# MUNICIPALITY OF ANCHORAGE, ALASKA
## PORT OF ALASKA FUND

Basic Financial Statements and Required Supplementary Information with Other Information

December 31, 2017 and 2016

(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

We have audited the accompanying financial statements of the Port of Alaska, an enterprise fund of the Municipality of Anchorage, Alaska, which comprise the statements of net position as of December 31, 2017 and 2016 and the related statements of revenue, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Alaska as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Emphasis of 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, 2017 and 2016, 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 46, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port of Alaska'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 January 7, 2019 on our consideration of the Port of Alaska'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 Alaska'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 Alaska's internal control over financial reporting and compliance.

BDO USA, LLP

Anchorage, Alaska
January 7, 2019

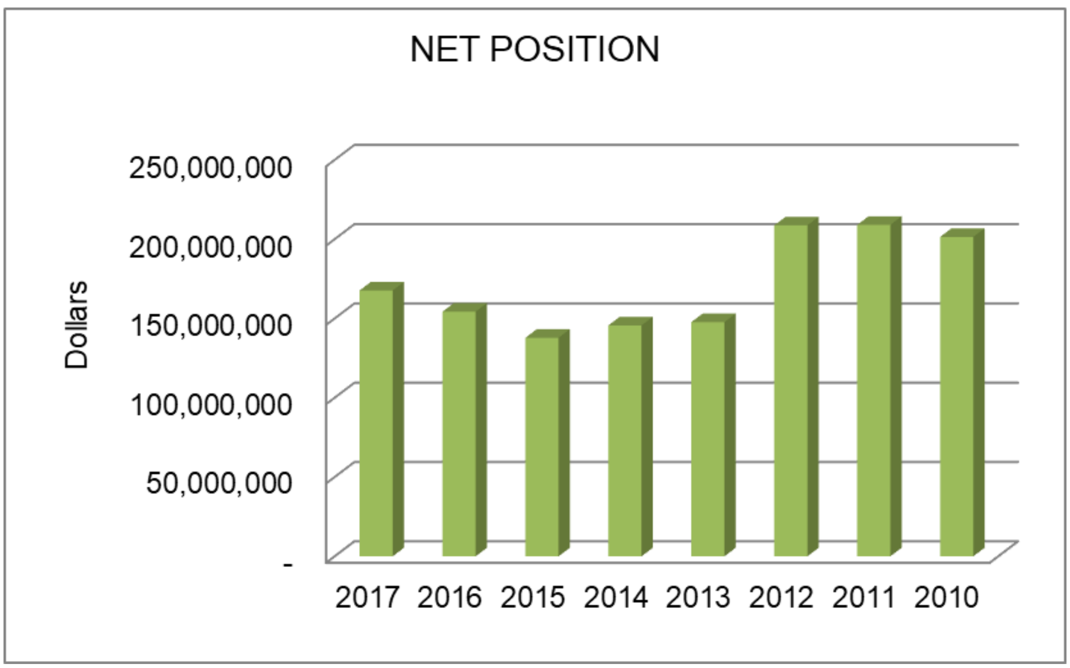
Management's Discussion and Analysis

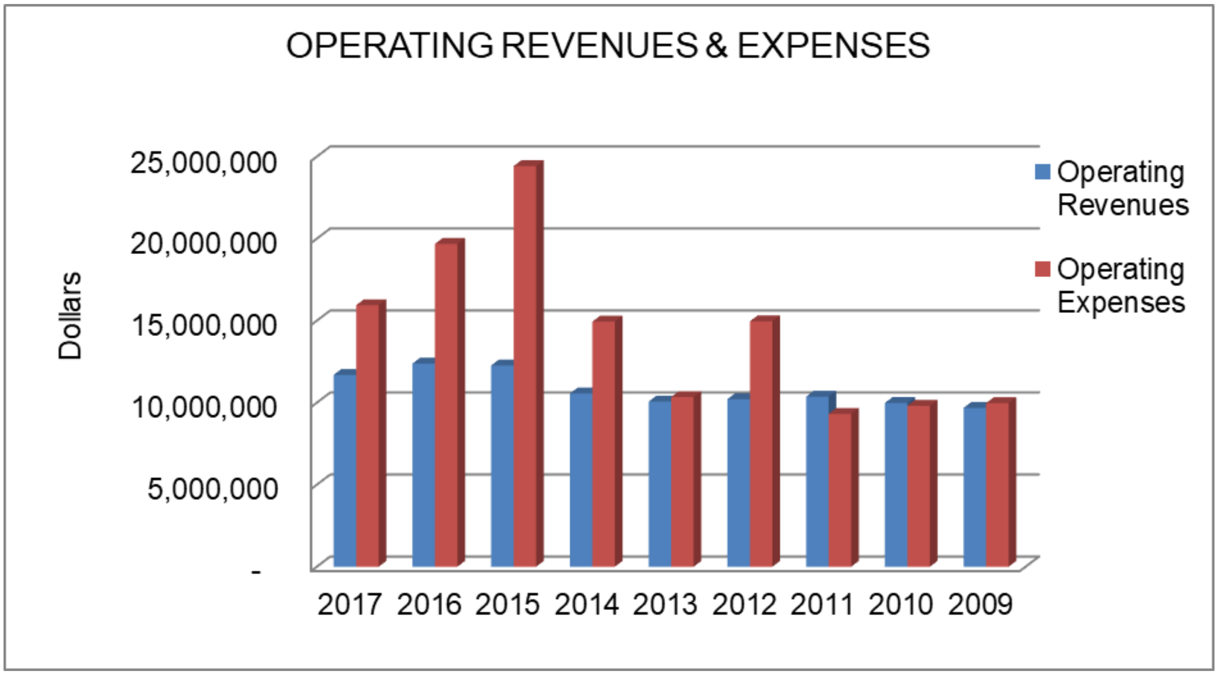
December 31, 2017 and 2016

This section of the Municipality of Anchorage Port of Alaska (Port) enterprise activity annual financial report presents the analysis of the Port's financial performance during the years ending December 31, 2017 and 2016. Please read it in conjunction with the Port's financial statements.

## FINANCIAL HIGHLIGHTS

- Net Position increased $13,371,067 or 7.98% in 2017. Primarily due to $6.8 million in legal settlements paid to the Port by its contractors involved in the Port Intermodal Expansion Litigation settlement and a decrease in operating expenses.
- Operating Revenues decreased by $688,834 or -5.56% in 2017, and increased $116,116 or .9% in 2016. The decrease in 2017 was due primarily to a decrease in miscellaneous revenue and in 2016 the increase was mostly due to additions in petroleum related wharfage (liquid bulk) and industrial park lease rental revenue.
- Operating Expenses decreased by $3,739,269 or -19.0% in 2017 primarily due to a decrease in Legal Services and decreased by $4,742,349 or -19.4% in 2016 primarily due to a decrease in Other Services and Charges.






## 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 Management's Discussion and Analysis and 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 statements present information regarding the Port's assets, liabilities, deferred inflows/outflows of resources and with the difference reported as net position at December 31, 2017, and December 31, 2016. 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, 2017 and December 31, 2016 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 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 Summary of Net Position as of December 31, 2017, 2016, and 2015. 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

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Assets: | | | |
| Current and Other Assets | $ 35,651,002 | $ 28,228,217 | $ 18,446,569 |
| Non-Current Assets | 178,460,695 | 171,876,881 | 163,713,052 |
| Total Assets | 214,111,696 | 200,105,098 | 182,159,621 |
| Deferred Outflows of Resources | 30,601 | 446,838 | 195,619 |
| Total Assets and Deferred Outflows of Resources | $ 214,142,298 | $ 200,551,936 | $ 182,355,240 |
| Liabilities: | | | |
| Current Liabilities | 2,850,748 | 2,292,424 | 1,109,143 |
| Non-Current Liabilities | 43,467,027 | 43,962,353 | 43,387,749 |
| Total Liabilities | 46,317,775 | 46,254,777 | 44,496,892 |
| Deferred Inflows of Resources | 178,750 | 22,453 | 28,544 |
| Total Liabilities and Deferred Inflows of Resources | 46,496,525 | 46,277,230 | 44,525,436 |
| Net Position: | | | |
| Net Investment in Capital Assets | 138,079,071 | 131,317,508 | 123,153,679 |
| Restricted for Capital Construction | 6,797,227 | 5,003,116 | 2,077,591 |
| Unrestricted | 22,769,474 | 17,954,082 | 12,598,534 |
| Total Net Position | $ 167,645,773 | $ 154,274,706 | $ 137,829,804 |
| Total Liabilities, Deferred Inflows of Resources and Net Position | 214,142,298 | 200,551,936 | 182,355,240 |
| Change in Net Position | $ 13,371,067 | $ 16,444,902 | $ (6,498,145) |

During 2017 the Port's total assets increased by $14 million. Non-Current assets Increased by $6.6 million primarily due to a $10 million increase in construction work in progress. Current assets increased by $7.4 million primarily due to increases in equity in general cash pool, capital acquisition and construction accounts, and intergovernmental receivables. 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 2017 the Port's total liabilities increased by $63 thousand primarily due to an increase in capital acquisition and construction accounts and retainage payable offset by a decrease in net pension liability and a decrease in accounts payable in the amounts of $1.3 million, $.5 million, $.74 million respectively. 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.

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, 2017, 2016, and 2015 (Table 2).

During 2017 the Port's Operating revenues overall decreased by $688,834 or -5.56% and in 2016 Operating revenues overall increased by $116,116. The decrease in 2017 was due primarily to a decrease in miscellaneous revenue and in 2016 the increase was mostly due to additions in petroleum related wharfage (liquid bulk) and industrial park lease rental revenue.

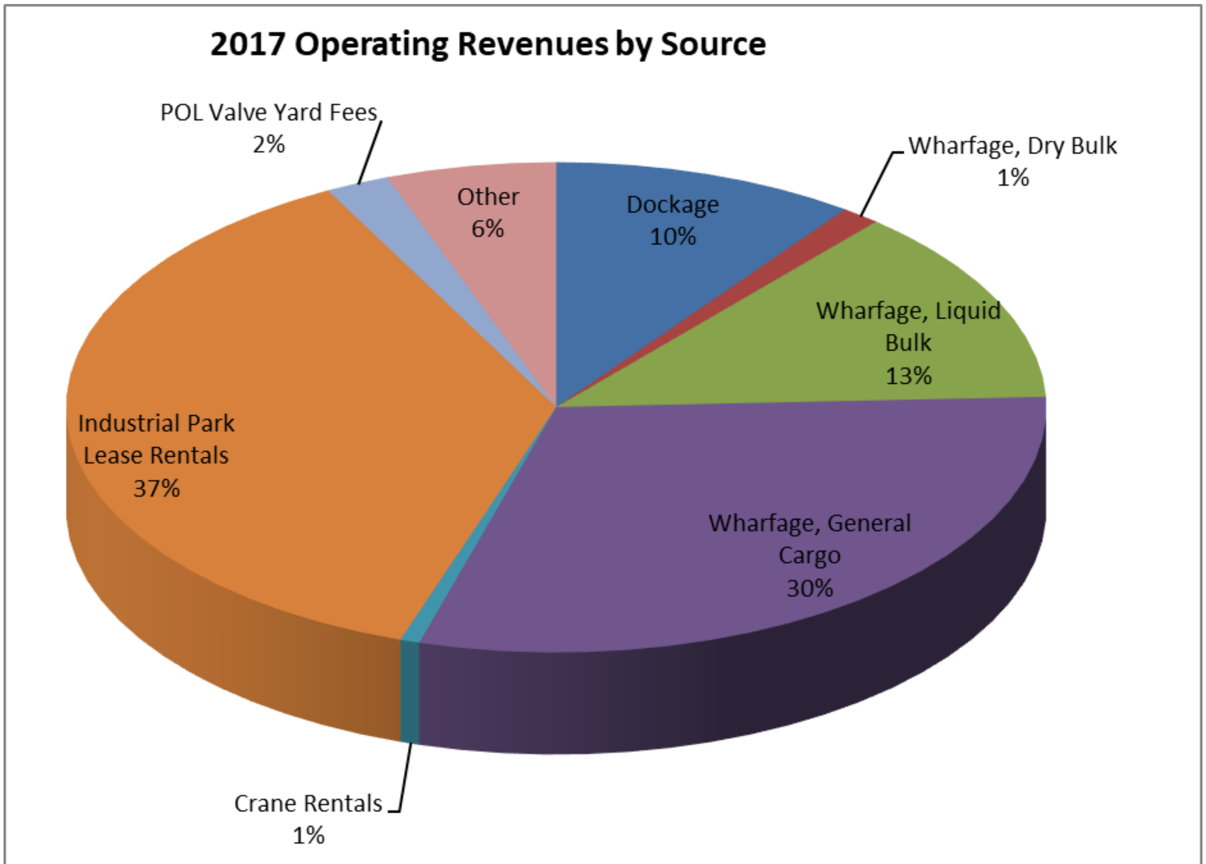
During 2017 the Port's Operating expenses overall decreased by $3.7 million, which was primarily attributable to a decrease in professional services.

