



2017 Comprehensive Annual Financial Report



Port of Bellingham

For the fiscal year ended December 31, 2017

Comprehensive Annual Financial Report

For The Fiscal Year Ended December 31, 2017

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, 2017**

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SECTION 1

INTRODUCTORY



PORT OF BELLINGHAM
Washington State

June 19, 2018

Commissioners
Port of Bellingham

Gentlemen:

The Comprehensive Annual Financial Report (CAFR) of the Port of Bellingham for the fiscal year ended December 31, 2017, 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 216,300 in 2017. Of that total 58% live in the seven incorporated cities. From 2010 to 2017 Whatcom was the 8th fastest growing county in the state.

The local economy showed continuing improvement over the last year. On average local industries provided 93,000 non-farm jobs, a 2.5% increase from 2016. 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 2017 the average unemployment rate for Whatcom was 4.9% while the state average was 4.4%. From 2010 to 2016 the annual wage for Whatcom industries rose 2.5% on average to \$43,233 while the state increased at a 3.3% annualized rate to \$59,090.

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 80% of non-agricultural employment reporting 75,025 jobs in 2017. The three largest employers in the county are Peace Health St. Joseph Medical Center, the Lummi Nation 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. The Canadian dollar continues to slowly strengthen compared to the U.S. dollar and is currently around \$0.78 US. This effect is helping Canadian retail activity recover locally. Manufacturing has been the leading local growth sector in the economic recovery. Manufacturing provided 10,258 jobs in 2017 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 continue to show interest in expanding into the county to access US markets.

Whatcom County has a well-educated workforce of which over 21% 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 provides 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 \$23.7 million for 2017, an increase from 2016 of \$478 thousand.

- Operating income before depreciation exceeded \$7 million for 2017 which is \$500 thousand higher than the 2016 equivalent income.
- The port has budgeted to spend about \$18.3 million, net of grants, in new capital projects in 2018.
- The 2018 budget includes the demolition and replacement of a webhouse at Blaine Harbor, continued work to replace the shipyard pier in Fairhaven, the purchase of large equipment for the Shipping Terminal, safety upgrades to several railroad crossings, and various other capital maintenance projects.

Lines of Business

▪ Aviation

The Port of Bellingham owns, manages, operates and maintains Bellingham International Airport (BLI), the third busiest commercial aviation facility (in terms of passenger enplanements) in the state of Washington. In 2017, BLI served nearly 736,000 passengers and is classified by the Federal Aviation Administration as a non-hub commercial service and general aviation airport. In 2017, the airport accommodated 156 based general aviation aircraft, two fixed base operators, air taxi charters and provided jobs for approximately 700 on-site employees. BLI provided direct commercial air-service to 10 cities in the U.S. mainland and Hawaii and is designated a United States Customs and Immigration Service (USCIS) International Point of Entry. Commercial Air Service facilities include a 6,701 foot precision instrumented air carrier runway, an FAA contract Air Traffic Control Tower and a newly expanded commercial service passenger terminal with eight boarding gates. General Aviation facilities include 124 aircraft hangars and 67 aircraft tie-down spaces. Aviation revenues of \$6.5 million in 2017 is a 4% decrease from 2016 and accounts for over 27% of total Port operating revenues for 2017.

▪ Marinas

As of December 2017, Squalicum Harbor was operating at 98.5% occupancy for all slip sizes. 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 all sizes of vessels. Blaine Harbor was at 68% occupancy at the end of 2017. Occupancy is also anticipated to increase in the summer months, and there is no waiting list in Blaine. Marina revenues of \$7.8 million account for nearly 33% of total 2017 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 and whale watching tour boats. The cargo and passenger terminal revenues of over \$2 million account for approximately 8% of total 2017 Port operating revenues.

- **Real Estate**

The Port continues to obtain approximately 97 percent occupancy of its real estate portfolio, which includes 186 acres of properties leased out to 271 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 nearly \$7.1 million accounted for 33% of total 2017 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, 2017, the Port's cash and investment portfolio totaled \$41.9 million at market value. Approximately thirty eight percent (38%) 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 early 2018. The City of Bellingham began construction on the first roads into the site, as well as the first park, Waypoint Park, which is expected to be open to the public in early 2018. 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 is

currently working on engineering and design of the Cornwall Avenue Landfill under a Consent Decree and has entered into Agreed Orders to complete environmental investigations and cleanup plans for three other sites within the Waterfront District, including the I&J Waterway, Central Waterfront and GP West Chlor-Alkali.

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 1992–2016. 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



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, 2016

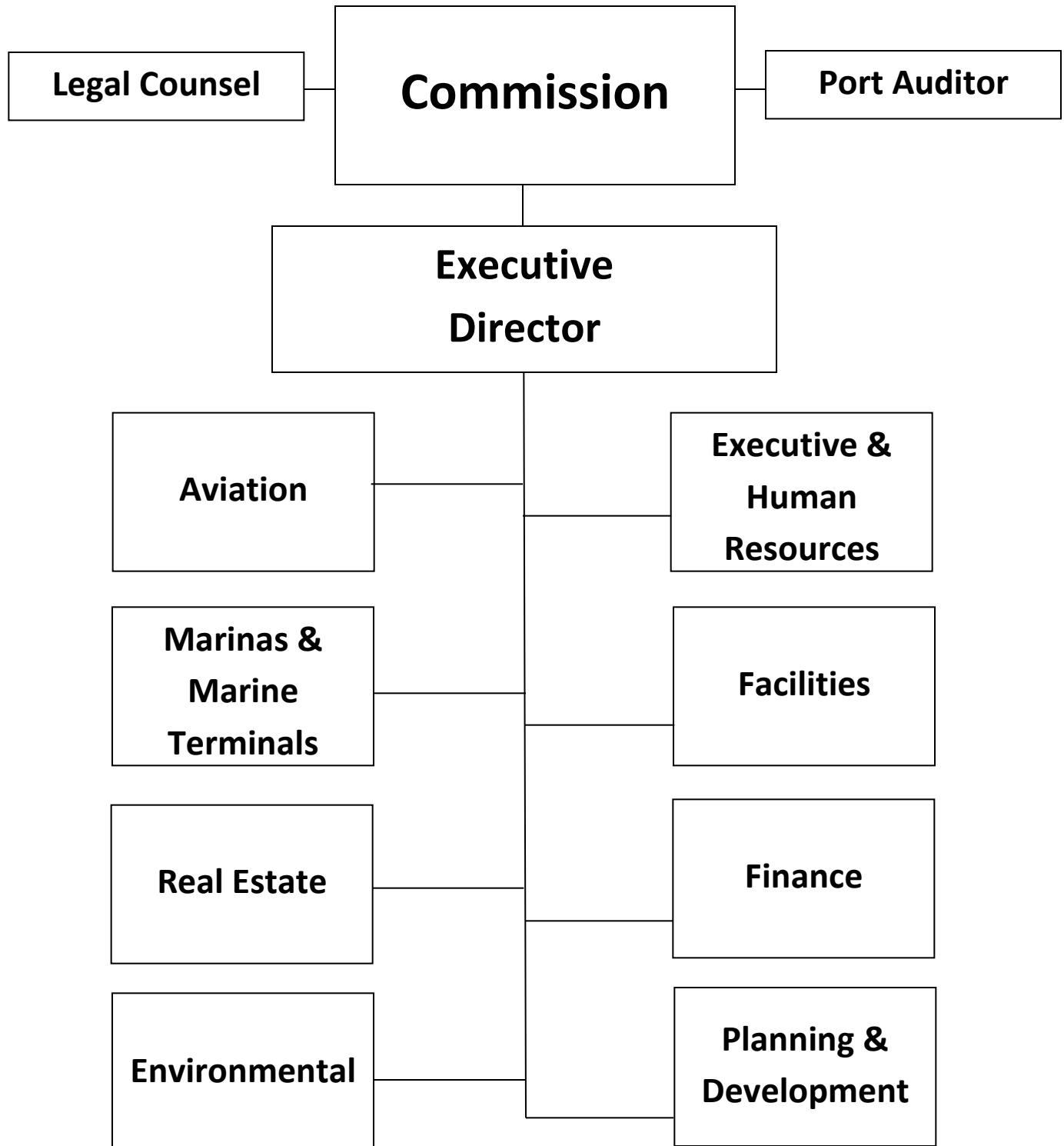
Christopher P. Morill

Executive Director/CEO

Port of Bellingham
List of Principal Officials
As of December 31, 2017

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, Economic Development	Don Goldberg
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 19, 2018

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, 2017, 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.

