



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Port of Bellingham

For the period January 1, 2018 through December 31, 2018

Published June 6, 2019

Report No. 1024006





**Office of the Washington State Auditor
Pat McCarthy**

June 6, 2019

Board of Commissioners
Port of Bellingham
Bellingham, Washington

Report on Financial Statements and Passenger Facility Charges

Please find attached our report on the Port of Bellingham's financial statements 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,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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**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
January 1, 2018 through December 31, 2018**

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, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated May 30, 2019.

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
State Auditor
Olympia, WA

May 30, 2019

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

Port of Bellingham
January 1, 2018 through December 31, 2018

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, 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, 2018.

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, 2018.

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.

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

Pat McCarthy
State Auditor
Olympia, WA

May 30, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Bellingham **January 1, 2018 through December 31, 2018**

Board of Commissioners
Port of Bellingham
Bellingham, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Bellingham, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 12.

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 respective financial position of the Port of Bellingham, as of December 31, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 12 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 opinions on the financial statements that collectively comprise the Port's basic financial statements. 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. This schedule is 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 May 30, 2019 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

May 30, 2019

FINANCIAL SECTION

Port of Bellingham January 1, 2018 through December 31, 2018

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2018

Statement of Revenues, Expenses and Changes in Net Position – 2018

Statement of Cash Flows – 2018

Notes to Financial Statements – 2018

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3, LEOFF 2
– 2018

Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 2 – 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Passenger Facility Charges – 2018

Notes to the Schedule of Passenger Facility Charges – 2018

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, 2018. 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, 2018 by \$250 million. Total assets of the Port at year end were \$394.7 million, while total liabilities were \$140.7 million. The Port's long-term debt outstanding was \$42 million which is a decrease from 2017 due to the scheduled debt payments. The Port's net investment in capital assets was \$282 million. Unrestricted net position was negative \$37 million, reflecting the full estimated liability for the environmental remediation work but not offset by the expected Department of Ecology MTCA grants. It is anticipated that in the future the Port will raise funds for this estimated future liability.

Statements of Net Position	2018	2017
Current Assets	\$ 51,192,173	\$ 46,815,370
Capital Assets:		
Capital assets not being depreciated	120,617,755	130,587,306
Capital assets being depreciated	203,917,469	195,161,670
Other Assets	18,993,194	19,035,383
Total Assets	\$ 394,720,591	\$ 391,599,729
Deferred Outflows of Resources	\$ 577,378	\$ 744,396
Current Liabilities	\$ 15,081,613	\$ 18,565,998
Non-current Liabilities	125,631,100	123,068,344
Total Liabilities	\$ 140,712,713	\$ 141,634,342
Deferred Inflows of Resources	\$ 4,186,885	\$ 3,557,208
Net Position:		
Net investment in capital assets	\$ 281,687,760	\$ 278,993,397
Restricted	5,636,916	5,498,758
Unrestricted	(36,926,304)	(37,339,580)
Total Net Position	\$ 250,398,372	\$ 247,152,575

Changes in Net Position

In 2018, Port operating revenues increased from 2017 totaling \$25.8 million, an increase of nearly 9%. All operating divisions showed an increase in revenues from 2017. The Marinas and Real Estate divisions both had increases due to scheduled contractual increases and high occupancy rates. Revenues for the Aviation division increased slightly due to tariff changes and increased general aviation activity, but the airport continued to suffer declining enplanements year over year.

Total operating expenses (before depreciation) totaled \$16.8 million, slightly over the prior year. Depreciation expenses increased to \$13 million, due to the completion and beginning depreciation of large capital projects.

The receipt of capital grants and passenger facility charges offset the net loss in 2018, resulting in a net position of \$250.4 million, an increase of over \$3 million from 2017. Overall, the financial position of the Port improved in 2018.

Statements of Revenues, Expenses and Changes in Net Position

	2018	2017
Operating Revenues:		
Airport operations	\$ 7,196,686	\$ 6,499,164
Marina operations	8,198,208	7,798,850
Marine terminal operations	2,304,968	2,013,899
Property lease operations	7,827,889	7,091,123
Other	326,892	359,406
Total Operating Revenues	\$ 25,854,643	\$ 23,762,442
Non-operating Revenues:		
Ad valorem tax revenues	\$ 7,213,543	\$ 7,044,355
Investment income	785,570	463,926
Environmental insurance claim revenue (adjustment)	3,180,149	(883,550)
Environmental grant revenues	2,058,470	3,296,502
Other non-operating income	942,022	149,620
Total non-Operating Revenues	\$ 14,179,754	\$ 10,070,853
Total Revenues	\$ 40,034,397	\$ 33,833,295
Expenses:		
General operating expenses	\$ 11,789,622	\$ 11,317,893
Maintenance expenses	3,170,967	3,220,932
General and administrative expenses	1,798,571	2,175,359
Depreciation expense	13,019,004	12,347,194
Non-operating expenses	10,834,085	10,377,484
Total Expenses	\$ 40,612,249	\$ 39,438,862
Increase (Decrease) in Net Position before Capital Contributions	\$ (577,852)	\$ (5,605,567)
Capital Contributions	\$ 3,823,649	\$ 5,467,738
Change in Net Position	\$ 3,245,797	\$ (137,829)
Net Position - Beginning of Period	\$ 247,152,575	\$ 247,290,404
Net Position - End of Period	\$ 250,398,372	\$ 247,152,575

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2018, the Port had nearly \$325 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, 2017, totaled \$326 million. Capital assets, net of depreciation, decreased slightly in 2018. See Notes 4 and 11. Capital projects which individually totaled in excess of \$500,000 during 2018 were:

• Replace Harris Avenue Shipyard Pier	\$11,497,318
• All American Marine Building Construction	10,331,377
• Whatcom Waterway North Infrastructure	5,768,710
• Deconstruct Waterfront Site	2,421,971
• Redesign & Permit ASB	1,849,143
• District Utilities – ECO	1,030,252
• Demise F Street Warehouse	957,609
• Refurbish Blaine Pier	853,175
• Franchise Utilities	665,542
• Demolish and Relocate Blaine Webhouse #1	614,881

Over \$41.9 million was spent during 2018 on construction of capital assets. See note 4.