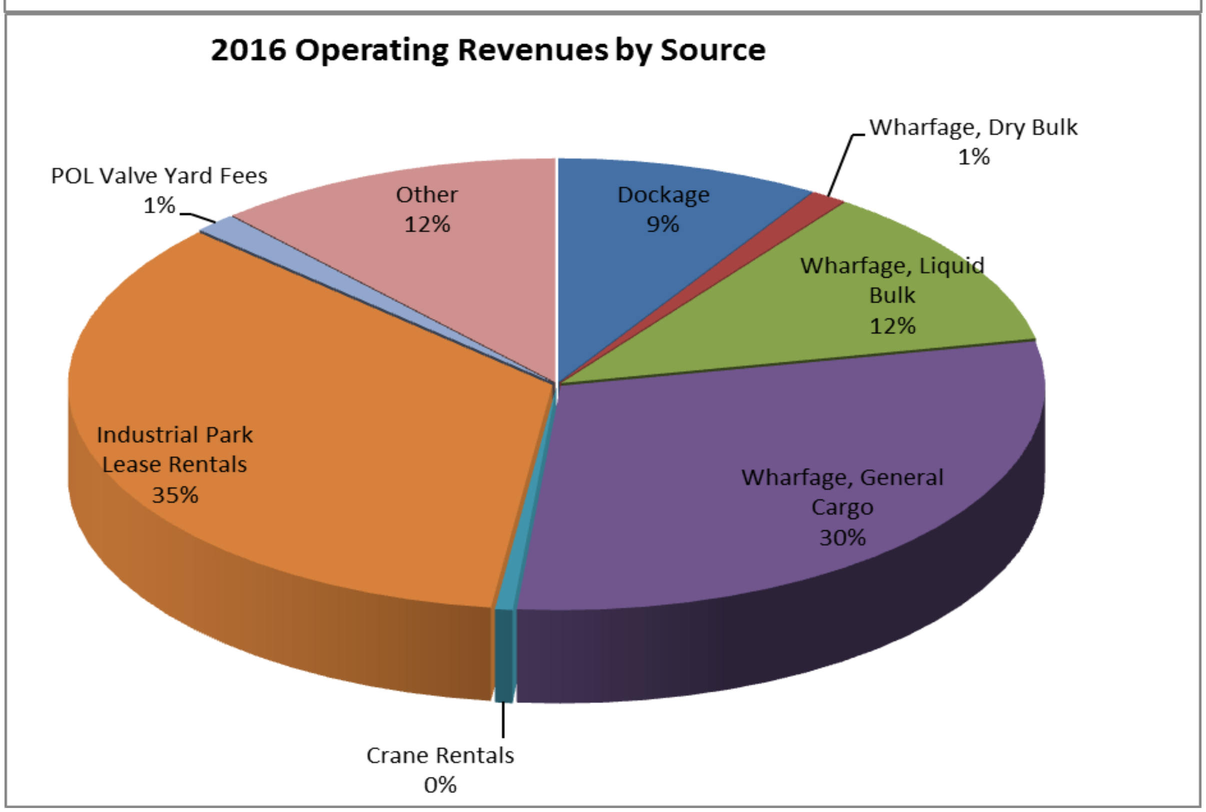
Management's Discussion and Analysis

December 31, 2017 and 2016

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

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Operating Revenues: | | | |
| Dockage | 1,174,735 | $ 1,089,224 | $ 1,142,837 |
| Wharfage, Dry Bulk | 150,695 | 148,896 | 181,234 |
| Wharfage, Liquid Bulk | 1,521,105 | 1,463,035 | 1,682,558 |
| Wharfage, General Cargo | 3,529,245 | 3,670,375 | 3,608,772 |
| Industrial Park Lease Rentals | 4,344,217 | 4,326,069 | 4,363,254 |
| Crane Rentals | 74,250 | 72,488 | 105,858 |
| POL Valve Yard Fees | 246,957 | 176,713 | 191,560 |
| Other | 656,675 | 1,439,913 | 994,524 |
| Total Operating Revenues | 11,697,880 | 12,386,713 | 12,270,597 |
| Operating Expenses: | | | |
| Personnel Services (including on-behalf) | 2,847,732 | 3,146,242 | 2,529,141 |
| Supplies | 176,734 | 151,245 | 126,534 |
| Other Services and Charges | 4,646,464 | 7,718,973 | 13,444,548 |
| Charges from Other Departments | 1,018,756 | 951,146 | 591,109 |
| Depreciation | 7,253,997 | 7,715,345 | 7,733,968 |
| Total Operating Expenses | 15,943,682 | 19,682,951 | 24,425,300 |
| Operating Loss | (4,245,803) | (7,296,238) | (12,154,703) |
| Nonoperating Revenues (Expenses) | | | |
| Non-Operating Revenues | 10,153,692 | 14,577,663 | 1,954,080 |
| Non-Operating Expenses | (2,217,567) | (2,045,726) | (2,076,089) |
| Net Non-Operating Revenues (Expenses) | 7,936,125 | 12,531,937 | (122,009) |
| Income (Loss) Before Capital Contributions and Transfers | 3,690,322 | 5,235,699 | (12,276,712) |
| Capital Contributions and Transfers and Special Item | 9,680,745 | 11,209,203 | 5,778,567 |
| Change in Net Position | 13,371,067 | 16,444,902 | (6,498,145) |
| Net Position, beginning | 154,274,706 | 137,829,804 | 144,327,949 |
| Net Position, ending | $ 167,645,773 | $ 154,274,706 | $ 137,829,804 |

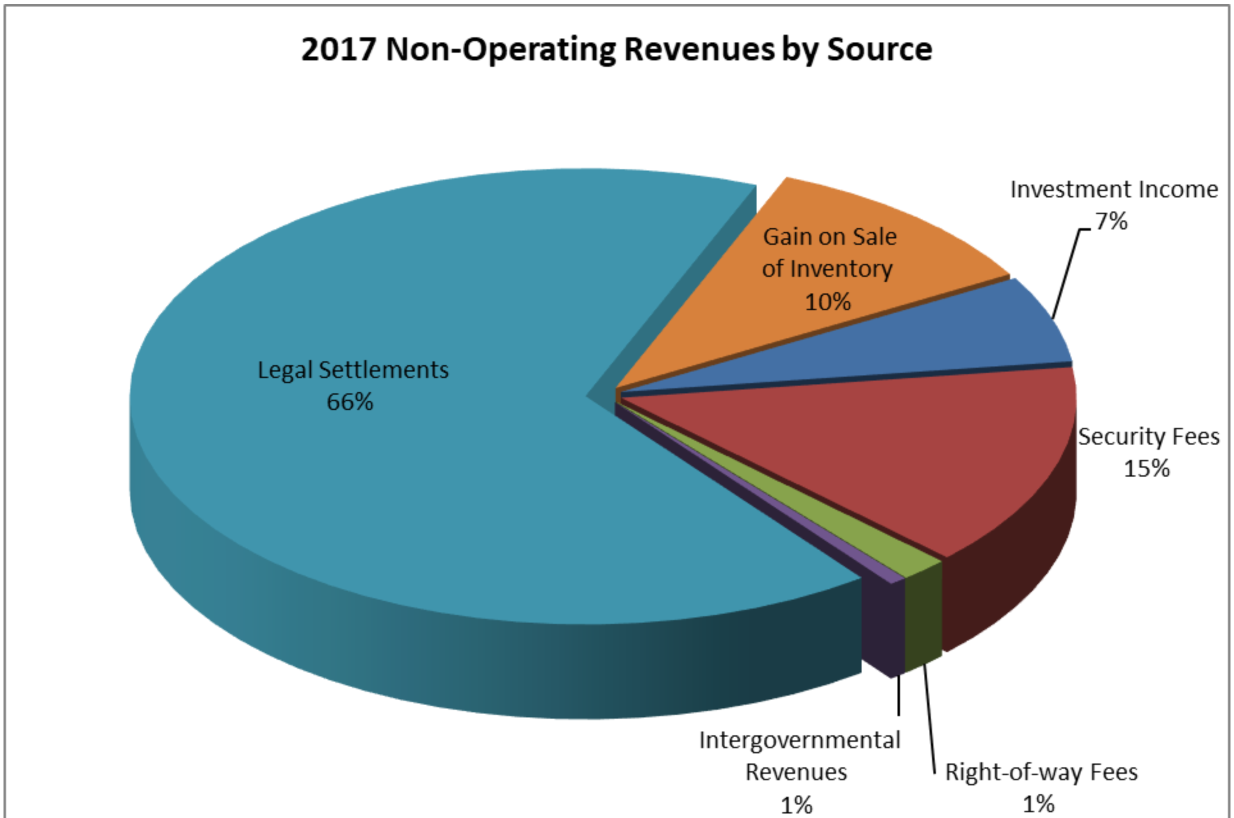

2017 Operating Revenues by Source
POL Valve Yard Fees 2%
Other 6%
Dockage 10%
Wharfage, Dry Bulk 1%
Wharfage, Liquid Bulk 13%
Wharfage, General Cargo 30%
Crane Rentals 1%
Industrial Park Lease Rentals 37%