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, as of December 31, 2017, 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 and required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the sole purpose of forming an opinion on the financial statements that collectively comprise the Port's basic financial statements as a whole. 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 19, 2018, 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. 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,

A handwritten signature in black ink, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

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, 2017. 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, 2017 by \$247 million. Total assets of the Port at year end were \$391.6 million, while total liabilities were \$141.6 million. The Port's long-term debt outstanding was \$47 million which is a decrease from 2016 due to the scheduled debt payments. The Port's net investment in capital assets was \$279 million. Unrestricted net position was negative \$37 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	2017	2016
Current Assets	\$ 46,815,370	\$ 54,882,800
Capital Assets:		
Capital assets not being depreciated	130,587,306	114,191,621
Capital assets being depreciated	195,161,670	203,172,808
Other Assets	19,035,383	20,551,530
Total Assets	\$ 391,599,729	\$ 392,798,759
Deferred Outflows of Resources	\$ 744,396	\$ 1,183,786
Current Liabilities	\$ 18,565,998	\$ 21,073,627
Non-current Liabilities	123,068,344	123,557,327
Total Liabilities	\$ 141,634,342	\$ 144,630,954
Deferred Inflows of Resources	\$ 3,557,208	\$ 2,061,187
Net Position:		
Net investment in capital assets	\$ 278,993,397	\$ 267,636,184
Restricted	5,498,758	5,733,325
Unrestricted	(37,339,580)	(26,079,105)
Total Net Position	\$ 247,152,575	\$ 247,290,404

Changes in Net Position

In 2017, Port operating revenues increased slightly from 2016 totaling \$23.8 million, an increase of just over 2%. All divisions, with the exception of Marina Terminals showed an increase in revenues from 2016. The Marinas and Real Estate divisions both had increases due to scheduled contractual increases and high occupancy rates. Revenues for the Aviation division increased slightly due to tariff changes, but the airport continued to suffer declining enplanements year over year.

Total operating expenses (before depreciation) remained at \$16.7 million, consistent with the prior year. Depreciation expenses decreased slightly to \$12.3 million, due to retirement of aging equipment.

The receipt of capital grants and passenger facility charges nearly offset the net loss in 2017, resulting in a net position of \$247.2 million, slightly lower than the previous year. Overall, the financial position of the Port declined slightly in 2017.

Statements of Revenues, Expenses and Changes in Net Position

	2017	2016
Operating Revenues:		
Airport operations	\$ 6,499,164	\$ 6,263,702
Marina operations	7,798,850	7,530,848
Marine terminal operations	2,013,899	2,141,421
Property lease operations	7,091,123	7,017,044
Other	359,406	331,763
Total Operating Revenues	\$ 23,762,442	\$ 23,284,778
Non-operating Revenues:		
Ad valorem tax revenues	\$ 7,044,355	\$ 7,098,188
Investment income	463,926	229,118
Environmental insurance claim revenue (adjustment)	(883,550)	6,129,968
Environmental grant revenues	3,296,502	10,628,176
Other non-operating income	149,620	15,924,305
Total non-Operating Revenues	\$ 10,070,853	\$ 40,009,755
Total Revenues	\$ 33,833,295	\$ 63,294,533
Expenses:		
General operating expenses	\$ 11,317,893	\$ 11,424,029
Maintenance expenses	3,220,932	3,031,108
General and administrative expenses	2,175,359	2,285,811
Depreciation expense	12,347,194	12,823,245
Non-operating expenses	10,377,484	23,169,675
Total Expenses	\$ 39,438,862	\$ 52,733,868
Increase (Decrease) in Net Position before Capital Contributions	\$ (5,605,567)	\$ 10,560,665
Capital Contributions	\$ 5,467,738	\$ 9,013,152
Change in Net Position	\$ (137,829)	\$ 19,573,817
Net Position - Beginning of Period	\$ 247,290,404	\$ 227,716,587
Net Position - End of Period	\$ 247,152,575	\$ 247,290,404

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2017, the Port had nearly \$326 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, 2016, totaled \$317 million. Capital assets, net of depreciation, increased by \$8.4 million in 2017. See Notes 4 and 11. Capital projects which individually totaled in excess of \$500,000 during 2017 were:

• All American Marine Building Construction	\$ 10,046,823
• Replace Harris Avenue Shipyard Pier	8,255,958
• Whatcom Waterway North Infrastructure	5,460,242
• C Street Terminal Uplands	3,973,673
• Shipping Terminal Stormwater Improvements	3,186,177
• Rehab General Aviation Area 3	2,523,351
• Deconstruct Waterfront Site	2,376,645
• Redesign & Permit ASB	1,747,016
• Shipping Terminal Main Pier Repairs	1,726,198
• Shipping Terminal Warehouses 1 & 2 – repair/replace roofs	1,123,111
• Blaine Harbor – Refurbish Main Pier	786,930
• C Street Terminal Crane Purchase & Pad	636,102
• Replace Fire Line at Cruise Terminal	535,554

A total of \$21.2 million was spent during 2017 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.

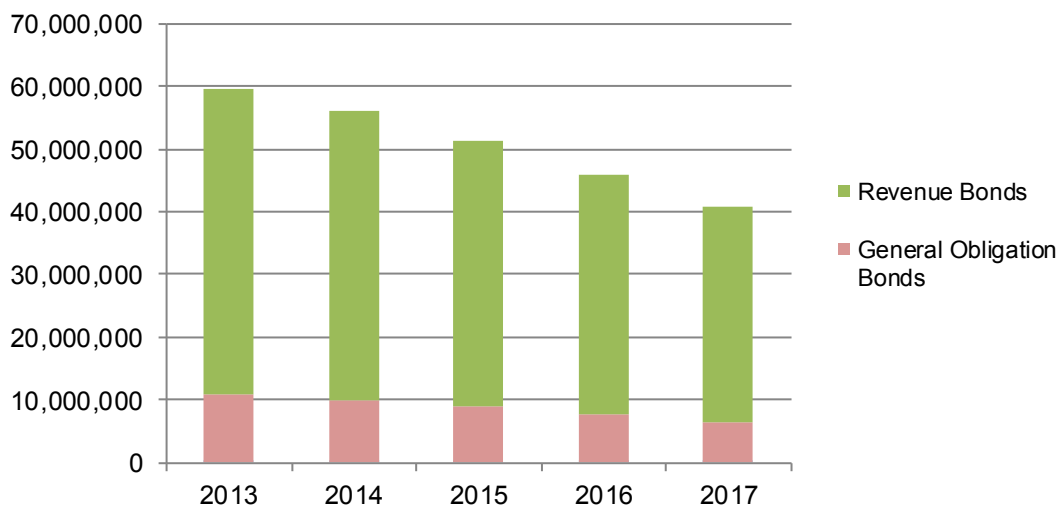
Debt Administration

At December 31, 2017, long-term debt obligations totaled \$135.6 million of which \$12.5 million is due within one year. The total bonded debt is comprised of \$7 million balance in general obligation debt, and \$34.1 million (net of premiums and discounts) 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 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, 2017 at \$130.4 million. Per GASB 49, effective 2008, the Port expects to capitalize \$46.6 million of the environmental remediation efforts, leaving \$83.8 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
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	\$ 6,550,000	\$ 34,405,000	\$ 40,955,000



2018 Budget

The Port's 2018 budget anticipates Operating Revenues to increase from \$22.3 million in 2017 to \$24.4 million in 2018, with the largest increase in the Marine Terminals Division. Operating expenses are budgeted to increase \$1.4 million to \$19.3 million. Income from traditional operations before depreciation is anticipated to be approximately \$8.2 million.

In 2018, \$20 million, net of anticipated grants, is forecasted for capital projects. This total includes capital improvements and purchases of over \$8.4 million at the Port's marine terminals, nearly \$5 million in real estate projects, over \$1.1 million in marina projects, as well as 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 2018 are levied at .2485 per 1,000 valuation rate, resulting in a total levy of just over \$7.2 million. \$1.26 million of this amount is levied for the General Obligation Fund. The levy rate for 2017 was .2622 for a levy amount of just over \$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, 2017

ASSETS

CURRENT ASSETS:

Cash and cash equivalents (Note 1)	\$ 25,962,290
Investments (Note 2)	10,436,598
Restricted assets:	
Cash and cash equivalents	123,154
Investments	5,375,604
Taxes receivable	149,747
Due from other governments	2,275,777
Accounts receivable (net of allowance for uncollectible)	434,555
Interest receivable	42,800
Notes receivable	166,996
Other receivables	312,801
Prepays	1,535,048

TOTAL CURRENT ASSETS 46,815,370

NON-CURRENT ASSETS:

Capital assets not being depreciated (Note 4)

Land	79,497,912
Construction in progress	51,089,394

Capital assets being depreciated (Note 4)

Intangible assets (Note 4)	1,856,897
Equipment	13,916,872
Buildings and Structures	160,045,557
Improvements other than buildings	202,731,010
Less: Accumulated depreciation	(183,388,666)

Other noncurrent assets

Hold-over compensation	5,383
Environmental Insurance	19,030,000

TOTAL NON-CURRENT ASSETS 344,784,359

TOTAL ASSETS \$ 391,599,729

DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on refunding debt (Note 1)	62,726
Deferred outflow for pension (GASB 68) (Note 6)	681,670

TOTAL DEFERRED OUTFLOWS OF RESOURCES \$ 744,396

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

PORT OF BELLINGHAM
STATEMENT OF NET POSITION
December 31, 2017

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 3,074,971
Accrued expenses	90,348
Accrued interest payable	265,395
Other current payables	2,611,667
Current portion of long-term obligations (Note 9)	4,989,687
Current portion of environmental remediation	7,533,930

TOTAL CURRENT LIABILITIES	18,565,998
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NON-CURRENT LIABILITIES:

Long-term debt	
General obligations bonds	5,936,776
Revenue bonds	31,300,136
Environmental remediation	76,265,020
Notes payable	4,506,644
Pension Liability	4,766,207
Compensated Absences	293,561

