



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Foss Waterway Development Authority

For the period January 1, 2018 through December 31, 2019

Published June 8, 2020

Report No. 1026424





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

June 8, 2020

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

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**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**

**Foss Waterway Development Authority
January 1, 2018 through December 31, 2019**

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 years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 1, 2020.

As discussed in Note 9 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Authority. Also discussed in Note 9, the Authority's operating agreement with the City of Tacoma expires December 31, 2020. Our opinion is not modified with respect to these matters.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits 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 that reads "Pat McCarthy". The signature is written in a cursive style with a large initial "P" and "M".

Pat McCarthy
State Auditor
Olympia, WA

June 1, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Foss Waterway Development Authority January 1, 2018 through December 31, 2019

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, a component unit of the City of Tacoma, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 10.

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, 2019 and 2018, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 9 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Authority. Also discussed in Note 9, the Authority's operating agreement with the City of Tacoma expires 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 June 1, 2020 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.



Pat McCarthy
State Auditor
Olympia, WA

June 1, 2020

FINANCIAL SECTION

Foss Waterway Development Authority January 1, 2018 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019 and 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019 and 2018

Statement of Revenues, Expenses and Changes in Net Position – 2019 and 2018

Statement of Cash Flows – 2019 and 2018

Notes to Financial Statements – 2019 and 2018

Management's Discussion and Analysis

*Foss Waterway Development Authority
For the Years Ended December 31, 2019 and 2018*

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, 2019 and 2018. 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 increased from 2018 to 2019 by \$4,178,414 for a total of \$27,268,517 compared to a decrease of \$1,151,980 in 2018.
- The Authority's total liabilities and deferred inflow of resources decreased by \$147,656 at December 31, 2019. In 2018, the Authority recognized a decrease of \$151,788.
- The Authority's net position for 2019 is \$23,865,031 which is an increase of \$4,326,070 from 2018. Compared to 2017, the Authority's net position decreased by \$1,000,192 in 2018.

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, 2019 and 2018

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 2019 for a total net position of \$23,865,031. This is an increase of \$4,326,070 compared to \$1,000,192 decrease in 2018. 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. In 2018, net position totaled \$19,538,961 and \$20,539,153 at the end of calendar year 2017. The Authority's net investment in capital assets for 2019 is \$24,236,167 which is an increase of \$4,364,256 from 2018 representing the aforementioned prior period adjustment to capital assets and regular depreciation expense.

Current and other assets	\$ 575,825	\$ 761,667	\$ 1,136,719
Capital assets	26,692,692	22,328,436	23,105,364
Total assets	<u>27,268,517</u>	<u>23,090,103</u>	<u>24,242,083</u>
Deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Current and other liabilities	2,708,817	232,129	255,796
Long-term liabilities outstanding	694,669	3,319,013	3,434,417
Total liabilities	<u>3,403,486</u>	<u>3,551,142</u>	<u>3,690,213</u>
Deferred inflows of resources	<u>-</u>	<u>-</u>	<u>12,717</u>
Net investment in capital assets	24,236,167	19,871,911	20,648,839
Unrestricted	(371,136)	(332,950)	(109,686)
Total net position	<u>\$ 23,865,031</u>	<u>\$ 19,538,961</u>	<u>\$ 20,539,153</u>

Management's Discussion and Analysis

Foss Waterway Development Authority
For the Years Ended December 31, 2019 and 2018

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

	2019	2018	2017
Operating revenues	\$ 346,911	\$ 371,348	\$ 377,011
Nonoperating revenues	11,354	88,347	10,869
Total revenues	<u>358,265</u>	<u>459,695</u>	<u>387,880</u>
Operating expenses	1,582,648	1,551,930	1,485,749
Nonoperating expenses	109,407	48,204	40,592
Total expenses	<u>1,692,055</u>	<u>1,600,134</u>	<u>1,526,341</u>
Excess (deficiency) before contributions	(1,333,790)	(1,140,439)	(1,138,461)
Contributions from others	168,238	26,435	-
Contributions from other governmental units	240,183	159,378	41,629
Change in net position	<u>(925,369)</u>	<u>(954,626)</u>	<u>(1,096,832)</u>
Beginning of year	19,538,961	20,539,153	22,863,258
Prior period adjustment	5,251,439	(45,566)	(1,227,273)
Beginning of year - restated	<u>24,790,400</u>	<u>20,493,587</u>	<u>21,635,985</u>
Net position - ending	<u>\$23,865,031</u>	<u>\$19,538,961</u>	<u>\$20,539,153</u>

Revenues

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. Operating revenues totaled \$371,348 in 2018, a 1.5% decrease from 2017 total of \$377,011. This was also mainly due to a decrease in parking revenue.

