

Office of the Washington State Auditor Pat McCarthy

Financial Statements and Federal Single Audit Report

Port of Bellingham

For the period January 1, 2022 through December 31, 2022

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Office of the Washington State Auditor Pat McCarthy

July 6, 2023

Board of Commissioners Port of Bellingham Bellingham, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Port of Bellingham's financial statements and compliance with federal laws and regulations.

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

Sincerely,

Tat Mathy

Pat McCarthy, State Auditor Olympia, WA

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TABLE OF CONTENTS

Schedule of Findings and Questioned Costs	1
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 <i>Government Auditing Standards</i>	5
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance	8
Independent Auditor's Report on the Financial Statements	1
Financial Section	5
About the State Auditor's Office	5

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Port of Bellingham January 1, 2022 through December 31, 2022

SECTION I – SUMMARY OF AUDITOR'S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

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

Identification of Major Federal Programs

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

ALN	Program or Cluster Title
20.106	Airport Improvement Program
20.106	COVID-19 – Airport Improvement Program

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

INDEPENDENT AUDITOR'S REPORT

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, 2022 through December 31, 2022

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, 2022, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated June 29, 2023.

REPORT ON 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) as a basis for designing 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.

Tat Mathy

Pat McCarthy, State Auditor Olympia, WA June 29, 2023

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

Port of Bellingham January 1, 2022 through December 31, 2022

Board of Commissioners Port of Bellingham Bellingham, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of the Port of Bellingham, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Port's major federal programs for the year ended December 31, 2022. The Port's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Port and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Port's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Port's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Port's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Port's compliance with the requirements of each major federal program as a whole.

Performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Port's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the Port's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control over compliance. Accordingly, no such opinion is expressed; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Purpose of this Report

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

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Pat McCarthy, State Auditor Olympia, WA June 29, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Port of Bellingham January 1, 2022 through December 31, 2022

Board of Commissioners Port of Bellingham Bellingham, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of the Port of Bellingham, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Port of Bellingham, as of December 31, 2022, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Port and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2022, the Port adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Port's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Port's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed in the financial section of our report be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This supplementary information 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 as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2023 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 the effectiveness of the Port's 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.

Fat Marthy

Pat McCarthy, State Auditor Olympia, WA June 29, 2023

FINANCIAL SECTION

Port of Bellingham January 1, 2022 through December 31, 2022

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis - 2022

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2022 Statement of Revenues, Expenses and Changes in Net Position – 2022 Statement of Cash Flows – 2022 Notes to Financial Statements – 2022

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3, LEOFF 2 – 2022
Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 2 – 2022

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2022 Notes to the Schedule of Expenditures of Federal Awards – 2022

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, 2022. 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 includes statistical and economic data, and required supplementary information.

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.

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, a proprietary 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 Chief Financial Officer 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, 2022 by over \$277 million. Total assets of the Port at year-end were \$506 million, while total liabilities were \$143 million. The implementation of GASB 87 in 2022 for lease recognition increased the Port's assets by over \$80 million of lease receivable. The Port's long-term debt outstanding was \$28.5 million, which is a decrease from 2021 due to the scheduled debt payments. The Port's net investment in capital assets was \$293.2 million. Unrestricted net position was negative \$22.3 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	2022	 2021
Current Assets	\$ 82,616,269	\$ 67,343,123
Capital Assets:		
Capital assets not being depreciated	118,812,477	107,511,251
Capital assets being depreciated	203,429,942	211,153,499
Other Assets	101,231,378	 24,398,826
Total Assets	\$ 506,090,066	\$ 410,406,699
Deferred Outflows of Resources	\$ 2,489,274	\$ 786,954
Current Liabilities	\$ 14,446,007	\$ 19,004,684
Non-current Liabilities	128,756,010	 114,011,433
Total Liabilities	\$ 143,202,017	\$ 133,016,117
Deferred Inflows of Resources	\$ 88,193,229	\$ 9,211,574
Net Position:		
Net investment in capital assets	\$ 292,228,993	\$ 285,826,943
Restricted	6,389,274	4,612,942
Unrestricted	(21,434,173)	 (21,473,923)
Total Net Position	\$ 277,184,094	\$ 268,965,962

Changes in Net Position

In 2022, Port operating revenues increased from 2021 totaling nearly \$27 million, an increase of over 8%. The Aviation division had the largest increase, nearly 67% over 2021 due to the pandemic recovery. The airport served more passengers in 2022, due to the U.S./Canadian border open the entire year. The number of passengers in 2022 nearly reached pre-pandemic levels.

The Marine Terminals division also showed a significant increase in revenues from 2021 due to increased barge activity. The Marinas had a moderate increase due to scheduled rate increases.

The Real Estate division showed a decrease in revenues, but this is due to the reclassification of lease income required by GASB 87. Actual lease income, without the reclassification, grew slightly from the previous year.

Total operating expenses (before depreciation) totaled \$22.4 million, 27% above the prior year due to several factors including an increase in activity post-pandemic, inflation, and an increase in pension expense as required by GASB 68. Depreciation expenses totaled \$14.1 million, which is just over 2021.

Post-pandemic recovery, high occupancy rates at the marinas and commercial leases, and relief grant funds all contributed to an increase in net position by over \$8 million from 2021, to \$277 million. Overall, the financial position of the Port improved in 2022.

		2022		2021
Operating Revenues:				
Airport operations	\$	6,926,931	\$	4,161,441
Marina operations		9,711,597		9,313,152
Marine terminal operations		3,477,066		2,775,940
Property lease operations		6,443,314		8,400,011
Other		397,120		302,283
Total Operating Revenues	\$	26,956,028	\$	24,952,827
Non-operating Revenues:				
Ad valorem tax revenues	\$	7,777,403	\$	7,565,592
Investment income		5,599,290		28,709
Environmental insurance claim revenue and adjustmen		(8,525,527)		(3,626,680)
Environmental grant revenues		2,925,827		1,187,152
Other non-operating income		7,130,344		3,881,139
Total non-Operating Revenues	\$	14,907,337	\$	9,035,912
Total Revenues	\$	41,863,365	\$	33,988,739
Expenses:				
General operating expenses	\$	16,306,885	\$	13,944,699
Maintenance expenses		3,353,249		3,085,288
General and administrative expenses		2,804,826		565,034
Depreciation/Amortization expense		14,882,357		13,794,155
Non-operating expenses		5,744,446		6,942,813
Total Expenses	\$	43,091,763	\$	38,331,989
Increase (Decrease) in Net Position	*	(1.000.000)	+	(10(0))
before Capital Contributions	\$	(1,228,398)	\$	(4,343,250)
Capital Contributions	\$	9,446,530	\$	3,544,337
Change in Net Position	\$	8,218,132	\$	(798,913)
Net Position - Beginning of Period	\$	268,965,962	\$	269,764,875
Net Position - End of Period	\$	277,184,094	\$	268,965,962

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2022, the Port had nearly \$323 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, 2021, totaled \$320 million. Capital assets, net of depreciation, increased slightly in 2022 due to significant construction projects. See Notes 4 and 11. Capital projects which individually totaled spending in excess of \$500,000 during 2022 were:

• Taxiway K	\$5,945,059
Snow Removal Equipment Facility	\$2,076,130
Runway Safety Area Construction	\$3,258,929
• Taxiway F	\$3,533,527
Design Runway Shoulders and Blast Pads	\$524,487
Replace HVAC at Bellwether Building	\$1,947,144
Design and Permit Stormwater at FMIP	\$569,063
Phase III Repairs at Shipping Terminal	\$534,708
Repair steel support at Cruise Terminal	\$959,872
Refurbish Little Squalicum Beach	\$1,307,655
District Utilities at Waterfront	\$1,208,302
Design Blaine Bulkhead Replacement	\$2,499,396

