

The Northwest Seaport Alliance

Financial Report
December 31, 2021

The Northwest Seaport Alliance Financial Report

**For The Year Ended
December 31, 2021**

Contents

| | |
|--|-------|
| Independent auditor's report | 1-2 |
| Management's discussion and analysis | 3-12 |
| Financial statements | |
| Statements of net position | 13-14 |
| Statements of revenues, expenses and changes in net position | 15 |
| Statements of cash flows | 16-17 |
| Notes to financial statements | 18-44 |

| | |
|--|----|
| Required supplementary information | |
| Schedule of The Northwest Seaport Alliance's share of net pension asset/liability (NPA/NPL) | 45 |



RSM US LLP

Independent Auditor's Report

Managing Members
The Northwest Seaport Alliance
Tacoma, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Northwest Seaport Alliance (the NWSA), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the NWSA's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of The Northwest Seaport Alliance, as of December 31, 2021, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (*Government Auditing Standards*), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the NWSA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the NWSA adopted Governmental Accounting Standards Board Statement No. 87, *Leases*, as of January 1, 2020, which restated beginning net position. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the NWSA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 NWSA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the NWSA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of NWSA's share of net pension asset/liability, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 April 1, 2022 on our consideration of the NWSA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the NWSA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NWSA's internal control over financial reporting and compliance.

RSM US LLP

Seattle, Washington
April 1, 2022

The Northwest Seaport Alliance

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED DECEMBER 31, 2021 and 2020

INTRODUCTION

The Northwest Seaport Alliance (NWSA) Management Discussion and Analysis (MD&A) of financial activities and performance introduces the 2021 and 2020 financial statements of the NWSA, a Port Development Authority. NWSA management prepared this MD&A and readers should consider it in conjunction with the financial statements and the notes thereto.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Formation of The Northwest Seaport Alliance

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

Membership Interests

The home ports made an initial contribution of certain cargo terminals and related marine cargo business activities to the NWSA through license agreements ("Licensed Properties"). Under these agreements, the NWSA is charged with managing the properties as an agent on behalf of the Managing Members.

The initial contribution of each home port to the NWSA was 50% (based on the value of the contributed facilities using cash flow forecasts for each parcel that went to the NWSA) with a revaluation review that was settled during 2019 by the Managing Members.

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

The revaluation review determined that a material change in cash flows from Licensed Properties had occurred since the initial valuation and the Port of Seattle agreed to contribute an additional \$32 million to the NWSA. This additional contribution was in recognition that certain forecasted revenue streams not secured by long-term contractual agreements in the initial valuation may not be achieved due to the redevelopment of Terminal 5. This additional contribution by the Port of Seattle will be made to the NWSA in three installments. The first installment of \$11 million was made in March 2020, the second installment was made in March 2021 and the final installment will be made in 2024 and may be adjusted if the actual redevelopment costs are less than the Terminal 5 redevelopment program authorization. The 2020 and 2021 contributions were distributed to the homeports and the subsequent contribution will also be distributed to the homeports.

The Managing Members also authorized the distribution of these affirmation payments to the home ports equally after the NWSA receives the funds from the Port of Seattle; hence, there is no impact on NWSA’s net position and the NWSA will record the transactions in the periods they occur.

Financial Framework

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

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

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

With respect to bonds of each home port that were outstanding at the time of the formation of the NWSA, the Managing Members established a requirement for the NWSA to calculate and establish a minimum level of net income from the NWSA equal to the amount required for the home ports to meet their bond rate covenants in effect at the time of formation of the NWSA (“Bond Income Calculation,” initially calculated to be \$90 million). The Charter requires the Bond Income Calculation to be reviewed annually as part of the NWSA budget process. Due to the refunding of all Port of Tacoma bonds and most of the Port of Seattle bonds outstanding at the time of formation, the minimum Bond income has been reduced to approximately \$21.9 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Funding

Working capital cannot be redirected to fund capital construction as defined in the Charter. Future funding needs are evaluated during the annual budget process or if the working capital reserve should decline below a target minimum established by the Managing Members. Managing Members each must vote affirmatively to approve additional working capital contributions. The NWSA has generated enough cash from operations to cover its working capital requirements through 2021 and the 2022 NWSA budget does not anticipate additional funding needs. Capital funding is provided by joint contributions from the home ports and is typically received from the home ports in the month following NWSA's spending.

Financial Position Summary

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

Statements of Net Position (dollars in thousands):

| | 2021 | Restated 2020 | 2019 |
|---|---------------------|---------------------|-------------------|
| Current assets | \$ 102,167 | \$ 80,708 | \$ 90,493 |
| Capital assets, net | 514,611 | 434,496 | 313,948 |
| Long-term investments | 25,289 | 24,310 | 23,278 |
| Leases receivable | 1,206,296 | 1,261,027 | - |
| Other assets | 5,071 | - | 101 |
| Total assets | \$ 1,853,434 | \$ 1,800,541 | \$ 427,820 |
| Deferred outflows of resources | \$ 1,085 | \$ 1,377 | \$ 1,488 |
| Current liabilities | \$ 40,996 | \$ 48,499 | \$ 54,111 |
| Noncurrent liabilities | 9,105 | 6,346 | 20,426 |
| Total liabilities | \$ 50,101 | \$ 54,845 | \$ 74,537 |
| Deferred inflows of resources | \$ 1,266,788 | \$ 1,297,781 | \$ 1,395 |
| Net investment in capital assets | \$ 499,402 | \$ 413,055 | \$ 313,948 |
| Restricted net position for investments | 4,655 | 1,196 | 13,725 |
| Restricted net position for pension | 308 | - | - |
| Unrestricted | 33,265 | 35,041 | 25,703 |
| Total net position* | \$ 537,630 | \$ 449,292 | \$ 353,376 |

* Beginning net position for 2020 was adjusted for the adoption of GASB No. 87, Leases (see Note 1). Balances included in 2019 were not restated as this was not practical to do so.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

In 2021, the NWSA adopted Government Accounting Standard Board Statement No. 87, *Leases* (GASB No. 87) and restated its 2020 financial statements to reflect requirements of GASB No. 87 as of January 1, 2020. See Note 1 for additional information. The adoption of GASB No. 87 increased lease receivables and deferred inflows of resources by \$1.3 billion and \$1.3 billion, and current portion of lease receivables by \$54.7 million and \$36.0 million on December 31, 2021 and 2020, respectively.

The NWSA's total net position was \$537.6 million at December 31, 2021. Of this amount, \$499.4 million was the investment in capital assets, \$4.7 million was restricted by grant and federal restrictions, \$0.3 million was the restricted net pension asset and \$33.3 million was unrestricted and available to finance operating activities. Investment in capital assets increased by \$86.3 million over the prior year primarily from terminal development expenditures at Terminal 5 of \$66.9 million and stormwater improvements at north and south harbor terminals of \$11.3 million, see capital asset section below for additional information.

The NWSA's total restated net position was \$449.3 million at December 31, 2020. Of this amount, \$413.1 million was the investment in capital assets, \$1.2 million was grant restricted and \$35.0 million was unrestricted and available to finance operating activities. Investment in capital assets increased by \$113.0 million over the prior year from terminal development expenditures primarily at Terminal 5, see capital asset section below for additional information. During 2020, \$13.2 million of customer restricted investments (customer deposit) were returned to the customer and replaced with a surety bond, which is reflected in the decrease in restricted net position.

The NWSA's total net position was \$353.4 million at December 31, 2019. Of this amount, \$300.1 million was the investment in capital assets, \$13.7 million was restricted, and \$39.6 million was unrestricted and available to finance operating activities. Investment in capital assets increased by \$65.8 million over the prior year primarily from capital improvements at Terminal 5, Husky Terminal and Terminal 46. The change in net position is an indicator of whether the overall fiscal condition of the NWSA has improved or worsened during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The NWSA's adoption of GASB No. 87, *Leases*, had a significant impact to the statements of revenues, expenses, and changes in net position for 2021 and 2020, reducing operating revenues by the interest component of lease payments received and increasing non-operating interest income for the same amount (no change in net position). The lease interest income subject to GASB No. 87 for December 31, 2021 and restated December 2020 was \$52.1 million and \$51.3 million, respectively. The statements of revenues, expenses and changes in net position presented below excludes the reduction from lease interest income related to GASB 87 in operating revenues and therefore, excludes the same amount from non-operating revenues to better represent the changes in operating revenues (see financial statements, and Notes 1 and 5 for further information). The following summary compares operating results for 2021, 2020 and 2019.

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

| | 2021 | Restated 2020 | 2019 |
|---|-------------------|-------------------|-------------------|
| Operating revenues (including lease interest income)** | \$ 202,466 | \$ 184,327 | \$ 195,022 |
| Operating expenses | 103,661 | 107,605 | 100,501 |
| Operating income | 98,805 | 76,722 | 94,521 |
| Non-operating revenues (expenses): | | | |
| Interest income | 832 | 1,405 | 1,608 |
| Net increase (decrease) in the fair value of investments | (398) | 200 | 405 |
| Other non-operating income (expense), net (including lease interest expense) | 7,300 | (2,892) | (4,444) |
| Total non-operating revenues, net | 7,734 | (1,287) | (2,431) |
| Capital grant contributions | 5,457 | 2,129 | 3,868 |
| Increase in net position before Managing Members contributions (distributions), net | \$ 111,996 | \$ 77,564 | \$ 95,958 |
| Increase in net position before Managing Members investments, net | \$ 111,996 | \$ 77,564 | \$ 95,958 |
| Managing Members investments, net | (23,658) | 18,462 | (26,581) |
| Increase in net position | 88,338 | 96,026 | 69,377 |
| Net position, beginning of year* | 449,292 | 353,376 | 283,999 |
| Adjustment related to adoption of GASB No. 87 | | (110) | |
| Net position, beginning of year as restated | 449,292 | 353,266 | 283,999 |
| Net position, end of year | \$ 537,630 | \$ 449,292 | \$ 353,376 |

* Beginning net position for 2020 was adjusted for the adoption of GASB No. 87, *Leases* (see Note 1). Balances included in 2019 were not restated as this was not practical to do so.