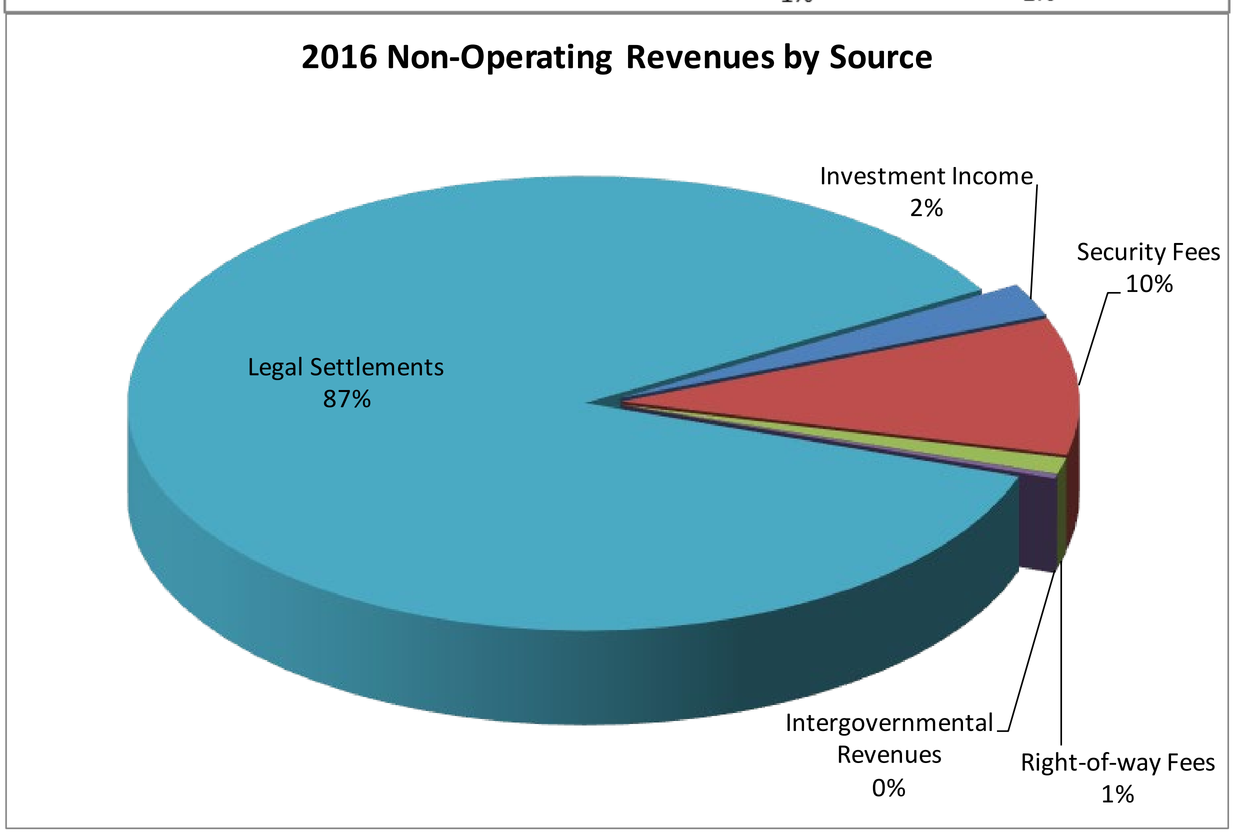

2016 Operating Revenues by Source
POL Valve Yard Fees 1%
Other 12%
Dockage 9%
Wharfage, Dry Bulk 1%
Wharfage, Liquid Bulk 12%
Wharfage, General Cargo 30%
Crane Rentals 0%
Industrial Park Lease Rentals 35%