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

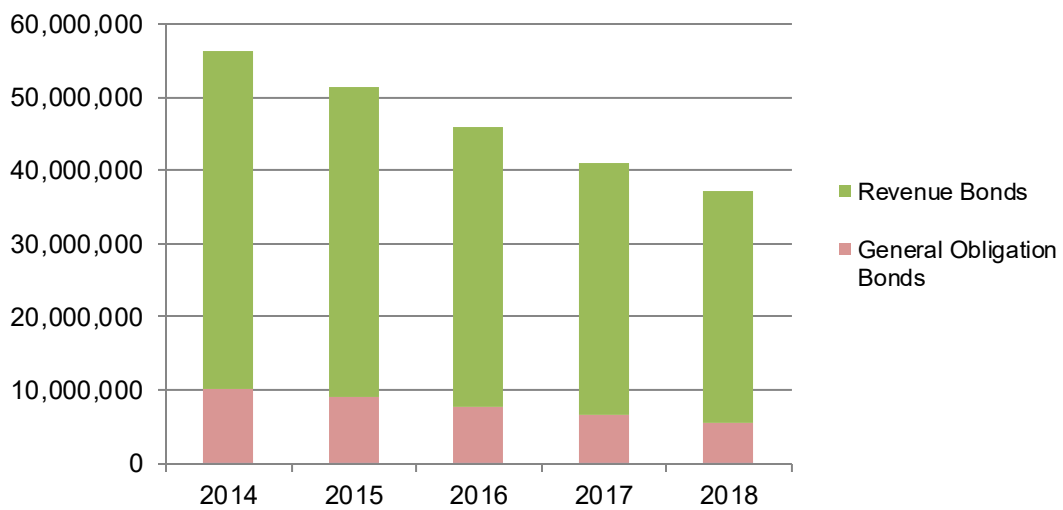
Debt Administration

At December 31, 2018, long-term debt obligations totaled \$135.7 million of which \$10 million is due within one year. The total bonded debt is comprised of \$6 million balance in general obligation debt, and \$31.3 million (net of premiums and discounts) representing bonds secured by revenue sources of the Port. The terms of the Port debt vary per issue with interest rates ranging from 1.35% to 7%. Revenue bond debt will be fully amortized by 2030 while currently outstanding General Obligation Bond debt will be fully amortized by the year 2025. Moody's Investor Services rates the Port's general obligation bonds as Aa2 and the Port's issued Revenue Bonds as A2. The remainder of the Port's debt is primarily environmental remediation.

The Port through various contractual relationships has assumed contingent liability for environment cleanup of various properties acquired by the Port. Total environmental cleanup activities have been estimated as of December 31, 2018 at \$135.2 million. Per GASB 49, effective 2008, the Port expects to capitalize \$46.6 million of the environmental remediation efforts, leaving \$88.6 million as a liability. The Port has purchased insurance which is expected to fund nearly \$19 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
2014	\$ 10,000,000	\$ 46,160,000	\$ 56,160,000
2015	\$ 9,050,000	\$ 42,400,000	\$ 51,450,000
2016	\$ 7,540,000	\$ 38,485,000	\$ 46,025,000
2017	\$ 6,550,000	\$ 34,405,000	\$ 40,955,000
2018	\$ 5,515,000	\$ 31,535,000	\$ 37,050,000



2019 Budget

The Port's 2019 budget anticipates Operating Revenues to increase from \$26 million in 2018 to nearly \$27 million in 2019, with the largest increase in the Marine Terminals Division. Operating expenses are budgeted to increase \$2.8 million to \$20.5 million. Income from traditional operations before depreciation is anticipated to be approximately \$6.4 million.

In 2019, \$15 million, net of anticipated grants, is forecasted for capital projects. This total includes capital improvements and purchases of over \$2 million at the Port's marine terminals, over \$4 million in real estate projects, over \$1.3 million in marina projects, as well as various airport and public access projects. Many of these projects are complex and are anticipated to occur over multiple years and are currently in various stages of planning, design, and permitting.

Property taxes for 2019 are levied at .2275 per 1,000 valuation rate, resulting in a total levy of just over \$7.3 million. \$1.26 million of this amount is levied for the General Obligation Fund. The levy rate for 2018 was .2485 for a levy amount of \$7.2 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, 2018

ASSETS

CURRENT ASSETS:

Cash and cash equivalents (Note 1)	\$ 32,742,982
Investments (Note 2)	8,993,175
Restricted assets:	
Cash and cash equivalents	306,226
Investments	5,298,213
Taxes receivable	135,888
Due from other governments	507,561
Accounts receivable (net of allowance for uncollectible)	982,964
Interest receivable	40,954
Notes receivable	214,744
Other receivables	446,751
Prepays	1,522,715

TOTAL CURRENT ASSETS **51,192,173**

NON-CURRENT ASSETS:

Capital assets not being depreciated (Note 4)

Land	78,446,998
Construction in progress	41,923,823

Capital assets being depreciated (Note 4)

Intangible assets (Note 4)	1,606,122
Equipment	16,416,682
Buildings and Structures	164,308,232
Improvements other than buildings	216,697,118
Less: Accumulated depreciation	(194,863,750)

Other noncurrent assets

Hold-over compensation	5,383
Pension Asset	137,811
Environmental Insurance	18,850,000

TOTAL NON-CURRENT ASSETS **343,528,419**

TOTAL ASSETS **\$ 394,720,592**

DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on refunding debt (Note 1)	16,559
Deferred outflow for pension (GASB 68) (Note 6)	560,819

TOTAL DEFERRED OUTFLOWS OF RESOURCES **\$ 577,378**

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

PORT OF BELLINGHAM
STATEMENT OF NET POSITION
December 31, 2018

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 1,644,089
Accrued expenses	259,294
Accrued interest payable	229,840
Other current payables	2,886,971
Current portion of long-term obligations (Note 9)	5,252,973
Current portion of environmental remediation	4,808,446

TOTAL CURRENT LIABILITIES	15,081,613
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NON-CURRENT LIABILITIES:

Long-term debt	
General obligations bonds	4,803,348
Revenue bonds	28,370,931
Environmental remediation	83,760,506
Notes payable	3,996,673
Capital leases	1,209,972
Pension liability	3,220,549
Compensated absences	269,121

TOTAL NON-CURRENT LIABILITIES	125,631,100
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TOTAL LIABILITIES	\$ 140,712,713
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DEFERRED INFLOWS OF RESOURCES

Deferred lease arrangement receipts (Note 15)	2,657,696
Deferred Inflows for pensions (GASB 68) (Note 6)	1,529,189

TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 4,186,885
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NET POSITION

Net investment in capital assets	281,687,760
Restricted for debt service	4,763,810
Restricted for blended component unit	12,441
Restricted for revolving loan program	75,331
Restricted for capital projects	218,454
Restricted for insurance reserve	566,880
Unrestricted	(36,926,304)

TOTAL NET POSITION	\$ 250,398,372
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The notes to the financial statements are an integral part of this statement.