**GASB No. 87 activity included in operating revenues and excluded from non-operating income (see financial statements)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The NWSA operates three major business lines:

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

Non-container business: This line of business is comprised of breakbulk (roll-on and roll-off, also known as RoRo), bulk and auto cargoes. Aside from handling agricultural and mining equipment and other rolling stock, the NWSA's South Harbor serves as a strategic military port for transport of military cargoes. Auto customers include Kia, Mazda, Mitsubishi and GM. Auto Warehousing Company (AWC), a tenant, is the largest auto processor on the U.S. West Coast.

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

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

| | 2021 | 2020 | 2019 |
|--|------------------|------------------|------------------|
| Revenue (including lease interest income): | | | |
| Container | \$ 167,812 | \$ 152,528 | \$ 160,566 |
| Non-container | 20,995 | 18,948 | 21,550 |
| Real estate | 13,659 | 12,851 | 12,906 |
| Total operating revenues | 202,466 | 184,327 | 195,022 |
| Operating expenses | 103,661 | 107,605 | 100,501 |
| Operating income | \$ 98,805 | \$ 76,722 | \$ 94,521 |

2021 Revenues, Expenses and Changes in Net Position versus the Prior Year

Revenue of \$202.5 million was \$18.1 million, 10% above the prior year as container and non-container cargoes rebounded from the COVID-19 pandemic that interrupted cargo operations throughout the supply chain in the prior year. Container revenue of \$167.8 million increased \$15.3 million due to the restructuring of a long-term customer agreement that increased current year revenue by \$10.1 million, higher intermodal crane and straddler revenue due to the increase in container volume of 13%, offset by lower revenue at Terminal 5 due to the delay in opening from June 2021 to January 1, 2022. The opening of Terminal 5 adds another berth to the North Harbor with a second berth forecasted to open in 2023. The terminal is equipped with super-post Panamax cranes to support the ultra large vessels and is shore power capable.

Non-container business revenue of \$21.0 million increased by \$2.0 million over the prior year driven by higher breakbulk revenue of \$2.7 million (tonnage up 43%), offset by a decrease in auto revenue of \$0.7 million over the prior year (units down 1%). Real estate revenue of \$13.7 million was \$0.8 million higher than the prior year from new leases.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Total operating expenses of \$103.7 million declined by \$3.9 million as lower operating expenses of \$5.1 million were offset by an increase in depreciation and amortization of \$1.2 million. Operating expenses before depreciation were \$5.1 million, and 5% below the prior year due to higher prior year crane removal costs of \$5.2 million at Terminal 5 and Husky Terminal, and paving at Terminal 46 of \$2.4 million. Offsetting higher current year expenses were higher revenue related operating costs for cranes, labor for intermodal and breakbulk, and increases in maintenance and major repairs were offset by reductions in homeport security and administrative support service charges and a reduction to the NWSA's public employee defined benefit retirement plans (PERS) pension expense. PERS is administered by the Washington State Department of Retirement Systems. The decrease in pension expense was the result of the state pension plans' higher than expected return on pension plan investments of 28.7% (overall for Washington Department of Retirement Plans). The strong investment performance resulted in a net pension asset of \$5.0 million in the current year compared to a net pension liability of \$2.2 million in 2020.

As a result, operating income was \$98.8 million and \$22.1 million, 29% above the prior year.

Interest income declined by \$1.2 million due to lower interest rates and a reduction in the non-cash market value of investments. Total net other non-operating income was \$7.3 million in 2021, compared to non-operating expense of \$2.9 million in 2020. Significant items in 2021 included a contribution of stormwater assets constructed by the lessee at Terminal 18 of \$5.5 million and reversal of prior year bad debt reserve of \$4.2 million. Significant items in 2020 were public expenses for City of Seattle power infrastructure and rail and road improvements related to the Terminal 5 development.

Capital grant contributions of \$5.5 million increased by \$3.3 million with current year income from state grants of \$2.4 million for Terminal 5 shore power, \$0.9 million for the Wapato Creek bridge and culvert project, and \$0.8 million for Terminal 5 stormwater project. Federal capital grant contributions of \$1.1 million funded Terminal 46 redevelopment. Prior year grant income from the TIGER grant was \$2.1 million for Terminal 46.

This resulted in an increase in net position before managing members contributions and distributions of \$112.0 million, which was \$34.4 million, 44%, above the prior year.

2020 Revenues, Expenses and Changes in Net Position versus the Prior Year

NWSA operating revenues of \$184.3 million, declined by \$10.7 million and 6% compared to the prior year as the pandemic interrupted cargo operations throughout the supply chain, decreasing cargo volume and total operating revenues in the container and non-container businesses. Container volume decreased by 12%, non-container volume also declined with breakbulk tonnage falling 20% and auto units dropping 13%.

Container business revenue declined by \$8.0 million compared to the prior year, driven by container volume that was 12% less than the prior year. The prior year's container volume was inflated by unusually high shipping activity as carriers moved cargo ahead of tariffs on Chinese goods. Current year container volume has been negatively impacted by the decline in consumer demand resulting from the COVID-19 pandemic, the subsequent economic downturn, and the shipping lines' response of removing capacity from the global container trades by collectively canceling 63 scheduled sailings to consolidate volumes on fewer ships to reduce operating costs. Intermodal lift and equipment rental revenues were most severely impacted by the decline in volume, decreasing \$5.6 million over the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Non-container business revenue decreased by \$2.6 million over the prior year. Auto volumes were negatively impacted by auto manufacturing and retail closures early in the year followed by the downturn in the economy and declined by 13% and revenue declined by \$1.0 million. Breakbulk tonnage volume was also negatively impacted by both the trade war and COVID-19 pandemic with volume and revenue down 20% and \$1.6 million, respectively.

Industrial real estate business revenue was comparable to the prior year with a new lease at Terminal 25 that increased revenue by \$0.3 million, offset by \$0.2 million for terminated leases at Terminal 115.

Operating expenses increased by 7% and \$7.1 million from the prior year to \$107.6 million, primarily from costs to modernize container terminals for ultra-large ships that require larger cranes and associated terminal infrastructure improvements which included costs for the disposition of old cranes at two terminals, paving repairs and costs related to the expected restructuring of a long-term agreement for the development of the second phase of Terminal 5. The modernization effort also increased depreciation by \$2.5 million. Of significance were four super-post-Panamax cranes that went into service in 2019 at Husky terminal (in addition to the four cranes that arrived in 2018), which increased depreciation by \$1.2 million over the prior year. Offsetting these variances were cost saving measures implemented early in the year to offset revenue declines and lower revenue related operating costs.

Non-operating revenue, excluding lease interest income, for 2020 was \$1.1 million less than the prior year as spending on public expenses related to the Terminal 5 modernization project decreased by \$1.6 million, offset by lower interest income of \$0.4 million due to lower interest rates.

Capital grant contributions from the TIGER grant were \$2.1 million in 2020 and \$3.9 million in 2019.

This resulted in an increase in net position before managing members contributions and distributions of \$77.6 million, which was \$18.4 million and 19%, below the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Net Position

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

| Description | 2020 | 2021 Activity | 2021 |
|--|-------------------|------------------|-------------------|
| Working capital contributions | \$ 51,000 | \$ - | \$ 51,000 |
| Capital construction contributions | 426,813 | 93,920 | 520,733 |
| Non-cash capital work-in-process contributions | 16,793 | - | 16,793 |
| Affirmation contribution | 11,000 | 11,000 | 22,000 |
| Total contributions | 505,606 | 104,920 | 610,526 |
| Affirmation distribution | (11,000) | (11,000) | (22,000) |
| Increase in net position before Managing Members contributions and distributions | 518,526 | 111,996 | 630,522 |
| Distributions to Managing Members | (563,730) | (117,578) | (681,308) |
| Adjustment related to adoption of GASB No. 87 | (110) | - | (110) |
| Net position, end of year* | \$ 449,292 | \$ 88,338 | \$ 537,630 |

* Beginning net position for 2020 was adjusted for the adoption of GASB No. 87, Leases (see Note 1)

| Description | 2019 | 2020 Activity | 2020 |
|--|-------------------|------------------|-------------------|
| Working capital contributions | \$ 51,000 | \$ - | \$ 51,000 |
| Capital construction contributions | 297,195 | 129,618 | 426,813 |
| Non-cash capital work-in-process contributions | 16,793 | - | 16,793 |
| Affirmation contribution | - | 11,000 | 11,000 |
| Total contributions | 364,988 | 140,618 | 505,606 |
| Affirmation distribution | - | (11,000) | (11,000) |
| Increase in net position before Managing Members contributions and distributions | 440,962 | 77,564 | 518,526 |
| Distributions to Managing Members | (452,574) | (111,156) | (563,730) |
| Adjustment related to adoption of GASB No. 87 | - | (110) | (110) |
| Net position, end of year* | \$ 353,376 | \$ 96,026 | \$ 449,292 |

* Beginning net position for 2020 was adjusted for the adoption of GASB No. 87, Leases (see Note 1)

Capital Assets

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

| | 2021 | 2020 | 2019 |
|---|------------------|-------------------|------------------|
| Terminal 5 modernization | \$ 66,921 | \$ 105,920 | \$ 22,616 |
| North and South Harbor terminal stormwater improvements | 11,334 | 6,391 | 6,992 |
| Facility and building improvements | 3,672 | 5,251 | 6,264 |
| Husky Terminal redevelopment and container cranes | 2,479 | 9,328 | 39,953 |
| Terminal 46 dock rehabilitation | 2,412 | 857 | 10,479 |
| Other | 2,398 | 6,611 | 7,095 |
| CBP facility | 1,378 | - | - |
| | <u>\$ 90,594</u> | <u>\$ 134,358</u> | <u>\$ 93,399</u> |

The NWSA's capital assets, net of depreciation, for its business activities as of December 31, 2021, 2020 and 2019, amounted to \$514.6 million, \$434.5 million and \$313.9 million, respectively. These investments in capital assets include building and land improvements, machinery and equipment, and construction in process. See Note 3 for additional information.

