



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

Basic Financial Statements with Supplementary Information

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND
Basic Financial Statements with Supplementary Information
December 31, 2010 and 2009

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the Port of Anchorage (the Port), an Enterprise Fund of the Municipality of Anchorage, Alaska, as of and for the years ended December 31, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Port's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Port of Anchorage and do not purport to and do not, present fairly the financial position of the Municipality of Anchorage, Alaska, as of December 31, 2010 and 2009, and the changes in financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion on it.

The accompanying statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Mikunda, Cottrell & Co.

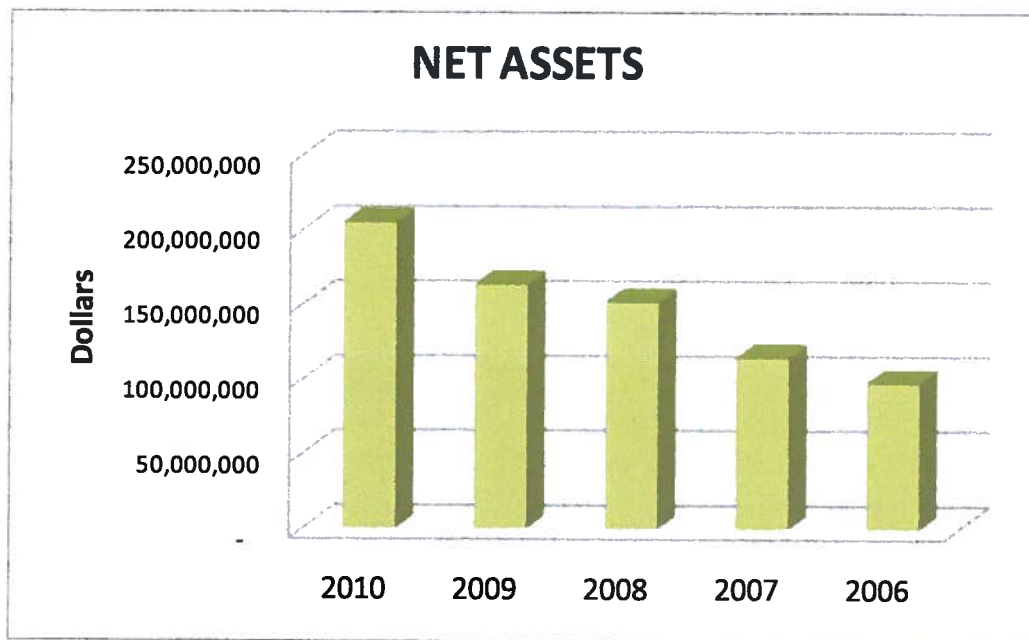
Anchorage, Alaska
May 19, 2011

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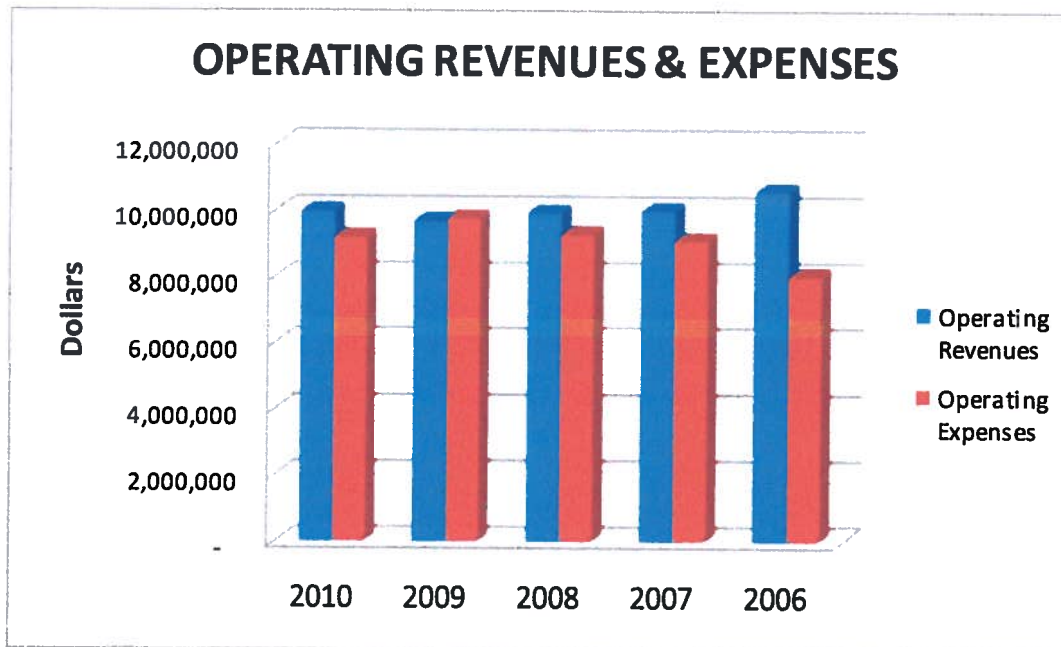
This section of the Municipality of Anchorage Port of Anchorage (Port) enterprise activity annual financial report presents the analysis of the Port's financial performance during the years ending December 31, 2010 and 2009. Please read it in conjunction with the Port's financial statements.

FINANCIAL HIGHLIGHTS

- Net Assets increased \$41,601,462, or 25.39% in 2010 and increased \$11,613,847, or 7.63% in 2009.
- Operating Revenues increased \$300,382, or 3.10% in 2010 and decreased \$243,875, or -2.46% in 2009.
- Operating Expenses decreased \$565,758, or -5.78% in 2010 and increased \$484,262, or 5.21% in 2009.



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OVERVIEW OF THE FINANCIAL REPORT

The Port reports as an enterprise fund of the Municipality of Anchorage (Municipality), while charging customers for services it provides. A commission consisting of nine members oversees the Port's tariff issues. The commission recommends tariff rates, fees, and charges imposed by the Port for its services to the Anchorage Assembly for approval.

This annual report consists of the following financial statements: Comparative Balance Sheets; Comparative Statements of Revenues, Expenses, and Changes in Net Assets; Comparative Statements of Cash Flows; Notes to the Financial Statements; and Management's Discussion and Analysis. These statements include all assets and liabilities using the accrual basis of accounting.

Balance Sheet – This statement presents information regarding the Port's assets, liabilities, and net assets at December 31, 2010 and December 31, 2009. Net assets represent total assets less total liabilities. The Balance Sheet classifies assets, liabilities, and net assets as current and non-current.

Statement of Revenues, Expenses, and Changes in Net Assets – This statement presents the Port's operating revenues and expenses and non-operating revenues and expenses for the years ended December 31, 2010 and December 31, 2009 with the difference – income before transfers – being combined with any capital contributions or repayments and transfers to determine the change in net assets for the respective year. The change, combined with last year's ending net assets total reconciles to the net assets total at the end of this year.

Statement of Cash Flows – This statement reports cash and cash-equivalent activities for the year resulting from operating activities, non-capital and related financing activities, capital and related financing activities, and investing activities. The net result of these activities added to beginning-of-year cash reconciles to cash and cash-equivalents at the end of the year. The Port presents its Statement of Cash Flows using the direct method of reporting operating cash flows.

MUNICIPALITY OF ANCHORAGE, ALASKA

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Management's Discussion and Analysis

December 31, 2010 and 2009

ANALYSIS OF THE FINANCIAL STATEMENTS

Net Assets

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

These two statements report the Port's net assets and changes in them. One can think of the Port's net assets, the difference between assets and liabilities, 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 assets can be determined by reviewing the following condensed Summary of Net Assets as of December 31, 2010, 2009 and 2008. The analysis below focuses on the Port's net assets at the end of the year (Table 1) and changes in net assets (Table 2) during the year.

TABLE 1
Summary of Net Assets

	2010	2009	2008
Assets:			
Non-Current Assets	\$ 207,284,963	\$ 161,182,986	\$ 162,753,185
Current and Other Assets	38,754,950	43,281,297	29,820,213
Total Assets	<u>246,039,913</u>	<u>204,464,283</u>	<u>192,573,398</u>
Liabilities:			
Non-Current Liabilities	66,112	40,971	38,779
Current Liabilities	40,546,345	40,597,318	40,322,472
Total Liabilities	<u>40,612,457</u>	<u>40,638,289</u>	<u>40,361,251</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	67,345,344	62,382,985	63,939,588
Restricted for Capital Construction	116,176,706	87,779,180	77,991,277
Unrestricted	21,905,406	13,663,829	10,281,282
Total Net Assets	<u>\$ 205,427,456</u>	<u>\$ 163,825,994</u>	<u>\$ 152,212,147</u>
Change in Net Assets	\$ 41,601,462	\$ 11,613,847	\$ 36,937,697

During 2010 the Port's total assets increased by \$41.6 million. Non-current assets increased by \$46.1 million due mostly to an increase in advances to MARAD and an increase in total capital assets. Current and other assets decreased by \$4.5 million due to a decrease in restricted assets. In 2009 a reclass entry was also made to reduce the Port's construction cash pool by \$22.2 million and establishing an interfund receivable.

The Port's total liabilities decreased by \$.0258 million in 2010 attributable to a \$.0509 decrease in current liabilities in 2010 offset by a corresponding \$.0251 increase in non-current liabilities resulting from an increase compensated absences payable.

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Changes in the Port's net assets can be determined by reviewing the following condensed Summary of Revenues, Expenses, and Changes in Net Assets for the years ending December 31, 2010, 2009 and 2008 (Table 2).