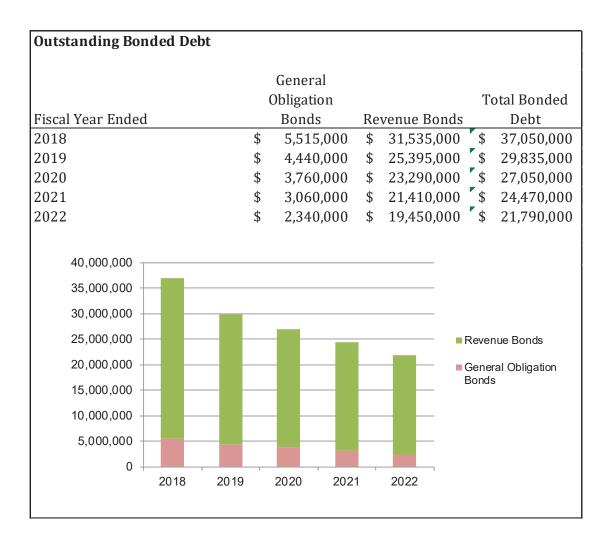
Nearly \$19.5 million was spent during 2022 on construction of capital assets. See note 4.

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

Debt Administration

At December 31, 2022, long-term debt obligations totaled \$132.9 million of which \$4.2 million is due within one year. The total bonded debt is comprised of \$2.4 million balance in general obligation debt, and \$23.7 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 pension liability and 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, 2022 at \$147.6 million. Per GASB 49, effective 2008, the Port expects to capitalize \$46.6 million of the environmental remediation efforts, leaving \$101 million as a liability. The Port has purchased insurance which is expected to fund over \$17.4 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.



2023 Budget

The Port's 2023 budget anticipates Operating Revenues to increase from \$27 million in 2022 to just under \$28.2 million in 2022, with the largest increase in the Marine Terminals Division due to increased barge activity using the facility. Operating expenses are budgeted at \$17.3 million, an increase of approximately \$2 million.

In 2023, \$10.3 million, net of anticipated grants, is forecasted for capital projects. This total includes capital improvements and purchases of over \$9 million at the airport, over \$2 million in real estate projects, \$1.4 million at the shipping terminal, and \$1.6 million at the Waterfront district, as well as various 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 2023 are levied at .1502 per 1,000 valuation rate, resulting in a total levy of just under \$7.9 million. \$838 thousand of this amount is levied for the General Obligation Fund. The levy rate for 2021 was .1804 for a levy amount of \$7.6 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 <u>www.portofbellingham.com</u> or contact: Chief Financial Officer, 1801 Roeder Avenue, Bellingham, WA 98225-2257. Telephone 360-676-2500.

PORT OF BELLINGHAM STATEMENT OF NET POSITION December 31, 2022

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents (Note 1)	\$ 58,637,107
Investments (Note 2)	3,412,552
Restricted current assets:	
Cash and cash equivalents (Note 1)	291,215
Taxes receivable	140,170
Due from other governments	3,425,505
Accounts receivable (net of allowance for uncollectible) Current portion of lease receivable	1,110,268 3,912,517
Interest receivable	661,553
Notes receivable	401,012
Other receivables	292,014
Prepaids	 1,715,515
TOTAL CURRENT ASSETS	73,999,428
NON-CURRENT ASSETS:	
Investments (Note 2)	4,947,257
Capital assets not being depreciated (Note 4)	
Land	80,812,433
Construction in progress	38,000,044
Capital assets being depreciated (Note 4)	
Intangible assets (Note 4)	1,954,321
Equipment	18,307,379
Buildings and Structures	183,928,117
Improvements other than buildings	237,541,494
Less: Accumulated depreciation	(238,301,369)
Other noncurrent assets	
Net Pension Asset	2,678,720
Lease Receivable (Note 19)	80,834,699
Joint Venture (Note 16)	297,959
Restricted noncurrent assets:	
Investments (Note 2)	3,669,584
Environmental Insurance	 17,420,000
TOTAL NON-CURRENT ASSETS	432,090,638
TOTAL ASSETS	\$ 506,090,066
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow for pension (GASB 68) (Note 6)	2,489,274
TOTAL DEFERRED OUTFLOWS OF RESOURCES	 _,,

PORT OF BELLINGHAM STATEMENT OF NET POSITION December 31, 2022

LIABILITIES

CURRENT LIABILITIES:

Accounts payable Accrued expenses Accrued interest payable Other current payables Current portion of long-term obligations (Note 9) TOTAL CURRENT LIABILITIES	\$	2,981,095 3,277,233 96,812 3,925,939 4,164,928 14,446,007
NON-CURRENT LIABILITIES:		
Long-term debt		
General obligations bonds		1,644,600
Revenue bonds		21,320,823
Environmental remediation		101,038,950
Notes payable		2,241,843
Capital purchase agreement		685,813
Net pension liability		1,263,518
		560,463
TOTAL NON-CURRENT LIABILITIES		128,756,010
TOTAL LIABILITIES	\$	143,202,017
TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES	\$	143,202,017
	·	143,202,017 2,514,362
DEFERRED INFLOWS OF RESOURCES	·	2,514,362
DEFERRED INFLOWS OF RESOURCES Deferred Inflow for a service concession arrangement (Note 15 Deferred Inflows for leases (GASB 87) (Note 19)	·	2,514,362 82,876,503
DEFERRED INFLOWS OF RESOURCES	·	2,514,362
DEFERRED INFLOWS OF RESOURCES Deferred Inflow for a service concession arrangement (Note 18 Deferred Inflows for leases (GASB 87) (Note 19) Deferred Inflows for pensions (GASB 68) (Note 6) TOTAL DEFERRED INFLOWS OF RESOURCES	5	2,514,362 82,876,503 2,802,364
DEFERRED INFLOWS OF RESOURCES Deferred Inflow for a service concession arrangement (Note 18 Deferred Inflows for leases (GASB 87) (Note 19) Deferred Inflows for pensions (GASB 68) (Note 6) TOTAL DEFERRED INFLOWS OF RESOURCES NET POSITION	5	2,514,362 82,876,503 2,802,364 88,193,229
DEFERRED INFLOWS OF RESOURCES Deferred Inflow for a service concession arrangement (Note 15 Deferred Inflows for leases (GASB 87) (Note 19) Deferred Inflows for pensions (GASB 68) (Note 6) TOTAL DEFERRED INFLOWS OF RESOURCES NET POSITION Net investment in capital assets	5	2,514,362 82,876,503 2,802,364 88,193,229 292,228,993
DEFERRED INFLOWS OF RESOURCES Deferred Inflow for a service concession arrangement (Note 18 Deferred Inflows for leases (GASB 87) (Note 19) Deferred Inflows for pensions (GASB 68) (Note 6) TOTAL DEFERRED INFLOWS OF RESOURCES NET POSITION Net investment in capital assets Restricted for debt service	5	2,514,362 82,876,503 2,802,364 88,193,229
DEFERRED INFLOWS OF RESOURCES Deferred Inflow for a service concession arrangement (Note 15 Deferred Inflows for leases (GASB 87) (Note 19) Deferred Inflows for pensions (GASB 68) (Note 6) TOTAL DEFERRED INFLOWS OF RESOURCES NET POSITION Net investment in capital assets	5	2,514,362 82,876,503 2,802,364 88,193,229 292,228,993 3,022,500
DEFERRED INFLOWS OF RESOURCES Deferred Inflow for a service concession arrangement (Note 18 Deferred Inflows for leases (GASB 87) (Note 19) Deferred Inflows for pensions (GASB 68) (Note 6) TOTAL DEFERRED INFLOWS OF RESOURCES NET POSITION Net investment in capital assets Restricted for debt service Restricted for blended component unit	5	2,514,362 82,876,503 2,802,364 88,193,229 292,228,993 3,022,500 29,830
DEFERRED INFLOWS OF RESOURCES Deferred Inflow for a service concession arrangement (Note 18 Deferred Inflows for leases (GASB 87) (Note 19) Deferred Inflows for pensions (GASB 68) (Note 6) TOTAL DEFERRED INFLOWS OF RESOURCES NET POSITION Net investment in capital assets Restricted for debt service Restricted for blended component unit Restricted for revolving loan program	5	2,514,362 82,876,503 2,802,364 88,193,229 292,228,993 3,022,500 29,830 261,385 647,084 2,428,475
DEFERRED INFLOWS OF RESOURCES Deferred Inflow for a service concession arrangement (Note 18 Deferred Inflows for leases (GASB 87) (Note 19) Deferred Inflows for pensions (GASB 68) (Note 6) TOTAL DEFERRED INFLOWS OF RESOURCES NET POSITION Net investment in capital assets Restricted for debt service Restricted for blended component unit Restricted for revolving loan program Restricted for insurance reserve	5	2,514,362 82,876,503 2,802,364 88,193,229 292,228,993 3,022,500 29,830 261,385 647,084