COVID-19: On March 11, 2020, the World Health Organization characterized COVID-19 as a global pandemic. A significant portion of the cargo that moves through our gateway is to and from Asia, specifically China. In 2020, the NWSA experienced a decline in cargo as a result of economic shutdowns around the world to limit the spread of the virus that fueled global unemployment and stifled both production and consumer spending. The latter half of 2020 saw a significant rebound in consumer demand as the U.S. economy re-opened. Cargo volume continued to increase in 2021 due to inventory replenishment and a surge in e-commerce orders resulting in the stabilization of container cargo. We believe that until the pandemic is under control, it has the potential to continue to have a negative impact on our operating results and financial condition. The extent of the impact of COVID-19 on our operational and financial performance at this time are uncertain and we cannot reasonably estimate the related impact to our business, operating results and financial condition.

REQUEST FOR INFORMATION

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

Financial Statements

The Northwest Seaport Alliance

**Statements of Net Position
December 31, 2021 and 2020
(Dollars in Thousands)**

| | 2021 | Restated* 2020 |
|---|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 7,140 | \$ 5,295 |
| Investments, at fair value | 21,300 | 16,030 |
| Trade accounts receivable, net of allowance for doubtful accounts | 8,551 | 8,649 |
| Grants receivable | 3,347 | 1,035 |
| Leases receivable - current | 54,736 | 35,996 |
| Related-party receivable - Managing Members | 5,683 | 12,654 |
| Prepayments and other current assets | 1,410 | 1,049 |
| Total current assets | <u>102,167</u> | <u>80,708</u> |
| Noncurrent assets: | | |
| Long-term investments: | | |
| Restricted investments, at fair value | 4,655 | 1,196 |
| Other long-term investments, at fair value | 20,634 | 23,114 |
| Total long-term investments | <u>25,289</u> | <u>24,310</u> |
| Capital and intangible assets: | | |
| Buildings | 82,052 | 16,889 |
| Improvements | 269,805 | 174,763 |
| Machinery and equipment | 103,234 | 101,457 |
| Intangible leased assets | 2,027 | - |
| Construction in process | 105,033 | 173,957 |
| Total capital and intangible assets | <u>562,151</u> | <u>467,066</u> |
| Less accumulated depreciation and amortization | 47,540 | 32,570 |
| Net capital and intangible assets | <u>514,611</u> | <u>434,496</u> |
| Leases receivable | 1,206,296 | 1,261,027 |
| Net pension asset | 4,978 | - |
| Other assets | 93 | - |
| Total noncurrent assets | <u>1,751,267</u> | <u>1,719,833</u> |
| Total assets | <u>\$ 1,853,434</u> | <u>\$ 1,800,541</u> |
| Deferred outflows of resources: | | |
| Pension deferred outflows | \$ 1,085 | \$ 1,377 |

* Beginning net position for 2020 was adjusted for the adoption of GASB No. 87, Leases (see Note 1)

See notes to financial statements.

The Northwest Seaport Alliance

**Statements of Net Position
December 31, 2021 and 2020
(Dollars in Thousands)**

| | 2021 | Restated 2020 |
|--|---------------------|---------------------|
| Liabilities and Net Position | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 30,212 | \$ 34,950 |
| Related-party payable - Managing Members | 9,158 | 11,922 |
| Payroll and taxes payable | 1,626 | 1,627 |
| Total current liabilities | <u>40,996</u> | <u>48,499</u> |
| Noncurrent liabilities: | | |
| Security deposits | 5,096 | 1,276 |
| Net pension liability | - | 2,232 |
| Other noncurrent liabilities | 4,009 | 2,838 |
| Total noncurrent liabilities | <u>9,105</u> | <u>6,346</u> |
| Total liabilities | <u>\$ 50,101</u> | <u>\$ 54,845</u> |
| Deferred inflows of resources: | | |
| Leases deferred inflows | \$ 1,261,033 | \$ 1,297,023 |
| Pension deferred inflows | 5,755 | 758 |
| Total deferred inflows | <u>\$ 1,266,788</u> | <u>\$ 1,297,781</u> |
| Net position: | | |
| Net investment in capital assets | \$ 499,402 | \$ 413,055 |
| Restricted net position for investments | 4,655 | 1,196 |
| Restricted net position for pension | 308 | - |
| Unrestricted | 33,265 | 35,041 |
| Total net position* | <u>\$ 537,630</u> | <u>\$ 449,292</u> |

* Beginning net position for 2020 was adjusted for the adoption of GASB No. 87, Leases (see Note 1)

See notes to financial statements.

The Northwest Seaport Alliance

Statements of Revenues, Expenses and Changes in Net Position December 31, 2021 and 2020 (Dollars in Thousands)

| | 2021 | Restated* 2020 |
|---|-------------------|-------------------|
| Operating revenues | \$ 150,320 | \$ 133,003 |
| Operating expenses: | | |
| Operations | 45,450 | 53,091 |
| Maintenance | 19,652 | 15,938 |
| Administration | 18,106 | 18,214 |
| Security | 3,993 | 5,142 |
| Environmental | 1,490 | 1,410 |
| Total operating expense before depreciation | 88,691 | 93,795 |
| Depreciation and amortization | 14,970 | 13,810 |
| Total operating expenses | 103,661 | 107,605 |
| Operating income | 46,659 | 25,398 |
| Nonoperating revenues (expenses): | | |
| Lease interest income, net | 52,085 | 51,324 |
| Interest income | 832 | 1,405 |
| Net (decrease) increase in the fair value of investments | (398) | 200 |
| Other non-operating income (expense), net | 7,361 | (2,892) |
| Total nonoperating revenues (expenses), net | 59,880 | 50,037 |
| Increase in net position, before capital contributions | 106,539 | 75,435 |
| Capital grant contributions | 5,457 | 2,129 |
| Increase in net position before Managing Members contributions and distributions | 111,996 | 77,564 |
| Capital construction contributions | 93,920 | 129,618 |
| Distributions to Managing Members | (117,578) | (111,156) |
| Total Managing Members investment, net | (23,658) | 18,462 |
| Net position, beginning of year | 449,292 | 353,376 |
| Adjustment related to adoption of GASB No. 87 | - | (110) |
| Net position, beginning of year, as restated | 449,292 | 353,266 |
| Net position, end of year | \$ 537,630 | \$ 449,292 |

* Beginning net position for 2020 was adjusted for the adoption of GASB 87, Leases (see Note 1).

See notes to financial statements.

The Northwest Seaport Alliance

Statements of Cash Flows

Years Ended December 31, 2021 and 2020

(Dollars in Thousands)

| | 2021 | Restated* 2020 |
|--|------------------|-------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 146,853 | \$ 131,376 |
| Cash paid to suppliers, longshore labor and employees | (51,756) | (47,045) |
| Cash paid to home ports for support services | (36,773) | (37,607) |
| Cash received from federal grants | 362 | 661 |
| Cash received from (paid out for) customer deposits | 3,693 | (12,733) |
| Net cash provided by operating activities | 62,379 | 34,652 |
| Cash flows from noncapital financing activities: | | |
| Membership interest affirmation payment | 11,000 | 11,000 |
| Cash distributions to Managing Members | (133,042) | (130,086) |
| Net cash used in noncapital financing activities | (122,042) | (119,086) |
| Cash flows from capital and related financing activities: | | |
| Cash received from Managing Members for capital construction | 100,891 | 131,018 |
| Acquisition and construction of capital assets | (91,603) | (133,427) |
| Cash received from federal grants | 5,951 | 2,219 |
| Lease interest income, net | 52,085 | 51,324 |
| Net cash provided by capital and related financing activities | 67,324 | 51,134 |
| Cash flows from investing activities: | | |
| Purchases of investments | (189,878) | (177,492) |
| Proceeds from sales and maturities of investment securities | 183,200 | 213,610 |
| Interest received on investments | 863 | 1,394 |
| Net cash (used in) provided by investing activities | (5,815) | 37,512 |
| Net increase in cash | 1,845 | 4,212 |
| Cash and cash equivalents: | | |
| Beginning of year | 5,295 | 1,083 |
| End of year | \$ 7,140 | \$ 5,295 |

* Beginning net position for 2020 was adjusted for the adoption of GASB No. 87, Leases (see Note 1)

(Continued)

The Northwest Seaport Alliance

Statements of Cash Flows (Continued)
Years Ended December 31, 2021 and 2020
(Dollars in Thousands)

| | 2021 | Restated* 2020 |
|---|------------------|-------------------|
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 46,659 | \$ 25,398 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Nonoperating expense | 2,418 | (638) |
| Depreciation | 14,970 | 13,810 |
| Changes in assets and liabilities and deferred inflows/outflows: | | |
| (Increase) decrease in trade accounts receivable | (3,067) | 4,690 |
| (Increase) in prepayments and other current assets | (481) | (28) |
| Decrease (increase) in accounts payable and accrued liabilities | (1,656) | 7,421 |
| Increase (decrease) in related-party payable - Managing Members | 1,780 | (8,816) |
| Increase (decrease) in security deposits | 3,693 | (12,733) |
| (Decrease) increase in payroll and taxes payable | (17) | 109 |
| Decrease in interest receivable | - | 194 |
| (Decrease) increase in pension related accounts | (1,921) | 5,245 |
| Total adjustments and changes | 15,720 | 9,254 |
| Net cash provided by operating activities | \$ 62,379 | \$ 34,652 |
| Noncash investing and financing activities: | | |
| Capital asset additions and other purchases financed with accounts payable | \$ 15,209 | \$ 21,440 |
| Contributions receivable from Managing Members for capital construction | \$ 5,683 | \$ 12,654 |
| Distributions payable to Managing Members | \$ (5,876) | \$ (10,340) |
| (Decrease) increase in fair value of investments | \$ (398) | \$ 200 |

**Beginning net position for 2020 was adjusted for the adoption of GASB No. 87, Leases (see Note 1)*

See notes to financial statements.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

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

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

The NWSA is governed by its Managing Members, with each Managing Member acting pursuant to the Charter through its elected commissioners. In addition, both Managing Members provide services through support service agreements with a portion of staff time allocated to and reimbursed by the NWSA.

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

The home ports agreed to share investments, earnings and distributions on a 50/50 basis. The home ports' initial contribution of Licensed Properties to the NWSA was 50% (based on the value of the contributed facilities using cash flow forecasts for each parcel that went to the NWSA). The initial cash investments funded working capital and capital construction projects, were shared equally.

