PORT OF BELLINGHAM
Washington State

2016 Comprehensive Annual Financial Report

Port of Bellingham

For the fiscal year ended December 31, 2016

Comprehensive Annual Financial Report

For The Fiscal Year Ended December 31, 2016

Prepared by the Finance Division

The Port of Bellingham

PORT OF BELLINGHAM
Washington State

Port of Bellingham
Comprehensive Annual Financial Report
For the Fiscal Year Ended December 31, 2016

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INTRODUCTORY

PORT OF BELLINGHAM
Washington State

June 20, 2017

Commissioners
Port of Bellingham

Gentlemen:

The Comprehensive Annual Financial Report (CAFR) of the Port of Bellingham for the fiscal year ended December 31, 2016, is hereby submitted for your review. This report includes an overview of the Port, detailed financial information as presented in our year-end audited financial statements, and statistical data relevant to the Port's operations. This report has been prepared by the Port's Finance Department which is responsible for its accuracy and presentation. Management believes this report fairly presents the Port's financial position and contains all material disclosures regarding the financial condition necessary to gain a full and complete understanding of the financial affairs of the Port.

The Port is legally required to have its financial statements audited annually by an independent accountant. The Port Commission has engaged the State of Washington Auditors' Office to provide the financial audit on an annual basis. The opinion of the auditors is included in the financial section of this report. When completed, the report will be available on the Port's website at http:///www.portofbellingham.com.

This letter of transmittal is designed to complement the management's discussion and analysis (MD&A), which presents a narrative introduction, overview and analysis of the financial statements. The accompanying report includes accounts of the primary government as well as its component unit. Component units are legally separate entities for which the primary government is financially accountable. The determination of "financial accountability" is based on criteria established in Governmental Accounting Standards Board Statement No. 14 as revised by Statement 39. The attached financial statements include the Industrial Development Corporation (IDC) of the Port of Bellingham as a significant component unit. The IDC is a public corporation authorized by state statute to facilitate the issuance of tax-exempt revenue bonds to finance industrial development within the corporate boundaries of the Port. The IDC is governed by the Port's three-member Commission.

PROFILE OF THE PORT

The Port of Bellingham is a special purpose municipal corporation organized under the State of Washington Port Laws R.C.W. Title 53 and is governed by a three-member elected Commission. The Port was created in 1920 by a vote of the people of Whatcom County to ensure public ownership of our waterfront and to promote economic development. The Port operates within the district boundaries of Whatcom County (Whatcom) between the major metropolitan areas of Seattle, Washington and Vancouver, British Columbia. The Port is a unique organization that makes significant contributions to the local community by using combined expertise in both the business and government sectors. The majority of Port revenues are generated from operations including Aviation, Marinas, Marine Terminals, and Real Estate. The Port is custodian to approximately 1600 acres of land and 1,300,000 square feet of buildings including Blaine and Squalicum Marinas, Bellingham International Airport, Bellingham Cruise Terminal, Bellingham Shipping Terminal, Fairhaven Transportation Center, Fairhaven Marine Industrial Park (FMIP), Sumas Industrial Park, the Airport Industrial Park, and the Bellingham Waterfront Acquisition Site (BWAS).

The Port of Bellingham's mission is to fulfill the essential transportation and economic development needs of the region while providing leadership in maintaining Whatcom's overall economic vitality through expansion of comprehensive facilities, programs, and services.

ECONOMIC CONDITION

Local Economy

Information presented in the financial statements is best considered in the broader context of the economic environment in Whatcom County (Whatcom) and the surrounding area.

The Port district, which is co-terminus with Whatcom, had a population of 212,540 in 2016. Of that total 57% live in the seven incorporated cities. From 2010 to 2016 Whatcom was the 12th fastest growing county in the state.

The local economy showed continuing improvement over the last year. On average local industries provided 91,000 non-farm jobs, a 3.0% increase from 2015. Since the end of the recession the flourishing Seattle area has averaged 2.8% job growth compared to Whatcom's 2.2% rate, which still exceeds many other metro areas in the state. In 2016 the average unemployment rate for Whatcom was 6.0% while the state average was 5.4%. From 2010 to 2015 the annual wage for Whatcom industries rose 2.6% on average to $42,458 while the state increased at a 3.1% annualized rate to $56,642.

The local economy has diversified from its historic dependence on natural resource industries. Much of the growth is due to small business and local industry expansion as well as companies attracted to the area. The lifestyle experience is an additional benefit to retain businesses. The service-providing sectors of the economy account for 82% of non-agricultural employment reporting 71,333 jobs in 2016. The two largest employers in the county are PeaceHealth St. Joseph Medical Center and Western Washington University (WWU).

Whatcom is influenced by its location on the Canadian border and the large population in lower mainland British Columbia. In the past a strong Canadian dollar, plus other cost differentials in goods, has benefited retail activity in the county. In 2013 the Canadian dollar began to weaken compared to the U.S. dollar and is currently around $0.75 US. This effect is dampening Canadian retail activity locally. Manufacturing has been the leading local growth sector in the economic recovery. Manufacturing provided 9,925 jobs in 2016 compared to 7,850 in 2010. The BP refinery is the largest private company with over 1,000 jobs including contractors. Local construction jobs have continued to recover. Canadian manufacturers have recently shown more interest in expanding into the county to access US markets.

Whatcom County has a well-educated workforce of which over 20% are college graduates. Western Washington University, with a student population of 15,500, as well as Whatcom Community College, Bellingham Technical College and Northwest Indian College, provide Whatcom County with a strong academic and vocational-technical base. Graduates of these institutions enhance the education and skill level of the area labor force. Moreover, WWU has received national recognition as one of the finest regional public universities. Meeting industry demand for skilled workforce is a high priority of area education institutions.

The Port actively participates in local economic development efforts. As a significant landowner with strong financial capabilities and patient capital the Port has been a principal driver in the growth of the local economy. The Port provided leadership in countywide economic development, financially contributes to local economic development agencies and is active at state, national, and international levels promoting the local community to economic constituents.

Long-Term Financial Planning

The measure of success for the Port of Bellingham is how effectively it serves the community through providing transportation services and facilities, promoting a sustainable economy, and undertaking successful custodial oversight of its assets and natural capital. On the resource side, the Port is different from other public agencies in that it does not rely solely on public funds, such as taxes, to fulfill a community purpose. The Port has access to limited public funds, but it also has the ability to engage directly in lines of business that earn financial returns. In this regard, the Port uses commercial means to accomplish public ends. The Port has established the following criteria to meet long-term financial goals in order to achieve its overall success in serving the community:

- **Financial Standards**

The Port Commission has adopted specific financial standards which guide the Port's Operations, including:

- The Port will prepare 1-year budgets and 5-year forecasts.
- The Port will fund operating activities and overhead from user fees and lease revenues.
- The Port will use tax levy for public purpose priorities and environmental programs.
- The Port will retain a cash balance reserve consisting of $1 million for emergencies, 3 months of average operating expenses, and an amount equal to the legal bond debt reserve.
- The Port will utilize its tax levy only for public purposes with receipts over $5 million allocated to the infrastructure redevelopment of the Bellingham Waterfront.

- **Financial Highlights**

  - Operating revenues exceeded $23.2 million for 2016, a decrease from 2015 of $400 thousand.

  - Operating income before depreciation exceeded $6.5 million for 2016 which is $1.2 million lower than the 2015 equivalent income.

  - The port has budgeted to spend about $18.5 million, net of grants, in new capital projects in 2017.

  - The 2017 budget includes replacement of the wooden section of the shipyard pier, stormwater and utility upgrades at the shipping terminal, the purchase of a heavy lift crane, repairs to several sections of bulkheads, and various other capital maintenance projects.

Lines of Business

- **Aviation**

The Port operates Bellingham International Airport (BLI), which is the third largest commercial aviation facility in the state. For 2016 BLI is classified by the Federal Aviation Administration as a small hub commercial and general aviation service airport. The airport is home to 194 based general aviation aircraft, 2 fixed base operators, air taxi charters and approximately 700 direct employees. In 2016, nearly 830,000 passengers traveled through the airport. BLI provides commercial service to 10 non-stop destinations and is an international point of entry for general aviation. Facilities include a 6,701 foot precision instrumented air carrier runway, an air traffic control tower and a newly expanded commercial service passenger terminal with eight boarding gates. Aviation revenues of $6.3 million in 2016 is a 4% decrease from 2015 and accounts for nearly 27% of total Port operating revenues for 2016.

- **Marinas**

As of December 2016, Squalicum Harbor was operating at 94.7% occupancy for the slips 30 feet in length and under, and 98.5% occupancy for the larger slips. Occupancy for this harbor's 1.386 wet moorage berths is expected to be at full capacity in the summer months, and has a waiting list for nearly all sizes of vessels. Blaine Harbor was at 69% occupancy at the end of 2016. Occupancy is also anticipated to increase in the summer months, and there is no waiting list in Blaine. Marina revenues of $7.5 million account for over 32% of total 2016 Port operating revenues.

- **Marine Terminals**

Although the shipping terminal has not seen the break-bulk shipping it had prior to 2001, it continues to remain available to handle bulk and break-bulk cargo. Recently the shipping terminal's primary revenue source has been from industrial lease tenants along with dockage for ship berthing and ship-side repair. The Port's passenger facilities are currently utilized by the Alaska Marine Highway System on a weekly schedule that primarily serves southeast Alaska.

In addition, it serves as the homeport for seasonal daily passenger service to the San Juan Islands, multiple charter vessels, an Island water taxi service and whale watching tour boats. The cargo and passenger terminal revenues of over $2.1 million account for approximately 9% of total 2016 Port operating revenues.

- **Real Estate**

The Port continues to obtain approximately 95 percent occupancy of its real estate portfolio, which includes 186 acres of properties leased out to 275 tenants. The Port's tenants lease space in Blaine and Squalicum Harbor areas, Bellingham International Airport, Fairhaven area, the Waterfront District, Sumas, and the Bellingham Shipping Terminal. Commercial real estate revenues of over $7 million accounted for 30% of total 2016 Port operating revenues.

- **Community Access**

The Port operates a number of public-use facilities including parks, boat launches, meeting areas, and extensive visitor facilities at the airport and marinas. The Port encourages public activity on Port properties and hosts numerous public events during the year including festivals, holiday events, arts and craft shows, and a variety of recreational activities.

Financial Management Information

- **Budgeting Controls**

Washington State Law, RCW 53.35.010 through 53.35.040, prescribes procedures for the preparation of annual budgets by port districts. In August each department director of the Port of Bellingham prepares a proposed budget to be reviewed with the Executive Director. The preliminary budget is provided to the Port Commission for comments. Final budgets are adopted by the Commission in November for the following calendar year. The final budget document, that includes amounts to be raised by taxation, is filed with the County Treasurer on or before the first Monday in December.

Budgetary control is maintained at the department level. Monthly departmental financial statements are produced comparing actual results to budgeted figures. These statements are analyzed and distributed to the Port Commission, senior management and department heads. Adjustments to budgeted amounts are approved by the Port Commission in an action taken at an open public meeting.

- **Cash Management and Investments**

The Commission has appointed the Director of Finance as Treasurer. Investments consist of government notes and participation in the State of Washington Local Government Investment Pool. All investments are highly liquid and are protected against loss through depository and liability restrictions governed by the Washington Public Deposit Protection Commission. December 31, 2016, the Port's cash and investment portfolio totaled $48.4 million at market value. Approximately thirty four percent (31%) of the invested cash was invested in U.S. Government Securities. The remainder was invested in short-term savings and the State and Local Government Investment Pool.

- **Environmental Matters**

In order to identify and minimize environmental liabilities associated with both Port and tenant operations, the Port administers an Environmental Compliance Assessment Program. The Program is designed to prevent the occurrence of environmental contamination on Port property through education, assessment, and remediation as necessary.

Typically, the environmental regulations that are most applicable to Port and tenant operations tend to be those that focus on the proper storage and handling of hazardous materials, permitted discharge of waste to both sanitary sewers and storm water systems, air permits, and remediation of soil and groundwater contamination from past practices. Although the Port's environmental program is designed to ensure compliance with these regulations, in all circumstances, formal regulatory oversight and enforcement is performed by state and federal agencies, including the Washington State Department of Ecology, the U.S. Environmental Protection Agency, and the U.S. Army Corps of Engineers.

- **Internal Controls**

In developing and evaluating the accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe the internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

- **Planning and Development**

The Port continues its planning and redevelopment effort of the Bellingham Waterfront District assets. The planning area includes over 200 acres which is currently proposed as a mixed use development. The Port has completed a Final Environmental Impact Statement and a package of draft planning documents, including Master Plan, Development Regulations, Development Agreement and Capital Facilities Agreement for the project. The Port has also approved a Master Development Agreement with Harcourt Developments LTD to begin the redevelopment of the Waterfront District. In 2016, the restoration of the first building was begun, and it is expected to be open to the public in late 2017. Redevelopment of the waterfront is expected to include promenades, public waterfront access, institutional facilities, marine-related businesses, retail, offices, residences, light industry and marine trades. In the process, shoreline habitat is expected to be restored along Bellingham Bay. Redevelopment of the waterfront is anticipated to occur in a number of phases over approximately 30 years. Western Washington University is expected to be an anchor tenant of the waterfront property.

In addition to redevelopment, the Port is also in the process of completing a number of environmental cleanup plans. The cleanup plans are subject to approval of the Washington State Department of Ecology. In 2007, the Port signed a Consent Decree and Cleanup Action Plan with the Department of Ecology for the Whatcom Waterway, which includes the Aeration Stabilization Basin. This agreement was subsequently amended by both parties in 2011. In

2016, the Port completed the Bunker C removal and the Pulp and Tissue capping at the GP West site under a separate Consent Decree with the Department of Ecology. The Port and Ecology have entered into Agreed Orders to complete environmental investigations and cleanup plans for four other sites within the Waterfront District, including the I&J Waterway, Central Waterfront, GP West, and Cornwall Avenue Landfill.

For most of the waterfront site, the Port has obtained environmental cost cap and environmental liability insurance which provides the Port with relative assurance that its remedial efforts will not exceed the projected value of the land. The Port has also applied for grant funding for environmental cleanup from the Department of Ecology. In addition to state funding, the Port plans to issue a combination of general obligation and revenue bonds to fund this significant development. Over the development life of the project, revenues from the project are expected to support the debt obligations.

AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement

The Government Finance Officers' Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting to the government entities which publish a report which is easily readable and efficiently organized and in which the contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

The Port of Bellingham has been awarded a Certificate of Achievement for Excellence in Financial Reporting for the years 1992–2015. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgment

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire Port staff. The Port realizes its strong financial controls only through the significant contributions of its entire administrative staff. Special recognition needs to be given to the Accounting Department staff for their responsibility in producing this document.

Finally, thanks to the Port Commissioners for their interest and support in planning and conducting the financial operations of the Port in a responsible and progressive manner.