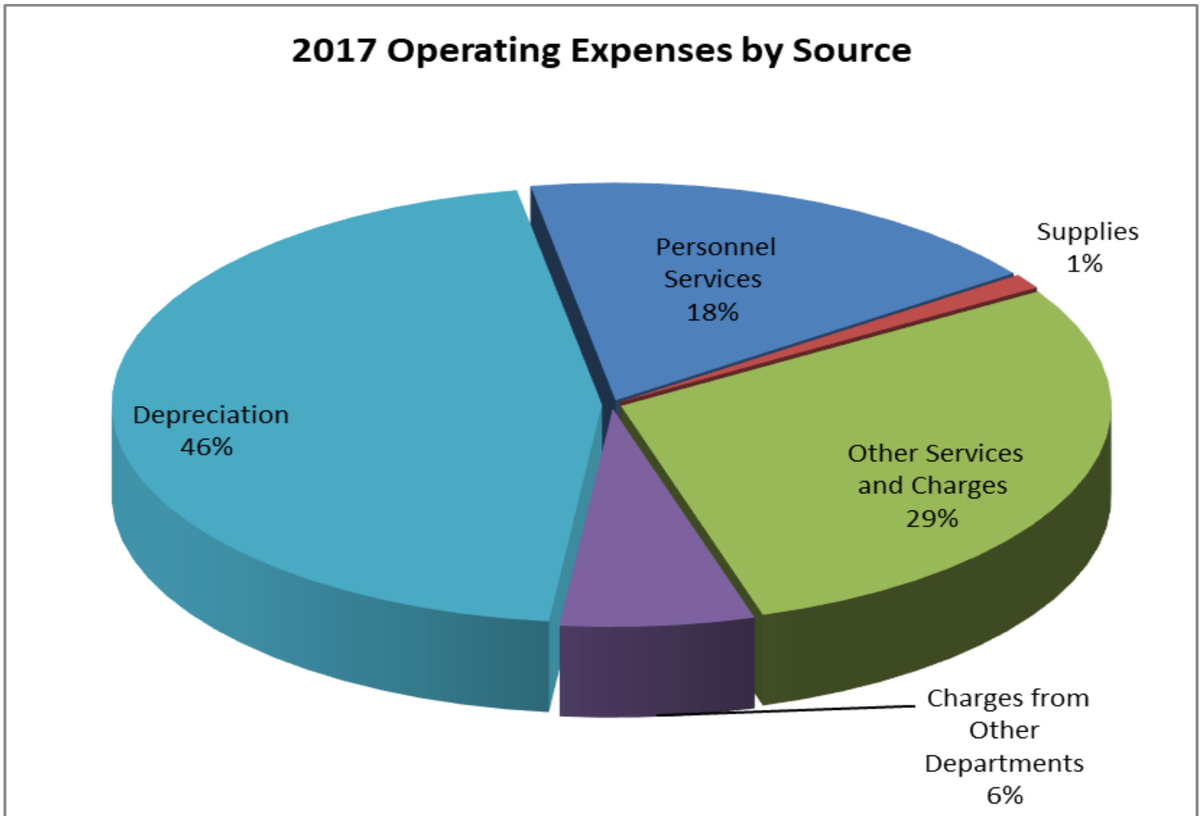
**MUNICIPALITY OF ANCHORAGE, ALASKA**
**PORT OF ALASKA FUND**

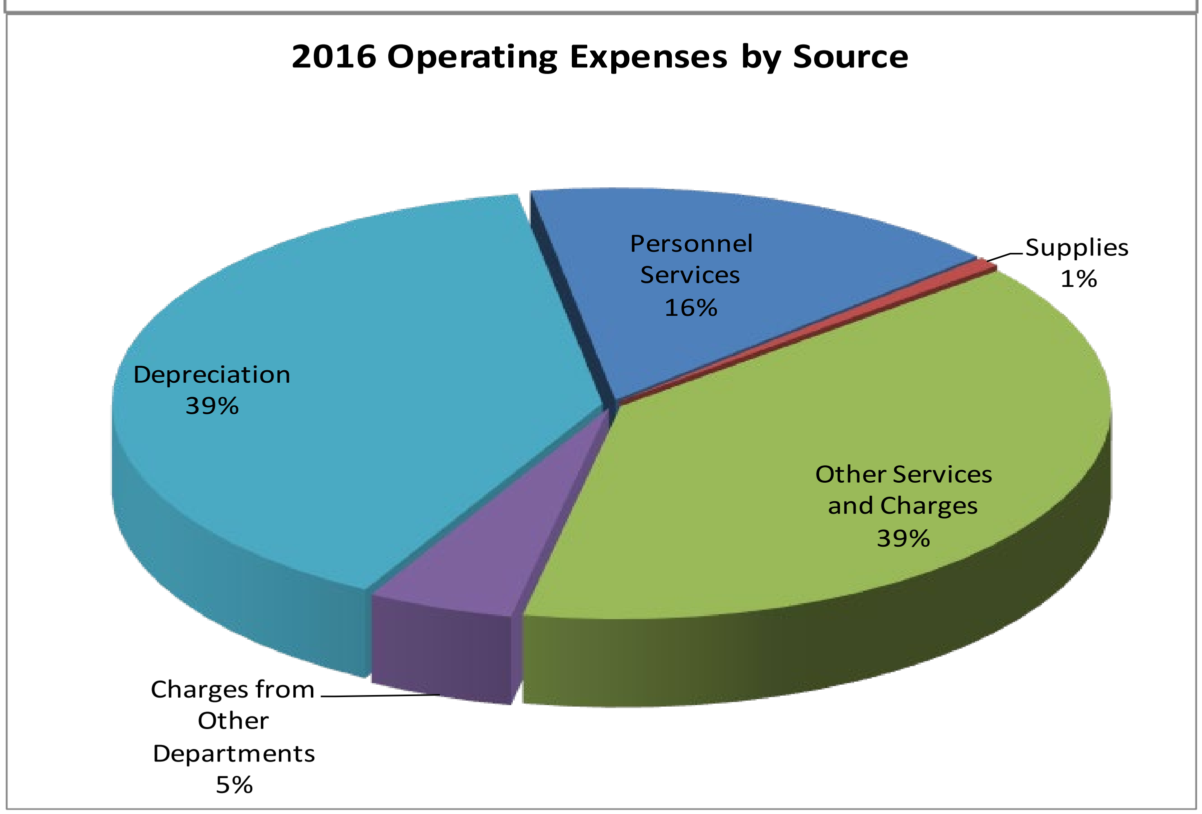
Management's Discussion and Analysis

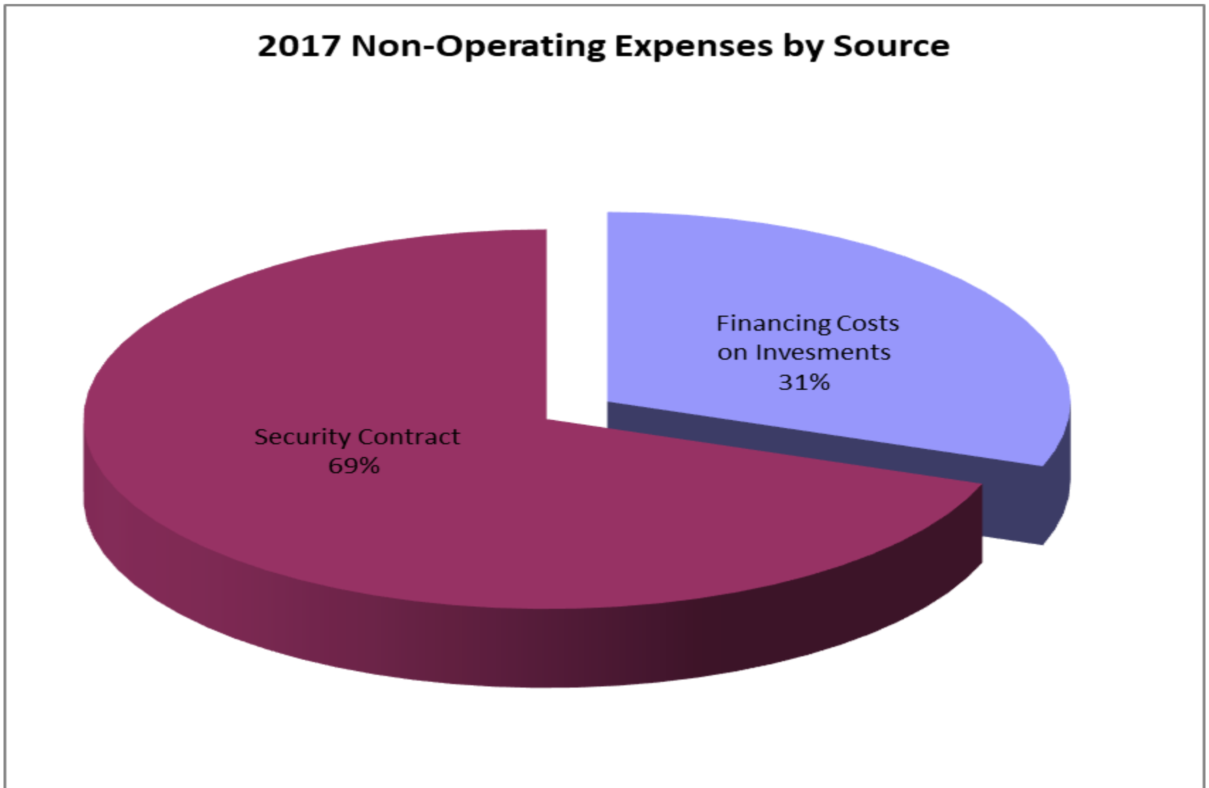
December 31, 2017 and 2016

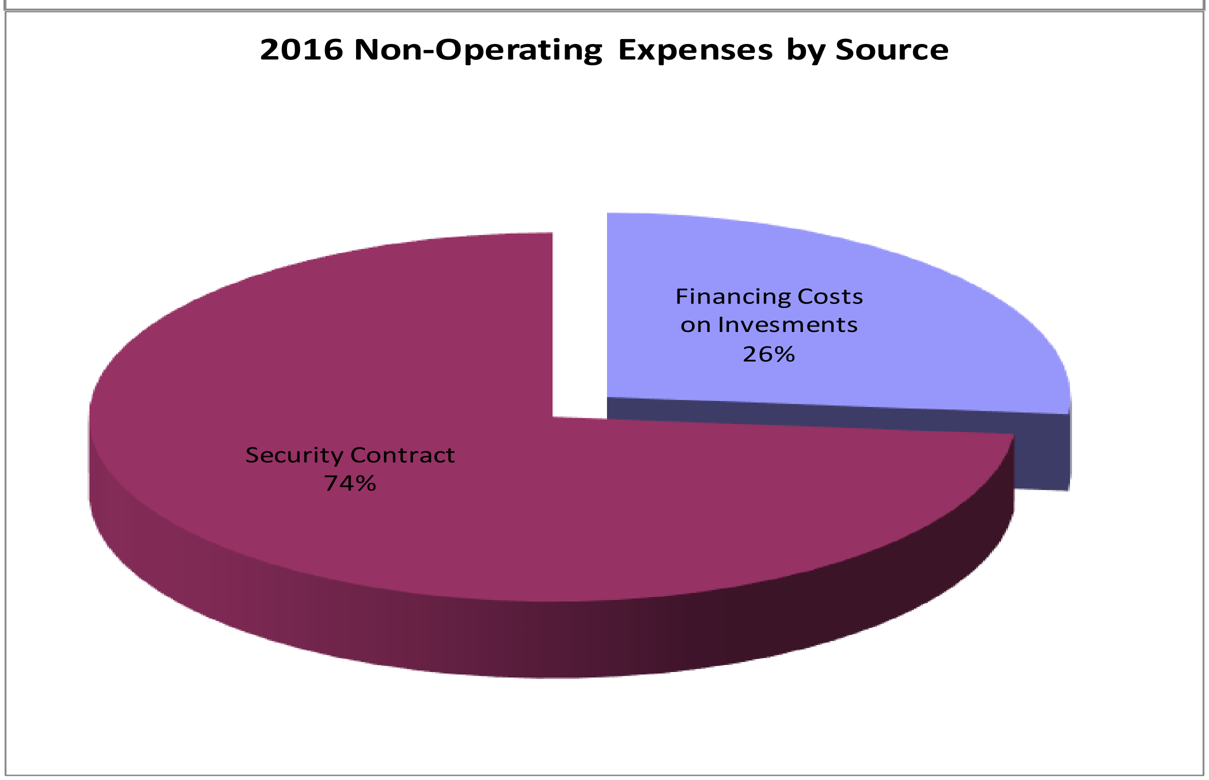



2017 Operating Expenses by Source
Personnel Services 18%
Supplies 1%
Other Services and Charges 29%
Charges from Other Departments 6%
Depreciation 46%


2016 Operating Expenses by Source
Personnel Services 16%
Supplies 1%
Other Services and Charges 39%
Charges from Other Departments 5%
Depreciation 39%


2017 Non-Operating Expenses by Source
Financing Costs on Invesments 31%
Security Contract 69%


2016 Non-Operating Expenses by Source
Financing Costs on Invesments 26%
Security Contract 74%

## CAPITAL ASSETS AND DEBT

### Capital Assets

The following table summarizes the Port's capital assets, at cost, as of December 31, 2017, 2016 and 2015.

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

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Capital Assets | | | |
| Land | $ 20,101 | $ 20,101 | $ 20,101 |
| Infrastructure | 42,968 | 45,779 | 48,821 |
| Buildings | 2,889 | 3,025 | 3,176 |
| Building Improvements | 18 | 18 | 35 |
| Land Improvements | 86,313 | 86,647 | 88,182 |
| Vehicles | 273 | 324 | - |
| Machinery and Equipment | 2,284 | 1,993 | 2,631 |
| Computer Equipment | 5 | 12 | 17 |
| Office Equipment | - | - | - |
| Art | 21 | 21 | 21 |
| Total Capital Assets | 154,872 | 157,920 | 162,984 |
| Construction Work in Progress | 23,207 | 13,397 | 170 |
| Total | 178,079 | 171,317 | 163,154 |
| Increase/(Decrease) in Net Capital Assets | $ 6,762 | $ 8,163 | $ (5,184) |

2017 major additions include:

- Infrastructure $.96 Million
- Land Improvements $3.2 Million
- Machinery and Equipment $.9 Million

Construction work in progress increased by $9.8 million in 2017.

### 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 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.

## ECONOMIC FACTORS AND BUDGETS AND RATES

The 2017 budget anticipated Port operating revenues of $11.3 million and $1.8 million in non-operating revenues. Actual 2017 operating revenues earned amounted to $11.8 million, or $460 thousand over budget projections. Actual 2017 non-operating revenues including capital contributions earned amounted to $21.7 million, or $19.9 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 2017 budget and actual non-operating revenues was due to the direct funding from the State of Alaska in the amount of $11.1 million for grant related expenditures and $6.7 million in legal settlements between the Port and its contractors involved in the Port Modernization project.

The 2017 budget anticipated Port operating expenses of $19.4 million. Actual 2017 operating expenses, incurred amounted to $15.9 million or $3.5 million under budget projections. The contributing factor to the variance between 2017 budget and actual expenses and transfers was due to a decrease in other services and charges, MUSA and depreciation that were less than budgeted.

The 2016 budget anticipated Port operating revenues of $10.9 million and $6.9 million in non-operating revenues. Actual 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 attributedable 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 revenjues 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.

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 Alaska Department, 2000 Anchorage Port Road, Anchorage, AK 99501.

General information can be found at: http://www.portofanc.com/business/finances/

**MUNICIPALITY OF ANCHORAGE, ALASKA**
**PORT OF ALASKA FUND**

Statements of Net Position

For The Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash | $ 650 | $ 150 |
| Equity in General Cash Pool | 18,328,567 | 16,076,128 |
| Capital Acquisition and Construction Accounts | 8,662,293 | 5,597,709 |
| Accrued Interest on Investments | 110,409 | 70,971 |
| Accounts Receivable, Net | 1,320,669 | 1,030,918 |
| Prepaid Items and Deposits | 102,162 | 120,146 |
| Parts Inventory | 329,025 | 329,079 |
| Total Unrestricted Current Assets | 28,853,775 | 23,225,101 |
| Restricted Assets: | | |
| Intergovernmental Receivables | 4,847,227 | 2,703,116 |
| Restricted Cash- Setlement Set Aside | 1,950,000 | 2,300,000 |
| Total Restricted Current Assets | 6,797,227 | 5,003,116 |
| Total Current Assets | 35,651,002 | 28,228,217 |
| NON-CURRENT ASSETS | | |
| Assets Held for Resale | 381,624 | - |
| Capital Assets: | | |
| Capital Assets, at Cost | 279,328,581 | 275,634,066 |
| Less: Accumulated Depreciation | (124,457,070) | (117,713,990) |
| Net Capital Assets | 154,871,511 | 157,920,076 |
| Construction Work in Progress | 23,207,560 | 13,397,432 |
| Total Capital Assets | 178,079,071 | 171,317,508 |
| Capital Inventory | - | 559,373 |
| Total Non-Current Assets | 178,460,695 | 171,876,881 |
| Total Assets | 214,111,697 | 200,105,098 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred Outflows Related to Pensions | 30,601 | 446,838 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | $ 214,142,298 | $ 200,551,936 |

See accompanying notes to basic financial statements.

# MUNICIPALITY OF ANCHORAGE, ALASKA
## PORT OF ALASKA FUND

Statements of Net Position

For The Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts Payable | $ 548,661 | $ 1,288,081 |
| Capital Acquisition and Construction Accounts and Retainages Payable | 1,942,881 | 656,863 |
| Compensated Absences Payable | 161,136 | 163,200 |
| Accrued Payroll Liabilities | 133,624 | 139,054 |
| Accrued Interest Payable | 64,446 | 45,226 |
| Total Current Liabilities | 2,850,748 | 2,292,424 |
| NON-CURRENT LIABILITIES | | |
| Other Non-Current Liabilities | 1,801,726 | 1,815,250 |
| Compensated Absences Payable | 179,267 | 132,850 |
| Net Pension Liability | 1,486,034 | 2,014,253 |
| Notes Payable | 40,000,000 | 40,000,000 |
| Total Non-Current Liabilities | 43,467,027 | 43,962,353 |
| Total Liabilities | 46,317,775 | 46,254,777 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Total Deferred Inflows Related to Pensions | 178,750 | 22,453 |
| NET POSITION | | |
| Net Investment in Capital Assets | 138,079,071 | 131,317,508 |
| Restricted for Capital Construction | 6,797,227 | 5,003,116 |
| Unrestricted | 22,769,475 | 17,954,082 |
| Total Net Position | 167,645,773 | 154,274,706 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | $ 214,142,298 | $ 200,551,936 |

See accompanying notes to basic financial statements.