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Year Ended December 31, 2022

OPERATING REVENUES:		
Airport operations	\$	6,926,931
Marina operations	Ŧ	9,711,597
Marine terminal operations		3,477,066
Property lease operations		6,443,314
Other		397,120
Total Operating Revenues		26,956,028
OPERATING EXPENSES:		
General operations		16,306,885
Maintenance		3,353,249
General and administrative		2,804,826
Amortization of intangibles		799,769
Depreciation		14,082,588
Total Operating Expenses		37,347,317
OPERATING INCOME (LOSS)		(10,391,289)
NON-OPERATING REVENUES (EXPENSES):		
Environmental grant revenues		2,925,827
Other grant revenues		3,955,508
Investment income		5,599,290
Taxes levied for:		
General purposes		6,935,484
Debt service principal/interest		841,919
Miscellaneous taxes		109,763
Other revenues		284,630
Environmental remediation adjustment		(8,943,333)
Environmental remediation expense Environmental insurance claims revenue		(250,370)
		417,806
Gains (Losses) on Disposal of Assets		2,780,443 (1,115,936)
Interest expense Environmental grant expense		(4,172,039)
Other grant expense		(206,101)
Total Non-Operating Revenues (Expenses)		9,162,891
Income (loss) before capital contributions		(1,228,398)
Capital Contributions		7,752,888
Capital Contributions - Contractually Restricted (Note 13)		1,693,642
Increase (Decrease) in Net Position		8,218,132
Net position - beginning of period	2	268,965,962
Net position - end of period	\$2	77,184,094

PORT OF BELLINGHAM STATEMENT OF CASH FLOWS For the Year Ended December 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$	29,235,159
Payments to suppliers		(15,654,060)
Payments to employees		(7,561,481)
Net cash provided by operating activities		6,019,618
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Receipts from property taxes		6,787,319
Receipts from other taxes and financing fees		282,038
Receipts from non-operating grants		5,516,927
Payments for non-operating grants		(4,378,140)
Net cash provided (used) by non-capital financing activities		8,208,144
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVI	TIES	
Principal paid on capital debt		(3,339,229)
Interest paid on capital debt		(1,257,546)
Cash received from property taxes for general obligation bonds		842,399
Purchases of capital assets Capital contributions		(11,340,767) 8,866,326
Payments for environmental remediation		(43,810)
Net cash provided (used) by capital and related financing activities		(6,272,627)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		3,515,728
Payments for purchases of investments		(4,485,810)
Interest and dividends		89,010
Net cash provided by investing activities		(881,072)
Net increase (decrease) in cash and cash equivalents		7,074,063
Balances - beginning of the year		51,854,259
Balances - end of the year	\$	58,928,322

PORT OF BELLINGHAM STATEMENT OF CASH FLOWS For the Year Ended December 31, 2022

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Net Operating Income (Loss)	\$ (9,591,520)
Depreciation Change in assets and liabilities:	14,082,588
(Incr)Decr in accounts receivable	2,247,558
(Incr)Decr in other current assets	(2,479,806)
(Incr)Decr in work for others (Incr)Decr in customer deposits	(61,812) 93,384
Incr(Decr) in accounts payable	771.448
Incr(Decr) in other liabilities	1,914,215
Non Cash GASB 68 pension expense	(956,438)
Total Adjustments	 15,611,138
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 6,019,618
SCHEDULE OF NON-CASH ACTIVITIES	
Change in Value of Intangible Assets, for amortization	(799,769)
Unrealized Gains or Losses Environmental Claim adjustment	(143,315) (8,920,000)
Disposals of Capital Assets	91,957
Change in Deferred Inflows for Pensions	(5,561,309)
Change in Deferred Inflows for Leases	(82,876,503)
Change in Pension Asset	 (3,881,102)
TOTAL NON-CASH ACTIVITIES	\$ (102,090,041)

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.

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 Presentation

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 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 division 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.

Use of Estimates

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

Significant Risks and Uncertainties

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

Assets, Liabilities and Net Position

1. 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 \$56,830,209 is reported at amortized cost and is included in Cash and Cash Equivalents.

2. <u>Investments</u> See Note 2.

3. <u>Receivables</u>

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, 2022. Other Receivables consist of materials and services paid by the Port, which will be reimbursed by outside entities or insurance proceeds.

Notes Receivable consist of amounts owed from private companies for loans made from the U.S. Department of Commerce's Revolving Loan Fund program.

4. <u>Amounts Due To and From Other Governments</u>

These accounts include amounts due to or from other governments for grants, entitlements, and loans from other governmental entities.

5. <u>Restricted Assets</u> 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. It is the Port's policy to consider restricted net position to have been depleted before the unrestricted net position is applied.

The restricted assets are composed of the following:

Cash and Cash Equivalents – Blended Component Unit, IDC	\$29,830
Cash and Cash Equivalents – Revolving Loan Fund	\$261,385
Investments – Insurance Reserve	\$549,249
Investments – Debt Service	\$3,022,500
Net Pension Asset	\$2,428,475

6. <u>Capital Assets</u> 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.

As of January 1, 2022, intangible assets totaled \$2,742,406. During 2022, the Port added \$11,684, and amortized \$799,769, leaving a balance of \$1,954,321 at the end of 2022. These capital assets lack physical substance but will benefit the Port more than one year. The Port amortizes these assets from 3 to 15 years.

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

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

7. Leases - (See Note 19, Leases)

Lessee: The Port is a lessee for noncancelable leases. These are comprised of leases of office equipment, and are trivial to the financial statements.

Lessor: The Port is a lessor for noncancelable leases. The Port recognized a lease receivable and a deferred inflow of resources in the government-wide financial statements.

8. <u>Other Property and Investments</u> See Note 2.

9. Deferred Outflows/Inflows of Resources

The Port reports deferred outflows and deferred inflows separately on the Statement of Net Position.

10. Compensated Absences

In accordance with GASB Statement No. 16, Accounting for Compensated Absences, the Port accrues a liability for Paid Time Off (PTO) pay. All represented and non-represented staff may accumulate up to 520 hours of PTO. 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 PTO leave benefits as earned. Accrued PTO benefit liability was \$1,115,570 at December 31, 2021, and \$1,264,272 at December 31, 2022.

11. 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.

12. Long Term Debt See Note 9.

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 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. Non-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, net pension asset, 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.

For purposes of calculating the restricted net position related to the net pension asset, the Port includes the net pension asset and the related deferred outflows and deferred inflows.