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

The Northwest Seaport Alliance

Notes to Financial Statements

Noe 1. Summary of Significant Accounting Policies (Continued)

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

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

Measurement focus, basis of accounting and presentation: The financial statements of the NWSA have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The NWSA is accounted for on a flow of economic resources measurement focus and the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

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

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

On March 11, 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic. COVID-19 has disrupted economic markets and the impact has been widespread across all industries. The pandemic continues to disrupt the global supply chain and port operations. In response to the pandemic, management has considered whether its estimates should be re-evaluated. The NWSA has determined that no changes were necessary at this time. The NWSA will continue to monitor the economic environment and evaluate potential impacts on the financial statements.

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

The Northwest Seaport Alliance

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The formation of the NWSA is intended to reduce pricing competition between the home ports by creating a unified gateway, to allow for coordination regarding customer relationships, to improve capacity utilization between the home ports, and to rationalize strategic capital investments. The formation of the NWSA may or may not successfully address these risks, and may create new risks, including the risks associated with a new joint venture funded by the Managing Members with equal Membership Interests, and reliance on the financial strength of the home ports to fund future capital expenditures and shortfall in working capital. The Charter requires that the NWSA maintain the Bond Income Calculation and not to take any action that would reasonably reduce its income below this minimum net operating income level unless each Managing Member votes separately to approve that action. This minimum net operating level was established based on the amount required at formation of the NWSA for the Managing Members to meet their then current bond rate covenants, and may not always reflect the amount required to meet bond rate covenants on a go-forward basis.

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

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

Trade accounts receivable: Trade accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying delinquent accounts and by using historical experience applied to an aging of accounts. Trade accounts receivable are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. The allowance for doubtful accounts at December 31, 2021 and 2020, was \$0.1 million and \$10.9 million, respectively.

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

Capital assets and depreciation: Capital assets are recorded at cost.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

| | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 10-75 |
| Machinery and equipment | 3-20 |

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

Intangible assets and amortization: Intangible assets consist of intangible right to use assets for leases. Intangible right to use assets related to leases were \$1.9 million, net of amortization of \$0.1 million at December 31, 2021. There were no right to use assets in 2020 (see Note 5).

Net position: Net position consists of investment in capital assets, restricted and unrestricted net position. Investment in capital assets consists of capital assets, net of accumulated depreciation and was \$499.4 million and \$413.1 million at December 31, 2021 and 2020, respectively. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the NWSA or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The restricted net position at December 31, 2021 and 2020 were \$5.0 million and \$1.2 million, respectively. The restricted net position at December 31, 2021 were comprised of restricted grant and federal government restricted investments of \$4.7 million and restricted pension asset of \$0.3 million. The restricted net position at December 31, 2020, were restricted grant and federal government restricted investments totaling \$1.2 million. In 2020 the restricted investment of \$13.2 million (customer deposit) was returned to the customer and replaced with a surety bond. The unrestricted component of net position is the net amount of the assets and deferred outflows of resources less liabilities and deferred inflows of resources that are not included in the determination of investment in capital assets or the restricted components of net position. Unrestricted net position was \$33.3 million and \$35.0 million at December 31, 2021 and 2020, respectively.

Retentions payable: The NWSA enters into construction contracts that may include retention provisions such that a certain percentage of the contract amount is held for payment until completion of the contract and acceptance by the NWSA. The NWSA's policy is to pay the retention due only after completion and acceptance have occurred. Retentions payable totaled \$0.1 million and \$0.2 million at December 31, 2021 and 2020, respectively. Retentions payable are included in accounts payable and accrued liabilities on the accompanying statements of net position.

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

Employee benefits: The NWSA accrues unpaid vacation and sick leave benefit amounts as earned and payable upon termination. These benefits are accrued at current rates of compensation. Accrued vacation and sick leave are included in payroll and taxes payable and amounted to \$0.5 million and \$0.2 million, respectively, at December 31, 2021, and \$0.5 million and \$0.2 million, respectively, at December 31, 2020. Vacation and sick leave paid in 2021 was \$0.5 million and \$0.1 million, respectively, and \$0.3 million and \$0.1 million, respectively, in 2020. The estimated total amount of vacation and sick leave expected to be paid in 2022 is \$0.5 million and \$0.1 million, respectively.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The NWSA provides health care benefits for eligible employees through the HRA VEBA Trust, which is a nonprofit, multiple employer voluntary employees' beneficiary association (VEBA) authorized under Internal Revenue Code 501(c)(9). The HRA VEBA Trust offers a funded health reimbursement arrangement (HRA) plan available to certain governmental employers in the Northwest (Washington, Oregon, and Idaho). The Trust is managed by a Board of Trustees elected by the plan participants, participating employers, or the Board itself, depending on the Trustee position. The NWSA has two plans, one of which was closed to new employees hired after July 1, 2015, the second plan is open to all eligible employees. The NWSA contributed \$0.1 million to eligible employee VEBA accounts in 2021 and 2020.

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

The NWSA established a profit sharing plan for nonrepresented employees in accordance with Internal Revenue Code Section 401. The plan provides for an annual contribution to each eligible employee's 401 account based on the NWSA meeting financial targets. The minimum contribution of \$100 or a maximum contribution of 4% of total salaries of eligible employees may be made annually. In addition to the employer contribution, eligible employees may defer a portion of their salary until future years. The NWSA has not utilized this performance plan and, hence, has not contributed to the plan since its formation in 2016. This plan is fully funded and held in an external trust.

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

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

The Northwest Seaport Alliance

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The NWSA licenses property from the home ports for its operations. Remediation costs associated with contamination on Licensed Property that occurred before the formation of the NWSA shall remain the responsibility of the home port in which the Licensed Property is located. Remediation costs associated with redevelopment on Licensed Property shall be the responsibility of the NWSA. At December 31, 2021 and 2020, the NWSA determined that there were no environmental remediation liabilities to be recognized.

Security deposits: Under the terms of certain Licensed Property lease agreements, the NWSA's customers or tenants are required to provide security in the event of delinquencies in rent payment, default, or other events defined in these agreements. The security amounts are determined by lease terms. The NWSA held \$5.1 million and \$1.3 million in cash security deposits at December 31, 2021 and 2020, respectively.

Deferred inflows and outflows of resources: Deferred inflows of resources is an acquisition of net position that is applicable to a future reporting period(s). The NWSA records deferred inflows of resources on the statements of net position for its pension plan and leases. Deferred outflows of resources is a consumption of net position that is applicable to a future reporting period(s). The NWSA records deferred outflows of resources on the statements of net position for its pension plan.

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

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

Reclassifications and Presentation: Certain reclassifications of prior year's balances have been made to conform with the current year presentations. These reclassifications did not affect the total ending net position or the change in net position. Accrued payables and accounts payable for capital asset purchases were reclassified from investment in capital assets to unrestricted net position. Current assets decreased by \$23.1 million as a result of the reclassification of the investments from current investment to long-term investments due to their maturity dates.

Recent accounting pronouncements: In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The statement addresses issues related to public-private and public-public partnership arrangements and provides guidance for accounting and financial reporting for availability payment arrangements. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The NWSA is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures.

In June 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The NWSA is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements adopted: In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of this statement are effective for reporting periods beginning after December 15, 2021, as postponed by Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, until the current year. The adoption of GASB No. 87 increased lease receivables and deferred inflows of resources of \$1.3 billion and \$1.3 billion at December 31, 2021 and 2020, respectively. Non-operating lease interest income was increased by \$52.1 million and \$51.3 million with an offsetting decrease in operating revenue of \$52.1 million and \$51.3 million at December 31, 2021 and 2020, respectively.

The NWSA restated the January 1, 2020, financial statements for the adoption of this standard; accordingly, as summarized below (dollars in thousands):

| | 2020 As previously reported * | Effect of Restatement related to adoption of GASB No. 87 | 2020 as restated |
|---|----------------------------------|--|---------------------|
| Statements of Net Position | | | |
| Current assets: | | | |
| Current assets, excluding leases receivable and prepayments | \$ 43,663 | \$ - | \$ 43,663 |
| Leases receivable - current | - | 35,996 | 35,996 |
| Prepayments and other current assets | 1,049 | - | 1,049 |
| Capital and intangible assets: | | | |
| Capital assets, excluding lease and other | 467,066 | - | 467,066 |
| Intangible assets - lease and other | - | - | - |
| Less accumulated depreciation and amortization | (32,570) | - | (32,570) |
| Non-current assets: | | | |
| Non-current assets, excluding leases receivable, and other assets | 24,310 | | 24,310 |
| Leases receivable | - | 1,261,027 | 1,261,027 |
| Other assets | 110 | (110) | - |
| Total assets | \$ 503,628 | \$ 1,296,913 | \$ 1,800,541 |
| Current liabilities: | | | |
| Other current liabilities, excluding accounts payable and accrued liabilities | \$ 13,549 | \$ - | \$ 13,549 |
| Accounts payable and accrued liabilities | 34,950 | - | 34,950 |
| Non-current liabilities: | | | |
| Security deposits | 1,276 | - | 1,276 |
| Net pension liability | 2,232 | - | 2,232 |
| Other | 2,838 | - | 2,838 |
| Total liabilities | \$ 54,845 | \$ - | \$ 54,845 |
| Deferred inflows of resources: | | | |
| Lease deferred inflows | - | 1,297,023 | 1,297,023 |
| Pension deferred inflows | 758 | - | 758 |
| Net position: | | | |
| Net Investment in capital assets | \$ 434,496 | - | \$ 434,496 |
| Restricted | 1,196 | (110) | 1,086 |
| Unrestricted | 13,710 | - | 13,710 |
| Total net position | \$ 449,402 | \$ (110) | \$ 449,292 |

* Certain items from the previously issued 2020 financial statements were reclassified to confirm to current year's presentation; see "reclassification and presentation" section in Note 1

