

# ***Comprehensive Annual Financial Report***

**For The Year Ended December 31, 2003**



**PORT OF BELLINGHAM**  
*Washington State*

**Port of Bellingham  
Comprehensive Annual Financial Report  
For the Fiscal Year ended December 31, 2003**

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# ***INTRODUCTORY SECTION***

**For The Year Ended December 31, 2003**



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**PORT OF BELLINGHAM**  
*Washington State*

April 23, 2004

Commissioners and Executive Director  
Port of Bellingham

Dear Commissioners and Jim Darling:

The Comprehensive Annual Financial Report (CAFR) of the Port of Bellingham (the Port) for the fiscal year ended December 31, 2003, is hereby submitted for your review. The report includes detailed financial information as presented in our year-end audited financial statements as well as statistical data relevant to the operations of the Port. The financial statements are audited for conformance to all applicable accounting standards and for compliance to State and Federal law by the Washington State Auditor's Office.

This report has been prepared by the Port's Finance Department who is responsible for its accuracy and presentation. Management believes it fairly presents the financial position of the Port. It is also believed that this report contains all material disclosures regarding the Port's financial condition necessary to gain a full and complete understanding of the financial affairs of the Port.

This is the first year the CAFR has been prepared in conformance with several new reporting standards that have significantly impacted report presentation. The objective of the new reporting model is to provide a clear picture of the government as well as providing traditional fund based financial statements.

The CAFR is presented in three sections: Introductory, Financial and Statistical. The Introductory Section includes this transmittal letter. The Financial Section begins with the independent auditor's report and contains management's discussion and analysis (MD&A), financial statements, notes to the financial statements, required supplementary information, combining financial statements and schedules. This letter of transmittal is designed to compliment the MD&A, which presents a narrative introduction, overview and analysis of the financial statements. The Statistical Section includes selected financial, economic and demographic data.

The accompanying report includes accounts of the primary government as well as its component unit. Component units are legally separate entities for which the primary government is financially accountable. The determination of "financial accountability" is based on criteria established in Governmental Accounting Standards Board Statement No. 14 as revised by Statement 39. The attached financial statements include the following component units because of the significance of its operational or financial relationships with the Port. The Industrial Development Corporation (IDC), a public corporation, is authorized by State statute to facilitate the issuance of tax-exempt revenue bonds to finance industrial development within the corporate boundaries of the Port. The IDC is governed by the Port's three-member Port Commission.

## **Profile of the Port**

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The Port is a municipal corporation that serves the Whatcom County community by providing public transportation facilities, promoting economic development, providing stewardship of the commercial and industrial waterfront, and working with other agencies to provide needed public infrastructure. This region of the Pacific Northwest is ideally suited for business growth and international trade.

The Port is located in Bellingham, Washington, directly between the major metropolitan areas of Seattle, WA and Vancouver, BC. The Port is very diverse. It operates public terminals and facilities and it leases industrial and commercial property. These diverse operations include, Blaine and Squalicum Marinas, Bellingham International Airport, Bellingham Cruise Terminal, Bellingham Shipping Terminal, Fairhaven Transportation Center, Fairhaven Marine Industrial Park, Sumas Industrial Park and the Airport Industrial Park.

## **Long-Term Financial Planning**

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Over the past five years, the Port used specific benchmarks to achieve strong financial performance. A key factor was the anticipated shift from marine cargo to real estate as the main source of revenue and profitability. These financial benchmarks include:

- The Port maintains cash reserves of at least \$6 million and debt coverage rate of at least 2.0 to provide a buffer against adverse business developments and emergencies, as well as to meet bond debt covenants.
- The Real Estate portfolio continues to be expected to raise its contribution to Port capital availability in the medium to long term. This recognizes real estate development can only proceed as fast as the external market allows. Equally important, capitalizing on real estate opportunities requires initial investment in land, infrastructure, and buildings that may result in a delayed cash flow until transactions produce revenue.
- The Port's goal for the marinas and general aviation is to be financially self-sufficient related to direct facility investment. General aviation is trending to this self-sufficiency, but continues to require funding from other sources.

Over the longer term, commercial aviation is expected to be self-funding through a combination of federal grants, fees charged to airlines, and income from concessionaires, and other Airport tenants.

- Volumes and profits, as expected, declined over the past 4 years because of a decade-long decline in pacific Northwest breakbulk shipping markets. The Marine Terminals division should continue to strive for a positive revenue stream recognizing there may be limited prospects for significant improvement in the near term.

- Bellingham Cruise Terminal and Fairhaven Transportation Center are expected to earn sufficient income from operations to cover operating costs and make some contribution to debt service. Capital expenditures on transportation-related facilities are to be limited to those where there is a business case that will provide an acceptable return on investment.

The Port depends on its real estate portfolio and other revenue operations to provide the financial resources to expand and operate without the use of property tax dollars. The Port will continue to levy property taxes to be used exclusively for stimulating the local economy, providing public access facilities to unique properties like the waterfront and assisting in environmental cleanup and habitat restoration projects and public terminals.

## **Local Economy and Revenue Outlook**

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### **Local Economy**

Whatcom County (the County) has seen strong growth in economic activity over the past several years. The Port district (which is co-terminus with Whatcom County) has a population in excess of 179,000. Of that total 45% live in the seven incorporated towns. Over the past ten years the County's population has grown by over 30%. At the end of 2003, the number of persons employed within the county totaled 84,300. Job growth during the year was 6.2%. The average unemployment rate during the year was 6.1%. Unemployment has fallen from 6.3% in 2002.

The economy of the County continues to diversify from its historic dependence on natural resource manufacturing. Much of the business growth has come from small businesses. Within the County there are over 6,300 firms doing business. Almost 99.8% employ less than 500 people. Only three firms employ more than 1,000 persons. Per capita personal income in Whatcom County is only 81% of the U.S. average in 2001. The average annual wage earned grew by 3% to \$28,283.

The services segment of the economy account for over 50% of all employment. Employment in the service and retail trade segments of the economy totals over 58,600 jobs. The County benefits from its proximity to the Canadian border and to the large population resident in lower mainland, British Columbia. This segment has had a steady trend line of job growth but is greatly affected by macro economic factors such as relative exchange rates between the U.S. and Canadian dollars and the health of the British Columbia economy.

The services segment of the economy is the fastest growing segment of the economy and includes a good number of technology related jobs. Over the past ten years, this employment sector has grown at twice the rate of the economy as a whole in the County. Growth has continued in the technology segment of the economy due in part to the County's proximity to high tech centers in Vancouver and Seattle. Other factors contributing to the growth of this segment include an excellent educational base for technology graduates from Western Washington University and high quality telecommunications infrastructure.

The increase in the retail and service sectors has resulted in a decrease in the average wage as measured on an inflation-adjusted basis. Total retail sales in the County are a major source of tax revenues with retail sales declining from \$2.3 to \$1.8 billion in 2003.

Although manufacturing continues to be a large part of the economic foundation of the community, the County has experienced declines in total jobs from this segment of the economy. In 2003, 8,183 people were employed in manufacturing firms. This segment has the highest average earnings with an average of \$39,671 per person employed in 2002.

The County does enjoy a highly educated workforce of which more than 22% are college graduates. Western Washington University, with a student population of 12,493 and Whatcom Community College, with an additional 7,000 students, gives the County a strong academic-research and vocational-technical base. Graduates of the two institutions enhance the education and skill level of the County's labor force. Moreover, Western Washington University has received national recognition as one of the finest regional public universities. The University has often been touted as a prime factor by corporate relocation experts in why they chose to locate in the County.

The Port actively participates in the local economic development effort. As a significant landowner with strong financial capabilities, the Port has been a principal driver in the growth of the local economy. The Port is the largest contributor to the local economic development agency and is active in State and international forums promoting the local community to the economic community at large.

### **Revenue Outlook**

The Port's operating 2004-2008 financial plan reflects slow but steady growth in revenues while maintaining expenses at or below the expected rate of inflation. The Port enjoys a highly diversified revenue stream with none of its four primary lines of business accounting for more than 40% of revenues. The operating cash flow is expected to decrease in 2004 from that realized in 2003 as revenues will not grow to match increased expenses. Revenue growth is expected to accelerate in 2005 to just over 5% as new revenue sources come on line. This rate of growth is in anticipation of a stronger economy. Expenses are expected to increase at an estimated rate of inflation of less than 3%. After 2006, the Port assumes revenue growth of less than 2% with expenses tracking at a similar rate. See MD&A for revenue detail by lines of business.

### **Cash Management and Investments**

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Effective in January, 2001, the Port Commission elected to have all treasury functions completed "in-house." The Commission appointed the Chief Financial Officer as Treasurer. Investments consist of government notes and participation in the State of Washington Local Government Investment Pool. All investments are highly liquid and are protected against loss through depository and liability restrictions governed by the Washington Public Deposit Protection Commission. Note 2 to the financial statements present treasury function and long term investment information.

## **Financial Management Information**

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### **Internal Controls**

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

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

### **Budgeting Controls**

Washington State Law, RCW 53.35.010, 53.35.020, 53.35.030, 53.35.040, prescribes procedures for the preparation of annual budgets by port districts. Final budgets must be adopted in December for the following calendar year. In September of each year a proposed budget is prepared by each department and submitted to the Executive Director. The proposed budget is reviewed by the Executive Director and the Chief Financial Officer and submitted to the Port Commission for adoption of the preliminary budget before adoption of the final budget and submission to the County. The budget includes the Tax Levy, which must be certified to the County in December of each year.

Budgetary control is maintained at the department level. Monthly financial statements by department are produced comparing actual results to budgeted figures. These statements are analyzed and distributed to the Port Commission, senior management and department heads. Any adjustments to the budgeted amounts in aggregate are approved by the Port Commission.

### **Retirement Plans**

Pensions for Port employees are provided by the State of Washington Public Employees Retirement System (PERS). There are no unfunded liabilities on the part of the Port. Note 6 to the financial statements present plan descriptions and information on funding policies.

### **Risk Management**

The Port maintains liability and standard insurance coverage (with modest deductibles) for personal property, automobile, and public officials. Note 7 to the financial statements disclose the specific programs and claims liability. The Port participates in a number of insurance pools including the State of Washington's Unemployment Insurance and Workers' Compensation programs.



## **Environmental Matters**

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

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

The Port has identified 23 separate sites within its operating boundaries in which it may have some level of contingent environmental liability. The cleanup of all 23 sites is estimated by consultants to cost a minimum of \$66 million. The Port's allocated share of these costs is estimated to be less than \$16.4 million. In each case the Port is associated with the site through past and/or present property ownership. Historic industrial practices at these sites have resulted in contamination problems that require remedial cleanup under current environmental laws and regulations. The Port is actively engaged with regulatory agencies and other Potentially Responsible Parties (PRPs) in an effort to identify the options for remedial cleanup at these sites. The Port has engaged environmental engineering firms to quantify the cleanup actions necessary to recommend the preferred action and to work with PRPs to allocate responsibility for financial contributions towards any cleanup efforts. Note 10 to the financial statements present additional information.

## **Major Accomplishments**

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- The Port was selected by the National Oceanic and Atmospheric Administration as one of three ports in the United States for the new federal Portfields Initiative. "Portfields" is a federal interagency project that focuses on the redevelopment of brownfields in port and harbor areas, with emphasis on development of environmentally sound port facilities. "Brownfields" are properties where the redevelopment may be complicated by the presence or potential presence of contamination.
- The Port finished a \$4.1 million project in 2004, which combined cleanup with habitat creation and economic development. This project, funded by the Port and a grant from the Washington State Department of Ecology, removed polluting creosote pilings and 6,600 cubic yards of soil contaminated with metals from anti-fouling paint from a former boatyard. The results: (1) all property cleaned to current environmental standards; (2) new sheet-pile bulkhead to replace dilapidated creosote structure; (3) new Port built 150 ton boat travel-lift pier for new tenant Seaview North Boatyard; and (4) creation of a shallow habitat bench just outside of Squalicum Harbor breakwater to provide habitat for juvenile salmon as well as a spawning area for foraging fish.