TOTAL NON-CURRENT LIABILITIES	123,068,344
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TOTAL LIABILITIES	\$ 141,634,342
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DEFERRED INFLOWS OF RESOURCES

Deferred lease arrangement receipts (Note 15)	2,690,848
Deferred Inflows for pensions (GASB 68) (Note 6)	866,360

TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 3,557,208
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NET POSITION

Net investment in capital assets	278,993,397
Restricted for debt service	4,865,500
Restricted for blended component unit	6,328
Restricted for revolving loan program	116,826
Restricted for insurance reserve	510,104
Unrestricted	(37,339,580)

TOTAL NET POSITION	\$ 247,152,575
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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, 2017

OPERATING REVENUES:	
Airport operations	\$ 6,499,164
Marina operations	7,798,850
Marine terminal operations	2,013,899
Property lease operations	7,091,123
Other	359,406
Total Operating Revenues	23,762,442
OPERATING EXPENSES:	
General operations	11,317,893
Maintenance	3,220,932
General and administrative	2,175,359
Depreciation	12,347,194
Total Operating Expenses	29,061,378
OPERATING INCOME (LOSS)	(5,298,936)
NON-OPERATING REVENUES (EXPENSES):	
Environmental grant revenues	3,296,502
Investment income	463,926
Taxes levied for:	
General purposes	5,786,355
Debt service principal/interest	1,258,000
Miscellaneous taxes	115,187
Other revenues	34,433
Environmental remediation adjustment	(1,723,333)
Environmental remediation expense	(629,857)
Environmental insurance claims revenue	(883,550)
Gains (Losses) on Disposal of Assets	(18,653)
Election Expense	(226,122)
Amortization of intangibles	(390,174)
Interest expense	(1,245,416)
Environmental grant expense	(6,143,929)
Total Non-Operating Revenues (Expenses)	(306,631)
Income (loss) before capital contributions	(5,605,567)
Capital Contributions	3,902,806
Capital Contributions - Contractually Restricted (Note 13)	1,564,932
Increase (Decrease) in Net Position	(137,829)
Net position - beginning of period	247,290,404
Net position - end of period	\$ 247,152,575

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, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 24,832,311
Payments to suppliers	(14,136,411)
Payments to employees	(1,628,587)
Net cash provided by operating activities	9,067,313

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Receipts from property taxes	5,663,765
Receipts from other taxes and financing fees	(96,063)
Receipts from operating grants	2,925,500
Payments for operating grants	(6,132,439)
Prepaid Environmental Clean-up Insurance Policy	-
Net cash provided (used) by non-capital financing activities	2,360,763

CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES

Principal paid on capital debt	(3,524,638)
Interest paid on capital debt	(1,894,062)
Cash received from property taxes for general obligation bonds	1,231,671
Purchases of capital assets	(18,945,461)
Capital contributions	5,356,474
Payments for environmental remediation	(613,359)
Net cash provided (used) by capital and related financing activities	(18,389,375)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	8,513,335
Payments for purchases of investments	(9,513,085)
Interest and dividends	464,826
Net cash provided by investing activities	(534,924)

Net increase (decrease) in cash and cash equivalents	(7,496,223)
Balances - beginning of the year	33,581,667
Balances - end of the year	\$ 26,085,444

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, 2017

**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Net Operating Income (Loss)	\$	(5,298,936)
Depreciation		12,347,194
Change in assets and liabilities:		
(Incr)Decr in accounts receivable		316,999
(Incr)Decr in other current assets		27,204
(Incr)Decr in work for others		96,074
(Incr)Decr in customer deposits		656,795
Incr(Decr) in accounts payable		492,808
Incr(Decr) in other liabilities		56,968
Non Cash GASB 68 pension expense		372,206
Total Adjustments		<u>14,366,249</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$	9,067,313

SCHEDULE OF NON-CASH ACTIVITIES

Construction in Process Capitalized Interest	590,875
Change in value of Intangible Assets	(337,661)
Unrealized Gains or Losses	(143,315)
Environmental Claim adjustment	(1,723,333)
Disposals of Capital Assets	2,994,091
Change in deferred pension	394,001
TOTAL NON-CASH ACTIVITIES	<u>1,774,658</u>

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 natural 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 \$22,759,833 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, 2017. 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 2017, 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	\$6,328
Cash and Cash Equivalents – Revolving Loan Fund	\$116,826
Investments – Insurance Reserve	\$510,104
Investments –Debt Service	\$4,865,500

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 2017, total interest incurred was \$1,245,416, of which \$590,875 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 \$2,690,848 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 accumulate 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 exceed 519 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 \$833,396 at December 31, 2016, and \$799,373 at December 31, 2017.

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 14). 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, 2017 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, 2017 and 2016.

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Investment Type	Fair Value	Maturities (in years)			% of Total Portfolio
		Less than 1	1-3	More than 3	
2017					
Federal Agencies Securities:					
Federal Home Loan Bank	2,943,869		981,752	1,962,117	18.62%
Federal Farm Credit Bank	3,460,012	999,777	993,394	1,466,841	21.88%
Federal Home Loan Mortgage Corporation	4,462,851	1,499,379	-	2,963,472	28.22%
Federal National Mortgage Association	3,950,275		3,950,275		24.98%
US Treasuries	995,195	995,195	-		6.29%
Total Investments	15,812,202	3,494,351	5,925,421	6,392,430	100%
Percentage of Total Portfolio	100%	22.10%	37.47%	40.43%	
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 Association	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%	

The Port of Bellingham measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

At December 31, 2017, the Port of Bellingham had the following investments measured at fair value:

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments at fair value level	12/31/2017			
Federal Agency Obligations	\$ 14,817,007		\$ 14,817,007	
U.S. Treasury Securities	\$ 995,195		\$ 995,195	
Total Investments measured at fair value	\$ 15,812,202	\$ -	\$ 15,812,202	\$ -
Total Investments in Statement of Net Position	\$ 15,812,202			

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 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

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

bond issues, whichever is lower. The Port has established a Revenue Bond Reserve fund to meet this debt requirement in the amount of \$4,865,500.

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 physically inspected and the whole county is statistically revalued.

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 2017 was \$.2155 per \$1000 on an assessed valuation of \$25,299,329,005 for a total regular levy of \$5,800,337.

In 2016, the Port levied an additional \$.0467 per \$1000 for the repayment of General Obligation Bonds for a total additional levy of \$1,258,000.

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.

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 2017, the Port capitalized \$590,875 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

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION (continued)

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, 2017, intangible assets totaled \$2,194,558. During 2017, the Port added \$52,513, and amortized \$390,174, leaving a balance of \$1,856,897 at the end of 2017. 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, 2017 was as follows:

	Beginning Balance 01/01/2017	Increases	Decreases	Ending Balance 12/31/2017
Non-Depreciable Assets:				
Land	\$ 78,817,132	\$ 680,780	\$ -	\$ 79,497,912
Construction in progress	35,374,488	20,139,746	(4,424,840)	51,089,394
Total Non-Depreciable Assets	114,191,620	20,820,526	(4,424,840)	130,587,306
Depreciable Assets:				
Buildings and Structures	157,386,354	2,943,777	(284,574)	160,045,557
Intangible Assets	2,194,558	52,513	-	2,247,071
Improvements other than buildings	201,629,136	1,469,025	(367,151)	202,731,010
Machinery and Equipment	13,756,318	378,526	(217,972)	13,916,872
Total Depreciable Assets	374,966,366	4,843,841	(869,697)	378,940,510
Less Accumulated Depreciation for:				
Buildings and Structures	75,724,663	4,506,689	(262,405)	79,968,947
Intangible Assets	-	390,174	-	390,174
Improvements other than buildings	86,632,802	6,820,522	(377,534)	93,075,790
Machinery and Equipment	9,436,093	1,019,984	(112,148)	10,343,929
Total accumulated depreciation	171,793,558	12,737,369	(752,087)	183,778,840
Depreciable Assets Net	\$ 203,172,808	\$ (7,893,528)	\$ (117,610)	\$ 195,161,670

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
<i>Airport:</i>		
Airport Sidewalks & Landscape	227,513	191,587
GA Apron Rehab Area 3	2,523,351	31,649
Airfield Safety	325,086	139,914
Parking lot Equipment Replacement	430,852	10,148
Certify Airfield Part 139	213,003	186,997
Fuel Farm Access Road	247,258	102,742
<i>Marinas:</i>		
Squalicum Sawtooth Repairs	189,879	126,690
Squalicum Gate 3 Power Upgrade	482,942	67,058
Blaine Sawtooth - Structural	466,396	41,164
Blaine WH 3 Siding & Door	228,038	75,386
Blaine Replace Dock Boxes	389,832	262,323
Blaine Repair Sawtooth Ph. 2	179,661	220,339
<i>Marine Terminals:</i>		
BST Stormwater Improvements	3,186,177	(588,177)
BST Main Pier Repairs	1,726,198	(116,492)
BST Replace Roofs Warehouse 1 & 2	572,478	(28,223)
BST Repair Roof WH2	550,633	51,339
<i>Properties:</i>		
Shipyard Pier-Eng./Scope	8,255,958	453,250
Refurbish Main Pier - Blaine Harbor	786,930	936,829
Construct AAM Building	10,046,823	891,951
Fire Suppression FMIP 1	11,965	490,885
<i>Bellingham Waterfront District</i>		
Permit/Predesign ASB	1,747,016	(41,244)
Deconstruct GP Site	2,376,645	68,355
C St Terminal Uplands	3,973,673	385,461
Whatcom Waterway Infrastructure North	5,460,242	
Upgrade Lignin Building	199,755	1,300,245
C Street Terminal Crane	636,102	63,898
Demise F Street Warehouse	587,867	372,383
<i>Infrastructure:</i>		
I&J Bulkhead	64,440	715,560
Replace BCT Fire Line	535,554	(13,452)
Blaine Bulkhead Design	277,302	382,698
<i>Other Port Projects Less Than \$300,000</i>	4,189,825	5,363,962
Total Construction	51,089,394	12,145,225

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 2017:

Aggregate Pension Amounts - All Plans	
Pension liability	\$ 4,766,207
Pension asset	\$ -
Deferred outflows of resources	\$ 681,669
Deferred inflows of resources	\$ 866,359
Pension expense	\$ 399,444

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

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

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

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. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

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 contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
January - December 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.00%

The Port's contributions to the plan were \$325,894 for the year ended December 31, 2017.