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

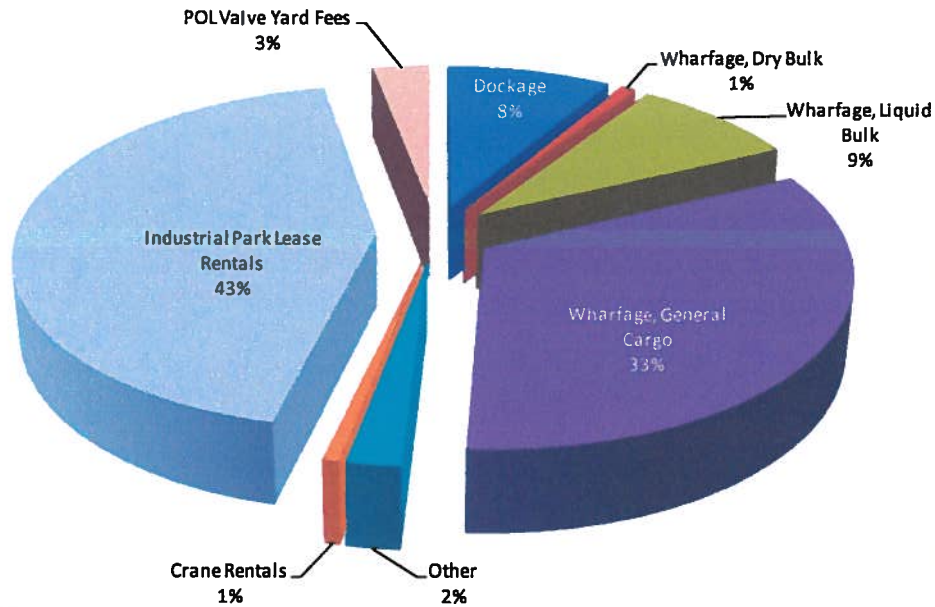
	2010	2009	2008
Operating revenues:			
Dockage	\$ 845,214	\$ 705,081	\$ 842,096
Wharfage, Dry Bulk	73,172	71,343	126,338
Wharfage, Liquid Bulk	866,712	490,956	522,305
Wharfage, General Cargo	3,296,428	3,613,275	3,724,411
Industrial Park Lease Rentals	4,333,539	4,301,791	4,158,226
Crane Rentals	61,908	48,435	48,076
POL Valve Yard Fees	300,212	358,443	485,400
Other	208,720	96,199	22,546
Total Operating Revenues	9,985,905	9,685,523	9,929,398
Operating Expenses:			
Personnel Services	2,250,784	2,318,382	2,299,783
Supplies	193,627	199,428	218,897
Other Services and Charges	1,754,989	2,115,068	1,697,876
Charges from Other Departments	347,435	486,147	429,639
Depreciation	4,666,881	4,660,449	4,649,017
Total Operating Expenses	9,213,716	9,779,474	9,295,212
Operating Income (loss)	772,189	(93,951)	634,186
Nonoperating Revenues (Expenses)			
Non-Operating Revenues	2,441,717	3,498,309	2,957,062
Non-Operating Expenses	(1,271,761)	(1,430,699)	(2,254,587)
Net Non-Operating Revenues	1,169,956	2,067,610	702,475
Income Before Capital Contributions and Transfers	1,942,145	1,973,659	1,336,661
Capital Contributions and Transfers	39,659,317	9,640,188	35,507,263
Special Item -NPO/OPEB Write-off	-	-	93,773
Change in Net Assets	41,601,462	11,613,847	36,937,697
Net Assets, Beginning	163,825,994	152,212,147	115,274,450
Net Assets, Ending	\$ 205,427,456	\$ 163,825,994	\$ 152,212,147

Net assets increased during 2010 over 2009 by \$41.6 million due mostly to capital contributions. Operating revenues increased by \$300,382 a majority of which was attributable to an increase in dockage and wharfage revenue.

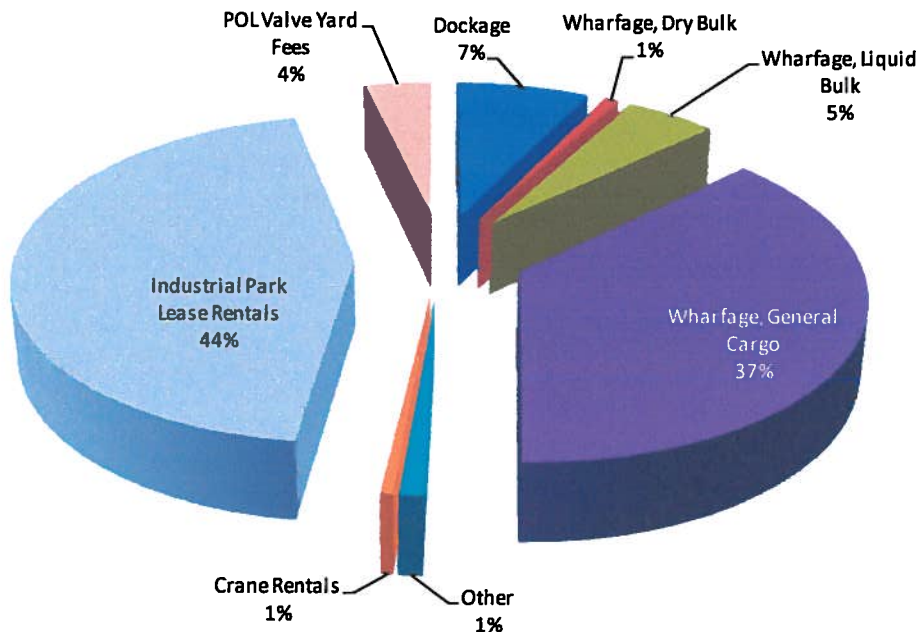
Operating expenses decreased by \$565,758 a majority of which was attributable to a combination of decreases in Other Services and Charges and Personnel Services.

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2010 Operating Revenues by Source

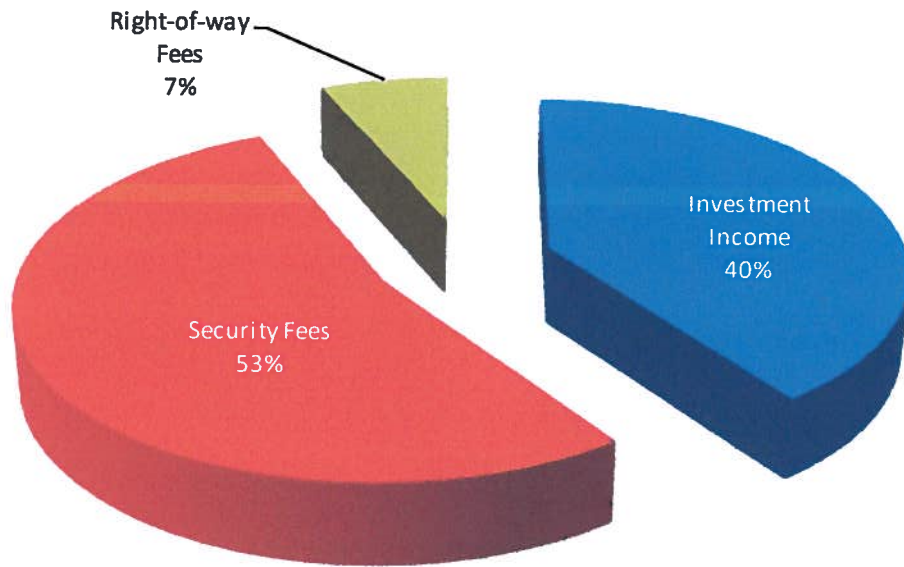


2009 Operating Revenues by Source

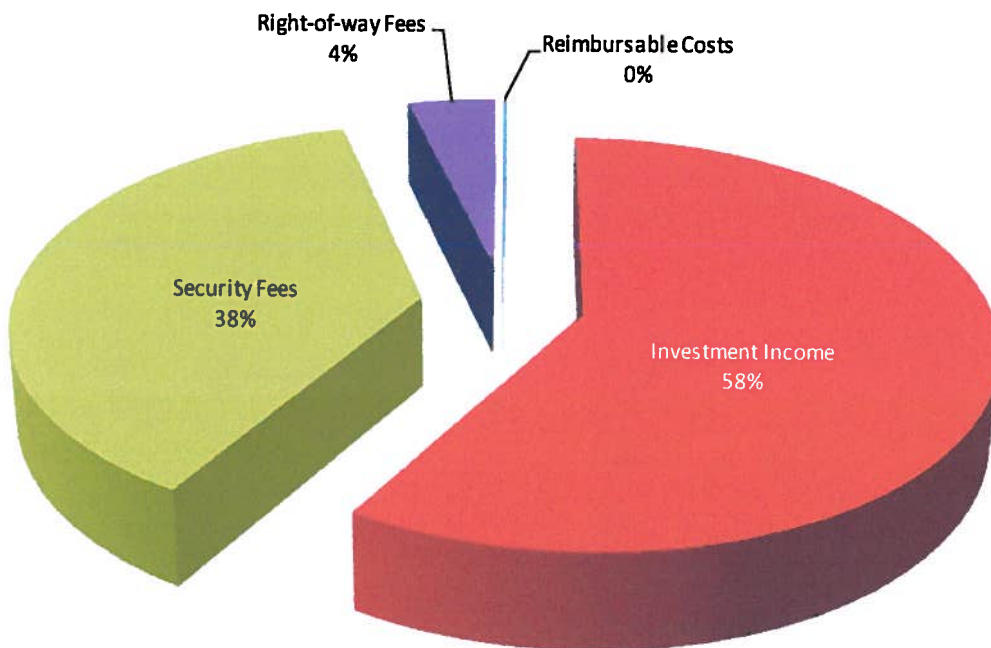


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2010 Non-Operating Revenues by Source