15. Other Current Payables

These accounts consist of accrued wages and employee benefits.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

Cash on hand at December 31, 2022 was \$2,870 in petty cash and change funds. The carrying amount of the Port's deposits was \$58,925,542 and the bank balance was \$58,999,798.

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.

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

<u>Investments</u>

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

Investments are carried at fair value. Interest income on investments is accrued as nonoperating 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, 2022 and 2021.

		Mat	urities (in ye	ars)	
					% of Total
Investment Type	Fair Value	Less than 1	1-3	More than 3	Portfolio
2022					
Federal Agencies Securities:					
Federal Home Loan Bank	3,641,614		1,842,412	1,799,202	30.27%
Farmer Mac	997,135		997,135		8.29%
Federal Home Loan Mortgage Corporation	3,978,092		3,978,092		33.07%
Federal National Mortgage Assocation	3,412,552	3,412,552			28.37%
Total Investments	12,029,393	3,412,552	6,817,639	1,799,202	100%
	1000/	20.270/		14.0(0)	
Percentage of Total Portfolio	100%	28.37%	56.67%	14.96%	
2021					
Federal Agencies Securities:	2 0 0 2 4 5 0			0.000.450	25.0404
Federal Home Loan Bank	3,982,470	0.000 500		3,982,470	37.94%
Federal Farm Credit Bank	2,026,790	2,026,790			19.31%
Federal Home Loan Mortgage Corporation	1,000,763	1,000,763			9.53%
Federal National Mortgage Assocation	3,487,208		3,487,208		33.22%
Total Investments	10,497,231	3,027,553	3,487,208	3,982,470	100%
Percentage of Total Portfolio	100%	28.84%	33.22%	37.94%	

<u>NOTE 2 – DEPOSITS AND INVESTMENTS (continued)</u>

Credit Risk - Investments

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, 2022, the Port's investments had the following credit quality distribution for securities with credit exposure:

	AAA
	aaa
US Agencies	\$ 12,029,393

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.

PORT OF BELLINGHAM

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

	Held by		
Investment Type	Counterparty		
US Agencies	\$ 12,029,393		

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 eternal 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-along 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, 2022, the Port of Bellingham had the following investments measured at fair value:

		Fair Value Measurements Using		
	49/94/9099	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Investments at fair value level	12/31/2022	(Level 1)	(Level 2)	(Level 3)
Federal Agency Obligations	\$ 12,029,393		\$ 12,029,393	
Total Investments measured at				
fair value	\$ 12,029,393	\$-	\$ 12,029,393	\$-
- Total Investments in Statement of				
Net Position	\$ 12,029,393			

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

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 \$3,022,500.

NOTE 3 – PROPERTY TAXES

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

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

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

NOTE 3 - PROPERTY TAXES (continued)

The Port's regular levy for 2022 was approximately \$.1608 per \$1000 on an assessed valuation of \$43,157,475,969 for a total regular levy of \$6,942,683.

In 2022, the Port levied an additional \$.016 per \$1000 for the repayment of General Obligation Bonds for a total additional levy of \$842,400.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

	Beginning			
	Balance			Ending Balance
	01/01/2022	Increases	Decreases	12/31/2022
Non-Depreciable Assets:				
Land	\$ 81,829,178	\$ 317,974	\$ (1,334,719)	\$ 80,812,433
Construction in progress	25,682,075	19,494,343	(7,176,374)	38,000,044
Total Non-Depreciable Assets	107,511,253	19,812,317	(8,511,093)	118,812,477
Depreciable Assets:				
Buildings and Structures	180,978,354	4,340,582	(1,390,819)	183,928,117
Intangible Assets	3,569,279	11,684		3,580,963
Improvements/Infrastructure	237,827,418	2,864,439	(3,150,363)	237,541,494
Machinery and Equipment	17,927,634	802,031	(422,287)	18,307,378
Total Depreciable Assets	440,302,685	8,018,736	(4,963,469)	443,357,952
Less Accumulated Depreciation for:				
Buildings and Structures	94,755,420	5,017,338	(917,619)	98,855,139
Intangible Assets		799,769		799,769
Improvements/Infrastructure	120,954,520	8,071,950	(3,018,355)	126,008,115
Machinery and Equipment	12,612,374	993,299	(167,558)	13,438,115
Total accumulated depreciation	228,322,314	14,882,356	(4,103,532)	239,101,138
Depreciable Assets Net	\$211,980,371	\$ (6,863,620)	\$ (859,937)	\$204,256,814

Capital asset activity for the year ended December 31, 2022 was as follows:

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION (continued)

Construction Commitments:

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

Project	Spent to Date	Commitment
Airport:	Spent to Date	comment
Taxiway kilo des & const	5,113,083	63,499
Taxiway foxtrot	3,533,527	1,771,321
Snow Removal Equip Facility	2,076,129	3,633,712
Runway Safety Area	3,150,884	475,611
Design Taxiway	831,976	89,673
Design Runway Shoulders	524,487	69,282
Marine Terminals:	521,107	-
Upgrade power to main pier	177,390	2,480,278
Pier Dredging	-	4,182,600
BST Main Pier Repairs Ph 3	534,708	6,883,766
Rail Span, Stub Pier	-	5,701,114
BCT fire sprinklers under pier	61,741	810,482
BCT steel pilings & support	959,873	2,566,528
Repair dock damage	-	619,635
Real Estate:		019,000
Bellwether HVAC	1,947,144	6,149
Squalicum Bulkhead Assessment	21,193	528,807
Design & Permit FMIP Stormwater	569,063	50,937
MCI Pier Fender Piles	83,265	1,316,735
FMIP 8 Demo, Design, Construction Mgmt	259,959	800,041
Environmental:	_0,,,0,	-
Little Squalicum Beach	1,307,656	192,344
Bellingham Waterfront District:	1,007,000	-
District Utilities ECO	1,208,302	408,871
Waterfront Site Prep	386,425	650,183
Franchise Utilities	470,240	912,760
1000 F St Fire Suppression	86,716	1,347,284
Waterfront interim uses	689,961	(15,164)
Repair tile tanks	595	679,405
Economic Development		-
Rural Broadband	336,150	9,702,046
Community Connections:		-
Asphalt promenade G5-6	417,318	197,682
Infrastructure:		
Blaine Bulkhead Design	2,499,396	75,604
I&J Bulkhead, fit up float	249,093	1,001,907
RR Crossing at Alaska Ferry	387,071	1,312,929
Other Budgeted Projects, less than \$500,000	10,116,699	7,510,315
Total Construction	38,000,044	56,026,336

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 2022:

Aggregate Pension Amounts - All Plans						
Pension liabilities	\$	(1,263,518)				
Pension assets	\$	2,678,720				
Deferred outflows of resources	\$	2,489,274				
Deferred inflows of resources	\$	(2,802,364)				
Pension expense	\$	(133,547)				

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, 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.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be obtained by writing to:

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

Or the DRS ACFR 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.

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 2022 were as follows:

PERS Plan 1					
Actual Contribution Rates:	Employer	Employee			
January - August 2022					
PERS Plan 1	6.36%	6.00%			
PERS Plan 1 UAAL	3.71%				
Administrative Fee	0.18%				
Tot	al 10.25%	6.00%			
September - December 2022					
PERS Plan 1	6.36%	6.00%			
PERS Plan 1 UAAL	3.85%				
Administrative Fee	0.18%				
Tot	al 10.39%	6.00%			

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the

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

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

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 2022 were as follows:

PERS Plan 2/3					
Actual Contribution Rates:	Employer 2/3	Employee 2			
January - August 2022					
PERS Plan 2/3	6.36%	6.36%			
PERS Plan 1 UAAL	3.71%				
Administrative Fee	0.18%				
Employee PERS Plan 3		Varies			
Total	10.25%	6.36%			
September - December 2022					
PERS Plan 2/3	6.36%	6.36%			
PERS Plan 1 UAAL	3.85%				
Administrative Fee	0.18%				
Employee PERS Plan 3		Varies			
Total	10.39%	6.36%			

The Port's actual PERS plan contributions were \$292,369 to PERS Plan 1 and \$495,271 to PERS Plan 2/3 for the year ended December 31, 2022.