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:

NOTE 6 – PENSION PLANS (continued)

- 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.

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.

Contributions

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 portion 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 2017 were as follows:

NOTE 6 – PENSION PLANS (continued)

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2
January - June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%
July - December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.70%	7.38%

The Port's actual contributions to the plan were \$445,755 for the year ended December 31, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 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* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016 to June 30, 2017, 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 assumption, 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.

NOTE 6 – PENSION PLANS (continued)

There were changes in methods and assumptions since the last valuation.

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

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 (including PERS 2/3 employers, whose rates 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. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

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, 2017 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.

NOTE 6 – PENSION PLANS (continued)

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	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	\$ 3,026,624	\$ 2,484,523	\$ 2,014,947
PERS 2/3	\$ 6,147,095	\$ 2,281,684	\$ (885,447)

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

At December 31, 2017, the Port reported a total pension liability of \$4,766,207 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 2,484,523
PERS 2/3	\$ 2,281,684

NOTE 6 – PENSION PLANS (continued)

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.053036%	0.052360%	-0.000676%
PERS 2/3	0.066231%	0.065669%	-0.000562%

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, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the Port recognized pension expense as follows:

	Pension Expense/(Credit)
PERS 1	\$ 115,231
PERS 2/3	\$ 284,213

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, 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	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (92,715)
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ 167,925	\$ -
TOTAL	\$ 167,925	\$ (92,715)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 231,188	\$ (75,041)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (608,242)
Changes of assumptions	\$ 24,236	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 13,647	\$ (90,361)
Contributions subsequent to the measurement date	\$ 244,673	\$ -
TOTAL	\$ 513,744	\$ (773,644)

Combined PERS 1 & PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 231,188	\$ (75,041)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (700,957)
Changes of assumptions	\$ 24,236	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 13,647	\$ (90,361)
Contributions subsequent to the measurement date	\$ 412,598	\$ -
TOTAL	\$ 681,669	\$ (866,359)

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, 2018. 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
2018	\$ (62,670)
2019	\$ 19,786
2020	\$ (4,594)
2021	\$ (45,237)
Total	\$ (92,715)

Year ended December 31:	PERS 2/3
2018	\$ (267,559)
2019	\$ 33,675
2020	\$ (62,496)
2021	\$ (247,920)
2022	\$ 17,273
Thereafter	\$ 22,454
Total	\$ (504,573)

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 \$495 million with a deductible of \$50,000 is in effect. Earthquake/Flood coverage has a separate limit of \$50 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 2017, the healthcare plan had an average of 258 lives on the plan, including COBRA participants. Fixed costs, including the stop loss premium were \$342,580. Claims paid, less the stop loss adjustments, were \$1,197,780. IRS fees totaled \$472. Total 2017 healthcare costs were \$1,540,832. The required 16 weeks of reserve is calculated to be \$474,102, and is included in the Port’s restricted net position. The 2017 dental/vision plan had an average of 247 lives on the plan including COBRA participants. Fixed costs were \$7,075, and the claims paid were \$109,980. Total dental/vision plan costs were \$117,055 in 2017. The required 16 weeks of reserve is calculated to be \$36,002 and is included in the Port’s restricted net position.

NOTE 8 – SHORT-TERM DEBT

There was no short-term debt activity in 2017.

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 did not issue additional debt in 2017. General obligation bonds currently outstanding are as follows:

Description and Date of Issue	Original Amount	Interest Rate	Maturity	Amount
4/21/2016	4,485,000	3.779%	2025	4,440,000
9/23/09	9,210,000	4.2-4.75%	2019	2,110,000
Total General Obligation Bonds			\$	6,550,000

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
2018	1,035,000	227,500
2019	1,075,000	185,300
2020	680,000	163,800
2021	700,000	143,400
2022	720,000	122,400
2023-2025	2,340,000	190,000
Total	\$ 6,550,000	\$ 1,032,400

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 projects 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
05/01/2008	7,865,000	4.00%	2019	1,815,000
11/02/2010 A	16,200,000	2.00-5.25%	2022	7,205,000
11/02/2010 B	28,680,000	1.35-7.00%	2030	25,385,000
Total Revenue Bonds				\$ 34,405,000

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

Year Ending December 31	Principal	Interest
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	2,265,000	1,617,212
2023-2027	12,860,000	5,869,037
2028-2030	9,165,000	1,301,980
Total	\$ 34,405,000	\$ 16,196,194

NOTE 9 – LONG-TERM DEBT (continued)

Changes in Long-Term Liabilities

During the year ended December 31, 2017, the following changes occurred in long-term liabilities:

	01/01/17	Additions	Reductions	12/31/2017	Due within One Year
Bonds Payable:					
G.O. Bonds	8,169,114	-	(1,098,909)	7,070,205	1,133,428
Revenue Bonds	38,205,595	8,744	(4,080,000)	34,134,339	2,834,204
Total Bonds Payable	46,374,709	8,744	(5,178,909)	41,204,544	3,967,632
Other Non-current Liabilities	3,466,033	2,011,490	(454,635)	5,022,887	516,243
Compensated Absences	833,396	523,290	(557,313)	799,373	505,812
Pension Liability	6,182,962	-	(1,416,755)	4,766,207	-
Environmental Remediation	82,098,950	13,508,215	(11,808,215)	83,798,950	7,533,930
Total Long-term Liabilities	138,956,050	16,051,738	(19,415,827)	135,591,961	12,523,617

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. The bonds are shown net of premiums and discounts. 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, 2017 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						\$ 41,317
Other & Restricted Assets						24,534
Capital Assets, net	\$ 117,242	\$ 49,489	\$ 22,813	\$ 7,581	\$ 77,535	274,660
Construction Work in Progress	4,004	2,582	6,409	20,327	17,767	51,089
Total Assets						391,600
Deferred Outflows of Resources						744
Liabilities:						
Current Liabilities						18,566
Other Non-current Liabilities						87,261
Revenue Debt						35,807
Total Liabilities						141,634
Deferred Inflows of Resources						3,557
Net Position:						
Net invested in capital assets						278,993
Restricted						5,499
Unrestricted						(37,339)
Total Net Position						247,153
Total Liabilities, Net Position, and Deferred Inflows						<u>\$ 392,344</u>
Condensed Statement of Revenues, Expenses and Changes in Net Position						
Operating Revenues	\$ 6,499	\$ 7,799	\$ 2,014	\$ 7,091	\$ 359	\$ 23,762
Operating Expenses	(5,154)	(2,853)	(1,642)	(3,418)	(1,471)	(14,538)
General & Admin. Expense	(67)	(30)	(28)	(137)	(1,914)	(2,176)
Depreciation Expense	(6,013)	(2,962)	(1,605)	(1,571)	(196)	(12,347)
Operating Income (Loss)	(4,735)	1,954	(1,261)	1,965	(3,222)	(5,299)
Tax Revenues					7,044	7,044
Net Non-Operating					(7,351)	(7,351)
Net Income (Loss)	(4,735)	1,954	(1,261)	1,965	(3,529)	(5,606)
Capital Contributions	217	17	531	14	3,124	3,903
Capital Contributions-Restricted	1,565	-	-	-	-	1,565
Net Position, January 2017						247,291
Net Position, December 2017						<u>\$ 247,153</u>

NOTE 12 – RESTRICTED COMPONENT OF NET POSITION

The Port's Statement of Net Position reports \$5,498,758 of restricted component of net position. \$516,432 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 Charge collected and remitted to the Port can only be used by the Port for capital projects approved by the participating airlines and the FAA. Fees remitted during 2017 totaled \$1,564,932 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 \$130,440,000 as of 12/31/2017. This is a \$1.7 million increase 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 contaminants 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 \$19,030,000, 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.

NOTE 14 – POLLUTION REMEDIATION OBLIGATIONS (continued)

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 has accepted several grants from the Department of Ecology for a total funding amount that is just under \$50.3 million through the current biennia, of which just over \$42.8 million has been received to date. The Port anticipates Ecology will approve future amendments up to 50% of the estimated cost of cleanup as funding becomes available in future biennium periods. These sites are included in the pollution legal liability insurance policy purchased by the Port in 2005.