Non-operating revenues were \$11,354, \$88,347 and \$10,869 for 2019, 2018 and 2017 respectively. 2018 was higher than average due to an insurance recovery of \$75,603 for repairs of the North Moorage Docks damaged by a windstorm during the month of February 2018.

Management's Discussion and Analysis

*Foss Waterway Development Authority
For the Years Ended December 31, 2019 and 2018*

Expenses

Overall operating expenses increased by 2.0% or \$30,718 in 2019 for a total of \$1,582,648 compared to 2018 total of \$1,551,930. In 2019 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 adjustment 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. In 2018, the North Moorage docks were damaged in a windstorm and required significant repairs causing an increase in contracted services when compared to 2017. Salary and benefits for 2019, 2018 and 2017 were \$283,220, \$268,710 and \$278,216 respectively.

Capital Assets

Foss Waterway Development Authority's capital assets net of accumulated depreciation as of December 31, 2019 were \$26,692,692. This is an overall increase of \$4,364,256 or 19.5% from 2018 primarily 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.

At December 31, 2018 capital assets net of accumulated depreciation were \$22,328,436. A decrease of 3.36% or \$776,928 from 2017 total of \$23,105,364 primarily the result of the annual depreciation expense. These investments in capital assets include land, building, parks, marinas, infrastructure and property, plant and equipment.

Schedule of Capital Assets

	2019	2018	2017
Land	\$ 7,002,138	\$ 7,002,138	\$ 7,002,138
Buildings	7,468,540	1,565,900	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	(8,422,961)	(6,884,577)	(6,107,649)
Total	<u>\$ 26,692,692</u>	<u>\$ 22,328,436</u>	<u>\$ 23,105,364</u>

Management's Discussion and Analysis

*Foss Waterway Development Authority
For the Years Ended December 31, 2019 and 2018*

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, 2019, the Authority's total notes payable to the City was \$2,456,525.

Outstanding Debt

	<u>2019</u>	<u>2018</u>	<u>2017</u>
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.

As the sales of properties continue, future revenue will be affected. Currently, contributions from the City of Tacoma will enable the Authority to undertake capital projects and leave sufficient funding in place to support its operations through the 2019-2020 biennium.

The Authority continues to operate per the Master Redevelopment Strategy. Upon its expiration on 12/31/2020, the Authority will be dissolved in accordance with the agreement and commence a transition process, concluding in the orderly dissolution of the FWDA 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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	510,620	705,467
Accounts Receivable	19,837	11,369
Prepaid expenses	45,368	41,523
Due from other governmental units	-	3,308
Total current assets	<u>575,825</u>	<u>761,667</u>
Noncurrent assets:		
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	1,565,900
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>(8,422,961)</u>	<u>(6,884,577)</u>
Total depreciable capital assets	<u>19,690,554</u>	<u>15,326,298</u>
Total noncurrent assets	<u>26,692,692</u>	<u>22,328,436</u>
Total assets	<u>27,268,517</u>	<u>23,090,103</u>
DEFERRED OUTFLOWS OF RESOURCES		
Total deferred outflows of resources	<u>-</u>	<u>-</u>

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

Continued

FOSS WATERWAY DEVELOPMENT AUTHORITY
STATEMENT OF NET POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
LIABILITIES		
Current Liabilities:		
Compensated absences	41,911	3,237
Due to other governmental units	-	11,318
Accounts payable	31,109	36,148
Leasehold tax payable	13,608	15,762
Deposits payable	29,300	29,300
Notes payable	2,456,525	-
Unearned revenue	136,364	136,364
Total current liabilities	2,708,817	232,129
Noncurrent liabilities:		
Compensated absences	-	29,131
Notes payable	-	2,456,525
Unearned revenue	694,669	833,357
Total noncurrent liabilities	694,669	3,319,013
Total liabilities	3,403,486	3,551,142
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenues	-	-
Total deferred inflows of resources	-	-
NET POSITION		
Net investment in capital assets	24,236,167	19,871,911
Unrestricted	(371,136)	(332,950)
Total Net Position	23,865,031	19,538,961