PORT OF BELLINGHAM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2018

OPERATING REVENUES:	
Airport operations	\$ 7,196,686
Marina operations	8,198,208
Marine terminal operations	2,304,968
Property lease operations	7,827,889
Other	326,892
Total Operating Revenues	25,854,643
OPERATING EXPENSES:	
General operations	11,789,622
Maintenance	3,170,967
General and administrative	1,798,571
Depreciation	13,019,004
Total Operating Expenses	29,778,164
OPERATING INCOME (LOSS)	(3,923,521)
NON-OPERATING REVENUES (EXPENSES):	
Environmental grant revenues	2,058,470
Investment income	785,570
Taxes levied for:	
General purposes	5,951,043
Debt service principal/interest	1,262,500
Miscellaneous taxes	179,593
Other revenues	73,501
Environmental remediation adjustment	(4,793,333)
Environmental remediation expense	(410,067)
Environmental insurance claims revenue	3,180,149
Gains (Losses) on Disposal of Assets	688,928
Amortization of intangibles	(393,231)
Interest expense	(1,344,153)
Environmental grant expense	(3,893,301)
Total Non-Operating Revenues (Expenses)	3,345,669
Income (loss) before capital contributions	(577,852)
Capital Contributions	2,067,458
Capital Contributions - Contractually Restricted (Note 13)	1,756,191
Increase (Decrease) in Net Position	3,245,797
Net position - beginning of period	247,152,575
Net position - end of period	\$ 250,398,372

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, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 25,202,839
Payments to suppliers	(15,462,179)
Payments to employees	(2,346,112)
	<hr/>
Net cash provided by operating activities	7,394,548

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Receipts from property taxes	5,850,057
Receipts from other taxes and financing fees	236,139
Receipts from operating grants	2,483,571
Payments for operating grants	(3,902,431)
Prepaid Environmental Clean-up Insurance Policy	-
	<hr/>
Net cash provided (used) by non-capital financing activities	4,667,336

CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES

Principal paid on capital debt	(3,091,450)
Interest paid on capital debt	(2,028,309)
Cash received from property taxes for general obligation bonds	1,241,457
Purchases of capital assets	(9,482,554)
Capital contributions	3,042,198
Payments for environmental remediation	2,950,082
	<hr/>
Net cash provided (used) by capital and related financing activities	(7,368,576)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	10,996,125
Payments for purchases of investments	(9,513,085)
Interest and dividends	787,416
	<hr/>
Net cash provided by investing activities	2,270,456

Net increase (decrease) in cash and cash equivalents	6,963,764
Balances - beginning of the year	26,085,444
Balances - end of the year	\$ 33,049,208

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, 2018

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

Net Operating Income (Loss)	\$	(3,923,521)
Depreciation		13,019,004
Change in assets and liabilities:		
(Incr)Decr in accounts receivable		(596,158)
(Incr)Decr in other current assets		(11,001)
(Incr)Decr in work for others		(133,950)
(Incr)Decr in customer deposits		78,303
Incr(Decr) in accounts payable		(671,492)
Incr(Decr) in other liabilities		(456,912)
Non Cash GASB 68 pension expense		90,274
Total Adjustments		<u>11,318,069</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$	7,394,548

SCHEDULE OF NON-CASH ACTIVITIES

Construction in Process Capitalized Interest	649,093
Change in Value of Intangible Assets	(393,231)
Unrealized Gains or Losses	(143,315)
Environmental Claim adjustment	(4,793,333)
Disposals of Capital Assets	(1,357,746)
Change in Deferred Pension	120,851
Change in Pension Asset	137,811
TOTAL NON-CASH ACTIVITIES	\$ (5,779,870)

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 economic resources management focus and full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. The principal operating revenues of the Port are moorage, dockage, commercial leases, airline fees, and other revenues generated through the normal operations of the airport, marinas, marine terminals, and leasing of commercial properties. Operating expenses for the Port include the cost of sales and services, utilities, administrative expenses, depreciation on capital assets, etc. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Budgetary Information**1. Scope of Budget**

An annual budget is adopted on the accrual basis of accounting. Debt service is budgeted at the level of the individual debt issue, and capital projects are budgeted in the year the expenditure is expected to be made.

Expenditures may not exceed adopted budgets at the department level and the budget constitutes a legal authority for the expenditures.

2. Amending the Budget

Any revisions that alter the total expenditures of the Port must be approved by the Port Commission. Also, any revisions to the capital budget that increase spending or add a project must be approved by the Port Commission.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**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. Cash and Cash Equivalents**

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 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 \$29,588,395 is reported at amortized cost and is included in Cash and Cash Equivalents.

2. 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, 2018. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
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	\$12,441
Cash and Cash Equivalents – Revolving Loan Fund	\$75,331
Cash and Cash Equivalents – Capital Lease Escrow	218,454
Investments – Insurance Reserve	\$566,880
Investments –Debt Service	\$4,763,810

6. Capital Assets See Note 4.

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Costs for additions or improvements to capital assets are capitalized when the initial cost is more than \$10,000, they increase the effectiveness or efficiency of the asset, and the estimated useful life of the addition or repair is greater than one year. These assets are recorded at historical cost. Donated capital assets are recorded at acquisition value at the date of donation.

The costs for normal maintenance and repairs are not capitalized.

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.

The Port follows the policy of capitalizing interest as a component of the cost of capital assets constructed. During 2018, total interest incurred was \$1,993,246, of which \$649,093 was capitalized.