Sincerely,

Tamara Sobjack
Director of Finance and Marinas

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Port of Bellingham

Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2015

Executive Director/CEO

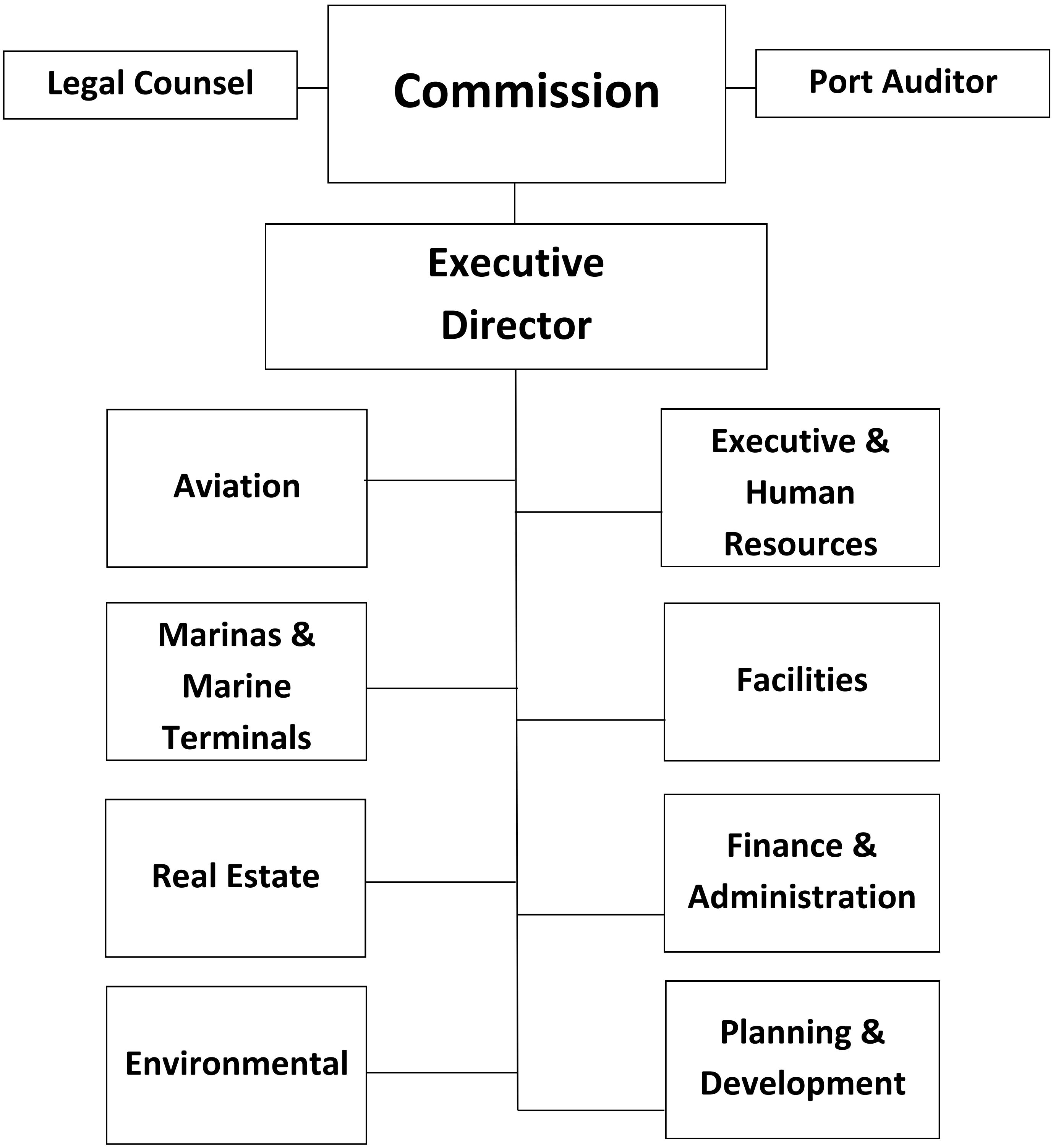
Port of Bellingham

List of Principal Officials

As of December 31, 2016

TITLE	NAME
Commissioner	Bobby Briscoe
Commissioner	Michael McAuley
Commissioner	Daniel Robbins
Legal Counsel	Frank Chmelik
Executive Director	Rob Fix
Port Auditor/Director, Finance	Tamara Sobjack
Director, Aviation	Sunil Harman
Director, Environmental	Brian Gouran
Director, Facilities	Adam Fulton
Director, Maritime	Dan Stahl
Director, Planning and Development	Sylvia Goodwin
Director, Real Estate	Shirley McFearin
Director, Human Resources	Elizabeth Monahan

ORGANIZATIONAL STRUCTURE



SECTION 2

FINANCIAL

PORT OF BELLINGHAM
Washington State

Office of the Washington State Auditor
Pat McCarthy

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

June 20, 2017

Board of Commissioners
Port of Bellingham
Bellingham, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Bellingham, Whatcom County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Port'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 Port'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.

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • Pat.McCarthy@sao.wa.gov

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 Bellingham, Whatcom County, Washington, as of December 31, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 14 through 22 and pension plan information on pages 53 through 54 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

The information identified in the table of contents as the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Port. Such information 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 will also issue our report dated June 20, 2017, on our consideration of the Port'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. That report will be issued under separate cover in the Port's Single Audit Report. 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 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's internal control over financial reporting and compliance.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

This Document contains the Port of Bellingham's (the Port's) Management Discussion and Analysis (MD&A) of financial activities and performance for the fiscal year ended December 31, 2016. Information contained in this MD&A has been prepared by the Finance Department and should be considered in conjunction with the financial statements and notes.

The notes are essential to a full understanding of the data contained in the financial statements. This report also presents certain required supplementary information regarding capital assets and long-term debt activity during the year, including commitments made for capital expenditures.

Overview of the Financial Statements

The financial section of this annual report consists of three parts – MD&A, the basic financial statements, and the notes to the financial statements. The basic financial statements include: the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. This report also includes statistical and economic data, and supplementary bond information.

Analysis of the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position is useful in understanding whether the Port's financial position has improved as a result of the year's activities. The Statement of Net Position presents information on all of the Port's assets and liabilities. The Port's total liabilities and deferred inflows subtracted from the Port's total assets and deferred outflows results in a calculation of the Port's net position. The growth or diminishment of the net position may serve as an indicator of whether the financial position of the Port is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Position reflect how the operating and non-operating activities of the Port affected changes in the net position of the Port. These activities are recorded under the accrual basis of accounting reflecting the timing of the underlying event regardless of the timing of the related cash flows.

Although the financial statements provide useful information in assessing the financial health of the Port, consideration of other factors not shown on the financial reports should be evaluated to assess the Port's true financial condition. Factors such as changes in the Port's tax base and the condition of the Port's asset base are also important when assessing the overall financial condition of the Port.

Government entities typically account for activities by utilizing "fund" accounting. A fund is a grouping of related accounts that is used to maintain control or to restrict the use of resources that have been segregated for specific activities or objectives. The Port uses only one fund, an enterprise fund, which reports all business type activities of the Port.

The Port has also established the Industrial Development Corporation of the Port of Bellingham (IDC). The IDC is a wholly owned subsidiary corporation of the Port. The IDC is a public corporation authorized by State statute to facilitate the issuance of tax-exempt revenue bonds to finance industrial development within the corporate boundaries of the Port. The Industrial Development Corporation is governed by the Port of Bellingham's three-member Port Commission and the Port's Finance Director acts as Treasurer of the IDC Board.

Financial Analysis of the Port

Net Position

The assets and deferred outflows of the Port exceeded its liabilities and deferred inflows at December 31, 2016 by $247 million. Total assets of the Port at year end were $392.8 million, while total liabilities were $144.6 million. The Port's long-term debt outstanding was $50.7 million which is a decrease from 2015 due to the scheduled debt payments and refunding of a general obligation bond. The Port's net investment in capital assets, was $268 million. Unrestricted net position was negative $26 million, reflecting the full estimated liability for the environmental remediation work but not offset by the expected Department of Ecology MTCA grants. It is anticipated that in the future the Port will raise funds for this estimated future liability.

Statements of Net Position	2016	2015
Current Assets	$ 54,882,800	$ 69,220,282
Capital Assets:		
Capital assets not being depreciated	114,191,621	154,126,321
Capital assets being depreciated	203,172,808	154,984,768
Other Assets	20,551,530	22,181,530
Total Assets	$ 392,798,759	$ 400,512,901
Deferred Outflows of Resources	$ 1,183,786	$ 819,155
Current Liabilities	$ 21,073,627	$ 52,496,661
Non-current Liabilities	123,557,327	118,419,687
Total Liabilities	$ 144,630,954	$ 170,916,348
Deferred Inflows of Resources	$ 2,061,187	$ 2,699,121
Net Position:		
Net investment in capital assets	$ 267,636,184	$ 256,672,025
Restricted	5,733,325	5,644,979
Unrestricted	(26,079,105)	(34,600,417)
Total Net Position	$ 247,290,404	$ 227,716,587

Changes in Net Position

In 2016, Port operating revenues declined slightly from 2015 totaling $23.3 million. The only increase in revenues came from the Marinas division, with 2016 revenues 3% higher than 2015, largely due to high occupancy in both the Blaine and Squalicum marinas. In spite of scheduled contractual increases and high occupancy rates, the Real Estate division saw a decrease in revenues over the previous year due to decreased concession fees from customers realizing a slowing of their revenues. The Aviation division suffered another year of declining revenues as enplanements continued to decrease year over year.

Total operating expenses (before depreciation) increased to $16.7 million, which is 5% higher than recorded in 2015. The increase in operating costs was felt in all areas, largely due to higher maintenance costs. Depreciation expenses increased to $12.8 million.

While a positive net income and the receipt of capital grants contributed to the increase in net position, the $15.7 million decrease in the Port's environmental liability was the major causes of the net position increasing $19.6 million in 2016 to $247.3 million. The reduction in the environmental liability was due to a substantial cleanup effort on Port property in 2016. Overall, the financial position of the Port improved in 2016.

Statements of Revenues, Expenses and Changes in Net Position

	2016	2015
Operating Revenues:		
Airport operations	$ 6,263,702	$ 6,532,421
Marina operations	7,530,848	7,328,815
Marine terminal operations	2,141,421	2,247,820
Property lease operations	7,017,044	7,210,802
Other	331,763	364,871
Total Operating Revenues	**$ 23,284,778**	**$ 23,684,729**
Non-operating Revenues:		
Ad valorem tax revenues	$ 7,098,188	$ 6,984,715
Investment income	229,118	146,258
Environmental insurance claim revenue	6,129,968	-
Environmental grant revenues	10,628,176	9,550,881
Other non-operating income	15,924,305	11,276,351
Total non-Operating Revenues	**$ 40,009,755**	**$ 27,958,205**
Total Revenues	**$ 63,294,533**	**$ 51,642,934**
Expenses:		
General operating expenses	$ 11,424,029	$ 10,660,142
Maintenance expenses	3,031,108	3,183,973
General and administrative expenses	2,285,811	2,098,988
Depreciation expense	12,823,245	10,487,728
Non-operating expenses	23,169,675	21,001,451
Total Expenses	**$ 52,733,868**	**$ 47,432,282**
Increase (Decrease) in Net Position before Capital Contributions	**$ 10,560,665**	**$ 4,210,652**
Capital Contributions	**$ 9,013,152**	**$ 9,289,273**
Change in Net Position	**$ 19,573,817**	**$ 13,499,925**
Net Position - Beginning of Period	**$ 227,716,587**	**$ 220,039,475**
Impact of adoption of GASB 68		**$ (5,822,813)**
Net Position - End of Period	**$ 247,290,404**	**$ 227,716,587**

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2016, the Port had $317 million (net of accumulated depreciation) in capital and intangible assets. The Port's capital assets include land, buildings, improvements, machinery, equipment and construction in progress. Capital assets (net of accumulated depreciation) at December 31, 2015, totaled $309 million. Capital assets, net of depreciation, increased by $8.3 million in 2016. See Notes 4 and 11. Capital projects which individually totaled in excess of $500,000 during 2016 were:

• All American Marine Building Construction	$ 8,132,637
• Whatcom Waterway Infrastructure – North	5,031,014
• C Street Terminal Uplands	3,461,991
• General Aviation Apron Rehab Area 3	2,397,568
• Deconstruct Waterfront Site	2,305,032
• Engineering & Scope Shipyard Pier	2,067,200
• Permit & Predesign ASB	1,655,772
• Squalicum Gate 3 Sprinkler Pressure Line	1,445,792
• Shipping Terminal Main Pier Repairs	1,082,792
• Shipping Terminal Stormwater Improvements	1,035,848
• Fairhaven Boat Launch	556,427

A total of $23.3 million was spent during 2016 on Capital Assets. See note 4.

There are no restrictions, commitments, or other limitations that significantly affect the availability of fund resources for future use.

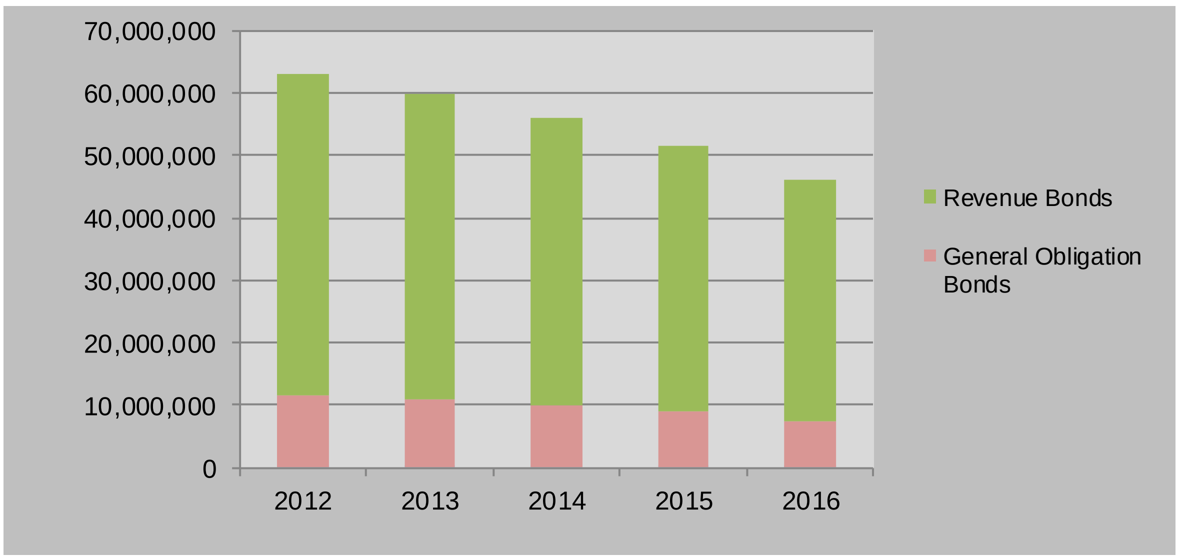
Debt Administration

At December 31, 2016, long-term debt obligations totaled $138.9 million of which $15.4 million is due within one year. The total bonded debt is comprised of $8.2 million balance in general obligation debt, and $38.2 million representing bonds secured by revenue sources of the Port. The terms of the Port debt vary per issue with interest rates ranging from 1.35% to 7%. Revenue bond debt will be fully amortized by 2030 while currently outstanding General Obligation Bond debt will be fully amortized by the year 2025. Moody's Investor Services rates the Port's general obligation bonds as Aa2 and the Port's issued Revenue Bonds as A2. The remainder of the 2006 General Obligation bonds were refunded in 2016 in order to realize a net present savings of over $790 thousand over the remaining life of the bonds, which mature in 2025. The interest rate on the new issue ranges from 2 to 4 percent. The remainder of the Port's debt is primarily environmental remediation.