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 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.

<u>NOTE 6 – PENSION PLANS (continued)</u>

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 state contribution rate (expressed as a percentage of covered payroll) was 3.41% in 2022.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

LEOFF Plan 2				
Actual Contribution Rates:		Employer	Employee	
January - December 2022				
State and Local Governments		5.12%	8.53%	
Administrative Fee		0.18%		
	Total	5.30%	8.53%	
Ports and Universities		8.53%	8.53%	
Administrative Fee		0.18%		
	Total	8.71%	8.53%	

The Port's actual contributions to the plan were \$35,247 for the year ended December 31, 2022.

<u>NOTE 6 – PENSION PLANS (continued)</u>

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Demographic Experience Study* and the *2021 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022. Plan liabilities were rolled forward from June 30, 2021, to June 30, 2022, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 2.75% total economic inflation; 3.25% salary inflation
- **Salary increases:** In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.0%

Mortality rates were developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by member status (e.g. active, retiree, or survivor), as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. 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.

Methods did not change from the prior contribution rate setting June 30, 2019 Actuarial Valuation Report (AVR), however OSA introduced a temporary method change to produce asset and liability measures for the June 30, 2020 AVR. There were also the following assumption changes:

- OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in the model. Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.
- OSA updated the economic assumptions based on the 2021 action of the PFC and the LEOFF Plan 2 Retirement Board. The investment return assumption was reduced from 7.5% (7.4% for LEOFF 2) to 7.0%, and the salary growth assumption was lowered from 3.5% to 3.25%. This action is a result of recommendations from OSA's biennial economic experience study.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.0%.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's 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 7.0% 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 7.0% 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 (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

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, 2022, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

		% Long-Term
	Target	Expected Real Rate of
Asset Class	Allocation	Return Arithmetic
Fixed Income	20%	1.50%
Tangible Assets	7%	4.70%
Real Estate	18%	5.40%
Global Equity	32%	5.90%
Private Equity	23%	8.90%
	100%	

Sensitivity of Net Pension Liability/(Asset)

The table below represents the Port's proportionate share of the net pension liability calculated using the discount rate of 7.0%, 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 (6.0%) or 1 percentage point higher (8.0%) than the current rate.

			Cu	irrent Discount		
	1	% Decrease		Rate		1% Increase
	(6.0%)		(7.0%)		(8.0%)	
PERS 1	\$	1,688,043	\$	1,263,518	\$	893,007
PERS 2/3	\$	2,591,937	\$	(2,200,976)	\$	(6,138,657)
LEOFF 2	\$	(22,000)	\$	(477,744)	\$	(850,732)

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 Related to Pensions

At June 30, 2022, the Port reported a total pension liability of \$1,263,518 and pension asset of \$2,678,720 for its proportionate share of the net pension liabilities, as follows:

	Liability	Liability (or Asset)					
PERS 1	\$	1,263,518					
PERS 2/3	\$	(2,200,976)					
LEOFF 2	\$	(477,744)					

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

	Proportionate	Proportionate	Change in
	Share 6/30/21	Share 6/30/22	Proportion
PERS 1	0.044197%	0.045379%	0.001182%
PERS 2/3	0.056776%	0.059345%	0.002569%
LEOFF 2	0.015564%	0.017579%	0.002015%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2022 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* for all plans. Contributions made after the measurement date of the net pension liability (June 30, 2022) but before the Port's reporting period (December 31, 2022) will be recognized as a reduction of the net pension liability in the subsequent fiscal period rather than in the current fiscal period.

In fiscal year 2022, the state of Washington contributed 39% of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 61 percent of employer contributions.

Pension Expense

	Pensio	on Expense/(Credit)
PERS 1	\$	612,340
PERS 2/3	\$	(778,893)
LEOFF 2	\$	33,006
TOTAL	\$	(133,547)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2022, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1		ferred Outflows of Resources	D	eferred Inflows of Resources
Differences between expected and actual experience	\$	_	\$	_
Net difference between projected and actual investment earnings on pension plan investments	\$	-	\$	(209,402)
Changes of assumptions	\$	-	\$	-
Changes in proportion and differences between contributions and proportionate share of				
contributions	\$	-	\$	-
Contributions subsequent to the measurement date	\$	146,553	\$	-
TOTAL	\$	146,553	\$	(209,402)

	Deferred Outflows		D	eferred Inflows
PERS 2/3		of Resources		of Resources
Differences between expected and actual experience	\$	545,350	\$	(49,824)
Net difference between projected and actual investment earnings on pension plan investments	\$	-	\$	(1,627,198)
Changes of assumptions	\$	1,226,740	\$	(321,205)
Changes in proportion and differences between contributions and proportionate share of				
contributions	\$	27,950	\$	(187,757)
Contributions subsequent to the measurement date	\$	245,300	\$	-
TOTAL	\$	2,045,340	\$	(2,185,984)

LEOFF 2		Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual experience	\$	113,520	\$	(4,433)	
Net difference between projected and actual investment earnings on pension plan investments	\$	-	\$	(159,967)	
Changes of assumptions	\$	121,027	\$	(41,598)	
Changes in proportion and differences between contributions and proportionate share of					
contributions	\$	45,515	\$	(200,984)	
Contributions subsequent to the measurement date	\$	17,319	\$	-	
TOTAL	\$	297,381	\$	(406,982)	

	D	Deferred Outflows		eferred Inflows
Combined ALL PLANS	of Resources		of Resources	
Differences between expected and actual experience	\$	658,870	\$	(54,257)
Net difference between projected and actual				
investment earnings on pension plan investments	\$	-	\$	(1,996,563)
Changes of assumptions	\$	1,347,767	\$	(362,803)
Changes in proportion and differences between				
contributions and proportionate share of				
contributions	\$	73,465	\$	(388,741)
Contributions subsequent to the measurement date	\$	409,172	\$	-
TOTAL	\$	2,489,274	\$	(2,802,364)

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, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2023	\$ (88,615)
2024	\$ (80,485)
2025	\$ (100,966)
2026	\$ 60,664
Total	\$ (209,402)

Year ended December 31:	PERS 2/3
2023	\$ (556,561)
2024	\$ (499,486)
2025	\$ (575,503)
2026	\$ 733,703
2027	\$ 259,097
Thereafter	\$ 252,807
Total	\$ (385,943)

Year ended December 31:	LEOFF 2
2023	\$ (74,350)
2024	\$ (67,660)
2025	\$ (82,068)
2026	\$ 44,892
2027	\$ (4,419)
Thereafter	\$ 56,684
Total	\$ (126,921)

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 \$49 million. Public Officials and Employee Practices Liability coverage is in effect to a limit of \$5 million with a \$25,000 deductible. Airport Liability coverage is in effect to a limit of \$100 million combined bodily injury, property damage and extended coverage for war, hijacking, terrorism and other perils with a \$0 deductible. The Port also maintains a separate Crime policy to a limit of \$2 million with a deductible of \$2,500 and a Foreign Liability policy with various limits and deductibles. In addition, the Port maintains standard business Automobile insurance with \$1 million limit and various deductibles.

Commercial property coverage at full replacement cost with a loss limit of \$500 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 incident in 2019. This claim is still under litigation.