As of January 1, 2018, intangible assets totaled \$1,856,897. During 2018, the Port added \$142,457, and amortized \$393,232, leaving a balance of \$1,606,122 at the end of 2018. These include appraisals, dredging, permitting, platting and mapping, and various other intangible assets. The Port amortizes these assets from 3 to 15 years.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant, and equipment of the Port is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Automobiles	5
Buildings	10-40
Bulkheads	25-50
Communications Equipment	5
Computer Equipment	4
Other Equipment	5-20
Floats	10-30
Furniture	5-10
Lift Trucks	5-10
Lights	15
Roads and Roadways	15-20
Runways	15-30
Self-Propelled Vehicles	5-10
Software	4
Structures & Improvements	5-10
Telecommunications	5
Towed Vehicles	5-10
Trucks	5-10
Wharves	10-25
Water & Sewer Lines	25

7. **Other Property and Investments** See Note 2.

8. **Deferred Outflows/Inflows of Resources**

The balance of an 80-year service concession agreement in the amount of \$2,657,696 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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

up to 520 hours of PTO. PERS 1 employees may accumulate up to 240 hours, and those with more than 10 years of service are permitted to move 50% of their accrued vacation into a separate pre-retirement bank. PERS 2 and PERS 3 employees with more than 10 years of service are permitted to move 50% of their accrued PTO over 240 hours into a pre-retirement bank. The pre-retirement bank will not exceed 519 hours and upon retirement, the employee is permitted to use the pre-retirement bank prior to their retirement date. If the employee separates for reasons other than retirement, the pre-retirement bank will be paid at the employee's current rate of pay. The Port accrues unpaid vacation/PTO leave benefits as earned. Accrued vacation/PTO benefit liability was \$799,373 at December 31, 2017, and \$820,541 at December 31, 2018.

10. Environmental Remediation Liabilities

The Port accrues future Environmental Remediation Costs that meet the measurement criteria as outlined under GASB No. 49. These liabilities are shown on the Statement of Net Position. For some environmental cleanup sites the Port has purchased Environmental Cost Cap insurance coverage (See Note 14). Prepayments for remediation and estimated insurance reimbursement payments under these policies are shown as assets within the Statement of Net Position. The estimated cost of all environmental remediation is measured annually and adjustments made to the accrued liability.

11. Long Term Debt See Note 9.**12. Hold-Over Compensation**

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

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.

Customer Facility Charges (CFC) are collected through the rental car agencies and are recorded as Capital Contributions in the Statement of Revenues, Expenses and

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in Net Position and are restricted by an agreement between the Port and the rental car agencies.

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**Deposits**

Cash on hand at December 31, 2018 was \$3,150 in petty cash and change funds. The carrying amount of the Port's deposits was \$33,046,058 and the bank balance was \$32,941,933.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Port would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The Port's deposits are held at U.S. Bank. U.S. Bank is an approved public depository by the Washington Public Deposit Protection Commission. Public funds, deposits and investments and public depositories are outlined in Washington State Legislature RCW 39.58. U.S. Bankcorp was established in 1863, and has been a member of the FDIC since 1934, certificate number 6548.

The Port does not have a formal deposit policy for custodial credit risk.

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

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

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.

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.

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.

Investments are subject to the following risks.

Interest Rate Risk –Investments

Interest rate risk is the risk that the Port may face should interest rate variances affect the fair value of investments. 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.

The tables below identify the type of investments and concentrations of investments in any one user as of December 31, 2018 and 2017.

Investment Type	Fair Value	Maturities (in years)			% of Total Portfolio
		Less than 1	1-3	More than 3	
2018					
Federal Agencies Securities:					
Federal Home Loan Bank	3,926,679		3,926,679		27.48%
Federal Farm Credit Bank	3,463,356	999,832	1,463,226	1,000,298	24.23%
Federal Home Loan Mortgage Corporation	2,947,320		1,967,285	980,035	20.62%
Federal National Mortgage Association	3,954,033	1,979,311	1,974,722		27.67%
Total Investments	14,291,388	2,979,143	9,331,912	1,980,333	100%
Percentage of Total Portfolio	100%	20.85%	65.30%	13.86%	
2017					
Federal Agencies Securities:					
Federal Home Loan Bank	2,943,869		981,752	1,962,117	18.62%
Federal Farm Credit Bank	3,460,012	999,777	993,394	1,466,841	21.88%
Federal Home Loan Mortgage Corporation	4,462,851	1,499,379	-	2,963,472	28.22%
Federal National Mortgage Association	3,950,275		3,950,275		24.98%
US Treasuries	995,195	995,195	-		6.29%
Total Investments	15,812,202	3,494,351	5,925,421	6,392,430	100%
Percentage of Total Portfolio	100%	22.10%	37.47%	40.43%	

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Port does not have a formal policy that addresses credit risk.

At December 31, 2018, the Port's investments had the following credit quality distribution for securities with credit exposure:

	AAA aaa
US Agencies	\$ 14,291,388

Custodial Credit Risk: Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Port will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. By the Port's policy, all security transactions are settled "delivery versus payment". This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the Port's US Bank safekeeping account.

Investment Type	Held by Counterparty
US Agencies	\$ 14,291,388

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)**Investments in Local Government Investment Pool**

The Port is a participant in the Local Government Investment Pool, authorized by Chapter 294, Laws of 1986, and managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually proposed changes are reviewed by the LGIP Advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASB 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, and online at <http://www.tre.wa.gov>.

Investments Measured at Fair Value

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

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

At December 31, 2018, the Port of Bellingham had the following investments measured at fair value:

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments at fair value level	12/31/2018			
Federal Agency Obligations	\$ 14,291,388		\$ 14,291,388	
Total Investments measured at fair value	\$ 14,291,388	\$ -	\$ 14,291,388	\$ -
Total Investments in Statement of Net Position	\$ 14,291,388			

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.

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 \$4,763,810.

NOTE 3 – PROPERTY TAXES

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

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

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

The Port's regular levy for 2018 was approximately \$.2050 per \$1000 on an assessed valuation of \$29,042,095,979 for a total regular levy of \$5,953,226.

