The Northwest Seaport Alliance

Financial Report
December 31, 2019

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The Northwest Seaport Alliance

Financial Report

For The Year Ended

December 31, 2019

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Independent Auditor's Report

Managing Members
The Northwest Seaport Alliance
Tacoma, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of The Northwest Seaport Alliance (the NWSA) as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which, collectively, comprise the NWSA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to NWSA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of NWSA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the NWSA as of December 31, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2020, on our consideration of the NWSA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the NWSA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NWSA's internal control over financial reporting and compliance.

RSM US LLP

Tacoma, Washington
March 30, 2020

The Northwest Seaport Alliance
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2019 and 2018

INTRODUCTION

The Northwest Seaport Alliance (NWSA) Management Discussion and Analysis (MD&A) of financial activities and performance introduces the 2019 and 2018 financial statements of the NWSA, a Port Development Authority. NWSA management prepared this MD&A and readers should consider it in conjunction with the financial statements and the notes thereto.

The notes are essential to a full understanding of the data contained in the financial statements. This report also presents information about the formation of the NWSA and certain required supplementary financial information.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts: MD&A, the basic financial statements and the notes to the financial statements. The financial statements include: the statements of net position, the statements of revenues, expenses and changes in net position, and the statements of cash flows.

The statements of net position present information on the NWSA's assets and deferred outflows and liabilities and deferred inflows, with the difference between the assets and deferred outflows, and liabilities and deferred inflows reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the NWSA is improving or deteriorating. The statements of revenues, expenses and changes in net position shows how the NWSA's net position changed during the year. These changes are reported in the period in which the underlying event occurs, regardless of the timing of related cash flows.

Formation of The Northwest Seaport Alliance
The ports of Seattle and Tacoma (the home ports) joined forces in August 2015, forming the NWSA to unify management of marine cargo facilities and business to strengthen the Puget Sound gateway and attract more marine cargo and jobs to the region.

The NWSA is a special purpose governmental entity established as a Port Development Authority (PDA), similar to Public Development Authorities formed by cities and counties. The PDA is governed by the home ports as equal members (each a "Managing Member" and collectively, "Managing Members") with each home port acting through its elected commissioners. As approved, the charter for the NWSA ("Charter") may be amended only by mutual agreement of the Managing Members. Each home port will remain a separate legal entity, independently governed by its own elected commissioners. Each home port has granted to the NWSA a license for the NWSA's exclusive use, operation and management of certain facilities, but ownership of the licensed facilities remains with the home ports, not with the NWSA.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Membership Interests

The home ports made an initial contribution of certain cargo terminals and related marine cargo business activities to the NWSA through license agreements ("Licensed Properties"). Under these agreements, the NWSA is charged with managing the properties as an agent on behalf of the Managing Members. The initial contribution of each home port to the NWSA was 50 percent (based on the value of the contributed facilities using cash flow forecasts for each parcel that went to the NWSA) with a revaluation review that was completed during 2019 by the Managing Members. The revaluation review is to determine if material changes in cash flows from the Licensed Properties have occurred since the initial valuation. A change in the valuation of the cash flow forecasts of these facilities could result in a change in Membership Interests. The Managing Members shall approve any change in Membership Interest by vote, to include provision for addressing any change to distributions and allocations as a result of the change in Membership Interest. Changes in Membership Interest do not affect a Managing Member's voting rights under the Charter, as votes are not weighted by or otherwise determined by Membership Interest.

In April 2, 2019, the Managing Members and the Port of Seattle commission authorized the completion of the one-time Membership Interest Affirmation of the 50 percent share for each home port in satisfaction of the NWSA Charter. In lieu of completing the required reevaluation of Membership Interest, the Port of Seattle agreed to pay up to $32 million additional contribution to the NWSA. This additional contribution was in recognition that certain forecasted revenue streams not secured by long-term contractual agreements in the initial valuation may not be achieved without the redevelopment of Terminal 5. This additional contribution by the Port of Seattle will be made to the NWSA in three installments. The first two installments of $11 million each will be made on or around March 31, 2020 and 2021, respectively. The final installment will be made in 2024 and may be adjusted if the actual redevelopment costs are less than the Terminal 5 redevelopment program authorization. The Managing Members also authorized the distribution of these affirmation payments to the home ports equally after the NWSA receives the funds from the Port of Seattle, hence there is no impact on NWSA's net position and the NWSA will record the transactions in the periods they occur.

Financial Framework

The NWSA intends to support the credit profiles of both home ports, and its financial framework will preserve both ports' commitment to financial strength and fiscal stewardship. The NWSA distributes cash to each home port based on cash flow from operations, calculated pursuant to generally accepted accounting principles (GAAP). Distributions are to be made no less than quarterly based on each Managing Member's Membership Interest. Cash flow from operations will be distributed to home ports and not retained by the NWSA for funding capital investments.

The NWSA is responsible for capital investments, including renewal and replacement projects and new development. Both home ports work cooperatively with the NWSA to develop an annual capital investment plan for approval by each Managing Member. Capital funding will be provided by joint contributions from the home ports. Each Managing Member must approve its capital contributions.

The Charter recognizes that each home port's respective share of revenues received by the NWSA with respect to the Licensed Properties has been or may be pledged in connection with the home port's bond obligations. Under the Charter, the Managing Members instruct the Chief Executive Officer (CEO) to manage the PDA in a prudent and reasonable manner in support of the home ports' respective bond covenants. The home ports shall keep the CEO and the NWSA management informed of their respective bond obligations and shall each notify the other home port of any proposed change to such home port's governing bond resolutions as soon as practical before adoption. The Charter does not modify or alter the obligations of each home port with respect to its own bond obligations. The NWSA does not assume any obligations to the home ports' bondholders.

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

With respect to bonds of each home port that were outstanding at the time of the formation of the NWSA, the Managing Members shall establish and maintain a requirement for the NWSA to calculate and establish a minimum level of net income from the NWSA equal to the amount required for the home ports to meet their bond rate covenants in effect at the time of formation of the NWSA (“Bond Income Calculation,” initially calculated to be $90 million). The Managing Members shall require the Bond Income Calculation to be reviewed annually as part of the NWSA budget process and the Managing Members may adjust the Bond Income Calculation so long as it does not cause either home port to fail to comply with its rate covenant in effect at the time of formation of the NWSA. The NWSA may not take any action that reasonably would reduce NWSA income below the minimum level established by the Bond Income Calculation unless each Managing Member separately votes to approve that action. Such a vote by each Managing Member must occur even if the action is within the CEO’s delegated authority. The Bond Income Calculation is subject to adjustment, including reductions resulting from payment or refunding of bonds outstanding at the time of the formation of the NWSA.

Funding

Subsequent to the initial funding, future needs are evaluated during the annual budget process or if the working capital reserve should decline below a target minimum established by the Managing Members. Managing Members each must vote affirmatively to approve additional working capital contributions. The NWSA has generated enough cash from operations to cover its working capital requirements through 2019 and the 2020 NWSA budget does not anticipate additional funding needs.

Funding for capital construction projects since formation of the NWSA through December 31, 2019 totaled $297.2 million. The majority of this capital funded container terminal improvements at Terminals 5 and 46 in the North Harbor and Terminal 4 in the South Harbor. Additional information on capital construction spending can be found in the capital assets section below.

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

Financial Position Summary

The statements of net position present the financial position of the NWSA. The statements include all of the NWSA’s assets and deferred outflows, and liabilities and deferred inflows. Net position serves as an indicator of the NWSA’s financial position. The NWSA’s current assets consist primarily of cash and cash equivalents, investments and accounts receivable.

Statements of Net Position (dollars in thousands):

	2019	2018	2017
Current assets	$ 100,046	$ 91,948	$ 100,803
Capital assets, net	313,948	234,235	152,228
Long-term investments	13,725	13,369	12,535
Other assets	101	2,600	3,025
Total assets	$ 427,820	$ 342,152	$ 268,591
Deferred outflows of resources	$ 1,488	$ 1,652	$ 481
Current liabilities	$ 54,111	$ 36,837	$ 41,553
Noncurrent liabilities	20,426	21,710	19,642
Total liabilities	$ 74,537	$ 58,547	$ 61,195
Deferred inflows of resources	$ 1,395	$ 1,258	$ 349
Investment in capital assets	$ 313,948	$ 234,235	$ 152,228
Restricted	13,725	13,369	12,535
Unrestricted	25,703	36,395	42,765
Total net position	$ 353,376	$ 283,999	$ 207,528

The NWSA’s total net position was $353.4 million at December 31, 2019. Of this amount, $314.0 million was the investment in capital assets, $13.7 million was restricted, and $25.7 million was unrestricted and available to finance operating activities. The NWSA’s total net position was $284.0 million at December 31, 2018. Of this amount, $234.2 million was the investment in capital assets, $13.4 million was restricted, and $36.4 million was unrestricted and available to finance operating activities. The NWSA’s investment in capital assets represents capital assets for the NWSA’s terminal and real estate facilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The change in net position is an indicator of whether the overall fiscal condition of the NWSA has improved or worsened during the year. The following summary compares operating results for 2019, 2018 and 2017.