The Port completed two significant cleanup projects in 2017. 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 portion of the Whatcom Waterway Phase I Cleanup. Construction began in June 2015 and was completed in June 2016. At the end of 2017, the remaining estimated cost for future phases of cleanup with contingency was \$84,162,710.

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 and 2017, similar agreements were executed for a third and fourth 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 (MDA) with Harcourt Developments LTD to develop 18.8 acres on Bellingham's waterfront, subject to a defined development schedule and a per square foot purchase price, both laid out in detail in the MDA.

During 2017, progress in the development schedule was made by Harcourt, the City of Bellingham, and the Port. Harcourt completed extensive work on the Granary Building, and modified the Sub-Area Plan to better suit their development plans. The Granary Building is now expected to open late in 2018, and the Sub-Area Plan Amendment has been submitted to the City of Bellingham for approval. The City of Bellingham began installing the roads, utilities, and the first park, Waypoint Park. The first section of the main road should open late spring 2018, the same time as Waypoint Park. The completed road is scheduled to be open in late 2018.

NOTE 16 – OTHER DISCLOSURES (continued)

In late 2017, per the MDA, Harcourt submitted to the Port a plan for their second project: an approximate 70-unit, 3-building residential development. This project will require approximately 1.7 acres of land, which is scheduled to occur in early May 2018.

Planning continues for the site's third and fourth projects: the adaptive re-use of the Boardmill Building into a hotel, and an office building near the Granary Building.

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, 2017
Last 10 Fiscal Years*

		2017		2016		2015	
		PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Employer's proportion of the net pension liability (asset)	%	0.052360%	0.065669%	0.053036%	0.066231%	0.056592%	0.069443%
Employer's proportionate share of the net pension liability	\$	2,484,523	2,281,684	2,848,283	3,334,679	2,960,288	2,481,238
Employer's covered employee payroll**	\$	6,501,153	6,429,646	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	%	38.22%	35.49%	45.33%	53.67%	46.98%	40.28%
Plan fiduciary net position as a percentage of the total pension liability	%	61.24%	90.97%	57.03%	85.82%	59.10%	89.20%

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

**Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5)

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Port of Bellingham
Schedule of Employer Contributions
Public Employees Retirement System
As of December 31, 2017
Last 10 Fiscal Years*

		2017		2016		2015	
		PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Statutorily or contractually required contributions	\$	325,894	445,755	308,617	392,981	278,880	360,162
Contributions in relation to the statutorily or contractually required contributions	\$	(325,894)	(445,755)	(308,617)	(392,981)	(278,880)	(360,162)
Contribution deficiency (excess)	\$	0	0	0	0	0	0
Covered employer payroll**	\$	6,559,615	6,494,309	6,378,187	6,307,906	6,267,999	6,198,827
Contributions as a percentage of covered employee payroll	%	4.97%	6.86%	4.84%	6.23%	4.45%	5.81%

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

**Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5)

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 2008 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 9 Years Prior

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 2018

Schedule 16 – Largest Property Leases, Current Year and 9 Years Prior

Schedule 17 – Capital Assets Information, Current Year

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

	2008	2009	2010	2011	2012
Operating Revenues					
Aviation	\$ 4,125,894	\$ 5,000,369	\$ 5,723,876	\$ 7,069,396	\$ 7,795,977
Marinas	5,715,907	5,919,053	6,146,271	6,221,981	5,917,287
Marine Terminals	1,447,376	1,690,971	1,823,214	1,869,724	2,272,204
Real Estate	6,074,690	6,684,189	7,133,226	6,183,626	6,041,343
Other	484,208	453,738	359,315	269,194	390,639
Total	17,848,075	19,748,320	21,185,902	21,613,921	22,417,450
Operating Expenses					
Direct	11,108,027	10,593,585	11,599,232	13,073,735	13,007,609
Administrative	2,244,594	2,333,404	2,447,503	2,444,245	2,462,325
Depreciation	8,042,324	8,016,360	8,151,375	8,828,036	8,870,310
Total	21,394,945	20,943,349	22,198,110	24,346,016	24,340,244
Operating Income (Loss)	(3,546,870)	(1,195,029)	(1,012,208)	(2,732,095)	(1,922,794)
Non-Operating Revenues⁽¹⁾					
Ad valorem tax revenues	7,193,603	7,422,884	7,421,974	7,043,662	7,037,696
Interest Income	874,466	365,204	214,471	738,465	250,687
Gain on disposition of assets	-	(6,005)	530,025	-	25,213
Environmental Insurance	2,165,220	2,902,601	585,144	768,012	910,000
Other non-operating revenues	3,086,566	1,428,898	2,034,508	1,990,643	2,668,397
Total	13,319,855	12,113,582	10,786,122	10,540,782	10,891,993
Non-Operating Expenses					
Interest Expense	(1,391,728)	(1,062,837)	(975,397)	(1,874,523)	(675,206)
Environmental Remediation	(21,424,764)	(14,262,021)	(3,928,689)	(5,432,619)	(8,658,566)
Other non-operating expenses	(383,025)	(498,014)	(1,128,907)	(3,404,148)	(5,398,665)
Total	(23,199,517)	(15,822,872)	(6,032,993)	(10,711,290)	(14,732,437)
Capital Contributions	7,866,423	6,736,848	31,029,882	4,481,116	6,008,100
Increase (Decrease in net position)	(5,560,109)	1,832,529	34,770,803	1,578,513	244,862
Total Net Position					
Beginning of Year	\$136,438,584	\$177,519,525	\$179,352,054	\$214,122,857	\$215,701,370
Change in Accounting Principles	46,641,050				252,592
End of Year	\$177,519,525	\$179,352,054	\$214,122,857	\$215,701,370	\$216,198,824

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

	2013	2014	2015	2016	2017
Operating Revenues					
Aviation	\$ 8,416,405	\$ 7,786,229	\$ 6,532,421	\$ 6,263,702	\$ 6,499,164
Marinas	6,821,448	7,037,728	7,328,815	7,530,848	7,798,850
Marine Terminals	2,236,289	2,275,401	2,247,820	2,141,421	2,013,899
Real Estate	6,699,712	7,084,016	7,210,802	7,017,044	7,091,123
Other	372,340	334,232	364,871	331,763	359,406
Total	24,546,194	24,517,606	23,684,729	23,284,778	23,762,442
Operating Expenses					
Direct	13,475,345	14,339,229	13,844,115	14,455,137	14,538,825
Administrative	2,390,429	2,298,952	2,098,988	2,285,811	2,175,359
Depreciation	9,249,278	10,020,327	10,487,728	12,823,245	12,347,194
Total	25,115,052	26,658,508	26,430,831	29,564,193	29,061,378
Operating Income (Loss)	(568,858)	(2,140,902)	(2,746,102)	(6,279,415)	(5,298,936)
Non-Operating Revenues⁽¹⁾					
Ad valorem tax revenues	6,693,776	6,823,011	6,984,715	7,098,188	7,044,355
Interest Income	46,319	272,265	146,258	229,118	463,926
Gain (loss) on disposition of assets	(409,343)	(1,057)	-	(791,031)	(18,653)
Environmental Insurance	-	-	-	6,129,968	(883,550)
Other non-operating revenues	4,818,055	2,428,277	19,991,103	26,552,481	3,446,122
Total	11,148,807	9,522,496	27,122,076	39,218,724	10,052,200
Non-Operating Expenses					
Interest Expense	(352,129)	(10,634)	(899,515)	(894,949)	(1,245,416)
Environmental Remediation	(4,433,441)	(5,942,542)	(18,867,882)	(21,159,547)	(8,497,119)
Other non-operating expenses	(7,689,161)	(2,788,985)	(397,925)	(324,148)	(616,296)
Total	(12,474,731)	(8,742,161)	(20,165,322)	(22,378,644)	(10,358,831)
Capital Contributions	4,121,020	2,974,980	9,289,273	9,013,152	5,467,738
Increase (Decrease in net position)	2,226,238	1,614,413	13,499,925	19,573,817	(137,829)
Total Net Position					
Beginning of Year	\$216,198,824	\$218,425,062	\$220,039,475	\$227,716,587	\$247,290,404
Change in Accounting Principles			(5,822,813)		
End of Year	\$218,425,062	\$220,039,475	\$227,716,587	\$247,290,404	\$247,152,575

