Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Port of Bellingham

Whatcom County

For the period January 1, 2016 through December 31, 2016

Published June 26, 2017

Report No. 1019366

Office of the Washington State Auditor
Pat McCarthy

June 26, 2017

Board of Commissioners
Port of Bellingham
Bellingham, Washington

Report on Financial Statements and Federal Single Audit and Passenger Facility Charges

Please find attached our report on the Port of Bellingham's financial statements, compliance with federal laws and regulations and compliance with requirements applicable to its passenger facility charge program.

We are issuing this report in order to provide information on the Port's financial condition.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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Port of Bellingham
Whatcom County
January 1, 2016 through December 31, 2016

SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of the Port of Bellingham are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Port.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Port's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

CFDA No.	Program or Cluster Title
20.106	Airport Improvement Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was $750,000.

The Port qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Port of Bellingham
Whatcom County
January 1, 2016 through December 31, 2016

Board of Commissioners
Port of Bellingham
Bellingham, Washington

We have audited, 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, the financial statements of the Port of Bellingham, Whatcom County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated June 20, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Port's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Port's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Port's financial statements are free from material misstatement, we performed tests of the Port's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Port's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

June 20, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Port of Bellingham
Whatcom County
January 1, 2016 through December 31, 2016

Board of Commissioners
Port of Bellingham
Bellingham, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Port of Bellingham, Whatcom County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Port's major federal programs for the year ended December 31, 2016. The Port's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Port's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Port's compliance.

Opinion on Each Major Federal Program

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Port's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

State Auditor

Olympia, WA

June 20, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

Port of Bellingham
Whatcom County
January 1, 2016 through December 31, 2016

Board of Commissioners
Port of Bellingham
Bellingham, Washington

REPORT ON COMPLIANCE FOR PASSENGER FACILITY CHARGES

We have audited the compliance of the Port of Bellingham, Whatcom County, Washington, with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide) issued by the Federal Aviation Administration for its passenger facility charge program for the year ended December 31, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of laws and regulations applicable to its passenger facility charge program.

Auditor's Responsibility

Our responsibility is to express an opinion on the Port's compliance based on our audit. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Port's compliance with those requirements.

Opinion on Compliance

In our opinion, the Port of Bellingham complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended December 31, 2016.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to its passenger facility charge program. In planning and performing our audit, we considered the Port's internal control over compliance with the requirements that could have a direct and material effect on the passenger facility charge program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the passenger facility charge program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the passenger facility charge program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the passenger facility charge program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

State Auditor

Olympia, WA

June 20, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Bellingham
Whatcom County
January 1, 2016 through December 31, 2016

Board of Commissioners
Port of Bellingham
Bellingham, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Bellingham, Whatcom County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 17.

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, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 18 through 26, and pension plan information on pages 57 through 58 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port's basic financial statements. The accompanying Schedule of

Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The accompanying Schedule of Passenger Facility Charges is presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration. These schedules are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2017 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.

Pat McCarthy

State Auditor

Olympia, WA

June 20, 2017

FINANCIAL SECTION

Port of Bellingham
Whatcom County
January 1, 2016 through December 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016
Statement of Revenues, Expenses and Changes in Net Position – 2016
Statement of Cash Flows – 2016
Notes to Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – 2016
Schedule of Employer Contributions – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2016
Notes to the Schedule of Expenditures of Federal Awards – 2016
Schedule of Passenger Facility Charges – 2016
Notes to the Schedule of Passenger Facility Charges – 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