# MUNICIPALITY OF ANCHORAGE, ALASKA
## PORT OF ALASKA FUND

Statements of Revenues, Expenses, and Changes in Net Position

For The Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| OPERATING REVENUES | | |
| Charges for Sales and Services: | | |
| Dockage | $ 1,174,735 | $ 1,089,224 |
| Wharfage, Dry Bulk | 150,695 | 148,896 |
| Wharfage, Liquid Bulk | 1,521,105 | 1,463,035 |
| Wharfage, General Cargo | 3,529,245 | 3,670,375 |
| Storage Revenue | 237,335 | 265,309 |
| Office Rental | 108,670 | 121,887 |
| Utilities | 29,687 | 30,040 |
| Miscellaneous | 280,983 | 1,022,677 |
| Total Charges for Sales and Services | 7,032,455 | 7,811,443 |
| Other: | | |
| Crane Rentals | 74,250 | 72,488 |
| Industrial Park Lease Rentals | 4,344,217 | 4,326,069 |
| POL Value Yard Fees | 246,957 | 176,713 |
| Total Other | 4,665,424 | 4,575,270 |
| Total Operating Revenues | 11,697,879 | 12,386,713 |
| OPERATING EXPENSES | | |
| Operations: | | |
| Personnel Services | 2,740,357 | 2,828,390 |
| PERS On-behalf and Pension Expenses | 107,374 | 317,852 |
| Supplies | 176,734 | 151,245 |
| Other Services and Charges | 4,646,464 | 7,718,973 |
| Charges from Other Departments | 1,018,756 | 951,146 |
| Total Operations | 8,689,685 | 11,967,606 |
| Depreciation | 7,253,997 | 7,715,345 |
| Total Operating Expenses | 15,943,682 | 19,682,951 |
| Operating Loss | (4,245,803) | (7,296,238) |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Intergovernmental Revenues- PERS On-behalf | 63,059 | 43,575 |
| Legal Settlements | 6,750,000 | 12,600,000 |
| Investment Income-Short Term Investments | 627,633 | 344,945 |
| Security Fees | 1,469,614 | 1,421,294 |
| Right-of-Way Fees | 173,391 | 167,849 |
| Interest on Long-Term Obligations | (677,192) | (541,719) |
| Security Contract | (1,540,375) | (1,504,007) |
| Gain on Sale of Inventory | 1,069,995 | - |
| Total Non-Operating Revenues (Expenses) | 7,936,125 | 12,531,937 |
| Income before Contributions and Transfers | 3,690,322 | 5,235,699 |
| CONTRIBUTIONS AND TRANSFERS | | |
| Capital Contributions | 11,619,685 | 13,323,471 |
| Transfers to Other Funds: | | |
| Municipal Service Assessment | (1,401,104) | (2,114,268) |
| Dividend | (619,336) | - |
| Transfers From Other Funds | 81,500 | - |
| Total Contributions and Transfers | 9,680,745 | 11,209,203 |
| Change in Net Position | 13,371,067 | 16,444,902 |
| Net Position, January 1 | 154,274,706 | 137,829,804 |
| Net Position, December 31 | $ 167,645,773 | $ 154,274,706 |



See accompanying notes to basic financial statements.

**MUNICIPALITY OF ANCHORAGE, ALASKA**
**PORT OF ALASKA FUND**

## Statements of Cash Flows

For The Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from Customers | $ 11,408,128 | $ 12,868,580 |
| Payments to Employees | (2,701,434) | (2,777,222) |
| Payments to Vendors | (5,558,158) | (7,051,141) |
| Internal Activity - Payments Made to Other Funds | (1,018,756) | (951,146) |
| Net Cash Provided by Operating Activities | 2,129,780 | 2,089,071 |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | |
| Transfer to Other Funds | (2,020,440) | (2,114,268) |
| Security Contract | (1,540,375) | (82,713) |
| Right of Way & Security Fees | 1,643,005 | 167,849 |
| Transfer from other Funds | 81,500 | |
| Net Cash Used by Non-Capital Financing Activities | (1,836,310) | (2,029,132) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and Construction of Capital Assets | (12,729,488) | (15,502,488) |
| Proceeds from Disposition of Capital Assets | 1,069,995 | - |
| Capital Claims and Judgements | 6,750,000 | 12,600,000 |
| Financing Costs on Long-Term Obligations | (657,972) | (532,074) |
| Assets Held for Resale | 177,749 | - |
| Capital Contributions | 9,475,574 | 12,697,946 |
| Net Cash Provided by Capital and Related Financing Activities | 4,085,858 | 9,263,384 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment Income Received | 588,195 | 307,518 |
| Net Cash Provided by Investing Activities | 588,195 | 307,518 |
| Net Increase in Cash | 4,967,523 | 9,630,841 |
| Cash, January 1 | 23,973,987 | 14,343,146 |
| Cash, December 31 | $ 28,941,510 | $ 23,973,987 |
| COMPONENTS OF CASH | | |
| Cash | $ 650 | $ 150 |
| Cash in Central Treasury | 18,328,567 | 16,076,128 |
| Restricted Cash | 1,950,000 | 2,300,000 |
| Capital Acquisition and Construction Accounts | 8,662,293 | 5,597,709 |
| Cash and Cash Equivalents, December 31 | $ 28,941,510 | $ 23,973,987 |

See accompanying notes to basic financial statements.

**MUNICIPALITY OF ANCHORAGE, ALASKA**
**PORT OF ALASKA FUND**

## Statements of Cash Flows

## For The Years Ended December 31, 2017 and 2016

| | | 2017 | | 2016 |
|---|---|---|---|---|
| RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | | |
| Operating Loss | $ | (4,245,803) | $ | (7,296,238) |
| Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities: | | | | |
| Depreciation | | 7,253,997 | | 7,715,345 |
| PERS Relief- Noncash Expenses | | 63,059 | | 43,575 |
| Changes in Assets, Deferred Inflows and Outflows of Resources, and Liabilities Which Increase (Decrease) Cash: | | | | |
| Accounts Receivable | | (289,751) | | 481,867 |
| Prepaid Items and Deposits | | 17,984 | | 30,278 |
| Deferred Outflows of Resources Related to Pensions | | 416,237 | | (251,219) |
| Accounts Payable | | (739,420) | | 803,801 |
| Compensated Absences Payable | | 44,353 | | 53,694 |
| Net Pension Liability | | (528,219) | | 531,587 |
| Other Non-Current Liabilities | | (13,524) | | (15,002) |
| Accrued Payroll Liabilities | | (5,430) | | (2,526) |
| Deferred Inflows of Resources Related to Pensions | | 156,297 | | (6,091) |
| Net Cash Provided by Operating Activities | $ | 2,129,780 | $ | 2,089,071 |
| | | | | |
| NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES | | | | |
| Capital Purchases on Account | $ | 1,942,881 | $ | 656,853 |
| Capital Inventory Additions, net of sale | | - | | 559,373 |
| Assets Held for Resale | | 381,624 | | - |
| Capital Contributions | | 4,847,227 | | 2,703,116 |
| Total Noncash Investing, Capital, and Financing Activities | $ | 7,171,732 | $ | 3,919,342 |

See accompanying notes to basic financial statements.

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

The Port of Alaska (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 Alaska 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.

**(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 $6,797,227 and $5,003,116 at December 31, 2017 and 2016, 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 $329,025 and $329,079 at December 31, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, the Port had deferred inflows of resource for pension related items.

### (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 $1,018,756 and $951,146 for the years ended December 31, 2017 and 2016, 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 2017, 2016 or 2015.

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, 2017, is dependent upon future developments. At December 31, 2017, claims incurred but not reported included in the liability accounts are $12,008,623 in the General Liability/Workers' Compensation Fund and Medical/Dental Self Insurance Fund.

Changes in the funds' claim liability amounts in 2017 and 2016 are as follows:

| | Balance January 1, 2017 | Current Year Claims and Changes in Estimates | Claims Paid | Balance December 31, 2017 |
|---|---|---|---|---|
| General Liability/Workers' Compensation | $ 25,893,234 | $ 6,985,460 | $ (10,253,498) | $ 22,625,196 |
| Medical/Dental | 8,384,762 | 41,967,797 | (44,189,823) | 6,162,736 |
| Unemployment | 76,080 | 233,810 | (266,610) | 43,280 |
| | $ 34,354,076 | $ 49,187,067 | $ (54,709,931) | $ 28,831,212 |

| | Balance January 1, 2016 | Current Year Claims and Changes in Estimates | Claims Paid | 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 |
| | $ 34,855,046 | $ 58,951,107 | $ (59,452,077) | $ 34,354,076 |

At December 31, 2017, the Medical and Dental Self Insurance Fund had unrestricted net position of $6,878,546 an increase of $6,349,750 from 2016. The increase in net position is due to a decrease in reserves for medical and dental claims by margin of 5 percent to the actuarial estimates, reductions in claims costs, and administration of claims through Premera Blue Cross that is processing claims in a more timely manner.

At December 31, 2017, the General Liability and Worker's Compensation Fund had a deficit of $4,233,070, a decrease in the deficit of $880,270 from 2016. The decrease in the deficit is due to a decrease in 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, 2017, 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 | $ | 92,058 | | | | | | | | |
| Central Treasury - Restricted | | | | | | | | | | |
| Cash & Money Market Funds | $ | 37,673,284 | $ | - | $ | - | $ | - | $ | - |
| Commercial Paper | | 1,535,603 | | 1,535,603 | | - | | - | | - |
| U.S. Treasuries | | 121,706,339 | | 13,506,923 | | 87,014,400 | | 21,185,016 | | - |
| U.S. Agencies | | 13,180,799 | | 550,253 | | 241,092 | | 6,981,798 | | 5,407,656 |
| Asset-Backed Securities* | | 34,730,718 | | (1,065,202) | | 23,333,226 | | 4,460,439 | | 8,002,255 |
| Corporate Fixed Income Securities | | 122,048,793 | | 14,372,805 | | 59,766,782 | | 43,625,370 | | 4,283,836 |
| | $ | 330,875,536 | $ | 28,900,382 | $ | 170,355,500 | $ | 76,252,623 | $ | 17,693,747 |
| Central Treasury - Unrestricted | | | | | | | | | | |
| Cash & Money Market Funds | $ | 32,165,339 | $ | - | $ | - | $ | - | $ | - |
| Commercial Paper | | 99,654 | | 99,654 | | - | | - | | - |
| U.S. Treasuries | | 22,840,772 | | 15,819,079 | | 5,646,873 | | 1,374,820 | | - |
| U.S. Agencies | | 21,909,848 | | 4,118,857 | | 16,986,967 | | 453,090 | | 350,934 |
| Asset-Backed Securities* | | 2,253,879 | | (69,127) | | 1,514,229 | | 289,464 | | 519,313 |
| Corporate Fixed Income Securities | | 7,920,460 | | 932,735 | | 3,878,616 | | 2,831,105 | | 278,004 |
| | $ | 87,189,952 | $ | 20,901,198 | $ | 28,026,685 | $ | 4,948,479 | $ | 1,148,251 |

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

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

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

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

The Investment Management Agreement (IMA) for each external manager and the policy and procedures (P&P) applicable to the internally managed investments provide additional guidelines for each portfolio's investment mandate. The IMA and P&P limit the concentration of investments for the working capital portfolio and the internally managed portfolio at the time new investments are purchased as follows:

| Investment Type | Concentration Limit | Working Capital Portfolio Holding % at December 31, 2017 | Internally Managed Holding % at December 31, 2017 |
|---|---|---|---|
| U.S. Government Securities* | 50% to 100% of investment portfolio | 28% | 55% |
| Repurchase Agreements | 0% to 50% of investment portfolio | 0% | 0% |
| Certificates of Deposit | 0% to 25% of investment portfolio<br>Maximum 5% per issuer | 0% | 0% |
| Bankers Acceptances | 0% to 25% of investment portfolio<br>Maximum 5% per issuer | 0% | 0% |
| Commercial Paper | 0% to 25% of investment portfolio<br>Maximum 5% per issuer | 2% | 0% |
| Corporate Fixed Income** | 0% to 25% of investment portfolio<br>Maximum 5% per issuer | 11% | 0% |
| Alaska Municipal League Investment Pool (AMLIP)*** | 0% to 25% of investment portfolio | 0% | 0% |
| Money Market Mutual Funds**** | 0% to 25% of investment portfolio | 59% | 45% |
| 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<br>Maximum 5% per issuer | 0% | 0% |
| | | 100% | 100% |

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

**The maximum exposure to Corporate floating and variable rate debt securities in the Working Capital Portfolio is 10 percent.