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. A third party administrator, Healthcare Management Administrators (HMA), manages the plans. The healthcare plan is self-insured with a stop loss program in place, and the dental/vision plan is self-insured with a capped per participant benefit.

In 2022, the medical plan had an average of 262 lives on the plan, including COBRA participants. Fixed costs, including the stop loss premium were \$533,564. Claims paid, less the stop loss adjustments, were \$1,434,561. IRS fees totaled \$527. Total 2022 medical care costs were \$1,968,652.

The 2022 dental/vision plan had an average of 243 lives on the plan including COBRA participants. Fixed costs were \$8,130, and the claims paid were \$128,733. Total dental/vision plan costs were \$136,863 in 2022.

The required 16 weeks of reserve is calculated to be \$647,084, and is included in the Port's restricted net position.

NOTE 8 – LONG-TERM DEBT

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 2022.

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	2,340,000
Total General Obligation Bonds				\$ 2,340,000

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

Year Ending		
December 31	Principal	Interest
2023	745,000	93,600
2024	780,000	63,800
2025	 815,000	32,600
Total	\$ 2,340,000	\$ 190,000

Revenue bonds currently outstanding are as follows:

Description and Date of Issue	Original Amount	Interest Rate	Maturity	Amount
07/09/2019	20,620,000	1.61-2.24%	2030	 19,450,000
Total Revenue Bonds				\$ 19,450,000

NOTE 8 - LONG-TERM DEBT (continued)

Year Ending December 31	Principal	Interest
2023	2,050,000	972,500
2024	2,145,000	870,000
2025	2,250,000	762,750
2026	2,360,000	650,250
2027	2,475,000	492,250
2028-2030	 8,170,000	1,362,000
Total	\$ 19,450,000	\$ 5,109,750

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

Bonds are displayed net of premium or discount on the Statement of Net Position. Annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt discount.

<u>Other</u>

In prior years, the Port entered into a 10-year Master Tax-Exempt Installment Purchase agreement with US Bank in the amount of \$1,383,130 for the purpose of purchasing large equipment to be used at the Bellingham Shipping Terminal.

The assets acquired through this agreement are as follows, and the related accumulated depreciation on the assets is included in depreciation expense:

Asset	
Lift Trucks	\$ 304,282
Self-Propelled Vehicles	840,468
Towed Vehicles	 238,380
Total Assets Acquired	\$ 1,383,130
Less, Accumulated Depreciation	\$ (615,602)
Total Assets Acquired	\$ 767,528

NOTE 8 - LONG-TERM DEBT (continued)

Year Ending December 31	
2023	166,365
2024	166,366
2025	166,365
2026	166,366
2027	166,365
2028	83,183
Total Minimum Lease Payments	\$ 915,010
Less: Interest	\$ (91,103)
Present Value of Minimum Lease Payments	\$ 823,907

The future payments as of December 31, 2022 were as follows:

Other non-current liabilities include low-interest loans from Whatcom County's Economic Development Investment program for various manufacturing facility construction projects. These loans range from 10 to 20 years. The future payments as of December 31, 2022 were as follows:

Year Ending December 31	Principal	Interest
2023	478,598	24,715
2024	483,565	19,748
2025	153,855	14,728
2026	155,393	13,190
2027	156,949	11,635
2028-2036	 1,006,556	48,671
Total	\$ 2,434,916 \$	5 132,687

NOTE 8 - LONG-TERM DEBT (continued)

Changes in Long-Term Liabilities

During the year ended December 31, 2022, the following changes occurred in long-term liabilities:

						D	oue within One
	01/01/22	Additions	Reductions	12	2/31/2022		Year
Bonds Payable:							
G.O. Bonds	3,226,117	-	(786,805)		2,439,312		794,712
Revenue Bonds	21,410,000		(1,960,000)		19,450,000		2,050,000
Total Bonds Payable	\$ 28,919,754	\$-	\$ (2,824,382)	\$	26,095,372	\$	3,129,949
Other Non-current Liabilities	2,960,865		(525,949)		2,434,916		193,073
Purchase Agreements	957,188		(133,280)		823,908		138,095
Compensated Absences	1,115,570	914,671	(765,969)		1,264,272		703,811
Net Pension Liability	539,749	723,769			1,263,518		-
Environmental Remediation	92,118,950	8,920,000			101,038,950		-
Total Long-term Liabilities	126,612,076	10,558,440	(4,249,580)		132,920,936		4,164,928

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 9 – UNEARNED REVENUES

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 10 – 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, 2022 for these facilities are as follows:

Condensed Statement of Net Position	A	Airport	M	larinas		Marine erminals	R	eal Estate	Other	(in	Total thousands)
Assets:											
Current Assets										\$	73,999
Other & Restricted Assets											104,901
Capital Assets, net	\$	94,557	\$	38,303	\$	38,438	\$	25,577	\$ 92,315		289,190
Construction Work in Progress		16,343		1,406		2,047		5,489	12,715		38,000
Total Assets											506,090
Deferred Outflows of Resources											2,489
Liabilities:											
Current Liabilities											14,446
Other Non-current Liabilities											105,193
Revenue Debt											23,563
Total Liabilities											143,202
Deferred Inflows of Resources											88,193
Net Position:											
Net invested in capital assets											292,229
Restricted											6,389
Unrestricted											(21,434)
Total Net Position											277,184
Total Liabilities, Net Position, and Defe	rred Inf	lows								\$	508,579
Condensed Statement of Revenues, Expenses and Changes in Net Position											
(in thousands)											
Operating Revenues	\$	6,928	\$	9,712	\$	3,477	\$	6,443	\$ 397	\$	26,957
Operating Expenses		(5,952)		(3,810)		(2,342)		(5,284)	(4,020)		(21,408)
General & Admin. Expense		(641)		(30)	_	(31)		(108)	(245)		(1,055)
Depreciation Expense		(5,495)		(2,740)	<u> </u>	(2,798)		(2,183)	(1,669)		(14,885)
Operating Income (Loss)		(5,160)	۲. I	3,132		(1,694)	۲. I	(1,132)	(5,537)		(10,391)
Tax Revenues									7,777		7,777
Net Non-Operating									1,385		1,385
Net Income (Loss)		(5,160)		3,132		(1,694)		(1,132)	3,625		(1,229)
Capital Contributions		6,334		258		4		-	1,157		7,753
Capital Contributions-Restricted		1,694		-		-		-	-		1,694
Net Position, January 2022											268,966
Net Position, December 2022										\$	277,184
										Ť	277,201

NOTE 11 - RESTRICTED COMPONENT OF NET POSITION

The Port's Statement of Net Position reports \$6,389,274 of restricted component of net position. \$647,084 of this is restricted by enabling legislation. The remaining restricted component is restricted by revenue bond covenants and federal and state agencies.

NOTE 12 - 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

NOTE 12 - PASSENGER/CUSTOMER FACILITY CHARGES (continued)

airline as part of the pricing of each ticket and are remitted quarterly to the Port directly from the airlines. Passenger Facility Charged collected and remitted to the Port can only be used by the Port for capital projects approved by the participating airlines and the FAA. Fees remitted during 2022 totaled \$1,365,007, 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 2022 totaled \$328,635, and are shown on the Port's Statement of Revenues, Expenses and Changes in Net Position as Capital Contributions-Contractually Restricted.

NOTE 13 – 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 were estimated using the expected cash flow technique, and total 177,600,000 as of 12/31/2022. This is a 11.46 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.