The Northwest Seaport Alliance

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Concluded)

| Statements of Revenues, Expenses and Changes in Net Position | 2020 As previously reported | Effect of Restatement related to adoption of GASB No. 87 | 2020 as restated |
|--|--------------------------------|--|-------------------|
| Operating revenues | \$ 184,327 | \$ (51,324) | \$ 133,003 |
| Operating expenses: | | | |
| Other operating expenses, excluding operations and depreciation and amortization | 40,704 | - | 40,704 |
| Operations | 53,091 | - | 53,091 |
| Depreciation and amortization | 13,810 | - | 13,810 |
| | \$ 107,605 | \$ - | \$ 107,605 |
| Non-operating income (expense), net: | | | |
| Other non-operating income (expense), net, excluding lease interest income, net | \$ (1,287) | - | \$ (1,287) |
| Lease interest income, net | - | 51,324 | 51,324 |
| Capital grant contributions | 2,129 | - | 2,129 |
| Capital construction contributions | 129,618 | - | 129,618 |
| Distribution to Managing Members | (111,156) | - | (111,156) |
| Increase in net position | 96,026 | 51,324 | 96,026 |
| Net position, beginning of the year | \$ 353,376 | \$ - | \$ 353,376 |
| Adjustment related to adoption of GASB 87 | - | (110) | (110) |
| Net position, end of year as restated | \$ 449,402 | \$ 51,214 | \$ 449,292 |

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The statement addresses a variety of topics, including the effective date of new lease guidance in interim financial reports, reporting intra-entity transfers for defined benefit pension plans or other postemployment benefit plans, reporting assets accumulated for postemployment benefits, certain requirements for postemployment benefit arrangements, measurement of assets and liabilities associated with asset retirement obligations, public entity risk pool reporting, nonrecurring fair value measurements, and terminology used to refer to derivative instruments. The requirements of this statement are effective for reporting periods beginning after December 15, 2020. The NWSA evaluated and adopted this standard and concluded that there was no material impact to the financial statements and related disclosures.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The statement amends the criteria for reporting governmental fiduciary component units to improve consistency and comparability in reporting on fiduciary component units and Internal Revenue Service Section 457 plans. The requirements of this statement are effective for reporting periods beginning after June 15, 2021. The NWSA evaluated and adopted this standard and concluded that there was no material impact to the financial statements and related disclosures.

Note 2. Deposits and Investments

Discretionary deposits: The NWSA's cash of \$7.1 million and \$5.3 million at December 31, 2021 and 2020, respectively, were deposited in qualified depositories as required by state statute. Deposits in excess of federal depository insurance coverage are covered by the PDPC of the State of Washington. The PDPC is a statutory authority under Chapter 39.58 RCW. Currently, all public depositories with the state fully collateralize uninsured public deposits at 50%.

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

The Northwest Seaport Alliance

Notes to Financial Statements

Note 2. Deposits and Investments (Continued)

Restricted investments: Investments that are limited as to the manner in or purpose for which they may be used as imposed on by external persons or bodies, through constitutional provision, or via enabling legislation. The NWSA's restricted investments include restrictions from federal, state and local agencies for the funding port development and environmental projects.

Risks:

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

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

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

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

The LGIP manages a portfolio of securities that meet the maturity, quality, diversification and liquidity requirements set forth by the GASB for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The funds are limited to high quality obligations with regulated maximum and average maturities to minimize both market and credit risk. The LGIP transacts with its participants at a stable net asset value per share of \$1.00, the same method used for reporting. LGIP participants may contribute and withdraw funds on a daily basis. Participants must inform the Office of the State Treasurer of any contribution or withdrawal over \$1 million no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for \$1 million or less can be requested at any time prior to 10 a.m. on the day of the transaction. However, participants may complete transactions greater than \$1 million when notification is made between 9 a.m. and 10 a.m., at the sole discretion of the Office of the State Treasurer. All participants are required to file with the State Treasurer documentation containing the names and titles of the officials authorized to contribute or withdraw funds.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 2. Deposits and Investments (Continued)

Restricted investments on the statements of net position were \$4.7 million and \$1.2 million at December 31, 2021 and 2020, respectively.

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

| Investment Type | 2021 | | | | Percentage of Total Portfolio |
|--|------------------|-----------------------|-----------------|------------------|-------------------------------|
| | Fair Value | Maturities (in Years) | | | |
| | | Less than 1 | 1-3 | More than 3 | |
| Federal Home Loan Bank | \$ 1,983 | \$ - | \$ - | \$ 1,983 | 4.3% |
| Federal Home Loan Mortgage Corporation | 4,952 | - | 1,982 | 2,970 | 10.6% |
| Federal National Mortgage Association | 1,956 | - | - | 1,956 | 4.2% |
| Municipal Bonds | 9,767 | - | 1,835 | 7,932 | 21.0% |
| Supranationals | 1,976 | - | 1,976 | - | 4.2% |
| State Local Investment Pool* | 25,955 | 25,955 | - | - | 55.7% |
| Total investments | <u>\$ 46,589</u> | <u>\$ 25,955</u> | <u>\$ 5,793</u> | <u>\$ 14,841</u> | <u>100.0%</u> |
| Percentage of total portfolio | | <u>55.7%</u> | <u>12.4%</u> | <u>31.9%</u> | <u>100.0%</u> |

| Investment Type | 2020 | | | | Percentage of Total Portfolio |
|--|------------------|-----------------------|-----------------|------------------|-------------------------------|
| | Fair Value | Maturities (in Years) | | | |
| | | Less than 1 | 1-3 | More than 3 | |
| Federal Home Loan Bank | \$ 4,037 | \$ - | \$ - | \$ 4,037 | 10.0% |
| Federal Home Loan Mortgage Corporation | 5,006 | - | - | 5,006 | 12.4% |
| Federal National Mortgage Association | 2,003 | - | - | 2,003 | 5.0% |
| Municipal Bonds | 10,051 | - | 1,879 | 8,172 | 24.9% |
| Supranationals | 2,017 | - | 2,017 | - | 5.0% |
| State Local Investment Pool* | 17,226 | 17,226 | - | - | 42.8% |
| Total investments | <u>\$ 40,340</u> | <u>\$ 17,226</u> | <u>\$ 3,896</u> | <u>\$ 19,218</u> | <u>100.1%</u> |
| Percentage of total portfolio | | <u>42.7%</u> | <u>9.7%</u> | <u>47.6%</u> | <u>100.0%</u> |

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

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

The Northwest Seaport Alliance

Notes to Financial Statements

Note 2. Deposits and Investments (Concluded)

The tables below identify the credit risk of the NWSA's investment portfolio as of December 31 (dollars in thousands):

| Investment Type | 2021 | | | | | | |
|---------------------------------|------------------|-----------------------------------|-------------|-----------------|-----------------|------------------|------------------|
| | Fair Value | Moody's Equivalent Credit Ratings | | | | | No Rating |
| | | A1 | Aa3 | Aa2 | Aa1 | Aaa | |
| Federal Home Loan Bank | \$ 1,983 | \$ - | \$ - | \$ - | \$ - | \$ 1,983 | \$ - |
| Federal Home Loan Mortgage Corp | 4,952 | - | - | - | - | 4,952 | - |
| Federal National Mtg Assn | 1,956 | - | - | - | - | 1,956 | - |
| Municipal Bonds | 9,767 | - | - | 5,048 | 2,743 | 1,976 | - |
| Supranationals | 1,976 | - | - | - | - | 1,976 | - |
| State Local Investment Pool* | 25,955 | - | - | - | - | - | 25,955 |
| Total | <u>\$ 46,589</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,048</u> | <u>\$ 2,743</u> | <u>\$ 12,843</u> | <u>\$ 25,955</u> |

| Investment Type | 2020 | | | | | | |
|---------------------------------|------------------|-----------------------------------|-------------|-----------------|-----------------|------------------|------------------|
| | Fair Value | Moody's Equivalent Credit Ratings | | | | | No Rating |
| | | A1 | Aa3 | Aa2 | Aa1 | Aaa | |
| Federal Home Loan Bank | \$ 4,037 | \$ - | \$ - | \$ - | \$ - | \$ 4,037 | \$ - |
| Federal Home Loan Mortgage Corp | 5,006 | - | - | - | - | 5,006 | - |
| Federal National Mtg Assn | 2,003 | - | - | - | - | 2,003 | - |
| Municipal Bonds | 10,051 | - | - | 5,195 | 2,808 | 2,048 | - |
| Supranationals | 2,017 | - | - | - | - | 2,017 | - |
| State Local Investment Pool* | 17,226 | - | - | - | - | - | 17,226 |
| Total | <u>\$ 40,340</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,195</u> | <u>\$ 2,808</u> | <u>\$ 15,111</u> | <u>\$ 17,226</u> |

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

The Northwest Seaport Alliance

Notes to Financial Statements

Note 3. Capital Assets

The following capital asset activity took place during 2021 and 2020 (dollars in thousands):

| | 2021 | | | | |
|--|----------------------|-----------|--------------|--------------------------|-------------|
| | Beginning of Year | Additions | Transfers | Retirements and Other | End of Year |
| Capital assets not being depreciated: | | | | | |
| Construction in process | \$ 173,957 | \$ 90,594 | \$ (156,509) | \$ (3,009) | \$ 105,033 |
| Total capital assets not being depreciated | 173,957 | 90,594 | (156,509) | (3,009) | 105,033 |
| Capital and intangible assets being depreciated/amortized: | | | | | |
| Buildings | 16,889 | - | 65,163 | - | 82,052 |
| Improvements | 174,763 | 5,473 | 89,569 | - | 269,805 |
| Machinery and equipment | 101,457 | - | 1,777 | - | 103,234 |
| Intangible leased assets | - | 2,027 | - | - | 2,027 |
| Total capital and intangible assets being depreciated/amortized | 293,109 | 7,500 | 156,509 | - | 457,118 |
| Less accumulated depreciation and amortization: | | | | | |
| Buildings | (3,963) | (1,556) | - | - | (5,519) |
| Improvements | (17,057) | (7,445) | - | - | (24,502) |
| Machinery and equipment | (11,550) | (5,841) | - | - | (17,391) |
| Intangible leased assets | - | (128) | - | - | (128) |
| Total accumulated depreciation and amortization | (32,570) | (14,970) | - | - | (47,540) |
| Net capital and intangible assets being depreciated/amortized | 260,539 | (7,470) | 156,509 | - | 409,578 |
| Net capital assets | \$ 434,496 | \$ 83,124 | \$ - | \$ (3,009) | \$ 514,611 |