**Net Position by Component
Last Ten Years**

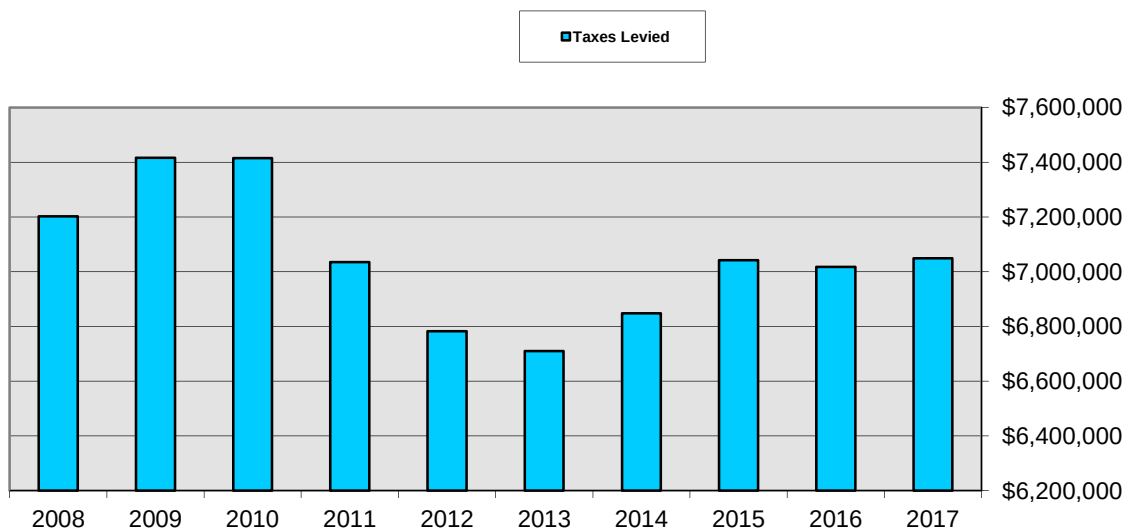
	2008	2009	2010	2011	2012
Net investment in capital assets	\$ 191,697,489	\$ 197,408,376	\$ 186,396,477	\$ 234,011,374	\$ 242,899,984
Restricted	-		46,544,554	35,291,771	20,385,898
Unrestricted	<u>(14,177,964)</u>	<u>(18,056,322)</u>	<u>(18,818,174)</u>	<u>(53,601,775)</u>	<u>(47,087,058)</u>
Total net position	177,519,525	179,352,054	214,122,857	215,701,370	216,198,824

**Net Position by Component
Last Ten Years**

	2013	2014	2015	2016	2017
Net investment in capital assets	\$ 249,055,318	\$ 253,142,385	\$ 256,672,025	\$ 267,636,184	\$ 278,993,397
Restricted	7,923,961	5,657,689	5,644,979	5,733,325	5,498,758
Unrestricted	<u>(38,554,217)</u>	<u>(38,760,599)</u>	<u>(34,600,417)</u>	<u>(26,079,105)</u>	<u>(37,339,580)</u>
Total net position	218,425,062	220,039,475	227,716,587	247,290,404	247,152,575

**Property Tax Levies and Collections
Last Ten Years**

Year	Taxes Levied for the Fiscal Year ^(a)	Collected within the Fiscal Year of the Levy		Collections in Subsequent Periods	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2017	\$7,049,875	7,029,332	99.71%	N/A	7,029,332	99.71%
2016	\$7,017,648	6,929,869	98.75%	49,694	6,979,563	99.46%
2015	\$7,042,343	6,888,112	97.81%	134,952	7,023,064	99.73%
2014	\$6,848,524	6,719,737	98.12%	126,895	6,846,632	99.97%
2013	\$6,710,054	6,601,906	98.39%	107,800	6,709,706	99.99%
2012	\$6,783,367	6,657,622	98.15%	125,576	6,783,198	100.00%
2011	\$7,035,098	6,875,215	97.73%	159,754	7,034,969	100.00%
2010	\$7,415,924	7,195,952	97.03%	219,688	7,415,640	100.00%
2009	\$7,416,557	7,229,255	97.47%	187,071	7,416,326	100.00%
2008	\$7,202,935	7,061,714	98.04%	141,204	7,202,918	100.00%

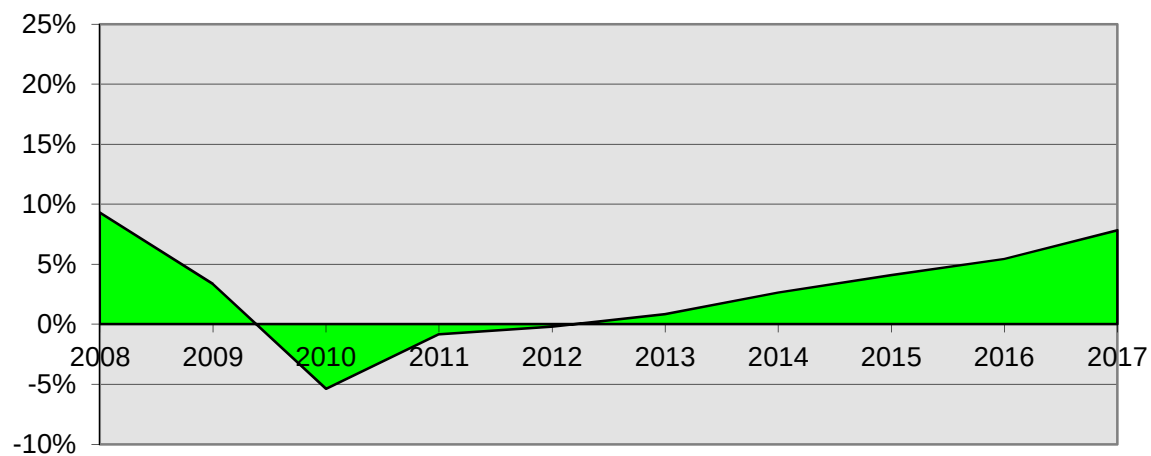


(a) Includes cancellations and supplements, and may differ from the totals reported by Whatcom County by an immaterial amount.

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
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
2017	2018	\$27,193,890,456	\$757,293,474	\$812,482,900	\$28,763,666,830	7.8%	0.266



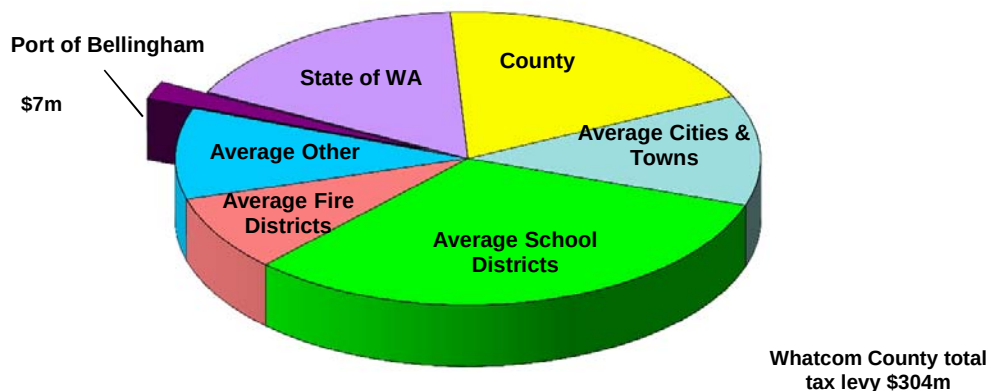
Source: Whatcom County Assessor's Office Tax Booklet online

* 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
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
2017	0.265	2.234	2.562	1.647	4.320	1.133	1.358	11.416

2017 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, 2017**

INDEBTEDNESS FOR GENERAL PURPOSES

2017 Assessed Value of Taxable Property in the Taxing District \$28,763,666,830

Legal Limit at 3/4 of 1% of Property Value \$215,727,501

GENERAL PURPOSE INDEBTEDNESS INCURRED

Current G.O. Bond Liabilities:

2016 G.O. Bond 4,440,000

2009 G.O. Bond 2,110,000

Matured Interest G.O. Bonds 42,200

Total General Purpose Indebtedness \$6,592,200

Restricted Cash and Investments:

G.O. Bond Cash 6,074

Total \$6,074

Excess Liabilities Over Assets \$6,586,126

Margin of Indebtedness Available \$209,141,375

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 \$65,323,041

Computation of Direct & Overlapping Bonded Debt
General Obligation Bonds
As of December 31, 2017

Jurisdiction	Gross Debt Outstanding	Percentage Applicable to Port of Bellingham	Amount Applicable to Port of Bellingham
Cities and Towns	43,569,972	100.00%	43,569,972
Port of Bellingham	6,550,000	100.00%	\$6,550,000
Whatcom County	2,340,000	100.00%	2,340,000
Totals	\$52,459,972		\$52,459,972

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

**Revenue Bond Coverage
Last Ten Years**

Year	Gross	Direct	Net	Net Revenue	Debt Service Requirements		Total	Coverage
	Operating	Operating	Non Operating	Available for	Revenue Bonds			
	Revenues	Expenses	Revenues	Debt Service	Principal	Interest		
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	\$16,763,097	\$23,306,927	\$3,915,000	\$2,337,279	\$6,252,279	3.73
2017	\$23,762,442	\$16,714,184	\$70,959	\$7,119,217	\$4,080,000	\$2,182,958	\$6,262,958	1.14

(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⁾
2008	197,675	37,201	85,800	5.3%	26,755
2009	199,736	35,721	81,200	8.5%	26,787
2010	201,140	36,557	79,900	9.5%	27,131
2011	202,100	38,211	81,100	9.0%	27,256
2012	203,500	40,396	82,600	8.1%	27,098
2013	205,800	40,260	84,200	7.5%	27,329
2014	207,600	41,456	85,900	6.6%	26,516
2015	209,790	42,511	88,400	6.0%	26,512
2016	212,540	44,273	90,800	6.0%	27,047
2017	216,300	N/A	93,200	4.9%	28,105

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
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	0.44%	157.05
2010	\$57,285,328	\$13,310,000	\$2,339,462	\$72,934,790	0.99%	362.61
2011	\$53,890,705	\$12,643,902	\$2,674,128	\$69,208,735	0.90%	342.45
2012	\$50,558,412	\$11,672,166	\$2,514,033	\$64,744,611	0.79%	318.16
2013	\$48,673,664	\$11,035,077	\$2,428,635	\$62,137,376	0.75%	301.93
2014	\$45,913,948	\$10,097,009	\$2,323,216	\$58,334,173	0.68%	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	\$3,466,033	\$49,840,742	0.53%	234.50
2017	\$34,134,339	\$7,070,205	\$5,022,887	\$46,227,431	N/A	213.72

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 2017 personal income.