- The Port finished a \$2 million construction project at Blaine Harbor involving the removal of failing 60 year timber breakwater and installation of a new steel wave barrier structure. In addition, the public pier was renovated and the public use area was expanded. The pier now includes new antique style lighting, picnic tables and benches. Approximately 15 percent of the project was funded through the Interagency for Outdoor Recreation grant. The balance, approximately \$1.7 million, was funded from the Port's capital improvement program.
- The Port along with the City of Bellingham approved an interlocal agreement to jointly establish and fund a waterfront planning group. The goal of the group is to formulate a vision that will guide development for the near and long-term future of the waterfront.

## **Other Information**

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### **Independent Audit**

The Port is legally required annually to have its financial statements audited by an independent accountant. The Port is also required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

The Port Commission has engaged the State of Washington Auditors' Office to provide both financial and compliance audits on an annual basis. The opinion of the auditors is included in the financial section of this report. The Auditor's report related to the single audit, including the schedule of federal financial assistance will be published in a separate report. When completed, the report will be available on the Port's website at <http://www.portofbellingham.com>. The statistical section of this report is not covered by the auditor's opinion. For the past nine years, the State Auditor has issued a report of compliance of federal, state, and local statutes free of any audit findings.

### **Awards**

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

The Port was awarded a Certificate of Achievement for Excellence in Financial Reporting for each of the past eleven years. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

## **Acknowledgment**

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

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

Sincerely,

John R. Carter  
Chief Financial Officer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Port of Bellingham,  
Washington

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2002

A Certificate of Achievement for Excellence in Financial  
Reporting is presented by the Government Finance Officers  
Association of the United States and Canada to  
government units and public employee retirement  
systems whose comprehensive annual financial  
reports (CAFRs) achieve the highest  
standards in government accounting  
and financial reporting.



A handwritten signature in cursive script, reading "Edward Haney".

President

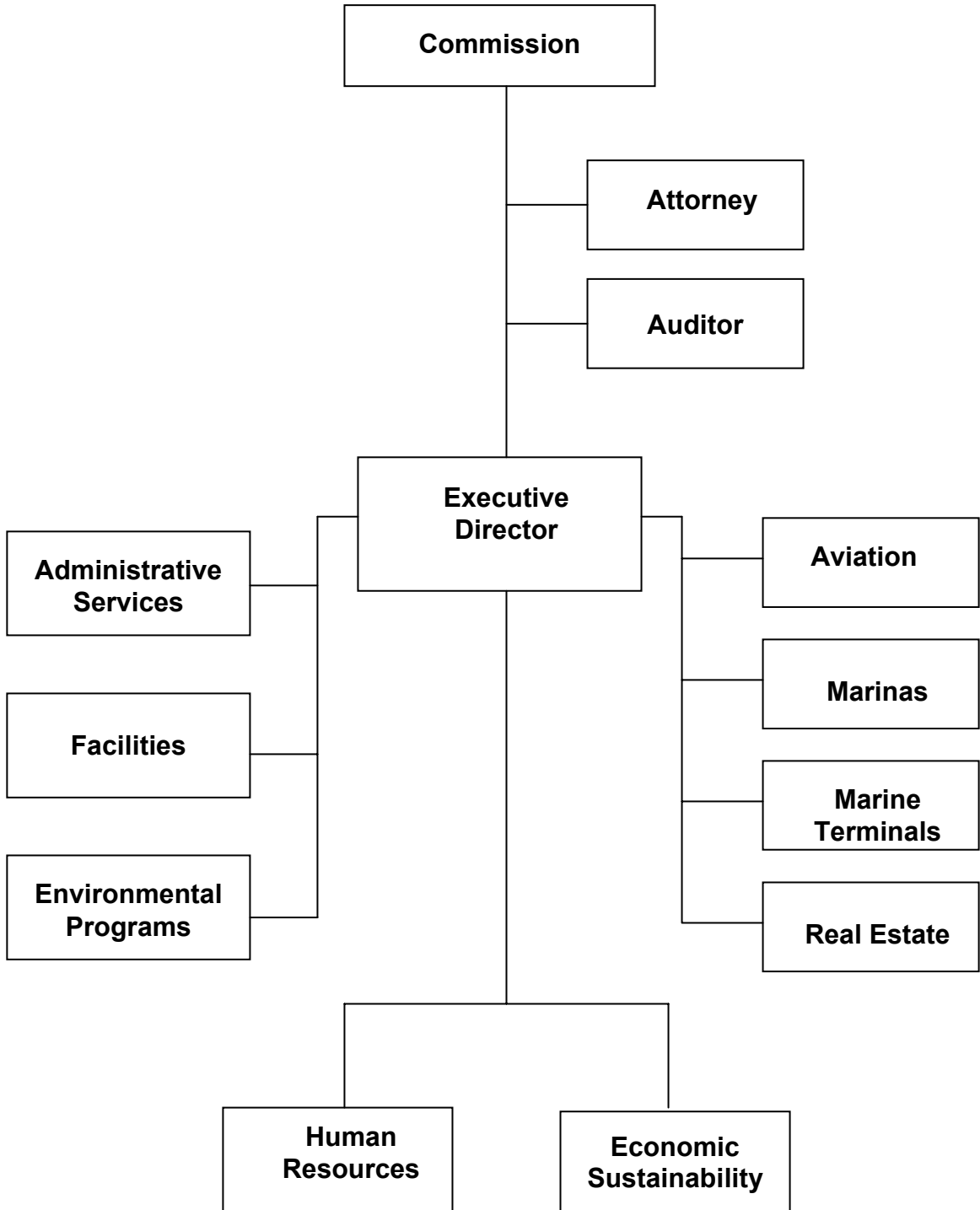
A handwritten signature in cursive script, reading "Jeffrey R. Enen".

Executive Director



# PORT OF BELLINGHAM *Washington State*

## ORGANIZATIONAL STRUCTURE



**PORT OF BELLINGHAM**

**LIST OF PRINCIPAL OFFICIALS**

**December 31, 2003**

<i>Title</i>	<i>Name</i>
Executive Director	Jim Darling
Chief Financial Officer	
Director, Administrative Services	
Director, Economic Sustainability	John Carter
Director, Airport	Art Choat
Director, Marine Terminals	
Director, Marinas	Steve Jilk
Director, Environmental Programs	Mike Stoner
Director, Facilities	Fred Seeger
Director, Real Estate	Bill Hager

# ***FINANCIAL SECTION***

**For The Year Ended December 31, 2003**



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**PORT OF BELLINGHAM**  
*Washington State*



Legislative Building  
PO Box 40021  
Olympia, Washington 98504-0021

**Washington State Auditor**  
**Brian Sonntag**

(360) 902-0370  
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**INDEPENDENT AUDITOR'S REPORT**

April 24, 2004

Board of Commissioners  
Port of Bellingham  
Bellingham, Washington

We have audited the accompanying financial statements of the business-type activities of the Port of Bellingham, Whatcom County, Washington, as of and for the years ended December 31, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the Port's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our financial audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Port of Bellingham, Whatcom County, Washington, as of December 31, 2003 and 2002, and the respective changes in financial position and cash flows, where applicable, thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1.C.16 to the financial statements, during the years ended December 31, 2003 and 2002, the Port has implemented Governmental Accounting Standard's Board Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, Statement 37, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments, Omnibus*; and Statement 38, *Certain Financial Statement Note Disclosures*.

The Management's Discussion and Analysis on pages 13 through 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The information identified in the table of contents as the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Port. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Port of Bellingham's financial performance provides an overview of the Port's financial activities for the fiscal years ended December 31, 2003 and 2002. Please read in conjunction with the Port's financial statements and notes. The notes are essential to a full understanding of the data contained in the financial statements.

The Port of Bellingham (the Port) is a Special Purpose Municipal Government. 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 terminals, promote tourism, and foster economic activity in Whatcom County. The Port may acquire lands 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 operates within district boundaries that are co-terminus with the boundaries of Whatcom County, which is located in the Northwest corner of the State of Washington. It is administered by a three-member Board of Commissioners who is elected in countywide elections to four-year terms. The Commission delegates authority to an Executive Director and administrative staff to conduct the operations of the Port. The County levies and collects tax on behalf of the Port.

The infrastructure within Whatcom County is well developed. The Port provides significant investment in transportation facilities. These facilities include deep water shipping terminals, commercial air terminals, and both freight and passenger rail facilities. These investments by the Port are augmented by a network of un-congested highways.

The Port plays an important role in providing local producers and shippers access to the export marketplace. Through Port facilities, locally produced products are shipped both economically and efficiently. The Port has modern shipping facilities designed to enhance the shipment of break bulk and bulk cargoes such as aluminum, pulp, logs, lumber, chemicals, cottonseed, and seafood. The Port also operates Bellingham International Airport which is an important transportation link for both passengers and freight.

The Port operates, through third parties, four Foreign Trade Zones (FTZs) which provide for manufacturing and warehousing of products originating in international facilities with economic savings from deferred, or avoided, United States federal duties and taxes.

The Port has developed facilities which are modern and well maintained with capacity for growth. The Port has undeveloped land available both on the waterfront and in segmented industrial/office parks throughout the County. This property will be selectively developed as opportunities arise.

Capital projects completed by Port-owned property during the year include the placement of infrastructure on a 27 acre industrial parcel to the northeast of the Bellingham International Airport's commercial air terminal. This site has been used in part to house a new air freight facility with the remaining acreage ready for expansion of both aviation and non-aviation businesses. The airport also saw the completion of an enhanced runway safety area. This \$3 million project was 90% funded by the Federal Aviation Authority. At Blaine Harbor the Port completed an effort to replace the aging breakwater at the Blaine Marina while Squalicum Harbor saw the renovation of the Squalicum shipyard site.

In the fall of 2002, the Port purchased the airport fueling operations from a private sector owner and began fueling operations for both general aviation and commercial aviation planes. The airport however continues to have a significant operational impact and expense from the September 11, 2001 terrorist attacks. Port traffic has been adversely impacted particularly in passengers utilizing Port public

transportation terminals both at the airport and at marine terminals. During the first quarter of 2004, the Port entered into concessionaire/lease agreements to transfer its fueling operations to private fuel suppliers.

Although the Port industrial and commercial tenants have been impacted by the recent downturn of the economy the Port has not seen a large increase in vacancies in Port owned commercial property. The demand for commercial real estate is quite strong and the port continues to pursue opportunities to expand its leased portfolio with quality tenants. The Port has also seen rising demand in its small boat marinas with the two marinas currently close to full capacity. The Port has also continued to see a decline in its home-based commercial fishing fleet. The impact of a diminished fishery has resulted in shrinkage in the number of commercial fishing vessels operating out of Port marinas. This decline has been partially offset by the growth of the private charter fleet which has significantly expanded its offerings for yacht charters.

In response to the security concerns, the Port has been aggressively upgrading its security plans and has been making significant capital investment in facility changes intended to upgrade the Port's overall security. The Port has received federal and state grants in excess of \$500,000 which will reimburse the Port for most of its direct security costs and lost revenues related to the terrorist incidents.

The Port's fiscal year 2004-2008 budget document projects operating income over the next five years to grow by 19%. This growth is forecasted based on investment in expanded Port services and facilities for which there is high demand, particularly marina and waterfront property development. The Port enjoys a highly diversified revenue stream with none of its four primary lines of business accounting for more than 40% of revenues. The Port does forecast that much of the growth over the next five years will be realized from the Port's leased property holdings and from additional capacity in the small boat marinas. The Aviation and Marine Terminals divisions are expected to show very modest revenue growth.

## **INVESTMENT IN CAPITAL PROJECTS**

### **2004-2008 Capital Budget**

The 2004-2008 capital budget totals \$37.4 million. Of this total, the Port will receive approximately \$8 million in federal and state grants. It is anticipated that 85% of the capital budget will be funded through cash flow from these grants, port operating income, non-operating income and cash reserves. The five-year forecast does reflect the Port issuing revenue bonds in 2005 in the amount of \$5.4 million.

The five-year capital budget includes a wide array of projects intended to preserve and enhance the Port's physical assets. At the airport the Port will complete the 1<sup>st</sup> phase of a long-term project to expand and refurbish the commercial air terminal. The first phase includes a refurbishment of the baggage claim area as well as relocation and expansion of commercial air concessionaires. The Port is also in discussions with the Washington Air National Guard to acquire the runway adjacent facility at the airport. This space would be redeveloped to provide expansion capabilities for the growing fleet of corporate aircraft calling Bellingham home.