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

****The Working Capital and Internally Managed Portfolio contained an excess of cash equivalents at December 31, 2017 in anticipation of planned spending w ithin a w eek. The portfolios w ere back in compliance the first w eek of 2018.

**(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, 2017, the Working Capital Portfolio had a duration of 0.14 years, or approximately 51 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, 2017, the Contingency Reserve Portfolio had a duration of 1.94 years as compared to its benchmark, Barclays 1-3 Year Government Index, which had a duration of 1.91 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, 2017, the Strategic Reserve Portfolio had a duration of 3.70 years as compared to its benchmark, Barclays Intermediate Government/Corporate Index, which had a duration of 3.73 years.

The effective durations of the externally managed portfolios of the Municipal Central Treasury (working capital, contingency reserve and strategic reserve) at December 31, 2017, were 0.14 years, 1.94 years, and 3.70 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, 2017, the Municipal Central Treasury's investment in marketable debt securities, excluding U.S. Treasury and Agency securities, totaled $175,487,521. The distribution of ratings on these securities was as follows:

| Moody's | | S&P | |
|---|---|---|---|
| Aaa | 17% | AAA | 15% |
| Aa | 4% | AA | 2% |
| A | 20% | A | 19% |
| Baa | 22% | BBB | 26% |
| Ba or Lower | 30% | BB or Lower | 28% |
| Not Rated | 7% | Not Rated | 10% |
| | 100% | | 100% |

**Concentration of Credit Risk**

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

At December 31, 2017, 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, 2017, the Municipal Central Treasury had bank deposit carrying amounts totaling $56,372,735, of which $500,000 was covered by federal depository insurance. Bank deposits of $1,760,720 were secured by collateral held by a third party and deposits of $54,112,015 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, 2017 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, 2017, all debt obligations held in the Municipal Central Treasury were payable in U.S. Dollars.

**(e) Fair Value Measurements**

At December 31, 2017, 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.
- Bank loan investments are valued at Net Asset Value (NAV) of units held. The NAV is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liability.
- 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.
- 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.
- Common stocks are valued at the closing price reported on the active market on which the individual securities traded.
- 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.
- Commingled funds are valued at the daily closing price as reported by the fund. These funds publish their daily NAV and transact at that price. The commingled funds held are deemed to be actively traded.
- Domestic equity funds are valued at the closing price reported on the active market on which the individual funds traded.
- Fixed income funds are valued at the closing price reported on the active market on which the individual funds traded.
- International equity funds are valued at the closing price reported on the active market on which the individual funds traded.
- 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.
- Real estate funds are valued at NAV of units held. The NAV is used a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liability. This practical expedient is not used when it

is determined to be probable that the fund will sell the investment for an amount different than the reported NAV.

- 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.
- U.S. Tips are valued at the closing price reported on the active market on which the individual securities traded.

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, 2017:

| | | Fair Value Measurements Using | |
|---|---|---|---|
| Investment Type: | December 31, 2017 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) |
| Petty Cash | $ 92,058 | | |
| Central Treasury - Restricted | | | |
| Investments Measured at Fair Value | | | |
| Commercial Paper | 1,535,603 | - | 1,535,603 |
| U.S. Treasuries | 121,706,339 | 121,706,339 | - |
| U.S. Agencies | 13,180,799 | - | 13,180,799 |
| Asset-Backed Securities* | 34,730,718 | - | 34,730,718 |
| Corporate Fixed Income Securities | 122,048,793 | - | 122,048,793 |
| | $ 293,202,252 | $ 121,706,339 | $ 171,495,913 |
| Investments Measured at Amortized Cost | | | |
| Cash & Money Market Funds | 37,673,284 | | |
| Total Central Treasury - Restricted | $ 330,875,536 | | |

## NOTE 3 – Accounts Receivable

The Port reports accounts receivable on its Statement of Net Position net of allowances for uncollectable accounts. At December 31, 2017 and 2016, the Port reported gross receivables of $1,320,668 and $1,030,918, respectively. At December 31, 2017 and 2016, 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 Alaska 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 Alaska the Municipality of Anchorage has embarked on a 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, 2017 are as follows:

| | Captial Assets (in thousands) | | | |
|---|---|---|---|---|
| | Balance 01/01/17 | Additions | Retirements | Balance 12/31/17 |
| CAPITAL ASSETS | | | | |
| Land | $ 20,101 | $ - | $ - | $ 20,101 |
| Infrastructure | 129,528 | 96 | - | 129,624 |
| Buildings | 7,069 | - | - | 7,069 |
| Building Improvements | 377 | - | - | 377 |
| Land Improvements | 105,908 | 3,218 | - | 109,126 |
| Vehicles | 965 | - | 34 | 931 |
| Machinery and Equipment | 11,351 | 892 | 477 | 11,766 |
| Computer Equipment | 148 | - | - | 148 |
| Computer Software | 18 | - | - | 18 |
| Office Equipment | 148 | - | - | 148 |
| Art | 21 | - | - | 21 |
| Total plant in service, gross | 275,634 | 4,206 | 511 | 279,329 |
| Less Accumulated Depreciation | (117,714) | (7,254) | (511) | (124,457) |
| Construction work in progress | 13,397 | 19,167 | 9,357 | 23,207 |
| TOTAL NET CAPITAL ASSETS | $ 171,317 | $ 16,119 | $ 9,357 | $ 178,079 |

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

| | Captial 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 |

## NOTE 6 – LEASE AGREEMENTS

The Port has leased to unrelated third parties 200 acres of space in the Port Industrial Park. The 2017 carrying value of the leased assets is $10,340,436 with a cost of $15,878,995 and accumulated depreciation of $5,538,559. 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 leases provide for five-year rental adjustment intervals. Future minimum payments to be received are as follows (in thousands):

| Years | Port of Alaska |
|---|---|
| 2018 | $ 4,363 |
| 2019 | 4,378 |
| 2020 | 4,410 |
| 2021 | 1,185 |
| 2022 | 1,185 |
| 2023-2027 | 5,858 |
| 2028-2032 | 3,723 |
| 2033-2037 | 3,169 |
| 2038-2042 | 1,439 |
| 2043-2047 | 1,298 |
| Total | $ 31,008 |
| Lease Revenue for 2017 | $ 4,344 |
| Carrying value of leased assets: | |
| Original cost | 15,879 |
| Accumulated depreciation | 5,539 |
| Net Book Value | $ 10,340 |

## 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 2017 and 2016 was $677,192 and $541,719, 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.

| Long-Term Obligations | Balance January 1, 2017 | Additions | Reductions | Balance December 31, 2017 | Amount Due within 1 Year |
|---|---|---|---|---|---|
| Revolving credit agreement | $ 40,000,000 | $ - | $ - | $40,000,000 | $ - |
| Compensated absences payable | 296,050 | 211,059 | 166,706 | 340,403 | 161,136 |
| Net Pension Liability | 2,014,253 | - | 528,219 | 1,486,034 | - |
| Total long-term obligations | $ 42,310,303 | $ 211,059 | $ 694,925 | $41,826,437 | $ 161,136 |

| Long-Term Obligations | Balance January 1, 2016 | Additions | Reductions | Balance December 31, 2016 | Amount Due within 1 Year |
|---|---|---|---|---|---|
| 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 |

## 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 $1,801,726 and $1,815,250 at December 31, 2017 and 2016, respectively. See Note 9 for a description of environmental issues affecting this land.

## NOTE 9 – ENVIRONMENTAL ISSUES

Both Tract H and Tract J at the Port are ADEC designated contaminated sites. In 2017, the monitoring and reporting costs for Tract J was $31,794. No required monitoring expenses were incurred for Tract H in 2017. The increased expenses in 2017 for Tract J were due to the requirement of an additional report called the Five Year Review which is separate from the annual monitoring report.

## NOTE 10 – PENSIONS

### 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.

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. In the 2017 and 2016 Port financial statements, the on-behalf amounts reflect revenue and expense only during the measurement period July 1 2016 to June 30, 2017 and July 1, 2015 to June 30, 2016, respectively. During the measurement period the Plan recognizes the payments, resulting in a significant timing difference between the cash transfers and revenue and expense recognition. Total on-behalf amounts recognized as of the measurement period are actuarially calculated.

### 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 2017 and 2016, the rate uses an 8 percent pension discount rate and a 4.55 and 4.3 percent healthcare discount rate, respectively.

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, 2014 and June 30, 2015 actuarial valuations, respectively. Municipality contribution rates for the 2017 and 2016 calendar year were as follows:

| January 1, 2017 to June 30, 2017 | Employer Effective Rate | ARM Board Adopted Rate | State Contribution Rate | GASB Rate |
|---|---|---|---|---|
| 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% |

| July 1, 2017 to December 31, 2017 | Employer Effective Rate | ARM Board Adopted Rate | State Contribution Rate | GASB Rate |
|---|---|---|---|---|
| Pension | 17.12% | 21.90% | 3.01% | 29.07% |
| Postemployment healthcare | 4.88% | 3.11% | 0.00% | 66.85% |
| Total Contribution Rates | 22.00% | 25.01% | 3.01% | 95.92% |

| January 1, 2016 to June 30, 2016 | Employer Effective Rate | ARM Board Adopted Rate | State Contribution Rate | GASB Rate |
|---|---|---|---|---|
| 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% |

| July 1, 2016 to December 31, 2016 | Employer Effective Rate | ARM Board Adopted Rate | State Contribution Rate | GASB Rate |
|---|---|---|---|---|
| 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 2017 and 2016, the Municipality was credited with the following contributions into the pension plan.

| | Measurement Period | Municipality's Fiscal Year |
|---|---|---|
| | July 1, 2016 to June 30, 2017 | January 1, 2017 to December 31, 2017 |
| Employer contributions (including DBUL) | $ 26,149,321 | $ 28,704,730 |
| Nonemployer contributions (on-behalf) | 9,460,308 | 8,343,294 |
| Total Contributions | $ 35,609,629 | $ 37,048,024 |

| | Measurement Period | Municipality's Fiscal Year |
|---|---|---|
| | July 1, 2015 to June 30, 2016 | January 1, 2016 to December 31, 2016 |
| Employer contributions (including DBUL) | $ 22,648,610 | $ 24,562,145 |
| Nonemployer contributions (on-behalf) | 8,178,642 | 8,890,546 |
| Total Contributions | $ 30,827,252 | $ 33,452,691 |

In addition, Municipal employee contributions to the Plan totaled $8,849,904 and $9,135,197 during fiscal year 2017 and 2016, respectively. The Port's share of employee contributions to the Plan were $175,099 and $42,396 during 2017 and 2016, respectively.

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

The Port's portion of the Municipality's liabilities, pension expense, deferred outflows of resources and deferred inflows of resources related to pensions are based on its share of the Municipality's contributions to the plan in the current year. Those proportions are 0.61 percent and 0.36 percent at December 31, 2017 and 2016, respectively.