The Northwest Seaport Alliance

Notes to Financial Statements

Note 3. Capital Assets (Concluded)

| | 2020 | | | | |
|---|----------------------|------------|-------------|--------------------------|-------------|
| | Beginning of Year | Additions | Transfers | Retirements and Other | End of Year |
| Capital assets not being depreciated: | | | | | |
| Construction in process | \$ 50,016 | \$ 134,358 | \$ (10,417) | \$ - | \$ 173,957 |
| Total capital assets not being depreciated | 50,016 | 134,358 | (10,417) | - | 173,957 |
| Capital assets being depreciated: | | | | | |
| Buildings | 15,525 | - | 1,364 | - | 16,889 |
| Improvements | 166,699 | - | 8,064 | - | 174,763 |
| Machinery and equipment | 101,968 | - | 989 | (1,500) | 101,457 |
| Total capital assets being depreciated | 284,192 | - | 10,417 | (1,500) | 293,109 |
| Less accumulated depreciation: | | | | | |
| Buildings | (2,707) | (1,256) | - | - | (3,963) |
| Improvements | (10,050) | (7,007) | - | - | (17,057) |
| Machinery and equipment | (7,503) | (5,547) | - | 1,500 | (11,550) |
| Total accumulated depreciation | (20,260) | (13,810) | - | 1,500 | (32,570) |
| Net capital assets being depreciated | 263,932 | (13,810) | 10,417 | - | 260,539 |
| Net capital assets | \$ 313,948 | \$ 120,548 | \$ - | \$ - | \$ 434,496 |

Note 4. Risk Management

The NWSA is exposed to various risks of loss related to torts; damage to, theft of, and destruction of assets or cargo; natural disasters; and employee injuries. To limit its exposure, the NWSA purchases a variety of insurance policies. For marine general liability, the NWSA purchases \$150 million in coverage, subject to a \$0.5 million deductible. All risk property insurance is purchased by the home ports to include assets owned by the NWSA situated on home port land and the NWSA is listed as a named insured where its interest applies. For details concerning property insurance, please consult the notes to the year-end financial reports for the respective home ports.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 4. Risk Management (Concluded)

The NWSA is self-insured for its regular medical coverage. The liability for unpaid medical claims is included in payroll and taxes payable on the accompanying statements of net position and is expected to be paid in 2022. Excess loss coverage has been purchased through an outside provider to limit individual loss to \$135,000. Self-insured claim activity for December 31, 2021, 2020, and 2019 were as follows (dollars in thousands):

| | 2021 | 2020 | 2019 |
|-------------------------------------|---------------|---------------|---------------|
| Claims liability, beginning of year | \$ 389 | \$ 383 | \$ 357 |
| Claims reserve | 1,053 | 1,145 | 1,176 |
| Payments on claims | (1,052) | (1,139) | (1,150) |
| Claims liability, end of year | <u>\$ 390</u> | <u>\$ 389</u> | <u>\$ 383</u> |

The NWSA is self-insured for workers' compensation losses. These losses are subject to a \$1.25 million self-insured retention as a Named Insured under the Port of Tacoma's excess workers' compensation policy. The estimated liability for workers' compensation is included in payroll and taxes payable on the accompanying statements of net position. At December 31, 2021, the estimated self-insurance liability for workers' compensation was \$25,000 and this amount is expected to be paid in 2022. At December 31, 2020 and 2019, the estimated self-insurance liability for workers' compensation was \$57,000 and \$46,000, respectively. The liability for unpaid claims represents the estimated future indemnity, medical, rehabilitation, and legal costs for all open claims.

Workers' compensation claim activity for December 31, 2021, 2020, and 2019, were as follows (dollars in thousands):

| | 2021 | 2020 | 2019 |
|---|--------------|--------------|--------------|
| Claims liability, beginning of year | \$ 57 | \$ 46 | \$ 21 |
| Claims incurred during the year | 39 | 57 | 71 |
| Changes in estimate for prior year claims | (32) | 109 | 16 |
| Payments on claims | (39) | (155) | (62) |
| Claims liability, end of year | <u>\$ 25</u> | <u>\$ 57</u> | <u>\$ 46</u> |

Note 5. Lease

Effective January 1, 2020, the NWSA adopted GASB No. 87, *Leases*, as discussed in more detail in Note 1.

The NWSA, as a lessor, leases land and facilities under long-term agreements at market rates with terms ranging from 1 to 50 years. The leases typically include provisions for rent changes based on the consumer price index or other market indexes, resulting in additional variable lease revenues that are not included in the measurement of the lease receivables.

Total operating revenue from long-term leases in 2021 were \$108.1 million, including \$102.7 million of principal and interest and \$5.4 million of variable revenues that were not previously included in the lease receivable balance. Total operating revenue in 2020 for long-term leases totaled \$102.5 million, including \$98.4 million of principal and interest and \$4.1 million of variable revenues that were not previously included in the lease receivable balance.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 5. Lease Commitments (Concluded)

Minimum future rental revenue from leases is as follows (dollars in thousands).

| | Principal | Interest | Total |
|---------------------------|---------------------|-------------------|---------------------|
| Years ending December 31: | | | |
| 2022 | \$ 54,736 | \$ 50,282 | \$ 105,018 |
| 2023 | 58,458 | 47,969 | 106,427 |
| 2024 | 62,212 | 45,499 | 107,711 |
| 2025 | 64,620 | 42,901 | 107,521 |
| 2026 | 66,046 | 40,246 | 106,292 |
| 2027-2031 | 229,325 | 170,955 | 400,280 |
| 2032-2036 | 204,250 | 125,943 | 330,193 |
| 2037-2041 | 196,414 | 85,433 | 281,847 |
| 2042-2046 | 217,213 | 44,414 | 261,627 |
| 2047-2051 | 107,758 | 6,206 | 113,964 |
| Total | <u>\$ 1,261,032</u> | <u>\$ 659,848</u> | <u>\$ 1,920,880</u> |

The NWSA leases building and office space and the agreements do not contain variable payments and residual value guarantees. The NWSA's intangible "right to use" assets are included in capital and intangible assets as intangible assets and other non-current liabilities on the statements of net position and are presented below as of December 31, 2021 (dollars in thousands): The NWSA did not have lessee related activities in 2020.

| | Beginning of Year | Additions | Retirements and Other | End of Year |
|---------------------------------------|----------------------|-----------------|--------------------------|-----------------|
| Leased assets being depreciated: | | | | |
| Building space | \$ - | \$ 2,027 | \$ - | \$ 2,027 |
| Total leased assets being depreciated | <u>-</u> | <u>2,027</u> | <u>-</u> | <u>2,027</u> |
| Less accumulated amortization: | | | | |
| Building space | - | (128) | - | (128) |
| Total accumulated depreciation | <u>-</u> | <u>(128)</u> | <u>-</u> | <u>(128)</u> |
| Net, leased assets | <u>\$ -</u> | <u>\$ 1,899</u> | <u>\$ -</u> | <u>\$ 1,899</u> |

Minimum future lease payments for the leases are as follows (dollars in thousands):

| | Principal | Interest | Total |
|---------------------------|-----------------|---------------|-----------------|
| Years ending December 31: | | | |
| 2022 | \$ 190 | \$ 69 | \$ 259 |
| 2023 | 204 | 61 | 265 |
| 2024 | 180 | 54 | 234 |
| 2025 | 174 | 47 | 221 |
| 2026 | 187 | 40 | 227 |
| 2027-2031 | 964 | 83 | 1,047 |
| Total | <u>\$ 1,899</u> | <u>\$ 354</u> | <u>\$ 2,253</u> |

The Northwest Seaport Alliance

Notes to Financial Statements

Note 6. Pension Plans

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

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

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

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

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

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

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

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

The Northwest Seaport Alliance

Notes to Financial Statements

Note 6. Pension Plans (Continued)

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

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

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

The PERS Plan 2/3 employer and employee contribution rates are developed by the OSA to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarial accrued liability, currently set at 5.31%, and an administrative expense that is currently set at 0.18%.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 6. Pension Plans (Continued)

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

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

| | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|-----------|-------------|-------------|-------------|
| 2021 | | | |
| Employer* | 10.25% | 10.25% | 10.25%** |
| Employee | 6.00% | 7.90% | *** |
| 2020 | | | |
| Employer* | 12.86% | 12.86% | 12.86%** |
| Employee | 6.00% | 7.90% | *** |

* The employer rates include the employer administrative expense fee of 0.18% for 2021 and 2020

** Plan 3 defined benefit portion only

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

The NWSA made contributions of \$0.3 million to PERS 1 and \$0.5 million to PERS 2/3 during 2021 and 2020, respectively. And the employees made the required contributions for 2021 and 2020. The NWSA's required contributions for the years ended December 31 are as follows (dollars in thousands):

| | PERS Plan 1 | | PERS Plan 2/3 | | Total | |
|---------------------------|-------------|-----|---------------|-----|-------|-----|
| Years ending December 31: | | | | | | |
| 2021 | \$ | 321 | \$ | 523 | \$ | 844 |
| 2020 | | 326 | | 491 | | 817 |

The Northwest Seaport Alliance

Notes to Financial Statements

Note 6. Pension Plans (Continued)

Pension assets (liabilities), pension expense, and deferred inflows and outflows of resources

related to pensions: At December 31, 2021, the NWSA reported a net pension asset of \$5.0 million and in 2020 a net pension liability of \$2.2 million for its proportionate share of the net pension asset (liability). The NWSA's proportion of the net pension asset (liability) was based on a projection of the NWSA's long-term share of contributions to the pension plan relative to the projected contributions of all participating agencies, actuarially determined. NWSA's proportionate share of net pension asset (liability) for the years ended December 31, 2021 and 2020, are presented in the following table (dollars in thousands):

| | PERS 1 | PERS 2/3 | Total |
|--|----------|----------|----------|
| NWSA's proportionate share of the net pension asset (liability): | | | |
| 2021 | \$ (525) | \$ 5,503 | \$ 4,978 |
| 2020 | (1,517) | (715) | (2,232) |
| | | PERS 1 | PERS 2/3 |
| NWSA's proportionate share of the net pension liability: | | | |
| 2021 | | 0.0430% | 0.0552% |
| 2020 | | 0.0430% | 0.0559% |
| Change in proportionate share | | 0.0000% | -0.0007% |