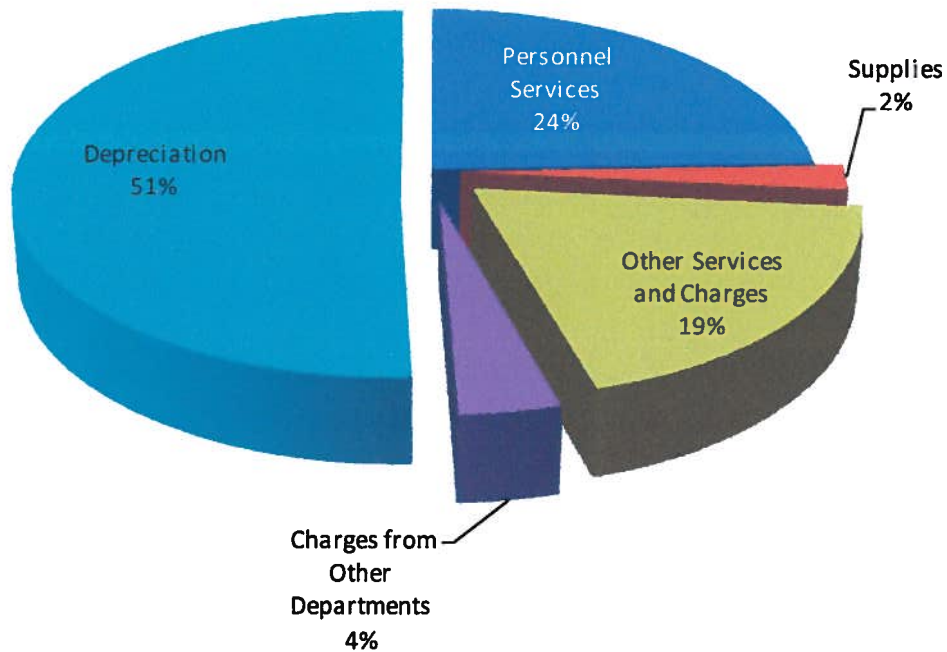


2009 Non-Operating Revenues by Source

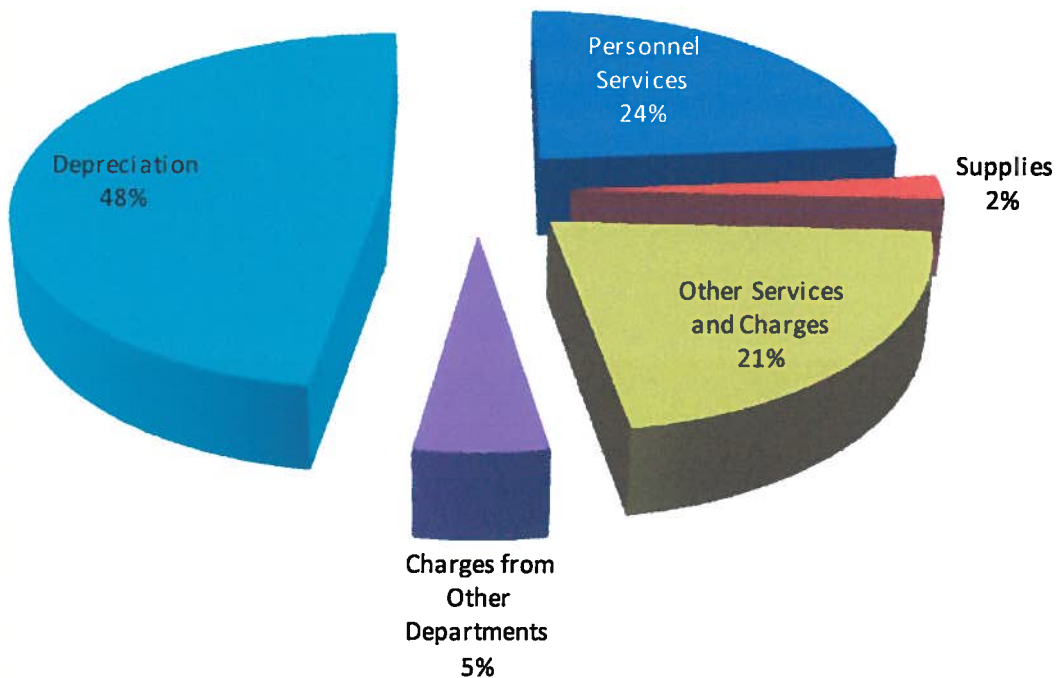


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2010 Operating Expenses by Source



2009 Operating Expenses by Source

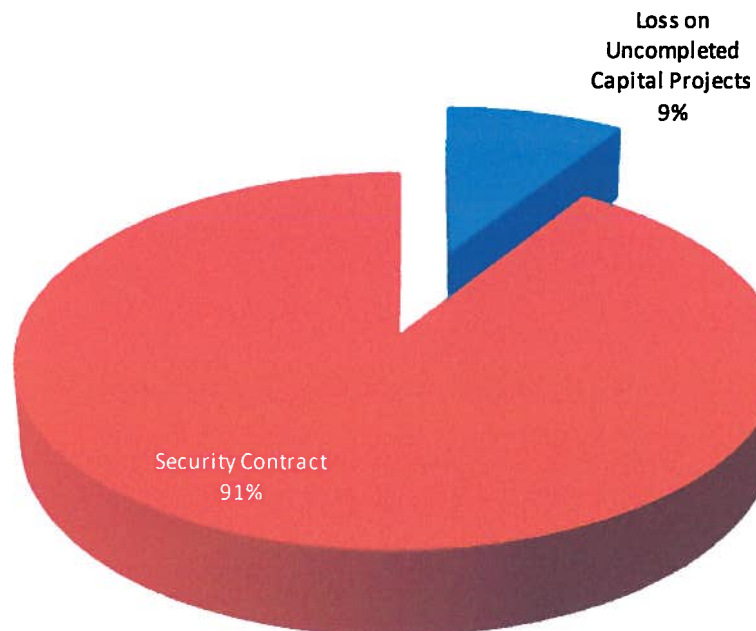


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2010 Non-Operating Expenses by Source



2009 Non-Operating Expenses by Source



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CAPITAL ASSETS AND DEBT

Capital Assets

The following table summarizes the Port's capital assets, at cost, as of December 31, 2010, 2009, and 2008.

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

	2010	2009	2008
Capital Assets			
Land	\$ 9,717	\$ 9,717	\$ 9,717
Infrastructure	20,187	22,806	25,643
Buildings	2,632	2,729	2,900
Building Improvements	98	119	140
Land Improvements	19,318	20,344	17,506
Vehicles	267	336	408
Machinery and Equipment	1,236	1,792	2,048
Computer Equipment	20	20	13
Computer Software	2	-	-
Office Equipment	2	2	2
Art	14	14	14
Total Capital Assets	53,493	57,879	58,391
Construction Work in Progress	13,852	4,503	5,548
Total	\$ 67,345	\$ 62,382	\$ 63,939
Increase/(Decrease) in Net Capital Assets	\$ 4,963	\$ (1,557)	\$ 46

2010 major additions include:

- Check Point 3 \$ 84 thousand
- Dock Piling Sleeves \$ 22 thousand
- Ship Creek Boat Launch Facility \$125 thousand
- Machinery & Equipment & Other Improvements \$ 50 thousand

Construction work in progress increased by \$9.3 million in 2010 due to \$9.6 million in additions offset by \$.3 million in closures to plant-in-service.

Debt

During 2010 and 2009, no additional debt was incurred from the initial \$40 million of outstanding debt issued in 2008. This debt is shown on the Port's financial statements as a current liability since the lending term on commercial paper cannot exceed 270 days (less than one year). Although the Port's expansion project is expected to continue until 2021, the Municipality anticipates reissuing notes as the previous ones mature during the construction phase of the expansion project. This method of financing is an interim measure until the outstanding balance of the commercial paper can be refunded by long term Port Revenue Bonds.

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ECONOMIC FACTORS AND BUDGETS AND RATES

The 2010 budget anticipated Port operating revenues of \$11,370,570 and \$1,498,190 in non-operating revenues. Actual 2010 operating revenues earned amounted to \$9,985,905, or \$1,384,665 under budget projections. Actual 2010 non-operating revenues earned amounted to \$2,441,717 or \$943,527 over budget projections. The contributing factors to the variance between 2010 budget and actual operating revenues was that the Port overestimated by \$676,694 dockage and wharfage revenues as well as overestimated by \$661,811 industrial park lease revenue. The significant variance between 2010 budget and actual non-operating revenues was that the Port underestimated short term interest revenue.

The 2010 budget anticipated Port operating expenses of \$9,954,620. Actual 2010 operating expenses amounted to \$9,213,716, or \$740,904 under budget projections. The contributing factors to the variance between 2010 budget and actual operating expenses was due to a \$229,365 overestimation of charges from other municipal departments; a \$166,881 underestimation of depreciation expense; a \$292,071 overestimation of other services and charges expense; and finally a \$386,349 overestimation of personnel services and other miscellaneous expenses.

In 2009, the Port undertook a review of its tariff rates terms and conditions. Although tariff rate changes were proposed by the Port's consultant, the Port Commission decided to maintain rates at 2008 levels during 2009 and 2010.

CONTACTING THE PORT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Port's customers, taxpayers, investors, and creditors with a general overview of the Port's finances and to demonstrate the Port's accountability for the money it receives. For questions about this report, or for additional financial information, contact the Municipality of Anchorage Port of Anchorage Department, 2000 Anchorage Port Road, Anchorage, AK 99501.