N/A: Not available at time of printing

Principal Employers of Whatcom County
Current Year and 2008 (9 Years Prior)

Employer	2017			2008		
	Employees	Rank	Percentage of total county employment	Employees	Rank	Percentage of total county employment
Peacehealth (St Joseph Hospital)	2,289	1	2.46%	2,706	1	3.15%
Lummi Nation	1,781	2	1.91%	700	9	0.82%
Western Washington University	1,519	3	1.63%	1,664	2	1.94%
Bellingham School District	1,010	4	1.08%	1,300	3	1.52%
Whatcom County	907	5	0.97%	920	5	1.07%
BP Cherry Point Refinery	856	6	0.92%	725	7	0.84%
City of Bellingham	853	7	0.92%	852	6	0.99%
Mayberry Packing	805	8	0.86%			0.00%
Haggen Inc.	750	9	0.80%	933	4	1.09%
Fred Meyer	710	10	0.76%			0.00%
Alcoa-Intalco Works	690	11	0.74%			0.00%
WECU	668	12	0.72%			0.00%
Bellingham Technical College	664	13	0.71%			0.00%
Ferndale School District	650	14	0.70%	710	8	0.00%
Blaine School District	562	15	0.60%			0.00%
Total	<u>14,714</u>		<u>15.79%</u>	<u>10,510</u>		<u>11.42%</u>

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.
 N/A: Not available at time of publication.

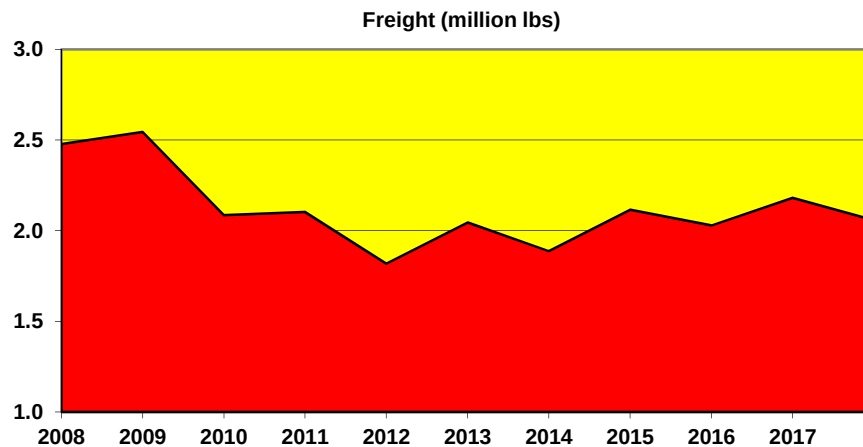
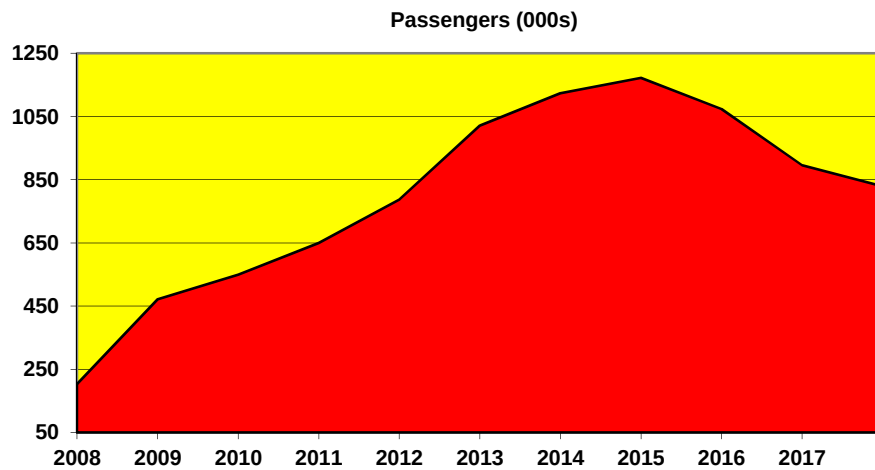
Number of Employees by Division
Current Year 2017

Division	Number of Employees	Percentage of Employees
Aviation	17	14.41%
Marinas*	13	11.02%
Marine Terminals*	7	5.93%
Real Estate	6	5.08%
Planning	2	1.69%
Facilities*	45	38.14%
Administration	11	9.32%
Executive	6	5.08%
Environmental	5	4.24%
Economic Development	2	1.69%
Public Priorities	4	3.39%
Totals	118	100.00%

*Includes temporary, seasonal employees

**Bellingham International Airport
Enplaned/Deplaned Passengers and Freight**

Year	Passengers		Freight (pounds)			Total
	Enplaned	Deplaned	Enplaned	Enplaned	Deplaned	
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
2017	373,877	362,076	735,953	1,286,899	762,432	2,049,331



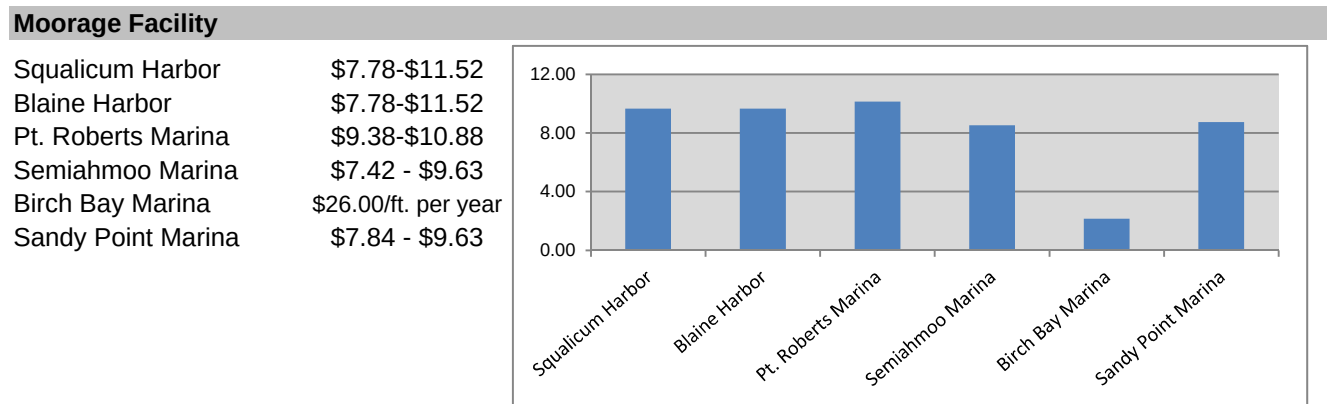
**Bellingham International Airport
Landings and Takeoffs**

Year	Air Carrier	Air Taxi	<u>Itinerant</u> General	<u>Itinerant</u> Military	<u>Local</u> General	<u>Local</u> Military	Total
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
2017	6,577	16,524	31,570	456	12,930	1208	69,265

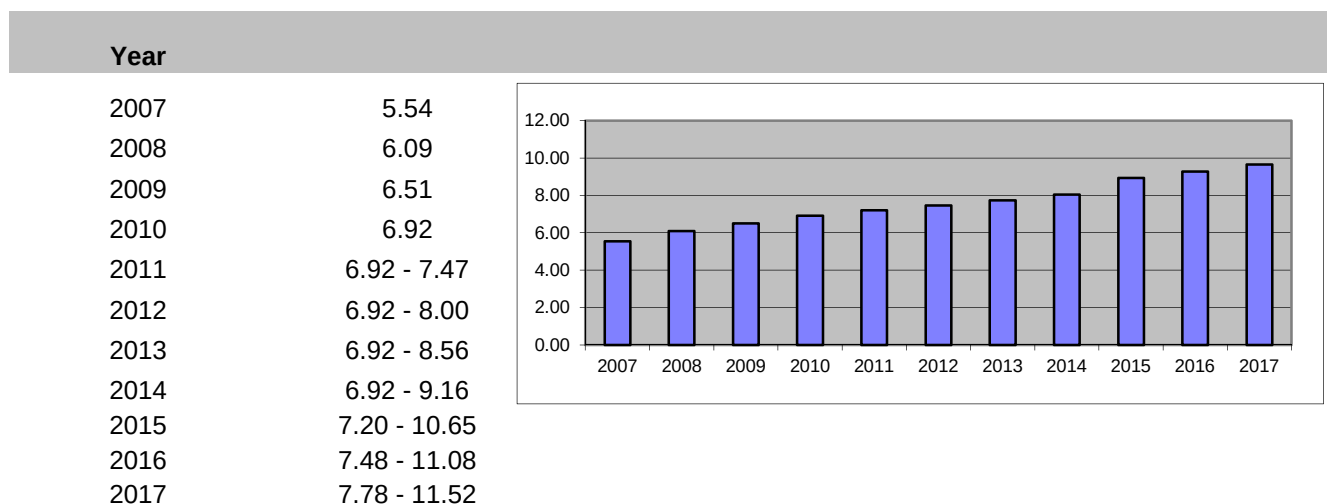
***Existing Whatcom County Moorage Facilities
as of February 2018**

