



Office of the Washington State Auditor  
Pat McCarthy

## **Financial Statements Audit Report**

# **Foss Waterway Development Authority**

**For the period January 1, 2019 through December 31, 2020**

*Published September 27, 2021*

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

September 27, 2021

Board of Directors  
Foss Waterway Development Authority  
Tacoma, Washington

**Report on Financial Statements**

Please find attached our report on the Foss Waterway Development 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***

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## 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*

#### **Foss Waterway Development Authority January 1, 2019 through December 31, 2020**

Board of Directors  
Foss Waterway Development Authority  
Tacoma, 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 Foss Waterway Development Authority, a component unit of the City of Tacoma, as of and for the year ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report there on dated September 2, 2021.

As discussed in Note 9 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Authority is unknown. Also discussed in Note 5, the Authority's operating agreement with the City of Tacoma expired December 31, 2020. Our opinion is not modified with respect to these matters.

### 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 opinions 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.

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

September 2, 2021

# INDEPENDENT AUDITOR'S REPORT

## Report on the Financial Statements

### **Foss Waterway Development Authority January 1, 2019 through December 31, 2020**

Board of Directors  
Foss Waterway Development Authority  
Tacoma, Washington

## **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Foss Waterway Development Authority, as of and for the year ended December 31, 2020 and 2019, 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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 opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foss Waterway Development Authority, as of December 31, 2020 and 2019, 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.

## **Matters of Emphasis**

As discussed in Note 9 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Authority is unknown. Also discussed in Note 5, the Authority's operating agreement with the City of Tacoma expired December 31, 2020. Our opinion is not modified with respect to these matters.

## **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 September 2, 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 written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

September 2, 2021



## **FINANCIAL SECTION**

### **Foss Waterway Development Authority January 1, 2019 through December 31, 2020**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2020 and 2019

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2020 and 2019

Statement of Revenues, Expenses and Changes Net Position – 2020 and 2019

Statement of Cash Flows – 2020 and 2019

Notes to Financial Statements – 2020 and 2019

## **Management's Discussion and Analysis**

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*Foss Waterway Development Authority*

*For the Years Ended December 31, 2020 and 2019*

The following is a narrative overview and analysis of the financial activities of Foss Waterway Development Authority (the Authority) for the years ended December 31, 2020 and 2019. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and identify any changes in financial position. The information presented here should be read in conjunction with the Authority's financial statements, and the accompanying notes to the financial statement.

The Authority is considered a component unit of the City of Tacoma and its financial information is discretely presented in the City's financial statements.

### **Financial Highlights**

- Total assets decreased from 2019 to 2020 by \$1,377,302 for a total of \$25,891,215 compared to an increase of \$4,178,414 in 2019.
- The Authority's total liabilities and deferred inflow of resources decreased by \$186,406 at December 31, 2020. In 2019, the Authority recognized a decrease of \$147,656.
- The Authority's net position for 2020 is \$22,674,135 which is a decrease of \$1,190,896 from 2019. Compared to 2018, the Authority's net position increased by \$4,326,070 in 2019, which includes a prior period adjustment of \$5,251,439 related to capital assets.

### **Overview of Financial Statements**

The financial section of this annual report is designed to provide readers with a broad overview of the Authority's finances and consists of: (1) Statement of Net Position, (2) Statement of Revenues, Expenses, and Changes in Net Position, (3) Statement of Cash Flows and (4) Notes to the Financial Statements.

Statement of Net Position provides information about assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position, which assists in assessing the Authority's financial position at the end of the year.

Statement of Revenues, Expenses, and Changes in Net Position inform us if the Authority as a whole is better or worse off as a result of the years' activities. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the Authority is improving or deteriorating. These changes are reported as the underlying event occurs, regardless of the timing of related cash flows.

Statement of Cash Flows presents the cash activity for the Authority. It classifies cash flows into four activities: 1) Operating activities, 2) Non capital financing, 3) Capital and related financing activities, and 4) Investing activities.

## Management's Discussion and Analysis

*Foss Waterway Development Authority*

*For the Years Ended December 31, 2020 and 2019*

The Notes to the Financial Statements contain more detail on the information presented that is necessary to acquire a full understanding of the data provided in the financial statements.