General information can be found at: <http://www.muni.org/port/index.cfm>

MUNICIPALITY OF ANCHORAGE, ALASKA

PORT OF ANCHORAGE FUND

Comparative Balance Sheets

December 31, 2010 and 2009

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash	\$ 150	\$ 150
Equity in General Cash Pool	20,729,372	13,025,310
Interest Receivable	155,330	180,122
Accounts Receivable, Net	1,118,357	653,071
Due from Other Funds		
Miscellaneous Capital Projects Fund	-	1,679,889
Anchorage Fire Service Area Capital Projects Fund	-	403,138
Anchorage Roads and Drainage Service Area Capital Projects Fund	-	13,181,033
Anchorage Parks and Recreation Service Area Capital Projects Fund	-	2,750,647
Public Transportation Capital Projects Fund	-	3,750,557
Equipment Maintenance Capital Projects Fund	-	460,042
Total Due from Other Funds	<u>-</u>	<u>22,225,306</u>
Prepaid Items and Deposits	35,158	42,905
Current Portion of Net Investment in Direct Financing Leases	-	13,596
Parts Inventory	329,915	329,915
Total Unrestricted Current Assets	<u>22,368,282</u>	<u>36,470,375</u>
Restricted Assets:		
Intergovernmental Receivables	149,581	28,725
Bond and Acquisition and Construction Accounts	16,237,087	1,655,841
Mitigation Reserve Investment	-	5,126,356
Total Restricted Current Assets	<u>16,386,668</u>	<u>6,810,922</u>
Total Current Assets	<u>38,754,950</u>	<u>43,281,297</u>
NON-CURRENT ASSETS		
Advances to MARAD	139,939,619	98,800,001
Capital Assets:		
Capital Assets, at Cost	135,535,297	135,264,256
Less: Accumulated Depreciation	<u>(82,042,204)</u>	<u>(77,384,986)</u>
Net Capital Assets	53,493,093	57,879,270
Construction Work in Progress	13,852,251	4,503,715
Total Capital Assets	<u>67,345,344</u>	<u>62,382,985</u>
Total Non-Current Assets	<u>207,284,963</u>	<u>161,182,986</u>
TOTAL ASSETS	\$ <u>246,039,913</u>	\$ <u>204,464,283</u>

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

Comparative Balance Sheets, continued

December 31, 2010 and 2009

	2010	2009
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 171,762	\$ 171,253
Compensated Absences Payable	134,623	144,653
Accrued Payroll Liabilities	99,710	110,009
Deferred Revenue and Deposits	-	114,354
Notes Payable	40,000,000	40,000,000
Total Unrestricted Current Liabilities	40,406,095	40,540,269
Current Liabilities Payable from Restricted Assets:		
Capital Acquisition and Construction Accounts and Retainages Payable	140,250	57,049
Total Current Liabilities	40,546,345	40,597,318
NON-CURRENT LIABILITIES		
Compensated Absences Payable	66,112	40,971
Total Liabilities	40,612,457	40,638,289
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	67,345,344	62,382,985
Restricted for Capital Construction	116,176,706	87,779,180
Unrestricted	21,905,406	13,663,829
Total Net Assets	205,427,456	163,825,994
TOTAL LIABILITIES AND NET ASSETS	\$ 246,039,913	\$ 204,464,283

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets
For the Years Ended December 31, 2010 and 2009

	2010	2009
OPERATING REVENUES		
Charges for Sales and Services:		
Dockage	\$ 845,214	\$ 705,081
Wharfage, Dry Bulk	73,172	71,343
Wharfage, Liquid Bulk	866,712	490,956
Wharfage, General Cargo	3,296,428	3,613,275
Storage Revenue	7,245	-
Office Rental	37,394	31,167
Utilities	19,485	7,510
Miscellaneous	144,596	57,522
Total Charges for Sales and Services	<u>5,290,246</u>	<u>4,976,854</u>
Other:		
Crane Rentals	61,908	48,435
Industrial Park Lease Rentals	4,333,539	4,301,791
POL Valve Yard Fees	300,212	358,443
Total Other	<u>4,695,659</u>	<u>4,708,669</u>
Total Operating Revenues	<u>9,985,905</u>	<u>9,685,523</u>
OPERATING EXPENSES		
Operations:		
Personnel Services	2,250,784	2,318,382
Supplies	193,627	199,428
Other Services and Charges	1,754,989	2,115,068
Charges from Other Departments	347,435	486,147
Total Operations	<u>4,546,835</u>	<u>5,119,025</u>
Depreciation	<u>4,666,881</u>	<u>4,660,449</u>
Total Operating Expenses	<u>9,213,716</u>	<u>9,779,474</u>
Operating Income (Loss)	<u>772,189</u>	<u>(93,951)</u>
NON-OPERATING REVENUES (EXPENSES)		
Reimbursable Costs	-	2,760
Investment Income-Short Term Investments	974,656	2,031,824
Investment Income-Long Term Investments	-	11,186
Security Fees	1,305,539	1,312,465
Right-of-Way Fees	161,522	140,074
Loss on Uncompleted Capital Project	-	(128,649)
Security Contract	(1,271,761)	(1,302,050)
Total Non-Operating Revenues	<u>1,169,956</u>	<u>2,067,610</u>
Income Before Capital Contributions and Transfers	<u>1,942,145</u>	<u>1,973,659</u>
Capital Contributions	40,170,090	10,087,667
Municipal Service Assessment	(507,773)	(447,479)
Transfers to Other Funds	<u>(3,000)</u>	<u>-</u>
Change in Net Assets	41,601,462	11,613,847
Net Assets, Beginning	<u>163,825,994</u>	<u>152,212,147</u>
Net Assets, Ending	<u>\$ 205,427,456</u>	<u>\$ 163,825,994</u>

The notes are an integral part of these financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA
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Comparative Statements of Cash Flows
For the Years Ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 10,873,326	\$ 11,172,851
Payments to Employees	(2,245,972)	(2,201,990)
Payments to Vendors	(3,559,556)	(4,118,310)
Net Cash Provided by Operating Activities	<u>5,067,798</u>	<u>4,852,551</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Decrease (Increase) in Amounts Due from Other Funds	22,225,306	(22,225,306)
Transfers to Other Funds	(510,773)	(447,479)
Net Cash Provided/(Used) by Non-Capital and Related Financing Activities	<u>21,714,533</u>	<u>(22,672,785)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments to MARAD	(41,139,618)	-
Acquisition and Construction of Capital Assets	(9,546,039)	(3,052,792)
Loss on Uncompleted Capital Project	-	(128,649)
Capital Contributions	40,049,234	11,028,371
Net Cash Provided/(Used) by Capital and Related Financing Activities	<u>(10,636,423)</u>	<u>7,846,930</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	-	(1,434,249)
Proceeds from sale of investments	5,126,356	-
Proceeds from Investment in Direct Financing Leases	13,596	224,622
Interest Received	999,448	1,896,902
Net Cash Provided by Investing Activities	<u>6,139,400</u>	<u>687,275</u>
Net Increase (Decrease) in Cash	22,285,308	(9,286,029)
Cash, Beginning of Year	14,681,301	23,967,330
Cash, End of Year	<u>\$ 36,966,609</u>	<u>\$ 14,681,301</u>
COMPONENTS OF CASH		
Cash and Cash Equivalents	\$ 20,729,522	\$ 13,025,460
Capital Acquisition and Construction Accounts	16,237,087	1,655,841
Cash and Cash Equivalents, End of Year	<u>\$ 36,966,609</u>	<u>\$ 14,681,301</u>

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Comparative Statements of Cash Flows, continued
For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 772,189	\$ (93,951)
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation	4,666,881	4,660,449
Security Contract	(1,271,761)	(1,302,050)
Security Fees	1,305,539	1,312,465
Right-of-Way Fees	161,522	140,074
Reimbursable Costs	-	2,760
Changes in Assets and Liabilities Which Increase		
(Decrease) Cash:		
Accounts Receivable	(465,286)	(82,325)
Prepaid Items and Deposits	7,747	(10,983)
Accounts Payable	509	(4,634)
Compensated Absences Payable	15,111	6,383
Deferred Revenue and Deposits	(114,354)	114,354
Accrued Payroll Liabilities	(10,299)	110,009
Net Cash Provided by Operating Activities	\$ <u>5,067,798</u>	\$ <u>4,852,551</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

PORT OF ANCHORAGE FUND

Notes to Basic Financial Statements with Supplementary Information

December 31, 2010 and 2009

NOTE 1 - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Anchorage (Port) first began operations in September 1961. It had capacity to berth one marine cargo ship at a time, and more than 38,000 tons of marine cargo moved across its single berth that year. Since 1964, the Port has expanded to a five-berth terminal providing facilities for the movement of containerized freight, bulk petroleum and cement. Today, millions of tons of materials move across its docks each year. The Port serves 80 percent of Alaska's population and handles 90 percent of the consumer goods of Alaska. The Port is the major gateway for Alaska's water-borne commerce and a vital element of the regional economy.

The Port's steady growth in the past decade is expected to continue into the future. To keep pace with the future trends in the shipping industry and to better serve its existing clients, the Port is currently undergoing an intermodal expansion program that began in 2004 and is scheduled to be completed by 2021. This expansion program targets two main facility improvements – road and rail extension and marine terminal redevelopment. The road and rail extension will improve cargo flow, substantially reduce traffic conflicts outside of Port boundaries, improve local air quality and support new and growing military requirements (U.S. Coast Guard Maritime Safety and Security Team [MSST] and U.S. Army Military Combat Forces). The marine terminal redevelopment will upgrade crane reach and provide a deeper draft harbor to accommodate larger ships, condemn and demolish damaged or dilapidated structures, expand commercial dock space and develop a secure cruise ship terminal to accommodate passengers and baggage.

The accompanying financial statements reflect the activities of the Port. The Port is an enterprise fund of the Municipality of Anchorage (Municipality). Enterprise funds are established to finance and account for the operation and maintenance of facilities and services such as those of the Port that are predominately self-supported by user charges. User Charges for the Port are established in the Port of Anchorage Terminal Tariff No. 6 and through contractual Terminal Preferential Usage Agreements as recommended by the Anchorage Port Commission, and approved by the Anchorage Municipal Assembly and reported to the Federal Maritime Commission.

The accounting records and accompanying financial statements conform to Generally Accepted Accounting Principles (GAAP). The accrual basis of accounting is used for Enterprise Funds. Revenues are recognized in the accounting period in which they are earned and become measurable and expenses are recognized in the period incurred.

Accounting and reporting treatment applied to the Port is accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. As such, all assets and liabilities associated with the operation of both the operating and capital fund for the Port are included on the Balance Sheet. Net Assets as shown on the Balance Sheet are segregated into the following categories (where applicable): Invested in Capital Assets, Net of Related Debt; Restricted for Debt Service; Restricted for Capital Construction; and Unrestricted.

MUNICIPALITY OF ANCHORAGE, ALASKA

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Notes to Basic Financial Statements with Supplementary Information

December 31, 2010 and 2009

(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 Statement of Cash Flows, the Port has defined cash as the demand deposits and all investments maintained in the general and construction cash pool, regardless of maturity period, since the various funds use the general and construction cash pool essentially as a demand deposit account.