The Port through various contractual relationships has assumed contingent liability for environment cleanup of various properties acquired by the Port. Total environmental cleanup activities have been estimated as of December 31, 2016 at $128.7 million. Per GASB 49, effective 2008, the Port expects to capitalize $46.6 million of the environmental remediation efforts, leaving $82 million as a liability. The Port has purchased insurance which is expected to fund approximately $20 million of the liability and expects to receive grants from the State of Washington for approximately ½ of the liability costs. In addition to these funding sources, the Port continues to pursue environmental contributions payments from liable 3rd parties. See Note 14.

Outstanding Bonded Debt

Fiscal Year Ended	General Obligation Bonds	Revenue Bonds	Total Bonded Debt
2012	$ 11,725,000	$ 51,505,000	$ 63,230,000
2013	$ 10,880,000	$ 48,875,000	$ 59,755,000
2014	$ 10,000,000	$ 46,160,000	$ 56,160,000
2015	$ 9,050,000	$ 42,400,000	$ 51,450,000
2016	$ 7,540,000	$ 38,485,000	$ 46,025,000



2017 Budget

The Port's 2017 budget anticipates Operating Revenues to remain flat compared to 2016. Operating expenses are budgeted to increase slightly to $17.9 million. Income from traditional operations before depreciation is anticipated to be approximately $7.4 million.

In 2017, over $18.5 million, net of anticipated grants, is forecasted for capital projects. This total includes capital improvements of over $6 million in real estate projects, over $2.6 million in marina projects, and various airport and public access projects. Many of these projects are complex and are anticipated to occur over multiple years and are currently in various stages of planning, design, and permitting.

Property taxes for 2017 are levied at .2622 per 1,000 valuation rate, resulting in a total levy of just over $7 million. $1.26 million of this amount is levied for the General Obligation Fund. The levy rate for 2016 was .2764 for a levy amount of just under $7 million.

The Port's budget is developed with consultation of much of the Port's management and through analysis of Port operations. However, all budgets inherently are forecasts and the actual results will likely vary from that provided for in the budget. Assumptions regarding interest rates, economic growth and natural disasters are among the many factors that may cause a significant variance of actual results to the budget.

Contacting the Port's Financial Management

The Port of Bellingham designed this financial report to provide our citizens, customers, investors and creditors with an overview of the Port's finances. If you have questions or need additional information please visit our website at www.portofbellingham.com or contact: Director of Finance, 1801 Roeder Avenue, Bellingham, WA 98225-2257. Telephone 360-676-2500.

PORT OF BELLINGHAM

STATEMENT OF NET POSITION

December 31, 2016

ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 1)	$	33,378,396
Investments (Note 2)		9,305,247
Restricted assets:		
Cash and cash equivalents		203,271
Investments		5,530,054
Taxes receivable		150,676
Due from other governments		3,358,445
Accounts receivable (net of allowance for uncollectible)		840,907
Interest receivable		43,700
Notes receivable		77,644
Other receivables		408,875
Prepaids		1,585,585
TOTAL CURRENT ASSETS		**54,882,800**
NON-CURRENT ASSETS:		
Capital assets not being depreciated (Note 4)		
Land		78,817,133
Construction in progress		35,374,488
Capital assets being depreciated (Note 4)		
Intangible assets (Note 4)		2,194,558
Equipment		13,756,318
Buildings and Structures		157,386,354
Improvements other than buildings		201,629,136
Less: Accumulated depreciation		(171,793,558)
Other noncurrent assets		
Hold-over compensation		21,530
Environmental Insurance		20,530,000
TOTAL NON-CURRENT ASSETS		**337,915,959**
TOTAL ASSETS	**$**	**392,798,759**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding debt (Note 1)		112,496
Deferred outflow for pension (GASB 68) (Note 6)		1,071,290
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$**	**1,183,786**

The notes to the financial statements are an integral part of this statement.

PORT OF BELLINGHAM

STATEMENT OF NET POSITION

December 31, 2016

LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	$	2,564,173
Accrued expenses		1,053,286
Accrued interest payable		327,760
Other current payables		1,729,683
Current portion of long-term obligations (Note 9)		6,176,648
Current portion of environmental remediation		9,222,077
TOTAL CURRENT LIABILITIES		**21,073,627**
NON-CURRENT LIABILITIES:		
Long-term debt		
General obligations bonds		7,070,204
Revenue bonds		34,116,851
Environmental remediation		72,876,873
Notes payable		3,011,398
Pension Liability		6,182,962
Compensated Absences		299,039
TOTAL NON-CURRENT LIABILITIES		**123,557,327**
TOTAL LIABILITIES	**$**	**144,630,954**
DEFERRED INFLOWS OF RESOURCES		
Deferred lease arrangement receipts (Note 15)		1,849,756
Deferred Inflows for pensions (GASB 68) (Note 6)		211,431
TOTAL DEFERRED INFLOWS OF RESOURCES	**$**	**2,061,187**
NET POSITION		
Net investment in capital assets		267,636,184
Restricted for debt service		5,077,156
Restricted for blended component unit		990
Restricted for revolving loan program		202,281
Restricted for insurance reserve		452,898
Unrestricted		(26,079,105)
TOTAL NET POSITION	**$**	**247,290,404**

The notes to the financial statements are an integral part of this statement.

PORT OF BELLINGHAM

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2016

OPERATING REVENUES:	
Airport operations	$ 6,263,702
Marina operations	7,530,848
Marine terminal operations	2,141,421
Property lease operations	7,017,044
Other	331,763
Total Operating Revenues	**23,284,778**
OPERATING EXPENSES:	
General operations	11,424,029
Maintenance	3,031,108
General and administrative	2,285,811
Depreciation	12,823,245
Total Operating Expenses	**29,564,193**
OPERATING INCOME (LOSS)	**(6,279,415)**
NON-OPERATING REVENUES (EXPENSES):	
Environmental grant revenues	10,628,176
Investment income	229,118
Taxes levied for:	
General purposes	5,802,108
Debt service principal/interest	1,296,080
Miscellaneous taxes	120,297
Other revenues	127,341
Environmental remediation adjustment	15,676,667
Environmental remediation expense	(447,467)
Environmental insurance claims revenue	6,129,968
Gain (Loss) on disposition of assets	(791,031)
Amortization of intangibles	(324,148)
Interest expense	(894,949)
Environmental grant expense	(20,712,080)
Total Non-Operating Revenues (Expenses)	**16,840,080**
Income (loss) before capital contributions	**10,560,665**
Capital Contributions	**7,303,998**
Capital Contributions - Contractually Restricted (Note 13)	**1,709,154**
Increase (Decrease) in Net Position	**19,573,817**
Net position - beginning of period	**227,716,587**
Net position - end of period	**$ 247,290,404**

The notes to the financial statements are an integral part of this statement.

PORT OF BELLINGHAM

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	26,469,369
Payments to suppliers		(22,962,851)
Payments to employees		(1,658,324)
Net cash provided by operating activities		**1,848,194**
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Receipts from property taxes		5,712,931
Receipts from other taxes and financing fees		223,703
Receipts from operating grants		19,075,477
Payments for operating grants		(24,787,542)
Prepaid Environmental Clean-up Insurance Policy		9,362,099
Net cash provided (used) by non-capital financing activities		**9,586,668**
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES		
Principal paid on capital debt		(3,031,432)
Interest paid on capital debt		(2,154,856)
Cash received from property taxes for general obligation bonds		1,408,899
Purchases of capital assets		(19,548,444)
Capital contributions		9,597,179
Payments for environmental remediation		7,021,174
Net cash provided (used) by capital and related financing activities		**(6,707,480)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		9,500,000
Payments for purchases of investments		(9,513,085)
Interest and dividends		227,128
Net cash provided by investing activities		**214,043**
Net increase (decrease) in cash and cash equivalents		4,941,425
Balances - beginning of the year		28,640,242
Balances - end of the year	**$**	**33,581,667**

The notes to the financial statements are an integral part of this statement.

PORT OF BELLINGHAM

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Net Operating Income (Loss)	**$**	**(6,279,415)**
Depreciation		12,823,245
Change in assets and liabilities:		
(Incr)Decr in accounts receivable		1,435,599
(Incr)Decr in other current assets		22,403
(Incr)Decr in work for others		2,066,404
(Incr)Decr in customer deposits		(317,413)
Incr(Decr) in accounts payable		(9,057,868)
Incr(Decr) in other liabilities		856,945
Non Cash GASB 68 pension expense		298,293
Total Adjustments		8,127,609
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$**	**1,848,194**

SCHEDULE OF NON-CASH ACTIVITIES		
Construction in Process Capitalized Interest		1,196,252
Change in value of Intangible Assets		(324,148)
Unrealized Gains or Losses		(143,315)
Environmental Claim adjustment		15,676,667
Disposals of Capital Assets		(2,398,450)
Change in deferred pension		(422,446)
TOTAL NON-CASH ACTIVITIES	**$**	**13,584,560**

The notes to the financial statements are an integral part of this statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Port of Bellingham (the Port) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Port's accounting policies are described below.

Reporting Entity

The Port is a municipal corporation organized under the Washington Port Laws (RCW Title 53). Created by a vote of the people of Whatcom County in 1920, the Port is authorized by statute of the State of Washington to provide for the development and maintenance of harbors and marine terminals, the development and maintenance of aviation facilities, to promote tourism, and to foster economic activity in Whatcom County. The Port may acquire land for sale or lease for industrial or commercial purposes and may create industrial development districts.

The Port is independent from other local or state governments and is administered by a three-member Port Commission elected by Whatcom County voters to four year terms operating within district boundaries. These legislative districts for the Port Commission previously matched those of the three Whatcom County Council districts. In 2016, the County changed to five legislative districts. In January, 2017, the Port Commission voted to reaffirm the same three voting boundaries as established before the County's change.

As required by GAAP, management has considered all potential component units in defining the reporting entity. These financial statements present the Port and its component unit. The component unit discussed below is included in the district's reporting entity because of the significance of its operational or financial relationship with the district.

The Industrial Development Corporation (IDC), a public corporation, is authorized to facilitate the issuance of tax-exempt non-recourse revenue bonds to finance industrial development within the corporate boundaries of the Port. Revenue bonds issued by the Corporation are payable from revenues derived as a result of the industrial development facilities funded by the revenue bonds. The bonds are not a liability or contingent liability of the Port or a lien on any of its properties or revenues other than industrial facilities for which they are issued.

The IDC is governed by a four-member Board of Directors, which is comprised of the same members as sit on the Port Commission and a staff member, Tamara Sobjack, appointed as Treasurer. The IDC is considered a blended component unit of the Port and is included within the Port's financial statements. Separate financial statements of the individual component unit discussed above can be obtained from the Port administrative offices at 1801 Roeder Avenue in Bellingham, WA.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In 2012, the Port was designated as Whatcom County's Associate Development Organization (ADO) as defined by RCW 43.330.110 to broadly represent the community interests in local economic development issues. At the time of this designation, an Economic Development Administration Revolving Loan Fund (RLF) was transferred to the Port. This fund is kept separate from the Port's general revenue funds and provides financing for economic development activities.

Basis of Accounting and Presentation

The accounting records of the Port are maintained in accordance with methods prescribed by the State Auditor under the authority of RCW 43.09. The Port uses the *Budgeting, Accounting and Reporting System for GAAP* in the State of Washington.

The financial statements of the Port are prepared using the accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows. The Port is accounted for on a flow of economic resources measurement focus.

Use of Estimates

The preparation of the Port's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant Risks and Uncertainties

The Port is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include economic conditions, collective bargaining disputes, security and national disasters, as well as regulations and changes in law of federal, state and local governments.

Assets, Liabilities and Net Position

1. **Investments, Cash and Cash Equivalents**

   Investments are carried at fair value. Interest income on investments is accrued as non-operating revenue as earned. Changes in the fair value of investments are determined on quoted market rates. Gains or losses due to market valuation changes are recognized in the same statements of revenues, expenses and changes in net position.

   It is the Port's policy to invest all temporary cash. This amount is classified on the statement of net position as cash and cash equivalents. It is the Port's policy to

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

consider all short-term investments with a maturity within 90 days or less at the date of purchase to be cash equivalents. Investments held in the Local Government Investment Pool totaling $30,375,446 is reported at amortized cost and is included in Cash and Cash Equivalents.

2. Temporary Investments See Note 2.

3. Receivables

General Obligation Taxes Receivable and General Taxes Receivable consist of property taxes and related interest and penalties (See Note 3). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year. Accounts Receivable are recorded for amounts earned from contractual relationships. The allowance method is used to account for bad debt expense. The allowance for doubtful accounts was $51,335 at December 31, 2016. Other Receivables consist of materials and services paid by the Port, which will be reimbursed by outside entities or insurance proceeds.

4. Amounts Due To and From Other Governments

These accounts include amounts due to or from other governments for grants, entitlements, and loans from other governmental entities. A Schedule of Expenditures of Federal Awards, which provides a listing of all federal assistance programs in which the Port participates and summarizes the Port's grant transactions for 2016, is available.

5. Restricted Assets See Note 2.

In accordance with bond resolutions and certain related agreements, separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses including construction, debt service, and other special reserve requirements.

The restricted assets are composed of the following:

Cash and Cash Equivalents – Blended Component Unit, IDC	$990
Cash and Cash Equivalents – Revolving Loan Fund	$202,281
Investments – Insurance Reserve	$452,898
Investments –Debt Service	$5,077,156

6. Capital Assets and Depreciation See Note 4.

The Port follows the policy of capitalizing interest as a component of the cost of capital assets constructed. During 2016, total interest incurred was $2,091,201, of which $1,196,252 was capitalized.

7. Other Property and Investments See Note 2.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Deferred Outflows/Inflows of Resources

The balance of an 80-year service concession agreement in the amount of $1,849,756 is shown on the Statement of Net Position as a Deferred Inflow of Resources. See Note 15.