Statements of Revenues, Expenses and Changes in Net Position (dollars in thousands):

	2019	2018	2017
Operating revenues	$ 195,022	$ 192,574	$ 194,985
Operating expenses	100,501	89,132	85,895
Operating income	94,521	103,442	109,090
Non-operating revenues (expenses):			
Interest income	1,608	1,254	777
Net increase (decrease) in the fair value of investments	405	23	(43)
Other non-operating income (expense), net	(4,444)	3,361	(297)
Total non-operating revenues, net	(2,431)	4,638	437
Capital grant contributions	3,868	3,905	324
Increase in net position before Managing Members contributions and distributions	$ 95,958	$ 111,985	$ 109,851
Increase in net position before Managing Members contributions and distributions	$ 95,958	$ 111,985	$ 109,851
Managing Members investment	(26,581)	(35,514)	(33,460)
Increase in net position	69,377	76,471	76,391
Net position, beginning of year	283,999	207,528	131,137
Net position, end of year	$ 353,376	$ 283,999	$ 207,528

The NWSA operates three major business lines:

Container business: International and domestic container cargo is a core business for the NWSA. As one of the northernmost gateways on the U.S. West Coast, the Pacific Northwest has long been the primary hub for waterborne trade with Alaska, as well as a major gateway for trans-pacific trade. The gateway's on-dock and near-dock intermodal rail yards, along with international and domestic rail services to the U.S. Midwest, are an integral part of the container business. The NWSA also has on-dock intermodal yards that generate revenue from loading containers to and from rail cars.

Non-container business: This line of business is comprised of breakbulk (roll-on and roll-off, also known as RoRo), bulk and auto cargoes. Aside from handling agricultural and mining equipment and other rolling stock, the NWSA's South Harbor is designated as a strategic military port for transport of military cargoes.

Auto customers include Kia, Mazda, Mitsubishi and GM. Auto Warehousing Company (AWC), a tenant, is the largest auto processor on the U.S. West Coast.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Real estate business: This line of business is focused on non-terminal industrial and commercial properties and facilities that complement the container and non-container businesses and offer a broad range of services for the NWSA's international and domestic customers, including warehousing, distribution, manufacturing and marine services.

A summary of revenue and operating expenses for the years ended December 31 is presented in the following table (dollars in thousands):

	2019	2018	2017
Revenue:			
Container	$ 160,566	$ 159,667	$ 162,695
Non-container	21,550	20,745	20,750
Real estate	12,906	12,162	11,540
Total revenue	195,022	192,574	194,985
Operating expenses	100,501	89,132	85,895
Operating income	$ 94,521	$ 103,442	$ 109,090

2019 Revenues, Expenses and Changes in Net Position versus the Prior Year

Container business revenue was relatively flat versus the prior year, increasing $0.9 million as volumes were strong early in 2019 while importers moved orders forward to stay ahead of tariffs, but tapered off later in the year, ending slightly down (0.6 percent) compared to the prior year. Lease expirations and terminations along with effects of the new carrier alliances that shifted cargo between terminals resulted in offsetting revenue variances over the prior year at several terminals. Annual lease escalations netted $2.7 million, the completion of Husky terminal with eight new super-post-Panamax cranes increased rental revenue by $2.4 million, the redevelopment of Terminal 5 which relocated customers in the North Harbor increased revenue by $1.0 million, and intermodal revenues were up $0.9 million due to increased volumes. These positive variances were offset by lease terminations at the East Sitcum Terminal and Terminal 46 totaling $6.0 million.

Non-container business revenues increased $0.8 million over the prior year, driven by auto volumes that were up 12%, which generated $0.6 million in additional revenues. Total breakbulk tonnage was slightly down, however due to a higher concentration of bulk cargoes, which produce more revenues than RoRo cargoes, generated $0.2 million more revenue than the prior year.

Real estate revenue was up $0.7 million compared with the prior year, including $0.4 million at Terminal 25 and $0.1 million at Terminal 104 due to several new leases (Kiewit Infrastructure West, United Parcel Service and Pacific Coast Container) and annual escalations on existing agreements.

Operating expense before depreciation of $89.2 million increased $6.4 million over the prior year. Depreciation expense increased by $5.0 million as a result of new asset additions, primarily for new cranes and improvements at Terminal 4. Operations expenses were up by $3.7 million, primarily for the costs of removing old cranes that were no longer in service in the North Harbor, customer incentive programs, and additional volumes. Maintenance expense was up $2.7 million, driven by increased crane maintenance costs on the four new super-post-Panamax cranes at Husky Terminal, pavement repairs at several locations, and environmental cap repairs.

Non-operating expense for 2019 was $7.8 million more than the prior year, primarily due to current year costs of $3.7 million for sound mitigation barriers related to the Terminal 5 modernization project and prior year contributed stormwater improvement asset of $3.1 million at Terminal 18.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Interest income and an adjustment in fair value of investments of $2.0 million was up $0.7 million versus 2018 due to the rising interest rate environment.

Capital grant contributions from the TIGER grant were $3.9 million in 2019 and $3.9 million in 2018.

2018 Revenues, Expenses and Changes in Net Position versus the Prior Year

Container business revenue decreased $3.0 million as container revenues were down $4.0 million primarily due to the APM Terminal lease termination payment in the prior year of $5.7 million. The new shipping alliances that were formed in 2017 continued to shift cargo from the South Harbor to the North Harbor and Canada, increasing Terminal 18 revenue by $2.6 million and decreasing revenues at East Sitcum and Husky Terminals by $1.0 million. The shifting of cargo also decreased intermodal revenue by $0.7 million at the north intermodal yard in the South Harbor.

Breakbulk revenues were up $0.5 million as the mix of higher weight cargo increased revenue based on tonnage. Auto revenues were down $0.4 million due to a 4% decrease in auto units as Kia shifted production from Asia to Mexico.

Real estate revenue was up $0.6 million over the prior year due to short-term rents at Terminal 5 of $0.2 million, and multiple other locations had increased rent revenue due to escalations.

Operating expense of $89.1 million increased $3.2 million over the prior year. Depreciation expense increased by $4.1 million as a result of new asset additions and operating expenses were up by $1.1 million for Terminal 46 apron and crane rail design. These increases were offset by lower variable intermodal operating costs (longshore labor, equipment expense) of $1.3 million at the north intermodal yard due to container cargo shifting to the North Harbor and Canada and a decrease of $1.0 million from the 2017 extended gate program that was initiated to improve truck turn times and mitigate traffic congestion.

Non-operating income in 2018 was $4.2 million more than the prior year primarily due to the contributed stormwater improvement asset of $3.1 million at Terminal 18. Interest income and an adjustment in fair value of investments of $0.7 million was up $0.3 million versus 2017 due to the rising interest rate environment.

Capital grant contributions from the TIGER grant were $3.9 million in 2018 and $0.3 million in 2017.

Net Position

The net position reflects the investments received from the home ports, and the NWSA's earnings and distributions to Managing Members. The net position is presented as follows (dollars in thousands):

Description	2018	2019 Activity	2019
Working capital contributions	$ 51,000	$ -	$ 51,000
Capital construction contributions	208,586	88,609	297,195
Non-cash capital work-in-process contributions	16,793	-	16,793
Total contributions	276,379	88,609	364,988
Increase in net position before Managing Members distributions	345,004	95,958	440,962
Distributions to Managing Members	(337,384)	(115,190)	(452,574)
Net position, end of year	$ 283,999	$ 69,377	$ 353,376

MANAGEMENT'S DISCUSSION AND ANALYSIS (Concluded)

Capital Assets: The home ports fund the NWSA's capital investment plan through capital construction contributions, which are reviewed at least annually as part of the budget process or may occur during the year when major projects are authorized by the Managing Members. The investments in capital assets, also referred to as post-formation assets, may include buildings, improvements, machinery and equipment, and construction in process. The Charter does not contain a provision for NWSA to purchase land.

Capital spending for the years ended December 31 is summarized by major project/category in the table below (dollars in thousands):

	2019	2018	2017
Pier 4 redevelopment and container cranes	$ 39,953	$ 51,211	$ 61,167
Terminal 5 modernization	22,616	529	1,050
Terminal 46 dock rehabilitation	10,479	8,028	-
North and South Harbor terminal stormwater improvements	6,992	15,041	-
Facility and building improvements	6,264	726	5,224
Rail improvements	1,016	-	-
Other	1,289	6,126	1,679
	$ 88,609	$ 81,661	$ 69,120

The NWSA's capital assets, net of depreciation, for its business activities as of December 31, 2019, 2018 and 2017, amounted to $313.9 million, $234.2 million and $152.2 million, respectively. This investment in capital assets includes building and land improvements, machinery and equipment, and construction in process. See Note 3 for additional information.

Subsequent Event: On March 11, 2020, the World Health Organization characterized COVID-19 as a global pandemic. A significant portion of the cargo that moves through our gateway is to and from Asia, specifically China. As the recent outbreak of COVID-19 continues to spread throughout the supply chain, we believe it has the potential to have a negative impact on our operating results and financial condition. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on supply chains and supply chain employees which at this time are uncertain and cannot be predicted. Given these uncertainties, we cannot reasonably estimate the related impact to our business, operating results and financial condition.

REQUEST FOR INFORMATION

The Northwest Seaport Alliance designed this financial report to provide our citizens, customers, investors and creditors with an overview of the NWSA's finances. If you have questions or need additional information please visit our website at http://www.nwseaportalliance.com or contact: Chief Financial Officer, P.O. Box 2985, Tacoma, Washington, 98401-2985, Telephone 800-657-9808.