### Financial Analysis

Assets and deferred outflows of resources of the Authority exceeded liabilities and deferred inflow of resources at the close of calendar year 2020 for a total net position of \$22,674,135. This is a decrease of \$1,190,896 compared 2019. Two major factors contributed to this decrease: a drawdown of cash balances on hand in the amount of \$461,820 by year end in preparation of the City taking over the operations and a decrease in capital assets for normal depreciation in the amount of \$887,182. In 2019 and 2018, net position totaled \$23,865,031 and \$19,538,961 respectively, resulting in an increase of \$4,326,070. This was due to a net increase in total assets of \$4,178,414 mainly due to a prior period adjustment to capital assets of \$5,251,439.

#### Condensed Statements of Net Position

	2020	2019	2018
Current and other assets	\$ 85,705	\$ 575,825	\$ 761,667
Capital assets	25,805,510	26,692,692	22,328,436
Total assets	25,891,215	27,268,517	23,090,103
Deferred outflows of resources	-	-	-
Current and other liabilities	2,658,692	2,708,817	232,129
Long-term liabilities outstanding	558,388	694,669	3,319,013
Total liabilities	3,217,080	3,403,486	3,551,142
Deferred inflows of resources	-	-	-
Net investment in capital assets	23,348,985	24,236,167	19,871,911
Unrestricted	(674,850)	(371,136)	(332,950)
Total net position	\$ 22,674,135	\$ 23,865,031	\$ 19,538,961

## Management's Discussion and Analysis

*Foss Waterway Development Authority*

*For the Years Ended December 31, 2020 and 2019*

### Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2020	2019	2018
Operating revenues	\$ 375,141	\$ 346,911	\$ 371,348
Nonoperating revenues	2,902	11,354	88,347
Total revenues	378,043	358,265	459,695
Operating expenses	1,644,636	1,582,648	1,551,930
Nonoperating expenses	112,308	109,407	48,204
Total expenses	1,756,944	1,692,055	1,600,134
Excess (deficiency) before contributions	(1,378,901)	(1,333,790)	(1,140,439)
Contributions from others	30,000	168,238	26,435
Contributions from other governmental units	158,005	240,183	159,378
Change in net position	(1,190,896)	(925,369)	(954,626)
Beginning of year	23,865,031	19,538,961	20,539,153
Prior period adjustment		5,251,439	(45,566)
Beginning of year - restated	23,865,031	24,790,400	20,493,587
Net position - ending	<u>\$ 22,674,135</u>	<u>\$ 23,865,031</u>	<u>\$ 19,538,961</u>

### Revenues

Operating revenues totaled \$375,141 in 2020, an 8.1% increase from 2019 total of \$346,911. While lease payments did see an increase of \$61,090 due to the timing of billing, this is offset by a decrease in parking revenue of \$30,454. Due to COVID-19 restrictions various areas were closed forcing parking lots to remain vacant. Operating revenues totaled \$346,911 in 2019, a 6.6% decrease from 2018 total of \$371,348. This was mainly due to a decrease in parking revenue.

Non-operating revenues were \$2,902, \$11,354 and \$88,347 for 2020, 2019 and 2018 respectively. Non-operating revenues include investment income on available cash balances. In 2020, the Authority methodically drew down their cash reserves in preparation of ending operations thus earning significantly less interest income. 2018 was higher than usual due to an insurance recovery of \$75,603 for repairs of the North Moorage Docks damaged by a windstorm.

### Expenses

Overall operating expenses increased by 3.9% or \$61,988 in 2020 for a total of \$1,644,636 compared to 2019. Salary and Benefits account for a net \$30,461 of the increase due to the payout

## Management's Discussion and Analysis

*Foss Waterway Development Authority*

*For the Years Ended December 31, 2020 and 2019*

of accrued absences upon closure of the Authority. In 2019 expenses increased by 2.0% or \$30,718 for a total of \$1,582,648 compared to 2018's total of \$1,551,930. Several capital assets were added for the Seaport that were from prior periods causing the ordinary depreciation expense to increase by \$170,255 or 23.7% for the year. See Note 8 in the Notes to Financial Statements for additional information relating to the prior period adjustments for capital assets and depreciation. This is offset by a decrease in services and supplies of \$164,047 due to fewer projects in 2019 than in 2018.