(b) Restricted Assets

It is the Port's policy to first use restricted assets to make certain payments when both restricted and unrestricted assets are available for the same purpose. "Intergovernmental receivables" represent grant receivables due from state and federal governments. Advances to MARAD represent transfers by the Port for non-federal amounts for Port expansion, including grants received from the State of Alaska.

(c) Parts Inventory

Parts inventory is valued at cost using the specific identification method and is expensed when used (consumption method). The value of the Ports inventory totaled \$329,915 at December 31, 2010 and 2009, respectively.

(d) Capital Assets

Capital assets are stated at cost. To be considered for capitalization, the cost of an asset must exceed \$5,000 and the service life must exceed more than one year. The Port depreciates its assets using a straight-line method and whole life convention. Additions to plant in service are recorded at original cost of contracted services, direct labor and materials, interest, direct financing charges, 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

MUNICIPALITY OF ANCHORAGE, ALASKA

PORT OF ANCHORAGE FUND

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December 31, 2010 and 2009

(e) Operating Revenues and Expenses

Operating revenues and expenses result from providing services in connection with the Port's principal ongoing operations. Non-operating revenues and expenses include those revenues and expenses not directly related to the Port's principal ongoing operations.

(f) Accrued Leave

The Port records annual leave, which includes cashable sick leave, when earned.

(g) Intergovernmental Charges

Certain functions of the Municipality of a general and administrative nature are centralized and the related cost is allocated to the various funds of the Municipality, including the Port. Charges from other departments to the Port totaled \$347,435 and \$486,147 for the years ended December 31, 2010 and 2009, respectively, which does not include the Port's payments to the Municipality's risk management programs.

(h) Risk Management and Self-Insurance

Anchorage is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; illness of and injuries to employees; unemployment; and natural disasters. The primary government utilizes three risk management funds to account for and finance its uninsured risks of loss.

The primary government provides coverage up to the maximum of \$2,000,000 per occurrence for automobile and general liability claims and \$1,000,000 for each workers' compensation claim. Two settled claims exceeded this commercial coverage in 2010 and no claims exceeded this coverage in 2009 and 2008.

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

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, 2010, is dependent upon future developments. At December 31, 2010, claims incurred but not reported included in the liability accounts are \$12,267,731 in the General Liability/Workers' Compensation Fund and Medical/Dental Self Insurance Fund.

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND
Notes to Basic Financial Statements with Supplementary Information
December 31, 2010 and 2009

Changes in the funds' claim liability amounts in 2009 and 2010 are as follows:

	Liability Balance January 1	Current Year Claims and Changes in Estimates	Claims Payment	Liability Balance December 31
2009:				
General Liability/Workers'				
Compensation	\$ 15,196,223	\$ 7,760,952	\$ (6,764,370)	\$ 16,192,805
Medical/Dental	5,260,400	48,329,738	(46,235,550)	7,354,588
Unemployment	52,174	365,352	(287,456)	130,070
	<u>\$ 20,508,797</u>	<u>\$ 56,456,042</u>	<u>\$ (53,287,376)</u>	<u>\$ 23,677,463</u>
2010:				
General Liability/Workers'				
Compensation	\$ 16,192,805	\$ 8,648,832	\$ (8,557,092)	\$ 16,284,545
Medical/Dental	7,354,588	48,760,422	(49,528,532)	6,586,478
Unemployment	130,070	740,907	(701,661)	169,316
	<u>\$ 23,677,463</u>	<u>\$ 58,150,161</u>	<u>\$ (58,787,285)</u>	<u>\$ 23,040,339</u>

The Medical and Dental Self Insurance Fund had negative unrestricted net assets of \$3,675,255 at December 31, 2010. Medical and Dental rates were increased by 23% in 2011 to offset the deficit.

(i) Interfund Payable/Receivable – Capital Projects Fund

In the event that the Port borrows from the Anchorage Central Treasury to fund capital projects, the Municipality assesses a monthly fee. The fee is based on the investment earnings rate plus a margin negotiated between the Municipality and the Port. When the Port sells commercial paper, the cash pool will be reimbursed from the debt proceeds. In the event that other funds borrow from the Port, the Port will receive the investment earnings.

MUNICIPALITY OF ANCHORAGE, ALASKA

PORT OF ANCHORAGE FUND

Notes to Basic Financial Statements with Supplementary Information December 31, 2010 and 2009

NOTE 2 – CASH AND INVESTMENTS

At December 31, 2010, 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	\$ 117,876				
Master Lease Agreement	916,526				
Interim Rate Escrow Investments	6,124,010				
Central Treasury - Unrestricted					
Cash & Money Market Funds	3,243,614				
Repurchase Agreements	1,896,359				
Commercial Paper	14,249,556	14,249,556	—	—	—
Certificates of Deposit	12,563,744	12,563,744	—	—	—
U.S. Treasuries	73,336,492	6,246,975	50,005,108	16,955,148	129,261
U.S. TIPS	1,850,037	—	1,850,037	—	—
U.S. Agencies	69,600,680	58,598,271	3,260,862	3,444,617	4,296,930
Foreign Governments & Agencies	5,077,381	5,077,381	—	—	—
Municipal Bonds	757,289	—	221,556	382,408	153,325
Asset-Backed Securities**	48,479,549	1,035,016	16,012,527	11,006,774	20,425,232
Corporate Fixed Income Securities	89,789,495	31,418,796	45,106,846	10,650,338	2,613,515
Payables	(12,377,306)				
	<u>\$ 308,466,890</u>	<u>\$ 129,189,739</u>	<u>\$ 116,456,936</u>	<u>\$ 42,439,285</u>	<u>\$ 27,618,263</u>
Central Treasury - Restricted					
Cash & Money Market Funds	8,140,396				
Repurchase Agreements	693,655				
Commercial Paper	22,329,299	22,329,299	—	—	—
Certificates of Deposit	6,870,490	6,870,490	—	—	—
Bankers' Acceptances	2,430,781	2,430,781	—	—	—
U.S. Treasuries	32,361,234	7,821,048	18,291,005	6,201,900	47,281
U.S. TIPS	676,712	—	676,712	—	—
U.S. Agencies***	93,019,433	29,059,734	61,127,974	1,259,982	1,571,743
Foreign Governments & Agencies	6,968,288	6,968,288	—	—	—
Municipal Bonds	277,003	—	81,041	139,878	56,084
Asset-Backed Securities**	17,732,982	378,591	5,857,106	4,026,088	7,471,197
Corporate Fixed Income Securities	52,154,560	25,949,768	21,353,103	3,895,710	955,979
Payables	(4,527,405)				
	<u>\$ 239,127,428</u>	<u>\$ 101,807,999</u>	<u>\$ 107,386,941</u>	<u>\$ 15,523,558</u>	<u>\$ 10,102,284</u>

* Market value plus accrued income.

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

*** \$661,900 in callable 1-5 year notes are expected to be called within the next year and are classified as *Less Than 1*.

The Port's unrestricted cash and investments represent 6.7% of the unrestricted Municipal Central Treasury. The Port's restricted cash and investments represent 6.8% of the restricted Municipal Central Treasury.

The Municipal Central Treasury

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

MUNICIPALITY OF ANCHORAGE, ALASKA

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Both externally and internally managed investments are subject to the primary investment objectives outlined in The Municipal Code (AMC) 6.50.030, in priority order as follows: safety of principal, liquidity, return on investment and duration matching. Consistent with these objectives, AMC 6.50.030 authorizes investments that meet the following rating and issuer requirements:

- Obligations issued or guaranteed by the U.S. government, U.S. agencies or U.S. government-sponsored corporations and agencies.
- Corporate Debt Securities that are guaranteed by the U.S. government or the Federal Deposit Insurance Corporation (FDIC) as to principal and interest.
- Taxable and tax-exempt municipal securities having a long-term rating of at least A- by a nationally recognized rating agency or taxable or tax-exempt municipal securities having a short-term rating of at least A-1 by Standard & Poor's, P-1 by Moody's, or F-1 by Fitch.
- Debt securities issued and guaranteed by the International Bank for Reconstruction and Development (IBRD) and rated AAA by a nationally recognized rating agency.
- Commercial paper, excluding asset-backed commercial paper, rated at least A-1 by Standard & Poor's, P-1 by Moody's, or F-1 by Fitch.
- Bank debt obligations, including unsecured certificates of deposit, notes, time deposits, and bankers' acceptances (with maturities of not more than 365 days), and deposits with any bank, the short-term obligations of which are rated at least A-1 by Standard & Poor's, P-1 by Moody's, or F-1 by Fitch and which is either:
 - 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
 - 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.

MUNICIPALITY OF ANCHORAGE, ALASKA

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

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

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

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

MUNICIPALITY OF ANCHORAGE, ALASKA

PORT OF ANCHORAGE FUND

Notes to Basic Financial Statements with Supplementary Information December 31, 2010 and 2009

Investment Type	Concentration Limit	Working Capital Portfolio	Internally Managed Portfolio
		Holding % at 12/31/2010	Holding % at 12/31/2010
U.S. Government Securities*	50% to 100% of investment portfolio	52%	62%
Repurchase Agreements	0% to 50% of investment portfolio	0%	2%
Certificates of Deposit**	0% to 50% of investment portfolio Maximum 5% per issuer	10%	2%
Bankers' Acceptances	0% to 25% of investment portfolio Maximum 5% per issuer	0%	2%
Commercial paper	0% to 15% of investment portfolio Maximum 5% per issuer	12%	13%
Corporate Bonds	0% to 15% of investment portfolio Maximum 5% per issuer	17%	11%
Alaska Municipal League Investment Pool (AMLIP)***	0% to 25% of investment portfolio	0%	0%
Money Market Mutual Funds	0% to 25% of investment portfolio	5%	4%
Dollar Denominated Fixed Income Securities, other than those listed herein, rated by at least one nationally recognized rating agency	0% to 15% of investment portfolio Maximum 5% per issuer	4%	4%
		<u>100%</u>	<u>100%</u>

* Includes debt obligations issued or guaranteed by the U.S. government, U.S. agencies or U.S. government-sponsored corporations, including corporate debt issued under the FDIC's Temporary Liquidity Guarantee program.