Financial Statements

The Northwest Seaport Alliance

Statements of Net Position
December 31, 2019 and 2018
(Dollars in Thousands)

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 1,083	$ 10,261
Investments	62,521	53,807
Trade accounts receivable, net of allowance for doubtful accounts	18,844	14,448
Grants receivable	1,786	3,777
Related-party receivable - Managing Members	14,781	6,919
Prepayments and other current assets	1,031	2,736
Total current assets	100,046	91,948
Noncurrent assets:		
Long-term investments:		
Restricted investments, at fair value	13,725	13,369
Long-term investments	13,725	13,369
Capital assets:		
Buildings	15,525	11,637
Improvements	166,699	125,810
Machinery and equipment	101,968	55,604
Construction in process	50,016	50,203
Total cost	334,208	243,254
Less accumulated depreciation	20,260	9,019
Net capital assets	313,948	234,235
Other assets	101	2,600
Total noncurrent assets	327,774	250,204
Total assets	$ 427,820	$ 342,152
Deferred outflows of resources		
Pension deferred outflows	$ 1,488	$ 1,652

See notes to financial statements.

The Northwest Seaport Alliance

Statements of Net Position
December 31, 2019 and 2018
(Dollars in Thousands)

	2019	2018
Liabilities and Net Position		
Current liabilities:		
Accounts payable and accrued liabilities	$ 26,627	$ 26,597
Related-party payable - Managing Members	25,956	8,833
Payroll and taxes payable	1,528	1,407
Total current liabilities	54,111	36,837
Noncurrent liabilities:		
Security deposits	14,676	14,415
Net pension liability	2,316	3,059
Other noncurrent liabilities	3,434	4,236
Total noncurrent liabilities	20,426	21,710
Total liabilities	$ 74,537	$ 58,547
Deferred inflows of resources		
Pension deferred inflows	$ 1,395	$ 1,258
Net position:		
Investment in capital assets	$ 313,948	$ 234,235
Restricted	13,725	13,369
Unrestricted	25,703	36,395
Total net position	$ 353,376	$ 283,999

See notes to financial statements.

The Northwest Seaport Alliance

Statements of Revenues, Expenses and Changes in Net Position
December 31, 2019 and 2018
(Dollars in Thousands)

	2019	2018
Operating revenues:		
Property rentals	$ 195,022	$ 192,574
Total operating revenues	195,022	192,574
Operating expenses:		
Operations	45,024	41,298
Maintenance	18,460	15,786
Administration	19,684	19,283
Security	4,774	4,306
Environmental	1,287	2,154
Total before depreciation	89,229	82,827
Depreciation	11,272	6,305
Total operating expenses	100,501	89,132
Operating income	94,521	103,442
Nonoperating (expenses) revenues:		
Interest income	1,608	1,254
Net increase in the fair value of investments	405	23
Other nonoperating (expenses) revenues, net	(4,444)	3,361
Total nonoperating (expenses) revenues, net	(2,431)	4,638
Increase in net position, before capital contributions	92,090	108,080
Capital grant contributions	3,868	3,905
Increase in net position before Managing Members contributions and distributions	95,958	111,985
Capital construction contributions	88,609	83,326
Distributions to Managing Members	(115,190)	(118,840)
Total Managing Members investment	(26,581)	(35,514)
Net position, beginning of year	283,999	207,528
Net position, end of year	$ 353,376	$ 283,999

See notes to financial statements.

The Northwest Seaport Alliance

Statements of Cash Flows
Years Ended December 31, 2019 and 2018
(Dollars in Thousands)

	2019	2018
Cash flows from operating activities:		
Cash received from customers	$ 187,535	$ 200,183
Cash paid to suppliers, longshore labor and employees	(35,001)	(43,088)
Cash paid to home ports for support services	(37,342)	(38,252)
Cash (paid back) held for customer deposits	(6)	796
Net cash provided by operating activities	115,186	119,639
Cash flows from noncapital financing activities:		
Cash distributions to Managing Members	(104,500)	(121,400)
Net cash used in noncapital financing activities	(104,500)	(121,400)
Cash flows from capital and related financing activities:		
Cash received from Managing Members for capital construction	80,748	85,435
Acquisition and construction of capital assets	(99,271)	(87,590)
Cash received from federal grants	5,719	155
Net cash used in capital and related financing activities	(12,804)	(2,000)
Cash flows from investing activities:		
Purchases of investments	(173,462)	(96,841)
Proceeds from sales and maturities of investment securities	164,750	102,500
Interest received on investments	1,652	1,229
Net cash (used in) provided by investing activities	(7,060)	6,888
Net (decrease) increase in cash and cash equivalents	(9,178)	3,127
Cash and cash equivalents:		
Beginning of year	10,261	7,134
End of year	$ 1,083	$ 10,261

(Continued)

The Northwest Seaport Alliance

Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018
(Dollars in Thousands)

	2019	2018
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 94,521	$ 103,442
Adjustments to reconcile operating income to net cash provided by operating activities:		
Nonoperating (expense) income	(214)	731
Depreciation	11,272	6,305
Changes in assets and liabilities:		
(Increase) decrease in trade accounts receivable	(4,290)	7,527
Decrease in prepayments, other current and long term assets	1,282	126
(Decrease) increase in accounts payable, accrued liabilities and other liabilities	(7,316)	3,594
Increase (decrease) in related-party payable - Managing Members	20,544	(3,814)
(Decrease) increase in security deposits	(250)	812
Increase in payroll and taxes payable	80	242
(Decrease) increase in pension related accounts	(443)	674
Total adjustments and changes	20,665	16,197
Net cash provided by operating activities	$ 115,186	$ 119,639
Noncash investing and financing activities:		
Capital asset additions and other purchases financed with accounts payable	$ 3,181	$ 9,053
Contributions receivable from Managing Members for capital construction	$ 14,781	$ 6,919
Distributions payable to Managing Members	$ (18,270)	$ (7,580)
Increase in fair value of investments	$ 405	$ 23

See notes to financial statements.

Note 1. Summary of Significant Accounting Policies

Reporting entity: The ports of Seattle and Tacoma (the home ports) formed The Northwest Seaport Alliance (NWSA), a special purpose governmental entity established as a Port Development Authority (PDA), with an effective date of August 4, 2015 (the Effective Date). The PDA was formed pursuant to a provision in Title 53 Revised Code of Washington (RCW) that grants ports that meet certain criteria the authority to create a separate PDA, similar to public development authorities created by Washington cities and counties. Each Port Commission is a Managing Member of the NWSA. Each port will remain a separate legal entity, independently governed by its own elected commissioners. As formed, the NWSA is to continue for an indefinite term until dissolution. As approved, the Charter for the NWSA may be amended only by mutual agreement of both ports as the NWSA's Managing Members. On January 1, 2016, the NWSA became a separate legal entity.

The State Legislature granted qualifying ports the authority to create a PDA for the management of maritime activities and to allow ports to act cooperatively and use financial resources strategically, while remaining separate entities and complying with federal regulations. Pursuant to the PDA statute, if a PDA is created jointly by more than one port district, the PDA must be managed by each port district as a member, in accordance with the terms of the statute and the Charter. Any port district that creates a PDA must oversee the affairs, operations, and funds of the PDA to correct any deficiency, and ensure the purposes of each program undertaken are reasonably accomplished. The statute permits a PDA, in managing maritime activities of a port district or districts, to own and sell real and personal property; to enter into contracts; to sue and be sued; to loan and borrow funds; to issue bonds, notes, and other evidences of indebtedness; to transfer funds, real or personal property, property interests, or services; and to perform community services related to maritime activities managed by the PDA. As previously discussed, the statute allows, but the Charter prohibits, the NWSA to issue bonds, borrow funds, or enter into other debt instruments. By statute, PDAs do not have the power of eminent domain or the power to levy taxes or special assessments. In transferring real property to a PDA, the port district or districts creating the PDA must impose appropriate deed restrictions necessary to ensure the continued use of the property for the public purpose for which the property is transferred.

The NWSA is governed by its Managing Members, with each Managing Member acting pursuant to the Charter through its elected commissioners. The Managing Members appointed a Chief Executive Officer who is responsible for hiring staff and entering into service agreements with the Managing Members as needed. Staff is comprised of certain Port of Tacoma and former Port of Seattle employees. In addition, both Managing Members provide services through support service agreements with a portion of staff time allocated to and reimbursed by the NWSA.

Effective January 1, 2016, the revenues and expenses associated with Licensed Properties were accounted for and reported by the NWSA. The initial funding of working capital and capital construction and subsequent earnings and distributions are presented on the statements of net position. Additional information about the formation of the NWSA is presented in the MD&A.

The home ports agreed to share investments, earnings and distributions on a 50/50 basis. The home ports' initial contribution of Licensed Properties to the NWSA was 50% (based on the value of the contributed facilities using cash flow forecasts for each parcel that went to the NWSA). The initial cash investments totaling $78 million, of which $51 million funded working capital and $27 million funded capital construction projects, were shared equally. The home ports contributed an additional $16.8 million of noncash work-in-process capital projects that started in the home port and will be completed by the NWSA for an opening investment of $94.8 million.

Note 1. Summary of Significant Accounting Policies (Continued)

The NWSA distributes cash to each home port based on cash flow from operations, calculated pursuant to generally accepted accounting principles (GAAP). Distributions are to be made no less than quarterly based on each Managing Member's percentage of total shares; however, distributions have generally been made in the following month after the amount due was determined.

Nature of business: The PDA is used to account for the general operations of the NWSA as more fully described below.