### Capital Assets

The Authority's capital assets net of accumulated depreciation as of December 31, 2020 were \$25,865,510. This is an overall decrease of \$887,182 or 3.3% from 2019 as a result of the annual depreciation expense.

At December 31, 2019 capital assets net of accumulated depreciation were \$26,692,692. An increase of 19.5% or \$4,364,256 from 2018 total of \$22,328,436 due to the donated asset improvements from the Seaport Authority Development. A total of \$5,902,640 in assets was capitalized and accumulated depreciation of \$651,202 was recorded. These investments in capital assets include land, building, parks, marinas, infrastructure and property, plant and equipment.

### Schedule of Capital Assets

	2020	2019	2018
Land	\$ 7,002,138	\$ 7,002,138	\$ 7,002,138
Buildings	7,468,540	7,468,540	1,565,900
Parks	1,889,512	1,889,512	1,889,512
Marinas	18,639,376	18,639,376	18,639,376
Infrastructure	86,087	86,087	86,087
Property, Plant and Equipment	30,000	30,000	30,000
Less accumulated depreciation	(9,310,143)	(8,422,961)	(6,884,577)
Total	<u>\$ 25,805,510</u>	<u>\$ 26,692,692</u>	<u>\$ 22,328,436</u>

### Outstanding Debt

The Authority previously secured a \$4.1 million loan in 2008 under Resolution 37158 from the City of Tacoma for capital and other related improvements. This is an interest only loan that is due on December 31, 2020. At the end of December 31, 2020, the Authority's total notes payable to the City was \$2,456,525.

## Management's Discussion and Analysis

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*Foss Waterway Development Authority*

*For the Years Ended December 31, 2020 and 2019*

### Outstanding Debt

	2020	2019	2018
Loan Balance - City of Tacoma	\$ 2,456,525	\$ 2,456,525	\$ 2,456,525

### Economic Factors and Future Outlook

The Authority's operating results are reflective of the Master Redevelopment Strategy that it follows. The major strategy is to attract private investment along the Thea Foss Waterway by selling properties for development. Proceeds from these sales are applied toward the Authority's operations and debt service. Proceeds are also obtained from leased properties and parking revenues from properties that have yet to be developed.

The Authority continued to operate per the Master Redevelopment Strategy. Upon its expiration on 12/31/2020, the Authority was dissolved in accordance with the agreement and commenced a transition process, concluding in the orderly dissolution of the Authority consistent with requirements of TMC 1.60.430. All assets, obligations, property and liabilities will be assumed/transferred to the City or other entity designated by the City.

**FOSS WATERWAY DEVELOPMENT AUTHORITY**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	48,800	510,620
Accounts Receivable	36,248	19,837
Prepaid expenses	657	45,368
Total current assets	<u>85,705</u>	<u>575,825</u>
<b>Noncurrent assets:</b>		
Capital assets (not being depreciated)		
Land	7,002,138	7,002,138
Non-depreciable capital assets	<u>7,002,138</u>	<u>7,002,138</u>
Capital assets		
Buildings	7,468,540	7,468,540
Parks	1,889,512	1,889,512
Marinas	18,639,376	18,639,376
Infrastructure	86,087	86,087
Property, plant & equipment	30,000	30,000
Less accumulated depreciation	<u>(9,310,143)</u>	<u>(8,422,961)</u>
Total depreciable capital assets	<u>18,803,372</u>	<u>19,690,554</u>
 Total noncurrent assets	 <u>25,805,510</u>	 <u>26,692,692</u>
 Total assets	 <u>25,891,215</u>	 <u>27,268,517</u>

The notes to financial statements are an integral part of this statement.