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

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

Overview of the Financial Statements

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

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

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

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

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

Financial Analysis of the Port

Net Position

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

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

Changes in Net Position

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

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

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

Statements of Revenues, Expenses and Changes in Net Position

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

Capital Assets and Debt Administration

Capital Assets

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

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

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

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

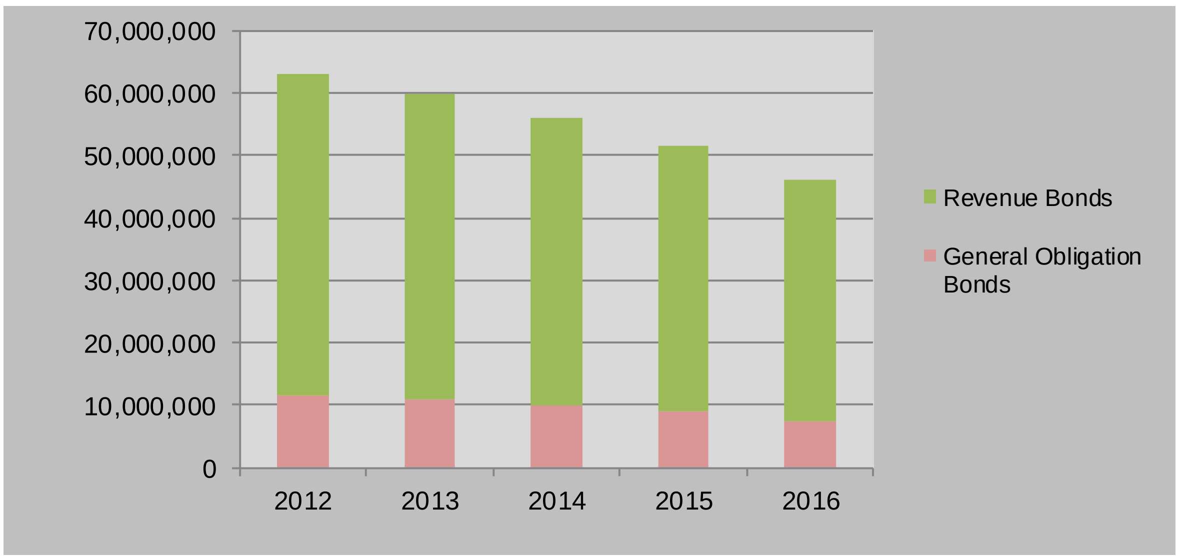
Debt Administration

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

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

Outstanding Bonded Debt

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



2017 Budget

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

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

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

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

Contacting the Port's Financial Management

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

PORT OF BELLINGHAM

STATEMENT OF NET POSITION
December 31, 2016

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

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

PORT OF BELLINGHAM

STATEMENT OF NET POSITION

December 31, 2016

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

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

PORT OF BELLINGHAM

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

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

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

PORT OF BELLINGHAM

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2016

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

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

PORT OF BELLINGHAM

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

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Basis of Accounting and Presentation

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

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

Use of Estimates

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

Significant Risks and Uncertainties

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

Assets, Liabilities and Net Position

1. Investments, Cash and Cash Equivalents

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2. Temporary Investments See Note 2.

3. Receivables

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

4. Amounts Due To and From Other Governments

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

5. Restricted Assets See Note 2.

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

The restricted assets are composed of the following:

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

6. Capital Assets and Depreciation See Note 4.

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

7. Other Property and Investments See Note 2.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Deferred Outflows/Inflows of Resources

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

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

9. Compensated Absences

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

10. Environmental Remediation Liabilities

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

11. Long Term Debt See Note 9.

12. Hold-Over Compensation

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

13. Operating and Non-Operating Revenues

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

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

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

14. Pensions

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

NOTE 2 – DEPOSITS AND INVESTMENTS

Treasury Function

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Investments

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

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

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

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

Interest Rate Risk –Investments

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

Custodial Credit Risk – Investments

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

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

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

Investments authorized through bond debt agreements

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

NOTE 3 – PROPERTY TAXES

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

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

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

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

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

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

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

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION (continued)

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

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

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

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

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

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION (continued)

Construction Commitments:

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

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

NOTE 5 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 6 – PENSION PLANS

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

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

State Sponsored Pension Plans

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

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

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

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

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

NOTE 6 – PENSION PLANS (continued)

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

Contributions

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

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

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

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

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

NOTE 6 – PENSION PLANS (continued)

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

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

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

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

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

Actuarial Assumptions

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

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

NOTE 6 – PENSION PLANS (continued)

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

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

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

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

Discount Rate

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

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

Long-Term Expected Rate of Return

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

NOTE 6 – PENSION PLANS (continued)

Estimated Rates of Return by Asset Class

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

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

Sensitivity of NPL

The table below represents the Port's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Port's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate.