Marina's capital budget includes \$4.4 million to rebuild the large Gate 3 area of the Squalicum marina. With this upgrade the Port will have rebuilt almost 100% of the marina's infrastructure since 1994. Recovery of this capital investment, including financing costs, is included in the calculation of the projected moorage rates for the marinas.

The Commercial Real Estate division's capital budget for 2004 includes \$4.9 million to develop a 50,000 square foot manufacturing facility to support the expanding operations of Port tenant Woodstone Corporation. The Port is also expected to complete the expansion and refurbishment of the shipyard facility located within Squalicum Harbor. This \$4.2 million project was started in 2003 and will be financed with revenues from the lease with Seaview Boatyard's who expanded their successful boatyard services business into Bellingham in late 2002. Within the Marine Terminals division the Port expects to spend

\$2.4 million over the next five years in capitalized maintenance to preserve the quality of the existing asset base at these sites.

The Port also has budgeted \$2.8 million to acquire and develop parcels adjacent to currently owned Port properties on Bellingham Bay. The Port hopes on leveraging its investment with state and federal agencies as well as private developers to continue the transformation of the Bellingham Bay started by the Port five years ago with the start of the Bellwether on the Bay real estate development. This development combines class A office space with various retail shops, a hotel and restaurants to create a regional resort destination. The Port has completed the first phase of this development and expects to solicit proposals from developers for the second phase of this project.

The 2004 capital budget also includes a multi-year plan to begin the rebuilding of basic waterfront infrastructure including the rebuilding of several segments of port owned bulkheads and breakwaters. These projects are expected to cost the Port about \$6.0 million over the next five years. It is hoped that some of these efforts can be leveraged through state and federal grants.

## **LINES OF BUSINESS**

### **Aviation**

The Port operates Bellingham International Airport, which is the fourth largest commercial aviation facility in the State. The airport is also the hub for general aviation activities in Northwest Washington. Facilities include a 6,600 foot precision instrumented air carrier runway and a small cross-wind runway. During 2003, almost 68,000 takeoffs and landings occurred at Bellingham International Airport. Just over 137,000 passengers arrived or departed from the Airport. Aviation revenues of \$2.7 million in 2003 account for 20% of total Port operating revenues.

### **Marinas**

The Squalicum Harbor Marina continued to operate near full capacity for the existing 1,404 moorage berths. The Blaine Marina added over 300 moorage berths in 2000, where there are a total of 618 slips. The marina at yearend was at occupancy of about 82% of capacity. The expansion in Blaine Marina is anticipated to be fully occupied by the end of 2003. Revenues of \$4.5 million in 2003 account for 38% of the Port's total annual revenue.

### **Commercial Real Estate**

The Port continues to enjoy nearly full occupancy of its real estate properties. Annual revenues of \$3.704 million account for 31% of total Port revenues for 2003. In 2003, the Port signed significant new agreements with Woodstone Corporation to build a new 50,000 square foot manufacturing addition, as well as a new shipyard agreement with Seaview North shipyards. The year also saw the opening of 27 acres of fully serviced industrial land adjacent to the airfield at Bellingham International Airport. This project provided Federal Express the property to build a newly opened distribution facility significantly increasing the air cargo capabilities of the airport. At the end of 2002 the Port engaged with the City of Bellingham to begin a citizen led "visioning" process for the entire Bellingham Bay waterfront. The Port is developing its holdings in an effort to increase not only the commercial applications but also to provide for enhanced access to the waterfront for the public at large. The project has been well received by the public and occupancy of the first phase of the development is meeting projections. Later phases of this development include additional commercial buildings and an ambitious plan to acquire and develop brownfield areas along the waterfront. The Port anticipates seeking requests for proposals to develop the remaining acreage at the Bellwether site in early 2003.

### **Marine Terminals**

The passenger and cargo terminals accounted for revenues of \$1.043 million account for 8% of total Port revenues for 2003. The Port's shipping facility experienced a major reduction in activity when in 2001, Georgia Pacific closed its adjacent pulp and chemical manufacturing facilities. The two facilities provided the local based cargo volumes to justify steamship lines calling on this Bellingham terminal. The shipping facility was further impacted when Alcoa discontinued shipping large volumes of aluminum ingots to overseas markets instead moving toward higher domestic shipments. Without these local based products the shipping terminal has recently been utilized for lay berthing of ships, ship side repairs, and for the discharge of "project" cargoes. Project cargoes are oversized and shaped cargo that requires special cargo handling. Overall the shipping terminal has been well maintained, and continues to remain available to handle cargo.

The Port's marine division was also impacted at the passenger terminal as total sailings diminished due to a general slowdown in tourism activities as a result of terrorism threats and the economic slowdown. The passenger terminal serves as the southern terminus for the Alaska Marine Highway System and as home port to local operators offering cruises to the San Juan Islands and Victoria, B.C. In addition, a myriad of vessels offering special activities such as charter fishing and whale watching services, operate out of this location.

### **Community Partnerships**

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

### **FINANCIAL HIGHLIGHTS**

Port operating revenues for the year ended December 31, 2003, totaled \$12.028 million compared to 2002 operating revenues of \$11.265 million. Total operating expenses (before depreciation) increased to \$9.6 million, which is 2.2% higher than that recorded in 2002. Non-operating loss of \$1.8 million includes a \$15.3 million in proceeds from the settlement of an environmental lawsuit with various insurers during the year. It also includes the establishment of an environmental reserve fund of \$16.4 million for the future cleanup costs for environment damages. The Port also received \$4.9 million in ad valorem property taxes, a 3.8% increase from that received in property taxes in prior year.

Overall, the Port reported a net loss of \$4.97 million as compared to a net loss of \$189 thousand in fiscal 2002.

Cash flow available for debt service totaled \$17.0 million, providing a debt service coverage ratio for revenue bonds of 5.37 times.

The Port's assets totaled \$165 million and net assets decreased 2% to \$105 million. During 2003, the Port's investment in capital assets resulted in total capital assets of \$135 million. The Port maintained a current ratio (current assets/current liabilities) 1.31 to 1 at December 31, 2003, with total unrestricted current assets of \$4.1 million and current liabilities of \$3.0 million after excluding the current portion of long term debt.

In 2003, the Port did not place any borrowings. At year-end, long-term debt totaled \$54.5 million which is a 33% increase from the amount owed at the 2002 year-end. The Port recorded a \$16.4 million environmental liability at the end of 2003.

**Port of Bellingham's Net Assets  
(in thousands of dollars)**

Current and other assets	\$ 30,123
Capital Assets	<u>135,164</u>
Total Assets	<u>165,287</u>
Long-term liabilities outstanding	54,546
Other liabilities	<u>5,643</u>
Total Liabilities	<u>60,189</u>
Net assets:	
Invested in capital assets, net of related debt	37,853
Restricted for future capital investment	304
Unrestricted net assets	<u>66,940</u>
Total net assets	<u>\$ 105,097</u>

**Port of Bellingham's Changes in Net Assets  
(in thousands of dollars)**

Operating revenues:	
Airport	\$ 2,425
Marina	4,542
Marine Terminals	1,043
Real Estate	3,704
Other	<u>314</u>
Total operating revenue	<u>12,028</u>
Operating expenses	(15,198)
Non-operating revenues (expenses)	(1,803)
Capital contributions	2,705
Net Assets - January 1, 2003	<u>107,365</u>
Net Assets - December 31, 2003	<u>\$ 105,097</u>

**USING THE ANNUAL REPORT**

This report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets provide information about the activities of the Port as a whole and present a longer term view of the Port's finances.

The Port maintains separate funds of cash as required by certain resolutions or bond covenants. The "one proprietary fund" model is used in this report in compliance with the rules of GASB 34 which provide that separately issued debt and separately classified assets are needed in order for a separate fund to exist. None of the Port's separate cash funds meet this definition. Therefore, for purposes of this report all of the Port's transactions are reported in one fund.

The Port maintains a subsidiary corporation called the Industrial Development Corporation (IDC). IDC, a public corporation, is 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.

The Port does not maintain any trustee or agency funds.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

Understanding the financial trend of the Port begins with understanding the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets. Looking at these two reports, you should be able to determine if the Port is better off financially this year than it was in the past.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets include all of the assets and liabilities of the Port using the accrual basis of accounting, which is the method used by most private sector businesses. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid by the Port.

These two reports show the Port's net assets and the changes in them during 2003. The Port's net assets are its assets minus its liabilities. This is one measure of financial position of the Port. Over time, increases or decreases in the Port's net assets are a good indicator of whether its financial strength is improving or deteriorating. You need to consider other factors not shown on these two financial reports in order 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.

## **REQUESTS FOR INFORMATION**

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

## PORT OF BELLINGHAM

### Comparative Statement of Net Assets December 31, 2003 and 2002

#### ASSETS

	12/31/03	12/31/02
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note 1)	\$ 1,875,826	\$ 1,386,286
Taxes receivable (Note 3)	241,189	265,593
Accounts receivable, net of allowance for doubtful accounts of \$92,300 and \$92,300	517,379	1,077,737
Interest receivable	132,706	26,863
Due from other governmental units	826,579	36,053
Other receivables	67,373	110,462
Inventory	406,971	20,307
Prepayments and other current assets	9,129	378,422
<i>Total Current Assets</i>	<u>4,077,152</u>	<u>3,301,723</u>
<b>RESTRICTED ASSETS</b>		
Cash and cash equivalents (Note 2)	2,346,414	4,520,421
<i>Total Restricted Assets</i>		
<b>LONG TERM ASSETS</b>		
Investments (Note 2)	20,615,943	5,761,883
<b>CAPITAL ASSETS</b>		
Property, plant and equipment (Note 4)	184,146,881	166,532,351
Construction work in progress (Note 4)	14,763,388	27,088,710
Less accumulated depreciation	(63,746,322)	(58,130,831)
<i>Total Net Capital Assets</i>	<u>135,163,947</u>	<u>135,490,230</u>
<b>OTHER NONCURRENT ASSETS</b>		
Intangible assets (Note 11)	2,259,791	3,016,636
Deferred compensation	120,210	125,592
Unamortized bond discount	703,862	767,131
<i>Total Other Assets</i>	<u>3,083,863</u>	<u>3,909,359</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 165,287,319</u></u>	<u><u>\$ 152,983,616</u></u>

See Accompanying Notes To Financial Statements

**PORT OF BELLINGHAM****Comparative Statement of Net Assets  
December 31, 2003 and 2002**

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**LIABILITIES AND NET ASSETS**

	<b>12/31/03</b>	<b>12/31/02</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,445,771	\$ 1,008,726
Accrued interest payable	980,693	1,029,410
Other current payables	610,650	655,360
Current portion of long-term debt	2,606,160	2,488,785
<i>Total Current Liabilities</i>	<u>5,643,274</u>	<u>5,182,281</u>
<b>LONG-TERM LIABILITIES</b> (Note 9)		
General obligations bonds	12,650,000	13,270,000
Revenue bonds	25,090,000	26,915,000
Deferred amount of advance refunding	(329,939)	(389,928)
Environmental Remediation	16,401,000	
Other Obligations	735,453	792,157
<i>Total Long-Term Liabilities</i>	<u>54,546,514</u>	<u>40,587,229</u>
<b>Total Liabilities</b>	60,189,788	45,769,510
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	37,852,700	35,280,048
Restricted for Future Capital Investment	304,339	2,606,199
Unrestricted Net Assets	66,940,492	69,327,858
<b>Total Net Assets</b>	105,097,531	107,214,105
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 165,287,319</u></u>	<u><u>\$ 152,983,616</u></u>