**FOSS WATERWAY DEVELOPMENT AUTHORITY**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Compensated absences	-	41,911
Accounts payable	20,389	31,109
Leasehold tax payable	16,114	13,608
Deposits payable	29,300	29,300
Notes payable	2,456,525	2,456,525
Unearned revenue	136,364	136,364
Total current liabilities	<u>2,658,692</u>	<u>2,708,817</u>
<b>Noncurrent liabilities:</b>		
Unearned revenue	558,388	694,669
Total noncurrent liabilities	<u>558,388</u>	<u>694,669</u>
 Total liabilities	 <u>3,217,080</u>	 <u>3,403,486</u>
<b>NET POSITION</b>		
Net investment in capital assets	23,348,985	24,236,167
Unrestricted	(674,850)	(371,136)
Total Net Position	<u>22,674,135</u>	<u>23,865,031</u>

The notes to financial statements are an integral part of this statement.



**FOSS WATERWAY DEVELOPMENT AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>Operating Revenues</b>		
Property rental income	375,141	346,911
Total operating revenues	<u>375,141</u>	<u>346,911</u>
<b>Operating Expenses</b>		
Salary and wages	106,031	142,985
Personnel benefits	217,650	150,235
Services and supplies	433,772	402,245
Depreciation expense	887,183	887,183
Total operating expenses	<u>1,644,636</u>	<u>1,582,648</u>
Operating income (loss)	<u>(1,269,495)</u>	<u>(1,235,737)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	2,127	10,951
Interest expense	(46,508)	(49,382)
Miscellaneous income	775	403
Contributions to others	(65,800)	(60,025)
Total nonoperating revenues (expenses)	<u>(109,406)</u>	<u>(98,053)</u>
Income (Loss) before capital contributions	(1,378,901)	(1,333,790)
Contributions from others	30,000	168,238
Contributions from other governmental units	158,005	240,183
Total contributions	<u>188,005</u>	<u>408,421</u>
Change in net position	(1,190,896)	(925,369)
<b>Net Position</b>		
Beginning of year	23,865,031	19,538,961
Prior period adjustment		5,251,439
Beginning of year - restated	<u>23,865,031</u>	<u>24,790,400</u>
Net Position - ending	\$ 22,674,135	\$ 23,865,031

The notes to financial statements are an integral part of this statement.

**FOSS WATERWAY DEVELOPMENT AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 222,448	\$199,755
Payments to suppliers	(397,275)	(413,283)
Payments to employees	(365,592)	(283,677)
Other operating or non-operating revenue	775	403
Net cash provided (used) by operating activities	<u>(539,644)</u>	<u>(496,802)</u>
<b>CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES</b>		
Operating grant/non-operating revenue received	188,005	411,729
Contributions and donations made	(65,800)	(60,025)
Net cash provided (used) by non capital financing activities	<u>122,205</u>	<u>351,704</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Interest and issuance costs paid on capital debt	(46,508)	(60,700)
Net cash provided (used) by capital financing activities	<u>(46,508)</u>	<u>(60,700)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and dividends received	2,127	10,951
Net cash provided (used) by investing activities	<u>2,127</u>	<u>10,951</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(461,820)</u>	<u>(194,847)</u>
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	510,620	705,467
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<u><u>\$ 48,800</u></u>	<u><u>\$ 510,620</u></u>

The notes to financial statements are an integral part of this statement.

**FOSS WATERWAY DEVELOPMENT AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income (loss)	(1,269,495)	(1,235,737)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	887,183	887,183
(Increase) decrease in accounts receivable	(16,412)	(8,468)
(Increase) decrease in prepaid items	44,711	(3,845)
Increase (decrease) in accounts payable	(10,720)	(5,039)
Increase (decrease) in compensated absences	(41,911)	9,543
Increase (decrease) in unearned revenue	(136,281)	(138,688)
Increase (decrease) in leasehold tax payable	2,506	(2,154)
Miscellaneous nonoperating revenues (expenses)	<u>775</u>	<u>403</u>
Total adjustments	<u>729,851</u>	<u>738,935</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u><u>\$ (539,644)</u></u>	<u><u>\$ (496,802)</u></u>

The notes to financial statements are an integral part of this statement.