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

Pension Plan Fiduciary Net Position

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

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

NOTE 6 – PENSION PLANS (continued)

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

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

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

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

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

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

Pension Expense

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

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

Deferred Outflows of Resources and Deferred Inflows of Resources

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

NOTE 6 – PENSION PLANS (continued)

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

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

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

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

NOTE 6 – PENSION PLANS (continued)

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

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

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

NOTE 7 – RISK MANAGEMENT

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

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

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

NOTE 7 – RISK MANAGEMENT (continued)

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

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

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

NOTE 8 – SHORT-TERM DEBT

There was no short-term debt activity in 2016

NOTE 9 – LONG-TERM DEBT

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

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

NOTE 9 – LONG-TERM DEBT (continued)

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

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

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

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

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

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

NOTE 9 – LONG-TERM DEBT (continued)

Changes in Long-Term Liabilities

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

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

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

NOTE 10 – UNEARNED DEBITS (CREDITS)

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

NOTE 11 – PORT OPERATIONS BY INDUSTRY

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

NOTE 11 – PORT OPERATIONS BY INDUSTRY (continued)

Condensed Statement of Net Position	Airport	Marinas	Marine Terminals	Real Estate	Other	Total
Assets:						
Current Assets						$ 49,149
Other & Restricted Assets						26,285
Capital Assets, net	$ 122,770	$ 50,402	$ 23,326	$ 8,117	$ 77,376	281,991
Construction Work in Progress	3,304	2,639	3,066	11,247	15,118	35,374
Total Assets						392,799
Deferred Outflows of Resources						1,188
Liabilities:						
Current Liabilities						21,074
Other Non-current Liabilities						86,429
Revenue Debt						37,128
Total Liabilities						144,631
Deferred Inflows of Resources						2,061
Net Position:						
Net invested in capital assets						267,636
Restricted						5,733
Unrestricted						(26,074)
Total Net Position						247,295
Total Liabilities, Net Position, and Deferred Inflows						$ 393,987

Condensed Statement of Revenues, Expenses and Changes in Net Position	Airport	Marinas	Marine Terminals	Real Estate	Other	Total
Operating Revenues	$ 6,263	$ 7,531	$ 2,141	$ 7,017	$ 332	$ 23,284
Operating Expenses	(5,475)	(2,797)	(1,265)	(3,445)	(1,472)	(14,454)
General & Admin. Expense	(190)	(33)	(22)	(134)	(1,903)	(2,282)
Depreciation Expense	(6,388)	(2,930)	(1,651)	(1,641)	(213)	(12,823)
Operating Income (Loss)	(5,790)	1,771	(797)	1,797	(3,256)	(6,275)
Tax Revenues					7,098	7,098
Net Non-Operating					9,742	9,742
Net Income (Loss)	(5,790)	1,771	(797)	1,797	13,584	10,565
Capital Contributions	1,878	68	1,403	1,028	2,927	7,304
Capital Contributions-Restricted	1,709	-	-	-	-	1,709
Net Position, January 2016						227,717
Net Position, December 2016						$ 247,295

NOTE 12 – RESTRICTED COMPONENT OF NET POSITION

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

NOTE 13 – PASSENGER FACILITY CHARGES

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

NOTE 13 – PASSENGER FACILITY CHARGES (continued)

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

NOTE 14 – POLLUTION REMEDIATION OBLIGATIONS

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

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

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

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

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

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

NOTE 15 – SERVICE CONCESSION AGREEMENTS

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

NOTE 16 – OTHER DISCLOSURES

Special Items

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

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

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

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

PORT OF BELLINGHAM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ending December 31, 2016