In 2018, the Port levied an additional \$.04347 per \$1000 for the repayment of General Obligation Bonds for a total additional levy of \$1,262,500.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended December 31, 2018 was as follows:

	Beginning Balance 01/01/2018	Increases	Decreases	Ending Balance 12/31/2018
Non-Depreciable Assets:				
Land	\$ 79,497,912	\$ -	\$ (1,050,914)	\$ 78,446,998
Construction in progress	51,089,394	11,595,101	(20,760,673)	41,923,822
Total Non-Depreciable Assets	130,587,306	11,595,101	(21,811,587)	120,370,820
Depreciable Assets:				
Buildings and Structures	160,045,557	5,240,944	(731,334)	164,555,167
Intangible Assets	1,856,897	142,457		1,999,354
Improvements other than buildings	202,731,010	14,323,326	(604,153)	216,450,183
Machinery and Equipment	13,916,872	2,986,170	(486,360)	16,416,682
Total Depreciable Assets	378,550,336	22,692,897	(1,821,847)	399,421,386
Less Accumulated Depreciation for:				
Buildings and Structures	79,968,947	4,495,417	(677,375)	83,786,989
Intangible Assets	-	393,232	-	393,232
Improvements other than buildings	93,075,790	7,340,468	(560,503)	99,855,755
Machinery and Equipment	10,343,929	1,183,120	(306,043)	11,221,006
Total accumulated depreciation	183,388,666	13,412,237	(1,543,921)	195,256,982
Depreciable Assets Net	\$ 195,161,670	\$ 9,280,660	\$ (277,926)	\$ 204,164,404

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION (continued)

Construction Commitments:

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

Project	Spent to Date	Commitment
<i>Airport:</i>		
Airport Sidewalks & Landscape	266,792	152,308
Airfield Safety	438,438	26,562
Install ASEL Deplaning Hallway	13,657	366,343
<i>Marinas:</i>		
Remodel HCB Restrooms	309,121	44,602
Move Commercial Storage Gear	271,685	125,315
<i>Marine Terminals:</i>		
BST Upgrade Power to Main Pier	17,347	1,783,653
Equipment Purchase	-	947,055
BST Upgrade Main Pier	78,558	1,246,442
Replace HVAC Fairhaven Shipping Building	43,232	325,768
<i>Properties:</i>		
Shipyards Pier-Eng./Scope	11,497,318	236,890
Replace Bellwether HVAC	75,073	494,927
Refurbish Blaine Pier	853,175	107,165
Construct AAM Building	10,331,377	607,397
Construct Prefab Walsh Building	105,923	437,777
<i>Bellingham Waterfront District</i>		
Permit/Predesign ASB	1,849,143	(27,127)
Deconstruct GP Site	2,421,971	73,029
Whatcom Waterway Infrastructure North	5,768,710	(308,458)
Granary Park Beach	134,741	265,259
C Street Phase 2	316,170	616,859
Franchise Utilities	665,542	1,634,458
District Utilities ECO	1,030,252	(30,252)
Demise F Street Warehouse	957,609	2,641
<i>Economic Development</i>		
Demo and Relocate Blaine Web house #1	614,881	2,611,119
<i>Infrastructure:</i>		
I&J Bulkhead	198,533	743,467
Blaine Bulkhead Design	315,668	344,332
Harris Railroad Crossing	21,398	363,602
Alaskan Ferry Railroad Crossing	48,828	507,046
<i>Other Port Projects Less Than \$300,000</i>	3,278,679	3,549,915
Total Construction	41,923,821	17,248,094

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 for the year 2018:

Aggregate Pension Amounts - All Plans	
Pension liability	\$ 3,220,549
Pension asset	\$ 137,811
Deferred outflows of resources	\$ 560,818
Deferred inflows of resources	\$ 1,529,188
Pension expense	\$ (90,273)

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 obtained by writing to:

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

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

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

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

NOTE 6 – PENSION PLANS (continued)

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
January - August 2018:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%
September - December 2018:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%

The Port's contributions to the plan were \$313,986 for the year ended December 31, 2018.

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

NOTE 6 – PENSION PLANS (continued)

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.

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 three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

NOTE 6 – PENSION PLANS (continued)

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2
January - August 2018:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.70%	7.38%
September - December 2018:		
PERS Plan 2/3	7.52%	7.14%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.83%	7.14%

The Port's actual contributions to the plan were \$464,968 for the year ended December 31, 2018.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. As of February of 2018, the Airport Operations staff at the Bellingham International Airport were moved from PERS to LEOFF Plan 2. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

NOTE 6 – PENSION PLANS (continued)**Contributions**

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2018. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate includes an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
State and Local Governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	5.43%	8.75%
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
Total	8.93%	8.75%

NOTE 6 – PENSION PLANS (continued)

The Port's actual contributions to the plan were \$30,561 for the year ended December 31, 2018.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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 changes in methods and assumptions since the last valuation.

- Lowered the valuation interest rate from 7.70% to 7.50% for all systems except LEOFF 2. For LEOFF 2 the valuation interest rate was lowered from 7.50% to 7.40%.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.
- Modified how the valuation software calculates benefits paid to remarried duty-related death survivors of LEOFF 2 members.
- Updated the trend that the valuation software uses to project medical inflation for LEOFF 2 survivors of a duty-related death, and for certain LEOFF 2 medical-related duty disability benefits.

NOTE 6 – PENSION PLANS (continued)**Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.4%.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 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 7.4 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 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

NOTE 6 – PENSION PLANS (continued)

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of NPL

The table below represents the Port's proportionate share of the net pension liability calculated using the discount rate of 7.4 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 (6.4 percent) or 1 percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 2,665,698	\$ 2,169,108	\$ 1,738,961
PERS 2/3	\$ 4,809,315	\$ 1,051,441	\$ (2,029,596)
LEOFF 2	\$ (18,326)	\$ (137,811)	\$ (235,265)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2018, the Port reported a total pension liability of \$3,220,549 and pension asset of \$137,811 for its proportionate share of the net pension liabilities, as follows:

	Liability (or Asset)
PERS 1	\$ 2,169,108
PERS 2/3	\$ 1,051,441
LEOFF 2	\$ (137,811)

NOTE 6 – PENSION PLANS (continued)

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

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.052360%	0.048569%	-0.003791%
PERS 2/3	0.065669%	0.061581%	-0.004088%
LEOFF 2	0.000000%	0.006788%	0.006788%

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*.