See Accompanying Notes To Financial Statements



**PORT OF BELLINGHAM****Comparative Statement of Revenues, Expenses and Changes in Net Assets  
December 31, 2003 and 2002****REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	12/31/03	12/31/02
<b>OPERATING REVENUES:</b>		
Airport	\$ 2,425,406	\$ 1,853,915
Marina	4,541,763	4,332,593
Marine Terminal	1,042,648	918,304
Commercial Real Estate	3,703,789	3,727,396
Other	314,253	432,572
Total Operating Revenues	<u>12,027,859</u>	<u>11,264,780</u>
<b>OPERATING EXPENSES:</b>		
General operations	6,757,374	6,878,983
Maintenance	1,352,019	1,161,590
General and administrative	1,469,996	1,335,958
Depreciation	5,618,484	5,100,194
Total Operating Expenses	<u>15,197,873</u>	<u>14,476,725</u>
<b>Income (Loss) From Operations</b>	(3,170,014)	(3,211,945)
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Ad valorem tax revenues	4,865,231	4,686,014
Interest income	423,968	176,335
Gain on disposition of assets	36,540	205,138
Other non-operating revenues	16,158,614	986,943
Interest expense	(2,130,800)	(2,236,674)
Election expense	(71,043)	-
Environmental expense, net	(19,715,284)	
Other non-operating expenses	(1,369,368)	(794,896)
Total Non-Operating Revenues(Expenses)	<u>(1,802,142)</u>	<u>3,022,860</u>
<b>Income (Loss) before capital contributions</b>	(4,972,156)	(189,085)
<b>Capital Contributions</b>	2,704,558	4,464,103
<b>Net Assets - Beginning of Period</b>	107,214,105	102,939,086
<b>Prior period adjustment of income</b>	151,024	
<b>Net Assets - Beginning of Period Restated</b>	107,365,129	
<b>Net Assets - End of Period</b>	<u><u>\$ 105,097,531</u></u>	<u><u>\$ 107,214,105</u></u>

See Accompanying Notes To Financial Statements

**PORT OF BELLINGHAM**

**Comparative Statement of Cash Flows  
December 31, 2003 and 2002**

	12/31/03	12/31/02
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 12,742,237	\$ 11,026,624
Cash paid to suppliers for goods/services	(3,993,031)	(4,038,910)
Cash paid to employees for services	(5,187,712)	(5,200,120)
<b>Net cash provided by operating activities</b>	<b>3,561,494</b>	<b>1,787,594</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Cash received for property taxes	2,758,204	3,499,693
Cash received from other taxes and financing fees	270,531	271,650
Cash received (paid) for operating grants	(75,893)	-
<b>Net cash provided (used) by non-capital financing activities</b>	<b>2,952,842</b>	<b>3,771,343</b>
<b>CASH FLOWS FROM CAPITAL &amp; RELATED FINANCING ACTIVITIES</b>		
Principal payments on general obligation and revenue bonds, and other debts	(2,384,329)	(2,067,986)
Interest paid on general obligation and revenue bonds, and other debts	(2,056,258)	(2,156,085)
Cash received from property taxes for general obligation bonds	2,136,813	1,223,621
Acquisition and construction of capital assets	(5,353,820)	(5,912,295)
Capital contributions	2,433,778	1,857,904
Environmental remediation	(3,314,284)	
Purchase of intangible assets	(9,983)	(1,502,649)
Contributed capital	(519,734)	200,434
Proceeds from lawsuit settlements	15,253,939	137,735
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>6,186,122</b>	<b>(8,219,321)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investment securities	(23,941,039)	(5,005,675)
Proceeds from sale of investments	9,313,799	5,707,071
Interest received on investments	242,316	377,224
<b>Net cash provided by investing activities</b>	<b>(14,384,924)</b>	<b>1,078,620</b>
<b>Net increase in cash and cash equivalents</b>	<b>(1,684,466)</b>	<b>(1,581,764)</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	5,906,706	7,488,471
<b>End of Year</b>	<b>\$ 4,222,240</b>	<b>\$ 5,906,707</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net Operating Income (Loss)	\$ (3,170,014)	\$ (3,211,945)
Depreciation	5,618,484	5,100,194
Change in assets and liabilities:		
(Incr)Decr in accounts receivable	560,358	(394,348)
(Incr)Decr in other current assets	(66,542)	(73,477)
(Incr)Decr in inventory	11,178	(5,754)
(Incr)Decr in work for others	43,089	210,888
(Incr)Decr in customer deposits	54,422	26,647
Incr(Decr) in accounts payable	437,045	360,655
Incr(Decr) in other liabilities	73,474	(225,266)
Total Adjustments	6,731,508	4,999,539
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 3,561,494</b>	<b>\$ 1,787,594</b>
<b>SCHEDULE OF NONCASH ACTIVITIES</b>		
Change in Fair Value of Investments	\$ 7,743	\$ (68,065)
Amortized Bond Discount	(63,270)	63,270
Construction in Process Capitalized Interest	36,454	(405,811)
Intangible Assets	(756,845)	(879,500)
<b>TOTAL NONCASH ACTIVITIES</b>	<b>\$ (775,918)</b>	<b>\$ (1,290,106)</b>

See Accompanying Notes To Financial Statements

**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 government units. 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.

**A. Reporting Entity**

The Port is a municipal corporation organized under the Washington Port Laws (R.C.W. 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 terminals, promote tourism, and 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 has four major business activities: Aviation, Marinas, Marine Terminals, and Commercial Real Estate which encompasses several industrial parks and other leased property.

The Port is independent from other local or state governments and operates within district boundaries, which are co-terminus with Whatcom County, located in the Northwest corner of the State of Washington. It is administered by a three-member Port Commission elected to four year terms by Whatcom County voters.

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 the Port's three member Port Commission. The IDC's account balances and transactions are included as a blended unit 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.

**B. Basis of Accounting and Presentation**

The accounting policies of the Port conform to accounting principles generally accepted in the United States of America, as applicable to proprietary funds of governmental units. The Port has chosen to use Financial Accounting Standards Board pronouncements issued after November 30, 1989, when there are no applicable Government Accounting Standards Board Statements. The Port is accounted for on a flow of economic resources measurement focus.

The accounting records of the Port are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 Revised Code of Washington. The Port also follows Uniform System of Accounts for Port Districts in the State of Washington.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Port conform to GAAP as applicable to proprietary governmental funds. The Port uses the full-accrual basis of accounting where revenues are recorded when earned and expenses are recognized when incurred. Capital asset purchases are capitalized, and long-term liabilities are accounted for in the appropriate funds.

### **C. Assets, Liabilities and Net Assets**

#### **1. Cash and Cash Equivalents**

It is the Port's policy to invest all temporary cash. At December 31, 2003, the Port was holding \$4,222,240 in short-term investments of cash. This amount is classified on the balance sheet 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 to be cash equivalents.

The Port's insured deposits are covered by the Federal Deposit Insurance Corporation (FDIC) and by the Washington Public Deposit Protection Commission (PDPC). The PDPC (established under Chapter 39.58 of the Revised Code of Washington) constitutes a multiple financial institution collateral pool that provides for additional assessments against participants of the pool on a pro rata basis. Accordingly, the deposits covered by PDPC are considered to be insured.

#### **2. Temporary Investments – See Note 2.**

#### **3. Receivables**

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. Customer Accounts Receivable consists of amounts owed from private individuals or organizations for services including amounts owed for which billings have not been prepared. The allowance method is used to account for bad debt expense. Other Receivables consist of materials and services paid by the Port, which will be reimbursed by outside entities, or insurance proceeds.

#### **4. Amounts Due To and From Other Governments**

These accounts include amounts due to or from other governments for grants and entitlements. A Schedule of Financial Assistance, which provides a listing of all federal assistance programs in which the Port participates and summarizes the Port's grant transactions for 2003, is available.

#### **5. Inventories**

Inventories are recorded at cost, using average cost method.

#### **6. Restricted Assets**

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.

#### **7. Capital Assets and Depreciation See Note 4.**

#### **8. Other Property and Investments See Note 2.**

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **9. Other Assets and Debits** See Note 11.

These accounts include preliminary costs incurred for proposed construction projects. If construction results, the related costs become part of the cost of the asset; if the project is abandoned, related costs are charged to expense.

### **10. Custodial Accounts**

This account reflects the liability for net monetary assets being held by the Port in its trustee or agency capacity.

### **11. Compensated Balances**

Vacation pay, which may be accumulated up to 240 hours, is payable upon separation of employment. Union contracts for certain non-exempt employees, allows sick leave accruals of up to 480 hours, of which fifty percent is payable upon retirement or death. The Port accrues unpaid vacation leave benefits as earned. Accrued vacation benefit liability is \$295,550 at December 31, 2003 compared to \$280,329 at December 31, 2002.

### **12. Other Accrued Liabilities**

These accounts consist of accrued wages, accrued employee benefits and expenses.

### **13. Long-Term Debt** See Note 9.

### **14. Deferred Credits**

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

### **15. 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.

### **16. Accounting Changes**

In June 1999, The Government Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. Subsequently the GASB issued GASB Statement No. 37; *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38; *Certain Financial Statement Note Disclosures*. These statements are effective for the Port for fiscal years beginning after June 15, 2002. The Port implemented GASB Statement No. 34 for this reporting year, and the provisions of this statement were applied to all periods presented. As required by GASB Statement No. 34, net assets (equity) have been classified on the statement of net assets into the following categories:

- **Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- **Restricted for Future Capital Investment:** Net assets subject to externally imposed stipulations on their use.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- **Unrestricted Net Assets:** All remaining net assets that do not meet the definition of “invested in capital assets, net of related debt or restricted”.

GASB Statement No. 34 has also required preparation of a management discussion and analysis section to introduce the basic financial statements and provide an analytic overview of the entity’s financial activities. GASB Statement No. 37 amended certain of the GASB Statement No. 34 reporting requirements while GASB Statement No. 38 requires expanded note disclosures regarding debt and lease obligations.

The comparative 2002 financial statements contain the reclassification of certain amounts, which have primarily been made in order to conform to the new financial reporting model as required by GASB Statement No. 34. As such, no restatement is required for prior periods, and all amounts are consistently classified as prescribed by GASB Statement No. 34.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, effective January 1, 2002. This Statement supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, and other related accounting guidance, establishes a single accounting model for long-lived assets to be disposed of, and resolves significant implementation issues related to SFAS No. 121. This standard is effective for the 2002 fiscal year. The Port routinely evaluates its assets for impairments. As of December 31, 2003, there was no material impact to the Port’s statements of net assets and statements of revenues, expenses, and changes in net assets.

### **17. Recent Accounting Pronouncements**

In November 2003, the Government Accounting Standards Board issued GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement established accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The provisions of this Statement are effective for fiscal periods beginning after December 14, 2004. The Port does not anticipate that the adoption of GASB No. 42 will have a material effect on its financial position or results of operations.

## **NOTE 2 – DEPOSITS AND INVESTMENTS**

### **Treasury Function**

The Port invests its cash reserves and utilizes the “safekeeping” services of McDonald Investments Inc. The Port also established direct banking services with Key Bank and short-term cash management through the Washington State Local Government Investment Pool.

The Port’s deposits in the Washington State Local Government Investment Pool are secured by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). These deposits are considered fully insured as described in Note 1. In addition, the Pool is subject to annual audits by the Washington State Auditor’s Office.

### **Long Term Investments**

Long term investments (maturities over 90 days) are purchased through broker relationships with all securities purchased held in the Port’s name at McDonald Investments.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

The Port's investments are categorized to give an indication of the risk assumed at year-end. Category 1 includes investments insured or registered, or securities held by the Port or by its agent in the Port's name. Category 2 includes investments uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Port's name. Category 3 includes uninsured and unregistered, with securities held by the counterparty in the Port's name or held by the counterparty's trust department or agent but not in the Port's name. The Port's longer term investments are subject to the Port's investment policy and are either secured by the full faith and credit of the United States Federal Treasury or by bond insurance.

	<b>Carrying Amount</b>	<b>Fair Value</b>
U.S. Government Securities	\$ 20,562,455	\$ 20,615,943
Repurchase Agreements	268,188	268,188
Total Category 1 Investments	\$ 20,830,643	\$ 20,884,131
<b>Cash Equivalents</b>		
State Local Government Investment Pool	\$ 708,395	\$ 708,395
Short Term Savings	1,367,753	1,367,753
<b>Total Investments and Cash Equivalents</b>	<b>\$ 22,906,791</b>	<b>\$ 22,960,279</b>

The Port's investment in the Washington State Local Investment Pool (the Pool) is recorded at cost since the investment is on a "dollar in/dollar out" basis regardless of the change in the value of the underlying investments in the pool. The fair value of the position in the Pool approximates cost. The Pool recognizes all gains and losses within the pool with the net effect being that the investment earnings reflect the pro-rata portion of these gains or losses. Short Term Savings, a public savings deposit account, is stated at fair value.

All long term investments are stated at fair value, which are determined based on quoted market prices as provided by McDonald Investments. Other property and investments are shown on the balance sheet at cost, net of amortized premium or discount. Investments of deferred compensation are stated at fair value.