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

FOSS WATERWAY DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Property rental income	346,911	371,348
Total operating revenues	<u>346,911</u>	<u>371,348</u>
Operating Expenses		
Salary and wages	142,985	129,784
Personnel benefits	150,235	138,926
Services and supplies	402,245	566,292
Depreciation expense	887,183	716,928
Total operating expenses	<u>1,582,648</u>	<u>1,551,930</u>
Operating income (loss)	<u>(1,235,737)</u>	<u>(1,180,582)</u>
Nonoperating Revenues (Expenses)		
Investment income	10,951	12,714
Interest expense	(49,382)	(40,324)
Miscellaneous income	403	30
Contributions to others	(60,025)	(7,880)
Insurance premium and recoveries	-	75,603
Total nonoperating revenues (expenses)	<u>(98,053)</u>	<u>40,143</u>
Income (Loss) before capital contributions	(1,333,790)	(1,140,439)
Contributions from others	168,238	26,435
Contributions from other governmental units	240,183	159,378
Total contributions	<u>408,421</u>	<u>185,813</u>
Change in net position	(925,369)	(954,626)
Net Position		
Beginning of year	19,538,961	20,539,153
Prior period adjustment	5,251,439	(45,566)
Beginning of year - restated	<u>24,790,400</u>	<u>20,493,587</u>
Net Position - ending	\$ 23,865,031	\$ 19,538,961

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

**FOSS WATERWAY DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 199,755	\$240,323
Payments to suppliers	(413,283)	(599,485)
Payments to employees	(283,677)	(262,283)
Other operating or non-operating revenue	403	30
Net cash provided (used) by operating activities	(496,802)	(621,415)
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES		
Operating grant/non-operating revenue received	411,729	293,454
Contributions and donations made	(60,025)	(7,880)
Net cash provided (used) by non capital financing activities	351,704	285,574
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers from (to) other funds	-	-
Acquisition and construction of capital assets	-	-
Interest and issuance costs paid on capital debt	(60,700)	(36,928)
Net cash provided (used) by capital financing activities	(60,700)	(36,928)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received	10,951	12,714
Net cash provided (used) by investing activities	10,951	12,714
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(194,847)	(360,055)
CASH AND CASH EQUIVALENTS, JANUARY 1	705,467	1,065,522
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 510,620	\$ 705,467

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

Continued

**FOSS WATERWAY DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	(1,235,737)	(1,180,582)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	887,183	716,928
(Increase) decrease in accounts receivable	(8,468)	2,881
(Increase) decrease in prepaid items	(3,845)	(5,488)
Increase (decrease) in accounts payable	(5,039)	(29,705)
Increase (decrease) in compensated absences	9,543	6,427
Increase (decrease) in unearned revenue	(138,688)	(121,188)
Increase (decrease) in unavailable revenue	-	(12,717)
Increase (decrease) in leasehold tax payable	(2,154)	1,999
Miscellaneous nonoperating revenues (expenses)	403	30
Total adjustments	738,935	559,167
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (496,802)	\$ (621,415)

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

Notes to the Financial Statements

*Foss Waterway Development Authority
For the Years Ended December 31, 2019 and 2018*

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.

Effective for the fiscal year 2019, 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. 83 – *Certain Asset Retirement Obligations*. The object of this statement is to address accounting and financial reporting for asset retirements that carry legally enforceable remediation obligations. It establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources. This statement will enhance comparability of financial statements among governments by establishing uniform criteria to recognize and measure decision-usefulness of the information provided to finance statement users by requiring disclosure related to those assets. There is no material impact to the Authority in implementing this standard.