Deferred outflows and inflows for pension liabilities are shown on the Statement of Net Position and represent the Port's contributions subsequent to the reporting period, as well as changes in actuarial assumptions reported by the Department of Retirement Systems. See Note 6.

9. Compensated Absences

In accordance with GASB Statement No. 16, Accounting for Compensated Absences, the Port accrues a liability for vacation/PTO pay. All represented and non-represented staff, with the exception of those covered by PERS 1, may accumulated up to 520 hours of PTO. PERS 1 employees may accumulate up to 240 hours, and those with more than 10 years of service are permitted to move 50% of their accrued vacation into a separate pre-retirement bank. PERS 2 and PERS 3 employees with more than 10 years of service are permitted to move 50% of their accrued PTO over 240 hours into a pre-retirement bank. The pre-retirement bank will not exceed519 hours and upon retirement, the employee is permitted to use the pre-retirement bank prior to their retirement date. If the employee separates for reasons other than retirement, the pre-retirement bank will be paid at the employee's current rate of pay. The Port accrues unpaid vacation/PTO leave benefits as earned. Accrued vacation/PTO benefit liability was $739,842 at December 31, 2015, and $833,396 at December 31, 2016.

10. Environmental Remediation Liabilities

The Port accrues future Environmental Remediation Costs that meet the measurement criteria as outlined under GASB No. 49. These liabilities are shown on the Statement of Net Position. For some environmental cleanup sites the Port has purchased Environmental Cost Cap insurance coverage (See Note 15). Prepayments for remediation and estimated insurance reimbursement payments under these policies are shown as assets within the Statement of Net Position. The estimated cost of all environmental remediation is measured annually and adjustments made to the accrued liability.

11. Long Term Debt See Note 9.

12. Hold-Over Compensation

This account includes amounts recognized as assets but not revenues because the revenue criterion has not been met.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

13. Operating and Non-Operating Revenues

Marinas, Marine Terminals, Aviation and Commercial Real Estate revenues are charges for use of the Port's facilities and are reported as Operating Revenue. Ad valorem tax levy revenues and other revenues generated from non-operating sources are classified as Non-Operating Revenues.

Passenger Facility Charges (PFC) collected through commercial aviation activities are recorded as Capital Contributions in the Statement of Revenues, Expenses and Changes in Net Position and are restricted by agreement to the use as reimbursement for specific capital costs incurred at the airport.

The Port receives federal and state grants for both capital reimbursement as well as operating grants for specific purposes. Operating grants and related expenses are accounted for as Non-Operating Revenues and Expenses while capital grants are accounted for as Capital Contributions increasing the net position of the Port.

14. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and addition to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 – DEPOSITS AND INVESTMENTS

Treasury Function

The Port invests its cash reserves and utilizes the "safekeeping" services of KeyBank National Association. The Port also has established direct banking services with Key Bank and short-term cash management through the Washington State Local Government Investment Pool (LGIP).

The Port's deposits in the LGIP are secured by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). In accordance with GASB criteria, PDPC protection is of the nature of collateral, not of insurance. In addition, the LGIP is subject to annual audits by the Washington State Auditor's Office.

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Investments

The Port Commission has authorized the Port Treasurer to invest in savings or time deposits in designated public depositories or in certificates, notes, or bonds of the United States. The Port is also authorized to invest in other obligations of the United States or its agencies. The Port's investment policy allows for investments by the Port in Bankers' Acceptance, in debt obligations issued by the Federal National Mortgage Association, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal Farm Credit Banks and the Student Loan Marketing Association. The Port also has limited investment authority in Commercial Paper, Certificates of Deposit with qualified public depositories, obligations of Local and State governments that are either rated "A" or higher by a nationally recognized rating agency or insured as "AAA" credit. With the exceptions of certain reserve fund investments, the investment policy limits the maximum maturity of any security purchased to five years. Investments are purchased through broker relationships with all securities purchased held in the Port's name at KeyBank National Association.

Unrestricted investments are classified as Current Assets on the accompanying financial statements. They are available for use in operations if needed and are not committed to be held to maturity. The investment portfolio at December 31, 2016 was entirely invested in U.S. government agencies that have underlying investment ratings of "AAA" by nationally recognized rating agencies.

The tables below identify the type of investments and concentrations of investments in any one user as of December 31, 2016 and 2015.

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

		Maturities (in years)			
Investment Type	Fair Value	Less than 1	1-3	More than 3	% of Total Portfolio
2016					
Federal Agencies Securities:					
Federal Home Loan Bank	2,942,619		986,423	1,956,196	19.84%
Federal Farm Credit Bank	3,462,336		1,998,851	1,463,485	23.34%
Federal Home Loan Mortgage Corporation	2,470,475		1,495,969	974,506	16.65%
Federal National Mortgage Assocation	3,964,286		3,964,286		26.72%
US Treasuries	1,995,585	999,023	996,562		13.45%
Total Investments	14,835,301	999,023	9,442,091	4,394,187	100%
Percentage of Total Portfolio	100%	6.73%	63.65%	29.62%	
2015					
Federal Agencies Securities:					
Federal Home Loan Bank	993,321			993,321	6.65%
Federal Farm Credit Bank	3,983,805		1,003,554	2,980,251	26.67%
Federal Home Loan Mortgage Corporation	5,980,262	996,697	3,984,885	998,680	40.03%
Federal National Mortgage Assocation	2,989,729			2,989,729	20.01%
US Treasuries	991,680		991,680		6.64%
Total Investments	14,938,797	996,697	5,980,119	7,961,981	100%
Percentage of Total Portfolio	100%	6.67%	40.03%	53.30%	

All investments are stated at fair value, which are determined based on quoted market prices as provided by KeyBank National Association. Other property and investments are shown on the statement of net position at cost, net of amortized premium or discount. Investments of deferred compensation are stated at fair value.

Interest Rate Risk –Investments

Interest rate risk is the risk that an investment's fair value decreases as market interest rates increase. Through its investment policy, the Port manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits for the Port's investment portfolio. Securities within the portfolio are limited to maturity lengths of five years.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Port will not be able to recover the value of its investments or collateral securities that are in the

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

possession of an outside party. By the Port's policy, all security transactions are settled "delivery versus payment". This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the Port's safekeeping bank.

Investments authorized through bond debt agreements

Pursuant to revenue bond resolutions adopted by the Port Commission, various special purpose funds have been established to designate cash and investments for bond debt service. Bond covenants require a reserve account be created for the purpose of securing payment of the principal and interest. All revenue bonds outstanding are considered "parity" bonds with a reserve fund requirement equal to the highest annual debt service of each revenue bond issue or 125% of the highest average annual debt service of all revenue bond issues, whichever is lower. The Port has established a Revenue Bond Reserve fund to meet this debt requirement in the amount of $5,077,156.

NOTE 3 – PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied on the county for all taxing authorities. Collections are distributed each month to the Port by the County Treasurer. Established by state constitution and laws, 1/6th of all real property is appraised and revalued every year.

Property taxes are recorded as a receivable when levied, and recognized as revenue in their entirety by the end of the year. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. (State law allows for the sale of property for failure to pay taxes).

The Port is permitted by law to levy up to $.45 per $1,000 of assessed valuation for general governmental services. The rate is limited by the Washington State Constitution and Washington State law, RCW 84.55.010. The Port may levy taxes at a lower rate.

The Port's regular levy for 2016 was $.2252 per $1000 on an assessed valuation of $25,299,329,005 for a total regular levy of $5,697,564.

In 2016, the Port levied an additional $.0512 per $1000 for the repayment of General Obligation Bonds for a total additional levy of $1,296,080.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Major expenses for both capital assets and major repairs that increase the useful life of the asset are capitalized and valued at historical cost. Maintenance and minor repairs on assets are accounted for as expenses when incurred.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION (continued)

All capital assets are valued at historical cost. The Port has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the Port has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable account.

An allowance for funds used during construction is capitalized as part of the cost of the asset. The procedure is intended to remove the cost of financing construction activity from the income statements and to treat such cost in the same manner as construction labor and material costs. During 2016, the Port capitalized $1,196,252 of net interest costs for funds borrowed to finance the construction of capital assets.

The Port's policy is to capitalize all asset additions greater than $5,000 and all major repairs greater than $10,000, both with an estimated life greater than one year. Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives using the straight-line method. Buildings and improvements are assigned lives of 25 to 40 years; equipment 4 to 10 years; and furniture and fixtures 5 to 15 years. As of January 1, 2016, intangible assets totaled $1,787,932. During 2016, the Port added $730,774, and amortized $324,148, leaving a balance of $2,194,558 at the end of 2016. These include appraisals, dredging, permitting, platting and mapping, and various other intangible assets. The Port amortizes these assets from 3 to 15 years.

Capital asset activity for the year ended December 31, 2016 was as follows:

	Beginning Balance 01/01/2016	Increases	Decreases	Ending Balance 12/31/2016
Non-Depreciable Assets:				
Land	$ 79,999,478	$ 56,791	$ (1,239,137)	$ 78,817,132
Construction in progress	74,126,843	23,388,437	(62,140,792)	35,374,488
Total Non-Depreciable Assets	**154,126,321**	**23,445,228**	**(63,379,929)**	**114,191,620**
Depreciable Assets:				
Buildings and Structures	120,149,256	39,918,645	(2,681,547)	157,386,354
Improvements other than buildings	183,584,461	18,044,675	-	201,629,136
Machinery and Equipment	10,542,202	4,184,362	(970,246)	13,756,318
Total Depreciable Assets	**314,275,919**	**62,147,682**	**(3,651,793)**	**372,771,808**
Less Accumulated Depreciation for:				
Buildings and Structures	72,630,257	4,284,118	(1,189,712)	75,724,663
Improvements other than buildings	79,809,963	6,822,839	-	86,632,802
Machinery and Equipment	8,638,864	1,716,288	(919,059)	9,436,093
Total accumulated depreciation	**161,079,084**	**12,823,245**	**(2,108,771)**	**171,793,558**
Depreciable Assets Net	**$ 153,196,835**	**$ 49,324,437**	**$(1,543,022)**	**$ 200,978,250**

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION (continued)

Construction Commitments:

At year end, the Port's capital budget commitments were as follows:

Project	Spent to Date	Commitment
Airport:		
GA Apron Rehab Area 3	2,397,568	157,432
Master Plan/AGIS	84,365	380,635
Marinas:		
Squalicum Sawtooth Repairs	139,660	185,909
Squalicum Gate 3 Sprinkler Pressure Line	1,445,792	(57,921)
Squalicum Gate 3 Power Upgrade	53,106	786,894
Blaine Sawtooth - Structural	400,949	106,611
Blaine Replace Dock Boxes	149,914	212,655
Marine Terminals:		
BST Stormwater Improvements	1,035,848	464,152
BST Main Pier Repairs	1,082,792	471,708
BST Replace Roofs Warehouse 1 & 2	542,202	(12,202)
Properties:		
Shipyard Pier-Eng./Scope	2,067,200	6,924,333
Refurbish Main Pier - Blaine Harbor	296,757	545,301
Construct AAM Building	8,132,637	1,394,446
Bellingham Waterfront District		
Permit/Predesign ASB	1,655,772	(157,266)
Deconstruct GP Site	2,305,032	239,968
C St Terminal Uplands	3,461,991	1,433,009
Whatcom Waterway Infrastructure North	5,031,014	-
Upgrade Lignin Building	13,192	1,486,808
Public Properties:		
Fairhaven Boat Launch	556,427	9,912
Infrastructure:		
Demo Wharf and Replace Bulkhead	74,153	675,847
Replace BCT Fire Line	39,330	385,990
BST Bulkhead Repairs	83,307	316,693
Des. and Eng. Rail Span Chemical Dock	132,247	2,729,568
Other Port Projects Less Than $300,000	4,193,231	2,252,526
Total Construction	35,374,488	20,933,005

NOTE 5 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

NOTE 6 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016:

Aggregate Pension Amounts - All Plans		
Pension liability	$	6,182,962
Pension asset	$	-
Deferred outflows of resources	$	1,071,290
Deferred inflows of resources	$	211,431
Pension expense/(credit)	$	412,067

State Sponsored Pension Plans

Substantially all of the Port's full-time and qualifying part-time employees participate in the statewide retirement system administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

DRS, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov or obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Public Employees' Retirement System (PERS) Plans 1, 2 and 3

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes. Plans 1 and 2 are defined-benefit plans, and Plan 3 combines defined benefits and defined contributions. PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs.

NOTE 6 – PENSION PLANS (continued)

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contributions rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee**
January - December 2016	11.18%	6.00%

The Port's contributions to the plan were $308,582 for the year ended December 31, 2016.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

NOTE 6 – PENSION PLANS (continued)

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at 3 percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS Plan 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit potion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer**	**Employee**
Plan 2: January - December 2016	11.18%	6.12%
Plan 3: January - December 2016	11.18%	varies

The Port's actual contributions to the plan were $392,910 for the year ended December 31, 2016.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2016. The actuarial assumption used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study.*

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled

NOTE 6 – PENSION PLANS (continued)

forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015 to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumptions, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation. For PERS Plan 1 and PERS Plan 2/3, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5%.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (which include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' 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 of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times.

NOTE 6 – PENSION PLANS (continued)

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below represents the Port's proportionate share of the net pension liability calculated using the discount rate of 7.5 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 (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 3,434,743	$ 2,848,283	$ 2,343,598
PERS 2/3	$ 6,139,743	$ 3,334,679	$ (1,735,893)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

NOTE 6 – PENSION PLANS (continued)

At December 31, 2016, the Port reported a total pension liability of $6,182,962 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$ 2,848,283
PERS 2/3	$ 3,334,679

At June 30, the Port's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.056592%	0.053036%	-0.003556%
PERS 2/3	0.069443%	0.066231%	-0.003212%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations.*

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, the Port recognized pension expense as follows:

	Pension Expense/(Credit)
PERS 1	$ (41,662)
PERS 2/3	$ 453,729

Deferred Outflows of Resources and Deferred Inflows of Resources

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

NOTE 6 – PENSION PLANS (continued)

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 71,715	$ -
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ -
Changes of assumptions	$ -	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ -	$ -
Contributions subsequent to the measurement date	$ 156,591	$ -
TOTAL	$ 228,306	$ -

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 177,569	$ (110,083)
Net difference between projected and actual investment earnings on pension plan investments	$ 408,069	$ -
Changes of assumptions	$ 34,467	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ 23,395	$ (101,348)
Contributions subsequent to the measurement date	$ 199,484	$ -
TOTAL	$ 842,984	$ (211,431)

Combined PERS 1 & PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 249,284	$ (110,083)
Net difference between projected and actual investment earnings on pension plan investments	$ 408,069	$ -
Changes of assumptions	$ 34,467	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ 23,395	$ (101,348)
Contributions subsequent to the measurement date	$ 356,075	$ -
TOTAL	$ 1,071,290	$ (211,431)

Deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred

NOTE 6 – PENSION PLANS (continued)

outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2017	$ (17,658)
2018	$ (17,658)
2019	$ 65,863
2020	$ 41,168
Total	$ 71,715

Year ended December 31:	PERS 2/3
2017	$ (19,620)
2018	$ (19,620)
2019	$ 284,242
2020	$ 187,066
Total	$ 432,068

NOTE 7 – RISK MANAGEMENT

Commercial insurance is maintained against most normal hazards the Port may experience.