In fiscal year 2018, the state of Washington contributed 39.30 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.70 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2018, the Port recognized pension expense as follows:

	Pension Expense/(Credit)
PERS 1	\$ 1,897
PERS 2/3	\$ (73,886)
LEOFF 2	\$ (18,284)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 6 – PENSION PLANS (continued)

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (86,199)
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ 158,083	\$ -
TOTAL	\$ 158,083	\$ (86,199)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 128,879	\$ (184,088)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (645,213)
Changes of assumptions	\$ 12,300	\$ (299,232)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 3,899	\$ (200,651)
Contributions subsequent to the measurement date	\$ 232,819	\$ -
TOTAL	\$ 377,897	\$ (1,329,184)

NOTE 6 – PENSION PLANS (continued)

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 7,382	\$ (3,200)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (24,119)
Changes of assumptions	\$ 78	\$ (19,778)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ (66,708)
Contributions subsequent to the measurement date	\$ 17,378	\$ -
TOTAL	\$ 24,838	\$ (113,805)

Combined ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 136,261	\$ (187,288)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (755,531)
Changes of assumptions	\$ 12,378	\$ (319,010)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 3,899	\$ (267,359)
Contributions subsequent to the measurement date	\$ 408,280	\$ -
TOTAL	\$ 560,818	\$ (1,529,188)

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, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

NOTE 6 – PENSION PLANS (continued)

Year ended December 31:	PERS 1
2019	\$ 3,771
2020	\$ (18,844)
2021	\$ (56,544)
2022	\$ (14,582)
Total	\$ (86,199)

Year ended December 31:	PERS 2/3
2019	\$ (157,660)
2020	\$ (246,509)
2021	\$ (419,996)
2022	\$ (171,312)
2023	\$ (79,197)
Thereafter	\$ (109,431)
Total	\$ (1,184,105)

Year ended December 31:	LEOFF 2
2019	\$ (9,906)
2020	\$ (13,557)
2021	\$ (21,291)
2022	\$ (12,420)
2023	\$ (9,001)
Thereafter	\$ (40,169)
Total	\$ (106,344)

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

NOTE 7 – RISK MANAGEMENT (continued)

million with a deductible of \$2,500 and a Foreign Liability policy with various limits and deductibles. In addition, the Port maintains standard business Automobile insurance with various limits and deductibles.

Commercial property coverage at full replacement cost with a loss limit of \$495 million with a deductible of \$50,000 is in effect. Earthquake/Flood coverage has a separate limit of \$50 million with the Port self-insuring (as a deductible) five percent of the property value for each location.

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 2018, the healthcare plan had an average of 271 lives on the plan, including COBRA participants. Fixed costs, including the stop loss premium were \$368,858. Claims paid, less the stop loss adjustments, were \$1,233,525. IRS fees totaled \$492. Total 2018 healthcare costs were \$1,708,425. The required 16 weeks of reserve is calculated to be \$525,699, and is included in the Port's restricted net position. The 2018 dental/vision plan had an average of 264 lives on the plan including COBRA participants. Fixed costs were \$7,015, and the claims paid were \$126,922. Total dental/vision plan costs were \$133,937 in 2018. The required 16 weeks of reserve is calculated to be \$41,211 and is included in the Port's restricted net position.

NOTE 8 – SHORT-TERM DEBT

There was no short-term debt activity in 2018.

NOTE 9 – LONG-TERM DEBT

The Port issues general obligation bonds to finance capital improvements to marinas, cargo shipping docks and the Bellingham International Airport terminal. The Port did not issue additional general obligation debt in 2018. General obligation bonds currently outstanding are as follows:

Description and Date of Issue	Original Amount	Interest Rate	Maturity	Amount
4/21/2016	4,485,000	3.779%	2025	4,440,000
9/23/09	9,210,000	4.2-4.75%	2019	1,075,000
Total General Obligation Bonds				\$ 5,515,000

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
2019	1,075,000	185,300
2020	680,000	163,800
2021	700,000	143,400
2022	720,000	122,400
2023	745,000	93,600
2024-2025	1,595,000	96,400
Total	\$ 5,515,000	\$ 804,900

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

Description and Date of Issue	Original Amount	Interest Rate	Maturity	Amount
05/01/2008	7,865,000	4.00%	2019	925,000
11/02/2010 A	16,200,000	2.00-5.25%	2022	5,740,000
11/02/2010 B	28,680,000	1.35-7.00%	2030	24,870,000
Total Revenue Bonds				\$ 31,535,000

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

Year Ending December 31	Principal	Interest
2019	2,965,000	1,893,650
2020	2,105,000	1,799,045
2021	2,175,000	1,716,650
2022	2,265,000	1,617,212
2023	2,370,000	1,486,250
2024-2028	13,410,000	5,024,337
2029-2030	6,245,000	660,450
Total	\$ 31,535,000	\$ 14,197,594

NOTE 9 – LONG-TERM DEBT (continued)

Capital Leases

In 2018, the Port entered into a 10-year Master Tax-Exempt Installment Purchase agreement with US Bank in the amount of \$1,388,129 for the purpose of purchasing large equipment to be used at the Bellingham Shipping Terminal. At the end of 2018, there was a balance in the escrow account of \$218,454, which is shown in the Port's restricted net position.

This lease agreement qualifies as a capital lease for accounting purposes, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The assets acquired through a capital lease are as follows:

Asset		
Lift Trucks	\$	304,282
Self-Propelled Vehicles		840,468
Towed Vehicles		26,088
Total Assets Acquired	\$	1,170,838
Less, Accumulated Depreciation	\$	(67,659)
Total Assets Acquired	\$	1,103,179

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2018 were as follows:

Year Ending December 31		
2019	\$	166,365
2020		166,366
2021		166,365
2022		166,366
2023		166,365
2024		166,366
2025		166,365
2026		166,366
2027		166,365
2028		83,183
Total Minimum Lease Payments	\$	1,580,472
Less: Interest	\$	(250,678)
Present Value of Minimum Lease Payments	\$	1,329,794

NOTE 9 – LONG-TERM DEBT (continued)**Changes in Long-Term Liabilities**

During the year ended December 31, 2018, the following changes occurred in long-term liabilities:

	01/01/18	Additions	Reductions	12/31/2018	Due within One Year
Bonds Payable:					
G.O. Bonds	7,070,205	-	(1,133,428)	5,936,777	1,133,428
Revenue Bonds	34,134,339	35,796	(2,870,000)	31,300,135	2,929,204
Total Bonds Payable	41,204,544	35,796	(4,003,428)	37,236,912	4,062,632
Other Non-current Liabilities	5,022,887	9,129	(516,243)	4,515,773	519,100
Capital Leases	-	1,388,129	(58,336)	1,329,793	119,821
Compensated Absences	799,373	575,194	(554,026)	820,541	551,420
Pension Liability	4,766,207	-	(1,545,658)	3,220,549	-
Environmental Remediation	83,798,950	9,456,046	(4,686,046)	88,568,950	4,808,446
Total Long-term Liabilities	135,591,961	11,464,293	(11,363,737)	135,692,517	10,061,419

