and Effective 1/1/2019.

Notes to Tariff Rates:

NOS - Not Otherwise Specified

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Statistical Section (Unaudited)

Table 3

TEN-YEAR ANNUAL DOCK TONNAGE REPORT (2007 - 2016)

COMMODITIES ACROSS FACILITY	YTD 2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Freight NOS	4,451	-	5,463	6,385	15,333	2	-	124	215	478
Dry Bulk Goods	122,006	126,737	140,684	119,271	119,939	118,280	109,228	81,494	116,789	124,089
Petroleum, NOS (vessel fuelling)	893	5,013	2,031	2,615	1,454	2,052	1,660	2,032	2,648	2,618
Vans/Flats/Containers	1,582,951	1,681,223	1,811,136	1,738,601	1,740,969	1,705,176	1,736,943	1,713,086	1,831,816	1,785,518
Vehicles	-	-	-	2,615	-	864	-	1,473	10,725	5,381
Petroleum, Shoreside	368,708	368,294	916,050	952,631	1,046,636	1,376,909	1,192,705	1,426,711	1,830,848	1,698,581
Petroleum, Rail Rack	-	-	-	-	-	-	-	-	-	-
Petroleum, Bulk - Dockside	1,419,162	1,592,317	580,343	586,041	829,900	931,931	922,426	573,352	577,236	699,727
TOTAL TONS	3,498,171	3,773,584	3,455,707	3,408,158	3,754,231	4,135,214	3,962,962	3,798,272	4,370,277	4,316,392

Notes to Annual Dock Tonnage:

NOS - Not Otherwise Specified

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Statistical Section (Unaudited)

Table 4

FINANCIAL RATIOS

Description	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Current Ratio (current assets / current liabilities)	12.31	16.63	15.24	35.41	0.49	0.43	0.96	1.07	0.74	31.07
Quick Ratio (quick assets / current liabilities)	9.99	14.46	13.77	13.25	0.28	0.31	0.54	0.89	0.26	10.65
Return on Investment (change in net position / total assets)	8%	-4%	-1%	-31%	1%	4%	17%	5%	19%	3%
Return on Equity (change in net position / net position)	11%	-5%	-1%	-40%	1%	5%	20%	7%	24%	3%
Debt to equity as a percent of capital structure	26%	29%	27%	20%	16%	16%	16%	20%	21%	N/A
(outstanding debt / capital structure over net position / capital structure	74%	71%	73%	80%	84%	84%	84%	80%	79%	N/A
Operating margin										
(operating income (loss) / operating revenue)	-59%	-99%	-41%	-3%	4%	10%	2%	-3%	1%	8%

Notes to Financial Ratios:

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

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Statistical Section (Unaudited)

Table 5

PORT OF ANCHORAGE
2017-2022 CAPITAL IMPROVEMENT PROGRAM SUMMARY
(in thousands)

PROJECT CATEGORY	2017	2018	2019	2020	2021	2022	TOTAL
Anchorage Port Modernization Project	223,000	-	-	-	-	-	223,000
Anchorage Port GIS Mapping	250	-	-	-	-	-	250
Ship Creek Boat Launch Repairs	2,039	-	-	-	-	-	2,039
Storm Drain Repair & Enhancement	500	500	250	250	250	250	2,000
Wharf Pile Enhancements	3,000	3,000	3,000	3,000	3,000	3,000	18,000
TOTAL	228,789	3,500	3,250	3,250	3,250	3,250	245,289
SOURCE OF FUNDING							
Equity/Operations	5,100	3,500	3,250	3,250	3,250	3,250	21,600
State/Fed Grants	223,689	-	-	-	-	-	223,689
TOTAL	228,789	3,500	3,250	3,250	3,250	3,250	245,289

Table 6

**TOP TEN CUSTOMER RANKING ON 2016 BILLINGS
HIGHEST TO LOWEST**

Rank	
No.	Customer Name
1	TOTE MARITIME ALASKA INC
2	MATSON fka Horizon Lines LLC
3	TESORO ALASKA COMPANIES INC
4	CO/ASIG
5	ANCHORAGE FUELING & SERVICE CO/ASIG
6	ANCHORAGE SAND & GRAVEL/ABI
7	ALASKA MARITIME AGENCIES
8	PETRO STAR INC
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, 2016, and the related notes to the financial statements, which collectively comprise the Port of Anchorage's basic financial statements and have issued our report thereon dated July 27, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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 of Anchorage's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port of Anchorage'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify one deficiency in internal control, described in the accompanying schedule of findings and responses, that we consider to be a significant deficiency (Item 2016-001).

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*.

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Port of Anchorage's Response to Finding

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 result 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
July 27, 2017

MUNICIPALITY OF ANCHORAGE PORT OF ANCHORAGE FUND

Schedule of Findings and Responses Year Ended December 31, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements were prepared in accordance with GAAP

Unmodified

Internal control over financial reporting:

- | | | | | | |
|---|-------|-----|-------|-------|----|
| • Material weakness(es) identified? | _____ | yes | _____ | X | no |
| • Significant deficiency(ies) identified? | X | 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 2016-001

Recognition of Capital Contributions - Significant Deficiency

Criteria or specific requirement

Government Auditing Standards states "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 safe guarding 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

Capital contributions were not recorded properly.

Context

Management recorded grant funded additions to construction in work in progress in fiscal year 2015 but failed to record a related capital contribution until fiscal year 2016.

Effect

Opening net position was understated and current year capital contributions were overstated by \$163,218.

Cause

Although management had a process in place to review costs for capitalization, the controls did not properly identify the funding source and recognize revenue in the correct fiscal period.

Recommendation

We encourage management to add to its construction work in progress tracking spreadsheets a source of funding column to ensure capital contributions are recorded in the correct fiscal period.

Views of responsible officials and planned corrective actions

Please see the Corrective Action Plan.



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MUNICIPALITY OF ANCHORAGE PORT OF ANCHORAGE FUND

Summary Schedule of Prior Year Audit Findings *Year Ended December 31, 2016*

Financial Statement Findings

Finding 2015-001 Timely Close and Review - Significant Deficiency

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.” Adequate internal control over financial reporting requires the timely close of the year end books and records. Review procedures should be established to ensure the accuracy of year end reconciliations.

Status During 2016 efforts were made by management to correct the timeliness in closing the year end books and records. Significant improvements were made in 2016. Management is still working on creating an effective internal control environment for all financial reporting areas. See current year finding 2016-001.



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Corrective Action Plan Year Ended December 31, 2016

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Financial Statement Findings

Finding 2016-001 Recognition of Capital Contributions - Significant Deficiency

Corrective Action Plan A revenue tracking column will be added to the construction work in progress tracking spreadsheets to ensure all capital contribution are recorded in the correct fiscal year and matches with expenditures for accurate reporting.

Expected Completion Date In Progress, FY 2017