## **Notes to the Financial Statements**

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*Foss Waterway Development Authority*

*For the Years Ended December 31, 2020 and 2019*

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

The financial statements of the Foss Water Waterway Development Authority (the Authority) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

#### **A. Nature of Organization**

Foss Waterway Development Authority (the Authority) is a public corporation organized under Chapter 1.60 of the City of Tacoma (the City) Municipal Code. Its purpose is to serve as an independent legal entity to undertake, assist with and otherwise facilitate the redevelopment of property within and along Thea Foss Waterway in Tacoma, Washington. The Authority will acquire and manage real property; secure financing; undertake the development, construction and maintenance of structures and facilities, including public amenities such as public cultural institutions, a waterfront promenade and appropriate open and recreational spaces; and enter into agreements with cultural, public and other not-for-profit entities or with private developers to develop public facilities or commercial, industrial or residential projects on Thea Foss Waterway properties.

#### **B. Reporting Entity**

For financial reporting purposes, in conformance with GASB No. 14, *The Financial Reporting Entity*, amended by GASB No. 34 and GASB 80 as well as GASB No. 61, the Authority is considered a component unit of the City. The City includes in its financial statements all governmental activities, organizations and functions, whether they are structured as funds, account groups, departments, agencies, institutions, boards, commissions, districts, authorities, or in other ways for which the Tacoma City Council is financially accountable. The Authority's financial information is presented as a discretely presented component unit in the City's financial statements.

#### **C. Operating Agreements with City of Tacoma**

The Authority signed its first operating agreement with the City on October 1, 1996. Under this agreement, the Authority was to focus on redeveloping certain public properties. The agreement also specified that the Authority was to perform administrative tasks related to: 1) preparing a marketing plan for the phased development of identified properties; 2) promoting the stated uplands as development opportunities; 3) identifying and soliciting potential developers; 4) establishing an Urban Design Review Committee; 5) negotiating development agreements; 6) monitoring the development process; and 7) coordinating with the design and development of the Museum of Glass. This operating agreement was in place through 1999.

## **Notes to the Financial Statements**

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*Foss Waterway Development Authority*

*For the Years Ended December 31, 2020 and 2019*

A second operating agreement was signed in December 1999 after a determination that all of the tasks specified in the first agreement had been substantially completed. The second agreement covers activities to be accomplished through 2002. It also stipulates that identified properties are to be transferred by the City to the Authority, with the City continuing to provide financial support until the Authority is able to become self-sufficient. The second agreement names the Authority as the interim manager of the City-owned properties located on the Waterway, effective January 1, 2000, and states that all proceeds from existing leases or other agreements on these properties are to be deposited to the Authority.

In June 2003, the Authority and the City signed an agreement to continue operating under the second agreement until a third agreement was created. The Authority signed a third operating agreement with the City in January 2011. The terms of the agreement were extended for a period of four years, with an automatic extension for a period of two years, for maximum term of six years.

In November 2015, the Authority signed the amendment to a third operating agreement to extend the terms for approximately four years until December 31, 2020. The amendment also included that the Authority will submit its budget in accordance with the City budgeting schedule and requirements. Upon its expiration, the Authority was dissolved in accordance with the agreement and commenced a transition process.

### **D. Bond Agreement with City of Tacoma**

In February 2011, the Authority reached an agreement that the City shall reimburse the Authority from 2010 LTGO Bond Series E for its expenditures incurred, or anticipated to be incurred, in performing capital projects, in the total amount not to exceed \$1,500,000. This agreement was set retroactively to September 14, 2010 and was terminated on or about April 30, 2013. The Authority and the City amended the agreement in April 2013 to extend the deadline for use of the funds until April 2016 but to also provide flexibility to distribute unexpended bond funds. This agreement did not increase the amount of bond funds. As of December 31, 2020 all remaining bond funds have been disbursed. The Authority will have no obligation to repay the City any amounts paid to the Authority by the City under the Bond Agreement.

### **E. Financial Support**

The City provides financial support to the Authority by allocating staff time, providing working capital (as needed), and managing cash flows for the Authority. A portion of the funding may be derived from grant monies received by the City and passed through to the Authority.

