2017 ANNUAL REPORT

THE NORTHWEST
SEAPORT ALLIANCE

The Northwest Seaport Alliance is a marine cargo operating partnership of the Port of Seattle and Port of Tacoma. We are the fourth-largest container gateway in North America. Under a port development authority, the ports manage the container, breakbulk, auto and some bulk terminals in Seattle and Tacoma.

THE NORTHWEST SEAPORT ALLIANCE

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2017 Annual Report

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John Wolfe, chief executive officer
The Northwest Seaport Alliance

CEO LETTER

Investing for the future

Left: North Harbor in Seattle
Right: South Harbor in Tacoma

Two years into the formation of The Northwest Seaport Alliance, our organization is positioned strategically to navigate through this ever-dynamic shipping industry. As we celebrated accomplishments and took on challenges in 2017, we're proud to report that this marine cargo operating partnership between the ports of Seattle and Tacoma is working.

In the spring, we demonstrated our commitment to best-in-class customer service in anticipation of the new shipping alliances taking effect. Just weeks leading up to cargo volumes shifting among terminals, we collaborated with our terminal operators for a smooth transition. Despite some initial bumps in the road, we were able to come together with our industry partners and implement solutions to drive efficiency.

We also forged ahead with terminal investments at both harbors.

In the South Harbor, we prepared for the arrival of the first four of eight super-post-Panamax cranes. Throughout 2017, staff traveled to China to check in on the fabrication progress with Shanghai Zhenhua Heavy Industries Co. Ltd. These trips were essential for quality inspection and familiarity with these cranes. Here at home, we watched Pier 4 at Husky Terminal steadily taking shape as crews wrapped up pile driving and installed essential utilities to support the new infrastructure.

In our North Harbor, we continued to lay the groundwork to transform Terminal 5 into a premier international container facility on the West Coast.

Finally, 2017 was also an important year for our environmental stewardship. In addition to our pledge to remain committed to the Paris climate agreement, we made further progress toward the goals established as part of the Northwest Ports Clean Air Strategy in 2008.

Our proactive investments for the future is our way of leaning into this unpredictable industry because we know that the cost of sitting on the sidelines will only distance ourselves from the fierce competition.

As we dive into another busy year, I invite you to reflect on a productive year filled with opportunities.

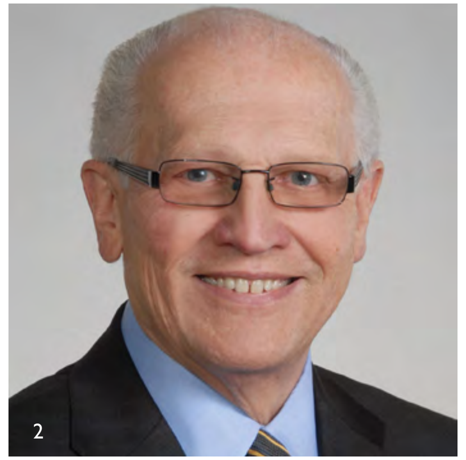
John Wolfe, chief executive officer
The Northwest Seaport Alliance

LEADERSHIP

In August 2015, the ports of Seattle and Tacoma joined forces and formed The Northwest Seaport Alliance. The first of its kind in North America, the partnership unifies the two ports' marine cargo terminal investments, operations, planning and marketing activities to strengthen the Puget Sound gateway and attract more business opportunities to the region. The alliance is governed by the elected commissions of the two ports as equal members.

PORT OF TACOMA COMMISSION

1. Connie Bacon
2. Don Johnson
3. Dick Marzano (2017 President)
4. Don Meyer
5. Clare Petrich



PORT OF SEATTLE COMMISSION

6. Tom Albro (2017 President)
7. Stephanie Bowman
8. John Creighton
9. Fred Felleman
10. Courtney Gregoire

Pier 4 prepares for new cranes and bigger ships

Six years of planning and investment have reshaped Tacoma's General Central Peninsula. That work became especially visible in 2017, as contractors drove the last of 1,245 piles into the seabed to extend Pier 4 outward and align it with Pier 3.

At 2,760 feet long, the reconfigured facility will be capable of docking two 18,000-TEU container ships when completed in early 2018. Crews dredged and removed nearly half a million cubic yards of material to accommodate the draft of these super post-Panamax ships and build the new shape of the peninsula. From there, the NWSA choreographed construction of different pier components simultaneously as contractors drove piles, capped them and installed deck panels, working gradually along the wharf. By November, crews completed the 700 feet of new waterfront at Husky Terminal in time for the arrival of four new cranes from China.

These super post-Panamax cranes can serve mega container vessels with an outreach of 24 containers and a lift height of 165 feet. Shanghai Zhenhua Heavy Industries Co. Ltd (ZPMC) began work on the cranes in January 2017, delivering them to Pier 4 a little more than a year later. Alliance and Port of Tacoma personnel worked closely with ZPMC throughout the process. They made five trips across the Pacific for hands-on inspections in 2017.

Electricians, mechanics and engineers scrutinized the wiring, gearing, welds and operational tests as the cranes took shape. Longshore workers also tried out the new cabs and made suggestions to improve their controls. NWSA Managing Members voted in June to order an additional four ZPMC cranes for delivery in 2019.

In the meantime, contractors completed a 6,700-square-foot marine operations building for Pier 4. Crews from Washington Patriot Construction erected the building while Seattle's Manson Construction served as general contractor for the entire reconfiguration project.

Tacoma's Concrete Technology manufactured the piles, and Amaya Electric installed the new substation, along with electrical and communication improvements. Other Washington contractors contributing to the project included T.E. Walrath Trucking, which provided riprap for shore stabilization; Scarsella Brothers, which installed utilities at the site, and Tucci & Sons, which handled paving. All told, the project employed more than 100 workers on a typical day in 2017. The alliance has committed $266 million to make Pier 4 "big-ship ready." And at the start of 2018, the project was on time and under budget by between $10 million to $12 million.

The new 2,760 feet long pier will be capable of docking two 18,000-TEU container ships when completed.

STRATEGIC INVESTMENTS

PERMITS SECURED FOR TERMINAL 5 EXPANSION

An overhaul of Terminal 5 to make another Seattle terminal "big-ship ready" completed critical milestones in the permitting process last year.

Dock and electrical improvements to accommodate deeper drafts and longer cranes will allow the facility to berth two 18,000-TEU vessels in a facility that previously handled one-sixth of that capacity. Before construction could begin, though, the alliance needed to complete permitting reviews spanning multiple years. In April 2017, the City of Seattle issued its Master Use Permit Analysis and Decision with Draft Conditions, followed by a shoreline permit and other land use approvals shortly after the first of the year.

The NWSA started work on an environmental impact statement for the project in 2015 and has worked closely with the city and other stakeholders to address the potential impacts of the improved terminal. Agreements reached during permitting included planning for new traffic routing requiring a street closure, as well as a railroad quiet zone to reduce the noise of train horns in the surrounding neighborhood. Another agreement with the Puget Sound Clean Air Agency will help mitigate air pollution at the North Harbor. The alliance will provide infrastructure to support shore power and require cargo-handling equipment to meet Tier 4 emissions standards.

Permitting and design work are ongoing as the NWSA lays the groundwork for signing new tenants to operate the terminal. After that, construction could begin between 2019 and 2021 and is expected to take 2.5 years.

In April 2017, the City of Seattle issued its Master Use Permit Analysis and Decision with Draft Conditions for Terminal 5.

SOUTH HARBOR RAIL IMPROVEMENTS: ON TIME AND UNDER BUDGET

The NWSA's most expansive upgrade to rail infrastructure in a decade will lead to better efficiency and support future growth in the South Harbor.