Primary General Liability coverage is in effect to a limit of $1 million with a $25,000 deductible. Excess liability coverage is in effect to a limit of $50 million. Public Officials and Employee Practices Liability coverage is in effect to a limit of $5 million with a $25,000 deductible. Airport Liability coverage is in effect to a limit of $100 million combined bodily injury, property damage and extended coverage for war, hijacking, terrorism and other perils with a $0 deductible. The Port also maintains a separate Crime policy to a limit of $2 million with a deductible of $2,500 and a Foreign Liability policy with various limits and deductibles. In addition, the Port maintains standard business Automobile insurance with various limits and deductibles.

Commercial property coverage at full replacement cost with a loss limit of $490 million with a deductible of $50,000 is in effect. Earthquake/Floor coverage has a separate limit of $25 million with the Port self-insuring (as a deductible) five percent of the property value for each location.

NOTE 7 – RISK MANAGEMENT (continued)

There is one open major claim against the Port's insurance carrier, which arose from an accident in 2012, and resulted in a verdict against the Port in 2015 within the liability insurance policy limits. The liability insurance carrier is currently perfecting an appeal.

Settlement claims have not exceeded insurance coverage for any of the past three fiscal years.

The Port provides health and welfare benefits to full-time and part-time employees and their eligible dependents. The healthcare and dental/vision plans are administered by Healthcare Management Administrators (HMA). Both plans are self-insured. In 2016, the healthcare plan had an average of 262 lives on the plan, including COBRA participants. Fixed costs, including the stop loss premium were $306,773. Claims paid, less the stop loss adjustments, were $1,050,843, and IRS fees totaled $7,623. Total healthcare costs in 2016 were $1,365,239. The required 16 weeks of reserve is calculated to be $420,074, and is included in the Port's restricted net position. The 2016 dental/vision plan had an average of 250 lives on the plan including COBRA participants. Fixed costs were $6,883, and the claims paid were $99,794. Total dental/vision plan costs were $106,677. The required 16 weeks of reserve is calculated to be $32,824 and is included in the Port's restricted net position.

NOTE 8 – SHORT-TERM DEBT

There was no short-term debt activity in 2016

NOTE 9 – LONG-TERM DEBT

The Port issues general obligation bonds to finance capital improvements to marinas, cargo shipping docks and the Bellingham International Airport terminal. The Port issued its 2016 General Obligation bond to refund the remaining balance of the 2006 issue. General obligation bonds currently outstanding are as follows:

Description and Date of Issue	Original Amount	Interest Rate	Maturity		Amount
1/1/2006	5,000,000	4.00-4.17%	2025		-
4/21/2016	4,485,000	3.779%	2025		4,440,000
9/23/09	9,210,000	4.2-4.75%	2019		3,100,000
Total General Obligation Bonds				$	7,540,000

NOTE 9 – LONG-TERM DEBT (continued)

The annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Principal	Interest
2017	990,000	268,000
2018	1,035,000	227,500
2019	1,075,000	185,300
2020	680,000	163,800
2021	700,000	143,400
2022-2025	3,060,000	312,400
Total	$ 7,540,000	$ 1,300,400

The Port issued its 1999 Series Revenue Bonds to fund construction of certain waterfront improvements, improvements to the Port's marina facilities, improvements at the Bellingham International Airport and various other economic development project throughout the Port. These bonds are subject to federal arbitrage regulations. The Port issued its 2005 Series A and B to refund certain maturities of the Port's revenue bonds 1994 Series A and B and 1997 Series A bonds. The Port issued its 2008 Revenue bonds to refund the 2010-2019 maturities of the Port's 1999 Revenue bonds. 2010 Series A and B were issued to construct, improve, expand, and equip marina and airport facilities at the Port. Revenue bonds currently outstanding are as follows:

Description and Date of Issue	Original Amount	Interest Rate	Maturity	Amount
05/03/2005 A	11,440,000	3.50-5.25%	2017	1,315,000
05/01/2008	7,865,000	4.00%	2019	2,670,000
11/02/2010 A	16,200,000	2.00-5.25%	2022	8,615,000
11/02/2010 B	28,680,000	1.35-7.00%	2030	25,885,000
Total Revenue Bonds				$ 38,485,000

The annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending December 31	Principal	Interest
2017	4,080,000	2,182,958
2018	2,870,000	1,998,620
2019	2,965,000	1,893,650
2020	2,105,000	1,799,045
2021	2,175,000	1,716,650
2022-2026	12,335,000	6,649,400
2027-2030	11,955,000	2,138,830
Total	$ 38,485,000	$ 18,379,153

NOTE 9 – LONG-TERM DEBT (continued)

Changes in Long-Term Liabilities

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

	01/01/16	Additions	Reductions	12/31/2016	Due within One Year
Bonds Payable:					
G.O. Bonds	9,103,512	5,173,951	(6,108,349)	8,169,114	1,098,909
Revenue Bonds	42,125,624	-	(3,920,029)	38,205,595	4,088,744
Total Bonds Payable	51,229,136	5,173,951	(10,028,378)	46,374,709	5,187,653
Other Non-current Liabilities	1,376,055	2,229,556	(139,577)	3,466,033	454,635
Compensated Absences	739,842	631,490	(537,936)	833,396	534,357
Pension Liability	5,441,526	741,436		6,182,962	-
Environmental Remediation	97,798,950	7,048,027	(22,748,027)	82,098,950	9,222,077
Total Long-term Liabilities	**156,585,509**	**15,824,459**	**(33,453,918)**	**138,956,050**	**15,398,722**

The general obligation bonds and related interest are paid from ad valorem tax revenues. The revenue bonds are secured by a pledge of the Port's gross revenues. All other long term debt is payable from the Port's gross revenues.

NOTE 10 – UNEARNED DEBITS (CREDITS)

The Port receives money for meeting space rental in advance of the event date. The Port recognizes these unearned revenues when the meeting space rental occurs.

NOTE 11 – PORT OPERATIONS BY INDUSTRY

The Port operates an airport, marinas, shipping terminals, and industrial development districts, which are primarily financed by user charges. Current assets, current liabilities, and net position are accounted for on a Port-wide basis and are not identifiable to a particular industry segment. The key financial data for the year ended December 31, 2016 for these facilities are as follows:

NOTE 11 – PORT OPERATIONS BY INDUSTRY (continued)

Condensed Statement of Net Position	Airport	Marinas	Marine Terminals	Real Estate	Other	Total
Assets:						
Current Assets						$ 49,149
Other & Restricted Assets						26,285
Capital Assets, net	$ 122,770	$ 50,402	$ 23,326	$ 8,117	$ 77,376	281,991
Construction Work in Progress	3,304	2,639	3,066	11,247	15,118	35,374
Total Assets						392,799
Deferred Outflows of Resources						1,188
Liabilities:						
Current Liabilities						21,074
Other Non-current Liabilities						86,429
Revenue Debt						37,128
Total Liabilities						144,631
Deferred Inflows of Resources						2,061
Net Position:						
Net invested in capital assets						267,636
Restricted						5,733
Unrestricted						(26,074)
Total Net Position						247,295
Total Liabilities, Net Position, and Deferred Inflows						$ 393,987
Condensed Statement of Revenues, Expenses and Changes in Net Position						
Operating Revenues	$ 6,263	$ 7,531	$ 2,141	$ 7,017	$ 332	$ 23,284
Operating Expenses	(5,475)	(2,797)	(1,265)	(3,445)	(1,472)	(14,454)
General & Admin. Expense	(190)	(33)	(22)	(134)	(1,903)	(2,282)
Depreciation Expense	(6,388)	(2,930)	(1,651)	(1,641)	(213)	(12,823)
Operating Income (Loss)	(5,790)	1,771	(797)	1,797	(3,256)	(6,275)
Tax Revenues					7,098	7,098
Net Non-Operating					9,742	9,742
Net Income (Loss)	(5,790)	1,771	(797)	1,797	13,584	10,565
Capital Contributions	1,878	68	1,403	1,028	2,927	7,304
Capital Contributions-Restricted	1,709	-	-	-	-	1,709
Net Position, January 2016						227,717
Net Position, December 2016						$ 247,295

NOTE 12 – RESTRICTED COMPONENT OF NET POSITION

The Port's Statement of Net Position reports $5,733,325 of restricted component of net position. $453,888 of this is restricted by enabling legislation. The remaining restricted component is restricted by revenue bond covenants and federal agencies.

NOTE 13 – PASSENGER FACILITY CHARGES

The Port, through agreement with the Federal Aviation Administration, and in conjunction with commercial airlines operating at Bellingham International Airport, has implemented a Passenger Facility Charge of $4.50 per enplaned passenger. These fees are collected by the airline as part of the pricing of each ticket and are remitted quarterly to the Port directly from the airlines. Passenger Facility Charged collected and remitted to the Port can only be

NOTE 13 – PASSENGER FACILITY CHARGES (continued)

used by the Port for capital projects approved by the participating airlines and the FAA. Fees remitted during 2016 totaled $1,709,154 and are shown on the Port's Statement of Revenues, Expenses and Changes in Net Position as Capital Contributions-Contractually Restricted.

NOTE 14 – POLLUTION REMEDIATION OBLIGATIONS

In 2005, the Port acquired the real property assets of Georgia Pacific West Corporation located in the central waterfront of Bellingham Bay and also assumed GP's responsibility to complete the remedial action plans which are being finalized through the Washington State Department of Ecology.

As part of the GP acquisition, the Port has become legally liable for specific remedial action required for the reuse of the acquired assets. These actions are expected to be approved by Federal and State regulatory agencies and the expected costs have been expensed and recorded as a long-term liability on the Statement of Net Position. These expenses, along with the estimated expenses for other port-owned sites requiring environmental remediation have been estimated using the expected cash flow technique, and total $128,740,000 as of 12/31/2016. This is a $15.7 million decrease from the previous year. This estimate is analyzed by independent engineers and is adjusted annually and shown in current dollars. The pollution remediation obligation is an estimate subject to change resulting from price increases or decreases, technology, or changes in applicable laws and regulations. GASB 49, effective in 2008, allows for capitalizing amounts related to environmental cleanup when preparing the property for sale providing the carrying amount of the property doesn't exceed its estimated fair value upon completion of the remediation. In preparation for this change in accounting standard, the Port obtained a benchmark value for the GP acquisition sites 'clean' fair market value. The 'clean' value exceeded the current value on the books by $46.6 million. Therefore, the environmental remediation liability was reduced by this amount.

The Port has acquired a Pollution Legal Liability Insurance Policy from American International Specialty Lines Insurance Company. This policy, which is in effect until 12/31/2034, has an aggregate policy limit of $102,000,000. The policy obligates the insurer to pay half of the remediation costs on specific sites up to a total amount of $51,684,816. After total remediation costs exceed $51,684,816, the policy provides for payment of 100% of the environmental remedial costs on covered sites up to a policy limit of $77,000,000. The policy also provides for an additional coverage of up to $25,000,000 in costs for third party liabilities, regulatory changes, or unknown contaminates on these specific sites. The Port had prepaid for the estimated current value of the remedial actions defined in the policy as of January 20, 2005; however, by the end of 2016, all of these prepaid funds were expended. The Port, in reassessing its remediation liabilities has also estimated what portion of the remediation costs will be reimbursed by insurance. This analysis has resulted in the Port booking an Environmental Insurance Receivable of $20,530,000, representing the net present value of all expected reimbursements from the insurance policy less the amounts paid by the Port under the terms of the policy.

The Port expects to receive up to ½ of all environmental remediation costs from the State of Washington through the issuance of Department of Ecology Remedial Action Grants. These grants are issued on a biennial basis with each grant being awarded following the issuance of a cleanup order from the Department of Ecology. These grants are not recognized by the Port until they are earned.

The Port completed two significant cleanup projects in 2016. Since September 2007, the Port has been developing a detailed cleanup design under a Consent Decree and Cleanup Action Plan with the Department of Ecology for the Whatcom Waterway site, which includes the Aeration Stabilization Basin. In early 2015, the estimated cost including contingency was $102,918,775. In April 2015, the Port advertised a request for bids to perform the construction of the Whatcom Waterway Phase I Cleanup. Construction of the Phase I Cleanup began in June 2015 and was completed in June 2016. At the end of 2016, the remaining estimated cost for future phases of cleanup with contingency was $93,073,493. In addition to the Whatcom Waterway Phase 1 Cleanup, in 2016 the Port completed the Bunker C removal and the Pulp and Tissue capping at the GP West site under a Consent Decree with the Department of Ecology. At the beginning of 2016, the estimated cost including contingency was $6,596,955. Construction of the Bunker C and Pulp and Tissue cleanup project were conducted separately and represent the final cleanup for the Pulp and Tissue area of the GP West site aside from long-term monitoring. At the end of 2016 the remaining estimated cost for the Pulp and Tissue area was $743,700.

The Port has accepted several grants from the Department of Ecology for a total funding amount that is just under $19 million through the current biennia, of which just over $7 million has been received to date. The Port anticipates Ecology will approve future amendments up to 50% of the estimate cost of cleanup sites as funding becomes available in future biennium periods. These sites are included in the Pollution Legal Liability Insurance Policy purchased in 2005.

NOTE 15 – SERVICE CONCESSION AGREEMENTS

In 2010, the Port of Bellingham entered into a 50-year ground lease with an additional 30-year option in order for the lessee to construct and operate two general office and retail buildings. In 2011, a similar agreement was executed for a third building. Upon execution, the lessee prepaid the 80-year agreements. The Deferred Inflows of Resources represents the unearned balance of these agreements.

NOTE 16 – OTHER DISCLOSURES

Special Items

In 2015, the Port Commission approved a Master Development Agreement with Harcourt Developments LTD to develop 18.8 acres on Bellingham's waterfront subject to a defined development schedule and a per square foot price, both laid out in detail in the MDA.

During 2016, the Port worked with Department of Ecology to complete the Whatcom Waterway Phase 1 and GP West cleanups to prepare the Downtown Waterfront for redevelopment. The Port conveyed the Granary Building and the .66 parcel surrounding the building for $200,000 to Harcourt Bellingham, LLC for adaptive reuse. The building is currently under construction for retail and office mixed use, with projected occupancy in 2017.