### **F. Basis of Accounting and Presentation**

The accounting policies of the Authority conform to generally accepted accounting principles (GAAP). The authority uses the accrual basis of accounting where revenue is recognized when

## Notes to the Financial Statements

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earned and expenses are recognized when liabilities incurred, regardless of the timing of the related cash flows. Grants and other similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Operating revenue consists primarily of leases earned on properties owned by the Authority and the City.

### **G. New Accounting Pronouncements**

Effective for the fiscal year 2020, the Authority reviewed and determined the applicability of the following new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 95 – *Postponement of Effective Dates of Certain Authoritative Guidance.* ). The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in States and Implementation Guides that became effective or are scheduled to become effective for periods beginning after June 15, 2018 and later.

### **H. Use of Estimates**

Preparation of financial statements in conformity with generally accepted accounting principles (GAAP) 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, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### **I. Equity in Pooled Cash and Investments**

Equity in pooled cash and investments includes certain short-term investments held in the City of Tacoma treasury pool. These highly liquid investments are readily convertible to cash and carried at fair value. The change in fair value is included in investment income in the accompanying financial statements. Equity in pooled cash and investment for the years ended December 31, 2020 and 2019 were \$39,638 and \$214,132, respectively.

## **NOTE 2 - CAPITAL ASSETS**

Land is stated at historical cost or, if donated or impaired, at acquisition value at the date of donation. These assets primarily consist of properties that were transferred from the City to the Authority in April 2000, in accordance with the second and third operating agreement. As a part of the transfer to the Authority, the City indemnified the Authority for all existing and potential environmental liabilities associated with the land.

Building and property, plant and equipment are stated at historical cost, less allowance for depreciation where the City's capitalization policy is to capitalize additions over \$5,000.

## Notes to the Financial Statements

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Depreciation for capital assets is computed over the estimated useful lives, three to 50 years, using the straight-line method. Accumulated depreciation totaled \$9,310,143 and \$8,422,961 at December 31, 2020 and 2019, respectively. Depreciation expense for December 31, 2020 and 2019 was \$887,182 for each year. In 2019, an adjustment of \$5,902,640 in capital asset contribution was made to the buildings assets and \$651,202 to accumulated depreciation for prior period improvements to the Seaport building.

### Capital Assets

Capital assets activity for the year ended December 31, 2020 was as follows:

	Beginning Balance 01/01/2020	Increases	Decreases	Ending Balance 12/31/2020
<b>Capital assets, not being depreciated</b>				
Land	\$ 7,002,138	\$ -	\$ -	\$ 7,002,138
Art	-	-	-	-
Construction in Progress	-	-	-	-
Total capital assets, not being depreciated	7,002,138	-	-	7,002,138
<b>Capital assets, being depreciated</b>				
Buildings	7,468,540	-	-	7,468,540
Parks	1,889,512	-	-	1,889,512
Marinas	18,639,376	-	-	18,639,376
Infrastructure	86,087	-	-	86,087
Property, Plant, and Equipment	30,000	-	-	30,000
Less accumulated depreciation	(8,422,961)	(887,182)	-	(9,310,143)
Total capital assets being depreciated	19,690,554	(887,182)	-	18,803,372
<b>Capital assets, net</b>	<b>\$ 26,692,692</b>	<b>\$ (887,182)</b>	<b>\$ -</b>	<b>\$ 25,805,510</b>

## Notes to the Financial Statements

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### Capital Assets, continued

Capital assets activity for the year ended December 31, 2019 was as follows:

	<b>Beginning Balance 01/01/2019</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance 12/31/2019</b>
<b>Capital assets, not being depreciated</b>				
Land	\$ 7,002,138	\$ -	\$ -	\$ 7,002,138
Total capital assets, not being depreciated	<u>7,002,138</u>	<u>-</u>	<u>-</u>	<u>7,002,138</u>
<b>Capital assets, being depreciated</b>				
Buildings	1,565,900	5,902,640	-	7,468,540
Parks	1,889,512	-	-	1,889,512
Marinas	18,639,376	-	-	18,639,376
Infrastructure	86,087	-	-	86,087
Property, Plant, and Equipment	30,000	-	-	30,000
Less accumulated depreciation	<u>(6,884,577)</u>	<u>(1,538,384)</u>	<u>-</u>	<u>(8,422,961)</u>
Total capital assets being depreciated	<u>15,326,298</u>	<u>4,364,256</u>	<u>-</u>	<u>19,690,554</u>
<b>Capital assets, net</b>	<b><u>\$22,328,436</u></b>	<b><u>\$ 4,364,256</u></b>	<b><u>\$ -</u></b>	<b><u>\$26,692,692</u></b>