NOTE 13 - POLLUTION REMEDIATION OBLIGATIONS (continued)

The Port has acquired a Pollution Legal Liability Insurance Policy from American International Specialty Lines Insurance Company. This policy, which is in effect until 12/31/2034, has an aggregate policy limit of \$102,000,000. The policy obligates the insurer to pay half of the remediation costs on specific sites up to a total amount of \$51,684,816. After total remediation costs exceed \$51,684,816, the policy provides for payment of 100% of the environmental remedial costs on covered sites up to a policy limit of \$77,000,000. The policy also provides for an additional coverage of up to \$25,000,000 in costs for third party liabilities, regulatory changes, or unknown contaminates on these specific sites. The Port had prepaid for the estimated current value of the remedial actions defined in the policy as of January 20, 2005; however, by the end of 2016, all of these prepaid funds were expended. The Port, in reassessing its remediation liabilities has also estimated what portion of the remediation costs will be reimbursed by insurance. This analysis, and the fact that the insurer admits coverage, has resulted in the Port booking an Environmental Insurance Receivable of \$17,420,000, 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. These amounts are both probable and estimable and therefore realizable as an asset.

The Port expects to receive up to $\frac{1}{2}$ 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 \$62 million through the current biennia, of which just over \$52 million has been received to date. The Port anticipates Ecology will approve future funding up to 50% of the estimated cost of cleanup as funding becomes available in future biennium periods. These sites are included in the pollution legal liability insurance policy purchased by the Port in 2005. The Port completed the cleanup of the Lignin Operable Unit of the GP West Site in 2022. The cleanup construction included removal and disposal/recycling of over 18,000 tons of concrete, asphalt and contaminated soil. Other activities related to cleanup sites was ongoing engineering, design and permitting and the continued implementation of an in-situ bioremediation program. 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 2022, the

NOTE 13 - POLLUTION REMEDIATION OBLIGATIONS (continued)

remaining estimated cost for future phases of the Whatcom Waterway cleanup site with contingency was \$73,863,695.

The Port has, as part of its environmental cleanup efforts, a number of monitoring wells on various contaminated sites, ranging from .75" – 8" in diameter. These wells will be decommissioned when the individual sites are cleaned up and no longer require monitoring. The Port estimates the cost to decommission these monitoring wells will be approximately \$477 thousand over the course of many years. The cost of decommissioning is included in the environmental liability that is listed on the Port's Statement of Net Position.

NOTE 14 – SERVICE CONCESSION AGREEMENTS

In 2010, the Port of Bellingham entered into a 50-year ground lease with an additional 30year option in order for the lessee to construct and operate two general office and retail buildings. In 2011 and 2017, similar agreements were executed for a third and fourth building. Upon execution, the lessee prepaid the 80-year agreements. The agreement allowed the lessee to secure financing for the construction of the buildings. At the end of the agreement, unless a separate renewal is negotiated, the Port has the option of requiring the lessee to remove the buildings or to transfer ownership to the Port.

The Deferred Inflows of Resources represents the \$2,514,362 unearned balance of these agreements.

NOTE 15 – JOINT VENTURES

In 2020, the Port entered into an Interlocal Agreement with the Ports of Whitman County, Kalama, Pasco, Ridgefield, and Skagit to form Petrichor Broadband, LLC for the development of state-wide, regional, and local open access dark fiber systems. The collaboration will result in a consistent approach to technologies and business models throughout the state, subject to local and regional conditions. This joint venture is governed by members of each participating port, and is initially managed by the Port of Whitman County. To obtain financial information on this joint venture, contact the Executive Director at the Port of Whitman County at https://www.portwhitman.com/.

The Port of Bellingham initially contributed \$200,000 to the Port of Whitman County as a capital contribution, and \$15,749 as compensation for the Port of Whitman County's commitments. In 2022, the Port's share of Petrichor's net income was \$78,955, which is shown as an increase in the joint venture asset and listed on the Port of Bellingham's Statement of Net Position as a Joint Venture. In addition, Petrichor is obligated to pay \$472,487.85 to the Port of Whitman County over the course of three years. If Petrichor is

unable to make the payment, that financial obligation will be due from the individual members. At this time, it is expected that Petrichor will be able to meet its obligation, and therefore no liability is listed on the Port's financial statements.

NOTE 16 - COVID-19 Pandemic

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of a deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures include closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

Due to these closures, many businesses in the community as well as the airline industry had negative financial impacts.

The U.S./Canada border closure had a significant impact on the airport's operations. With a significant decrease in passengers, airport revenues were severely impacted. However, with the receipt of grants through the CARES Act, the impact was minimized through 2022. The international border lessened travel restrictions near the end of 2021, which allowed for the airline industry to begin to recover. With additional restrictions lifted in 2022, airport revenues nearly returned to pre-pandemic levels.

NOTE 17 - Leases - Lessor

The Port is a lessor for various noncancellable leases of land and office and retail facilities.

For leases with a maximum possible term of 12 months or less at commencement, revenue is recognized based on the provisions of the lease contract. For all other leases, the Port recognizes a lease receivable, and a deferred inflow of resources. The total amount received, principal and interest, for 2022 was \$12,741,811, across all divisions of the Port that leases property.

At the commencement of a lease, the Port initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term using the effective interest method.

Key estimates and judgments related to the leases include how the Port determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

• The discount rate for leases is based on the rate of interest the lessee would be charged to borrow an amount equal to the lease payments, respectively, under

NOTE 17 - Leases - Lessor (continued)

similar terms at the commencement or remeasurement date. The Port determined the discount as follows:

Total Lease Payments Over the Lease Term Plus Options to Extend	Discount Rate used
Loans Under 7 Years:	
\$50,000 or more	Prime + 2.25%
\$25,001 - \$49,999	Prime + 3.25%
\$25,000 or less	Prime + 4.25%
Loans Over 7 Years:	
\$50,000 or more	Prime + 2.75%
\$25,001 - \$49,999	Prime + 3.75%
\$25,000 or less	Prime + 4.75%

• The lease term includes the noncancelable period of the lease. Lease receipts included in the measurement of the lease liability are composed of fixed payments from the lessee.

The Port monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly effect the amount of the lease receivable.

NOTE 18 - Real Property Sales

In 2022, the Port's Commission approved the sale of several parcels of land.

The first sale of land was a small 2,200 square feet strip of land sold to Harcourt. In 2018, Harcourt purchased over 1.7 acres of property in the Waterfront District for the purposes of constructing a residential building. During the City of Bellingham permitting process, it became apparent that the City of Bellingham fire code would require significant redesign to the south facing portion of the building unless restrictions were placed on adjacent property. The Port, City, and Harcourt agreed to address this condition by having Harcourt purchase an additional strip of property and placing restrictive covenants that would not allow construction of permanent structures. The purchase price of this piece of property was \$52,360, resulting in a net gain of \$28,930.

On April 1, 2003, the Port Commission approved Resolution #1177 declaring surplus 42 acres of Port property in Sumas, Washington. In 2021, Port staff was approached by Teal

NOTE 18 - Real Property Sales (continued)

Jones Lumber Services, Inc., the current tenant on the Port-owned Sumas property, indicating their desire to purchase a portion of the property. In November, 2022, the Port Commission approved the sale of 19.22 acres and a 20,000 square foot building in Sumas International Cargo Terminal to Teal Jones Lumber Services, Inc. Purchase price for the assets was \$3,917,345, resulting in a net gain of \$3,098,313.

In December, 2022, MHNW 22 Millworks Family LLLP purchased approximately 94,000 square feet of land within the Waterfront district for the purpose of constructing a public benefit mixed-use development that support the goals of affordable housing development in providing economic and social stability for low-income persons. The sale price reflected an adjusted Fair Market Value reflecting public benefit of the project per RCW 39.33.015. The sale resulted in a net loss to the Port of \$244,412.