The Port also worked with the City of Bellingham to design the roads and parks to support the next phase of development during 2016. In 2017, the City plans to construct Granary Ave., Laurel Street and the first phase of the Whatcom Waterway Park adjacent to the Granary Building. These projects will provide access and public amenities to support Harcourt's proposed second project, which will be three residential mixed-use buildings with 66 residential units and ground floor retail and services. The Port is currently working to establish a parcel to sell to Harcourt for this project.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Port of Bellingham
Schedule of Proportionate Share of the Net Pension Liability
Public Employees Retirement Plan
As of June 30, 2016
Last 10 Fiscal Years*

		2016		2015	
		PERS 1	PERS 2/3	PERS 1	PERS 2/3
Employer's proportion of the net pension liability (asset)	%	0.053036%	0.066231%	0.056592%	0.069443%
Employer's proportionate share of the net pension liability	$	2,848,283	3,334,679	2,960,288	2,481,238
Employer's covered employee payroll	$	6,283,392	6,213,443	6,300,760	6,160,253
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	45.33%	53.67%	46.98%	40.28%
Plan fiduciary net position as a percentage of the total pension liability	%	57.03%	85.82%	59.10%	89.20%

* As this is a newly adopted standard, information is only available for two years.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Port of Bellingham
Schedule of Employer Contributions
Public Employees Retirement System
As of December 31, 2016
Last 10 Fiscal Years*

		2016		2015	
		PERS 1	PERS 2/3	PERS 1	PERS 2/3
Statutorily or contractually required contributions	$	308,617	392,981	278,880	360,162
Contributions in relation to the statutorily or contractually required contributions	$	(308,617)	(392,981)	(278,880)	(360,162)
Contribution deficiency (excess)	$	0	0	0	0
Covered employer payroll	$	6,378,187	6,307,906	6,267,999	6,198,827
Contributions as a percentage of covered employee payroll	%	4.84%	6.23%	4.45%	5.81%

* As this is a newly adopted standard, information is only available for two years.

SECTION 3

STATISTICAL

PORT OF BELLINGHAM
Washington State

STATISTICAL SECTION NARRATIVE AND SCHEDULES

This section of the Port's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements and note disclosures present about the Port's overall financial health.

CONTENTS

FINANCIAL TRENDS

These schedules contain trend information to help the reader understand how the Port's financial performance and well-being has changed over time. The schedules include fiscal year 2007 and forward, and include:

Schedule 1 – Revenue, Expenses, and Changes in Net Position, Last Ten Years

Schedule 2 – Net Position by Component, Last Ten Years

REVENUE CAPACITY

These schedules contain information to help the reader assess the factors affecting the Port's ability to generate its property taxes and how the property tax rates have changed over time. Schedules included are:

Schedule 3 – Property Tax Levies and Collections, Last Ten Years

Schedule 4 – Assessed Value of Property, Last Ten Years

Schedule 5 – Property Tax Rates, Last Ten Years

DEBT CAPACITY

These schedules present information to help the reader assess the affordability of the Port's current levels of outstanding debt and the Port's ability to issue additional debt in the future. Details regarding the Port's outstanding debt can also be found in the notes to the financial statements. Schedules included are:

Schedule 6 – Computation of Legal Debt Margin, Current Year

Schedule 7 – Computation of Direct & Overlapping Bonded Debt, Current Year

Schedule 8 – Revenue Bond Coverage, Last Ten Years

DEMOGRAPHIC INFORMATION

These schedules offer demographic and economic indicators to help the reader understand the environment in which the Port's financial activities take place. Schedules included are:

Schedule 9 – Demographic/Economic Statistics, Last Ten Years

Schedule 10 – Ratios of Outstanding Debt, Last Ten Years

Schedule 11 – Principal Employers of Whatcom County, Current Year and 2008

OPERATING INFORMATION

These schedules contain data about the Port's operations to help the reader understand how the information in the Port's financial report relates to the services it provides and the activities it performs.

Schedule 12 – Number of Port Employees by Division, Current Year

Schedule 13 – Bellingham International Airport Enplaned/Deplaned Passengers & Freight, Last Ten Years

Schedule 14 – Bellingham International Airport Landings & Takeoffs, Last Ten Years

Schedule 15 – Existing Whatcom County Moorage Facilities, as of February 2016

Schedule 16 – Largest Property Leases, Current Year

Schedule 17 – Capital Assets Information, Current Year

Revenues, Expenses, and Changes in Net Position
Last Ten Years

	2007	2008	2009	2010	2011
Operating Revenues					
Aviation	$ 3,034,031	$ 4,125,894	$ 5,000,369	$ 5,723,876	$ 7,069,396
Marinas	5,449,474	5,715,907	5,919,053	6,146,271	6,221,981
Marine Terminals	1,400,545	1,447,376	1,690,971	1,823,214	1,869,724
Real Estate	5,529,300	6,074,690	6,684,189	7,133,226	6,183,626
Other	476,121	484,208	453,738	359,315	269,194
Total	**15,889,471**	**17,848,075**	**19,748,320**	**21,185,902**	**21,613,921**
Operating Expenses					
Direct	9,947,651	11,108,027	10,593,585	11,599,232	13,073,735
Administrative	2,062,339	2,244,594	2,333,404	2,447,503	2,444,245
Depreciation	7,840,833	8,042,324	8,016,360	8,151,375	8,828,036
Total	**19,850,823**	**21,394,945**	**20,943,349**	**22,198,110**	**24,346,016**
Operating Income (Loss)	**(3,961,352)**	**(3,546,870)**	**(1,195,029)**	**(1,012,208)**	**(2,732,095)**
Non-Operating Revenues[(1)]					
Ad valorem tax revenues	6,930,465	7,193,603	7,422,884	7,421,974	7,043,662
Interest Income	1,073,867	874,466	365,204	214,471	738,465
Gain on disposition of assets	1,099,917	-	(6,005)	530,025	-
Environmental Insurance	742,918	2,165,220	2,902,601	585,144	768,012
Other non-operating revenues	2,845,940	3,086,566	1,428,898	2,034,508	1,990,643
Total	**12,693,107**	**13,319,855**	**12,113,582**	**10,786,122**	**10,540,782**
Non-Operating Expenses					
Interest Expense	(1,683,722)	(1,391,728)	(1,062,837)	(975,397)	(1,874,523)
Environmental Remediation	(6,611,167)	(21,424,764)	(14,262,021)	(3,928,689)	(5,432,619)
Other non-operating expenses	(675,767)	(383,025)	(498,014)	(1,128,907)	(3,404,148)
Total	**(8,970,656)**	**(23,199,517)**	**(15,822,872)**	**(6,032,993)**	**(10,711,290)**
Capital Contributions	1,485,956	7,866,423	6,736,848	31,029,882	4,481,116
Increase (Decrease in net position)	**1,247,055**	**(5,560,109)**	**1,832,529**	**34,770,803**	**1,578,513**
Total Net Position					
Beginning of Year	$135,191,529	$136,438,584	$177,519,525	$179,352,054	$214,122,857
Change in Accounting Principles		46,641,050			
End of Year	**$136,438,584**	**$177,519,525**	**$179,352,054**	**$214,122,857**	**$215,701,370**

Revenues, Expenses, and Changes in Net Position
Last Ten Years

	2012	2013	2014	2015	2016
Operating Revenues					
Aviation	$ 7,795,977	$ 8,416,405	$ 7,786,229	$ 6,532,421	$ 6,263,702
Marinas	5,917,287	6,821,448	7,037,728	7,328,815	7,530,848
Marine Terminals	2,272,204	2,236,289	2,275,401	2,247,820	2,141,421
Real Estate	6,041,343	6,699,712	7,084,016	7,210,802	7,017,044
Other	390,639	372,340	334,232	364,871	331,763
Total	**22,417,450**	**24,546,194**	**24,517,606**	**23,684,729**	**23,284,778**
Operating Expenses					
Direct	13,007,609	13,475,345	14,339,229	13,844,115	14,455,137
Administrative	2,462,325	2,390,429	2,298,952	2,098,988	2,285,811
Depreciation	8,870,310	9,249,278	10,020,327	10,487,728	12,823,245
Total	**24,340,244**	**25,115,052**	**26,658,508**	**26,430,831**	**29,564,193**
Operating Income (Loss)	**(1,922,794)**	**(568,858)**	**(2,140,902)**	**(2,746,102)**	**(6,279,415)**
Non-Operating Revenues[1]					
Ad valorem tax revenues	7,037,696	6,693,776	6,823,011	6,984,715	7,098,188
Interest Income	250,687	46,319	272,265	146,258	229,118
Gain (loss)on disposition of assets	25,213	(409,343)	(1,057)	-	(791,031)
Environmental Insurance	910,000	-			6,129,968
Other non-operating revenues	2,668,397	4,818,055	2,428,277	19,991,103	26,552,481
Total	**10,891,993**	**11,148,807**	**9,522,496**	**27,122,076**	**39,218,724**
Non-Operating Expenses					
Interest Expense	(675,206)	(352,129)	(10,634)	(899,515)	(894,949)
Environmental Remediation	(8,658,566)	(4,433,441)	(5,942,542)	(18,867,882)	(21,159,547)
Other non-operating expenses	(5,398,665)	(7,689,161)	(2,788,985)	(397,925)	(324,148)
Total	**(14,732,437)**	**(12,474,731)**	**(8,742,161)**	**(20,165,322)**	**(22,378,644)**
Capital Contributions	6,008,100	4,121,020	2,974,980	9,289,273	9,013,152
Increase (Decrease in net position)	**244,862**	**2,226,238**	**1,614,413**	**13,499,925**	**19,573,817**
Total Net Position					
Beginning of Year	$215,701,370	$216,198,824	$218,425,062	$220,039,475	$227,716,587
Change in Accounting Principles	252,592			(5,822,813)	
End of Year	**$216,198,824**	**$218,425,062**	**$220,039,475**	**$227,716,587**	**$247,290,404**

Net Position by Component
Last Ten Years

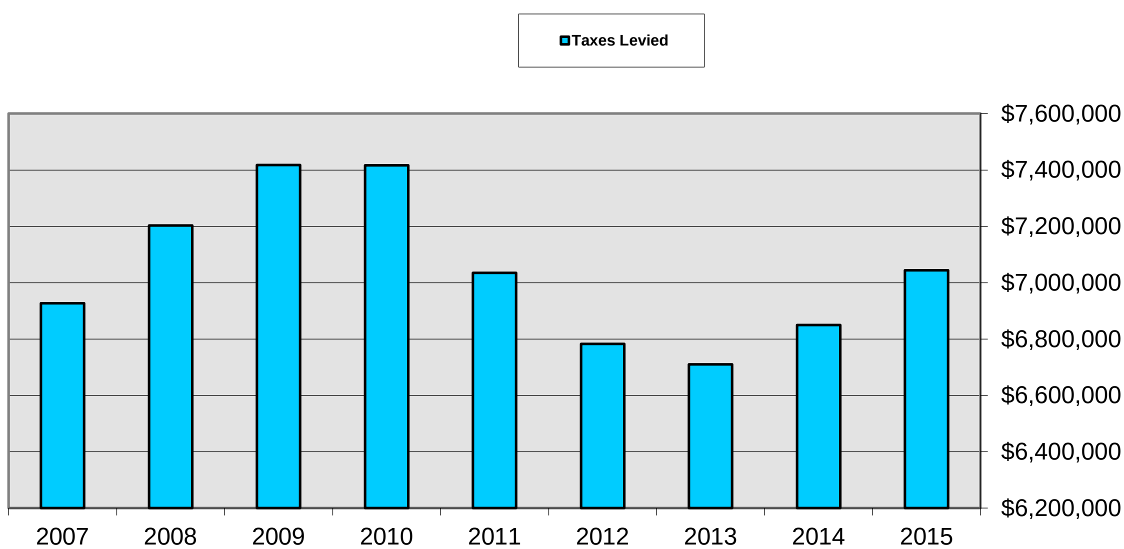
	2007	2008	2009	2010	2011
Net investment in capital assets	$ 79,487,481	$ 191,697,489	$ 197,408,376	$ 186,396,477	$ 234,011,374
Restricted	-	-		46,544,554	35,291,771
Unrestricted	56,951,103	(14,177,964)	(18,056,322)	(18,818,174)	(53,601,775)
Total net position	**136,438,584**	**177,519,525**	**179,352,054**	**214,122,857**	**215,701,370**

Net Position by Component
Last Ten Years

	2012	2013	2014	2015	2016
Net investment in capital assets	$ 242,899,984	$ 249,055,318	$ 253,142,385	$ 256,672,025	$ 267,636,184
Restricted	20,385,898	7,923,961	5,657,689	5,644,979	5,733,325
Unrestricted	(47,087,058)	(38,554,217)	(38,760,599)	(34,600,417)	(26,079,105)
Total net position	**216,198,824**	**218,425,062**	**220,039,475**	**227,716,587**	**247,290,404**

Property Tax Levies and Collections
Last Ten Years

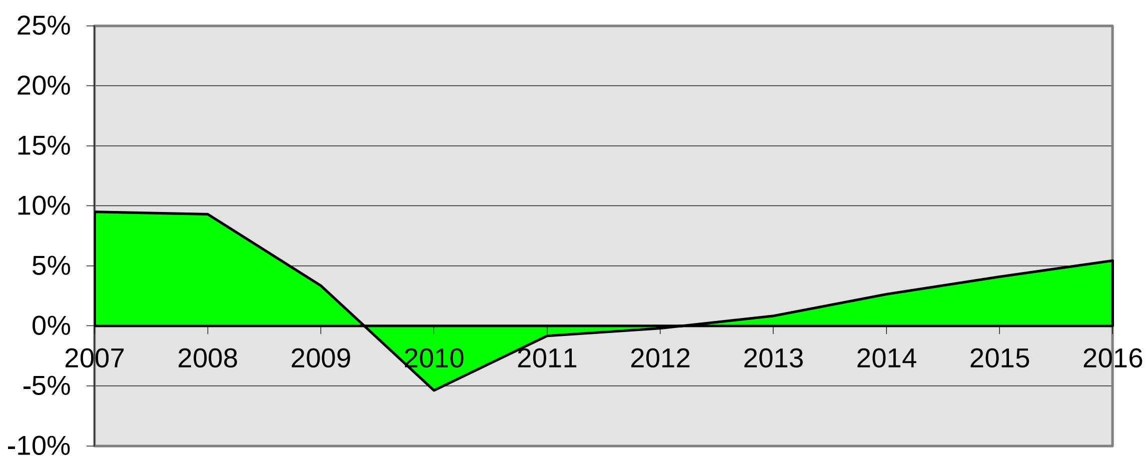
Year	Taxes Levied for the Fiscal Year [(a)]	Collected within the Fiscal Year of the Levy: Amount	Collected within the Fiscal Year of the Levy: Percentage of Levy	Collections in Subsequent Periods	Total Collections to Date: Amount	Total Collections to Date: Percentage of Levy
2016	$7,018,850	6,929,869	98.73%	0	6,929,869	98.73%
2015	$7,043,560	6,888,112	97.79%	117,493	7,005,605	99.46%
2014	$6,849,859	6,719,737	98.10%	109,946	6,829,683	99.71%
2013	$6,710,142	6,601,906	98.39%	106,446	6,708,352	99.97%
2012	$6,783,383	6,657,622	98.15%	125,153	6,782,775	99.99%
2011	$7,035,200	6,875,215	97.73%	159,441	7,034,656	99.99%
2010	$7,416,295	7,195,952	97.03%	219,996	7,415,948	100.00%
2009	$7,417,746	7,229,255	97.46%	188,258	7,417,513	100.00%
2008	$7,202,935	7,061,714	98.04%	141,204	7,202,918	100.00%
2007	$6,927,504	6,765,781	97.67%	161,713	6,927,494	100.00%