** The policy limits CDs that are not secured by U.S. government securities to 20% of the internally managed portfolio.

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The externally managed portfolios of the Municipal Central Treasury utilize the duration method to measure exposure to interest rate risk. All other funds disclose interest rate risk through the segmented time distribution tables within this note, which categorize fixed income investments according to their maturities.

MUNICIPALITY OF ANCHORAGE, ALASKA

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Duration is a measure of an investment's sensitivity to interest rate changes, and represents the sensitivity of an investment's market price to a 1% change in interest rates. The effective duration of an investment is determined by its expected future cash flows, factoring in uncertainties introduced through options, prepayments, and variable rates. The effective duration of a pool is the average fair value weighted effective duration of each security in the pool.

The effective durations of the externally managed portfolios of the Municipal Central Treasury (working capital, contingency reserve and strategic reserve) at December 31, 2010, were 0.26 years, 1.73 years, and 3.58 years, respectively.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For fixed income securities, this risk is generally expressed as a credit rating.

At December 31, 2010, the Municipal Central Treasury's investment in commercial paper totaled \$36,578,855, and was rated A-1 by Standard & Poor's and P-1 by Moody's. All commercial paper is purchased with a maturity of 270 days or less. The Municipality Central Treasury's investment in marketable debt securities, excluding U.S. Treasury and Agency securities, totaled \$214,007,512 at December 31, 2010. The distribution of ratings on these securities was as follows:

Moody's		S&P	
Aaa	38%	AAA	40%
Aa	18%	AA	12%
A	23%	A	27%
Baa	12%	BBB	12%
Ba or lower	1%	BB or lower	1%
Not Rated	8%	Not Rated	8%
	<u>100%</u>		<u>100%</u>

At December 31, 2010, the Municipality's Central Treasury was invested in Asset Backed Securities and Mortgage Backed Securities valued at \$2,651,964 which fell below the minimum credit rating of AA-/Aa3 required by AMC 6.50.030. These circumstances resulted from the downgrade of investments held in the contingency reserve and strategic reserve portfolios. Securities falling outside of compliance are divested as soon as it is prudent to do so.

Concentration of Credit Risk

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

At December 31, 2010, the Municipality held a total of \$79,261,553 in securities issued by the Federal National Mortgage Association (FNMA). These investments compromised 8.9% of the total portfolio and 12.5% (\$68,651,256) of the Municipal Central Treasury.

MUNICIPALITY OF ANCHORAGE, ALASKA

PORT OF ANCHORAGE FUND

Notes to Basic Financial Statements with Supplementary Information December 31, 2010 and 2009

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, 2010, the Municipal Central Treasury had bank deposit carrying amounts totaling \$17,259,852, of which \$893,147 was covered by federal depository insurance. Bank deposits of \$13,808,356 were secured by collateral held at the depository bank, and additional bank deposits of \$533,460 were secured by a tri-party collateral agreement. The tri-party collateral agreement requires that collateral be transferred to the custodian of the tri-party agreement and held in the pledging bank's name on behalf of The Municipality. Additional bank balances of \$2,590,014 were invested in overnight repurchase agreements. Repurchase agreement investments were also collateralized through a tri-party collateral agreement. All collateral consists of obligations issued, or fully insured or guaranteed as to payment of principal and interest, by the United States of America, an agency thereof or a United States government sponsored corporation, with market value not less than the collateralized deposit balances.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. 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, 2010 all debt obligations held in the Municipality Central Treasury were payable in U.S. Dollars.

NOTE 3 – PORT EXPANSION

In March 2003, the Municipality and the U.S. Department of Transportation Maritime Administration (MARAD) entered into a Memorandum of Understanding (MOU) with respect to funding and administering the Port of Anchorage Intermodal Expansion Project.

Under this agreement, the Port is responsible for providing overall program requirements and direction for the Port Expansion to MARAD. The Port also is required to review all plans, specifications and status reports submitted by the primary contractor and subcontractors before they are submitted to MARAD for inclusion in its permanent federal project files. The agreement also requires the Port to provide all documentation required for MARAD to request interagency funding transfers of amounts received directly from other federal agencies through annual Congressional Appropriations for Port Expansion. Finally, the Port is responsible for executing periodic transfers of non-federal amounts for Port Expansion to MARAD, including grants received from the State of Alaska.

MUNICIPALITY OF ANCHORAGE, ALASKA**PORT OF ANCHORAGE FUND****Notes to Basic Financial Statements with Supplementary Information***December 31, 2010 and 2009*

Because MARAD administers the construction of the project, the Port only recognizes capital assets upon transfer of the assets from MARAD. In addition to the funds that the Port contributes to the expansion project, which are recorded as Advances to MARAD on the balance sheet, other federal agencies contribute funds directly to MARAD. Accordingly, those federal funds are not recorded on the Port's financial statements until such time that the completed asset is transferred to the Port from MARAD.

At the end of 2010, cumulative transfers to MARAD by the Port total \$140,400,001, of which \$139,939,619 is shown on the balance sheet as "Advances to MARAD" and \$460,382 are included in capital assets. On April 8, 2011, MARAD requested and the Port transferred an additional \$23,000,000 to fund FY2011 construction activities for the Port of Anchorage Intermodal Expansion Project.

The table below provides the detail of all life-to-date transfers to MARAD, as of December 31, 2010:

Source of Contribution	Amounts
State Grants	\$ 89,990,164
Commercial Paper	40,000,000
Port Funds	10,409,837
Total Contributions	<u>\$ 140,400,001</u>

NOTE 4 – CAPITAL ASSETS

Capital assets for the year ended December 31, 2010 are as follows:

	Capital Assets (in thousands)			
	Balance 01/01/10	Additions	Retirements	Balance 12/31/10
CAPITAL ASSETS				
Land	\$ 9,717	\$ -	\$ -	\$ 9,717
Infrastructure	85,365	126	-	85,491
Buildings	5,753	84	-	5,837
Building Improvements	355	-	-	355
Land Improvements	25,503	23	-	25,526
Vehicles	632	-	-	632
Machinery and Equipment	7,677	42	10	7,709
Computer Equipment	98	4	-	102
Computer Software	2	2	-	4
Office Equipment	148	-	-	148
Art	14	-	-	14
Total plant in service, gross	135,264	281	10	135,535
Less Accumulated Depreciation	(77,385)	(4,666)	(9)	(82,042)
Net plant in service	57,879	(4,385)	1	53,493
CONSTRUCTION WORK IN PROGRESS	4,503	9,630	281	13,852
TOTAL NET CAPITAL ASSETS	<u>\$ 62,382</u>	<u>\$ 5,245</u>	<u>\$ 282</u>	<u>\$ 67,345</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

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Notes to Basic Financial Statements with Supplementary Information December 31, 2010 and 2009

Capital assets for the year ended December 31, 2009 are as follows:

	Capital Assets (in thousands)			
	Balance 01/01/09 As Restated	Additions	Retirements	Balance 12/31/09
CAPITAL ASSETS				
Land	\$ 9,717	\$ -	\$ -	\$ 9,717
Infrastructure	85,365	-	-	85,365
Buildings	5,742	11	-	5,753
Building Improvements	355	-	-	355
Land Improvements	21,683	3,820	-	25,503
Vehicles	678	-	46	632
Machinery and Equipment	7,372	305	-	7,677
Computer Equipment	86	12	-	98
Computer Software	2	-	-	2
Office Equipment	148	-	-	148
Art	14	-	-	14
Total plant in service, gross	131,162	4,148	46	135,264
Less Accumulated Depreciation	(72,771)	(4,660)	(46)	(77,385)
Net plant in service	58,391	(512)	-	57,879
CONSTRUCTION WORK IN PROGRESS	5,548	3,308	(4,353)	4,503
TOTAL NET CAPITAL ASSETS	<u>\$ 63,939</u>	<u>\$ 2,796</u>	<u>\$ (4,353)</u>	<u>\$ 62,382</u>

NOTE 5 – LEASE AGREEMENTS

(a) *Investment in Direct Financing Leases*

The Municipality has entered into direct financing leases for various plant and equipment located at the Port. At the end of 2010 total lease payments received total \$13,595 and no additional lease payments are expected in future years as all lease agreements have expired.

Components of the investments in leases as of December 31, 2009 follow (in thousands):

	Direct Financing
Total Minimum Lease Payment to be Received	\$ 14
Less Unearned Interest Income	-
Net Investment in Leases	14
Amount Due Within One Year	(14)
Total Noncurrent Investment - Included in deferred charges and other assets in the accompanying financial statements	\$ -
Minimum Lease Payments to be Received as Follows:	
2010 Lease Payment	14
2011 Lease Payment	-
Total	<u>\$ 14</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

PORT OF ANCHORAGE FUND

Notes to Basic Financial Statements with Supplementary Information December 31, 2010 and 2009

(b) Lease Agreements

The Port has leased to unrelated third parties 72.8 acres of space in the Port Industrial Park. The 2010 carrying value of the leased assets is \$4,308,267, with a cost of \$9,084,342 and accumulated depreciation of \$4,776,075. The 2009 carrying value of the leased assets is \$4,786,812, with a cost of \$9,084,342 and accumulated depreciation of \$4,297,530. The leases provide for five-year rental adjustment intervals. Future minimum payments to be received are as follows (in thousands):

	<u>Amount</u>
Years:	
2011	\$ 1,763
2012	1,416
2013	1,347
2014	1,095
2015	827
2016-2020	2,559
2021-2025	1,886
2026-2030	119
Total	<u>\$ 11,012</u>
Lease Revenue for 2010	<u>\$ 4,333</u>

NOTE 6 – COMMERCIAL PAPER

The Port of Anchorage is currently undergoing an intermodal expansion program that began in 2004 and is scheduled to be completed by 2021. This expansion program targets two main facility improvements – road and rail extension and marine terminal redevelopment. Financing for the expansion program is expected to be obtained from a number of sources including equity funds of the Port of Anchorage and federal and state funds, which would include grants.