At December 31, 2017 and 2016, the Municipality reported a liability for its proportionate share of the net pension liability (NPL) that reflected a reduction for State pension support provided to the Municipality. The amount recognized by the Municipality and the Port for its proportional share, the related State proportion, and the total were as follows:

| | 2017 | 2016 |
|---|---|---|
| Municipality proportionate share of NPL | $ 347,836,470 | $ 433,996,281 |
| State's proportionate share of NPL associated with the Municipality | 129,589,885 | 54,685,280 |
| Total Net Pension Liability | $ 477,426,355 | $ 488,681,561 |

| | 2017 | 2016 |
|---|---|---|
| Port's proportionate share of NPL | $ 1,486,034 | $ 2,014,253 |
| State's proportionate share of NPL associated with the Port | 553,637 | 253,794 |
| Total Net Pension Liability | $ 2,039,671 | $ 2,268,047 |

The Port recognized a net pension liability of $1,486,034 and $2,014,253 at December 31, 2017 and 2016, respectively.

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 to calculate the net pension liability as of that date. 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 Municipality'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, 2017 measurement date, the Municipality's proportion was 6.73 percent, which was a decrease of 1.03 percent from its proportion measured as of June 30, 2016. 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.

The Port recognized pension expense of $107,374 and $317,852 for the year ended December 31, 2017 and December 31, 2016, respectively, of which $63,059 and $34,213 were recorded as on-behalf revenue and expense for additional contributions paid by the State.

At December 31, 2017 and 2016, the Municipality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Measurement Period June 30, 2017 | |
|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | $ - | $ (6,253,752) |
| Changes in assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | 9,330,189 | - |
| Changes in proportion and differences between Municipality contributions and proportionate share of contributions | 3,422,259 | (24,078,087) |
| Municipality contributions subsequent to the measurement date | 16,669,877 | - |
| Total Deferred Outflows and Deferred Inflows Related to Pensions | $ 29,422,325 | $ (30,331,839) |

| | Measurement Period June 30, 2016 | |
|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | $ 39,903 | $ (4,837,626) |
| Changes in assumptions | 2,001,688 | - |
| Net difference between projected and actual earnings on pension plan investments | 42,659,746 | - |
| Changes in proportion and differences between Municipality contributions and proportionate share of contributions | 38,500,578 | - |
| Municipality contributions subsequent to the measurement date | 14,114,468 | - |
| Total Deferred Outflows and Deferred Inflows Related to Pensions | $ 97,316,383 | $ (4,837,626) |

The $16,669,877 and $14,114,468 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, 2017 and December 31, 2018, respectively. 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 |
|---|---|
| 2018 | $ (26,258,707) |
| 2019 | 9,715,563 |
| 2020 | 4,361,452 |
| 2021 | (5,397,699) |
| Total Amortization | $ (17,579,391) |

The Port represents only a proportionate share of the total deferred inflows and outflows related to the pensions of the Municipality. The Port recognized deferred outflows of resources related to pensions of $30,601 and $446,838 as of December 31, 2017 and 2016, respectively. The Port recognized deferred inflows of resources related to pensions of $178,750 and $22,453 as of December 31, 2017 and 2016, respectively.

## Actuarial Assumptions

The total pension liability for the measurement period ended June 30, 2017 was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2017. The total pension liability for the measurement period ended June 30, 2016 was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2016. The actuarial assumptions used in the June 30, 2016 actuarial valuation (latest available) 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. There were no changes in actuarial assumptions from 2016 and 2017.

| | |
|---|---|
| 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 expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized in the following table (note that the rates shown below exclude the inflation component. Those estimates for years ending December 31, 2017 and 2016 are as follows:

December 31, 2017

| Asset Class | Long-term Expected Real Rate of Return |
|---|---|
| Domestic equity | 8.83% |
| Global ex-U.S. equity | 7.79% |
| Intermediate treasuries | 1.29% |
| Opportunistic | 4.76% |
| Real assets | 4.94% |
| Absolute return | 4.76% |
| Private equity | 12.02% |
| Cash equivalents | 0.63% |

December 31, 2016

| Asset Class | Long-term Expected Real Rate of Return |
|---|---|
| Domestic equity | 5.35% |
| Global ex-U.S. equity | 5.55% |
| Private equity | 6.25% |
| Fixed income composite | 0.80% |
| Real estate | 3.65% |
| Alternative equity | 4.70% |

## Discount Rate

The discount rate used to measure the total pension liability was 8 percent in 2017 and 2016. 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 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:

December 31, 2017

| | Proportional Share | 1% Decrease (7.00%) | Current Discount Rate (8.00%) | 1% Increase (9.00%) |
|---|---|---|---|---|
| Port's proportionate share of the net pension liability | 0.02875% | $ 1,952,043 | $ 1,486,034 | $ 1,092,508 |

December 31, 2016

| | 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 Municipality 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.

**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:

| | Tier IV | |
|---|---|---|
| | 1/1 - 6/30 | 7/1 - 12/31 |
| Employee Contribution | 8.00% | 8.00% |
| Employer Contribution | | |
| Retirement | 5.00% | 5.00% |
| Health Reimbursement Arrangement * | 3.00% | 3.00% |
| Retiree Medical Plan | 1.18% | 1.03% |
| Death & Disability Benefit | 0.17% | 0.16% |
| Total Employer Contribution | 9.35% | 9.19% |

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, 2017 a flat rate of approximately $2,049 per year for full time employees and $1.31 per part time hour worked was paid. For pay periods ending after July 1, 2017, a flat rate of approximately $2,084 per year for full time employees and $1.34 per part time hour worked were paid.

For the year ended December 31, 2017, the Municipality contributed $4,467,018 to PERS IV for retirement and retiree medical, and $2,288,200 to PERS IV for Health Reimbursement Arrangement on-behalf of its employees. Employee contributions to the plan totaled $7,160,037.

For the year ended December 31, 2016, the Municipality contributed $3,882,883 to PERS IV for retirement and retiree medical, and $2,021,451 to PERS IV for Health Reimbursement Arrangement on-behalf of its employees. Employee contributions to the plan totaled $6,212,200.

## NOTE 11 – New Accounting Pronouncements

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates. The following standards are required to be implemented in the up and coming financial reporting periods:

- 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 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.

- GASB 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. The provisions of this statement are required to be implemented in the 2019 reporting period.

- GASB 89 – Accounting for Interest Costs Incurred before the End of a Construction Period. The provisions of this statement are required to be implemented in the 2020 reporting period.

- GASB 90 – A Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61. The provisions of this statement are required to be implemented in the 2019 reporting period.

## NOTE 12 – Subsequent Events

**Tariff Rates**

Effective January 1, 2018, Port tariff rates will be increasing through the published Terminal Tariff No. 8, 2015 publication.

**Earthquake in Anchorage**

On November 30, 2018, the Municipality experienced a magnitude 7.0 earthquake located 10 miles north of Anchorage, AK. It was followed by a 5.7 magnitude aftershock centered 2.5 miles north-northwest of the Municipality. The earthquake caused severe damage to roads and bridges, buildings, water and wastewater pipes and electrical systems. The initial damage assessment for the Port showed no additional damage, however a follow-up assessment will be conducted in spring 2019.

## NOTE 13 – Port of Alaska 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 $1,950,000 and $2,300,000 of the $12,600,000 contribution to a Port litigation escrow account recorded in 2017 and 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.

## NOTE 14 – Port of Anchorage Name Change

In 2017 the Anchorage Assembly directed and approved with Ordinance (AO) 2017-122 a name change from the Port of Anchorage to the Port of Alaska.

## REQUIRED SUPPLEMENTARY INFORMATION

### Schedule of Port's Information on the Net Pension Liability

| Measurement Period Ended June 30 | Port's Proportion of the Net Pension Liability | Port's Proportionate Share of the Net Pension Liability | State of Alaska's Proportionate Share of the Net Pension Liability | Total Port Net Pension Liability | Port's 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 |
|---|---|---|---|---|---|---|---|
| 2017 | 0.04125% | $ 1,486,034 | $ 794,477 | $ 2,280,511 | $ 1,286,487 | 115.51% | 63.37% |
| 2016 | 0.03660% | 2,014,253 | 253,804 | 2,268,057 | 943,387 | 213.51% | 59.55% |
| 2015 | 0.03057% | 1,482,666 | 397,126 | 1,879,792 | 965,281 | 153.60% | 63.96% |

### Schedule of Port Contributions

| Measurement Period Ended June 30 | Port's Proportion of the Net Pension Liability | Port's Proportionate Share of the Net Pension Liability | State of Alaska's Proportionate Share of the Net Pension Liability | Total Port Net Pension Liability | Port's 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 |
|---|---|---|---|---|---|---|---|
| 2017 | 0.04125% | $ 1,486,034 | $ 794,477 | $ 2,280,511 | $ 1,286,487 | 115.51% | 63.37% |
| 2016 | 0.03660% | 2,014,253 | 253,804 | 2,268,057 | 943,387 | 213.51% | 59.55% |
| 2015 | 0.03057% | 1,482,666 | 397,126 | 1,879,792 | 965,281 | 153.60% | 63.96% |

### Public Employees Retirement System- Defined Benefit Pension Plan

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.

<u>Schedule of Port's Information on the Net Pension Liability</u>

- This table is presented based on the Plan measurement date. For December 31, 2017, the Plan measurement date is June 30, 2017.
- 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 valuation method from the prior measurement period.
- There were no changes in the allocation methodology from the prior measurement period. The measurement period ended June 30, 2017 allocated the net pension liability based on the present value of contributions for fiscal year 2019 through 2039, as determined by projections based on the June 30, 2016 actuarial valuation. This is the same allocation method used for the measurement periods June 30, 2016 and June 30, 2015.

<u>Schedule of Port's Contributions</u>

- This table is based on the Port's contributions for each year presented. A portion of these contributions are included in the plan measurement results, while a portion of the contributions are reported as a deferred outflow of resources on the December 31, 2017 statement of net position.