(a) Includes cancellations and supplements, and may differ from the totals reported by Whatcom County by an immaterial amount
Source: Whatcom County Assessor's Office Tax Booklet

***Assessed Value of Property**
Last Ten Years

Fiscal	Tax	Real Property	Personal Property	Public Utilities	Total	% increase	Total Direct Tax Rate
2007	2008	$21,046,543,035	$578,359,690	$574,762,041	$22,199,664,766	9.5%	0.462
2008	2009	$23,082,183,045	$638,899,135	$543,741,467	$24,264,823,647	9.3%	0.401
2009	2010	$23,880,773,485	$679,638,800	$517,127,911	$25,077,540,196	3.3%	0.303
2010	2011	$22,505,099,007	$677,339,019	$546,628,098	$23,729,066,124	-5.4%	0.277
2011	2012	$22,308,236,281	$662,811,967	$560,527,534	$23,531,575,782	-0.8%	0.268
2012	2013	$22,244,515,577	$675,219,121	$564,676,305	$23,484,411,003	-0.2%	0.283
2013	2014	$22,331,901,450	$683,030,216	$664,524,522	$23,679,456,188	0.8%	0.286
2014	2015	$22,863,130,493	$702,320,859	$738,668,611	$24,304,119,963	2.6%	0.286
2015	2016	$23,750,717,549	$739,041,515	$809,569,941	$25,299,329,005	4.1%	0.284
2016	2017	$25,123,357,108	$768,790,092	$782,541,344	$26,674,688,544	5.4%	0.276



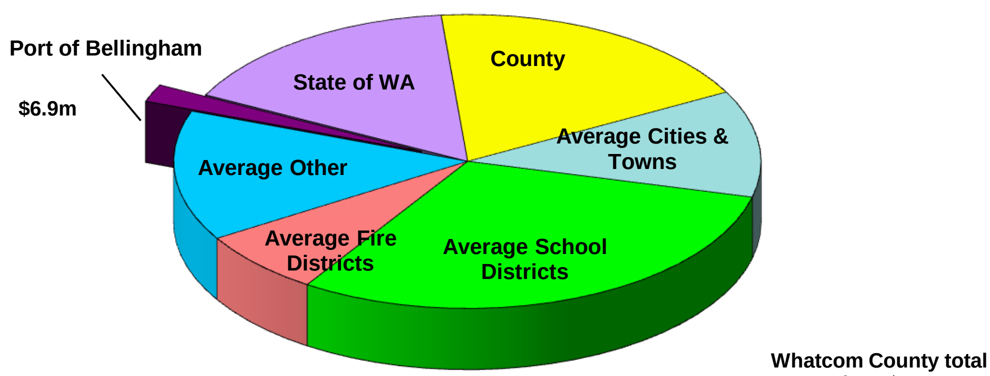
Source: Whatcom County Assessor's Office Tax Booklet online

* Whatcom County does not estimate actual value. Revaluations occur on a market resale basis.
The county is revalued in each four year period by area.

Property Tax Rates
Per $1,000 of Assessed Value
Direct & Overlapping Governments
Last Ten Years

Year	Port of Bellingham	State of WA	County	Average Cities & Towns	Average School Districts	Average Fire Districts	Average Other	Average Consolidated Total
2007	0.342	2.698	2.663	2.358	3.652	1.109	2.076	10.466
2008	0.325	2.427	2.514	2.006	3.159	1.128	1.856	9.853
2009	0.306	2.219	2.359	2.056	3.236	1.512	1.399	9.373
2010	0.296	2.198	2.357	2.039	3.237	1.326	1.720	9.546
2011	0.297	2.456	2.577	2.148	3.578	1.164	1.861	10.503
2012	0.289	2.508	2.632	2.210	3.802	1.146	1.887	10.807
2013	0.286	2.670	2.696	2.005	4.168	1.121	1.398	11.217
2014	0.289	2.616	2.743	2.028	4.124	1.105	1.446	11.546
2015	0.288	2.483	2.728	2.038	4.161	1.080	1.449	11.402
2016	0.276	2.307	2.672	1.685	4.341	1.011	2.056	11.264

2015 Property Tax Rate per $1000 Assessed Value



Source: Whatcom County Assessor's Office
Property is assessed at 100% of its true and fair value.

Computation of Legal Debt Margin
As of December 31, 2016

INDEBTEDNESS FOR GENERAL PURPOSES		
2015 Assessed Value of Taxable Property in the Taxing District		$26,674,688,544
Legal Limit at 3/4 of 1% of Property Value		$200,060,164
GENERAL PURPOSE INDEBTEDNESS INCURRED		
Current G.O. Bond Liabilities:		
2016 G.O. Bond	4,440,000	
2009 G.O. Bond	3,100,000	
Matured Interest G.O. Bonds	62,000	
Total General Purpose Indebtedness	**$7,602,000**	
Restricted Cash and Investments:		
G.O. Bond Cash	6,725	
Total	**$6,725**	
Excess Liabilities Over Assets		**$7,595,275**
Margin of Indebtedness Available		**$192,464,889**
Margin of Indebtedness Available Without a Vote of the People (1/4 of 1% of Assessed Value of Property Less Excess Liabilities Over Assets)		
Total Margin Available		**$59,091,446**

Computation of Direct & Overlapping Bonded Debt
General Obligation Bonds
As of December 31, 2016

Jurisdiction	Gross Debt Outstanding	Percentage Applicable to Port of Bellingham	Amount Applicable to Port of Bellingham
Cities and Towns	21,412,292	100.00%	21,412,292
Port of Bellingham	7,540,000	100.00%	$7,540,000
Whatcom County	2,695,000	100.00%	2,695,000
Totals	**$31,647,292**		**$31,647,292**

Source: Whatcom County Treasurer Schedule 9 ID No 251 - General Obligation Bonds

Revenue Bond Coverage
Last Ten Years

Year	Gross Operating Revenues	Direct Operating Expenses	Net Non Operating Revenues	Net Revenue Available for Debt Service	Debt Service Requirements Revenue Bonds Principal	Interest	Total	Coverage Ratio
2007	$15,889,471	$12,009,990	$8,707,427	$12,586,908	$2,260,000	$917,216	$3,177,216	3.96
2008	$17,848,075	$13,352,621	$5,007,455	$9,502,909	$1,970,000	$688,342	$2,658,342	3.57
2009	$19,748,320	$12,926,989	$10,748,703	$17,570,034	$2,440,000	$685,275	$3,125,275	5.62
2010	$21,185,902	$14,046,735	$9,090,849	$16,230,016	$1,545,000	$601,070	$2,146,070	7.56
2011	$21,613,921	$15,517,980	$5,571,573	$11,667,514	$3,015,000	$2,941,827	$5,956,827	1.96
2012	$22,417,450	$15,469,103	$3,491,494	$10,439,841	$3,320,000	$2,763,269	$6,083,269	1.72
2013	$24,546,194	$15,865,774	$2,351,365	$11,031,785	$2,630,000	$2,666,364	$5,296,364	2.08
2014	$24,517,606	$16,638,181	$780,335	$8,659,760	$2,715,000	$2,580,686	$5,295,686	1.64
2015	$23,684,729	$15,943,103	$6,956,754	$14,698,380	$3,760,000	$2,490,909	$6,250,909	2.35
2016	$23,284,778	$16,740,948	$16,840,080	$23,383,910	$3,915,000	$2,337,279	$6,252,279	3.74

(1) Net non-operating revenues are calculated exclusive of tax revenues for general obligation debt service, debt service interest expense, and amortization expense

Demographic/Economic Statistics
Whatcom County, Washington
Last Ten Years

Fiscal Year Ended	Population(1)	Per capita personal income(2)	Non Farm Employment(3)	Unemployment Rate(3)	School Enrollment(4)
2007	195,298	$35,110	85,300	4.2%	26,807
2008	197,675	36,624	85,800	5.0%	26,755
2009	199,736	35,389	81,200	8.5%	26,787
2010	201,140	36,053	79,900	9.5%	27,131
2011	202,100	37,782	81,000	8.9%	27,256
2012	203,500	39,507	82,500	8.1%	27,098
2013	205,800	39,572	84,000	7.4%	27,329
2014	207,600	40,840	85,100	6.5%	26,516
2015	209,790	42,511	87,300	5.9%	26,512
2016	212,540	N/A	91,025	6.0%	27,047

Sources:
(1) Washington State Office of Financial Management, April 1 estimates
(2) Bureau of Economic Analysis
(3) Washington State Employment Security Dept., WA-QB series, not seasonally adjusted
(4) Superintendent of Public Instruction (P-12, end calendar year)

N/A: Not available at time of publication.

Ratios of Outstanding Debt
Last Ten Fiscal Years

Year	Revenue Bonds (net)[1]	General Obligation Bonds (net)[1]	Notes Payable & other	Total Government Debt	Percentage of personal income	Per Capita
2007	$18,402,263	$15,630,000	$2,448,243	$36,480,506	0.52%	186.79
2008	$16,473,773	$15,000,000	$2,381,032	$33,854,805	0.46%	171.26
2009	$14,619,791	$14,210,000	$2,539,073	$31,368,864	0.43%	157.05
2010	$57,285,328	$13,310,000	$2,339,462	$72,934,790	0.98%	362.61
2011	$53,890,705	$12,643,902	$2,674,128	$69,208,735	0.89%	342.45
2012	$50,558,412	$11,672,166	$2,514,033	$64,744,611	0.78%	318.16
2013	$48,673,664	$11,035,077	$2,428,635	$62,137,376	0.73%	301.93
2014	$45,913,948	$10,097,009	$2,323,216	$58,334,173	0.69%	280.99
2015	$42,125,624	$9,103,512	$2,115,897	$53,345,033	0.60%	254.28
2016	$38,205,595	$8,169,114	$4,299,429	$50,674,138	N/A	238.42

Source: Port of Bellingham Records

Notes: (1) Net bonds are bond totals less unamortized premiums and discounts

See Schedule 9 for per capita personal income and population data. Local data not yet available for 2016 personal income.

N/A: Not available at time of printing

Principal Employers of Whatcom County

Current Year and 2008 (8 Years Prior)*

	2016			2008		
Employer	Employees	Rank		Employees	Rank	Percentage of total county employment
Peacehealth (St Joseph Hospital)	2,126	1	2.34%	2,706	1	3.37%
Lummi Nation	1,780	2	1.96%	700	9	2.07%
Western Washington University	1,499	3	1.65%	1,664	2	0.00%
Bellingham School District	987	4	1.08%	1,300	3	1.62%
Whatcom County	881	5	0.97%	920	5	1.06%
BP Cherry Point Refinery	820	6	0.90%	725	7	0.90%
City of Bellingham	788	7	0.87%	852	6	1.14%
Fred Meyer	778	8	0.85%			0.87%
Haggen Inc.	751	9	0.83%	933	4	0.00%
Zodiac Interiors	607	10	0.67%			0.00%
Alcoa-Intalco Works	580	11	0.64%			0.00%
T Mobile	437	12	0.48%			0.00%
Bellingham Technical College	430	13	0.47%			0.00%
Lynden School Dist	430	14	0.47%			0.00%
Family Care Network	426	15	0.47%			0.00%
Total	11,017		12.10%	9,800		11.03%

Source: Western Washington University Center for Economic and Business Research, 2015

Number of employees are as reported by the individual businesses as permanent and full time.
2006 (9 years prior) data not available.

N/A: Not available at time of publication.

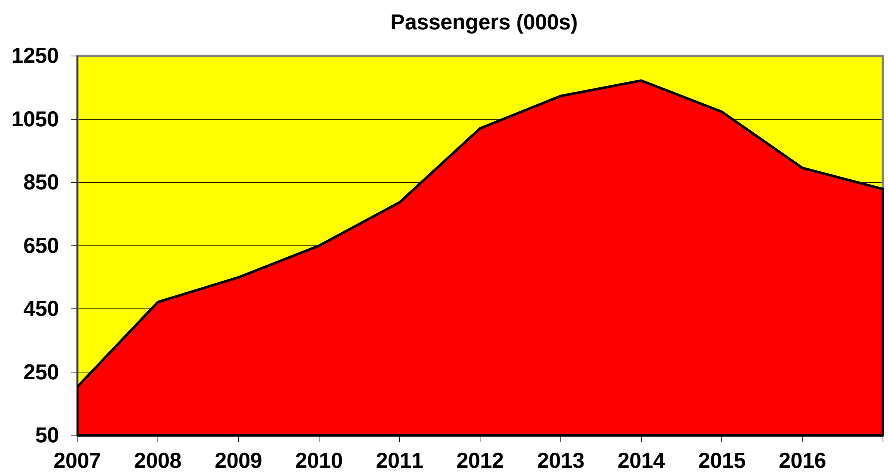
Number of Employees by Division
Current Year 2016

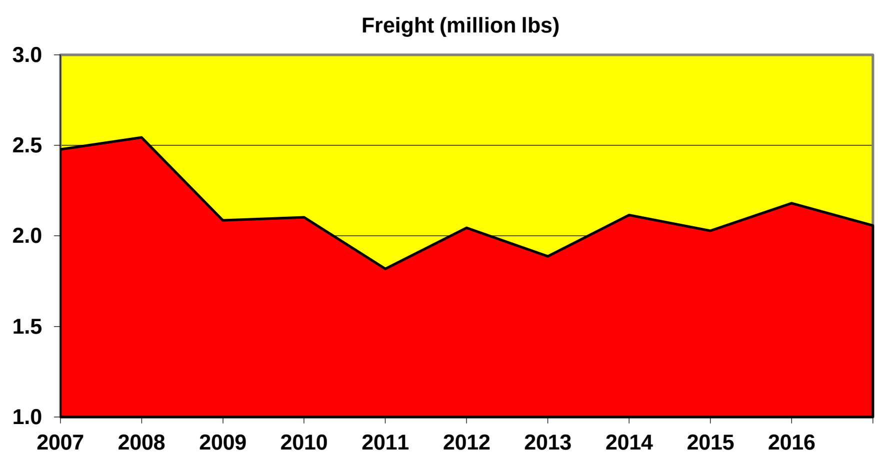
Division	Number of Employees	Percentage of Employees
Aviation	17	14.78%
Marinas*	13	11.30%
Marine Terminals*	6	5.22%
Real Estate	6	5.22%
Planning	2	1.74%
Facilities*	44	38.26%
Administration	11	9.57%
Executive	6	5.22%
Environmental	4	3.48%
Economic Development	2	1.74%
Public Priorities	4	3.48%
Totals	**115**	100.00%