For the years ended December 31, 2021 and 2020, NWSA reported the following pension benefit (dollars in thousands):

| | PERS 1 | PERS 2/3 | Total |
|------|--------|----------|----------|
| 2021 | \$ 97 | \$ 1,069 | \$ 1,166 |
| 2020 | 344 | 265 | 609 |

The Northwest Seaport Alliance

Notes to Financial Statements

Note 6. Pension Plans (Continued)

For the years ended December 31, 2021 and 2020, deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources (dollars in thousands):

| | 2021 | | |
|---|----------|------------|------------|
| | PERS 1 | PERS 2/3 | Total |
| Sources of deferred outflow of resources: | | | |
| Net difference between projected and actual earnings on pension plan investments (2) | \$ - | \$ - | \$ - |
| Changes in assumptions (1) | - | 8 | 8 |
| Differences between expected and actual experience (1) | - | 267 | 267 |
| Changes in proportion and differences between NWSA contributions and proportionate share of contributions (1) | - | 479 | 479 |
| NWSA contributions subsequent to measurement date | 122 | 209 | 331 |
| Total | \$ 122 | \$ 963 | \$ 1,085 |
| Sources of deferred inflow of resources: | | | |
| Net difference between projected and actual earnings on pension plan investments (2) | \$ (583) | \$ (4,599) | \$ (5,182) |
| Changes in assumptions (1) | - | (391) | (391) |
| Differences between expected and actual experience (1) | - | (67) | (67) |
| Changes in proportion and differences between NWSA contributions and proportionate share of contributions (1) | - | (115) | (115) |
| Total | \$ (583) | \$ (5,172) | \$ (5,755) |

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

The Northwest Seaport Alliance

Notes to Financial Statements

Note 6. Pension Plans (Continued)

| | 2020 | | |
|---|---------------|-----------------|-----------------|
| | PERS 1 | PERS 2/3 | Total |
| Sources of deferred outflow of resources: | | | |
| Net difference between projected and actual earnings on pension plan investments (2) | \$ - | \$ - | \$ - |
| Changes in assumptions (1) | - | 11 | 11 |
| Differences between expected and actual experience (1) | - | 256 | 256 |
| Changes in proportion and differences between NWSA contributions and proportionate share of contributions (1) | - | 691 | 691 |
| NWSA contributions subsequent to measurement date | 159 | 260 | 419 |
| Total | <u>\$ 159</u> | <u>\$ 1,218</u> | <u>\$ 1,377</u> |
| Sources of deferred inflow of resources: | | | |
| Net difference between projected and actual earnings on pension plan investments (2) | \$ (8) | \$ (36) | \$ (44) |
| Changes in assumptions (1) | - | (489) | (489) |
| Differences between expected and actual experience (1) | - | (90) | (90) |
| Changes in proportion and differences between NWSA contributions and proportionate share of contributions (1) | - | (135) | (135) |
| Total | <u>\$ (8)</u> | <u>\$ (750)</u> | <u>\$ (758)</u> |

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

As of December 31, 2021, deferred outflows of resources related to pensions resulting from NWSA's contributions subsequent to the measurement date were \$0.3 million and will be recognized as a reduction of the net pension liability in the year ending December 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (dollars in thousands):

| | PERS 1 | PERS 2/3 | Total |
|---------------------------|-----------------|-------------------|-------------------|
| Years ending December 31: | | | |
| 2022 | \$ (154) | \$ (1,078) | \$ (1,232) |
| 2023 | (141) | (996) | (1,137) |
| 2024 | (135) | (1,101) | (1,235) |
| 2025 | (153) | (1,228) | (1,381) |
| 2026 | - | (19) | (19) |
| Thereafter | - | 4 | 3 |
| Total | <u>\$ (583)</u> | <u>\$ (4,418)</u> | <u>\$ (5,001)</u> |

The Northwest Seaport Alliance

Notes to Financial Statements

Note 6. Pension Plans (Continued)

As of December 31, 2020, deferred outflows of resources related to pensions resulting from NWSA's contributions subsequent to the measurement date were \$0.4 million and was recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions were recognized in pension expense as follows (dollars in thousands):

| | PERS 1 | PERS 2/3 | Total |
|---------------------------|---------------|---------------|---------------|
| Years ending December 31: | | | |
| 2021 | \$ (38) | \$ (115) | \$ (153) |
| 2022 | (1) | 111 | 110 |
| 2023 | 12 | 194 | 206 |
| 2024 | 19 | 90 | 109 |
| 2025 | - | (38) | (38) |
| Thereafter | - | (34) | (34) |
| Total | <u>\$ (8)</u> | <u>\$ 208</u> | <u>\$ 200</u> |

Actuarial assumptions: The 2021 total pension asset (liability) for each of the plans was determined using the most recent actuarial valuation completed in 2021 with a valuation date of June 30, 2020, with the results rolled forward to June 30, 2021. The actuarial assumptions used in the June 30, 2020, valuation were based on the results of the 2013-2018 Demographic Experience Study Report and the 2019 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. The 2020 total pension liability for each of the plans were determined by an actuarial valuation as of June 30, 2019, with the results rolled forward to June 30, 2020. Besides the discount rate, the actuarial assumptions used in the June 30, 2019, valuation were based on the results of the 2013-2018 Experience Study Report and the 2019 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report.

Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report and are as follows:

Inflation: 2.75% total economic inflation; 3.50% salary inflation (2020: 2.75% for total economic inflation; 3.50% for salary inflation).

Salary increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity (2020: salaries were expected to grow 3.50%).

Investment rate of return: 7.40% (2020: 7.40%).

The Northwest Seaport Alliance

Notes to Financial Statements

Note 6. Pension Plans (Continued)

Mortality rates: Mortality rates in 2021 were developed using the Society of Actuaries' Pub.H-2010 mortality rates, which vary by member status (e.g., active, retiree, or survivor), as the base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

Mortality rates in 2020 were developed using the Society of Actuaries' Pub.H-2010 mortality rates, which vary by member status (e.g., active, retiree, or survivor), as the base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

Assumption and method changes: There were no changes in assumptions since the last valuation. There were changes in methods since the last valuation.

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the OSA introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 Annual Comprehensive Financial Report results.
- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020 assets by relying on the fiscal year-end 2019 assets, reflecting actual investment performance over fiscal year end, and reflecting assumed contribution amounts and benefit payments during fiscal year end. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

Discount rate: The discount rate used to measure the total pension liability was 7.40% for all plans (2020: 7.40%). To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on the assumptions described in OSA's certification letter within the DRS Annual Comprehensive Financial Report, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40% was used to determine the total liability.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 6. Pensions (Concluded)

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

| | Pension Trust | 1% Decrease | Discount Rate | 1% Increase |
|--|---------------|-------------|---------------|-------------|
| December 31, 2021: | | | | |
| Discount rate | | 6.40% | 7.40% | 8.40% |
| Proportionate share of net pension liability | PERS 1 | \$ 894 | \$ 525 | \$ 203 |
| Proportionate share of net pension liability/(asset) | PERS 2/3 | (1,568) | (5,503) | (8,578) |
| December 31, 2020: | | | | |
| Discount rate | | 6.40% | 7.40% | 8.40% |
| Proportionate share of net pension liability | PERS 1 | \$ 1,900 | \$ 1,517 | \$ 1,183 |
| Proportionate share of net pension liability/(asset) | PERS 2/3 | 4,451 | 715 | (2,361) |

Long-term expected rate of return: The OSA selected a 7.40% long-term expected rate of return on pension plan investments using a building-block method (2020: 7.40% long-term expected rate of return). In selecting this assumption, the OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMAs and their target asset allocation to simulate future investment returns at various future times.

Estimated rates of return by asset class: Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021 and 2020, are summarized below. The inflation component used to create the table is 2.20% for June 30, 2021 and 2020 and represents WSIB's most recent long-term estimate of broad economic inflation.

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued DRS financial reports. Additional actuarial and pension plan information is included in the DRS 2021 Annual Comprehensive Financial Report, including descriptions of actuarial data, assumptions, methods, and plan provisions relied on for the preparation of GASB No. 67 and GASB No. 68. Additional details regarding this information is included in OSA's 2019 Actuarial Valuation Report on the OSA website: leg.wa.gov/osa.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 7. Commitments and Contingencies

Commitments: The NWSA has entered into separate contractual agreements for terminal maintenance, infrastructure improvements, environmental projects, and professional services. At December 31, 2021, the remaining commitments are as follows (dollars in thousands).

| Description | Remaining Commitments |
|----------------------|-----------------------|
| Terminal projects | \$ 1,300 |
| Environmental | 1,362 |
| Consulting and other | 6,195 |
| | <u>\$ 8,857</u> |

In addition to contracts entered into by the NWSA, both the Port of Tacoma and the Port of Seattle, acting as agents for the NWSA (per support services agreements), issue contracts on behalf of the NWSA. The remaining commitments on these contracts totaled \$43.3 million at December 31, 2021, which related to contracts issued by the Port of Seattle. The Port of Seattle's commitments on the NWSA's behalf are primarily related to terminal construction projects at Terminal 5. Both ports will be reimbursed by the NWSA in accordance with their support service agreements (see Note 9, Related-Party Transactions, for additional information).

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

Note 8. Major Customers

Operating revenues and leases interest income for the year ended December 31, 2021 were \$202.5 million. Ten customers represented 76% and \$153.0 million of total operating revenues and leases interest income. The top three customers accounted for 48% of operating revenues and leases interest income. Receivables from the ten significant customers totaled \$3.1 million, and 36%, of total trade receivables at December 31, 2021.

Operating revenues and leases interest income for the year ended December 31, 2020 were \$184.3 million. Ten customers represented 73% and \$133.7 million of total operating revenues and leases interest income. The top three customers accounted for 66% of operating revenues and leases interest income. Receivables from the ten significant customers totaled \$4.8 million, or 30%, of total trade receivables at December 31, 2020.