NOTE 19 – OTHER DISCLOSURES

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 2020, Harcourt made limited progress in the development schedule and the Port believed they would not meet the project schedule as defined in the MDA. The MDA has a detailed process for resolving defaults and non-compliance. Prior to initiating the formal process, the Port engaged Harcourt in discussions for possibly resolutions that included a sizeable reduction in the property available to Harcourt for development. The end result of the negotiations was a Restated and Amended Master Development Agreement providing Harcourt with exclusive development rights for just over 9 acres. Following successful development of the nine acres, Harcourt has the option of picking up another approximate three acres. The Port continues to monitor the project, with the next significant deadline being an occupancy certificate for two of the three buildings by mid-October, 2023.

The Port has realized tremendous success with public access on the undeveloped property not owned by Harcourt. A bicycle pump track was installed, and the use of this feature far exceeds expectations. There are plans to expand the pump track in 2023 and possibly add other recreational features including a put-put golf course, bocce ball, and a shuffleboard. In 2021, Kulshan Brewery opened an extensive outdoor venue that included several containers and a stage. Also in 2021, Selkie Scoop opened an ice cream shop in a container. In 2022, phase two commenced, when three more businesses were located in containers: Sunnyland Bike for bike rental and repair; Rain or Shine Riviera Club, which is a Filling Station restaurant featuring hamburgers; and Our Kitchen, operated by the Dish

Foundation, serving a variety of soft drinks and freshly baked goods. A third phase is being planned for the spring and summer of 2023, and will include a multi-container restaurant, a wine bar, and another rotating retail container.

NOTE 19 - OTHER DISCLOSURES (continued)

In 2022, the Port sold a portion of the Lignin Site to Mercy Housing Northwest. This project is anticipated to provide approximately 80 units of affordable housing, and a sevenclassroom early learning center. Development of the affordable housing project is expected to begin in 2023.

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

	2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.045379%	0.044197%	0.042003%	0.044582%	0.048569%	0.052360%	0.053036%	0.056592%
Employer's proportionate share of the net pension liability (asset)	\$ 1,263,518	539,749	1,482,933	1,714,336	2,169,108	2,484,523	2,848,283	2,960,288
Covered payroll	\$ 7,496,225	6,520,887	6,384,040	6,271,374	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	16.86%	8.28%	23.23%	27.34%	33.92%	38.22%	45.33%	46.98%
Plan fiduciary net position as a percentage of the total pension liability	76.56%	88.74%	68.64%	67.12%	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.

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

	2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.059345%	0.056776%	0.054694%	0.057544%	0.061581%	0.065669%	0.066231%	0.069443%
Employer's proportionate share of the net pension liability	\$ (2,200,976)	\$ (5,655,803)	699,505	558,948	1,051,441	2,281,684	3,334,679	2,481,238
Covered payroll	\$ 7,496,225	6,520,887	6,384,040	6,271,374	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	-29.36%	-86.73%	10.96%	8.91%	16.52%	35.49%	53.67%	40.28%
Plan fiduciary net position as a percentage of the total	106.73%	120.29%	97.22%	97.77%	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.

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 Last 10 Fiscal Years*

	2022		2021	2020	2019	2018
Employer's proportion of the net pension liability (asset)	0.017579%	379%	0.015564%	0.016847%	-0.018915%	-0.006788%
Employer's proportionate share of the net pension liability (asset)	\$ (477,744)	744)	(904,022)	(343,654)	(438,202)	(137,811)
Covered payroll	\$ 710,823	823	581,240	633,958	664,034	251,101
Employer's proportionate share of the net pension liability as a percentage of covered payroll	-67	-67.21%	-155.53%	-54.21%	-65.99%	-54.88%
Plan fiduciary net position as a percentage of the total pension liability	116	116.09%	142.00%	115.83%	119.43%	118.50%

Notes to Schedule:

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

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

2022 2021 2020 2019 2018	utions \$ 292,369 \$ 291,873 \$ 310,401 \$ 312,702 \$ 313,986	ution (292,369) (291,873) (310,401) (312,702) (313,986)	\$ 7,787,270 \$ 6,842,673 \$ 6,471,142 \$ 6,323,256 \$ 6,204,547	yroll 3.75% 4.27% 4.80% 4.95% 5.06%	
	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll	

Notes to Schedule:

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

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

2015	360,162	(360,162)	6,198,827	5.81%	
2016	\$ 392,981 \$	(392,981)	\$ 6,307,906 \$	6.23%	
2017	\$ 445,755	(445,755)	\$ 6,494,309	6.86%	
2018	\$ 464,968	(464,968)	\$ 6,204,547	7.49%	
2019	\$ 488,136	(488,136)	\$ 6,323,256	7.72%	
2020	\$ 512,515	(512,515)	\$ 6,471,142	7.92%	
2021	\$ 486,312	(486,312) 0	\$ 6,842,673	7.11%	
2022	\$ 495,271	(495,271) 0	\$ 7,787,270	6.36%	
	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll	

Notes to Schedule:

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

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

		2022	2021	2020	2019	2018
Statutorily or contractually required contributions	Ś	35,247	35,247 \$ 33,913	\$ 29,571	\$ 35,048	\$ 30,561
Contributions in relation to the statutorily or contractually required contributions Contribution deficiency (excess)		(35,247) 0	(33,913) 0	(29,571)	(35,048)	(30,561)
Covered payroll	Ś	688,418	\$ 660,612	\$ 574,200	\$ 674,070	\$ 582,117
Contributions as a percentage of covered payroll		5.12%	5.13%	5.15%	5.20%	5.25%

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

					Expenditures			
Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total	Passed through to Subrecipients	Note
RURAL BUSINESS COOPERATIVE SERVICE, AGRICULTURE, DEPARTMENT OF	Rural Energy for America Program	10.868	56-037- 999372147		58,690	58,690		б
Economic Development Cluster								
ECONOMIC DEVELOPMENT ADMINISTRATION, COMMERCE, DEPARTMENT OF	COVID 19 - Economic Adjustment Assistance	11.307	07-79-07626		221,000	221,000	I	
ECONOMIC DEVELOPMENT ADMINISTRATION, COMMERCE, DEPARTMENT OF	Economic Adjustment Assistance	11.307	07-39-02940		496,798	496,798	I	4
	Tota	l Economic I	al Economic Development Cluster:		717,798	717,798	'	
U.S. FISH AND WILDLIFE SERVICE, INTERIOR, DEPARTMENT OF THE	Clean Vessel Act	15.616	CVA 921-429		258,199	258,199		ი
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs	20.106	3-53-0005-57	ı	45,193	45,193	·	
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs	20.106	3-53-0005-58	ı	1,410	1,410	·	
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs	20.106	3-53-0005-60	ı	3,256,732	3,256,732		

Port of Bellingham Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2022

Expenditures From Pass- Through From Direct Awards - 3,519,728

Port of Bellingham Notes to Schedule of Expenditures of Federal Awards For the Year Ended December 31,2022

NOTE 1 - BASIS OF ACCOUNTING

This Schedule is prepared on the same basis of accounting as the Port's financial statements. The Port uses the accrual basis of accounting.

NOTE 2 - FEDERAL INDIRECT COST RATE

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

NOTE 3 - PRIOR PERIODS

The 2022 Schedule of Expenditures of Federal Awards includes \$30,775 and \$257,620 in expenditures that were incurred in prior years and approved for reimbursement in 2022 by the U.S. Department of Agriculture and the U.S. Department of the Interior, respectively.

NOTE 4 - REVOLVING LOAN

The Port has a revolving loan program for small manufacturing firms in Whatcom County. The balance of the RLF loans outstanding at the end of 2022 totaled \$401,012. The cash and investment balance of 2022 was \$261,385 and there were no administrative expenses paid out during the year. The Federal share of the RLF was 75%. (\$401,012 + 261,385.35 + 0) *0.75 = \$496,798.

NOTE 5 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal award portion of the program costs. Entire program costs, including the Port's portion, are more than shown. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

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