Pursuant to 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. The Port has satisfied the reserve account requirement for the 1994 and 1997 revenue bond series with a surety bond from MBIA Insurance Corporation. The Port elected to set aside an amount equal to the maximum annual debt service for the 1999 revenue bond series. At December 31, restricted assets, cash and investments are as follows:

	<b>Amortized Cost</b>	<b>Fair Value</b>
Cash	\$ 15,692	\$ 15,692
Investments	2,330,722	2,330,722
<b>Total Investments of Restricted Assets</b>	<b>\$ 2,346,414</b>	<b>\$ 2,346,414</b>

### **NOTE 3 - PROPERTY TAXES**

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed each month to the Port by the County Treasurer. A revaluation of all property is required every four years.

Property Tax Calendar	
January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assess value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

Property taxes are recorded as a receivable when levied. 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 also levy taxes at a lower rate.

The Port's regular levy for 2003 was \$.29282 per \$1,000 on an assessed valuation of \$12,616,676,560 for a total regular levy of \$3,671,216. In 2002, the regular tax levy was \$3,534,661.

In 2003, the Port levied an additional \$.09582 per \$1,000 for the repayment of General Obligation Bonds for a total additional levy of \$1,195,706. In 2002, the general obligation bond levy totaled \$1,206,822.

### **NOTE 4 – CAPITAL ASSETS AND DEPRECIATION**

Major expenditures for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Obligations under capital leases are disclosed in Note 9.

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

An allowance for funds used during construction is capitalized as part of the cost of the asset. The procedure is intended to remove the cost of financing construction activity from the income statements and to treat such cost in the same manner as construction labor and material costs. During 2003, the Port capitalized \$36,454 of net interest costs. During 2002, the Port capitalized \$405,811 of interest.

The Port's policy is to capitalize all asset additions greater than \$1,000 and with an estimated life of more than one year. Depreciation expense is charged to operations to allocate the cost of fixed assets over their estimated useful lives, using the straight-line method. Buildings and improvements are assigned lives of 25 to 40 years; equipment 5 to 10 years; and furniture and fixtures 4 to 15 years.



#### **NOTE 4 – CAPITAL ASSETS AND DEPRECIATION**

Capital assets activity for the year ended December 31, 2003, was as follows:

	<b>Beginning Balance 01/01/2003</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance 12/31/2003</b>
Capital Assets, not being depreciated:				
Land	\$ 29,617,757	\$ 219,700	\$ 45,530	\$ 29,791,927
Construction in progress	27,116,595	6,743,956	19,097,162	14,763,389
<b>Total Capital Assets, not being depreciated</b>	<b>56,734,352</b>	<b>6,963,656</b>	<b>19,142,692</b>	<b>44,555,316</b>
Capital Assets, being depreciated:				
Buildings and Structures	65,571,400	13,397,606	9,711	78,959,295
Improvements other than buildings	65,201,212	3,934,406	-	69,135,618
Machinery and Equipment	4,356,964	84,230	90,741	4,350,453
Other	1,785,017	126,596	2,025	1,909,588
<b>Total Capital Assets, being depreciated</b>	<b>136,914,593</b>	<b>17,542,838</b>	<b>102,477</b>	<b>154,354,954</b>
Less accumulated depreciation for:				
Buildings and Structures	26,730,374	2,650,497	3,554	29,377,317
Improvements other than buildings	26,836,869	2,554,973		29,391,841
Machinery and Equipment	3,404,308	224,618	3,774	3,625,152
Other	1,159,278	192,734		1,352,012
<b>Total accumulated depreciation</b>	<b>58,130,828</b>	<b>5,622,822</b>	<b>7,328</b>	<b>63,746,322</b>
<b>Total capital assets, being depreciated net</b>	<b>\$ 78,783,765</b>	<b>\$11,920,016</b>	<b>\$ 95,149</b>	<b>\$ 90,608,632</b>

#### **Construction Commitments:**

At year end the Port's commitments with contractors are as follows:

<b>Project</b>	<b>Spent to Date</b>	<b>Remaining Commitment</b>
<i>Airport:</i>		
Runway 16	2,355,650	604,350
Multi-use cargo tiedown apron	1,920,951	(730,951)
Fire truck replacement	546,424	53,576
<i>Marinas:</i>		
Breakwater	1,593,862	199,138
<i>Properties:</i>		
Gate 2 Bulkhead - Seaview North	2,040,982	(157,812)
Airport Infrastructure	1,511,155	446,331
<i>Economic Development:</i>		
Westside Airport Preliminary	862,193	5,137
<i>Environmental Remediation Projects:</i>		
Mt. Baker Plywood cleanup	392,418	53,495
Baywide Pilot Phase 2	1,024,718	149,518
<i>Other Port Projects Less than \$300,000</i>	<i>2,515,036</i>	<i>4,746,656</i>
<b>Total Construction</b>	<b>\$ 14,763,389</b>	<b>\$ 5,369,438</b>

**NOTE 4 – CAPITAL ASSETS AND DEPRECIATION**

Of the total project budget of \$20,132,827, the Port expects \$2,786,573 in reimbursement from the Federal Aviation Authority for aviation improvement projects. The Port also expects to receive reimbursement for state and local sources totaling \$1,145,294 for costs incurred related to the environmental remediation projects. The balance of committed projects will be funded from cash reserves.

**NOTE 5 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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

**NOTE 6 – PENSION PLANS**

Substantially all of the Port's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems under cost-sharing multiple-employer defined benefit public employee retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a comprehensive annual financial report containing historical trend information and may be obtained from the Department of Retirement Systems, Communications Unit, PO Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Standard Statement 27, *Accounting for Pensions by State and Local Government Employers*.

**Plan Description**

PERS Plan 1 and 2 are a cost-sharing multiple employer defined benefit pension plan. PERS Plan 3 is a combination defined benefit/defined contribution plan. Membership in the plan includes elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; college and university employees not in national higher education retirement programs; judges of district and municipal courts; non-certificated employees of school districts; and employees of local government. The PERS system includes three plans. Participants who joined the system by September 30, 1977, are Plan 1 members.

Those joining after September 30, 1977 through May 31, 2002 are enrolled in Plan 2. Retirement benefits are financed from employee and employer contributions and investment earnings. Retirement benefits in Plans 1, Plan 2 and Plan 3 are vested after completion of 5 years of eligible service.

Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. If qualified, after reaching age 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 members may retire at age 65 with five years of service, or at age 55 with 20 years of service, with an allowance of 2 percent per year of service of the average final compensation. Plan 2 retirements prior to 65 are actuarially reduced. There is no cap on years of service credit and a cost-of-living allowance is granted, capped at 3 percent annually.

Existing Plan 2 members have an initial transfer window of September 1, 2002 through May 31, 2003, during which members may choose to transfer to Plan 3 or remain in Plan 2. After the initial transfer window, a member will have the opportunity to transfer from Plan 2 to Plan 3 in January of each year.

## **NOTE 6 – PENSION PLANS**

Plan 3 members may retire at age 65 with ten years of service or five service years including 12 service months after reaching age 54 or five service credit years by June 1, 2003 under Plan 2. Early retirement eligibility is age 55 with 10 service credit years. The defined benefit is 1% x service years x average final compensation. The defined contribution is based on the amount contributed and the performance of the funds.

### **Funding Policy**

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates needed to fully amortize the total costs of the plan. Employee contribution rates for Plan 1 are established by statute at 6 percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 are set by the Director of the Department of Retirement Systems based on recommendations by the Office of the State Actuary to continue to fully fund the plan. Plan 3 employee contribution rates are chosen by the member and range from 5% to 15% which is irrevocable. All employers are required to contribute at the level established by state law. The methods used to determine contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2003, were:

	<b>PERS Plan 1 (Jan-Jun)</b>	<b>PERS Plan 1 (Jul-Dec)</b>	<b>PERS Plan 2 (Jan-Jun)</b>	<b>PERS Plan 2 (Jul-Dec)</b>	<b>PERS Plan 3 (Jan-Jun)</b>	<b>PERS Plan 3 (Jul-Dec)</b>
Employer*	1.320%	1.400%	1.320%	1.400%	1.320%	1.40%**
Employee	6.000%	6.000%	0.065%	1.180%	***	***

\* Employer rates include the employer administrative expense fee set at 0.23%.

\*\* Plan 3 defined benefit portion only.

\*\*\* Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the Port and the employees made required contributions. The Port's required contributions for the years ended December 31 were:

	<b>PERS Plan 1</b>	<b>PERS Plan 2</b>	<b>PERS Plan 3</b>
2003	\$ 5,120	\$ 56,452	\$ 3,982
2002	\$ 5,892	\$ 50,923	n/a
2001	\$ 11,758	\$ 108,585	n/a

### **NOTE 7 – RISK MANAGEMENT**

The Port maintains commercial insurance coverage against most normal hazards.

General liability coverage is in effect to a limit of \$3 million with a \$25,000 deductible. Excess liability coverage is in effect with a limit of \$50 million. A Public Officials and Employees Liability Policy provides \$5 million of coverage. The Port maintains a separate policy for airport liability with a limit of \$50 million combined bodily injury, property damage and extended coverage for war, hi-jacking, and other perils. A pollution legal liability policy is in effect for \$1 million.

Commercial property coverage with a loss limit of \$163 million with a deductible of \$25,000 is in effect. Earthquake coverage has a separate limit of \$50 million with the Port self-insuring (as a deductible) 5% of the property value for each location. In addition, the Port maintains standard business automobile, hull and machinery, and boiler and machinery coverage.

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

### **NOTE 8 – SHORT-TERM DEBT**

There is no short-term debt outstanding for the year ended December 31, 2003.

### **NOTE 9 – LONG TERM DEBT AND LEASES**

#### **Long-Term Debt**

The Port issues general obligation bonds to finance capital improvements to marinas, cargo shipping docks and the Bellingham International Airport terminal. General obligation bonds currently outstanding are as follows:

Description and Date of Issue	Original Amount	Interest Rate	Maturity	Amount
12/15/1998	10,000,000	4.15-4.75%	2019	\$ 10,000,000
01/28/1999	5,000,000	3.50-4.25%	2008	3,270,000
Total General Obligation Bonds				\$ 13,270,000

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

Year Ending December 31	Principal	Interest
2004	\$ 620,000	\$ 572,215
2005	645,000	547,064
2006	675,000	519,996
2007	700,000	491,290
2008	630,000	463,203
2009-2019	10,000,000	2,813,598
Total	\$ 13,270,000	\$ 5,407,365

### **NOTE 9 – LONG TERM DEBT AND LEASES**

The Port issues its 1994 Series A and B to make additional capital improvements to Port marinas and improvements to Port facilities and also to refund certain outstanding revenue obligations of the Port. The Port issues its 1997 Series A and B to acquire new facilities, and to make additional capital improvements to Port facilities. The Port issues its 1999 Series to fund construction of certain waterfront improvements, improvements to the Port's marina facilities, improvements at the Bellingham International Airport and various other economic development projects throughout the Port. Revenue bonds currently outstanding are as follows:

Description and Date of Issue	Original Amount	Interest Rate	Maturity	Amount
01/01/1994 A	10,410,000	4.50-5.375%	2014	\$ 6,520,000
01/01/1994 B	2,485,000	3.10-5.25%	2014	1,660,000
04/01/1997 A	6,345,000	5.30-5.85%	2017	6,345,000
06/01/1997 B	3,570,000	4.20-5.30%	2007	1,700,000
02/11/1999	12,000,000	3.60-5.15%	2019	10,690,000
Total Revenue Bonds				\$ 26,915,000

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

Year Ending December 31	Principal	Interest
2004	1,825,000	1,349,498
2005	1,910,000	1,264,950
2006	2,000,000	1,174,505
2007	2,095,000	1,077,879
2008	2,195,000	975,213
2009-2019	16,890,000	3,673,301
Total	\$ 26,915,000	\$ 9,515,345

### **Capital Leases**

The Port has entered into a lease agreement for financing capital equipment. The lease agreements qualify as capital leases for accounting purposes, therefore have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Asset	
Communications Equipment	\$ 7,477
Computer Equipment	97,998
Furniture & Office Equipment	119,844
Other Equipment	92,397
Software	7,785
Vehicles	177,938
Total Assets Acquired	503,439
Less: Accumulated Depreciation	181,289
Total Assets Acquired	\$ 322,149

### **NOTE 9 – LONG TERM DEBT AND LEASES**

The future minimum lease obligation and net present value of these minimum lease payments as of December 31, 2003, were as follows:

Year Ending December 31	Amount
2004	151,713
2005	151,402
2006	142,752
2007	67,966
2008	25,655
Total Minimum Lease Payments	539,488
Less: Interest	33,695
Present Value of Minimum Lease Payments	\$ 505,793

### **Changes in Long-Term Liabilities**

During the year ended December 31, 2003, the following changes occurred in long-term liabilities:

	12/31/2002	12/31/2003
<b>Long-Term Liabilities:</b>		
General Obligations Bonds	\$ 13,870,000	\$ 13,270,000
Less current portion	600,000	620,000
Total general obligation bonds, net of current portion	<b>13,270,000</b>	<b>12,650,000</b>
Revenue Bonds	28,660,000	26,915,000
Less current portion	1,745,000	1,825,000
Total revenue bonds, net of current portion	<b>26,915,000</b>	<b>25,090,000</b>
Less Deferred Amounts:		
Issuance discounts on refunding	(389,928)	(329,939)
Total Bonds Payable	<b>\$ 39,795,072</b>	<b>\$ 37,410,061</b>
Environmental Remediation	-	<b>16,401,000</b>
Other Obligations	935,943	896,613
Less current portion	143,786	161,160
Total other obligations, net of current portion	<b>792,157</b>	<b>735,453</b>
<b>Total Long-term Liabilities</b>	<b>\$ 40,587,229</b>	<b>\$ 54,546,514</b>

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

**NOTE 9 – LONG TERM DEBT AND LEASES**

Unamortized debt issue costs are recorded as deferred charges and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

At December 31, 2003, restricted assets contain \$2,346,414 in sinking funds and reserves as required by bond indentures and balance of \$170,965 held within the Industrial Development Corporation.