In 2008, the Port requested Assembly approval to issue subordinate lien port revenue notes (commercial paper) as an interim financing program until such time that the outstanding balance of commercial paper is refunded by long term Port Revenue Bonds. In January 2008, the Assembly authorized the issuance of Commercial Paper in one or more series in the aggregate principal amount not to exceed two hundred fifteen million dollars (\$215,000,000).

Anchorage and its financial advisor periodically review the maximum commercial paper deemed repayable solely from Port cash flows and limit the issuance of commercial paper based upon these calculations. During 2010 and 2009, no additional debt was incurred from the initial \$40 million of outstanding debt issued in 2008. This debt is shown on the Port's financial statements as a current liability since the lending term on commercial paper cannot exceed 270 days (less than one year). The Municipality anticipates reissuing notes as the previous ones mature during the construction phase of the expansion project.

MUNICIPALITY OF ANCHORAGE, ALASKA

PORT OF ANCHORAGE FUND

Notes to Basic Financial Statements with Supplementary Information *December 31, 2010 and 2009*

NOTE 7 – MITIGATION FUND

The Port's Intermodal Expansion Program involves improvements to land located in intertidal mudflats and nearshore subtidal waters of Knik Arm. In order to make these improvements, fill material must be brought in and discharged at various locations within the Port of Anchorage. When the addition of this fill material is complete, it will add 138 acres of developable property needed to support the expansion of the Port. Federal permitting is required in order to discharge fill material in United States waters and the Regulatory Division of the Alaska District Corps of Engineers (Corps) has jurisdiction over such matters including the review and issuance of the required permits. The Port has obtained permits in connection with the expansion program.

As part of the permit requirements, the Corps required that a mitigation fund be established for restoration, enhancement, preservation and/or creation of aquatic habitats and functions to offset, as practicable, unavoidable impacts associated with authorized Port improvements within adjacent and/or nearby tributary watersheds of Knik Arm.

The mitigation fund was established through a Memorandum of Agreement (Agreement) between the Corps and the Municipality. That Agreement and subsequent amendments set forth the procedures and processes for the management, financing and administration of the mitigation fund. The Agreement recognized the Municipality as the entity responsible for administering the mitigation fund on behalf of the Port. An advisory committee was established to make recommendations to the Corps and the Municipality on proposed projects that offset the ecological losses associated with the authorized Port improvements. Final approval for the allocation and distribution of all mitigation funds rests with the Corps.

From 2006 through 2009 the Port established the mitigation fund account with an initial deposit of \$955,988 in FY 2006 as required under the Agreement. These funds must be used for the implementation of eligible mitigation projects. Funds in this account are managed and invested consistent with the provisions of Chapter 6.50 of the Anchorage Municipal Code. Interest earned on the account is used to offset inflation of mitigation project costs, as well as other reasonable costs associated with establishing, maintaining and investing the funds contained within the account. In addition, the Municipality will assess a 5% administrative fee against all deposits into the account as they occur. Interest earnings that exceed annual inflation rate percentages times the account balance and less reasonable account management costs will be treated as unrestricted earnings of the Port. At the end of 2009 the balance in the mitigation escrow account was \$5,126,356.

In 2010 the Corps requested the Port transfer dollars currently held in the mitigation fund account and subsequent annual deposits to a third party escrow account. The Port transferred \$6,580,827 to the designated third party escrow account consisting of \$5,126,356 of deposits made from 2006 through 2009, \$46,703 of interest earned in 2010 and \$1,407,768 representing the 2010 annual required deposit. To fulfill the agreement the Port is required to make a final deposit in 2011 in the amount of \$1,407,850. The cost of the mitigation permits have been recorded to construction work in progress pending final completion of the project.

MUNICIPALITY OF ANCHORAGE, ALASKA

PORT OF ANCHORAGE FUND

Notes to Basic Financial Statements with Supplementary Information December 31, 2010 and 2009

NOTE 8 – RETIREMENT PLANS

State of Alaska Public Employees' Retirement System

(a) Plan Descriptions

The Port participates in the State of Alaska Public Employees' Retirement System (PERS). Employees hired prior to July 1, 2006, and employees hired after July 1, 2006 who have PERS enrollment from prior employment, participate in PERS Tiers I-III, a defined benefit public employee retirement system. Employees hired after July 1, 2006 who have no prior PERS participating employment participate in PERS Tier IV, a defined contribution plan with a component of defined benefit postemployment healthcare.

The defined benefit plan was originally established as an agent multiple-employer plan, but was converted by legislation to a cost-sharing plan, effective July 1, 2008. Under the cost-sharing arrangement, the State of Alaska Division of Retirement and Benefits will no longer track individual employer assets and liabilities. Rather all plan costs and past service liabilities will be shared among all participating employers. Both plans are administered by the State of Alaska (State) to provide pension, postemployment healthcare, death and disability benefits to eligible employees.

All full-time and regular part-time Port employees are eligible to participate in PERS if they are employed fifteen hours or more per week. For both the defined benefit plan and the defined contribution plan, benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

Each fiscal year, PERS issues publicly available financial reports that include financial statements and required supplementary information. They may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203, by phoning (907) 465-4460, or via the web at www.state.ak.us/dr/pers/.

(b) Funding Policy and Annual Pension and Postemployment Healthcare Cost - PERS Tier I-III Defined Benefit Plan

Participating employees are required to contribute 6.75% of their annual covered salary. Employer contribution rates are established annually by a state sanctioned management board, but are limited by state statute. The funding policy for PERS provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due.

The employer contribution rate is statutorily capped at 22% of annual covered salary. State legislation currently provides that the State of Alaska will contribute any amount over 22% such that the total contribution equals the Alaska Retirement Management Board adopted rate, but not the same as the Governmental Accounting Standards Board (GASB) Statement 45 accounting rate.

MUNICIPALITY OF ANCHORAGE, ALASKA

PORT OF ANCHORAGE FUND

Notes to Basic Financial Statements with Supplementary Information

December 31, 2010 and 2009

Detailed contribution rates for the Port and actuarial methods for the plan for the year ended 2010 are as follows:

	Employee Rate		Contractual Rate		ARM Board Adopted Rate		GASB 45*	
	1/1 to 6/30/10	7/1 to 12/31/10	1/1 to 6/30/10	7/1 to 12/31/10	1/1 to 6/30/10	7/1 to 12/31/10	1/1 to 6/30/10	7/1 to 12/31/10
Pension	2.50%	2.41%	8.16%	7.85%	10.25%	9.98%	10.72%	13.49%
Postemployment Healthcare	4.25%	4.34%	13.84%	14.15%	17.40%	17.98%	53.96%	55.87%
Total Contribution Rate	6.75%	6.75%	22.00%	22.00%	27.65%	27.96%	64.68%	69.36%

* This rate uses a 4.5% OPEB discount rate and disregards future Medical Part D payments

(c) Annual Pension and Postemployment Healthcare Cost

The Port is required to contribute 22% of covered payroll, subject to a wage floor. In addition, the State contributed approximately 5.65% from January 1 through June 30 and 5.96% between July 1 and December 31, 2010 of covered payroll to the Plan. In accordance with the provisions of GASB Statement Number 24, the Municipality has recorded the state contribution in the General Fund in the amount of \$9,867,535 as a PERS on-behalf payment. The Port did not recognize any portion of the revenue or expense related to this contribution. Because the Port is not statutorily obligated for these payments, this amount has been excluded from pension and OPEB cost as described here. Pension and OPEB payments for the thirty months from July 1st 2008 to December 31st 2010 are shown below:

Year	Annual Pension Cost	Annual OPEB Cost	Total Benefit Cost (TBC)	Anchorage Contributions	% of TBC Contributed
2010	\$ 70,710	\$ 77,747	\$ 148,457	\$ 148,457	100%
2009	77,928	91,480	169,408	169,408	100%
7/1 to 12/31/2008	24,713	57,000	81,713	81,713	100%

(d) Funding Policy and Annual Pension and Postemployment Healthcare Costs – PERS Tier IV Defined Contribution Plan

Employees first enrolling into PERS after July 1, 2006 participate in PERS Tier IV. PERS Tier IV is a defined contribution retirement plan that includes a component of defined benefit post-employment healthcare. The plan requires both employer and employee contributions. Employees may make additional contributions into the plan, subject to limitations.

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND
Notes to Basic Financial Statements with Supplementary Information
December 31, 2010 and 2009

Contribution rates are as follows:

	TIER IV	
	<u>1/1 - 6/30</u>	<u>7/1 - 12/31</u>
Employee Contribution	<u>8.00%</u>	<u>8.00%</u>
Employer Contribution		
Retirement	5.00%	5.00%
Health Reimbursement Arrangement *	3.00%	3.00%
Retiree Medical Plan	0.83%	0.55%
Death & Disability Benefit	<u>0.30%</u>	<u>0.31%</u>
Total Employer Contribution	<u>9.13%</u>	<u>8.86%</u>

*Health Reimbursement Arrangement - AS 39.30.370 requires that the employer contribute "an amount equal to three percent of the employer's average annual employee compensation." For actual remittance, this amount is calculated as a flat rate per full time employee and a flat rate per hour for part time employees. Prior to July 1, 2010 a rate of \$65.37 per full time employee per pay period and \$1.09 per part time hour worked was paid. For pay periods ending after July 1, 2010, a rate of \$66.18 per full time employee pay period and \$1.10 per part time hour worked was paid.

For the year ended December 31, 2010, the Port contributed \$9,455 to PERS Tier IV for retirement and retiree medical, and it contributed \$4,179 to PERS Tier IV for Health Reimbursement Arrangement on-behalf of its employees. Employee contributions to the plan totaled \$12,114. For December 31, 2009, the Port contributed \$6,894 to PERS Tier IV for retirement and retiree medical and \$2,971 to PERS Tier IV for Health Reimbursement. Employees contributed \$8,424 in 2009.