The NWSA is authorized by Washington law to provide and charge rentals, tariffs and other fees for docks, wharves and similar harbor facilities, including associated storage and traffic handling facilities, for waterborne commerce. The NWSA may also provide freight and passenger terminals and transfer and storage facilities for other modes of transportation, including air, rail and motor vehicles.

Measurement focus, basis of accounting and presentation: The financial statements of the NWSA have been prepared in conformity with accounting principles generally accepted in the United States of America, 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 NWSA is accounted for on a flow of economic resources measurement focus and the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

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

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes to the financial statements. Significant estimates also affect the reported amounts of revenues and expenses during the reporting period. Significant estimates made by the NWSA include depreciation and environmental liabilities. Actual results could differ from those estimates.

Significant risks and uncertainties: The NWSA is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include economic conditions, collective bargaining disputes, federal, state and local government regulations, and changes in law.

The formation of the NWSA is intended to reduce pricing competition between the home ports by creating a unified gateway, to allow for coordination regarding customer relationships, to improve capacity utilization between the home ports, and to rationalize strategic capital investments. The formation of the NWSA may or may not successfully address these risks, and may create new risks, including the risks associated with a new joint venture funded by the Managing Members with equal Membership Interests, and reliance on the financial strength of the home ports to fund future capital expenditures and shortfall in working capital.

The Charter requires that the NWSA maintain the Bond Income Calculation and not to take any action that would reasonably reduce its income below this minimum net operating income level unless each Managing Member votes separately to approve that action. This minimum net operating level was established based on the amount required at formation of the NWSA for the Managing Members to meet their then current bond rate covenants, and may not always reflect the amount required to meet bond rate covenants on a go-forward basis.

Note 1. Summary of Significant Accounting Policies (Continued)

If net operating income before depreciation of the NWSA is not sufficient for either home port to be in compliance with a rate covenant (as described in each Managing Member's governing bond resolutions in effect as of the Effective Date), then: (i) upon that Managing Member's request, the NWSA shall hire an independent third-party consultant to perform analysis and make recommendations for actions needed to achieve bond covenant compliance; (ii) if the consultant recommends an action that the NWSA is unwilling, unable or refuses to undertake, either Managing Member can require dissolution of the NWSA following the dispute resolution process even if within the "Initial Period" (as defined in the Charter, "the expiration of 20 years following the NWSA's formation"); and (iii) the NWSA shall have at least four months to respond, act and or dissolve following its receipt of the consultant's recommended action, unless a shorter time is required by the applicable bond covenants.

The NWSA selected as its Chief Executive Officer, the Chief Executive Officer of the Port of Tacoma, who served in those dual roles until the Port of Tacoma hired an Executive Director in June 2019.

Cash and cash equivalents: Cash and cash equivalents represents cash and demand deposits. The NWSA maintains its cash in bank deposit accounts, which are covered by the Public Deposit Protection Commission (PDPC) of the State of Washington.

Trade accounts receivable: Trade accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying delinquent accounts and by using historical experience applied to an aging of accounts. Trade accounts receivable are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. The allowance for doubtful accounts at December 31, 2019 and 2018, was $4.4 million and $3.5 million, respectively.

Investments: Investments are stated at fair value which is the price that would be received in an orderly transaction between market participants at the measurement date. The NWSA also has investments in the state Local Government Investment Pool (LGIP). The LGIP is similar to a money market fund recognized by the Securities and Exchange Commission. The investments are limited to high-quality obligations with limited maximum and average maturities. These investments are valued at amortized cost. Interest income on investments is recognized as earned. Interest income and changes in the fair value of investments are recognized on the statements of revenues, expenses and changes in net position. The NWSA's general policy is to not hold more than 20% of its holdings in any one investment. See Note 2 for further information.

Capital assets and depreciation: Capital assets are recorded at cost. Donated assets are recorded at acquisition value on the date donated.

The NWSA's policy is to capitalize all asset additions greater than $20,000 and with an estimated life of more than three years. Depreciation is computed on the straight-line method. The following lives are used:

	Years
Buildings and improvements	10-75
Machinery and equipment	3-20

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. As projects are constructed, the project costs are transferred to the appropriate capital asset account; charges that relate to abandoned projects are expensed when the project is abandoned.

Note 1. Summary of Significant Accounting Policies (Continued)

Net position: Net position consists of investment in capital assets, restricted and unrestricted net position. Investment in capital assets consists of capital assets, net of accumulated depreciation which was $313.9 million and $234.2 million at December 31, 2019 and 2018, respectively. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the NWSA or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The restricted net position at December 31, 2019 and 2018 of $13.7 million and $13.4 million, respectively, were restricted grant and customer restricted investments. The unrestricted component of net position is the net amount of the assets and deferred outflows of resources less liabilities and deferred inflows of resources that are not included in the determination of investment in capital assets or the restricted components of net position. Unrestricted net position was $25.7 million and $36.4 million at December 31, 2019 and 2018, respectively.

Retentions payable: The NWSA enters into construction contracts that may include retention provisions such that a certain percentage of the contract amount is held for payment until completion of the contract and acceptance by the NWSA. The NWSA's policy is to pay the retention due only after completion and acceptance have occurred. Retentions payable totaled $111,000 and $219,000 at December 31, 2019 and 2018, respectively. Retentions payable are included in accounts payable and accrued liabilities on the accompanying statements of net position.

Federal and state grants: The NWSA may receive federal and state grants as reimbursement for construction of facilities and other capital projects. These grants are included in capital grant contributions on the accompanying statements of revenues, expenses and changes in net position.

Employee benefits: The NWSA accrues unpaid vacation and sick leave benefit amounts as earned and payable upon termination. These benefits are accrued at current rates of compensation. Accrued vacation and sick leave are included in payroll and taxes payable and amounted to $429,000 and $204,000, respectively, at December 31, 2019, and $405,000 and $198,000, respectively, at December 31, 2018. Vacation and sick leave paid in 2019 was $344,000 and $173,000, respectively, and $363,000 and $222,000, respectively, in 2018. The estimated total amount of vacation and sick leave expected to be paid in 2020 is $355,000 and $178,000, respectively.

The NWSA provides health care benefits for eligible employees through the HRA VEBA Trust which a nonprofit, multiple employer voluntary employees' beneficiary association (VEBA) authorized under Internal Revenue Code 501(c)(9). The HRA VEBA Trust offers a funded health reimbursement arrangement (HRA) plan available to certain governmental employers in the Northwest (Washington, Oregon, and Idaho). The Trust is managed by a Board of Trustees elected by the plan participants, participating employers, or the Board itself, depending on the Trustee position. The NWSA has two plans, one of which was closed to new employees hired after July 1, 2015 (VEBA5), the second plan is open to all eligible employees. The NWSA contributed $120,000 and $81,000 to eligible employee VEBA accounts in 2019 and 2018, respectively.

The NWSA offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all NWSA employees, permits them to defer a portion of their salary until future years. In accordance with GASB authoritative guidance, accounting and reporting for Internal Revenue Code Section 457 deferred compensation plans, employee assets are not reflected in the NWSA's financial statements. This plan is fully funded and held in an external trust.

Note 1. Summary of Significant Accounting Policies (Continued)

The NWSA established a profit sharing plan for nonrepresented employees in accordance with Internal Revenue Code Section 401. The plan provides for an annual contribution to each eligible employee's 401 account based on the NWSA meeting financial targets. The minimum contribution of $100 or a maximum contribution of 4% of total salaries of eligible employees may be made annually. In addition to the employer contribution, eligible employees may defer a portion of their salary until future years. The NWSA has not utilized this performance plan and, hence, did not contribute to the plan in 2019 or 2018. This plan is fully funded and held in an external trust.

Pensions: The NWSA's full-time and qualifying part-time employees participate in the cost-sharing, multiple-employer public employee defined benefit retirement plans administered by the Washington State Department of Retirement Systems (DRS). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Washington State Department of Retirement Systems Plan (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported to PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value (see Note 6).

Environmental remediation costs: The NWSA environmental remediation policy requires accrual of pollution remediation obligation amounts when: (a) one of the following specific obligating events is met and (b) the amount can be reasonably estimated. Obligating events include: imminent endangerment to the public; permit violation; NWSA named as party responsible for sharing costs; NWSA named in a lawsuit to compel participation in pollution remediation; or commenced or legally obligated to commence pollution remediation. Potential cost recoveries such as insurance proceeds, if any, are evaluated separately from the NWSA's pollution remediation obligation. Costs incurred for pollution remediation obligations are typically recorded as nonoperating environmental expenses unless the expenditures relate to the NWSA's principal ongoing operations, in which case they are recorded as operating expenses. Costs incurred for pollution remediation obligations can be capitalized if they meet specific criteria. Capitalization criteria include: preparation of property in anticipation of a sale; preparation of property for use if the property was acquired with known or suspected pollution that was expected to be remediated; performance of pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment; or acquisition of property, plant and equipment that have a future alternative use not associated with pollution remediation efforts.

The NWSA licenses property from the home ports for its operations. Remediation costs associated with contamination on Licensed Properties that occurred before the formation of the NWSA shall remain the responsibility of the home port in which the Licensed Property is located. Remediation costs associated with redevelopment on Licensed Properties shall be the responsibility of the NWSA. At December 31, 2019 and 2018, the NWSA determined that there was no environmental remediation liability to be recognized.