Moorage Facility	No. on Waiting List	Wet Moorage Berths	Wet Moorage Occupancy	Dry Storage Berths	Dry Storage Occupancy	Number Visitor Berths
Squalicum Harbor	175	1,386	96%	0	N/A	1,556 linear feet
Blaine Harbor	0	630	63%	0	N/A	720 linear feet
Pt. Roberts Marina	0	924	55%	0	N/A	220 linear feet
Semiahmoo Marina	0	280	80%	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	175	3,557		0		

***Current Moorage Rates and Tariffs
as of February 2018 (\$/lin.ft/mo.)**



**Historical Moorage Rates and Tariffs
at Port Marinas**



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

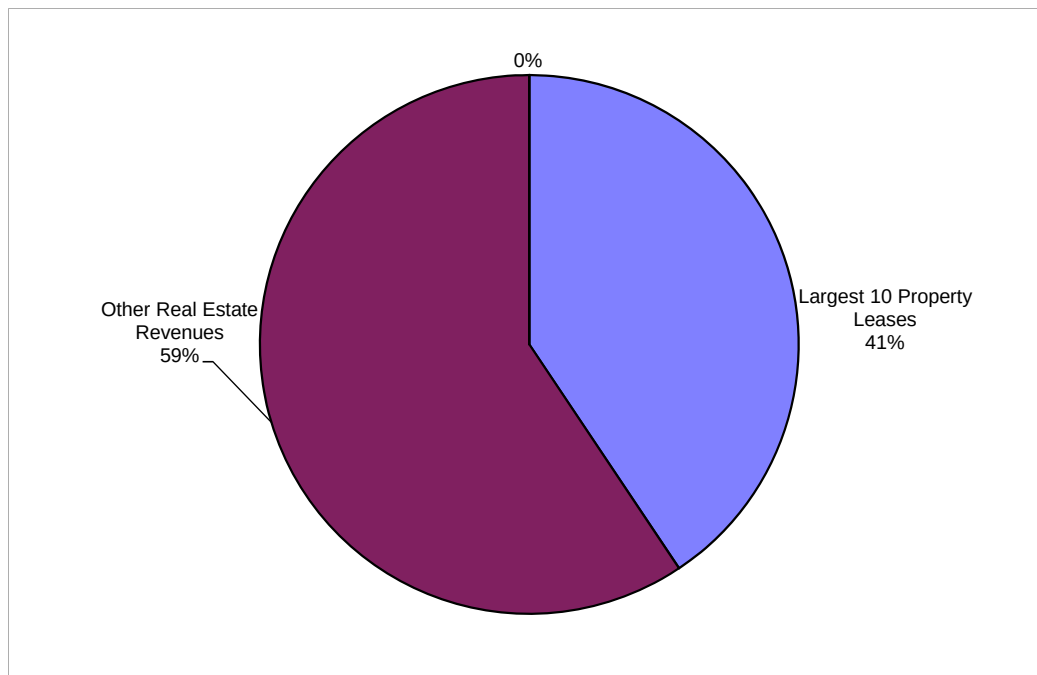
(2) All rates are per lineal foot.

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

2017 Largest Property Leases,⁽¹⁾

And 9 Years Prior

Tenant Name	Type of Activity	2017 Lease Payment	Lease Expires	Renewal Option Yr
1 Puglia Engineering, Inc.	Shipyard	645,921	2020	none
2 Alaska Marine Highway System	Alaska Ferry	586,060	2024	2024
3 Woodstone Corporation	Commercial Cooking Equipment Mf	499,843	2046	2081
4 LFS, Inc.	Marine Supplier	356,183	2018	2028
5 US Customs and Border Protection	Homeland Security	346,164	2022	2032
6 Seaview Boatyards	Shipyard - North & Fairhaven	298,170	2017	2047
7 Bellingham Cold Storage	Cold Storage Warehousing	239,139	2023	2033
8 Teal Jones Lumber Services	Lumber Mill	230,681	2020	2030
9 Index Sensors	Electronics Design and Manufactuir	228,081	2022	2042
10 Bellingham HI	Hotel	183,092	2064	2089
Largest 10 Property Leases		\$ 3,613,334		
Total Real Estate Revenues⁽²⁾		\$ 8,894,717		
Largest 10 Leases as a Percentage of Total Real Estate Revenues		41%		



Source: Port of Bellingham Real Estate Division

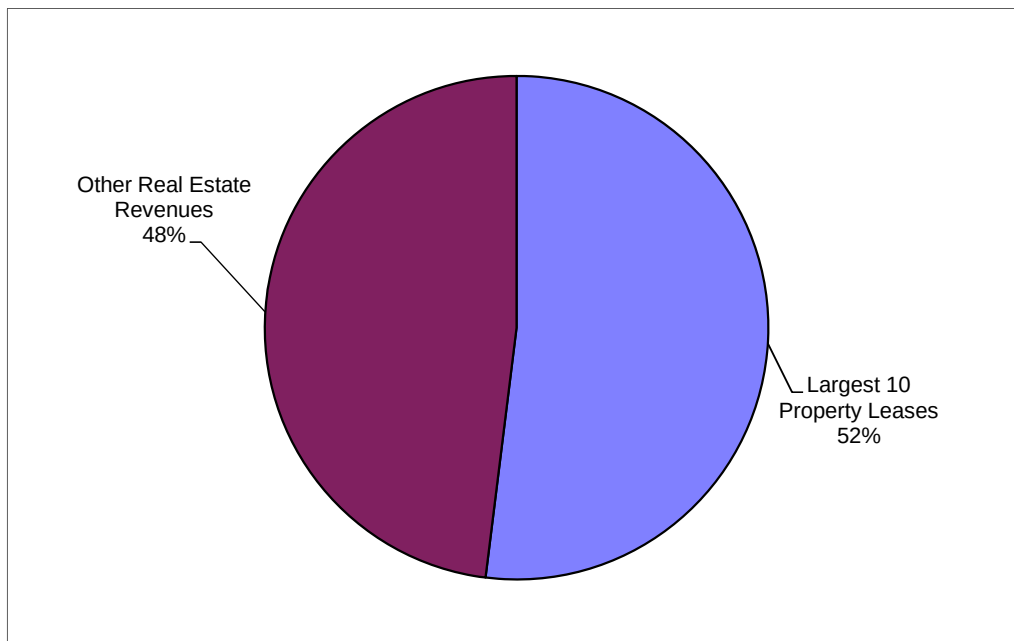
(1) This information is provided to meet 'Continuing Disclosure' as required under SEC Rule 15c2-12 in accordance with Port of Bellingham Revenue Bond Issues.

(2) Includes Real Estate Revenues, plus all space and land revenues for all other divisions which are not included in the Real Estate Division.

2017 Largest Property Leases,⁽¹⁾

And 9 Years Prior

Tenant Name	Type of Activity	2009 Lease Payment
1 Stork Craft Mfg USA	Product Warehouse	720,000
2 Olympic Coordination Center	Homeland Security	583,130
3 Puglia Engineering, Inc.	Shipyard	524,316
4 Woodstone Corporation	Commercial Cooking Equipment Mfg	446,169
5 US Customs & Border Protection	Homeland Security	432,176
6 Aluminum Chambered Boats, Inc.	Boat Manufacturer	295,470
7 Seaview Boatyards	Shipyard - North & Fairhaven	243,740
8 Bellingham Cold Storage	Cold Storage Warehousing	218,987
9 LFS, Inc.	Marine Supplier	197,643
10 Bellwether Harbor Investments	Hotel and Office Building	186,333
Largest 10 Property Leases		\$ 3,847,964
Total Real Estate Revenues		\$7,404,189
Largest 10 Leases as a Percentage of Total Real Estate Revenues		52%



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, 2017**

Bellingham International Airport

<i>Location:</i>	3 miles NW of Bellingham
<i>Airport Code:</i>	BLI
<i>Runways:</i>	6,701 ft.
<i>Terminal:</i>	105,000 sq. ft.
<i>Parking:</i>	2,717 spaces
<i>International:</i>	International airport of entry

Real Estate

<i>Area:</i>	327 acres
<i>Leaseable office, commercial, and industrial building space:</i>	1,200,000 sq. ft.
<i>Tenants:</i>	259 ⁽¹⁾

Cruise Terminal

<i>Terminal Building</i>	22,950 sq. ft.
<i>Warehouse</i>	27,750 sq. ft.
<i>Berths</i>	3 (with 300 to 450 feet)

Shipping Terminal

<i>Warehouses</i>	2 (with 81,800 sq. ft. of office, warehouse, and covered loading dock space)
<i>Upland storage capability</i>	10 acres
<i>Deep water pier</i>	1,750 ft.

Marinas

See schedule 15

Source: Port of Bellingham Records

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