**Limitation of Indebtedness**

Revised Code of Washington Chapter 39.36 provides that un-voted general obligation bond debt cannot be incurred in excess of .25% of the assessed value of the taxable property in the Port district, which was \$13,069,729,631 at December 31, 2003. The Port is in compliance with this limitation. At December 31, 2002, the Port had \$19,404,324 of un-issued general obligation borrowing capacity available.

Revised Code of Washington Chapter 39.36 provides that additional general obligation debt can be incurred upon approval by the voters of the Port district.

**NOTE 10 – LEGAL MATTERS**

The Port has recorded in its financial statements all material liabilities, including an estimate for environmental remediation in the amount of \$16,401,000. In 1998, the Port made a formal claim against two insurance carriers, Travelers and Lloyds of London, for insurance coverage for environmental damage on Port property. During the summer of 2003 the Port concluded negotiations and received a settlement in the amount of \$15,253,939 from Travelers Insurance and Lloyds of London. The Commission established a separate fund to ensure insurance proceeds are directed toward specific cleanup of contamination in Bellingham Bay and other Port facilities. Litigation is ongoing with 15 other insurance carriers and potentially responsible parties.

**NOTE 11 – DEFERRED DEBITS(CREDITS)**

In accordance with generally accepted accounting principles for regulated businesses, the Port has deferred intangible asset costs of \$2,259,791 in 2003 and \$3,016,636 in 2002, which will be amortized on the straight line method over five to twenty-five years. These costs resulted from costs of development and infrastructure. These charges would have been included in net income for 2003 and 2002 in non-regulated businesses, but for rate-making purposes are treated as applicable to future periods. Amortization of these costs resulted in amortization expense of \$766,828 in 2003 and \$623,149 in 2002. The Port also received money for meeting space rental in advance of the event date. The Port recognizes these deferred revenues when the meeting space rental occurs.

**NOTE 12 – 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 assets are accounted for on a Port-wide basis and are not identifiable to a particular industry segment. The key financial data for the years ended December 31, 2003 and 2002 for these facilities are as follows:

**2003**  
**(in thousands)**  
**(Primary Government Only)**

	<b>MARINE</b>					
	<b>AIRPORT</b>	<b>MARINAS</b>	<b>TERMINALS</b>	<b>PROPERTIES</b>	<b>OTHER</b>	<b>TOTAL</b>
Operating Revenues	\$ 2,425	\$ 4,542	\$ 1,043	\$ 3,704	\$ 190	\$ 11,904
Operating Expenses	(2,461)	(1,813)	(804)	(1,171)	(1,858)	(8,107)
General & Admin. Expense					(1,457)	(1,457)
Depreciation Expense	(1,215)	(1,653)	(972)	(1,299)	(480)	(5,618)
Operating Income (Loss)	(1,251)	1,076	(733)	1,234	(3,605)	(3,279)
Tax Revenues					4,865	4,865
Non Operating Revenues					(6,669)	(6,669)
Net of Expenses						
<b>NET INCOME (LOSS)</b>	<b>\$ (1,251)</b>	<b>\$ 1,076</b>	<b>\$ (733)</b>	<b>\$ 1,234</b>	<b>\$ (5,408)</b>	<b>\$ (5,083)</b>
<b>FIXED ASSETS</b>	53,166	80,399	42,724	2,944	4,914	184,147
<b>LONG TERM LIABILITIES</b>						
Revenue Debt	354	17,695	4,615	3,161	-	25,825
Other Debt					12,650	12,650
<b>CURRENT CAPITAL CONTRIBUTIONS</b>						
Capital Grants	2,434				-	2,434
Passenger Facility	304					304
Other Contributed Capital	-					-



**NOTE 12 – PORT OPERATIONS BY INDUSTRY**

**2002**  
(in thousands)  
(Primary Government Only)

	AIRPORT	MARINAS	MARINE TERMINALS	PROPERTIES	OTHER	TOTAL
Operating Revenues	\$ 1,854	\$ 4,333	\$ 918	\$ 3,727	\$ 424	\$ 11,256
Operating Expenses	(1,821)	(1,675)	(803)	(1,035)	(2,706)	(8,041)
General & Admin. Expense					(1,323)	(1,323)
Depreciation Expense	(1,176)	(1,175)	(933)	(1,257)	(559)	(5,100)
Operating Income (Loss)	(1,143)	1,483	(818)	1,435	(4,164)	(3,208)
Tax Revenues					4,686	4,686
Non Operating Revenues Net of Expenses					(1,665)	(1,665)
<b>NET INCOME (LOSS)</b>	<b>\$ (1,143)</b>	<b>\$ 1,483</b>	<b>\$ (818)</b>	<b>\$ 1,435</b>	<b>\$ (1,143)</b>	<b>\$ (187)</b>
FIXED ASSETS	52,783	65,265	42,070	1,997	4,417	166,532
LONG TERM LIABILITIES						
Revenue Debt	459	18,339	5,299	3,610		27,707
Other Debt					13,270	13,270
CURRENT CAPITAL CONTRIBUTIONS						
Capital Grants	-				-	-
Passenger Facility	236					236
Other Contributed Capital	1,858					1,858

**NOTE 13– OTHER DISCLOSURES**

**Prior Period Adjustments**

The Port understated income by \$151,024 in the financial statements of the prior period. The Port recorded in 2002 a contributed asset which was sold to a local contractor as a reduction of project capital costs. This entry was reversed in 2003 and properly accounted for as a sale of an asset.

# ***STATISTICAL SECTION***

**For The Year Ended December 31, 2003**

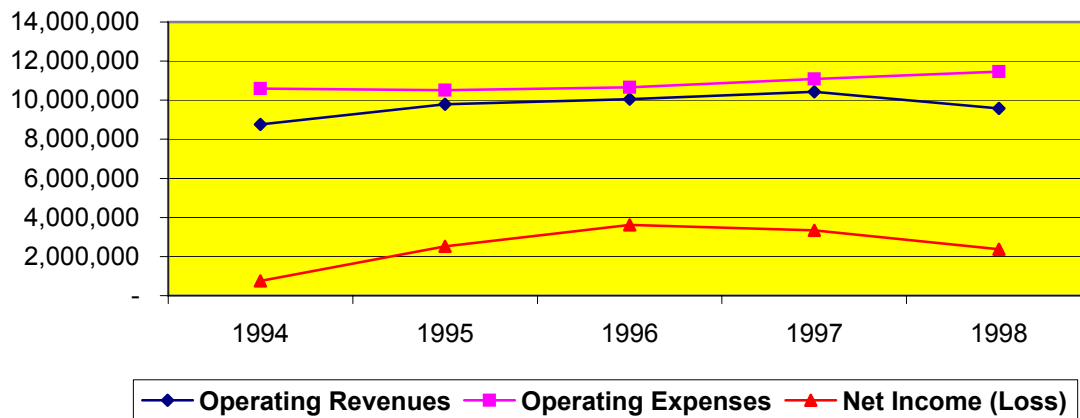


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**PORT OF BELLINGHAM**  
*Washington State*

**PORT OF BELLINGHAM**  
**Summary of Revenues, Expenses, and Net Income (Loss)**  
**Last Ten Years**

	1994	1995	1996	1997	1998
<b>Operating Revenues</b>					
Aviation	\$ 1,573,148	\$ 1,720,296	\$ 1,621,014	\$ 1,433,137	\$ 1,278,084
Marinas	2,127,594	2,344,984	2,514,579	2,960,316	3,331,226
Marine Terminals	2,568,857	3,032,184	3,195,233	3,143,170	1,881,609
Property Leasing	2,471,099	2,608,720	2,623,286	2,854,677	3,049,707
Other	27,399	84,065	92,873	40,771	41,323
<b>Total</b>	<b>8,768,097</b>	<b>9,790,249</b>	<b>10,046,985</b>	<b>10,432,071</b>	<b>9,581,949</b>
<b>Operating Expenses</b>					
Direct	5,292,210	5,809,291	6,063,590	6,094,175	6,231,322
Administrative	1,878,493	1,321,619	1,184,736	1,266,791	1,124,063
Depreciation	3,431,290	3,383,879	3,405,270	3,716,765	4,112,610
<b>Total</b>	<b>10,601,993</b>	<b>10,514,789</b>	<b>10,653,596</b>	<b>11,077,731</b>	<b>11,467,995</b>
<b>Operating Income (Loss)</b>	<b>(1,833,896)</b>	<b>(724,540)</b>	<b>(606,611)</b>	<b>(645,660)</b>	<b>(1,886,046)</b>
<b>Non-Operating Revenues*</b>	<b>4,155,918</b>	<b>4,814,338</b>	<b>5,673,999</b>	<b>5,536,467</b>	<b>5,953,465</b>
<b>Non-Operating Expenses**</b>	<b>1,566,529</b>	<b>1,561,400</b>	<b>1,448,547</b>	<b>1,554,592</b>	<b>1,690,467</b>
<b>Net Income (Loss)</b>	<b>\$ 755,493</b>	<b>\$ 2,528,398</b>	<b>\$ 3,618,841</b>	<b>\$ 3,336,215</b>	<b>\$ 2,376,952</b>

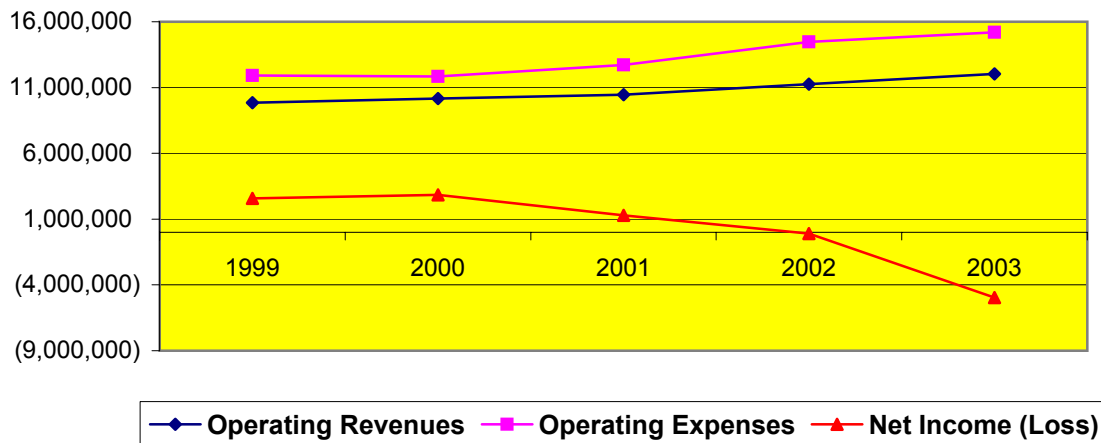


\* Non-operating revenues include Ad Valorem taxes, interest income, gain/loss on disposition of assets, and other misc. tax receipts.