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

NOTE 10 – UNEARNED DEBITS (CREDITS)

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

NOTE 11 – PORT OPERATIONS BY INDUSTRY

The Port operates an airport, marinas, shipping terminals, and industrial development districts, which are primarily financed by user charges. Current assets, current liabilities, and net position are accounted for on a Port-wide basis and are not identifiable to a particular industry segment. The key financial data for the year ended December 31, 2018 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						\$ 45,588
Other & Restricted Assets						24,598
Capital Assets, net	\$ 114,877	\$ 49,907	\$ 30,626	\$ 7,247	\$ 79,955	282,612
Construction Work in Progress	915	897	559	23,564	15,988	41,923
Total Assets						394,721
Deferred Outflows of Resources						577
Liabilities:						
Current Liabilities						15,082
Other Non-current Liabilities						93,263
Revenue Debt						32,368
Total Liabilities						140,713
Deferred Inflows of Resources						4,187
Net Position:						
Net invested in capital assets						281,688
Restricted						5,636
Unrestricted						(36,926)
Total Net Position						250,398
Total Liabilities, Net Position, and Deferred Inflows						<u>\$ 395,298</u>
Condensed Statement of Revenues, Expenses and Changes in Net Position						
Operating Revenues	\$ 7,197	\$ 8,198	\$ 2,305	\$ 7,828	\$ 327	\$ 25,855
Operating Expenses	(4,918)	(2,908)	(1,861)	(3,892)	(1,382)	(14,961)
General & Admin. Expense	(59)	(35)	(41)	(134)	(1,530)	(1,799)
Depreciation Expense	(5,975)	(3,088)	(1,907)	(1,551)	(497)	(13,018)
Operating Income (Loss)	(3,755)	2,167	(1,504)	2,251	(3,082)	(3,923)
Tax Revenues					7,213	7,213
Net Non-Operating					(3,868)	(3,868)
Net Income (Loss)	(3,755)	2,167	(1,504)	2,251	263	(578)
Capital Contributions	382	27	25	2	1,631	2,067
Capital Contributions-Restricted	1,756	-	-	-	-	1,756
Net Position, January 2018						247,153
Net Position, December 2018						<u>\$ 250,398</u>

NOTE 12 – RESTRICTED COMPONENT OF NET POSITION

The Port's Statement of Net Position reports \$5,636,916 of restricted component of net position. \$797,775 of this is restricted by enabling legislation. The remaining restricted component is restricted by revenue bond covenants and federal agencies.

NOTE 13 – PASSENGER/CUSTOMER FACILITY CHARGES

Passenger Facility Charges

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

NOTE 13 – PASSENGER/CUSTOMER FACILITY CHARGES (continued)

used by the Port for capital projects approved by the participating airlines and the FAA. Fees remitted during 2018 totaled \$1,571,906, and are shown on the Port's Statement of Revenues, Expenses and Changes in Net Position as Capital Contributions-Contractually Restricted.

Customer Facility Charges

Through the lease contracts with the car rental agencies at the airport beginning June 1, 2018, the Port also collects a Customer Facility Charge (CFC) in the amount of \$3.50 per day, per vehicle rented. Per the agreement, the CFCs may only be used for the car rental facilities. Fees remitted during 2018 totaled \$184,285, 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 \$156,770,000 as of 12/31/2018. This is a \$4.77 million increase from the previous year. This estimate is analyzed by independent engineers and is adjusted annually and shown in current dollars. The pollution remediation obligation is an estimate subject to change resulting from price increases or decreases, technology, or changes in applicable laws and regulations. GASB 49, effective in 2008, allows for capitalizing amounts related to environmental cleanup when preparing the property for sale providing the carrying amount of the property doesn't exceed its estimated fair value upon completion of the remediation. In preparation for this change in accounting standard, the Port obtained a benchmark value for the GP acquisition sites 'clean' fair market value. The 'clean' value exceeded the current value on the books by \$46.6 million. Therefore, the environmental remediation liability was reduced by this amount.

The Port has acquired a Pollution Legal Liability Insurance Policy from American International Specialty Lines Insurance Company. This policy, which is in effect until 12/31/2034, has an aggregate policy limit of \$102,000,000. The policy obligates the insurer to pay half of the remediation costs on specific sites up to a total amount of

NOTE 14 – POLLUTION REMEDIATION OBLIGATIONS (continued)

\$51,684,816. After total remediation costs exceed \$51,684,816, the policy provides for payment of 100% of the environmental remedial costs on covered sites up to a policy limit of \$77,000,000. The policy also provides for an additional coverage of up to \$25,000,000 in costs for third party liabilities, regulatory changes, or unknown contaminants on these specific sites. The Port had prepaid for the estimated current value of the remedial actions defined in the policy as of January 20, 2005; however, by the end of 2016, all of these prepaid funds were expended. The Port, in reassessing its remediation liabilities has also estimated what portion of the remediation costs will be reimbursed by insurance. This analysis has resulted in the Port booking an Environmental Insurance Receivable of \$18,850,000, 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 has accepted several grants from the Department of Ecology for a total funding amount that is just over \$51.2 million through the current biennia, of which just over \$45 million has been received to date. The Port anticipates Ecology will approve future amendments up to 50% of the estimated cost of cleanup as funding becomes available in future biennium periods. These sites are included in the pollution legal liability insurance policy purchased by the Port in 2005.

The Port did not complete any significant cleanup projects in 2018. Activity related to these sites was completion of the Feasibility Study for two of the cleanup sites and the design and engineering at another site. Since September 2007, the Port has been developing a detailed cleanup design under a Consent Decree and Cleanup Action Plan with the Department of Ecology for the Whatcom Waterway site, which includes the Aeration Stabilization Basin. In early 2015, the estimated cost, including contingency, was \$102,918,775. In April 2015, the Port advertised a request for bids to perform the construction portion of the Whatcom Waterway Phase I Cleanup. Construction began in June 2015 and was completed in June 2016. At the end of 2018, the remaining estimated cost for future phases of the Whatcom Waterway cleanup site with contingency was \$88,904,190.