Completed in May, the North Lead Rail Improvements project came in $1.2 million under budget and a month ahead of schedule. The work added more than 4 miles of new track to the rail corridor adjacent to State Route 509 between Milwaukee Way and Alexander Avenue. Crews also demolished more than 2.5 miles of old rails while realigning all of the facility's support tracks. As a result, operational efficiency improved by 34 percent. Trains can now depart and arrive at the same time, reducing rail congestion. NWSA partners also can complete more multimodal and bulk loading on support tracks when trains are delayed.

The $18 million project — funded in part by the Washington State Department of Commerce – builds on the alliance's strategic plans to accommodate shipping growth in the South Harbor over the next 10 years. Construction began in the summer of 2016 and relied on close coordination with BNSF, Union Pacific and Northwest Container Services, as well as marine terminal operators and ocean carriers. Additionally, the project involved NWSA short-haul rail partner Tacoma Rail, which will benefit from more flexible and efficient operations. ●

Ports and the shipping industry have worked to improve Puget Sound's air quality for more than a decade. The latest emissions inventory shows substantial progress toward that goal.

NWSA achieves cleaner air, explores solutions to further reduce its impact

The Northwest Seaport Alliance maintains a long commitment to protecting our community's environment. In 2017, some of the most consequential results of that work became evident in an update to the Puget Sound Maritime Air Emissions Inventory. The ports of Seattle and Tacoma have participated in the international effort to address air pollution through the Puget Sound Maritime Air Forum. Computer modeling found greenhouse gas emissions at Northwest ports declined 17 percent per ton of cargo between 2005 and 2016. Diesel particulate matter dropped 80 percent following new fuel requirements for ships in the North American Emission Control Area. At the same time, the NWSA produced less air pollution from locomotives, harbor craft and cargo-handling equipment due to upgraded engines and emissions technology.

The Northwest Seaport Alliance maritime-related emissions within the airshed 2005-2016

POLLUTANT	OCEAN-GOING VESSELS	COMMERCIAL HARBOR VESSELS	LOCOMOTIVES	CARGO-HANDLING EQUIPMENT	TRUCKS	OVERALL	NORMALIZED PER 10,000 TONS OF CARGO
CO	-23%	24%	-30%	-56%	-53%	-36%	-34%
CO_2e	-27%	4%	-23%	-38%	9%	-20%	-17%
DPM	-88%	-26%	-51%	-68%	-47%	-81%	-80%
NO_x	-28%	-1%	-54%	-60%	-52%	-35%	-33%
SO_2	-97%	-99%	-100%	-99%	-88%	-97%	-97%
VOC	-41%	-1%	-47%	-56%	-56%	-45%	-43%

The 2016 Puget Sound Maritime Air Emissions Inventory shows significant emission reductions from the NWSA. View the overall report for the Puget Sound Maritime Air Forum at pugetsoundmaritimeairforum.org.

The impacts of the NWSA's green programs are economic, as well as environmental. While alliance facilities accounted for 13 percent of the region's diesel emissions in 2011, ports could lose grant dollars and permission to expand if the region as a whole exceeds limits set by the U.S. Environmental Protection Agency. In addition to preventing this type of economic disruption, clean air programs at the NWSA appeal to beneficial cargo owners that increasingly demand a green supply chain. Target and Walmart, for example, both announced climate initiatives in 2016 that will affect their shipping partners.

The alliance has long been ahead of this trend. Last year, it became one of the first U.S. port organizations to commit to greenhouse gas reductions aligned with the Paris climate accord. Recent upgrades to Tacoma's Pier 4 included shore power capability; and Seattle's Terminal 5 will require shore power or an equivalent means of reducing emissions as a term of its lease. The NWSA also has worked to reduce air pollution from drayage operations. This included financial incentives to scrap outdated trucks and a requirement that trucks on port property meet 2007 federal emissions standards. Just over half of 4,500 trucks working at the terminals met that mandate at the end of the year. In early 2018, alliance leadership will explore ways to make financing for upgrades more affordable.

Looking ahead, the NWSA continues to explore technology to monitor emissions compliance and improve efficiency for drayage trucks. It also took delivery of four hybrid diesel-electric straddle carriers in December. Throughout 2017, the alliance continued to evaluate technologies and potential partnerships to reach its 2020 target of cutting greenhouse gases by at least 15 percent over 2005 levels.

ENVIRONMENTAL COMMITMENT EARNS INDUSTRY RECOGNITION

As the alliance reduces its environmental impact in Puget Sound, it's also attracted national attention for its green practices. *Inbound Logistics* magazine in June named The Northwest Seaport Alliance a leading Green Supply Chain Partner. The NWSA was among 75 organizations recognized by the magazine for their sustainability and for "developing and implementing best practices to ensure the footprint they leave on the world is a positive one."

The ports of Seattle and Tacoma have earned this honor in multiple years, but 2017 marked the first time they achieved this designation together as The Northwest Seaport Alliance. Inbound Logistics called out the NWSA's 95 percent reduction in zinc and copper pollution from terminal operations, as well as improved emissions from trucks, trains and ships that are expected to fall even further as part of the Northwest Ports Clean Air Strategy. The publication also highlighted the alliance's commitment to shore power, alternative fuels, energy conservation and recycling.

The NWSA was one of seven port authorities in the U.S. included in the list. Other recognized organizations included trucking companies, railroads, shipping lines, freight forwarders and air cargo carriers. ●

New mega-alliances find proactive planning at NWSA

Our operations team worked with terminal operators and transportation officials to mitigate gate congestions.

The NWSA kept the North and South harbors at the forefront of a massive shift in global shipping in 2017. Last year saw the formation of three new alliances that now move an estimated 16 million TEUs annually and control three-quarters of the global market. In Puget Sound, that meant 50 percent more volume at Terminal 18 and an increase from one weekly vessel arrival at Husky Terminal to two.

Reconfiguring gates to accommodate the new alliances served as a prime example of NWSA's collaborative and service-centered business approach. The Operations Service Center (OSC) organized frequent meetings with the trucking community to ensure drivers had accurate maps and received live updates via email or text. Similar outreach to terminal operators and transportation officials helped prevent backups at T-18, where additional signage directed drivers to available gates. Other proactive steps by the OSC during the transition included the opening of an unused property near Husky and early-morning queuing at T-18 to keep trucks from overflowing onto nearby streets.

The busiest months of 2017 also ran more smoothly thanks to the OSC. Alliance personnel surveyed more than three dozen beneficial cargo owners early in the year while forecasting equipment availability, dwell times and other critical information for stakeholders. More than 150 people participated in a peak planning meeting in May. Their feedback informed NWSA decisions on extended gate hours, communication processes, export receiving windows and outreach to warehouse operators.

Quickly incorporating ideas from the port community boosts efficiency and helps set the NWSA apart from its competitors. Day to day, OSC personnel draw from their professional experience across a variety of relevant industries to help resolve issues at NWSA facilities. Throughout the year, it's also common for 50-plus companies to participate in the NWSA's Executive Advisory Council (EAC). Attendees receive early guidance on regulatory changes and port construction projects while sharing concerns and ideas for improvement.

Meetings in recent years have led to the tracking of key performance indicators and the spread of innovative practices like container peel-off piles and quick gates for pre-cleared trucks. Since the EAC formed in 2015, crane productivity at the NWSA has already increased by more than one move per hour. That's evidence of the alliance's efforts to act as more than just a landlord for terminal operators. The NWSA continually explores new technology, partnerships and ideas from the industry to create value for its shipping partners.

Introduction of the three new shipping alliances increased cargo volume at Terminal 18 by 50 percent.

ALLIANCE EXPLORES DRAYAGE APP

The NWSA is working to invest in technology that would track every ship, container and truck at its facilities so port partners can leverage that data to optimize their work. The Operations Service Center took a step in that direction in 2017, completing a pilot program for drayage companies. Drivers downloaded the DrayQ smartphone app for instant estimates of wait times, potentially reducing congestion and improving air quality. The app also recorded trucks' movement through the terminals.

The program met with mixed success but offered important lessons for the alliance as it builds more comprehensive systems in the future. The OSC keeps abreast of hundreds of technologies relevant to the ports and in use around the industry. DrayQ tested Bluetooth technology that relied on signals from app-enabled phones. Ultimately, the system faced limitations from the number of drivers using the app, as an insufficient amount of users would not provide enough data to calculate accurate wait times.

Even though the pilot wound down at the end of the year, it led to the important conclusion that radio-frequency identification (RFID) technology could offer a better solution for the alliance's immediate needs. The next iteration of truck tracking will likely be tied to the RFID stickers used to determine compliance with the NWSA's Clean Truck Program. This approach doesn't rely on a downloaded app to generate the data needed for supply chain visibility and represents a potential successor to DrayQ for drivers in the future.

Top: The NWSA is committed to exploring emerging technologies that help drive best-in-class service delivery.

Bottom: Face-to-face meetings with our stakeholders create opportunities for collaboration.

The *Glovis Composer* auto ship unloaded more than 4,800 units at the Port of Tacoma in January, making it the single-largest auto discharge off a vessel in the port's history.

LONGSHORE LABOR CONTRACT EXTENDED THROUGH 2022

Roughly 1,500 workers who keep cargo moving through the region's ports agreed to a three-year labor contract extension in August. Initially set to expire in 2019, their new collective bargaining agreement will remain in force until July 2022. The contract will increase wages and pension contributions while maintaining health benefits.

The International Longshore and Warehouse Union's Coast Longshore Division represents 20,000 workers at 29 ports in Washington, Oregon and California. It negotiated the contract with the Pacific Maritime Association, which represents 78 companies operating at these ports that facilitate nearly half of the country's maritime trade. PMA members include leading shipping lines and terminal operators.

Positive labor relations make the alliance a competitive destination for cargo. The three-year agreement provides certainty for importers and exporters shipping their goods through the NWSA. The contract extension also is important for the region's economy: Cargo operations at NWSA facilities help support more than 48,000 jobs and provide a critical gateway to Asia for businesses in Washington state. ●

NWSA innovation attracts attention

Left: Congressmen Bill Shuster (right) and Dave Reichert met with local members of the supply chain and lawmakers in October.

Right: The Seattle Propeller Club named NWSA CEO John Wolfe as its Public Official of the Year.

The Northwest Seaport Alliance was a first of its kind in North America when the ports of Seattle and Tacoma joined forces in an unprecedented move in August 2015. As the nation's fourth-largest container gateway, the partnership brought together two ports that historically competed against each other to better compete on a global scale. Two years later not only is this partnership thriving, but it's being recognized and gaining acclaim from those within and beyond the industry.

SHOW AND TELL

We hosted elected officials and dignitaries who toured our facilities to learn about our modernization projects and public policy issues affecting the industry. Congressman Bill Shuster (R-Pa.), the chair of the House Transportation and Infrastructure Committee, and Congressman Dave Reichert (R-Wash.) visited our terminals in October. They also met with local members of the supply chain and lawmakers to discuss federal freight policy and the importance of comprehensive Harbor Maintenance Tax reform. We also hosted officials from the Federal Maritime Commission, Maritime Administration and Washington State Department of Transportation.

EARNING ACCOLADES

CEO John Wolfe received the 2017 West Coast Connie Award in September from the Container-ization & Intermodal Institute. He was commended for his visionary leadership of the NWSA and his exemplary contributions to containerization and world trade.

Locally, the Seattle Propeller Club selected Wolfe as its Public Official of the Year in recognition for leading the alliance, which supports more than 48,000 jobs, generates nearly $4.3 billion in economic activity and produces $379 million in state and local taxes annually.

The NWSA also ranked highest on the U.S. West Coast and second overall in the West Coast category in Logistics Management's 2017 Quest for Quality awards. Winners were selected by using five criteria: ease of doing business, value, ocean carrier network, intermodal network, and equipment and operations. A port had to receive at least 5 percent of the category vote to win. The NWSA was one of only three West Coast ports to reach that threshold. ●

IN THE NEWS

Media and trade publications reported on The Northwest Seaport Alliance's efforts for the innovative collaboration, a trend we're seeing more often in the industry today.

"Seaport alliance marks highest container volumes since 2007"

—

Kate Martin, The News Tribune
January 20, 2017

"Seattle-Tacoma cranes to aid mega-ship handling"

—

Hugh R. Morley, The Journal of Commerce
June 7, 2017

"US NW port alliance delivers operational, financial benefits"

—

Bill Mongelluzzo, The Journal of Commerce
April 12, 2017

"Northwest Seaport Alliance: Innovative, ideally located and together as one"

—

Joseph Keefe, Maritime Logistics Professional
October 31, 2017

"Infrastructure investments paying off"

—

The Maritime Executive
June 29, 2017

"Connie Awards spotlight US West Coast industry innovation"

—

Bill Mongelluzzo, The Journal of Commerce
September 20, 2017

NWSA 2017 TRADE STATISTICS

VALUE OF TWO-WAY INTERNATIONAL TRADE

$75.3 BILLION

[$75,278,008,817]

NWSA CARGO HIGHLIGHTS

The Puget Sound's annual trade with Alaska is estimated at $5.4 billion. If ranked with our international partners, Alaska would be fourth. (Source: 2015 update to Ties That Bind study)

3,702,175	metric TEUs	TOTAL TEUs
27,570,924	metric tons	TOTAL TONNAGE
146,885	units	AUTO UNITS
210,725	metric tons	BREAKBULK CARGO
278,078	metric tons	LOGS
1,946	calls	VESSEL CALLS
$75.3	billion	VALUE OF INTL. TRADE
$5.4	billion	VALUE OF DOMESTIC TRADE

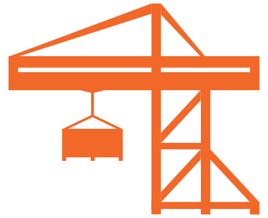
TOP 10 INTERNATIONAL TRADING PARTNERS

CHINA (INC. HK)	$32.8 BILLION
JAPAN	$16.7 BILLION
SOUTH KOREA	$5.9 BILLION
TAIWAN	$3.8 BILLION
VIETNAM	$2.6 BILLION
THAILAND	$1.2 BILLION
INDONESIA	$1.1 BILLION
AUSTRALIA	$948.8 MILLION
MALAYSIA	$886 MILLION
INDIA	$788.3 MILLION

The Northwest Seaport Alliance is the fourth-largest container gateway in North America.

TOP 11–20 INTERNATIONAL TRADING PARTNERS

CANADA	$716.3 MILLION
PHILIPPINES	$702.6 MILLION
GERMANY	$663.4 MILLION
SINGAPORE	$484.5 MILLION
ITALY	$414.3 MILLION
NETHERLANDS	$404.7 MILLION
BRAZIL	$337.5 MILLION
CHILE	$330.7 MILLION
NEW ZEALAND	$318.5 MILLION
UK	$293.5 MILLION



VALUE OF INTERNATIONAL IMPORTS

$58.3 BILLION

[$58,318,133,546]

VALUE OF INTERNATIONAL EXPORTS

$17 BILLION

[$16,959,875,271]

TOP 10 IMPORT COMMODITIES

1	$9.9 BILLION	INDUSTRIAL MACHINERY AND COMPUTERS
2	$9.8 BILLION	ELECTRICAL MACHINERY AND ELECTRONICS
3	$7.0 BILLION	VEHICLES AND PARTS
4	$4.0 BILLION	TOYS, GAMES AND SPORTS EQUIPMENT
5	$3.1 BILLION	FURNITURE
6	$2.0 BILLION	KNIT OR CROCHETED APPAREL
7	$1.9 BILLION	ARTICLES OF IRON OR STEEL
8	$1.8 BILLION	FOOTWEAR
9	$1.8 BILLION	PLASTICS AND PLASTIC ARTICLES
10	$1.5 BILLION	AIRCRAFT, SPACECRAFT AND PARTS

TOP 10 EXPORT COMMODITIES

1	$3.0 BILLION	OIL SEEDS; MISC. GRAIN, SEED, FRUIT, PLANT
2	$1.5 BILLION	INDUSTRIAL MACHINERY AND COMPUTERS
3	$1.1 BILLION	PREPARED VEGETABLES, FRUITS AND NUTS
4	$851.5 MILLION	FISH AND SEAFOOD
5	$821.8 MILLION	CEREALS
6	$768.4 MILLION	MEAT AND MEAT PRODUCTS
7	$686.0 MILLION	EDIBLE FRUIT AND NUTS; CITRUS FRUIT OR MELON PEEL
8	$641.9 MILLION	PAPER AND PAPERBOARD
9	$616.1 MILLION	INORGANIC CHEMICALS; PRECIOUS AND RARE EARTH METALS
10	$601.4 MILLION	EDIBLE VEGETABLES AND CERTAIN ROOTS AND TUBERS

NWSA FINANCIALS

Hapag-Lloyd's 13,200-TEU *Antwerpen Express* berthed at Terminal 18 in Seattle.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2017 and 2016

INTRODUCTION

The Northwest Seaport Alliance (NWSA) Management Discussion and Analysis (MD&A) of financial activities and performance introduces the 2017 and 2016 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 liabilities, 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.

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 home ports. The initial contribution of each Managing Member to the NWSA was 50 percent as established with its Membership Interest (based on the value of the contributed facilities using cash flow forecasts for each parcel that went to the NWSA) with a revaluation review in 2018. 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 Interest. The Managing Members shall approve any change in Membership Interest by vote, to include provisions 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.

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 budget 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.

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 change in 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 any 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

The NWSA's operations began January 1, 2016. Each home port provided an initial contribution for working capital of $25.5 million, for a total initial working capital funding of $51.0 million. Working capital cannot be redirected to fund capital construction as defined in the Charter.

Future needs will be 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.

In 2016, each home port also provided initial capital construction contributions of $13.5 million (totaling $27.0 million), equal to the budgeted capital investment plan. Throughout the year the home ports provided additional combined contributions of $29.1 million to fund capital construction cash flow needs for 2016. The home ports also provided $8.9 million and $7.9 million, respectively, in noncash construction in process for capital projects that started in the home ports and will be completed by NWSA. During 2017, the home ports made capital construction contributions of $69.1 million of which $61.2 million was spent on container terminal improvements and container crane acquisitions at Husky Terminal and $3.4 million for Terminal 5 (T5) design and other terminal developments in the North Harbor.

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):	2017	2016
Current assets	$ 113,338	$ 119,740
Capital assets, net	152,228	80,532
Other assets	3,025	3,447
Total assets	**$ 268,591**	**$ 203,719**
Deferred outflows of resources	$ 481	---
Current liabilities	$ 41,553	$ 58,927
Noncurrent liabilities	19,642	13,655
Total liabilities	**$ 61,195**	**$ 72,582**
Deferred inflows of resources	$ 349	---
Net investment in capital assets	$ 152,228	$ 80,532
Unrestricted	55,300	50,605
Total net position	**$ 207,528**	**$ 131,137**

The NWSA's total net position was $207.5 million at December 31, 2017. Of this amount, $152.2 million is net investment in capital assets and $55.3 million is unrestricted and can be used to finance operating activities. The NWSA's total net position was $131.1 million at December 31, 2016. Of this amount, $80.5 million is net investment in capital assets and $50.6 million is unrestricted and can be used to finance operating activities. The NWSA's net investment in capital assets represents capital assets for the NWSA's terminal and real estate facilities.

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 2017 and 2016.

Statements of Revenues, Expenses and Changes in Net Position (dollars in thousands):	2017	2016
Operating revenues	$ 194,985	$ 195,170
Operating expenses	85,895	80,264
Operating income	**109,090**	**114,906**
Non-operating revenues (expenses):		
Interest income	777	755
Net decrease in the fair value of investments	(43)	(328)
Other non-operating (expense) income, net	(297)	7,835
Total non-operating revenues, net	**437**	**8,262**
Capital grant contributions	324	---
Increase in net position before net Managing Member contributions (distributions), net	**109,851**	**123,168**
Managing Member contributions (distributions), net	(33,460)	7,969
Increase in net position	**76,391**	**131,137**
Net position, beginning of year	131,137	---
Net position, end of year	**$ 207,528**	**$ 131,137**

The NWSA operates three major business lines:

Container business: International and domestic container cargo is a core business segment 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.

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

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 by business lines for the years ended December 31 is presented in the following table (dollars in thousands):

Revenue:	2017	2016
Container	$ 162,695	$ 163,711
Non-container	20,750	20,013
Real estate	11,540	11,446
Total revenue	**194,985**	**$ 195,170**
Operating expenses	85,895	80,264
Operating income	**$ 109,090**	**$ 114,906**

Container revenue of $162.7 million was down $1.0 million versus the prior year. Rent revenue at Terminal 5 (T5) was down $5.4 million due to the expiration of a lease with Foss Maritime. The Grand Alliance also did not renew its lease at Washington United Terminal and the cargo was diverted from Washington United Terminal and Pierce County Terminal to Husky Terminal and Terminal 18 (T18). Husky Terminal benefited from this shift of cargo as it increased their crane and strad revenue $2.9 million over the prior year. However, expiration of the lease at East Sitcum Terminal offset the increase at Husky by $2.0 million versus the prior year. In 2017, the inland point intermodal cargo handled by the NWSA trended down, while local cargo transported via truck increased which reduced intermodal volume and revenue. The lease expirations at East Sitcum Terminal and at Washington United Terminal shifted cargo to Husky Terminal and to T18 and resulted in an intermodal revenue reduction of $3.9 million over the previous year. These were offset by positive variances of $5.7 million at

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Year Ended December 31, 2017

West Sitcum terminal, for the payment that became due as a result of APM exercising its early termination option and a $1.0 million annual rental adjustment at T18.

Non-container revenue of $20.8 million was up $0.7 million versus the prior year. Breakbulk revenue was up $1.2 million due to military moves which were offset by auto business revenues down $0.4 million as volumes decreased by 11% due to an automobile customer shifting production from Asia to Mexico resulting in lower storage revenue.

Real estate revenue of $11.5 million was up $0.1 million for annual rent escalations.

Operating expenses of $85.9 million was up $5.6 million and 7% compared to the prior year. Maintenance costs increased $2.6 million primarily for facility improvements to buildings and paving of $1.5 million and increased crane and strad repairs of $0.8 million. Depreciation expense was up $1.6 million over the prior year for assets (container crane upgrades, building and roof renovations, rail, and yard improvements) placed into service in 2016 and 2017. Administrative expenses were up $1.2 million as consulting costs were up $0.9 million for IT system development to replace older systems and governmental affairs consulting that was recorded in the home ports in the prior year. Operations expenses were up $0.4 million primarily due to revenue related operating expenses to support non-container revenue that increased by $0.7 million, offset by North Harbor maintenance dredging down $0.5 million from the prior year. Environmental expense was down $0.4 million versus the prior year due to dredging-related environmental costs of $0.9 million in the North Harbor in 2016, offset by environmental project spending up $0.5 million compared with the prior year.

This resulted in operating income of $109.1 million compared to prior year operating income of $114.9 million, a decrease of $5.8 million.

Non-Operating Income

Non-operating income was $7.8 million less than the prior year primarily due to the contributed North Harbor storm water improvement asset of $7.8 million in 2016. Interest income and a decrease in fair value of investments of $0.7 million was up $0.3 million versus 2016 due to the rising interest rate environment. Capital grant contributions were $0.3 million in 2017 from the TIGER grant. There were no capital grant contributions in 2016.

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	2016	2017 Activity	2017
Working capital contributions	$ 51,000	$ ---	$ 51,000
Capital construction contributions	56,140	69,120	125,260
Non-cash capital work-in-process contributions	16,793	---	16,793
Total contributions	**123,933**	**69,120**	**193,053**
Increase in net position before Managing Member contributions and distributions	123,168	109,851	233,019
Distributions to Managing Members	(115,964)	(102,580)	(218,544)
Net position, end of year	**$ 131,137**	**$ 76,391**	**$ 207,528**

Capital assets

The home ports provided NWSA with initial funding of $27.0 million to support a five-year capital investment plan in 2016. Additional capital construction contributions to support the capital investment plan 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 restricts the purchase of land.

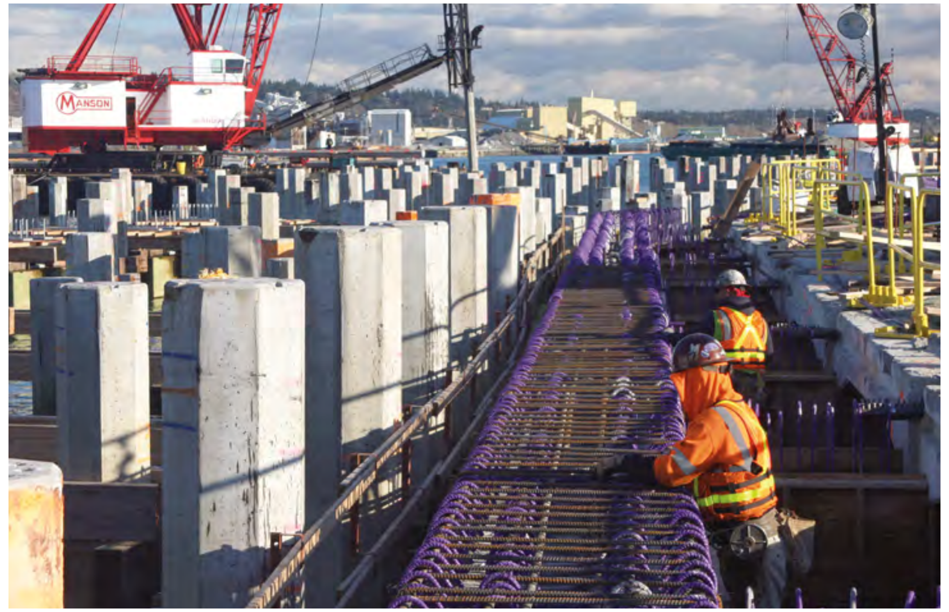
During 2016 and 2017, the Managing Members authorized additional capital construction contributions for redevelopment of Pier 4 and the backlands, improvements to the gate and a total of eight cranes to support an amended terminal lease agreement at the South Harbor. The total estimated remaining project costs for redeveloping this terminal is $250.5 million and will be funded by the home ports during the project life cycle estimated to be complete in 2020. In 2017, the Managing Members also authorized spending of $8.2 million for storm water treatment improvements on the West Sitcum Terminal.

The NWSA's investment in capital assets, net of depreciation, for its business activities as of December 31, 2017, and 2016 amounted to $152.2 million and $80.5 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. Major capital spending in 2017 is presented below (dollars in thousands):

Description	
Pier 4 redevelopment and container cranes	$ 61,167
Facility and building improvements	5,224
Machinery and equipment	1,679
Terminal 5 modernization design	1,050
Total	**$ 69,120**

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.



STATEMENT OF NET POSITION

Years Ended December 31, 2017 and 2016 (Dollars in Thousands)

ASSETS

CURRENT ASSETS	2017	2016
Cash and cash equivalents	$ 7,134	$ 21,818
Investments, at fair value	72,760	68,985
Trade accounts receivable, net of allowance for doubtful accounts	21,555	11,108
Related-party receivable - Managing Members	9,028	15,584
Prepayments and other current assets	2,861	2,245
Total current assets	**113,338**	**119,740**
CAPITAL ASSETS		
Buildings	4,991	4,706
Improvements	17,553	14,322
Machinery and equipment	2,832	1,314
Construction in process	129,564	60,722
Total cost	**154,940**	**81,064**
Less accumulated depreciation	2,712	532
Net property and equipment	**152,228**	**80,532**
OTHER ASSETS	**3,025**	**3,447**
Total non-current assets	**155,253**	**83,979**
Total assets	**$268,591**	**$203,719**
DEFERRED OUTFLOWS OF RESOURCES		
Pension deferred outflows	**$ 481**	**$ ---**

LIABILITIES AND NET POSITION

CURRENT LIABILITIES	2017	2016
Accounts payable and accrued liabilities	$ 19,024	$ 16,488
Related-party payable - Managing Members	21,391	41,381
Payroll and taxes payable	1,138	1,058
Total current liabilities	**41,553**	**58,927**
NONCURRENT LIABILITIES		
Security deposits	13,619	13,655
Net pension liability	2,123	---
Other noncurrent liabilities	3,900	---
Total noncurrent liabilities	**19,642**	**13,655**
Total liabilities	**61,195**	**72,582**
DEFERRED INFLOWS OF RESOURCES		
Pension deferred inflows	**$ 349**	**$ ---**
NET POSITION:		
Net investment in capital assets	$ 152,228	$ 80,532
Unrestricted	55,300	50,605
Total net position	**$207,528**	**$131,137**

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended December 31, 2017 and 2016 (Dollars in Thousands)

OPERATING REVENUES	2017	2016
Property rentals	$ 194,985	$ 195,170
Total operating revenues	**194,985**	**195,170**
OPERATING EXPENSES		
Operations	40,800	40,367
Maintenance	17,329	14,592
Administration	19,560	18,317
Security	4,235	4,231
Environmental	1,791	2,225
Total before depreciation	**83,715**	**79,732**
Depreciation	2,180	532
Total operating expenses	**85,895**	**80,264**
Operating income	**109,090**	**114,906**
NON-OPERATING REVENUES (EXPENSES)		
Interest income	777	755
Net decrease in the fair value of investments	(43)	(328)
Other non-operating expenses, net	(297)	7,835
Total non-operating income, net	**437**	**8,262**
Increase in net position, before capital contributions	**109,527**	**123,168**
Capital grant contributions	324	---
Increase in net position before Managing Members contributions and distributions	**109,851**	**123,168**
Net position before Managing Members contributions and distributions	$ 109,851	$ 123,168
Working capital contributions	---	51,000
Capital construction contributions	69,120	72,933
Distributions to Managing Members	(102,580)	(115,964)
Total Managing Member investment	**(33,460)**	**7,969**
Beginning of year	131,137	---
Net position, end of year	**$ 207,528**	**$ 131,137**

See notes to financial statements.

STATEMENT OF CASH FLOWS

Years Ended December 31, 2017 and 2016 (Dollars in Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	2017	2016
Cash received from customers	$ 184,104	$ 186,291
Cash paid to suppliers, longshore labor and employees	(62,413)	(36,069)
Cash paid to home ports for support services	(23,010)	(34,257)
Cash held for customer deposits	3,864	1,042
Net cash provided by operating activities	**102,545**	**117,007**
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash received from Managing Members for working capital	---	51,000
Cash received from Managing Members - customer deposits, lease liabilities	---	15,762
Cash distributions to Managing Members	(113,320)	(95,084)
Net cash used by non-capital financing activities	**(113,320)**	**(28,322)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash received from Managing Members for capital construction	75,678	40,556
Acquisition and construction of capital assets	(76,624)	(38,856)
Cash received from federal grants	112	---
Net cash (used in) provided by capital and related financing activities	**(834)**	**1,700**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(65,142)	(99,162)
Proceeds from sales and maturities of investment securities	61,300	30,000
Interest received on investments	767	595
Net cash used in investing activities	**(3,075)**	**(68,567)**
CASH AND CASH EQUIVALENTS		
Net (decrease) increase in cash and cash equivalents	**(14,684)**	**21,818**
Beginning of year	21,818	---
End of year	**$ 7,134**	**$ 21,818**

See notes to financial statements.

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	2017	2016
Operating income	$ 109,090	$ 114,906
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,180	532
Changes in assets and liabilities:		
Increase in accounts receivable	(10,024)	(10,685)
Increase in prepayments and other current assets	(622)	(1,816)
Increase in accounts payable and accrued liabilities	4,378	6,830
Increase in related-party - Managing Members	(7,700)	4,271
Increase in security deposits	3,175	1,957
Increase in payroll and taxes payable	77	1,012
Increase in deferred pension outflows	1,991	---
Total adjustments and changes	**(6,545)**	**2,101**
Net cash provided by operating activities	**$ 102,545**	**$ 117,007**
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Capital asset additions and other purchases financed with accounts payable	$ 4,739	$ 17,574
Capital construction in process contributed by the Managing Members	$ ---	$ 16,792
Contributions receivable from Managing Members for capital construction	$ 9,028	$ 15,584
Contributions received for capital assets - tenant improvements	$ ---	$ 7,842
Distributions payable to Managing Members	$ (10,140)	$ (20,880)
Decrease in fair value of investments	$ (43)	$ (328)

See notes to financial statements.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NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The ports of Seattle and Tacoma 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 percent (based on the value of the contributed facilities using cash flow forecasts for each parcel that went to the NWSA). The initial cash investment totaling $78.0 million, of which $51.0 million funded working capital and $27.0 million funded capital construction projects, were shared equally. The home ports contributed an additional $16.8 million of non-cash 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.

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 reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of 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.

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 may serve in those dual roles for up to five years. It is possible that the dual role may pose a real or perceived conflict of interest.

Cash

Cash represents cash and demand deposits. The NWSA maintains its cash in bank deposit accounts, which are covered by the Public Deposit Protection Commission 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, 2017 and 2016, was $2.4 million and $3.1 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 LGIP invests in U.S. Agency Securities, Repurchase Agreements, U.S. Treasury Securities, Interest Bearing Bank Deposits, and Certificates of Deposit. 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 percent 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.

Net position

Net position consists of net investment in capital assets, restricted and unrestricted net position. Net investment in capital assets consists of capital assets, net of accumulated depreciation which was $152.2 million and $80.5 million at December 31, 2017 and 2016, 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. There were no restrictions on net position at December 31, 2017 and 2016. The unrestricted component of net position is the net amount of the assets less liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position. Unrestricted net position was $55.3 million and $50.6 million at December 31, 2017 and 2016, 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 $130,000 and $44,000 at December 31, 2017 and 2016, 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 $398,000 and $195,000, respectively, at December 31, 2017, and $399,000 and $171,000, respectively, at December 31, 2016. Vacation and sick leave paid in 2017 was $345,000 and $185,000, respectively, and $311,000 and $153,000, respectively, in 2016. The estimated total amount of vacation and sick leave expected to be paid in 2018 is $356,000 and $190,000, respectively.

The NWSA provides health care benefits for eligible employees through the voluntary employees' beneficiary association (VEBA) which is a tax-exempt health and welfare trust and through the health reimbursement arrangement (HRA) plan. The NWSA employees were grandfathered into the plan because of their prior employment with the home ports. The plan requires the NWSA to contribute $222 and $217 per month in 2017 and 2016, respectively, to the VEBA accounts of eligible employees. The NWSA contributed $82,000 and $87,000 to eligible employee VEBA accounts in 2017 and 2016, 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.

The NWSA established a profit sharing plan for non-represented 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 percent 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 2017 or 2016. 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). On January 1, 2017, the NWSA established a separate account with DRS and recorded its share of the DRS pension liability. In 2016, the NWSA employees were on the Port of Tacoma DRS account and the NWSA made all required contributions directly to DRS for its employees.

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 non-operating 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, 2017 and 2016, the NWSA determined that there was no environmental remediation liability to be recognized.

Lease securities

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 $13.6 million and $13.7 million in lease securities at December 31, 2017 and 2016, respectively.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating and non-operating revenues and expenses

Property rental revenues are charges for use of the NWSA's facilities and are reported as operating revenue. Other revenues generated from non-operating sources are classified as non-operating.

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

Recent accounting pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations and establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. The NWSA reviewed the requirements of this statement and determined that it does not have asset retirement obligations at December 31, 2017.

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 is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. The NWSA is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures.

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.

NOTE 2. DEPOSITS AND INVESTMENTS

Discretionary deposits

The NWSA's cash of $7.1 million and $21.8 million at December 31, 2017 and 2016, respectively, were deposited in qualified depositories as required by state statute. Deposits in excess of federal depository insurance coverage are covered by the Public Deposit Protection Commission of the State of Washington (PDPC). 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 percent.

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 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.

Concentration risk

Concentration risk is defined as holdings greater than 5 percent of the total portfolio.

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 local government investment pool (LGIP) is an external investment pool, as defined by the GASB.

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.

In 2016, the NWSA adopted GASB 79, Certain External Investment Pools and Pool Participants, due to the NWSA's participation in the LGIP. 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.

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, 2017 and 2016 (dollars in thousands):

	2017 Maturities (in Years)				
Investment Type	Carrying Value	Less than 1	1-3	More than 3	Percentage of Total Portfolio
Federal Home Loan Bank	$ 8,864	$ ---	$ 4,918	$ 3,946	12.2%
Federal National Mortgage Association	6,952	2,000	4,952	---	9.6%
Municipal Bonds	5,825	---	3,538	2,287	8.0%
Supranationals	1,969	---	1,969	---	2.7%
State Local Government Investment Pool	47,181	47,181	---	---	64.8%
United States Treasury Bonds	1,969	---	---	1,969	2.7%
Total investments	**$ 72,760**	**$ 49,181**	**$ 15,377**	**$ 8,202**	**100.0%**
Percentage of total portfolio		67.6%	21.1%	11.3%	100.0%

	2016 Maturities (in Years)				
Investment Type	Carrying Value	Less than 1	1-3	More than 3	Percentage of Total Portfolio
Federal Home Loan Bank	$ 8,952	$ ---	$ ---	$ 8,952	13.0%
Federal Home Loan Mortgage Corporation	3,006	---	3,006	---	4.4%
Federal National Mortgage Association	6,988	---	6,988	---	10.1%
Municipal Bonds	9,274	3,345	---	5,929	13.4%
State Local Government Investment Pool	40,765	40,765	---	---	59.1%
Total investments	**$68,985**	**$44,110**	**$9,994**	**$14,881**	**100.0%**
Percentage of total portfolio		63.9%	14.5%	21.6%	100.0%

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, 2017 and 2016 (dollars in thousands):

	2017 Moody's Equivalent Credit Ratings						
Investment Type	Fair Value	A1	Aa3	Aa2	Aa1	Aaa	No Rating
Federal Home Loan Bank	$ 8,864	$ ---	$ ---	$ ---	$ ---	$ 8,864	$ ---
Federal National Mortgage Association	6,952	---	---	---	---	6,952	---
Municipal Bonds	5,825	---	2,286	2,006	1,533	---	---
Supranationals	1,969	---	---	---	---	1,969	---
State Local Government Investment Pool *	47,181	---	---	---	---	---	47,181
United States Treasury Bonds	1,969	---	---	---	---	1,969	---
Total	**$72,760**	**$ ---**	**$2,286**	**$2,006**	**$1,533**	**$19,754**	**$47,181**

	2016 Moody's Equivalent Credit Ratings						
Investment Type	Fair Value	A1	Aa3	Aa2	Aa1	Aaa	No Rating
Federal Home Loan Bank	$ 8,952	$ ---	$ ---	$ ---	$ ---	$ 8,952	$ ---
Federal Home Loan Mortgage Corporation	3,006	---	---	---	---	3,006	---
Federal National Mortgage Association	6,988	---	---	---	---	6,988	---
Municipal Bonds	9,274	1,331	4,399	2,000	1,544	---	---
State Local Government Investment Pool*	40,765	---	---	---	---	---	40,765
Total	**$68,985**	**$1,331**	**$4,399**	**$2,000**	**$1,544**	**$18,946**	**$40,765**

*Investments in Washington State Local Investment Pool. The fair value of the investments is the same as the amortized cost of the pool shares.

NOTE 3. CAPITAL ASSETS

The following capital asset activity took place during 2017 and 2016 (dollars in thousands):

	2017				
	Beginning of Year	Additions	Transfers	Retirements and Other	End of Year
Capital assets not being depreciated:					
Construction in process	$ 60,722	$ 68,920	$ (5,034)	$ 4,956	$ 129,564
Total capital assets not being depreciated	**60,722**	**68,920**	**(5,034)**	**4,956**	**129,564**
Capital assets being depreciated:					
Buildings	4,706	---	285	---	4,991
Improvements	14,322	---	3,231	---	17,553
Machinery and equipment	1,314	---	1,518	---	2,832
Total capital assets being depreciated	**20,342**	**---**	**5,034**	---	**25,376**
Less accumulated depreciation:					
Buildings	(156)	(674)	---	---	(830)
Improvements	(173)	(932)	---	---	(1,105)
Machinery and equipment	(203)	(574)	---	---	(777)
Total accumulated depreciation	**(532)**	**(2,180)**	**---**	**---**	**(2,712)**
Net, capital assets being depreciated	**19,810**	**(2,180)**	**5,034**	---	**22,664**
Net, capital assets	**$ 80,532**	**$ 66,740**	**$ ---**	**$ 4,956**	**$152,228**

NOTE 3. CAPITAL ASSETS (CONTINUED)

	2016				
	Beginning of Year	Additions	Transfers	Retirements and Other	End of Year
Capital assets not being depreciated:					
Construction in process	$ ---	$ 73,222	$ (12,500)	$ ---	$ 60,722
Total capital assets not being depreciated	---	**73,222**	**(12,500)**	---	**60,722**
Capital assets being depreciated:					
Buildings	---	---	4,706	---	4,706
Improvements	---	7,842	6,480	---	14,322
Machinery and equipment	---	---	1,314	---	1,314
Total capital assets being depreciated	---	**7,842**	**12,500**	---	**20,342**
Less accumulated depreciation:					
Buildings	---	(156)	---	---	(156)
Improvements	---	(173)	---	---	(173)
Machinery and equipment	---	(203)	---	---	(203)
Total accumulated depreciation	---	**(532)**	---	---	**(532)**
Net, capital assets being depreciated	---	**7,310**	**12,500**	---	**19,810**
Net, capital assets	**$ ---**	**$ 80,532**	**$ ---**	**$ ---**	**$ 80,532**

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 totaling $122,000 at December 31, 2017, is included in payroll and taxes payable on the accompanying statements of net position and is expected to be paid in 2018. Excess loss coverage has been purchased through an outside provider to limit individual loss to $110,000. Self-insured claim activity for December 31, is as follows (dollars in thousands):

	2017	2016
Claims liability, beginning of year	$ 105	$ ---
Claims reserve	748	735
Payments on claims	(732)	(630)
Claims liability, end of year	**$121**	**$ 105**

In 2017, the NWSA began to self-insure 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, 2017, the estimated self-insurance liability for workers' compensation was $22,000 and this amount is expected to be paid in 2018. The liability for unpaid claims represents the estimated future indemnity, medical, rehabilitation, and legal costs for all open claims. The NWSA was insured under the Port of Tacoma plan in 2016.

Workers' compensation claim activity for December 31, 2017 as is follow (dollars in thousands):

Claims liability, beginning of year	$ ---
Claims incurred during the year	28
Payments on claims	(6)
Claims liability, end of year	**$ 22**

NOTE 5. LEASE COMMITMENTS

The NWSA leases land, office space and other equipment under operating leases that expire through 2020. Future minimum lease payments under non-cancellable operating leases are as follows (dollars in thousands):

Years ending December 31:	
2018	$ 613
2019	600
2020	400
Total minimum payments required	**$1,613**

Total rent expense under non-cancellable operating leases for the year ended December 31, 2017, was $614,000.

The NWSA, as a lessor (via licensing agreements with the home ports), leases land and facilities under terms of 1 to 50 years. In addition, some properties are rented on a month-to-month basis. Future minimum rents receivable under non-cancellable operating leases and subleases are as follows (dollars in thousands):

Years ending December 31:	
2018	$ 103,176
2019	100,910
2020	99,379
2021	95,919
2022	93,612
Thereafter	1,105,788
Total minimum future rents	**$1,598,784**

Licensed assets of the home ports and NWSA assets held for rental and leasing purposes for the year ended December 31, 2017, are as follows (dollars in thousands):

Land	$ 659,302
Buildings, improvements and equipment, net	599,363
Total, net of accumulated depreciation	**$1,258,665**

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. On January 1, 2017, the NWSA established a separate account with DRS. Prior to January 1, 2017, the NWSA employees remained on the Port of Tacoma payroll and participated in PERS under the Port of Tacoma DRS account. The NWSA made all required contributions directly to DRS prior to 2017.

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, 2017, 393 employers and 756 non-employer 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 percent 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 percent. 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 percent.

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 percent of the member's AFC times the member's years of service. Retirement defined benefits for Plan 3 are calculated using 1 percent 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 percent 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 percent.

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 percent and a maximum of 15 percent; 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, 2017, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	12.70%	12.70%	12.70%**
Employee	6.00%	7.38%	***

* The employer rates include the employer administrative expense fee of 0.18% for 2017

** Plan 3 defined benefit portion only

*** Rate selected by PERS 3 members, 5% minimum to 15% maximum

Both the NWSA and the employees made the required contributions. The NWSA's required contributions for the year ended December 31 is as follows (dollars in thousands):

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3	Total
2017	$ ---	$651	$46	$697

Pension liabilities, pension expense, and deferred inflows and outflows of resources and related to pensions

At December 31, 2017, the NWSA reported a liability of $2.1 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017, the NWSA's proportionate share of net pension liability is presented in the following table (dollars in thousands):

	PERS 1	PERS 2/3	Total
NWSA's proportionate share of the net pension liability	$1,093	$1,030	$2,123

For the year ended December 31, 2017, the NWSA recognized pension expense of $1.0 million and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (dollars in thousands):

2017	PERS 1	PERS 2/3	Total
Sources of deferred outflow of resources:			
Changes in assumptions (1)	$ ---	$ 11	$ 11
Differences between expected and actual experience (1)	---	104	104
NWSA contributions subsequent to measurement date	147	219	366
Total	**$147**	**$ 334**	**$ 481**
Sources of deferred inflow of resources:			
Net difference between projected and actual earnings on pension plan investments (2)	$ (41)	$ (274)	$ (315)
Differences between expected and actual experience (1)	---	(34)	(34)
Total	**$ (41)**	**$(308)**	**$(349)**

(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)

As of December 31, 2017, deferred outflows of resources related to pensions resulting from NWSA's contributions subsequent to the measurement date was $366,000 and will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. 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):

Years ending December 31:	PERS 1	PERS 2/3	Total
2018	$ (10)	$ (56)	$ (66)
2019	(10)	(56)	(66)
2020	(10)	(56)	(66)
2021	(11)	(56)	(67)
Thereafter	---	31	31
Total	**$(41)**	**$(193)**	**$(234)**

Actuarial assumptions

The total pension liability (TPL) for each of the plans was determined by an actuarial valuation as of June 30, 2016 with the results rolled forward to June 30, 2017. Besides the discount rate, the actuarial assumptions used in the valuation are summarized in the Actuarial Section of DRS' Comprehensive Annual Financial Report located on the DRS employer-resource GASB webpage. These assumptions reflect the results of OSA's 2007-2012 Experience Study Report and the 2015 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report are as follows:

Inflation

3.0 percent total economic inflation; 3.75 percent salary inflation.

Salary increases

In addition to the base 3.75 percent salary inflation assumption, salaries are also expected to grow by promotions and longevity.

Investment rate of return

7.50 percent.

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 percent 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 long-term expected rate of return on pension plan investments was determined using a building-block method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs).

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.

The OSA selected a 7.50 percent long-term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered CMAs and simulated expected investment returns the WSIB provided.

Estimated rates of return by asset class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, is summarized in the table below.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed income	20%	1.70%
Tangible assets	5%	4.90%
Real estate	15%	5.80%
Global equity	37%	6.30%
Private equity	23%	9.30%
Total	**100%**	

The inflation component used to create the table is 2.20 percent for June 30, 2017 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 7.50 percent for all plans. 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 of current plan members. Consistent with current law, the asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test.

Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS Plans 2 and 3 employers, 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 7.50 percent was used to determine the total liability.

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 7.50 percent as well as what employers' net pension liability would be if it were calculated using a discount rate 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate (dollars in thousands):

December 31, 2017:	Pension Trust	1% Decrease	Discount Rate	1% Increase
Discount rate		6.50%	7.50%	8.50%
Proportionate share of net pension liability	PERS 1	$1,332	$1,093	$ 887
Proportionate share of net pension liability/ (asset)	PERS 2/3	2,774	1,030	(400)

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 2017 Comprehensive Annual Financial Report (CAFR), 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 2015 Report on Financial Condition and Economic Experience Study on the OSA website.

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, 2017, the remaining commitments on these agreements amounted to $43.8 million.

Description	Remaining Commitments (Thousands)
Terminal projects	$ 42,639
Environmental	264
Other (including professional services)	897
Total minimum payments required	**$ 43,800**

During NWSA's start-up period, the Port of Tacoma, acting as an agent for the NWSA per support services agreements, issued contracts on behalf of the NWSA. The remaining commitments on these contracts were $512,000 at December 31, 2017, and will be reimbursed by the NWSA.

The NWSA agreed to purchase support services from both home ports during NWSA's startup and transition period. See Note 9, Related-Party Transactions, for additional information.

Contingencies

The NWSA is named as a defendant in various 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, 2017, of $195.0 million included $135.2 million, or 69 percent of operating revenues from 10 customers, three of these customers individually accounted for 56 percent or more of operating revenues of the top 10 customers, and in aggregate, 39 percent of operating revenues. Receivables from the 10 significant customers totaled $4.8 million, or 27 percent of total trade receivables.

Operating revenues for the year ended December 31, 2016, of $195.2 million included $151.5 million, or 78 percent of operating revenue from 10 customers, three of these customers individually accounted for 10 percent or more of operating revenues, and in aggregate, 40 percent of operating revenues. Receivables from the 10 significant customers totaled $8.2 million, or 75 percent of total trade receivables.

NOTE 9. RELATED-PARTY TRANSACTIONS

As more fully described in the MD&A and 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 percent of NWSA revenues in 2017 and 2016.

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 $38.8 million and $38.1 million in 2017 and 2016, 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 and $1.1 million in 2017 and 2016, respectively. 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 in the following month, after the amount due is determined. At December 31, 2017 and 2016, $11.3 million and $20.6 million, respectively, were payable to the home ports and are presented on the statements of net position as related-party payable - Managing Members.

The NWSA distributes cash flow from operations, calculated pursuant to GAAP to the home ports. During 2017, distributions have been generally made in the following month, after the amount due is determined.

At December 31, 2017 and 2016, $10.1 million and $20.8 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 was initially funded with $27.0 million to support a five-year capital investment plan. During 2016, each Managing Member authorized additional capital construction contributions of $29.1 million primarily for pier, backlands, gate improvements and two additional cranes for the redevelopment of Husky Terminal in the South Harbor. During 2017, home ports contributed $69.1 million of funding for capital construction projects in accordance with the capital investment plan approved by the Managing Members.

The home ports generally funded the capital construction spending in the following month, after the amount receivable was determined. At December 31, 2017 and 2016, $9.0 million and $15.6 million, respectively was receivable from the home ports and is presented on the statements of net position as related-party receivable - Managing Members.

Additionally, the NWSA CEO also serves as the CEO of the Port of Tacoma. The CEO will serve in dual roles through the transition period or until a Port of Tacoma CEO is hired, but for no more than five years.

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.

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, 2017 and 2016.

The tables below present the balances of assets measured at fair value by level within the hierarchy at December 31, 2017 and 2016 (dollars in thousands):

	Fair Value of Investments as of December 31, 2017		
	Level 1	Level 2	Total
Investments:			
Federal Home Loan Bank	$ ---	$ 8,864	$ 8,864
Federal National Mortgage Association	2,000	4,952	6,952
Municipal Bonds	2,286	3,539	5,825
Supranational Bonds	---	1,969	1,969
United States Treasury Bonds	1,969	---	1,969
Total investments	**$ 6,255**	**$ 19,324**	**$ 25,579**

	Fair Value of Investments as of December 31, 2016		
	Level 1	Level 2	Total
Investments:			
Federal Home Loan Bank	$ ---	$ 8,952	$ 8,952
Federal Home Loan Mortgage Corporation	---	3,006	3,006
Federal National Mortgage Association	6,988	---	6,988
Municipal Bonds	2,384	6,890	9,274
Total investments	**$9,372**	**$18,848**	**$28,220**

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended December 31, 2017 (Dollars in Thousands)

SCHEDULE OF THE NORTHWEST SEAPORT ALLIANCE'S SHARE OF NET PENSION ASSET/LIABILITY (NPA/NPL)	
PERS PLAN 1	
NWSA's proportion of NPL	0.023%
NWSA's proportionate share of NPL	$ 1,093
NWSA's covered-employee payroll	$ ---
NWSA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	100.00%
Plan fiduciary net pension position as a percentage of the total pension liability	61.24%
Contractually required contribution	$ 286
Contributions in relation to the contractually required contribution	(286)
Contribution deficiency	$ ---
NWSA's covered-employee payroll	$ ---
Contributions as a percentage of covered-employee payroll	0.00%
PERS PLAN 2/3	
NWSA's proportion of NPL	0.030%
NWSA's proportionate share of NPL	$ 1,030
NWSA's covered-employee payroll	$ 5,844
NWSA's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	17.60%
Plan fiduciary net pension position as a percentage of the total pension liability	90.97%
Contractually required contribution	$ 411
Contributions in relation to the contractually required contribution	(411)
Contribution deficiency (excess)	$ ---
NWSA's covered-employee payroll	$ 5,844
Contributions as a percentage of covered-employee payroll	7.00%

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

See Note 6 of the financial statements for additional information on the plan.

INDEPENDENT AUDITOR'S REPORT

RSM

RSM US LLP

The 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, 2017 and 2016, 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. The NWSA's basic financial statements as of and for the year ended December 31, 2016 were not audited in accordance with *Governmental Auditing Standards*.

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 respective financial position of the NWSA as of December 31, 2017 and 2016, and the respective changes in financial position and where applicable, 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 required supplementary information 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 29, 2018, 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 29, 2018

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