Security deposits: Under the terms of certain Licensed Property lease agreements, the NWSA's customers or tenants are required to provide security in the event of delinquencies in rent payment, default, or other events defined in these agreements. The security amounts are determined by lease terms. The NWSA held $14.7 million and $14.4 million in security deposits at December 31, 2019 and 2018, respectively.

Operating and nonoperating revenues and expenses: Property rental revenues are charges for use of the NWSA's facilities and are reported as operating revenue. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Other revenues generated from nonoperating sources are classified as nonoperating.

Note 1. Summary of Significant Accounting Policies (Concluded)

Operating expenses are costs primarily related to the property rental activities. Interest expense and other expenses incurred not related to the normal operations of the NWSA's terminal and property rental activities are classified as nonoperating.

Reclassifications: Certain reclassifications have been made to prior year amounts to conform to the current presentation. These reclassifications have no effect on previously reported changes in net position.

Recent accounting pronouncement: In May 2017, GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The NWSA is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures and the adoption is expected to have a significant impact on the statements of net position.

Recent accounting pronouncements, adopted: In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities.* The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported and this statement establishes criteria for identifying fiduciary activities of all state and local governments. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The NWSA adopted this standard which did not have a material effect on its financial statements and related disclosures.

Note 2. Deposits and Investments

Discretionary deposits: The NWSA's cash of $1.1 million and $10.3 million at December 31, 2019 and 2018, respectively, were deposited in qualified depositories as required by state statute. Deposits in excess of federal depository insurance coverage are covered by the PDPC of the State of Washington. The PDPC is a statutory authority under Chapter 39.58 RCW. Currently, all public depositories with the state fully collateralize uninsured public deposits at 50%.

Investments: State of Washington statutes authorize the NWSA to invest in direct obligations of the U.S. Government, certificates of deposit, bankers' acceptances, repurchase agreements, commercial paper, supranationals and certain municipal bonds. These investments must be placed with or through qualified public depositories of the State of Washington.

Risks:

Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The NWSA's investment guideline is to maximize investment return while preserving liquidity. To the extent possible, the NWSA will attempt to match its investments with anticipated cash flow requirements using the specific-identification method. The NWSA does not have a formal interest rate risk policy.

Concentration risk: Concentration risk is defined as holdings greater than 5% as noted in the table below. The NWSA does not have a formal concentration risk policy.

Credit risk: Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The LGIP is an external investment pool, as defined by the GASB. The NWSA does not have a formal credit risk policy.

Note 2. Deposits and Investments (Continued)

Custodial credit risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the NWSA will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. To minimize this risk, the NWSA's policy requires that all security transactions are settled "delivery versus payment." This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the NWSA's safekeeping bank. With the exception of the Washington State LGIP, the NWSA's investment securities are registered, or held by the NWSA or its agent in the NWSA's name. The certificates of deposit are covered by the PDPC. The PDPC is a statutory authority under Chapter 39.58 RCW. The PDPC approves which banks and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the FDIC by requiring banks and thrifts to pledge securities as collateral.

The LGIP manages a portfolio of securities that meet the maturity, quality, diversification and liquidity requirements set forth by the GASB for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The funds are limited to high quality obligations with regulated maximum and average maturities to minimize both market and credit risk. LGIP participants may contribute and withdraw funds on a daily basis. Participants must inform the Office of the State Treasurer of any contribution or withdrawal over $1 million no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for $1 million or less can be requested at any time prior to 10 a.m. on the day of the transaction. However, participants may complete transactions greater than $1 million when notification is made between 9 a.m. and 10 a.m., at the sole discretion of the Office of the State Treasurer. All participants are required to file with the State Treasurer documentation containing the names and titles of the officials authorized to contribute or withdraw funds.

Investments and restricted investments for long-term-lease deposit and clean truck program funding on the statements of net position are as follows (dollars in thousands):

	2019	2018
Investments	$ 62,521	$ 53,807
Restricted investments at fair value	13,725	13,369
Total deposits and investments	$ 76,246	$ 67,176

The tables below identify the types of investments, concentration of investments in any one issuer, and maturities of the NWSA investment portfolio as of December 31, 2019 and 2018 (dollars in thousands):

	2019				
		Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1-3	More than 3	Percentage of Total Portfolio
Federal Home Loan Bank	$ 4,537	$ 2,002	$ -	$ 2,535	6.0%
Federal Home Loan Mortgage Corporation	2,012	-	-	2,012	2.6%
Federal National Mortgage Association	2,995	2,995	-	-	3.9%
Municipal Bonds	8,539	3,533	-	5,006	11.2%
Supranationals	2,009	2,009	-	-	2.6%
State Local Investment Pool*	56,154	56,154	-	-	73.7%
Total investments	$ 76,246	$ 66,693	$ -	$ 9,553	100.0%
Percentage of total portfolio		87.5%	0.0%	12.5%	100.0%

Note 2. Deposits and Investments (Concluded)

Investment Type	2018 Fair Value	Maturities (in Years) Less than 1	1-3	More than 3	Percentage of Total Portfolio
Federal Home Loan Bank	$ 11,398	$ -	$ 8,872	$ 2,526	17.0%
Federal National Mortgage Association	4,961	4,961	-	-	7.4%
Municipal Bonds	7,711	-	3,500	4,211	11.4%
Supranationals	6,949	4,962	1,987	-	10.3%
United States Treasury Bonds	7,971	6,015	-	1,956	11.9%
State Local Investment Pool *	28,186	28,186	-	-	42.0%
Total investments	$ 67,176	$ 44,124	$ 14,359	$ 8,693	100.0%
Percentage of total portfolio		65.7%	21.4%	12.9%	100.0%

***** Investments in Washington State Local Government Investment Pool. The investments in the pool are valued at the amortized cost of the pool shares.

See Note 10 for information regarding NWSA's fair value measurement of its investments.

The tables below identify the credit risk of the NWSA's Investment portfolio as of December 31, 2019 and 2018 (dollars in thousands):

Investment Type	2019 Fair Value	Moody's Equivalent Credit Ratings A1	Aa3	Aa2	Aa1	Aaa	No Rating
Federal Home Loan Bank	$ 4,537	$ -	$ -	$ -	$ -	$ 4,537	$ -
Federal Home Loan Mortgage Corporation	2,012	-	-	-	-	2,012	-
Federal National Mortgage Association	2,995	-	-	-	-	2,995	-
Municipal Bonds	8,539	-	-	2,072	6,467	-	-
Supranationals	2,009	-	-	-	-	2,009	-
State Local Investment Pool*	56,154	-	-	-	-	-	56,154
Total	$ 76,246	$ -	$ -	$ 2,072	$ 6,467	$ 11,553	$ 56,154

Investment Type	2018 Fair Value	Moody's Equivalent Credit Ratings A1	Aa3	Aa2	Aa1	Aaa	No Rating
Federal Home Loan Bank	$ 11,398	$ -	$ -	$ -	$ -	$ 11,398	$ -
Federal National Mortgage Association	4,961	-	-	-	4,961	-	-
Municipal Bonds	7,711	-	2,165	1,984	3,562	-	-
Supranationals	6,949	-	-	-	-	6,949	-
United States Treasury Bonds	7,971	-	-	-	-	7,971	-
State Local Investment Pool*	28,186	-	-	-	-	-	28,186
Total	$ 67,176	$ -	$ 2,165	$ 1,984	$ 8,523	$ 26,318	$ 28,186

***** Investments in Washington State Local Government Investment Pool. The investments in the pool are valued at the amortized cost of the pool shares.

Note 3. Capital Assets

The following capital asset activity took place during 2019 and 2018 (dollars in thousands):

	2019				
	Beginning of Year	Additions	Transfers	Retirements and Other	End of Year
Capital assets not being depreciated:					
Construction in process	$ 50,203	$ 93,399	$ (91,970)	$ (1,616)	$ 50,016
Total capital assets not being depreciated	50,203	93,399	(91,970)	(1,616)	50,016
Capital assets being depreciated:					
Buildings	11,637	-	3,888	-	15,525
Improvements	125,810	-	41,442	(553)	166,699
Machinery and equipment	55,604	-	46,640	(276)	101,968
Total capital assets being depreciated	193,051	-	91,970	(829)	284,192
Less accumulated depreciation:					
Buildings	(1,684)	(1,023)	-	-	(2,707)
Improvements	(4,419)	(5,662)	-	31	(10,050)
Machinery and equipment	(2,916)	(4,587)	-	-	(7,503)
Total accumulated depreciation	(9,019)	(11,272)	-	31	(20,260)
Net, capital assets being depreciated	184,032	(11,272)	91,970	(798)	263,932
Net, capital assets	$ 234,235	$ 82,127	$ -	$ (2,414)	$ 313,948

Note 3. Capital Assets (Concluded)

	2018				
	Beginning of Year	Additions	Transfers	Retirements and Other	End of Year
Capital assets not being depreciated:					
Construction in process	$ 129,564	$ 80,689	$ (164,304)	$ 4,254	$ 50,203
Total capital assets not being depreciated	129,564	80,689	(164,304)	4,254	50,203
Capital assets being depreciated:					
Buildings	4,991	-	6,646	-	11,637
Improvements	17,553	3,094	105,163	-	125,810
Machinery and equipment	2,832	277	52,495	-	55,604
Total capital assets being depreciated	25,376	3,371	164,304	-	193,051
Less accumulated depreciation:					
Buildings	(830)	(852)	-	(2)	(1,684)
Improvements	(1,105)	(3,314)	-	-	(4,419)
Machinery and equipment	(777)	(2,139)	-	-	(2,916)
Total accumulated depreciation	(2,712)	(6,305)	-	(2)	(9,019)
Net, capital assets being depreciated	22,664	(2,934)	164,304	(2)	184,032
Net, capital assets	$ 152,228	$ 77,755	$ -	$ 4,252	$ 234,235

Note 4. Risk Management

The NWSA is exposed to various risks of loss related to torts; damage to, theft of, and destruction of assets or cargo; natural disasters; and employee injuries. To limit its exposure, the NWSA purchases a variety of insurance policies. For marine general liability, the NWSA purchases $150 million in coverage, subject to a $500,000 deductible. All risk property insurance is purchased by the home ports to include assets owned by the NWSA situated on home port land and the NWSA is listed as a named insured where its interest applies. For details concerning property insurance, please consult the notes to the year-end financial reports for the respective home ports.

The NWSA is self-insured for its regular medical coverage. The liability for unpaid medical claims is included in payroll and taxes payable on the accompanying statements of net position and is expected to be paid in 2020. Excess loss coverage has been purchased through an outside provider to limit individual loss to $110,000. Self-insured claim activity for December 31, 2019, 2018, and 2017 were as follows (dollars in thousands):

	2019	2018	2017
Claims liability, beginning of year	$ 357	$ 121	$ 105
Claims reserve	1,176	1,308	748
Payments on claims	(1,150)	(1,072)	(732)
Claims liability, end of year	$ 383	$ 357	$ 121

The NWSA is self-insured for workers compensation losses. These losses are subject to a $1.25 million self-insured retention as a Named Insured under the Port of Tacoma's excess workers' compensation policy. The estimated liability for workers' compensation is included in payroll and taxes payable on the accompanying financial statements of net position. At December 31, 2019, the estimated self-insurance liability for workers' compensation was $46,000 and this amount is expected to be paid in 2020. At December 31, 2018, the estimated self-insurance liability for workers' compensation was $21,000. The liability for unpaid claims represents the estimated future indemnity, medical, rehabilitation, and legal costs for all open claims.

Workers' compensation claim activity for December 31, 2019, 2018, and 2017 were as follows (dollars in thousands):

	2019	2018	2017
Claims liability, beginning of year	$ 21	$ 22	$ -
Claims incurred during the year	71	71	28
Changes in estimate for prior year claims	16	(8)	-
Payments on claims	(62)	(64)	(6)
Claims liability, end of year	$ 46	$ 21	$ 22

Note 5. Lease Commitments

The NWSA leases land, office space and other equipment under operating leases that expire through 2023. Future minimum lease payments under noncancelable operating leases are as follows (dollars in thousands):

Years ending December 31:		
2020	$	1,130
2021		515
2022		515
2023		515
Total minimum payments required	$	2,675

Total rent expense under noncancelable operating leases for the year ended December 31, 2019, was $1,322,000.

The NWSA, as a lessor (via licensing agreements with the home ports), leases land and facilities under terms of one to 50 years. In addition, some properties are rented on a month-to-month basis. Future minimum rents receivable under noncancelable operating leases and subleases are as follows (dollars in thousands):

Years ending December 31:		
2020	$	101,738
2021		97,505
2022		95,890
2023		96,916
2024		97,578
Thereafter		1,446,079
Total minimum future rents	$	1,935,706

Licensed assets of the home ports and NWSA assets held for rental and leasing purposes for the year ended December 31, 2019, are as follows (dollars in thousands):

Land	$	659,201
Buildings, improvements and equipment, net		783,673
Total, net of accumulated depreciation	$	1,442,874

Note 6. Pension Plans

The NWSA's full-time and qualifying part-time employees participate in the cost-sharing, multiple-employer public employee defined benefit retirement plans (PERS) administered by the Washington State Department of Retirement Systems. Historical trend and other information regarding each plan are presented in the Washington State Department of Retirement Systems comprehensive annual financial report. A copy of this report may be obtained at:

Department of Retirement Systems
Communications Unit
P. O. Box 48380
Olympia, WA 98504-8380
Internet Address: www.drs.wa.gov

Plan description and benefits: PERS was established in 1947, and its retirement benefit provisions are contained in Chapters 41.34 and 41.40 RCW. PERS is a cost-sharing, multiple-employer retirement system composed of three separate pension plans for membership purposes. PERS Plan 1 and PERS Plan 2 are defined benefit plans, and PERS Plan 3 is a defined benefit plan with a defined contribution component.

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the Legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs (HERPs).

PERS is composed of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3 and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Although members can only be a member of either Plan 2 or Plan 3, the defined benefits of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as the terms of the plans define. Therefore, Plan 2/3 is considered a single plan for accounting purposes.

As of June 30, 2019, 309 employers and 840 nonemployer contributing entities were participating in PERS Plan 1. The plan is closed to new entrants. PERS 1 members were vested after the completion of five years of eligible service. PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are calculated using 2% of the member's Average Final Compensation (AFC) times the member's years of service. AFC is the average of the member's 24 consecutive highest-paid service credit months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Members retiring from inactive status before the age of 65 may also receive actuarially reduced benefits. Other benefits include duty and nonduty disability payments, an optional Cost-of-Living Adjustment (COLA), and a one-time, duty-related death benefit, if found eligible by the Washington State Department of Labor & Industries.

The PERS Plan 1 member contribution rate is established by statute at 6%. The employer contribution rate is developed by the Office of the State Actuary (OSA) and includes an administrative expense component that is currently set at 0.18%.

Note 6. Pension Plans (Continued)

PERS Plan 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service or after five years of service if 12 months of that service are earned after age 44. PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits for Plan 2 are calculated using 2% of the member's AFC times the member's years of service. Retirement defined benefits for Plan 3 are calculated using 1% of AFC times the member's years of service. AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. PERS Plan 2/3 has no cap on years of service credit.

Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and nonduty disability payments; a COLA based on the Consumer Price Index, capped at 3% annually; and a one-time, duty-related death benefit, if found eligible by the Washington State Department of Labor & Industries.

The PERS Plan 2/3 employer and employee contribution rates are developed by the OSA to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarial accrued liability and an administrative expense that is currently set at 0.18%.

PERS Plan 3 members are immediately vested in the defined contribution portion of their plan. PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate when joining membership and can change rates only when changing employers. As established by Chapter 41.34 RCW, Plan 3 defined contribution rates are set at a minimum of 5% and a maximum of 15%; members have six rate options to choose from. Employers do not contribute to the defined contribution benefits.

Contributions: The required contribution rates, expressed as a percentage of covered payrolls, as of December 31, 2019 and 2018, were:

	2019		
	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	12.83%	12.83%	12.83%**
Employee	6.00%	7.41%	***

	2018		
	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	12.83%	12.83%	12.83%**
Employee	6.00%	7.41%	***

* The employer rates include the employer administrative expense fee of 0.18% for 2019 and 2018
** Plan 3 defined benefit portion only
*** Rate selected by PERS 3 members, 5% minimum to 15% maximum

Note 6. Pension Plans (Continued)

The NWSA made contributions of $314 to PERS 1 and $502 to PERS 2/3 during 2019 and $326 to PERS 1 and $495 to PERS 2/3 during 2018. And the employees made the required contributions for 2019 and 2018. The NWSA's required contributions for the years ended December 31 are as follows (dollars in thousands):

	PERS Plan 1	PERS Plan 2/3	Total
Years ended December 31:			
2019	$ 326	$ 491	$ 817
2018	309	472	781

Pension liabilities, pension expense, and deferred inflows and outflows of resources related to pensions: At December 31, 2019 and 2018, the NWSA reported a liability of $2.3 million and $3.1 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The NWSA's proportion of the net pension liability was based on a projection of the NWSA's long-term share of contributions to the pension plan relative to the projected contributions of all participating agencies, actuarially determined. At June 30, 2019, the NWSA's proportionate share of net pension liability and the change in proportionate share from June 30, 2018, is presented in the following table (dollars in thousands):

	PERS 1	PERS 2/3	Total
NWSA's proportionate share of the net pension liability:			
2019	$ 1,746	$ 570	$ 2,316
2018	2,052	1,007	3,059

	PERS 1	PERS 2/3
NWSA's proportionate share of the net pension liability:		
2019	0.0454%	0.0586%
2018	0.0459%	0.0590%
Change in proportionate share	-0.0005%	-0.0004%

	PERS 1	PERS 2/3	Total
NWSA's net pension expense/(benefit):			
2019	$ (259)	$ (184)	$ (443)
2018	982	(308)	674

Note 6. Pension Plans (Continued)

For the years ended December 31, 2019 and 2018, deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources (dollars in thousands):

	2019		
	PERS 1	PERS 2/3	Total
Sources of deferred outflow of resources:			
Net difference between projected and actual earnings on pension plan investments (2)	$ -	$ -	$ -
Changes in assumptions (1)	-	15	15
Differences between expected and actual experience (1)	-	163	163
Changes in proportion and differences between NWSA contributions and proportionate share of contributions (1)	-	898	898
NWSA contributions subsequent to measurement date	152	260	412
Total	$ 152	$ 1,336	$ 1,488
Sources of deferred inflow of resources:			
Net difference between projected and actual earnings on pension plan investments (2)	$ (117)	$ (829)	$ (946)
Changes in assumptions (1)	-	(239)	(239)
Differences between expected and actual experience (1)	-	(122)	(122)
Changes in proportion and differences between NWSA contributions and proportionate share of contributions (1)	-	(88)	(88)
Total	$ (117)	$ (1,278)	$ (1,395)

(1) The recognition period for each plan is equal to the average of the expected remaining service lives of all employees provided with pensions through the pension plan, which was determined at the beginning of the measurement date.
(2) The recognition period is closed, 5-year period for all plans.

Note 6. Pension Plans (Continued)

	2018		
	PERS 1	PERS 2/3	Total
Sources of deferred outflow of resources:			
Net difference between projected and actual earnings on pension plan investments (2)	$ -	$ -	$ -
Changes in assumptions (1)	-	12	12
Differences between expected and actual experience (1)	-	123	123
Changes in proportion and differences between NWSA contributions and proportionate share of contributions (1)	-	1,111	1,111
NWSA contributions subsequent to measurement date	165	241	406
Total	$ 165	$ 1,487	$ 1,652
Sources of deferred inflow of resources:			
Net difference between projected and actual earnings on pension plan investments (2)	$ (82)	$ (618)	$ (700)
Changes in assumptions (1)	-	(287)	(287)
Differences between expected and actual experience (1)	-	(176)	(176)
Changes in proportion and differences between NWSA contributions and proportionate share of contributions (1)	-	(95)	(95)
Total	$ (82)	$ (1,176)	$ (1,258)

(1) The recognition period for each plan is equal to the average of the expected remaining service lives of all employees provided with pensions through the pension plan, which was determined at the beginning of the measurement date.
(2) The recognition period is closed, 5-year period for all plans.

As of December 31, 2019, deferred outflows of resources related to pensions resulting from NWSA's contributions subsequent to the measurement date were $412,000 and will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (dollars in thousands):

	PERS 1	PERS 2/3	Total
Years ending December 31:			
2020	$ (26)	$ (61)	$ (87)
2021	(61)	(232)	(293)
2022	(22)	5	(17)
2023	(8)	92	84
2024	-	(10)	(10)
Thereafter	-	4	4
Total	$ (117)	$ (202)	$ (319)

Note 6. Pension Plans (Continued)

Actuarial assumptions: The 2019 pension liability (TPL) for each of the plans was determined by an actuarial valuation as of June 30, 2018, with the results rolled forward to June 30, 2019. Besides the discount rate, the actuarial assumptions used in the June 30, 2018, valuation were based on the results of the 2007-2012 Experience Study Report and the 2017 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report.

The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry age cost method), assumed interest and actual benefit payments. Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report and are as follow:

Inflation: 2.75% total economic inflation; 3.50% salary inflation (2018: 2.75% for total economic inflation; 3.50% for salary inflation).

Salary increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity (2018: salaries were expected to grow 3.50%).

Investment rate of return: 7.40% (2018: 7.40%).

Mortality rates: Rates were based on the *RP-2000* reports, “Combined Healthy Table” and “Combined Disabled Table”, which the Society of Actuaries publishes. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year throughout their lifetimes.

Long-term expected rate of return: The OSA selected a 7.40% long-term expected rate of return on pension plan investments using a building-block method (2018: 7.40% long-term expected rate of return). In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMA) and simulated expected investment returns the Workplace Safety & Insurance Board (WSIB) provided.

The CMAs contain three pieces of information for each class of assets WSIB currently invests in:

- Expected annual return
- Standard deviation of the annual return
- Correlations between the annual returns of each asset class with every other asset class

The WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

Note 6. Pension Plans (Continued)

Estimated rates of return by asset class: Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2019 are summarized below.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed income	20%	2.20%
Tangible assets	7%	5.10%
Real estate	18%	5.80%
Global equity	32%	6.30%
Private equity	23%	9.30%
	100%	

The inflation component used to create the table is 2.20% and represents WSIB's most recent long-term estimate of broad economic inflation.

Discount Rate: The discount rate used to measure the total pension liability was 7.40% for all plans (2018: 7.40%). To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Consistent with current law, the asset sufficiency test included an assumed 7.50% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.40% future investment rate of return on invested assets was assumed for the test.

Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS Plans 2 and 3, whose rates include a component for the PERS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40% was used to determine the total liability (2018: 7.40%).

Note 6. Pensions (Concluded)

Sensitivity net pension liability to changes in the discount rate: The table below presents the net pension liability of employers, calculated using the discount rate of 7.40% as well as what employers' net pension liability would be if it were calculated using a discount rate 1 percentage point lower (6.40%) or 1 percentage point higher (8.40%) than the current rate (dollars in thousands):

	Pension Trust	1% Decrease	Discount Rate	1% Increase
December 31, 2019:				
Discount rate		6.40%	7.40%	8.40%
Proportionate share of net pension liability	PERS 1	$ 2,187	$ 1,746	$ 1,364
Proportionate share of net pension liability/(asset)	PERS 2/3	4,368	570	(2,547)

	Pension Trust	1% Decrease	Discount Rate	1% Increase
December 31, 2018:				
Discount rate		6.40%	7.40%	8.40%
Proportionate share of net pension liability	PERS 1	$ 2,521	$ 2,052	$ 1,645
Proportionate share of net pension liability/(asset)	PERS 2/3	4,606	1,007	(1,944)

Detailed information about the pension plan's fiduciary net position is available in the separately issued DRS financial reports. Additional actuarial and pension plan information is included in the DRS 2019 Comprehensive Annual Financial Report, including descriptions of actuarial data, assumptions, methods, and plan provisions relied on for the preparation of GASB 67 and GASB 68. Additional details regarding this information is included in OSA's 2018 Actuarial Valuation Report on the OSA website.

Change in assumptions and methods: Actuarial results that OSA provided within this publication reflect the following changes in assumptions and methods:

- OSA updated modeling to reflect providing benefit payments to the date of initial retirement eligibility for terminated vested members who delay application for retirement benefits.

- OSA updated Cost-of-Living Adjustment (COLA) programming to reflect legislation signed during the 2018 Legislative Session (C151 L18). This law provides PERS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of $62.50 per month.

DRS accounting and reporting changes: DRS reported increases to the beginning Net Position Restricted for Pensions in PERS Plan 2/3 defined benefit (DB) plans. These increases were recorded as reductions to the beginning Net Position Restricted for Pensions in the defined contribution (DC) component of the PERS 2/3 plan. The restatement of the beginning Net Position Restricted for Pensions in the Plan 2/3 plans, DB and DC, is the result of GASB 67 implementation for the Plan 3 Total Allocation Portfolio (TAP) annuities previously recorded within the financial statements as Plan 3 DC. The Plan 3 TAP annuity balances were immaterial to the Plan 2/3 DB balances prior to the fiscal year ending June 30, 2019 and therefore provisions of GASB 67 for TAP annuities were not implemented in prior fiscal years. The restatement of beginning net position had no effect on the NWSA's pension liability of net position for pensions or the total change in fiduciary net position.

Note 7. Commitments and Contingencies

Commitments: The NWSA has entered into separate contractual agreements for terminal maintenance, infrastructure improvements, environmental projects, and professional services. At December 31, 2019, the remaining commitments are as follows (dollars in thousands).

Description	Remaining Commitments (Thousands)
Terminal projects	$ 1,164
Environmental	1,570
Consulting and other	1,520
	$ 4,254

In addition to contracts entered into by the NWSA, both the Port of Tacoma and the Port of Seattle, acting as agents for the NWSA (per support services agreements), issue contracts on behalf of the NWSA. The remaining commitments on these contracts totaled $189,205,100 at December 31, 2019, of which $98,500 related to contracts issued by the Port of Tacoma and $189,106,600 related to contracts issued by the Port of Seattle. The Port of Seattle's commitments on the NWSA's behalf are primarily related to terminal construction projects at Terminals 5 and 46. Both Ports will be reimbursed by the NWSA in accordance with their support service agreements (see Note 9, Related-Party Transactions, for additional information).

Contingencies: The NWSA is named as a defendant in various other lawsuits incidental to carrying out its function. The NWSA believes its ultimate liability, if any, will not be material to the financial statements.

Note 8. Major Customers

Operating revenues for the year ended December 31, 2019, of $195.0 million included $142.5 million, or 73%, of operating revenue from ten customers. The top three customers accounted for 59% of operating revenues out of the top ten customers, and 43% of total operating revenues. Receivables from the ten significant customers totaled $7.7 million, or 33%, of total trade receivables at December 31, 2019.

Operating revenues for the year ended December 31, 2018, of $192.6 million included $139.0 million, or 72%, of operating revenue from ten customers. The top three customers accounted for 55% of operating revenues out of the top ten customers, and 40% of total operating revenues. Receivables from the ten significant customers totaled $6.7 million, or 46%, of total trade receivables at December 31, 2018.

Note 9. Related-Party Transactions

As more fully described in the MD&A, Note 1, Summary of Significant Accounting Policies, and Note 7, Commitments and Contingencies, the NWSA entered into licensing agreements with each home port for the exclusive use, operation and management of certain facilities or Licensed Properties. These licensing agreements generated 100% of NWSA revenues in 2019 and 2018.

Note 9. Related-Party Transactions (Concluded)

Support services agreements: The NWSA entered into support services agreements with the home ports to receive support services during NWSA's start-up and transition period as the NWSA works to set up its back-office infrastructure and staff positions. The support services received by the NWSA include finance, human resources, information technology, public affairs, risk management, capital construction and environmental project management and contracting, equipment and facilities maintenance, security, and office infrastructure. Support services charged to the NWSA from the home ports totaled $41.2 million and $38.2 million in 2019 and 2018, respectively. The expenses are included in operating expenses on the accompanying statements of revenues, expenses and changes in net position.