NOTE 15 – SERVICE CONCESSION AGREEMENTS

In 2010, the Port of Bellingham entered into a 50-year ground lease with an additional 30-year option in order for the lessee to construct and operate two general office and retail buildings. In 2011 and 2017, similar agreements were executed for a third and fourth

NOTE 15 – SERVICE CONCESSION AGREEMENTS (continued)

building. Upon execution, the lessee prepaid the 80-year agreements. The Deferred Inflows of Resources represents the unearned balance of these agreements.

NOTE 16 – OTHER DISCLOSURES**Special Items**

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

During 2018, progress in the development schedule was made by Harcourt, the City of Bellingham, and the Port. Harcourt completed extensive work on the Granary Building, and modified the Sub-Area Plan to better suit their development plans. The Granary Building is now expected to open in 2019, and the Sub-Area Plan Amendment is under review by the City of Bellingham for approval. The City of Bellingham continued installing the roads, utilities, and Waypoint Park. The first section of the main road (Granary Avenue) and Waypoint Park are now open to the public. The completed road is scheduled to be open in the summer of 2019.

In 2018, per the MDA, Harcourt moved forward with their second project: an approximate 90-unit, 3-building residential development. Harcourt purchased approximately 1.7 acres of land from the Port and are moving forward with detailed design. The project is expected to start construction in late 2019.

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

REQUIRED SUPPLEMENTARY INFORMATION

Port of Bellingham
Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System Plan 1
As of June 30, 2018
Last 10 Fiscal Years*

	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	% 0.048569%	0.052360%	0.053036%	0.056592%
Employer's proportionate share of the net pension liability	\$ 2,169,108	2,484,523	2,848,283	2,960,288
Covered payroll**	\$ 6,394,964	6,501,153	6,283,392	6,300,760
Employer's proportionate share of the net pension liability as a percentage of covered payroll	% 33.92%	38.22%	45.33%	46.98%
Plan fiduciary net position as a percentage of the total pension liability	% 63.22%	61.24%	57.03%	59.10%

Notes to Schedule:

*Until a full 10-year trend is compiled, only information for those years available is presented.

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

REQUIRED SUPPLEMENTARY INFORMATION

Port of Bellingham
Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System Plan 2 & 3
As of June 30, 2018
Last 10 Fiscal Years*

	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	% 0.061581%	0.065669%	0.066231%	0.069443%
Employer's proportionate share of the net pension liability	\$ 1,051,441	2,281,684	3,334,679	2,481,238
Covered payroll**	\$ 6,366,111	6,429,646	6,213,443	6,160,253
Employer's proportionate share of the net pension liability as a percentage of covered payroll	% 16.52%	35.49%	53.67%	40.28%
Plan fiduciary net position as a percentage of the total pension liability	% 95.77%	90.97%	85.82%	89.20%

Notes to Schedule:

*Until a full 10-year trend is compiled, only information for those years available is presented.

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

REQUIRED SUPPLEMENTARY INFORMATION

Port of Bellingham
Schedule of Proportionate Share of the Net Pension Liability
Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2
As of June 30, 2018
Last 10 Fiscal Years*

	2018
Employer's proportion of the net pension liability (asset) %	-0.006788%
Employer's proportionate share of the net pension liability (asset) \$	(137,811.00)
Covered payroll** \$	251,101
Employer's proportionate share of the net pension liability as a percentage of covered payroll %	-54.88%
Plan fiduciary net position as a percentage of the total pension liability %	118.50%

Notes to Schedule:

*Until a full 10-year trend is compiled, only information for those years available is presented; Port of Bellingham began participating in LEOFF 2 in 2018.

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

Schedule of Employer Contributions
Public Employees' Retirement System Plan 1
For the year ended December 31, 2018
Last 10 Fiscal Years*

	2018	2017	2016	2015
<u>Statutorily or contractually required contributions \$</u>	313,986	325,894	308,617	278,880
Contributions in relation to the statutorily or contractually required contributions***	\$ (313,986)	(325,894)	(308,617)	(278,880)
<u>Contribution deficiency (excess)</u>	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>Covered payroll**</u>	\$ 6,204,547	6,559,615	6,378,187	6,267,999
<u>Contributions as a percentage of covered payroll %</u>	5.06%	4.97%	4.84%	4.45%

Notes to Schedule:

*Until a full 10-year trend is compiled, only information for those years available is presented.

Schedule of Employer Contributions
Public Employees' Retirement System Plan 2 & 3
For the year ended December 31, 2018
Last 10 Fiscal Years*

	2018	2017	2016	2015
<u>Statutorily or contractually required contributions</u> \$	464,968	445,755	392,981	360,162
<u>Contributions in relation to the statutorily or contractually required contributions***</u> \$	(464,968)	(445,755)	(392,981)	(360,162)
<u>Contribution deficiency (excess)</u> \$	0	0	0	0
<u>Covered payroll**</u> \$	6,204,547	6,494,309	6,307,906	6,198,827
<u>Contributions as a percentage of covered payroll</u> %	7.49%	6.86%	6.23%	5.81%

Notes to Schedule:

*Until a full 10-year trend is compiled, only information for those years available is presented.

Schedule of Employer Contributions
Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2
For the year ended December 31, 2018
Last 10 Fiscal Years*

	<u>2018</u>
Statutorily or contractually required contributions	\$ 30,561
Contributions in relation to the statutorily or contractually required contributions***	\$ (30,561)
Contribution deficiency (excess)	<u>0</u>
Covered payroll**	\$ 582,117
Contributions as a percentage of covered payroll	% 5.25%

Notes to Schedule:

*Until a full 10-year trend is compiled, only information for those years available is presented; Port of Bellingham began participating in LEOFF 2 in 2018.

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

*** Contributions are actual employer contributions to the plan. (GASB 82, Par. 8)

Port of Bellingham

Schedule of Passenger Facility Charges Collected, Held and Used

For The Year Ended December 31, 2018

	Quarter Ending			
	March 2018	June 2018	September 2018	December 2018
Unexpended passenger facility charges and interest, beginning of period	\$0	\$0	\$0	\$0
Add:				
Passenger Facility Charges Revenue	278,414	466,559	447,678	379,256
Interest earned	0	0	0	0
	278,414	466,559	447,678	379,256
Expenses/Expenditures	278,414	466,559	447,678	379,256
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, 2018

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	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov