



Office of the Washington State Auditor  
Pat McCarthy

# **Financial Statements Audit Report**

# **Downtown Redevelopment Authority**

**For the period January 1, 2020 through December 31, 2020**

*Published September 2, 2021*

Report No. 1028983



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

September 2, 2021

Board of Directors  
Downtown Redevelopment Authority  
Vancouver, Washington

**Report on Financial Statements**

Please find attached our report on the Downtown Redevelopment Authority's financial statements.

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

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*

## TABLE OF CONTENTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	4
Independent Auditor's Report on the Financial Statements .....	6
Financial Section.....	9
About the State Auditor's Office.....	25

## INDEPENDENT AUDITOR'S REPORT

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

#### **Downtown Redevelopment Authority January 1, 2020 through December 31, 2020**

Board of Directors  
Downtown Redevelopment Authority  
Vancouver, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Downtown Redevelopment Authority, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated August 26, 2021.

Our report includes a reference to other auditors who audited the financial statements of the Vancouver Hotel and Convention Center Project (the Project), as described in our report on the Authority's financial statements. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those auditors. However, this report, insofar as it relates to the results of other auditors, is based solely on the report of the other auditors. The financial statements of the Project were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Project.

As discussed in Note III to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Authority is unknown.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

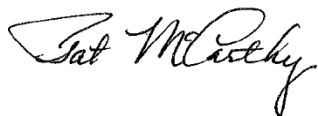
## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy, State Auditor

Olympia, WA

August 26, 2021

# INDEPENDENT AUDITOR'S REPORT

## Report on the Financial Statements

### **Downtown Redevelopment Authority January 1, 2020 through December 31, 2020**

Board of Directors  
Downtown Redevelopment Authority  
Vancouver, Washington

## **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Downtown Redevelopment Authority, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 9.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Vancouver Hotel and Convention Center Project (the Project), which represents 3 percent and 100 percent, respectively, of the assets and revenues of the Authority. Those statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Project, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Project were not audited in accordance with *Government 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 the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Downtown Redevelopment Authority, as of December 31, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matter of Emphasis**

As discussed in Note III to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Authority is unknown. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the

information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2021 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

August 26, 2021



## **FINANCIAL SECTION**

### **Downtown Redevelopment Authority January 1, 2020 through December 31, 2020**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2020

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2020

Statement of Revenues, Expenses and Changes in Net Position – 2020

Statement of Cash Flows – 2020

Notes to Financial Statements – 2020

Downtown Redevelopment Authority  
(A component unit of the City of Vancouver)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended December 31, 2020

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Vancouver Downtown Redevelopment Authority's (the "Authority" or "DRA") discussion and analysis offers readers of the DRA's financial statements a narrative overview and analysis of the Authority's financial activities for the fiscal year ended December 31, 2020. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and notes to the financial statements (which immediately follow this discussion).

### **FINANCIAL HIGHLIGHTS**

- At December 31, 2020, the liabilities of the DRA exceeded its assets and deferred outflows of resources by \$13,187,387.
- Net investment in capital assets of negative \$19,440,073 represents the deficit component of the DRA's net position. This is a result of accumulated depreciation growing at a faster rate than the reduction of the associated capital debt.
- The Authority reported net operating loss of \$2,653,803. This is a decrease of \$5,678,231 from the prior year's operating income of \$3,064,428.
- The Authority has reported a positive unrestricted net position of \$1,307,953.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis provides an introduction and overview to the DRA's basic financial statements and is intended to assist users in interpreting the Authority's basic financial statements. We will also provide discussion and analysis of certain plans, projects, and trends necessary for understanding the full context of the financial condition of the Authority. The DRA is a special purpose business-type government. The purpose of the Authority is to own the Vancouver Conference Center Hotel, approve its budget and oversee its activities and operations.

#### **Basic Financial Statements**

The basic financial statements are comprised of two components: 1) enterprise fund financial statements, and 2) notes to the financial statements. Because the Authority is a special-purpose government engaged only in business-type activities, only fund financial statements are presented as the basic financial statements.

#### **Enterprise Fund Financial Statements**

A fund is a grouping of related accounts that are used to maintain control over resources that are segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting for compliance with finance related legal requirements. The single fund of the DRA is reported as an enterprise fund. The financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows.

The Statement of Net Position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. This statement serves a purpose similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net position may serve as one indicator of whether the financial position of the DRA is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Fund Net Position presents information showing how the Authority's net position changed during 2020. The DRA distinguishes between operating and non-operating revenues as well as expenses. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the DRA are charges to customers for lodging, meals and banquet services. This statement separates operating program revenue (revenue generated by specific programs through charges for services) from general nonoperating revenue (revenue provided by taxes and other sources not tied to a particular program). This shows the extent to which a program relies on general revenue for funding. All changes in net position are reported using the accrual basis of accounting, similar to the method used by most private-sector companies. The accrual basis of accounting requires that revenues are reported when they are earned and expenses are reported as soon as liabilities are incurred. Items such as unpaid vendor invoices for items received in 2020 and earned but unused vacation leave will be included in the statement of revenues, expenses and changes in net position as an expense, even though the cash associated with these items was not distributed in 2020.

The Statement of Cash Flows presents the cash and cash equivalent activity of the Authority. It classifies cash flows into four activities: 1) operating activities, 2) non-capital financing activities, 3) capital and related financing activities and 4) investing activities.

## Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the fund statements. The notes to the financial statements can be found following the statement of cash flows.

## FINANCIAL ANALYSIS

### Statement of Net Position

As noted earlier, changes in net position over time may serve as a useful indicator of a government's financial position. The Authority's total net position is negative \$13,187,387 at December 31, 2020. The following table reflects the condensed and comparative version of the Statement of Net Position:

<b>Downtown Redevelopment Authority</b>		
<b>Statement of Net Position</b>		
	December 31, 2020	December 31, 2019
Current and other assets	\$ 12,927,229	\$ 18,070,546
Capital assets	33,885,847	35,772,136
Total assets	46,813,076	53,842,682
Deferred outflows of resources	904,050	973,592
Current liabilities	4,183,683	5,053,601
Noncurrent liabilities	56,720,828	60,026,999
Total liabilities	60,904,511	65,080,600
Net position		
Net investment in capital assets	(19,440,073)	(19,443,545)
Restricted for capital purposes	832,833	347,138
Restricted for debt service	4,091,881	7,569,617
Unrestricted	1,327,973	1,262,464
Total net position	\$ (13,187,386)	\$ (10,264,326)

Capital assets and liabilities account for the majority of the Authority's total assets and liabilities. In 2020, total net position decreased by \$2.9 million. The increase is primarily due to a significant reduction of operational activities which decreased operating income by \$5.68 million. This is directly related to the impact of COVID-19 on the hotel's operations.

Approximately 45% or \$4.94 million of the Authority's cash with the Trustee is subject to restrictions imposed by the bond indenture. The current year presentation reflects an amount restricted for capital assets, as the Authority had cash deposited with the Trustee in the required capital accounts.

## Statement of Revenues, Expenses and Changes in Fund Net Position

Key elements in the changes in net position are discussed below. A condensed version of the Statement of Revenues, Expenses and Changes in Fund Net Position for the past two years is shown in the following table. The full statement is a tabular depiction of the relationship of revenues and expenses for the DRA.

Downtown Redevelopment Authority Summary of Changes in Fund Net Position		
	2020	2019
Revenues		
Operating revenues		
Charges for services	\$ 7,541,014	\$ 20,293,517
Nonoperating revenues		
Interest earned	42,875	263,783
Intergovernmental contributions	2,407,186	3,006,056
Miscellaneous	-	15,180
Total revenues	9,991,075	23,578,536
Expenses		
Operating expenses		
Supplies and contractual services	7,958,637	15,057,427
Depreciation	2,236,179	2,211,662
Nonoperating expenses		
Excise tax	137,848	255,274
Interest and fiscal charges	2,609,246	2,775,255
Net loss from disposal of assets	80,718	93,695
Total expenses	13,022,628	20,393,313
Excess or Deficiency before Special and Extraordinary items	(3,031,550)	3,185,223
Special items	107,813	107,813
Extraordinary items	681	3,753
Change in net position	(2,923,060)	3,296,789
Fund net position - Beginning	(10,264,326)	(13,561,115)
Fund net position - Ending	\$ (13,187,385)	\$ (10,264,326)

In 2020, total operating revenues decreased by \$12.7 million due to the impact of COVID-19. The hotel conference center project experienced decreases in occupancy and average room rates. Intergovernmental contributions comes from two sources; the City of Vancouver lodging tax and the City Public Facilities District sales tax credit, which decreased 51.0% and increased 3.1%, respectively.

The Authority's total expenses decreased by \$7.4 million. Of this amount, supplies and contractual services decreased by \$7.1 million over the prior year. This decrease was the result of cost reduction measures implemented in response to COVID-19 and can be directly correlated to the decrease in operation revenues. Most Hilton staff has been furloughed since the beginning of the pandemic through the end of the year. Capital projects were postponed until the economic situation is stabilized.

The Authority's decrease in net position of \$2.9 million was primarily attributed to the impact of COVID-19 on operational activity.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At December 31, 2020, the Authority's investment in capital assets, which includes buildings and equipment for the Conference Center-Hotel, totaled \$33,885,848. During 2020 there were no significant capital projects undertaken.

	Total Activities	
	12/31/2020	12/31/2019
Construction in Progress	\$ 32,775	\$ 93,784
Buildings (net of depreciation)	31,606,135	33,379,515
Equipment (net of depreciation)	2,246,936	2,298,837
Total	\$ 33,885,846	\$ 35,772,136

## **Long Term Debt**

At December 31, 2020, the DRA had total revenue bonds outstanding of \$52.4 million. This decreased by \$1.9 million due to scheduled debt payments. The \$4.4 million Due to Other Governmental Units reflects the DRA's liability to the Clark County Public Facilities District for their funding of the construction and operation of the Conference Center Hotel.

## **ECONOMIC OUTLOOK**

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of COVID-19. In the weeks following the declaration, precautionary measures to slow the spread of the virus were also ordered. These measures included closing schools, colleges and universities, cancelling public events, limiting gathering sizes, ordering residents to stay at home and closing non-essential businesses.

The limitations on businesses, group gatherings and travel put in place in response to the COVID-19 outbreak have had a significant impact on the hospitality industry, including the operations of the Authority's hotel and convention center. Virtually all of the Hilton Vancouver's customers with group business booked through June have cancelled and business travel was essentially non-existent. Management has responded to the decrease in demand and revenue with cost control measures to significantly reduce expenses. Despite the cost reductions the Authority experienced operating loss in 2020 and is likely to experience one in 2021 as well. Where possible, Hilton is working with individuals and groups to rebook travel and events for the second part of 2021. Management is following Centers for Disease Control and Prevention guidelines on sanitizing public spaces, guest rooms and food and beverage service areas to help reduce the possibility that team members and guests encounter the virus while at the facility.

Thanks to positive financial results the last several years all required reserves were fully funded by the end of 2019 and the DRA had excess reserves in place to fund debt service payments or operations in 2020. A portion of those reserves was utilized during 2020 to fund the debt service of Project Bonds. Hilton's corporate team, Hilton Vancouver management team, Downtown Redevelopment Authority and the Authority's asset manager are monitoring the events and business trends. Hilton's experience in other parts of the world and in other markets will help guide the DRA's short-term response and will be a significant benefit in the longer-term recovery.

The local Portland and Vancouver economy was strong prior to the impact of the coronavirus and the expectation is that strength will help in the recovery from the anticipated recession. Development at the downtown Vancouver waterfront, roughly two blocks from the hotel, achieved a new level in 2019. The development is anchored by a 7.3-acre park, an extension of the Columbia River Renaissance Trail and an award-winning cable-stayed pier extending out over the Columbia River. New mixed-use private development includes several new buildings and over \$300 million featuring two destination restaurants and several wineries to go with offices, apartments, condos and a hotel (under construction and scheduled to open in late 2020). In total the development is master planned for up to 3,300 housing units, 1.25 million square feet of office space and 250,000 square feet of retail and hospitality space valued at \$1.2 billion. In addition to the waterfront development, one additional new hotel was under construction in downtown Vancouver. The DRA, Hilton management and the DRA's asset manager are closely monitoring these new developments.

Finally, prior to the COVID-19 outbreak the City of Vancouver, the DRA, Hilton and the DRA's asset manager were working on a financing plan to complete significant renovation projects. The Authority is moving forward with the design of a renovation of the lobby area, update of exterior lighting and pool in 2020.

## **Requests for Information**

This financial report is designed to provide a general overview of DRA finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Downtown Redevelopment Authority, Financial & Management Services, PO Box 1995, Vancouver, WA, 98668-1995.

**Downtown Redevelopment Authority**

(A Component Unit of the City of Vancouver)

**STATEMENT OF NET POSITION**

As of December 31, 2020

**ASSETS**

## Current assets

Cash and cash equivalents	\$ 92,064
Cash with Fiscal Agent	5,944,713
Restricted cash with fiscal/escrow agent	4,944,735
Receivables (net)	
Taxes	1,083,136
Accounts	705,887
Interest	124
Inventory	39,724
Prepaid expenses	116,846
Total current assets	<u>12,927,229</u>

## Noncurrent assets

## Capital assets

Construction in Progress	32,775
Buildings	51,362,898
Equipment	7,781,682
Accumulated depreciation	<u>(25,291,508)</u>
Total noncurrent assets	<u>33,885,848</u>
TOTAL ASSETS	<u>46,813,076</u>

## DEFERRED OUTFLOWS OF RESOURCES

Deferred Charges on refunding	<u>904,050</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>904,050</u>

**LIABILITIES**

## Current liabilities

Accounts payable	128,792
Accrued interest payable	1,166,731
Accrued liabilities	346,204
Unearned revenue	491,956
Bonds, notes and leases payable	<u>2,079,304</u>
Total current liabilities	<u>4,212,987</u>

## Noncurrent liabilities

Other long-term payables	161,719
Bonds, notes and leases payable from restricted assets	52,150,665
Due to other governments	<u>4,379,140</u>
Total noncurrent liabilities	<u>56,691,524</u>
TOTAL LIABILITIES	<u>60,904,511</u>

**NET POSITION**

Net investment in capital assets	(19,440,073)
Restricted for capital purposes	852,853
Restricted for debt service	4,091,881
Unrestricted	<u>1,307,953</u>
TOTAL NET POSITION	<u>\$ (13,187,386)</u>

The Notes to the Financial Statements are an integral part of this statement

**Downtown Redevelopment Authority**  
**(A Component Unit of the City of Vancouver)**  
Statement of Revenues, Expenses and Changes in Net Position  
For the Year Ended December 31, 2020

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OPERATING REVENUES	
Charges for services	\$ 7,541,014
Total operating revenues	<u>7,541,014</u>
OPERATING EXPENSES	
Supplies and contractual services	7,958,637
Depreciation	<u>2,236,179</u>
Total operating expenses	<u>10,194,816</u>
Operating income (loss)	(2,653,802)
NONOPERATING REVENUES (EXPENSES)	
Interest earnings	42,875
Intergovernmental contributions	2,407,186
Excise Tax	(137,848)
Net loss on disposal of assets	(80,718)
Interest and fiscal charges	<u>(2,609,246)</u>
Total nonoperating revenues (expenses)	<u>(377,752)</u>
SPECIAL ITEMS	
Gain on extinguishment of Debt	<u>107,813</u>
Total special items	<u>107,813</u>
EXTRAORDINARY ITEMS	
Claims Settlement	<u>681</u>
Total extraordinary items	<u>681</u>
Change in net position	(2,923,060)
TOTAL NET ASSETS - BEGINNING	<u>(10,264,326)</u>
TOTAL NET ASSETS - ENDING	<u>\$ (13,187,385)</u>

The Notes to the Financial Statements are an integral part of this statement

**Downtown Redevelopment Authority**  
**(A Component Unit of the City of Vancouver)**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2020**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from operating activities	\$ 8,616,926
Cash payments for goods and services	<u>(10,369,025)</u>
Net cash provided (used) by operating activities	<u>(1,752,099)</u>

**CASH FLOWS FROM NONCAPITAL**

**FINANCING ACTIVITIES**

Receipts from other governments	3,991,686
Payments to other governments	<u>(3,088,067)</u>
Net cash provided (used) by noncapital financing activities	<u>903,619</u>

**CASH FLOWS FROM CAPITAL AND**

**RELATED FINANCING ACTIVITIES**

Principal paid on capital debt	(1,930,000)
Interest paid on capital debt	(2,372,763)
Purchase of capital assets	<u>(438,346)</u>
Net cash provided (used) by capital and related financing activities	<u>(4,741,109)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Receipts of claims settlement	681
Receipt of interest	<u>62,282</u>
Net cash provided (used) by investing activities	<u>62,964</u>

**NET INCREASE (DECREASE) IN**

**CASH AND CASH EQUIVALENTS**

(5,526,625)

**CASH AND CASH EQUIVALENTS - BEGINNING**

16,508,137

**CASH AND CASH EQUIVALENTS - ENDING**

\$ 10,981,512

**Reconciliation of operating income (loss) to net**

**cash used by operating activities:**

Net operating income (loss)	\$ (2,653,802)
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Adjustments to reconcile net operating income (loss)

to net cash provided by operations:

Depreciation expense	2,236,179
(Increase) Decrease in receivables	(443,572)
(Increase) Decrease in inventories	8,678
(Increase) Decrease in prepaid items	13,873
Increase (Decrease) in current payables	(847,962)
Increase (Decrease) in unearned revenue	<u>(65,492)</u>
Total adjustments	<u>901,705</u>
Net cash provided (used) by operating activities	<u>\$ (1,752,098)</u>

Noncash investing, financing and capital activities

Net change in fair value of investments	16
Forgiveness of debt	107,813

The Notes to the Financial Statements are an integral part of this statement



Downtown Redevelopment Authority  
(A Component Unit of the City of Vancouver)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

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**NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Downtown Redevelopment Authority (the Authority or DRA) conform to generally accepted accounting principles as applied to local governmental units. The more significant accounting policies are described below.

**A. REPORTING ENTITY**

The Downtown Redevelopment Authority (DRA) is a special purpose government established in 1997 to plan, design, finance, acquire, construct, equip, own, maintain, operate, repair, remodel, expand and promote the Vancouver Conference Center Hotel project. The DRA is a component unit of the City of Vancouver (the City), Washington, the primary government. The DRA Board is composed of seven (7) members who are appointed by the City Council of Vancouver to four-year terms. The City is able to impose its will on the Authority; however, the DRA's services do not exclusively or almost exclusively benefit the City of Vancouver. Therefore, financial statements are discretely presented in the City of Vancouver's annual financial report. The City of Vancouver's financial statements can be obtained from the City of Vancouver, Financial & Management Services, PO Box 1995, Vancouver, WA 98668-1995.

The Downtown Redevelopment Authority retains the Hilton Hotels Corporation as a Manager for its Conference Center Hotel project, which constitutes most of the Authority's ongoing operations. Financial statements for the Conference Center Hotel project can be obtained from the City of Vancouver, Financial & Management Services, PO Box 1995, Vancouver, WA 98668-1995.

**B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, contributions, and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are room rents and meal revenues from hotel, banquet and restaurant usage. Operating expenses for this enterprise fund include the cost of personnel and contractual services and supplies. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

It is the government's policy to use restricted resources for their intended uses, and unrestricted resources for other uses.

**C. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY**

**1. Deposits and Investments**

The DRA's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments. Statutes authorize the Authority to invest in obligations of the U. S. Treasury, commercial paper, repurchase agreements, Local Government Investment Pools and the State Treasurer's Investment Pool. The City of Vancouver Investment Pool operates in accordance with appropriate state laws and regulations. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the state pool is the same as the amortized value of the pool shares. For the most part, investments for the DRA, are reported at fair value.

For purposes of the statement of cash flows, the DRA considers the assets within the state and local government investment pools and all highly liquid investments with a maturity of three months or less to be cash equivalents.

**2. Receivables and Payables**

All trade receivables are shown net of an allowance for uncollectible accounts. Accrued interest receivable consists of amounts earned on investments, but not received at the end of the year.

**3. Inventories and Prepaid Items**

The inventories consist primarily of food, beverage, china, glass, silver, and linens used in the operation of the Conference Center Hotel and are stated at the lower of cost or market using a first-in first-out valuation method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the DRA financial statements.

Downtown Redevelopment Authority  
(A Component Unit of the City of Vancouver)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

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4. Restricted Assets

These accounts contain resources being held by the Trustee for debt service and operation of the Conference Center Hotel. The use of these assets is limited by applicable trust indenture requirements.

5. Capital Assets

Capital assets are generally considered property, plant, and equipment owned by the Authority costing \$5,000 or more, and having an estimated useful life of more than three years. Such assets are recorded at historical cost or estimated historical cost if the actual cost is not available and are reported in the Statement of Net Assets. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are recorded in construction in progress as they are constructed and capitalized upon completion.

Assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Category</u>	<u>Useful Life</u>
Buildings	40
Structures	20
Leasehold Improvements	5
Other Improvements	5-22
Equipment	5-25

6. Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

7. Unearned Revenue

This includes amounts available but not yet earned and Conference Center Hotel guest advance deposits.

8. Restricted Funds

In accordance with bond documents and other related agreements separate restricted fund are required. The assets held in these funds are restricted for specific uses and specific conditions, including capital needs, debt service and other special reserve requirements. Restricted funds on 12/31/2020 included the following:

<u>Purpose</u>	<u>12/31/2020</u>
Debt Service	\$ 4,091,881
Capital	852,853
Total	<u>\$ 4,944,735</u>

9. Use of Estimates

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Generally accepted accounting principles (GAAP), require management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates and assumptions.

Downtown Redevelopment Authority  
(A Component Unit of the City of Vancouver)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

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## NOTE II. DETAILED NOTES

### A. DEPOSITS AND INVESTMENTS

#### Deposits

Cash and investments are presented on the Statement of Net Position in the basic financial statements at fair value or amortized cost, which approximates fair value.

*Custodial credit risk (deposits).* Custodial risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned. The Authority has not adopted a policy that addresses deposit custodial risk; however, the Authority's deposits are covered by Federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commissioner (PDPC). In the event of a bank failure, claims for Authority's deposits would be satisfied by the FDIC or from the sale of collateral held in the PDPC pool.

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

#### Investments

As required by state law, the Authority may only invest funds in obligations of the U.S. Government, U.S. agency issues, the State Treasurer's Investment Pool, bankers' acceptances, overnight repurchase agreements, commercial paper, the City of Vancouver Investment Pool, money market accounts, or certificates of deposit with Washington State banks and savings and loan institutions.

The City of Vancouver Treasurer acts in a fiduciary capacity for the Authority's unrestricted funds not held by the Trustee and administers an investment pool in which the Authority participates.

As of December 31, 2020, the Authority's interest in the City of Vancouver Investment Pool totaled \$72,064. Investments in the City's pool are stated at fair value and are not subject to categorization because specific instruments cannot be distinguished between those participating in the pool. The fair value of the Authority's position in the pool is the same as the fair value of the pool shares.

The Authority's restricted funds, \$4,944,735, are held by the bond Trustee. The Authority measures and records its investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These guidelines recognize a three-tiered fair value hierarchy, as follows:

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

As of December 31, 2020, the Authority used the Level 2 – quoted market prices, which are significant other observable inputs, to measure the Restricted Investment held with the Escrow Agent in Money Market Funds.

*Credit risk.* Credit risk is the risk that an issuer or related party will not fulfill its obligations. The DRA has not adopted a formal investment policy that limits its investment and diversification by investment type and issuer beyond the limits imposed by State law. As required by state law, all investments of the DRA's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, investments in the State Treasurer's Investment Pool, investments in the City of Vancouver Investment Pool, bankers' acceptances, or certificates of deposit with Washington State banks and savings and loan institutions. The DRA invests in a money market fund which only invests in U.S. Treasury securities has a credit rating of AAA-mf from Moody's and AAAM from S&P.

*Concentration of credit risk.* Concentration risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The DRA has not adopted a policy limiting the amount the DRA may invest in any one issuer. All of the investments are held in the Money Market Fund, which manages its concentration risk with short term investments held within the fund.

*Interest rate risk.* DRA policy limits investment maturities as a means to manage its exposure to fair value losses arising from increasing interest rates. The DRA's investments in the money market fund at December 31, 2020, had a weighted average life of 105 days.

Downtown Redevelopment Authority  
(A Component Unit of the City of Vancouver)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

**B. CAPITAL ASSETS**

A summary of capital asset activity for the year ended December 31, 2020, was as follows:

	Beginning Balance			Ending Balance	
	12/31/2019	Increases	Decreases	12/31/2020	
Capital assets, not being depreciated:					
	\$ 93,784	\$ 401,698	\$ 462,707	\$ 32,775	
Construction in progress	93,784	401,698	462,707	32,775	
Capital assets, being depreciated:					
Buildings and system	51,479,895	-	116,998	51,362,897	
Machinery and equipment	7,859,302	491,617	569,237	7,781,682	
Total capital assets, being depreciated	59,339,197	491,617	686,235	59,144,579	
Less accumulated depreciation for:					
Buildings and system	18,100,380	1,699,038	42,655	19,756,763	
Machinery and equipment	5,560,465	537,141	562,860	5,534,746	
Total accumulated depreciation	23,660,845	2,236,179	621,943	25,291,509	
Total capital assets, being depreciated, net	35,678,352		1,825,282	33,853,070	
Capital assets, net	\$ 35,772,136		1,886,291	\$ 33,885,845	

Depreciation expense was charged to the Authority for the year ending December 31, 2020, for \$2,236,179.

**C. LEASE AGREEMENTS**

Operating Lease

The Authority leases land and premises under an operating lease entered into in December 2003 that grants early termination rights. The land is leased from Vancouver Public Facilities District for 50 years, for a one-time rental payment of \$10.

**D. LONG-TERM DEBT**

Revenue Bonds

In 2003, the DRA issued bonds in which it pledged income derived from the acquired or constructed assets and taxes pledged to it by other governments to pay debt service. The revenue bonds were authorized by resolution adopted by the DRA Board, and financed from operating revenues. The revenue bonds were issued to finance construction of the Conference Center Hotel project. In June 2013, the remaining outstanding balance of \$63,105,000 of the 2003 DRA revenue bonds were refunded by issuing two series of revenue refunding bonds.

The first series of bonds, \$41,185,000 Conference Center Project Refunding Revenue Bonds, were authorized by Resolution No. 2013-05-14-1 by the DRA Board. The Project Revenue Bonds are payable primarily from project revenues received by the Authority. In addition, the City has agreed pursuant to the Amended and Restated Payment Agreement, dated June 1, 2013, between the City and the Authority to make payments to the Trustee from any available funds if and to the extent necessary to pay debt service on the 2013 Project Revenue Bonds. The 2013 Amended and Restated Payment Agreement provides that if on the 10th business day prior to each interest payment date or principal payment date, if there is not sufficient money on deposit with the Trustee in the Project Revenue Bonds Debt Service Account as required by the Indenture, the City shall pay to the Trustee, in immediately available funds, on or prior to the 5th business day prior to the debt service date, the amount of any such deficiency; provided that the aggregate amount of such payments by the City to the Trustee in any calendar year shall not exceed the annual debt service payments on the

Downtown Redevelopment Authority  
(A Component Unit of the City of Vancouver)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

Project Revenue Bonds. Any payment by the City to pay interest and/or principal on the 2013 Project Revenue Bonds will constitute

a loan by the City to the Authority, with interest payable on such amounts at the rate or rates on such 2013 Project Revenue Bonds and the City shall have full rights of subrogation.

The City shall take such action as may be necessary under the Amended and Restated Payment Agreement to include all payments due in its operating budget for each fiscal year commencing on and after the date of execution, and to make all appropriations for such payments at such time and in such manner and amounts as may be necessary in order to make all debt service payments when due.

The second series of bonds, \$18,045,000 Conference Center Project Sales and Lodging Tax Refunding Revenue Bonds, were also issued in June 2013. These bonds were authorized by Resolution No. 2013-05-14-1 by the DRA Board. The Tax Revenue Bonds are payable primarily from 1) certain proceeds of special sales and use taxes imposed by the Vancouver Public Facilities District (the "City PFD") and the Clark County Public Facilities District (the "County PFD"); 2) certain proceeds of a special lodging tax levied by the City (the "Lodging Tax Revenues"); and 3) certain amounts of certain funds and accounts established under the Indenture. The agreements in place for the Sales Taxes imposed by the City PFD will expire March 2026 and the Sales Tax imposed by the County PFD will expire March 2028. Lodging Tax Revenues will continue to be pledged for payment of principal and interest on the Tax Revenue Bonds until the final maturity of this bond series.

If an Event of Default occurs and is continuing with respect the Project Revenue or Tax Revenue bonds, the Trustee shall, upon the request of the owners of a majority in aggregate principal amounts of the bonds, take up to and including the following actions:

For the Project Revenue Bonds:

- Prohibit the Authority from withdrawing funds from any account, with few exceptions, without the Trustee's written consent.
- Commence foreclosure of the Leasehold Mortgage by private sale or judicial foreclosure.
- Accelerate the bonds, whereupon all principal and interest on such bonds shall immediately become due.

For the Tax Revenue Bonds

- Prohibit the Authority from withdrawing funds from any account, with few exceptions, without the Trustee's written consent.
- Take legal action to protect and secure tax revenues pledged for the benefit of bondholders.
- Accelerate the bonds, whereupon all principal and interest on such bonds shall immediately become due.

DRA Revenue Refunding bonds outstanding at year-end are as follows:

**Outstanding DRA Revenue Bond Debt**

Name of Issuance	Original Debt	Issuance Date	Maturity Date	Interest Rate	Debt Outstanding
2013 DRA Conference Center Project Refunding Revenue Bonds	\$ 41,185,000	6/27/2013	1/1/2044	4.38%	\$ 38,730,000
2013 DRA Conference Center Project Sales & Lodging Tax Refunding Revenue Bonds	<u>\$ 18,045,000</u>	6/27/2013	1/1/2034	4.05%	<u>\$ 13,680,000</u>
<i>Total Revenue Bonds</i>	<u><u>\$ 59,230,000</u></u>				<u><u>\$ 52,410,000</u></u>

Downtown Redevelopment Authority  
(A Component Unit of the City of Vancouver)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

DRA 2013 Project Revenue Bonds and the DRA 2013 Tax Revenue Bonds debt service requirements to maturity are as follows:

	2013 Project Revenue Refunding Bonds			2013 Tax Revenue Refunding Bonds		
	Principal	Interest	Total Requirements	Principal	Interest	Total Requirements
2021 \$	920,000	\$ 1,700,612	\$ 2,620,612	\$ 1,130,000	\$ 581,600	\$ 1,711,600
2022	965,000	1,653,486	2,618,486	1,230,000	522,600	1,752,600
2023	1,015,000	1,603,988	2,618,988	1,340,000	458,350	1,798,350
2024	1,070,000	1,551,863	2,621,863	1,455,000	395,750	1,850,750
2025	1,120,000	1,497,113	2,617,113	1,565,000	335,350	1,900,350
2026-2030	6,465,000	6,625,963	13,090,963	4,895,000	894,813	5,789,813
2031-2035	7,920,000	5,145,563	13,065,563	2,065,000	207,413	2,272,413
2036-2040	9,755,000	3,263,281	13,018,281	-	-	-
2041-2044	9,500,000	878,625	10,378,625	-	-	-
	\$38,730,000	\$23,920,494	\$ 62,650,494	\$13,680,000	\$3,395,875	\$17,075,875

The 2013 Project Revenue Bonds require a debt service coverage ratio of 1.05 to 1. Due to the impact of COVID-19 the DRA experienced a significant decline in operating revenues during 2020. As a result, the DRA's debt service coverage ratio fell to -0.228 to 1 and was consequently out of compliance with the 1.05 to 1 ratio. There are a number of limitations and restrictions contained in the bond indenture. As of December 31, 2020, the DRA was in compliance with all of these requirements.

Direct Borrowing

In order to make the 2013 refunding economically viable, ACA Financial Guarantee Corporation (ACA) contributed \$4,000,000 to the Authority, \$1,430,555 of which was in consideration of the execution of a direct borrowing note issued by the Authority to ACA, and the balance of which was in consideration for the elimination of any exposure ACA may have with respect to the Series 2003A Bonds. This direct borrowing note is subordinate to the Project Revenue and Tax Revenue bonds. Depending on the cash flows of the project, payments may start on 1/1/2033.

Amounts on deposit in the Authority Reserve Fund held by the Trustee is the source of repayment for this direct borrowing loan. In the event of a default on the direct borrowing loan, in which the principal and interest payments are not made when due, the unpaid principal shall bear interest at the note rate plus 2%. The prepayment of principal plus interest is allowed at any time without incurring a premium.

The subordinate direct borrowing note to ACA, as described above, debt service requirements to maturity are estimated as follows:

Other Long-Term Direct Borrowing Notes			
	Principal	Interest	Total Requirements
2021 \$	-	\$ -	\$ -
2022	-	-	-
2023	-	-	-
2024	-	-	-
2025	-	-	-
2026-2030	-	-	-
2031-2035	146,098	132,917	279,015
2036-2040	506,828	557,885	1,064,713
2041-2045	777,629	1,001,805	1,779,434
	\$ 1,430,555	\$ 1,692,607	\$ 3,123,162

Due to Other Governments

Under an interlocal agreement with the Vancouver Public Facilities District (PFD), the DRA is liable to the Clark County PFD for state sales credit monies received by the DRA. Payments under this direct borrowing agreement are received by Clark County PFD monthly and forwarded to the DRA. This creates a liability for the DRA to repay these funds via two methods. The first is a predetermined tax cap. The tax cap amount changes each year through 2034. Tax revenue received by the DRA in excess of the tax cap are returned to the Clark County PFD. The second method occurs after funds flow through the 2013 Bond Indenture distribution requirements. The monies available at the end of each year after all required distributions have been made, if any, are split equally between the DRA and the Clark County PFD, and any amounts so distributed to the Clark County PFD decreases the DRA's liability to Clark County

Downtown Redevelopment Authority  
(A Component Unit of the City of Vancouver)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

PFD.

The direct borrowing from the Clark County PFD has assets pledged as collateral. These assets include pledged tax revenues in excess of the annual tax cap and a portion of the annual surplus operating revenue. If the direct borrowing should default the financial consequences will be whatever action at law or in equity as may be necessary to enforce the agreement. There are no consequences for early termination and prepayment of principal plus interest is allowed at any time without incurring a premium.

Subordinate Management Fee

The DRA constructed and operates the Conference Center Hotel, which is managed by Hilton Hotels Corporation (Hilton). As part of the refinancing of the DRA debt in June 2013, the DRA and Hilton entered into a new management agreement that provides for forgiveness of the subordinate management fee amounts over a 10-year period, on a straight-line basis. The asset pledged as collateral for this direct borrowing loan is an extension of the agreement between Hilton and the DRA. There is no acceleration clause and this direct borrowing loan cannot be terminated early. If the DRA cancels the operating agreement with Hilton, then the amount owing on the direct borrowing loan at the time of default becomes fully payable. The DRA and Hilton amended the 2013 agreement in 2018 but that amendment did not change this provision relating to the subordinate management fee. See note III B for more information.

Changes in Long Term Liabilities

The following is a summary of long-term debt changes of the Authority for the year (in thousands):

	Beginning Balance 1/1/20	Additions	Reductions	Ending Balance 12/31/19	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 54,340,000	\$ -	\$ 1,930,000	\$ 52,410,000	\$ 2,050,000
Premiums (discounts)	418,718	-	29,304	389,414	29,304
Total bonds payable	54,758,718	-	1,959,304	52,799,414	2,079,304
Direct Borrowing:					
Due to other governments	5,527,498	2,174,472	3,322,830	4,379,140	-
Other Long-Term Direct Borrowing Notes	1,430,555	-	-	1,430,555	-
Subordinate management fee	377,345	-	107,813	269,532	107,813
Component units long term liabilities	\$ 62,094,116	\$ 2,174,472	\$ 5,389,947	\$ 58,878,641	\$ 2,187,117

**E. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

At December 31, 2019, the Authority had a deficit net fund position of \$13,187,386. The Authority activities involve the operation of a hotel and conference center in the City's central downtown area. This is a cash flow-based project and the negative net position balance is primarily attributed to accumulated depreciation, a non-cash item. Additionally, during and after the 2007-2009 recession the economic environment had a negative impact on the convention and lodging business which is also reflected in the net position change. The Authority and its Asset Manager, a hotel industry consultant, monitor Conference Center Hotel activities monthly. Positive net revenue in each of the last few years has resulted in a reduction in the net position deficit.

**NOTE III. OTHER DISCLOSURES**

**A. RELATED PARTY TRANSACTIONS**

The DRA constructed and operates the Conference Center Hotel, which is managed by Hilton Hotels Corporation. As part of the refinancing of the DRA debt in June 2013, a new agreement was signed with the Manager of the Vancouver Conference Center (Hilton Hotels) that provides for forgiveness of the subordinate management fee amounts over a 10-year period, on a straight-line basis. See note III B for more information.

The Vancouver Public Facilities District (PFD) was created to acquire, construct, own, finance, and operate the Conference Center Hotel project. The Clark County Public Facilities District was created for the purpose of participating in the development of regional centers, consisting of the Convention Center Project and the Exposition Center at the Clark County Fairgrounds. The Vancouver PFD, the County PFD, the City of Vancouver (City), and the DRA entered into interlocal agreements which detail their support for the DRA's project.

During 2020, the DRA recognized intergovernmental revenue of \$1,728,753 in sales tax credit monies from the Vancouver PFD for



Downtown Redevelopment Authority  
(A Component Unit of the City of Vancouver)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

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the Conference Center Hotel project and the City of Vancouver contributed \$678,433 of lodging tax. The amount of support from the Clark County Public Facilities District is described in Note II.D. Intergovernmental Obligations.

The City signed an agreement on December 1, 2003, to participate in the construction and operation of the Conference Center Hotel, using tourism funds.

In June 2013, the DRA refinanced the debt associated with the construction of the Conference Center Hotel. As a part of the refinancing, the City agreed that, if, prior to each interest payment date or principal payment date, the amounts on deposit with the Trustee in the Project Revenue Bonds Debt Service Account and in the Authority Reserve Account are insufficient to pay the principal and interest due on the 2013 Project Revenue Bonds, upon notice of such deficiency from the Trustee, the City shall pay to the Trustee an amount equal to the deficiency; the maximum obligation on that payment date being the debt service amount of the 2013 Project Revenue Bonds due on such date.

Any payment by the City of this conditional payment amount shall constitute a loan by the City to the DRA, with interest payable on such amounts at the rate or rates on the 2013 Project Revenue bonds. In 2020, the City made no payments under its contingent payment obligation. The DRA has no current expectation of having to incur a liability to the City, as it expects project revenues and tax revenues to be sufficient for such purposes.

The City provides administrative support to the Authority. During 2020 \$35,155 was expensed by the Authority for this support. It is recorded within the Statement of Revenue, Expenses, and Changes in Fund Net Position as supplies and contractual services. Additionally, the Authority has a parking lot license agreement that began in 2019. The amount expensed for 2020 totaled \$56,758 and is also recorded within the Statement of Revenue, Expenses, and Changes in Fund Net Position as supplies and contractual services.

In October of 2019 DRA purchased a parking license for the lot adjacent to the Hilton. The parking license is valid for a three year term and will provide parking for large vehicles connected with conventions held at the Convention Center. In October 2020, the City of Vancouver placed the parking lot license on hold given the impact of COVID-19 effectively waiving rent due through October of 2021 due to the negative impact of the pandemic on the Convention Center.

## **B. SPECIAL AND EXTRAORDINARY ITEMS**

### **Special Item: Forgiveness of Debt**

As part of the refinancing of the DRA debt in June 2013, a new agreement was signed with Hilton, the Manager of the Vancouver Conference Center hotel that provides for forgiveness of the subordinate management fee over a 10-year period, on a straight-line basis. The forgiveness of this fee is recorded as a Special Item, Forgiveness of Debt on the Statement of Revenues, Expenses and Changes in Fund Net Position. During December 31, 2020, \$107,813 had been forgiven. The outstanding obligation recorded on the Statement of Net Position as of December 31, 2020, is \$269,532.30. If the Operating Agreement is terminated early, then the amount owing at the time becomes fully payable.

### **Extraordinary Item: Claims Settlement**

On January 2, 2009, Lehman Brothers Special Finance Inc. failed to tender for sale to the Downtown Redevelopment Authority the Qualified Securities pursuant to the terms of the Forward Purchase Agreement (FPA) and did not correct the issue in the Cure Period. Based on this, the Authority reinvested the investment balance held with the Trustee for 6-months in qualified investments, which matured on July 1, 2009, and was reinvested thereafter with maturities to coincide with the semi-annual interest and principal payments. The rate of return on the reinvestment was substantially below the 5.05% guaranteed by Lehman Brothers. The Authority pursued a claim with the Bankruptcy Court against Lehman Brothers Inc., and Lehman Brothers Special Finance Inc. for the difference between the fixed rate of 5.05% and the rate that alternative investments would generate. During 2020, the Authority received a distribution in the amount of \$681 as a result of the bankruptcy claim. If the Lehman bankruptcy estate receives additional funds, more distributions are possible.

## **C. SUBSEQUENT EVENTS**

Early in 2021 the Governor of the State of Washington allowed for greater gatherings of people in indoor locations. The State of Washington remains under the state of emergency in response to the spread of a deadly new virus COVID-19. Precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, and limiting gathering sizes. Early in 2021 the Governor of the State of Washington allowed for greater gatherings of people in indoor locations.

The pandemic had a significant impact to the hospitality industry, including the operations of the Authority's hotel and convention center operations. Management has implemented measures to comply with the requirements of the Governor's declaration and has put into place cost control measures to try to limit the financial impact. The length of time these measures will be in place, and the full extent of the financial impact on the Authority, is unknown at this time, as the state of Washington is experiencing the fourth wave of infections. It appears that the restrictions are lessening due to larger number of people getting vaccinated from the virus.



## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, [www.sao.wa.gov](http://www.sao.wa.gov). Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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