GASB Statement No. 84 – *Fiduciary Activities*. The object of this statement is to improve the identification of fiduciary activities and how they should be reported. It establishes criteria for identifying activities related to control of those assets. Control is defined as holding the assets or the ability to use, exchange, or employ the assets in a manner that provides benefits to the intended recipients. Where applicable the City has made the required adjustments as prescribed by GASB Statement No. 84. There is no material impact to the Authority in implementing this standard.

GASB Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The object of this statement is to improve the information that is disclosed in the notes related to debt, clarifying which liabilities should be included when disclosing that information. Debt is defined as a fixed liability that arises from a contractual obligation to pay cash or other assets as established at the contract date. This Statement requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other debt. There is no material impact to the Authority in implementing this standard.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. The object of this statement now requires that interest cost incurred before the end of the construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will no longer be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Where

Notes to the Financial Statements

*Foss Waterway Development Authority
For the Years Ended December 31, 2019 and 2018*

applicable the City has made the required adjustments as prescribed by GASB Statement No. 89. There is no material impact to the Authority in implementing this standard.

GASB Statement No. 90 – *Majority Equity Interests (an Amendment of GASB Statements No. 14 & 61)*. The object of this statement is to clarify the reporting of the City’s majority equity interest in a legally separate organization and the component units of 100% equity acquisition. Equity is defined as a financial interest evidenced through an explicit, measurable right to net resources of an organization that is usually based on an investment of financial or capital resources by a government. There is no material impact to the Authority in implementing this standard.

A. Nature of Organization

Foss Waterway Development 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

*Foss Waterway Development Authority
For the Years Ended December 31, 2019 and 2018*

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.

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. The remaining balance of the total bond amount as of December 31, 2019 was \$7,097. 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 earned and expenses are recognized when liabilities incurred, regardless of the timing of the related

Notes to the Financial Statements

Foss Waterway Development Authority

For the Years Ended December 31, 2019 and 2018

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. 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.

H. 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, 2019 and 2018 were \$214,132 and \$336,836, 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. Depreciation for capital assets is computed over the estimated useful lives, three to 50 years, using the straight-line method. Accumulated depreciation totaled \$8,422,961 and \$6,884,577 at December 31, 2019 and 2018, respectively. Depreciation expense for December 31, 2019 was \$887,183 and \$716,928 for 2018. 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. In 2018, an adjustment of \$60,000 was made to accumulated depreciation infrastructure that was previously understated.

Notes to the Financial Statements

Foss Waterway Development Authority
For the Years Ended December 31, 2019 and 2018

Capital Assets

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

	Beginning Balance 01/01/2019	Increases	Decreases	Ending Balance 12/31/2019
Capital assets, not being depreciated				
Land	\$ 7,002,138	\$ -	\$ -	\$ 7,002,138
Art	-	-	-	-
Construction in Progress	-	-	-	-
Total capital assets, not being depreciated	<u>7,002,138</u>	<u>-</u>	<u>-</u>	<u>7,002,138</u>
Capital assets, being depreciated				
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>
Capital assets, net	<u>\$22,328,436</u>	<u>\$ 4,364,256</u>	<u>\$ -</u>	<u>\$26,692,692</u>

Notes to the Financial Statements

*Foss Waterway Development Authority
For the Years Ended December 31, 2019 and 2018*

Capital Assets, continued

Capital assets activity for the year ended December 31, 2018 was as follows:

	Beginning Balance 01/01/2018	Increases	Decreases	Ending Balance 12/31/2018
Capital assets, not being depreciated				
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>
Capital assets, being depreciated				
Buildings	1,565,900	-	-	1,565,900
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>(6,107,649)</u>	<u>(776,928)</u>	<u>-</u>	<u>(6,884,577)</u>
Total capital assets being depreciated	<u>16,103,226</u>	<u>(776,928)</u>	<u>-</u>	<u>15,326,298</u>
Capital assets, net	<u>\$23,105,364</u>	<u>\$ (776,928)</u>	<u>\$ -</u>	<u>\$22,328,436</u>

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

Foss Waterway Development Authority
For the Years Ended December 31, 2019 and 2018

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	\$ 1,085,211,360	\$ -	\$ 1,085,211,360	\$ -