Under the newly adopted cost-sharing arrangement for the PERS defined benefit plan (Tiers I–III), the state statute employer contribution rate of 22%, includes Tier IV employees. In addition to the amounts above, the Port contributed approximately 13.14% on Tier IV employee payroll. This amount was applied to the obligation of the PERS defined benefit plan and is included in the contributions (ARC) recorded in the defined benefit cost-sharing plan.

NOTE 9 – SUBSEQUENT EVENTS

On April 8, 2011, the Port transferred \$23,000,000 to MARAD to fund FY 2011 construction activities for the Port of Anchorage Intermodal Expansion Project. The funding source for this transfer came from Port equity.

In February 2011, the Port entered into an agreement with the Department of Defense to acquire 48 acres of undeveloped land for fair market value of \$10,305,000. In exchange, the Port has committed to provide a permanent access road connecting Joint Base Elmendorf-Richardson to the Port and to accept responsibility for the environmental condition of the transferred land.

STATISTICAL SECTION

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND
Statistical Section (Unaudited)

COMPARATIVE DETAIL SCHEDULE OF ACTUAL REVENUES BY SOURCE

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Dockage	\$ 845,214	\$ 705,081	\$ 842,096	\$ 828,548	\$ 825,540	\$ 669,302	\$ 659,717	\$ 747,795	\$ 710,017	\$ 727,171
Wharfage, Dry Bulk	73,172	71,343	126,338	132,514	153,306	123,324	138,826	133,713	99,292	126,097
Wharfage, Liquid Bulk	866,712	490,956	522,305	695,566	858,866	1,217,553	1,109,093	1,099,559	973,247	905,594
Wharfage, General Cargo	3,296,428	3,613,275	3,724,411	3,570,930	3,666,203	3,574,213	3,487,029	3,419,193	3,231,780	3,261,973
Terminal Lease/Rental		-	-	-	-	154,189	396,779	450,273	437,595	599,750
Storage Revenue	7,245	-	4,160	13,215	8,788	101,960	55,660	(2,766)	137,552	74,017
Office Rental	37,394	31,167	27,699	23,964	35,038	24,330	25,158	28,146	26,046	41,709
Utilities	19,485	7,510	10,198	10,635	17,980	15,870	12,585	15,790	9,840	10,472
Crane Rentals	61,908	48,435	48,076	140,012	26,695	39,493	124,036	24,892	-	1,540
Industrial Park Lease	4,333,539	4,301,791	4,158,226	4,029,120	4,341,167	3,636,375	2,746,259	2,519,925	2,532,221	2,509,425
Investment Income - Long-Term	-	11,186	35,828	85,171	103,927	145,760	186,093	223,103	256,718	262,350
Investment Income - Short-Term	974,656	2,031,824	218,893	2,342,556	1,819,458	1,058,201	130,470	252,012	556,129	931,587
Right-of-Way Fees	161,522	140,074	177,083	181,227	145,000	145,000	143,869	117,344	141,599	131,001
POL Value Yard Fees	300,212	358,443	485,400	499,385	498,133	457,858	458,476	459,226	370,526	330,397
Security Fees	1,305,539	1,312,465	1,541,818	1,586,553	1,145,804	1,569,374	805,469	-	-	-
Gain on Disposition of Assets	-	-	52,470	-	640	-	-	-	-	3,552
Reimbursed Cost	-	2,760	873,765	-	-	-	-	-	-	-
Intergovernmental Revenue	-	-	57,205	47,046	29,277	529,912	-	-	69,375	-
Miscellaneous Revenues	-	57,522	(19,511)	57,035	158,154	64,481	121,412	96,692	119,337	111,696
Subtotal	144,596									
	12,427,622	13,183,832	12,886,460	14,243,477	13,833,976	13,527,195	10,600,931	9,584,897	9,671,274	16,694,714
Capital Contributions	40,170,090	10,087,667	35,974,275	988,723	2,155,516	-	-	-	-	-
Transfers From Other Funds	-	-	13,855	-	-	-	-	-	-	-
Special Item - NPO/OPEB Write-off	-	-	93,773	-	-	-	-	-	-	-
TOTAL	\$ 52,597,712	\$ 23,271,499	\$ 48,968,363	\$ 15,212,200	\$ 15,989,492	\$ 13,527,195	\$ 10,600,931	\$ 9,584,897	\$ 9,671,274	\$ 16,694,714

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND
Statistical Section (Unaudited)

CURRENT PORT TARIFF RATES

Type of Service	Wharfage Rate
Aggregates, per Ton	\$ 0.80
Freight NOS	4.50
Bulk Commodities, Dry, NOS	2.50
Cement	3.00
Cement Bulk through Pipeline	1.25
Coal, Bulk	1.00
Iron or Steel Articles	3.75
Logs	2.50
Lumber	3.75
Chips	3.00
Petroleum or Petroleum Products	
* Inbound/Outbound	0.125
* Transfers	0.031
* Fuel	0.0125
Powder (Explosive)	15.00
Vans or Containers	3.00
Vehicles	8.00

Port of Anchorage Terminal Tariff No. 6.
Tariff Issued 12/1/2005 and Effective 1/1/2006.

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND
Statistical Section (Unaudited)

ANNUAL DOCK TONNAGE 2001- 2010

Commodities Across Facility	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Freight NOS (not otherwise specified)	-	124	215	478	19,740	73	142	-	-	1,435
Cement, Bulk Dry	104,333	75,232	116,789	121,529	134,493	148,959	122,855	145,074	92,255	123,065
Iron/Steel	4,895	6,262	-	2,560	428	-	-	5,591	3,344	2,495
Lumber/Logs	-	-	-	-	-	-	-	-	-	-
Petroleum, NOS	1,660	2,032	2,648	2,618	2,888	4,505	4,148	4,534	2,963	3,473
Vans, Flats, Containers	1,736,943	1,713,086	1,831,816	1,785,518	1,722,499	2,081,158	1,760,935	1,677,041	1,609,971	1,640,390
Vehicles	-	1,473	10,725	5,381	1,158	4,057	2,877	1,343	-	-
Petroleum, Shoreside	1,192,705	1,426,711	1,830,848	1,698,581	1,421,133	-	-	-	-	-
Petroleum, Rail Rack	-	-	-	-	76,266	1,511,671	1,520,157	1,338,148	1,056,113	1,022,794
Petroleum, Dockside	922,426	573,352	577,236	699,727	968,684	1,351,393	1,216,896	1,240,898	1,186,022	1,203,471
TOTAL TONS	3,962,962	3,798,272	4,370,277	4,316,392	4,347,289	5,101,816	4,628,010	4,412,629	3,950,668	3,997,123

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND
Statistical Section (Unaudited)

FINANCIAL RATIOS

Description	2010	2009	2008	2007	2006	2005
Current Ratio (current assets / current liabilities)	0.96	1.07	0.74	31.07	141.87	18.36
Quick Ratio (quick assets / current liabilities)	0.54	0.89	0.26	10.65	39.66	6.03
Return on Investment (change in net assets / total assets)	17%	6%	19%	3%	6%	4%
Return on Equity (change in net assets / net assets)	20%	7%	24%	3%	6%	4%
Debt to equity as a percent of capital structure	16%	20%	21%	N/A	N/A	1%
(outstanding debt / capital structure over net assets / capital structure)	84%	80%	79%	N/A	N/A	99%
Operating margin (operating income / operating revenue)	8%	-1%	6%	9%	19%	22%

Notes to Financial Ratios:

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

Debt to Equity ratio assumed in 2004 that total debt included 1-t obligations maturing within one year plus non-current portion of debt including unamortized premium less deferred loss on refunding.

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND
Statistical Section (Unaudited)

PORT OF ANCHORAGE
2011-2016 CAPITAL IMPROVEMENT PROGRAM SUMMARY
('000's Omitted)

PROJECT CATEGORY	2011	2012	2013	2014	2015	2016	TOTAL
LAND DEVELOPMENT							
PORT INTERMODAL EXPANSION PROGRAM (*)	6,408	6,410	5,500	5,000	5,000	5,000	33,318
TERMINAL DEVELOPMENT- GRANTS - Port Dev	32,300	21,000	21,000	21,000	21,000	21,000	137,300
HARBOR DEVELOPMENT- Delete							
REPAIRS & RENOVATIONS	1,725	1,725	1,715	1,710	1,705	1,700	10,280
EQUIPMENT	200	200	200	100	0	0	700
TOTAL	40,633	29,335	28,415	27,810	27,705	27,700	181,598

SOURCE OF FUNDING	2011	2012	2013	2014	2015	2016	TOTAL
EQUITY-MARAD Contribution & Mitigation Escrow(**)	6,408	6,410	5,500	5,000	5,000	5,000	33,318
GRANTS	32,300	21,000	21,000	21,000	21,000	21,000	137,300
EQUITY / OPERATIONS	1,925	1,925	1,915	1,810	1,705	1,700	10,980
TOTAL	40,633	29,335	28,415	27,810	27,705	27,700	181,598

(*) Federal Grant Matching Portion Remitted and Controlled by MARAD (Maritime Administration) for Port Expansion.

Federal Funds received directly, if any, or MARAD expansion components will be reflected as Work In Progress.

Port Asset Value will be reflected upon completion of the expansion program.

(**) Federal Grant Matching Fund Portion - Estimated to be Remitted to MARAD (Maritime Administration).

MUNICIPALITY OF ANCHORAGE, ALASKA
PORT OF ANCHORAGE FUND
Statistical Section (Unaudited)

TOP TEN CUSTOMER RANKING ON 2010 BILLINGS
HIGHEST TO LOWEST

<u>Rank No. Customer Name</u>	
1	Horizon Lines
2	TOTE Inc
3	Tesoro AK Petroleum
4	Anch Fueling & Service
5	Flint Hills
6	US Coast Guard
7	Petro Star
8	Alaska Basic Industries
9	Chevron
10	Alaska Maritime Agencies Inc