## STATISTICAL SECTION

# TABLE 1

## COMPARATIVE DETAIL SCHEDULE OF ACTUAL REVENUES BY SOURCE

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| Dockage | $ 1,174,735 | $ 1,089,224 | $ 1,142,837 | $ 1,061,272 | $ 956,080 | $ 1,055,158 | $ 991,289 | $ 845,214 | $ 705,081 | $ 842,096 |
| Wharfage, Dry Bulk | 150,695 | 148,896 | 181,234 | 179,256 | 153,813 | 156,981 | 167,018 | 73,172 | 71,343 | 126,338 |
| Wharfage, Liquid Bulk | 1,521,105 | 1,463,035 | 1,682,558 | 900,922 | 570,819 | 821,064 | 908,131 | 866,712 | 490,956 | 522,305 |
| Wharfage, General Cargo | 3,529,245 | 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 |
| Storage Revenue | 237,335 | 265,309 | 327,061 | 230,883 | 49,168 | 139,190 | 1,210 | 7,245 | - | 4,160 |
| Office Rental | 108,670 | 121,887 | 114,462 | 135,041 | 73,884 | 60,014 | 40,864 | 37,394 | 31,167 | 27,699 |
| Utilities | 29,687 | 30,040 | 45,232 | 28,675 | 15,462 | 15,810 | 17,704 | 19,485 | 7,510 | 10,198 |
| Crane Rentals | 74,250 | 72,488 | 105,858 | 43,375 | 59,025 | 56,300 | 52,500 | 61,908 | 48,435 | 48,076 |
| Industrial Park Lease | 4,344,217 | 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 |
| Investment Income - Long-Term | - | - | - | - | - | - | - | - | 11,186 | 35,828 |
| Investment Income - Short-Term | 627,633 | 344,945 | 344,603 | 211,006 | 78,006 | 361,027 | 433,059 | 974,656 | 2,031,824 | 218,893 |
| Right-of-Way Fees | 173,391 | 167,849 | 164,678 | 174,968 | 160,682 | 146,599 | 141,378 | 161,522 | 140,074 | 177,083 |
| POL Value Yard Fees | 246,957 | 176,713 | 191,560 | 231,774 | 330,359 | 367,674 | 473,869 | 300,212 | 358,443 | 485,400 |
| Security Fees | 1,469,614 | 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 |
| Gain on Disposition of Assets | 1,069,995 | - | - | - | - | - | - | - | - | 52,470 |
| Reimbursed Cost | - | - | - | - | - | - | - | - | 2,760 | 873,765 |
| Intergovernmental Revenue-Capital | 63,059 | 43,575 | 18,075 | 2,882,353 | - | - | - | - | - | 57,205 |
| Legal Settlements | 6,750,000 | 12,600,000 | - | - | - | - | - | - | - | - |
| Miscellaneous Revenues | 280,983 | 1,022,677 | 507,769 | 154,542 | 247,059 | 253,505 | 179,101 | 144,596 | 57,522 | (19,511) |
| Subtotal | 21,851,573 | 26,964,378 | 14,224,677 | 15,192,442 | 11,633,618 | 12,062,773 | 12,252,134 | 12,427,622 | 13,183,832 | 12,886,460 |
| Capital Contributions | 11,619,685 | 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 |
| Transfers From Other Funds | 81,500 | (2,114,268) | (2,056,004) | - | - | - | - | - | - | 13,855 |
| Special Item - NPO/OPEB Write-off | | | | - | - | - | - | - | - | 93,773 |
| TOTAL | $33,552,758 | $38,173,581 | $20,003,244 | $18,074,795 | $13,445,601 | $14,279,063 | $21,589,852 | $52,597,712 | $23,271,499 | $48,968,363 |

## TABLE 2

## CURRENT PORT TARIFF RATES

| Type of Service | Wharfage Rate |
|---|---|
| Aggregates, per Ton | $ 1.13 |
| Freight NOS | $ 6.75 |
| Bulk Commodities, Dry, NOS | $ 2.82 |
| Cement | $ 5.07 |
| Cement, Bulk through Pipeline | $ 1.55 |
| Coal, Bulk | $ 1.12 |
| Iron or Steel Articles | $ 5.07 |
| Logs | $ 2.82 |
| Lumber | $ 5.06 |
| Chips NOS | $ 3.38 |
| Petroleum or Petroleum Products | |
| * Inbound/Outbound | $ 0.15 |
| * Transfers | $ 0.00 |
| * Fuel | $ 0.01 |
| Powder (Explosive) | $ 16.87 |
| Vans or Containers | $ 3.37 |
| Vehicles | $ 11.25 |

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

# TABLE 3

## TEN-YEAR ANNUAL DOCK TONNAGE REPORT (2008 - 2017)

| COMMODITIES ACROSS FACILITY | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Freight NOS** | 5,876 | 4,451 | - | 5,463 | 6,385 | 15,333 | 2 | - | 124 | 215 |
| **Dry Bulk Goods** | 97,223 | 122,006 | 126,737 | 140,684 | 119,271 | 119,939 | 118,280 | 109,228 | 81,494 | 116,789 |
| **Petroleum, NOS (vessel fueling)** | 1,467 | 893 | 5,013 | 2,031 | 2,615 | 1,454 | 2,052 | 1,660 | 2,032 | 2,648 |
| **Vans/Flats/Containers** | 1,592,473 | 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 |
| **Vehicles** | - | - | - | - | 2,615 | - | 864 | - | 1,473 | 10,725 |
| **Petroleum, Shoreside** | 471,717 | 368,708 | 368,294 | 916,050 | 952,631 | 1,046,636 | 1,376,909 | 1,192,705 | 1,426,711 | 1,830,848 |
| **Petroleum, Rail Rack** | - | - | - | - | - | - | - | - | - | - |
| **Petroleum, Bulk - Dockside** | 1,329,089 | 1,419,162 | 1,592,317 | 580,343 | 586,041 | 829,900 | 931,931 | 922,426 | 573,352 | 577,236 |
| **TOTAL TONS** | **3,497,844** | **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** |

Notes to Annual Dock Tonnage:
NOS - Not Otherwise Specified

# TABLE 4

## FINANCIAL RATIOS

| Description | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| Current Ratio (current assets / current liabilities) | 12.51 | 12.31 | 16.63 | 15.24 | 35.41 | 0.49 | 0.43 | 0.96 | 1.07 | 0.74 |
| Quick Ratio (quick assets / current liabilities) | 10.01 | 13.23 | 14.46 | 13.77 | 13.25 | 0.28 | 0.31 | 0.54 | 0.89 | 0.26 |
| Return on Investment (change in net position / total assets) | 6% | 8% | -4% | -1% | -31% | 1% | 4% | 17% | 5% | 19% |
| Return on Equity (change in net position / net position) | 8% | 11% | -5% | -1% | -40% | 1% | 5% | 20% | 7% | 24% |
| Debt to equity as a percent of capital structure | 24% | 26% | 29% | 27% | 20% | 16% | 16% | 16% | 20% | 21% |
| (outstanding debt / capital structure over net position / capital structure | 76% | 74% | 71% | 73% | 80% | 84% | 84% | 84% | 80% | 79% |
| Operating margin (operating income (loss) / operating revenue) | -36% | -59% | -99% | -41% | -3% | 4% | 10% | 2% | -3% | 1% |

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

# TABLE 5

## PORT OF ANCHORAGE
## 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 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | TOTAL |
|---|---|---|---|---|---|---|---|
| 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 2017 BILLINGS

| Rank No. | Customer Name |
|---|---|
| 1 | TOTE MARITIME ALASKA INC |
| 2 | MATSON NAVIGATION CO OF AK LLC |
| 3 | TESORO ALASKA COMPANIES INC |
| 4 | ANCHORAGE FUELING & SERVICE CO/ASIG |
| 5 | PETRO STAR INC |
| 6 | ANCHORAGE SAND & GRAVEL/ABI |
| 7 | ALASKA MARITIME AGENCIES |
| 8 | CROWLEY PETROLEUM DIST (CPD ALASKA) |
| 9 | HOLLAND AMERICA LINE |
| 10 | DELTA WESTERN |

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3601 C Street, Suite 600
Anchorage, AK 99503

**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 Alaska, an enterprise fund of the Municipality of Anchorage, Alaska, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Port of Alaska's basic financial statements, and have issued our report thereon dated January 7, 2019.

*Internal Control Over Financial Reporting*

In planning and performing our audit of the financial statements, we considered the Port of Alaska's internal control over financial reporting (internal control) to determinate 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 Alaska's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port of Alaska's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2017-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2017-002 to be a significant deficiency.

*Compliance and Other Matters*

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

*Port of Alaska's Response to Findings*

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

*Purpose of this Report*

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

BDO USA, LLP

Anchorage, Alaska
January 7, 2019

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PortOfAlaska@Muni.org
PortOfAlaska.com

# Municipality of Anchorage, Alaska
## PORT OF ALASKA FUND

## Schedule of Findings and Responses
## Year Ended December 31, 2017

### Section I - Summary of Auditor's Results

***Financial Statements***

| | | |
|---|---|---|
| Type of auditor's report issued: | Unmodified | |
| Internal control over financial reporting: | | |
| Material weakness(es) identified? | X yes | no |
| Significant deficiency(ies) identified? | X yes | ___ (none reported) |
| 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 2017-001** **SAP Software Conversion - Internal Control over Financial Reporting - Material Weakness**

*Criteria*: A properly functioning ERP accounting system is an integral component in providing accurate accounting data and information. Without a functioning ERP accounting system, it is difficult for management to have access to financial information that is reliable and properly reported, which is necessary for management to prevent or detect and correct misstatements on a timely basis.

*Condition*: The Port did not have in place a properly functioning ERP accounting system. The Port placed the SAP system into service on September 11, 2017 (payroll only) and October 1, 2017 (remainder of the system). Immediately, Management became aware of significant errors in transaction processing and financial reporting due to defects in the system. A significant number of the defects were not corrected as of year-end.

*Cause*: Management did not fully assess the functionality of the SAP system prior to bringing the system online in 2017. Management neglected to conduct proper testing prior to implementation.

## Municipality of Anchorage, Alaska
## PORT OF ALASKA FUND

### Schedule of Findings and Responses
### Year Ended December 31, 2017

*Effect*: Management was unable to properly reconcile and close the 2017 financial records in a timely manner. A significant number of account balances and financial statement areas were not fully adjusted, reconciled and closed until months after year-end.

*Recommendation*: We encourage management to continue addressing the remaining defects with SAP and make the necessary modifications to ensure the system is operating correctly.

*Views of responsible officials*: Management concurs with the finding. See corrective action plan.

**Finding 2017-002** **Port Inventory - Internal Control over Financial Reporting - Significant Deficiency**

Criteria: *Government Auditing Standards* state management is responsible for ensuring that 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: Inventory balances were misstated on the Statement of Net Position.

Cause: Management did not accurately record contributed steel sheet pile inventory in the fiscal year of receipt. In subsequent years, management did not conduct an adequate count and measurement of inventory on hand. Proper communication between operational personnel and finance staff did not occur in a timely manner.

Effect: Inventory was misstated by $530,256.

Recommendation: We encourage management to adopt a process in which Port operations personnel inform finance of the receipt of contributed assets in a timely manner. We also encourage management to adopt a process in which Port finance personnel review physical assets located on Port property for possible recording in the financial statements.

*Views of Responsible Officials*: Management concurs with the finding. See corrective action plan.

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# MUNICIPALITY OF ANCHORAGE, ALASKA
# PORT OF ALASKA FUND

## Summary Schedule of Prior Audit Findings
## Year Ended December 31, 2017

**Financial Statement Findings**

| | |
|---|---|
| **Finding 2016-001** | **Recognition of Capital Contributions - Internal Control over Financial Reporting - Significant Deficiency** |
| *Finding* | Capital contributions were not recorded properly. Management recorded grant funded additions to construction work in progress in fiscal year 2015 but failed to record a related capital contribution until fiscal year 2016. |
| *Status* | Finding resolved in 2017. |

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# MUNICIPALITY OF ANCHORAGE, ALASKA
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## Corrective Action Plan
*Year Ended December 31, 2017*

| | |
|---|---|
| Name of Contact Person | Cheryl Beckham<br>Finance & Administration Manager<br>Cheryl.beckham@anchorageak.gov<br>907-343-6204 |

## Financial Statement Findings

**Finding 2017-001** **SAP Software Conversion - Internal Control over Financial Reporting - Material Weakness**

*Corrective Action Plan* Port management will work with representatives at the Municipality of Anchorage who are responsible for the project management of SAP to continue addressing the remaining defects and make the necessary modifications to ensure the system is operating correctly.

*Expected Completion Date* December 31, 2019

**Finding 2017-002** **Port Inventory - Internal Control over Financial Reporting - Significant Deficiency**

*Corrective Action Plan* Port management will work to improve communication between finance and operations staff. An inventory of physical assets will take place on an annual basis, with adjustments to the general ledger occurring as necessary.

*Expected Completion Date* December 31, 2019