*Includes temporary, seasonal employees

Bellingham International Airport
Enplaned/Deplaned Passengers and Freight

	Passengers			Freight (pounds)		
Year	*Enplaned*	*Deplaned*	*Enplaned*	*Enplaned*	*Deplaned*	Total
2007	241,563	230,222	471,785	1,781,403	762,385	2,543,788
2008	279,993	269,712	549,705	1,419,317	666,575	2,085,892
2009	329,392	320,474	649,866	1,392,409	710,208	2,102,617
2010	400,851	386,298	787,149	1,134,248	683,776	1,818,024
2011	519,360	501,895	1,021,255	1,258,066	786,405	2,044,471
2012	571,292	552,481	1,123,773	1,233,896	653,286	1,887,182
2013	592,753	579,775	1,172,528	1,242,718	872,425	2,115,143
2014	543,937	529,815	1,073,752	1,124,674	903,588	2,028,262
2015	453,502	442,605	896,107	1,337,610	842,853	2,180,463
2016	417,930	411,333	829,263	1,276,332	781,024	2,057,356





Bellingham International Airport
Landings and Takeoffs

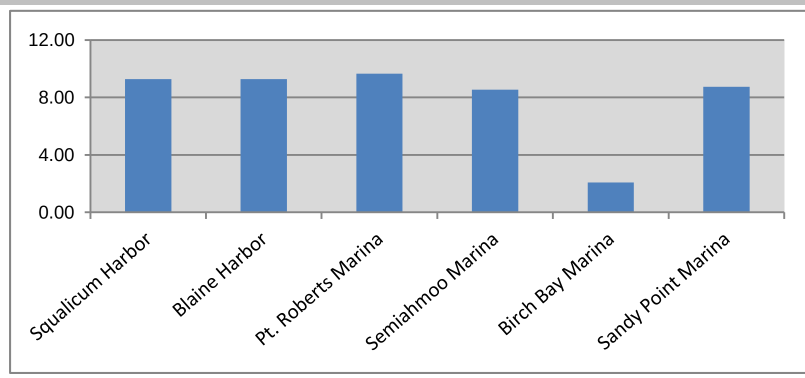
Year	Air Carrier	Air Taxi	Itinerant *General*	Itinerant *Military*	Local *General*	Local *Military*	Total
2007	4,640	17,780	34,328	798	16,304	426	74,276
2008	6,112	14,851	32,030	511	11,247	99	64,850
2009	6,390	13,066	32,272	583	14,709	172	67,192
2010	7,194	12,284	28,645	1,005	13,301	354	62,783
2011	8,441	11,451	28,427	846	19,630	465	69,260
2012	9,323	11,757	27,162	862	19,030	277	68,411
2013	9,869	11,080	28,001	737	15,838	567	66,092
2014	8,881	11,093	27,043	667	13,867	490	62,041
2015	7,250	11,413	28,895	823	16,235	1279	65,895
2016	7,514	17,293	32,317	682	24,428	2352	84,586

*Existing Whatcom County Moorage Facilities
as of February 2017

Moorage Facility		No. on Waiting List	Wet Moorage Berths	Wet Moorage Occupancy	Dry Storage Berths	Dry Storage Occupancy	Number Visitor Berths
Squalicum Harbor		130	1,386	96%	0	N/A	1,556 linear feet
Blaine Harbor		0	630	67%	0	N/A	720 linear feet
Pt. Roberts Marina		3	924	72%	0	N/A	220 linear feet
Semiahmoo Marina		0	280	73%	0	N/A	0
Birch Bay Marina	(1)	0	265	80%	0	N/A	110 linear feet
Sandy Point Marina	(1)	0	72	100%	0	N/A	2- 20' slips
Total		**133**	**3,557**		**0**		

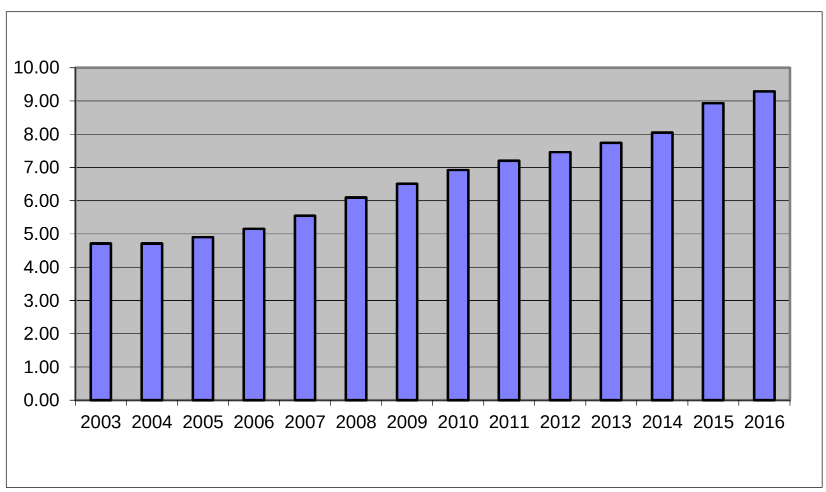
*Current Moorage Rates and Tariffs
as of January 2017 ($/lin.ft/mo.)

Moorage Facility	
Squalicum Harbor	$7.48-$11.08
Blaine Harbor	$7.48-$11.08
Pt. Roberts Marina	$8.94-$10.36
Semiahmoo Marina	$7.42 - $9.63
Birch Bay Marina	$25.00/ft. per year
Sandy Point Marina	$7.84 - $9.63



Historical Moorage Rates and Tariffs
at Port Marinas

Year	
2003	4.71
2004	4.71
2005	4.90
2006	5.15
2007	5.54
2008	6.09
2009	6.51
2010	6.92
2011	6.92 - 7.47
2012	6.92 - 8.00
2013	6.92 - 8.56
2014	6.92 - 9.16
2015	7.20 - 10.65
2016	7.48 - 11.08



(1) Private residential community. Moorage facilities only made available through purchase of residence.

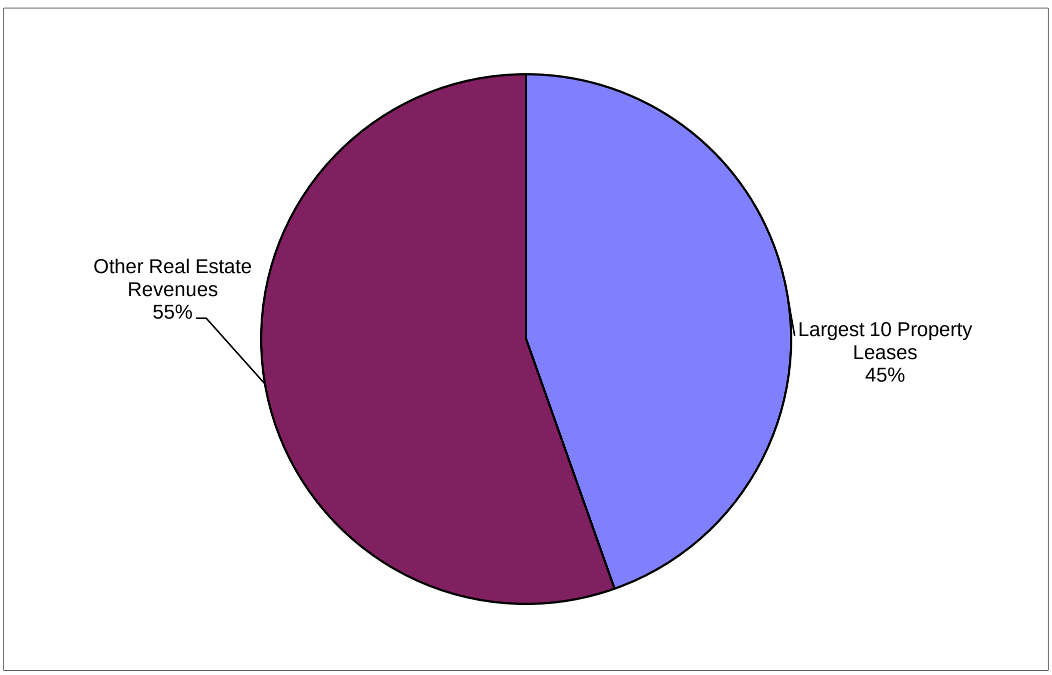
(2) All rates are per lineal foot.

* *This information is provided to meet 'Continuing Disclosure' as required under SEC Rule 15c2-12 in accordance with Port of Bellingham Revenue Bond Issues.*

2016 Largest Property Leases,[1]

And 9 Years Prior

	Tenant Name	Type of Activity	2016 Lease Payment	Lease Expires	Renewal Option Yr
1	Puglia Engineering, Inc.	Shipyard	566,043	2020	2002
2	Alaska Marine Highway System	Alaska Ferry	565,541	2024	1989
3	Woodstone Corporation	Commercial Cooking Equipment Mf	519,648	2046	1999
4	Stork Craft Mfg USA	Product Warehouse	417,342	2017	2008
5	LFS, Inc.	Marine Supplier	364,388	2018	1997
6	US Customs and Border Protection	Homeland Security	344,696	2022	2005
7	Seaview Boatyards	Shipyard - North & Fairhaven	309,299	2017	2002
8	Bellingham Cold Storage	Cold Storage Warehousing	239,139	2023	1962
9	Index Sensors	Electronics Design and Manufactuir	221,438	2022	2012
10	Teal Jones Lumber Services	Lumber Mill	171,889	2020	2004
	Largest 10 Property Leases		**$ 3,719,423**		
	Total Real Estate Revenues[2]		**$ 8,342,386**		
	Largest 10 Leases as a Percentage of Total Real Estate Revenues		**45%**		



Source: Port of Bellingham Real Estate Division

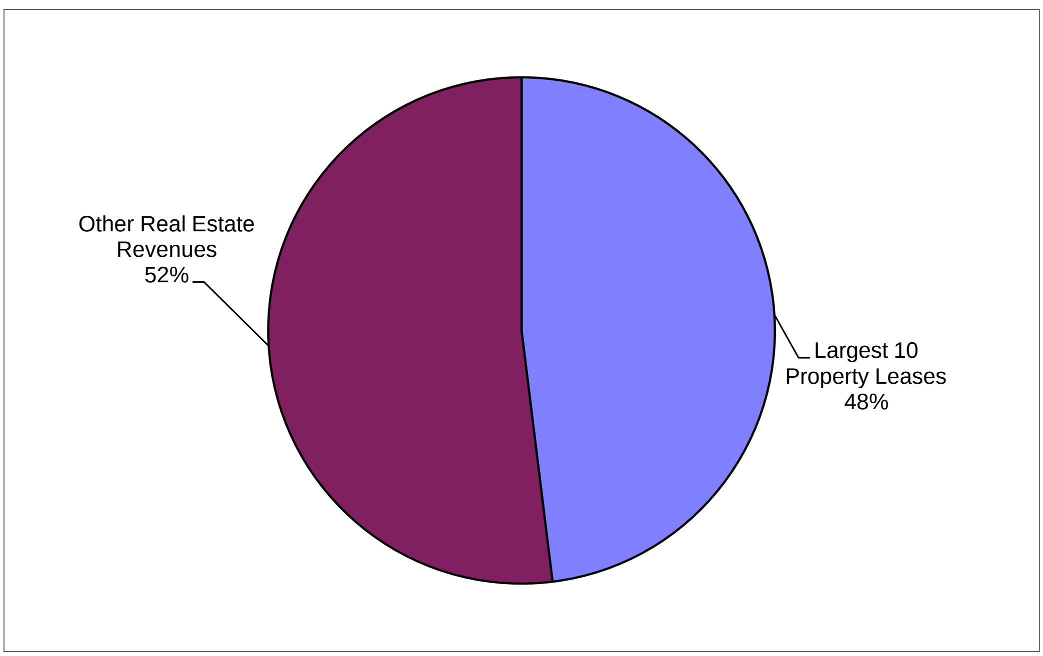
(1) This information is provided to meet 'Continuing Disclosure' as required under SEC Rule 15c2-12 in accordance with Port of Bellingham Revenue Bond Issues.

(2) Includes Real Estate Revenues, plus Storkcraft, and AMHS revenues, which are not included in the Real Estate Division.

2016 Largest Property Leases,[1]

And 9 Years Prior

	Tenant Name	**Type of Activity**	**2007 Lease Payment**
1	US Customs and Border Protection	Homeland Security	441,874
2	Woodstone Corporation	Wood Stoves & Commercial Ovens	414,101
3	Georgia Pacific West, Inc.	Tissue Warehouse	350,000
4	Aluminum Chambered Boats	Boat Building and Repairing	311,088
5	Puglia Engineering, Inc.	Shipyard	246,725
6	Bellingham Cold Storage	Warehousing - Refrigerated	219,382
7	LFS, Inc.	Marine Supplier	190,544
8	Bellwether Harbor Investments	Hotel and Office Building	179,583
9	Teal Jones Lumber Services, Inc.	Lumber Manufacturing	154,967
10	First American Title	Title Company	148,487
	Largest 10 Property Leases		**$ 2,656,751**
	Total Real Estate Revenues		**$ 5,529,300**
	Largest 10 Leases as a Percentage of Total Real Estate Revenues		**48%**



Source: Port of Bellingham Real Estate Division

(1) This information is provided to meet 'Continuing Disclosure' as required under SEC Rule 15c2-12 in accordance with Port of Bellingham Revenue Bond Issues.

Capital Assets Information
as of December 31, 2016

Bellingham International Airport		
Location:		3 miles NW of Bellingham
Airport Code:		BLI
Runways:	6,701	ft.
Terminal:	105,000	sq. ft.
Parking:	2,717	spaces
International:		International airport of entry
Real Estate		
Area:	326	acres
Leaseable office, commercial, and industrial building space:	1,100,000	sq. ft
Tenants:	247	(1)
Cruise Terminal		
Terminal Building	22,950	sq. ft.
Warehouse	27,750	sq. ft.
Berths	3	(with 300 to 450 feet)
Shipping Terminal		
Warehouses	2	(with 87,500 sq. ft. of office, warehouse, and covered loading dock space)
Upland storage capability	10	acres
Deep water pier	1,750	ft.
Marinas		
See schedule 15		

Source: Port of Bellingham Records

Notes: (1) Figure is approximate. Number of tenants fluctuates monthly.