Debt Securities:	As of 12/31/2018	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 282,822,308		\$ 282,822,308	
U.S. Agency Securities	19,814,100		19,814,100	
Municipal Bonds	35,748,647		35,748,647	
Agency Securities	447,015,280		447,015,280	
Corporate Securities	24,607,491		24,607,491	
Total	\$ 810,007,826	\$ -	\$ 810,007,826	\$ -

The Authority's share of City investments:

	As of 12/31/2019	As of 12/31/2018
Cash and equity in pooled investments		
Cash in bank	\$ 296,488	\$ 368,631
Cash in City pool	\$ 214,132	\$ 336,836
Total City pooled investments	\$1,085,211,360	\$ 810,007,826
	0.05%	0.09%

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, 2019 were \$28,260. Lease expense for the years ended December 31, 2018 and 2017 were \$27,678 and \$27,136, 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, 2019, unless terminated sooner

Notes to the Financial Statements

*Foss Waterway Development Authority
For the Years Ended December 31, 2019 and 2018*

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 2019, the employment agreement was extended to December 31, 2020.

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. Current liabilities for compensated absences are \$41,911 for year-end December 31, 2019. Compensated absences for the year ending December 31, 2018 were \$3,237 and \$29,131 respectively for short term and long-term liability.

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 2018 and 2019 there were no principal payments made. Principal payments were made in 2015 for \$1 million and \$643,475 in 2014. Annual loan interest of \$49,382 for 2019 was paid in quarterly installments from the Authority's agency fund. Annual loan interest for 2018 was \$40,324 and \$29,312 for 2017. The City of Tacoma loan outstanding at year-end is as follows:

Outstanding City of Tacoma Loan

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

*Based on the annual interest rate ending December 31, 2019

Future scheduled payments to City of Tacoma for debt service requirements are as follows:

Year	Principal	Interest*	Total
2020	2,456,525	52,005	2,508,530

*Based on the annual interest rate ending December 31, 2019

Notes to the Financial Statements

*Foss Waterway Development Authority
For the Years Ended December 31, 2019 and 2018*

Changes in long-term liabilities for the year ended December 31, 2019 are as follows:

Changes in long-term liabilities

	Balance December 31,			Balance December 31,	
	2018	Additions	Reductions	2019	Due within 1 year
Long-term liabilities					
Debt	2,456,525	-	-	2,456,525	2,456,525
Compensated Absences	32,368	9,543		41,911	41,911
Total long-term liabilities	<u>2,488,893</u>	<u>9,543</u>	<u>-</u>	<u>2,498,436</u>	<u>2,498,436</u>

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, 2019, consist of seven lease agreements averaging \$28,909 per month. Monthly rental income for 2018 was \$30,946. The decrease is mainly due to lower activity months.

Projected future revenues for 2020 are \$237,403. 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 2019 totaled \$22,546. In 2018 Safe-harbor and matching contributions was \$20,518.

NOTE 7 – RISK MANAGEMENT

In 2019 the Authority made payments totaling \$51,050 to Enduris Washington. The insurance premium in 2019 increased by \$6,533 from \$44,517 in 2018. 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

Notes to the Financial Statements

*Foss Waterway Development Authority
For the Years Ended December 31, 2019 and 2018*

Property/Mobile Equipment/Boiler & Machinery Liability. The Authority also made a payment in the amount of \$2,500 to Citizen's Insurance Co in 2019. 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.

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 – SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Management is closely monitoring the evolution of this pandemic, including how it may affect the economy and the general population. Given the dynamic nature of these circumstances and potential business disruption, the City and the Division could experience a significant short-term impact to operations. Management will continue to monitor the situation closely, but given the uncertainty about the situation, it is unable to estimate the impact to the financial statements.

The Authority continues to operate per the Master Redevelopment Strategy. Upon its expiration on 12/31/2020, the Authority will be dissolved in accordance with the agreement and commence

Notes to the Financial Statements

Foss Waterway Development Authority

For the Years Ended December 31, 2019 and 2018

a transition process, concluding in the orderly dissolution of the FWDA consistent with requirements of TMC 1.60.430. All asset, obligations, property and liabilities will be assumed/transferred to the City or other entity designated by the City.

ABOUT THE STATE AUDITOR'S OFFICE

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

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