FEDERAL AGENCY NAME	FEDERAL PROGRAM NAME	FEDERAL CFDA NO.	OTHER IDENT. NO.	EXPENDITURES From Pass-Through Awards	EXPENDITURES From Direct Awards	EXPENDITURES Total	Passed Through to Subrecipients	FOOT-NOTE REF.
U.S. Department of Transportation	Airport Improvement Program	20.106	3-53-0005-51	**0**	**217,321**	**217,321**	**0**	
U.S. Department of Transportation	Airport Improvement Program	20.106	3-53-0005-53	**0**	**1,584,619**	**1,584,619**	**0**	
U.S. Department of Transportation	Airport Improvement Program	20.106	3-53-0005-54	**0**	**75,928**	**75,928**	**0**	
Total Federal CFDA No. 20.106				**0**	**1,877,868**	**1,877,868**	**0**	
U.S. Department of Homeland Security (via State of Washington Military Department, Emergency Management Division)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4242-DR-WA	**3,882**	**0**	**3,882**	**0**	**Note 3**
				3,882	**0**	**3,882**	**0**	
U.S. Department of Commerce	Economic Adjustment Assistance	11.307	07-39-02940	**0**	**209,944**	**209,944**	**0**	**Note 4**
Total Federal CFDA No. 11.307				**0**	**209,944**	**209,944**	**0**	
	TOTAL FEDERAL AWARDS EXPENDED			**3,882**	**2,087,811**	**2,091,693**	**0**	

The Accompanying Notes To The Schedule of Expenditures of Federal Awards are an integral part of this schedule.

PORT OF BELLINGHAM
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
JANUARY 1, 2016 THROUGH DECEMBER 31, 2016

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards are prepared on the same basis as the Port's financial statements. The Port uses the accrual basis of accounting.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenses represent only the federal grant portion of the program costs. Actual program costs, including the Port's portion, may be more than shown.

NOTE 3 - PRIOR PERIODS

The 2016 Schedule of Expenditures of Federal Awards includes $3,882 in expenditures that were incurred in prior years and approved for reimbursement in 2016 by the U.S. Department of Homeland Security.

NOTE 4 - RLF

The Port has a revolving loan program for small manufacturing firms in Whatcom County. The balance of the RLF loans outstanding at the end of 2016 totaled $77,644. The cash and investment balance of 2016 was $202,281 and there were no administrative expenses paid out during the year. The Federal share of the RLF was 75%. ($77,644 + 202,281 + 0) *0.75 = $209,944.

NOTE 5 - Indirect Cost Rate

The Port has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Port of Bellingham

Schedule of Passenger Facility Charges Collected, Held and Used

For The Year Ended December 31, 2016

	Quarter Ending			
	March 2016	June 2016	September 2016	December 2016
Unexpended passenger facility charges and interest, beginning of period	$0	$0	$0	$0
Add:				
Passenger Facility Charges Revenue	366,571	406,010	466,712	469,861
Interest earned	0	0	0	0
	366,571	406,010	466,712	469,861
Expenses/Expenditures	366,571	406,010	466,712	469,861
Unexpended passenger facility charges and interest, end of period	$0	$0	$0	$0

The accompanying notes are an integral part of this schedule.

Port of Bellingham

Schedule of Passenger Facility Charges Collected, Held and Used

For the Year Ended December 31, 2016

1. BASIS OF ACCOUNTING

This schedule is prepared generally on the same basis of accounting as the Port's financial statements. However, while the Port uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, the PFC revenues presented represent only those revenues actually received for the quarter reported. PFC revenues not received prior to the end of each quarter are not accrued and reported as revenues of the subsequent reporting period.

2. PROGRAM COSTS

The amounts shown as current year revenues and expenses represent only the Passenger Facilities Charges portion of the project costs. Entire project costs may be more than shown.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
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