\*\* Non-operating expenses include interest expense, local assessments & obligations, election expense, & other misc. expenses.

**PORT OF BELLINGHAM**  
**Summary of Revenues, Expenses, and Net Income (Loss)**  
**Last Ten Years (Continued)**

	1999	2000	2001	2002	2003
<b>Operating Revenues</b>					
Aviation	\$ 1,394,995	\$ 1,675,527	\$ 1,637,805	\$ 1,853,915	\$ 2,425,406
Marinas	3,479,474	3,801,213	4,073,339	4,332,593	4,541,763
Marine Terminals	2,080,445	1,456,958	1,078,024	918,304	1,042,648
Property Leasing	2,854,721	3,035,192	3,459,160	3,727,396	3,703,789
Other	43,908	196,181	216,064	432,572	314,253
Total	<b>9,853,543</b>	<b>10,165,071</b>	<b>10,464,392</b>	<b>11,264,780</b>	<b>12,027,859</b>
<b>Operating Expenses</b>					
Direct	6,325,876	6,166,701	6,680,757	8,040,573	8,109,393
Administrative	1,237,940	1,284,735	1,287,325	1,335,958	1,469,996
Depreciation	4,338,609	4,391,068	4,740,354	5,100,194	5,618,484
Total	<b>11,902,425</b>	<b>11,842,504</b>	<b>12,708,436</b>	<b>14,476,725</b>	<b>15,197,873</b>
<b>Operating Income (Loss)</b>	<b>(2,048,882)</b>	<b>(1,677,433)</b>	<b>(2,244,044)</b>	<b>(3,211,945)</b>	<b>(3,170,014)</b>
<b>Non-Operating Revenues*</b>	<b>6,762,428</b>	<b>6,150,373</b>	<b>5,999,929</b>	<b>6,154,910</b>	<b>21,484,353</b>
<b>Non-Operating Expenses**</b>	<b>2,146,328</b>	<b>1,639,530</b>	<b>2,462,490</b>	<b>3,031,570</b>	<b>23,286,495</b>
<b>Net Income (Loss)</b>	<b>\$ 2,567,218</b>	<b>\$ 2,833,410</b>	<b>\$ 1,293,395</b>	<b>\$ (88,605)</b>	<b>\$ (4,972,156)</b>

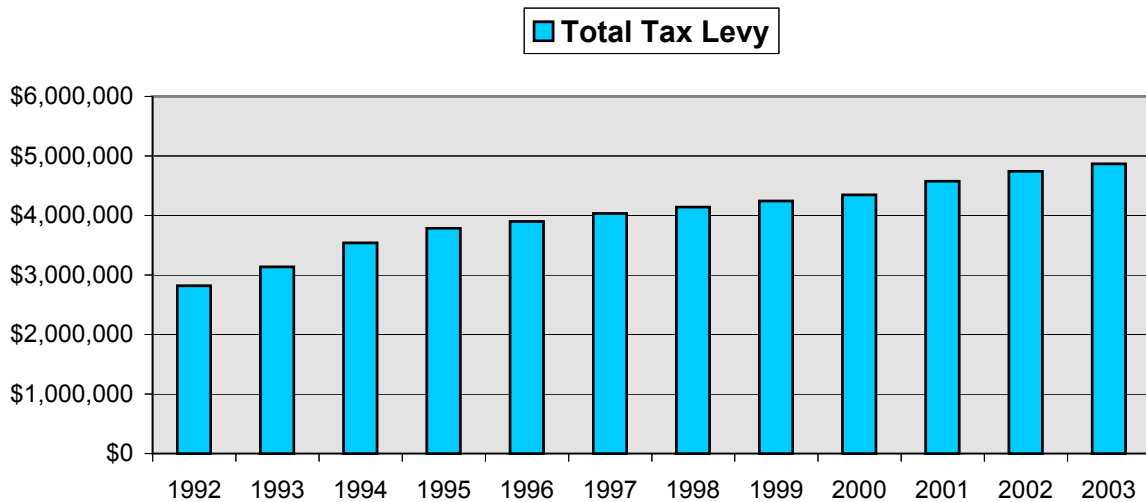


\* Non-operating revenues include Ad Valorem taxes, interest income, gain/loss on disposition of assets, and other misc. tax receipts.

\*\* Non-operating expenses include interest expense, local assessments & obligations, election expense, & other misc. expenses.

**PORT OF BELLINGHAM**  
**Property Tax Levies and Collections**  
**Last Ten Years**

Year	Total Tax Levy	Total Tax Collections	% of Total Tax Collection to Levy	Net Tax Adjustment Inc. (Dec.)	Outstanding Delinquent Taxes	% Delinquent Taxes to Tax Levy
1992	\$2,817,033	\$2,814,132	99.90%	(\$4,989)	\$136,222	4.84%
1993	\$3,132,838	\$3,137,954	100.16%	(\$9,556)	\$121,550	3.88%
1994	\$3,538,307	\$3,516,255	99.23%	(\$6,990)	\$140,501	3.96%
1995	\$3,787,330	\$3,757,497	99.21%	(\$1,394)	\$172,307	4.55%
1996	\$3,895,998	\$3,886,040	99.74%	(\$14,648)	\$171,326	4.40%
1997	\$4,033,973	\$4,027,861	99.85%	\$3,471	\$184,041	4.56%
1998	\$4,139,415	\$4,132,895	99.84%	\$4,931	\$199,292	4.81%
1999	\$4,241,980	\$4,231,265	99.75%	(\$5,846)	\$207,020	4.88%
2000	\$4,341,863	\$4,346,758	100.11%	\$8,607	\$213,857	4.93%
2001	\$4,576,415	\$4,564,480	99.74%	(\$4,808)	\$226,590	4.95%
2002	\$4,741,483	\$4,690,160	98.92%	(\$4,188)	\$265,594	5.60%
2003	\$4,866,883	\$4,889,774	100.47%	(\$3,922)	\$241,189	4.96%

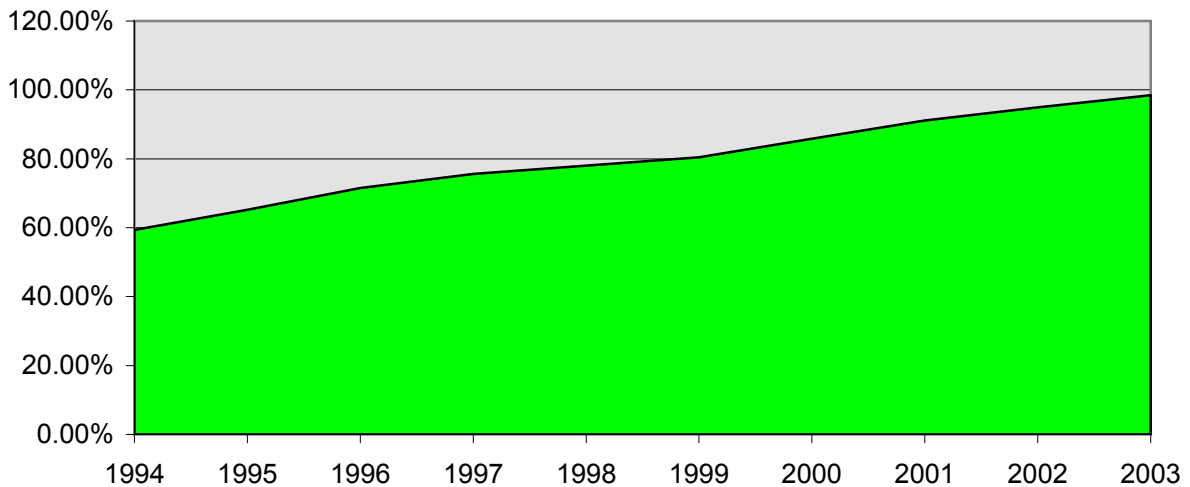


## PORT OF BELLINGHAM

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

Fiscal Year	Tax Year	Real Property Assessed Value	Personal Property Assessed Value	Public Utilities and Water Craft	Total Assessed Value	% Increase
1994	1995	\$8,180,835,325	\$404,220,321	\$334,660,434	\$8,919,716,080	33.78%
1995	1996	\$8,717,963,010	\$402,239,851	\$317,727,609	\$9,437,930,470	5.81%
1996	1997	\$9,241,501,960	\$410,699,900	\$382,793,629	\$10,034,995,489	6.33%
1997	1998	\$9,655,317,130	\$410,421,086	\$378,523,956	\$10,444,262,172	4.08%
1998	1999	\$9,938,624,420	\$427,546,605	\$337,392,696	\$10,703,563,721	2.48%
1999	2000	\$10,130,282,150	\$448,738,355	\$375,873,011	\$10,954,893,516	2.35%
2000	2001	\$10,606,397,230	\$497,440,860	\$442,851,475	\$11,546,689,565	5.40%
2001	2002	\$11,152,456,630	\$507,675,185	\$493,776,133	\$12,153,907,948	5.26%
2002	2003	\$11,594,611,940	\$504,666,885	\$517,397,735	\$12,616,676,560	3.81%
2003	2004	\$12,090,284,345	\$479,760,180	\$499,685,106	\$13,069,729,631	3.59%

■ Cumulative % Increase of Assessed Valuation



Source: Whatcom County Assessor's Office Tax Booklet online

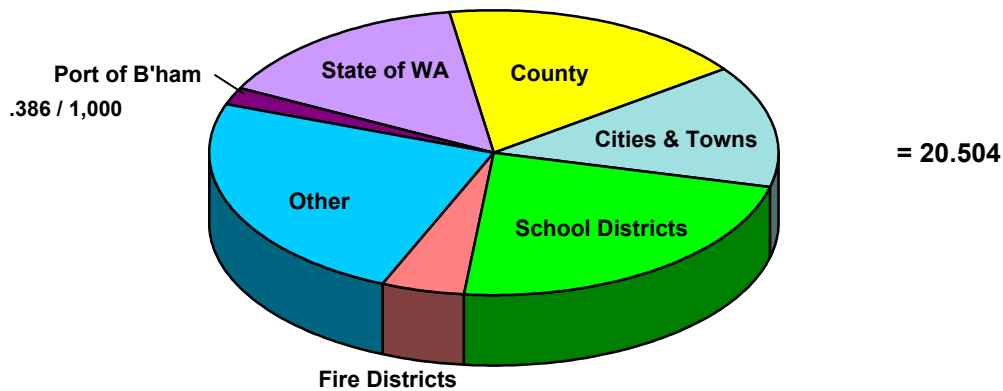
\* Whatcom County does not estimate actual value. Revaluations occur on a market resale basis. The county is revalued in each four year period by area.

## PORT OF BELLINGHAM

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

Year	Port of B'ham	State of WA	County	Cities & Towns	School Districts	Fire Districts	Other	Total
1994	0.446	3.946	3.676	2.794	3.775	0.733	2.356	17.726
1995	0.425	3.783	3.498	2.652	3.821	0.784	2.372	17.335
1996	0.413	3.745	3.617	2.501	3.688	0.788	2.291	17.043
1997	0.402	3.640	3.696	2.640	3.866	0.813	2.246	17.303
1998	0.396	3.597	3.659	2.758	3.982	0.878	3.604	18.874
1999	0.396	3.421	3.700	2.771	4.404	0.900	3.167	18.759
2000	0.396	3.359	3.740	2.750	4.441	0.910	3.301	15.237
2001	0.396	3.276	3.656	2.771	4.453	1.100	4.439	18.992
2002	0.390	3.143	3.609	2.782	4.639	0.994	3.635	19.192
2003	0.386	3.112	3.561	2.847	4.654	0.972	4.972	20.504

**2003 Property Tax Rate per \$1000 Assessed Value**



Source: Whatcom County Assessor's Office

Property is assessed at 100% of its true and fair value.