### NOTE 3 – DEPOSITS AND INVESTMENTS

The City 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. Level 1 inputs are quoted prices in active markets for identical assets and liabilities; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Data regarding City investments valued and categorized according to the above outlined levels is below:



## Notes to the Financial Statements

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Debt Securities:	As of 12/31/2020	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 371,578,276		\$ 371,578,276	
U.S. Corporate Securities	\$ 62,803,670		62,803,670	
Municipal Bonds	\$ 11,664,518		11,664,518	
Agency Securities	\$ 491,827,203		491,827,203	
Cash & Cash Equivalents	\$ 312,206		312,206	
Supranationals	\$ 10,065,910		10,065,910	
Total	<u>\$ 948,251,783</u>	<u>\$ -</u>	<u>\$ 948,251,783</u>	<u>\$ -</u>

Debt Securities:	As of 12/31/2019	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 394,034,439		\$ 394,034,439	
U.S. Corporate Securities	\$ 63,736,264		\$ 63,736,264	
Municipal Bonds	\$ 17,764,606		\$ 17,764,606	
Agency Securities	\$ 449,502,580		\$ 449,502,580	
Cash & Cash Equivalents	\$ 140,137,681		\$ 140,137,681	
Supranationals	\$ 20,035,790		\$ 20,035,790	
Total	<u>\$ 1,085,211,360</u>	<u>-</u>	<u>\$ 1,085,211,360</u>	<u>-</u>

The Authority's share of City investments:

	As of 12/31/2020	As of 12/31/2019
Cash and equity in pooled investments		
Cash in bank	9,162	296,488
Cash in City pool	39,638	214,132
Total City pooled investments	<u>948,251,783</u>	<u>1,085,211,360</u>
	<u>0.01%</u>	<u>0.05%</u>

## NOTE 4 - COMMITMENTS

### A. Operating Lease

The Authority leases office space under a lease agreement which expires December 2020. Lease payments for the year ended December 31, 2020 were \$28,508. Lease expense for the years ended December 31, 2019 and 2018 were \$28,260 and \$27,678, respectively.

### B. Employment Contract

The Authority entered into an employment agreement with a new Executive Director, Norm Gollub, commencing on June 23, 2016 and set to expire June 23, 2020, unless terminated sooner in accordance with the provisions of the agreement or applicable law. The agreement is subject to renewal for such additional periods of time as the Board shall determine in its discretion. In May of 2020, the employment agreement was extended to December 31, 2020.

## Notes to the Financial Statements

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### C. Compensated Absences

Compensated absences are vacation and sick leave for which all full-time employees are eligible. All vacation and sick leave is accrued in the year earned. In December 2020, accrued absences in the amount of \$41,911 were paid to employees upon closure of the Authority. Compensated absences for the year ending December 31, 2019 of \$41,911 were classified as short term liability due to the sunseting of the operation contract on December 31, 2020.

### D. Note Payable

The City of Tacoma provided a loan of \$4.1 million to the Authority in 2008 for the Balfour Dock project as a 10 year interest only loan. The debt repayment schedule has been extended to December 31, 2020. For the years 2019 and 2020 there were no principal payments made. Principal payments were made in 2015 for \$1 million and \$643,475 in 2014. Annual loan interest of \$46,508 for 2020 was paid in quarterly installments from the Authority's agency fund. Annual loan interest for 2019 was \$49,382 and \$40,324 for 2018. The City of Tacoma loan outstanding at year-end is as follows:

#### Outstanding City of Tacoma Loan

<b>Original Debt</b>	<b>Issuance Date</b>	<b>Maturity Date</b>	<b>Interest Rate*</b>	<b>Debt Outstanding</b>
4,100,000	2008	2020	2.117%	2,456,525

\*Based on the annual interest rate ending December 31, 2020

Changes in long-term liabilities for the year ended December 31, 2020 are as follows:

#### Changes in long-term liabilities

	Balance December 31, 2019	Additions	Reductions	Balance December 31, 2020	Due within 1 year
Long-term liabilities					
Debt	2,456,525	-	-	2,456,525	2,456,525
Compensated Absences	41,911		41,911	-	-
Total long-term liabilities	<u>2,498,436</u>	<u>-</u>	<u>41,911</u>	<u>2,456,525</u>	<u>2,456,525</u>

## **Notes to the Financial Statements**

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### **NOTE 5 – RENTAL INCOME AGREEMENT**

The Authority has entered into various rental income agreements for property and parking leases with entities located along Thea Foss Waterway. The leases are a combination of month-to-month and long-term, typically ten years or longer. Rental income agreements at December 31, 2020, consist of seven lease agreements averaging \$31,262 per month. Average monthly rental income for 2019 was \$28,909.

Leases and contracts with the lessees and vendors will convert to the City of Tacoma upon the expiration of the operating agreement on December 31, 2020.

### **NOTE 6 – PENSION PLAN**

The Authority maintains a 401 (k) profit-sharing plan that covers all employees who meet the eligibility requirements. Participants may contribute the maximum amount allowed by the IRS each year. The Authority makes an automatic 3 percent safe-harbor contribution to the plan each year and may also make discretionary matching contributions up to 100 percent of the first 7.89 percent of each employee's total deferral. Safe-harbor and matching contributions for 2020 totaled \$26,711. In 2019 Safe-harbor and matching contributions was \$22,546.

### **NOTE 7 – RISK MANAGEMENT**

In 2020 the Authority made payments totaling \$55,912 to Enduris Washington. The insurance premium in 2020 increased by \$4,862 from \$51,050 in 2019. The purpose of the pool is to provide members with the capability and authority to jointly purchase property/liability insurance, provide a plan of self-insurance, establish and maintain a reserve to pay for self-insurance coverage, and to provide related purchased reinsurance to provide for major claims in excess of \$1,000,000 per occurrence. Coverage under this pool includes, but is not limited to, General Liability, Employment Practices Liability, Public Official Errors & Omission Liability, Business Interruption and Rental Income & Tax Interruption Coverage, Terrorism Liability, and Property/Mobile Equipment/Boiler & Machinery Liability. The Authority also made a payment in the amount of \$2,627 to Citizen's Insurance Co in 2020. The purpose of this insurance is to provide Marine Operators Liability, and Protection & Indemnity Liability coverage that is not included in the Enduris Washington policy. In the last three years no settlements exceeded insurance coverage.

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### NOTE 8 - PRIOR PERIOD ADJUSTMENT

#### Detailed Information regarding restatement of beginning balance

Net Position - January 1, 2019	\$ 19,538,961
Prior Period Adjustment	
Capital Assets	5,251,439
Net Position - January 1, 2019 Restated	<u>\$ 24,790,400</u>

The Authority has made a prior period adjustment to record donated assets from Foss Waterway Seaport. According to the lease agreement between Foss Waterway Authority Development (FWDA) as Landlord, and Foss Waterway Seaport as tenant for the Seaport Building, title to any alterations to the Building constructed by Seaport shall become the property of FWDA upon their installation, free and clear of all liens and encumbrances, without any obligation on the part of FWDA to pay therefor.

In collaboration with the Seaport Authority Development leadership and City of Tacoma Finance staff, all leasehold improvements since the execution of the lease were identified and recorded as donated assets to the Authority based on their completion date. A total of \$5,251,439 was recorded as prior period adjustment Capital Assets net of depreciation.

The beginning net position in 2019 was restated from \$19,538,961 to \$24,790,400.

### NOTE 9 – COVID-19 PANDEMIC

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities. The Authority's parking revenue was directly impacted by these restrictions.

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