The NWSA entered into support services agreements with the Port of Tacoma to provide the Port of Tacoma executive management, commercial, environmental and planning support services. Support services provided to the Port of Tacoma by NWSA amounted to $1.4 million in 2019 and 2018. The amount of operating expenses on the accompanying statements of revenues, expenses and changes in net position are net of the charges to the Port of Tacoma. The NWSA did not enter into agreements to provide support services to the Port of Seattle.

Related-party receivable and payable: The NWSA generally repays the home ports for support services and operating costs incurred as agents for the NWSA, in the following month, after the amount due is determined. At December 31, 2019 and 2018, $7.7 million and $1.2 million, respectively, were payable to the home ports and are presented on the statements of net position as related-party payable - Managing Members.

The NWSA distributes cash flow from operations, calculated pursuant to GAAP to the home ports. Distributions have generally been made in the following month, after the amount due is determined. At December 31, 2019 and 2018, $18.3 million and $7.6 million, respectively, were payable to the home ports and are presented on the statements of net position as related-party payable - Managing Members.

The home ports generally fund capital contribution requirements in the following month, after the amount due is determined. During 2019 and 2018, home ports contributed $88.6 million and $83.3 million, respectively, of funding for capital construction projects in accordance with the capital investment plan approved by the Managing Members. At December 31, 2019 and 2018, $14.8 million and $6.9 million, respectively, were receivable from the home ports and are presented on the statements of net position as related-party receivable - Managing Members.

The Managing Members also serve as commissioners for their respective home ports. In 2019, the Port of Tacoma hired an Executive Director to replace the NWSA CEO who also served as Port of Tacoma CEO during the transition period.

Note 10. Fair Value Measurements

The NWSA's assets that are measured and reported on a fair value basis are classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Note 10. Fair Value Measurements (Concluded)

In determining the appropriate levels, the NWSA performs a detailed analysis of the assets and liabilities that are subject to the guidance. The NWSA's fair value measurements are evaluated by an independent third-party vendor. The third-party vendor uses a variety of methods when pricing these securities that incorporate relevant observable market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions. Level 1 inputs are quoted prices in active markets for identical assets assessed at the measurement date. An active market for the asset is a principal market in which transactions for the asset are open to many and occur with sufficient frequency and volume. Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets where there isn't sufficient activity, and/or where price quotations vary substantially either over time or among market makers (some brokered markets, for example), or in which little information is released publicly. The NWSA does not have any Level 3 assets or liabilities at December 31, 2019 and 2018.

The tables below present the balances of assets measured at fair value by level within the hierarchy at December 31, 2019 and 2018 (dollars in thousands):

	Fair Value of Investments as of December 31, 2019		
	Level 1	Level 2	Total
Investments:			
Federal Home Loan Bank	$ -	$ 4,537	$ 4,537
Federal Home Loan Mortgage Corporation	-	2,012	2,012
Federal National Mortgage Association	-	2,995	2,995
Municipal Bonds	3,182	5,357	8,539
Supranational Bonds	-	2,009	2,009
Total investments	$ 3,182	$ 16,910	$ 20,092

	Fair Value of Investments as of December 31, 2018		
	Level 1	Level 2	Total
Investments:			
Federal Home Loan Bank	$ -	$ 11,398	$ 11,398
Federal National Mortgage Association	-	4,961	4,961
Municipal Bonds	2,165	5,546	7,711
Supranational Bonds	-	6,949	6,949
United States Treasury Bonds	7,971	-	7,971
Total investments	$ 10,136	$ 28,854	$ 38,990

Note 11. Subsequent Events

On March 11, 2020, the World Health Organization characterized COVID-19 as a global pandemic. A significant portion of the cargo that moves through our gateway is to and from Asia, specifically China. As the recent outbreak of COVID-19 continues to spread throughout the supply chain, we believe it has the potential to have a negative impact on our operating results and financial condition. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on supply chains and supply chain employees which at this time are uncertain and cannot be predicted. Given these uncertainties, we cannot reasonably estimate the related impact to our business, operating results and financial condition.

The Northwest Seaport Alliance

Required Supplementary Information

Schedule of The Northwest Seaport Alliance's Share of Net Pension Asset/Liability (NPA/NPL)
December 31, 2019, 2018 and 2017
(Dollars in Thousands)

	2019	2018	2017
PERS Plan 1			
NWSA's proportion of NPL	0.0454%	0.0459%	0.0230%
NWSA's proportionate share of NPL	$ 1,746	$ 2,052	$ 1,093
NWSA's covered-employee payroll	$ -	$ -	$ -
NWSA's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	NA	NA	NA
Plan fiduciary net pension position as a percentage of the total pension liability	67.1%	63.2%	61.2%
Contractually required contribution	$ 326	$ 309	$ 286
Contributions in relation to the contractually required contribution	(314)	(326)	(286)
Contribution excess	$ 12	$ (17)	$ -
NWSA's covered-employee payroll	$ -	$ -	$ -
Contributions as a percentage of covered-employee payroll	0%	0%	0%
PERS Plan 2/3			
NWSA's proportion of NPL	0.0586%	0.0590%	0.0296%
NWSA's proportionate share of NPL	$ 570	$ 1,007	$ 1,030
NWSA's covered-employee payroll	$ 6,371	$ 6,151	$ 5,844
NWSA's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	8.9%	16.4%	17.6%
Plan fiduciary net pension position as a percentage of the total pension liability	97.8%	95.8%	91.0%
Contractually required contribution	$ 491	$ 472	$ 411
Contributions in relation to the contractually required contribution	(502)	(495)	(411)
Contribution excess	$ (11)	$ (23)	$ -
NWSA's covered-employee payroll	$ 6,362	$ 6,440	$ 5,844
Contributions as a percentage of covered-employee payroll	7.9%	7.7%	7.0%

(1) Information presented prospectively beginning with December 31, 2017, prior year reported with Port of Tacoma.

Notes to required supplementary information:
See Note 6 of the financial statements for additional information on the plan.

The Northwest Seaport Alliance

Compliance Report
December 31, 2019

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RSM US LLP

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

Managing Members
The Northwest Seaport Alliance
Tacoma, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of The Northwest Seaport Alliance (the NWSA) and the related notes to the financial statements, which collectively comprise the NWSA's basic financial statements, as of and for the year ended December 31, 2019, and have issued our report thereon dated March 30, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the NWSA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the NWSA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the NWSA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Tacoma, Washington
March 30, 2020

RSM US LLP

**Report on Compliance for the Major Federal Program
and Report on Internal Control Over Compliance and
Report on Schedule of Expenditures of Federal Awards
Required by the Uniform Guidance**

Independent Auditor's Report

Managing Members
The Northwest Seaport Alliance
Tacoma, Washington

Report on Compliance for the Major Federal Program
We have audited The Northwest Seaport Alliance's (the NWSA) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the NWSA's major federal program for the year ended December 31, 2019. The NWSA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the NWSA's compliance.

Opinion on the Major Federal Program
In our opinion, the NWSA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2019.

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
We have audited the financial statements of the NWSA as of and for the year ended December 31, 2019, and have issued our report thereon dated March 30, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

RSM US LLP

Tacoma, Washington
March 30, 2020

The Northwest Seaport Alliance

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Grant Identification Number/Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Transportation:			
Passed through from the Port of Seattle:			
TIGER Discretionary Grant - T46 Modernizations	20.933	DTMA91G1500002	$ 3,769,218
Total U.S. Department of Transportation			3,769,218
U.S. Environmental Protection Agency:			
Passed through from the Puget Sound Clean Air Agency:			
National Clean Diesel Funding Assistance Program	66.039	DE-99T69701	20,000
Total U.S. Environmental Protection Agency			20,000
Total Expenditures of Federal Awards			$ 3,789,218

See notes to schedule of expenditures of federal awards.

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of The Northwest Seaport Alliance (the NWSA) under programs of the federal government for the year ended December 31, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the NWSA, it is not intended to, and does not, present the financial position, changes in net position or cash flows of the NWSA.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 3. Indirect Cost Rate

The NWSA has not elected to use the 10% di minimus indirect cost rate allowed under the Uniform Guidance.

Note 4. Subrecipients

There were no federal awards passed through to subrecipients for the year ended December 31, 2019. As noted on the Schedule, the federal awards reported are passed-through from the Port of Seattle and Puget Sound Clean Air Agency, respectively.

The Northwest Seaport Alliance

Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

I. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ______ Yes __X__ No
- Significant deficiency(ies) identified? ______ Yes __X__ None Reported

Noncompliance material to financial statements noted? ______ Yes __X__ No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ______ Yes __X__ No
- Significant deficiency(ies) identified? ______ Yes __X__ None Reported

Type of auditor's report issued on compliance for major federal program: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? ______ Yes __X__ No

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
20.933	TIGER Discretionary Grant – T46 Modernizations

Dollar threshold used to distinguish between Type A and Type B programs: $750,000

- Auditee qualified as low-risk auditee? ______ Yes __X__ No

II. Financial Statement Findings

None reported

III. Findings and Questioned Costs for Federal Awards

None reported

The Northwest Seaport Alliance

Summary Schedule of Prior Year Audit Findings
Year Ended December 31, 2019

There were no reported financial statement findings or findings and questioned costs for federal awards during the year ended December 31, 2018.