**PORT OF BELLINGHAM**  
**Computation of Legal Debt Margin**  
**As of December 31, 2003**

**INDEBTEDNESS FOR GENERAL PURPOSES**

2003 Value of Taxable Property in the Taxing District \$12,616,676,560

Legal Limit at 3/4 of 1% of Property Value **\$94,625,074**

**GENERAL PURPOSE INDEBTEDNESS INCURRED**

Current G.O. Bond Liabilities:

1998 G.O. Bond	10,000,000
1999 G.O. Bond	3,270,000
Matured Interest G.O. Bonds	980,693
Other General Debt	<u>2,610,686</u>

*Total General Purpose Indebtedness* \$16,861,379

Less Cash and Investments:

Restricted:

1998 G.O. Bond	0
1999 G.O. Bond	1,213,223

Unrestricted Cash & Investments 7,254,435

*Total* \$8,467,658

*Excess Liabilities Over Assets* **\$0**

**Margin of Indebtedness Still Available** **\$94,625,074**

Margin of Indebtedness Available Without a Vote of the People \$31,541,691  
 (1/4 of 1% of Property Value)

Margin Available With a Vote of the People 63,083,383

**Total Margin Available** **\$94,625,074**



## PORT OF BELLINGHAM

### Computation of Direct & Overlapping Bonded Debt General Obligation Bonds As of December 31, 2003

<b>Jurisdiction</b>	<b>Gross Debt Outstanding</b>	<b>Percentage Applicable to Port of Bellingham</b>	<b>Amount Applicable to Port of Bellingham</b>
Port of Bellingham	\$13,270,000	100.00%	\$13,270,000
Whatcom County	14,075,000	100.00%	14,075,000
Fire Districts	8,574,614	100.00%	8,574,614
Public Utility	10,175,000	100.00%	10,175,000
School Districts	157,855,022	100.00%	157,855,022
Cities and Towns	15,973,854	100.00%	15,973,854
<b>Totals</b>	<b>\$219,923,490</b>		<b>\$219,923,490</b>

# PORT OF BELLINGHAM

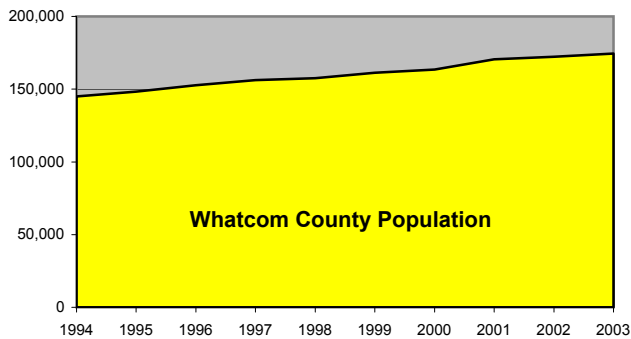
## Revenue Bond Coverage Last Ten Years

Year	Gross Operating Revenues	Direct Operating Expenses	Net Non- Operating Revenues *	Net Revenue Available for Debt Service	Debt Service Requirements		Total	Coverage Ratio
					Revenue Bonds			
					Principal	Interest		
1994	\$8,768,097	\$7,170,703	\$2,839,308	\$4,436,702	\$285,000	\$673,596	\$958,596	4.63
1995	\$9,790,249	\$7,130,910	\$3,409,161	\$6,068,500	\$540,000	\$755,502	\$1,295,502	4.68
1996	\$10,046,985	\$7,248,325	\$4,295,041	\$7,093,701	\$610,000	\$725,052	\$1,335,052	5.31
1997	\$10,432,071	\$7,360,966	\$4,184,196	\$7,255,301	\$640,000	\$689,502	\$1,329,502	5.46
1998	\$9,581,949	\$7,355,385	\$4,610,923	\$6,837,487	\$840,000	\$1,295,657	\$2,135,657	3.20
1999	\$9,853,543	\$7,563,816	\$5,525,583	\$7,815,310	\$1,065,000	\$1,142,883	\$2,207,883	3.54
2000	\$10,165,071	\$7,451,496	\$5,250,384	\$7,963,959	\$1,125,000	\$1,891,445	\$3,016,445	2.64
2001	\$10,464,392	\$7,968,082	\$4,309,750	\$6,806,060	\$1,600,000	\$1,576,271	\$3,176,271	2.14
2002	\$11,264,780	\$9,376,531	\$4,931,289	\$6,819,538	\$1,670,000	\$1,504,540	\$3,174,540	2.15
2003	\$12,027,859	\$9,579,389	(\$129,704)	\$2,318,766	\$475,000	\$491,515	\$966,515	2.40

## PORT OF BELLINGHAM

### Demographic Statistics Whatcom County, Washington Last Ten Years

Fiscal Year Ended	Population (1)	Annual Average Covered Wage (1)	School Enrollment (2)	Unemployment Rate (1)
1994	145,000	\$21,566	23,572	7.3%
1995	148,300	\$22,356	24,270	7.3%
1996	152,800	\$23,306	24,548	7.5%
1997	156,200	\$23,909	25,129	6.0%
1998	157,500	\$24,783	25,736	5.8%
1999	161,300	\$25,594	25,909	5.2%
2000	163,500	\$26,295	26,024	5.8%
2001	170,600	\$27,724	26,053	6.8%
2002	172,200	\$28,283	26,274	6.3%
2003	174,500	\$28,671	26,637	5.4%



**Sources:**

- (1) Washington State Employment Security Dept.
- (2) Superintendent of Public Instruction

N/A: Not available at time of publication.

## PORT OF BELLINGHAM

### Airport Statistics

Year	<u>Passengers</u>			<u>Freight (pounds)</u>		
	<i>Enplaned</i>	<i>Deplaned</i>	<i>Total</i>	<i>Enplaned</i>	<i>Deplaned</i>	<i>Total</i>
1994	122,923	112,718	235,641	2,925,696	2,551,093	5,476,789
1995	134,524	126,106	260,630	2,550,102	1,901,418	4,451,520
1996	122,368	119,097	241,465	2,331,560	1,916,674	4,248,234
1997	112,586	110,864	223,450	2,311,287	1,707,547	4,018,834
1998	90,136	89,807	179,943	2,479,081	1,164,643	3,643,724
1999	95,396	95,350	190,746	2,747,246	1,144,468	3,891,714
2000	113,925	116,075	230,000	2,534,810	314,970	2,849,780
2001	93,867	93,326	187,193	2,150,602	871,257	3,021,859
2002	71,829	72,311	144,140	2,075,743	804,731	2,880,474
2003	68,448	66,469	134,917	2,115,652	1,098,245	3,213,897

### Landings & Takeoffs

Year	Air Carrier	Air Taxi	<u>Itinerant</u>		<u>Local</u>		Total
			<i>General</i>	<i>Military</i>	<i>General</i>	<i>Military</i>	
1994	739	19,749	37,784	959	23,668	623	83,522
1995	1,043	20,921	36,771	830	22,884	924	83,373
1996	634	22,668	33,293	872	23,146	390	81,003
1997	744	20,501	35,934	1,189	21,455	640	80,463
1998	269	20,808	31,840	1,015	15,734	672	70,338
1999	194	21,799	36,409	883	23,903	404	83,592
2000	479	22,347	37,464	973	28,025	442	89,730
2001	239	18,360	35,081	777	25,050	16	79,523
2002	360	14,238	37,518	1147	18,344	589	72,196
2003	90	15,944	43,163	1407	23,752	585	84,941

**PORT OF BELLINGHAM**  
**\*Existing Whatcom County Moorage Facilities**  
**as of February 2004**

<b>Moorage Facility</b>	<b>No. on Waiting List</b>	<b>Wet Moorage Berths</b>	<b>Wet Moorage Occupancy</b>	<b>Dry Storage Berths</b>	<b>Dry Storage Occupancy</b>	<b>Number Visitor Berths</b>
Squalicum Harbor	64	1,417	95%	0	N/A	1556 lineal ft.
Blaine Harbor	2	629	84%	0	N/A	720 lineal ft.
Hilton Harbor Marina	0	0	N/A	100	100%	0
Pt. Roberts Marina	0	1,023	69%	0	N/A	20
Semiahmoo Marina	0	299	72%	0	N/A	1
Birch Bay Marina (1)	26	259	100%	0	N/A	1
Sandy Point Marina (1)	2	30	100%	0	N/A	1
<b>Total</b>	<b>94</b>	<b>3,657</b>		<b>100</b>		

**\*Current Moorage Rates and Tariffs**  
**as of April 2003**

<b>Moorage Facility</b>	<b>Commercial (2)</b>	<b>Pleasure (2)</b>
Squalicum Harbor	4.71	4.71
Blaine Harbor	4.71	4.71
Hilton Harbor Marina	N/A	1.2-1.4
Pt. Roberts Marina	N/A	4.50-5.50
Semiahmoo Marina	N/A	4.45-5.23
Birch Bay Marina	N/A	N/A
Sandy Point Marina	N/A	N/A

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

<b>Year</b>	<b><u>Blaine Harbor</u></b>		<b><u>Squalicum Harbor</u></b>	
	<b>Commercial</b>	<b>Pleasure (2)</b>	<b>Commercial</b>	<b>Pleasure (2)</b>
1995	2.65	2.65	2.65	2.65 - 3.50
1996	3.10	3.10	3.10	3.10 - 3.50
1997	3.55	3.55	3.55	3.55
1998	4.00	4.00	4.00	4.00
1999	4.00	4.00	4.00	4.00
2000	4.25	4.25	4.25	4.25
2001	4.32	4.32	4.32	4.32
2002	4.47	4.47	4.47	4.47
2003	4.71	4.71	4.71	4.71
2004	4.71	4.71	4.71	4.71

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

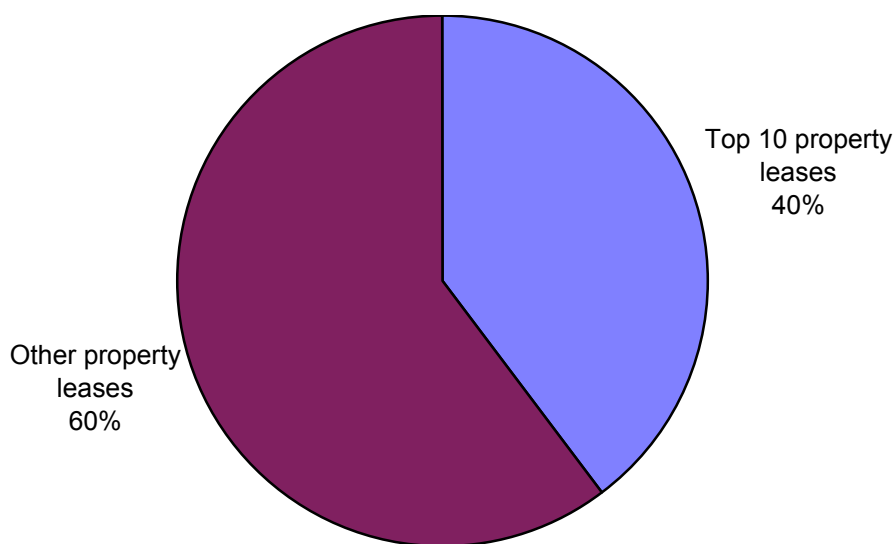
(2) All rates are per lineal foot.

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

## PORT OF BELLINGHAM

### \*Largest Property Leases

Tenant Name	Type of Activity	2003 Lease Payment	Lease Expires	Renewal Option To:
Woodstone Corporation	Wood Stoves & Commerical Ovens	\$228,000	2010	2030
Bellingham Cold Storage	Warehousing - Refrigerated	\$209,935	2005	2010
Puglia Engineering, Inc	Ship/Boat Yard	\$204,078	2005	2011
Aluminum Chambered Boats, Inc.	Boat Building and Repairing	\$200,117	2005	2006
Alaska Marine Highway System	Ferries	\$184,722	2004	2009
Arrowac Fisheries, Inc.	Seafood Processing	\$180,200	2004	2014
Wachovia Securities	Financial Services	\$144,648	2006	2011
Mt. Baker Products, Inc.	Veneer & Plywood Mfg.	\$108,644	2005	1
LFS, Inc	Marine/Fish Supplies Retail	\$100,350	2002	2007
Desticon Transportation	Truck/Rail Transfer	\$86,839	2004	2024
<b>Total of 10 largest leases</b>		<b>1,647,533</b>		
<b>Total Property Lease Revenue Received by Port</b>		<b>4,155,369</b>		
<b>Percent of Total Property Lease Revenue from 10 Largest Leases</b>		<b>40%</b>		



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