Note 9. Related-Party Transactions

As more fully described in the MD&A, Note 1, Summary of Significant Accounting Policies, and Note 7, Commitments and Contingencies, the NWSA entered into licensing agreements with each home port for the exclusive use, operation and management of certain facilities, or Licensed Properties. These licensing agreements generated 100% of NWSA revenues in 2021 and 2020.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 9. Related-Party Transactions (Concluded)

Support services agreements: The NWSA entered into support services agreements with the home ports to receive support services for back-office infrastructure and administrative functions. The support services received by the NWSA include finance, human resources, information technology, public affairs, risk management, capital construction and environmental project management and contracting, equipment and facilities maintenance, security, and office infrastructure. Support services charged to the NWSA from the home ports totaled \$41.6 million and \$41.1 million in 2021 and 2020, respectively. The expenses are included in operating expenses on the accompanying statements of revenues, expenses, and changes in net position.

The NWSA entered into support services agreements with the Port of Tacoma to provide the Port of Tacoma executive management, commercial, environmental and planning support services. Support services provided to the Port of Tacoma by NWSA amounted to \$1.1 million and \$1.4 million in 2021 and 2020, respectively. The amount of operating expenses on the accompanying statements of revenues, expenses and changes in net position are net of the charges to the Port of Tacoma. The NWSA did not enter into agreements to provide support services to the Port of Seattle.

Related-party receivable and payable: The NWSA generally repays the home ports for support services and operating costs incurred as agents for the NWSA, in the following month, after the amount due is determined. At December 31, 2021 and 2020, \$3.3 million and \$1.6 million, respectively, were payable to the home ports and are presented on the statements of net position as related-party payable - Managing Members.

The NWSA distributes cash flow from operations calculated pursuant to GAAP, capital grant contributions, and interest income on investment to the home ports. Distributions have generally been made in the following month, after the amount due is determined. During 2021 and 2020, the NWSA distributed \$117.6 million and \$111.2 million, respectively. At December 31, 2021 and 2020, \$5.9 million and \$10.3 million, respectively, were payable to the home ports and are presented on the statements of net position as related-party payable - Managing Members.

The home ports generally fund capital contribution requirements in the following month, after the amount due is determined. During 2021 and 2020, home ports contributed \$93.9 million and \$129.6 million, respectively, of funding for capital construction projects in accordance with the capital investment plan approved by the Managing Members. At December 31, 2021 and 2020, \$5.7 million and \$12.7 million, respectively, were receivable from the home ports and are presented on the statements of net position as related-party receivable - Managing Members.

The Managing Members also serve as commissioners for their respective home ports.

Note 10. Fair Value Measurements

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

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

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

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

The Northwest Seaport Alliance

Notes to Financial Statements

Note 10. Fair Value Measurements (Concluded)

In determining the appropriate levels, the NWSA performs a detailed analysis of the assets and liabilities that are subject to the guidance. The NWSA's fair value measurements are evaluated by an independent third-party vendor. The third-party vendor uses a variety of methods when pricing these securities that incorporate relevant observable market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions. Level 1 inputs are quoted prices in active markets for identical assets assessed at the measurement date. An active market for the asset is a principal market in which transactions for the asset are open to many and occur with sufficient frequency and volume. Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets where there isn't sufficient activity, and/or where price quotations vary substantially either over time or among market makers (some brokered markets, for example), or in which little information is released publicly. The NWSA does not have any Level 3 assets or liabilities at December 31, 2021 and 2020.

The tables below present the balances of assets measured at fair value by level within the hierarchy at December 31, 2021 and 2020 (dollars in thousands):

| | Fair Value of Investments as of December 31, 2021 | | |
|--|---|-----------|-----------|
| | Level 1 | Level 2 | Total |
| Investments: | | | |
| Federal Home Loan Bank | \$ - | \$ 1,983 | \$ 1,983 |
| Federal Home Loan Mortgage Corporation | - | 4,952 | 4,952 |
| Federal National Mortgage Association | - | 1,956 | 1,956 |
| Municipal Bonds | - | 9,767 | 9,767 |
| Supranational Bonds | - | 1,976 | 1,976 |
| Total investments | \$ - | \$ 20,634 | \$ 20,634 |

| | Fair Value of Investments as of December 31, 2020 | | |
|--|---|-----------|-----------|
| | Level 1 | Level 2 | Total |
| Investments: | | | |
| Federal Home Loan Bank | \$ - | \$ 4,037 | \$ 4,037 |
| Federal Home Loan Mortgage Corporation | - | 5,006 | 5,006 |
| Federal National Mortgage Association | - | 2,003 | 2,003 |
| Municipal Bonds | - | 10,051 | 10,051 |
| Supranational Bonds | - | 2,017 | 2,017 |
| Total investments | \$ - | \$ 23,114 | \$ 23,114 |

The Northwest Seaport Alliance

Required Supplementary Information

Schedule of The Northwest Seaport Alliance's Share of Net Pension Asset/Liability (NPA/NPL) December 31, 2021 (Dollars in Thousands)

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|--|------------|----------|----------|----------|----------|
| PERS Plan 1 | | | | | |
| NWSA's proportion of NPL | 0.0430% | 0.0430% | 0.0454% | 0.0459% | 0.0230% |
| NWSA's proportionate share of NPL | \$ 525 | \$ 1,517 | \$ 1,746 | \$ 2,052 | \$ 1,093 |
| NWSA's covered payroll (plan year) | \$ - | \$ - | \$ - | \$ - | \$ - |
| NWSA's proportionate share of the net pension liability (asset) as a percentage of its covered payroll (plan year) | NA | NA | NA | NA | NA |
| Plan fiduciary net pension position as a percentage of the total pension liability | 88.7% | 68.6% | 67.1% | 63.2% | 61.2% |
| Contractually required contribution | \$ 321 | \$ 311 | \$ 326 | \$ 309 | \$ 286 |
| Contributions in relation to the contractually required contribution | (283) | (317) | (314) | (326) | (286) |
| Contribution (excess) deficiency | \$ 38 | \$ (6) | \$ 12 | \$ (17) | \$ - |
| NWSA's covered payroll (NWSA's fiscal year) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions as a percentage of covered payroll (NWSA's fiscal year) | 0% | 0% | 0% | 0% | 0% |
| PERS Plan 2/3 | | | | | |
| NWSA's proportion of NPL | 0.0552% | 0.0559% | 0.0586% | 0.0590% | 0.0296% |
| NWSA's proportionate share of (NPA) NPL | \$ (5,503) | \$ 715 | \$ 570 | \$ 1,007 | \$ 1,030 |
| NWSA's covered payroll (plan year) | \$ 6,608 | \$ 6,526 | \$ 6,371 | \$ 6,151 | \$ 5,844 |
| NWSA's proportionate share of the net pension liability (asset) as a percentage of its covered payroll (plan year) | -83.3% | 11.0% | 8.9% | 16.4% | 17.6% |
| Plan fiduciary net pension position as a percentage of the total pension liability | 120.3% | 97.2% | 97.8% | 95.8% | 91.0% |
| Contractually required contribution | \$ 523 | \$ 517 | \$ 491 | \$ 472 | \$ 411 |
| Contributions in relation to the contractually required contribution | (472) | (523) | (502) | (495) | (411) |
| Contribution (excess) deficiency | \$ 51 | \$ (6) | \$ (11) | \$ (23) | \$ - |
| NWSA's covered payroll (NWSA's fiscal year) | \$ 6,603 | \$ 6,607 | \$ 6,362 | \$ 6,440 | \$ 5,844 |
| Contributions as a percentage of covered payroll (NWSA's fiscal year) | 7.1% | 7.9% | 7.9% | 7.7% | 7.0% |

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

Notes to required supplementary information

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

The Northwest Seaport Alliance

Compliance Report
December 31, 2021

Contents

| | |
|---|-----|
| Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i> | 1-2 |
| Report on compliance for the major federal program and report on internal control over Compliance and report on schedule of expenditures of federal awards required by the Uniform Guidance | 3-5 |
| Schedule of expenditures of federal awards | 6 |
| Notes to schedule of expenditures of federal awards | 7 |
| Schedule of findings and questioned costs | 8 |
| Summary schedule of prior year audit findings | 9 |



RSM US LLP

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

Independent Auditor's Report

Managing Members
The Northwest Seaport Alliance
Tacoma, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Northwest Seaport Alliance (the NWSA) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the NWSA's basic financial statements, and have issued our report thereon dated April 1, 2022. Our report includes an emphasis of matter paragraph for the restatement of beginning net position for the adoption of GASB Statement No. 87, *Leases*.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

RSM US LLP

Seattle, Washington
April 1, 2022



RSM US LLP

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

Independent Auditor's Report

Managing Members
The Northwest Seaport Alliance
Tacoma, Washington

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited The Northwest Seaport Alliance's (the NWSA) compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on the NWSA's major federal program for the year ended December 31, 2021. The NWSA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the NWSA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the NWSA and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the NWSA's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the NWSA's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the NWSA's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the NWSA's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the NWSA's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the NWSA's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the NWSA's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the NWSA as of and for the year ended December 31, 2021, and have issued our report thereon dated April 1, 2022, which contained an unmodified opinion on those financial statements. Our report includes an emphasis of matter paragraph for the restatement of beginning net position for the adoption of GASB Statement No. 87, *Leases*. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Seattle, Washington
April 1, 2022

The Northwest Seaport Alliance

**Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021**

| Federal Grantor/Pass-Through Grantor/Program Title | Assistance Listing Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|--|---------------------------|--|----------------------|
| U.S. Department of Transportation: | | | |
| Passed through from the Port of Seattle: | | | |
| National Infrastructure Investments | | | |
| TIGER Discretionary Grant | 20.933 | DTMA91G1500002 | \$ 1,096,307 |
| Total U.S. Department of Transportation | | | <u>1,096,307</u> |
| | | | |
| Total Expenditures of Federal Awards | | | <u>\$ 1,096,307</u> |

See notes to schedule of expenditures of federal awards.

The Northwest Seaport Alliance

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of The Northwest Seaport Alliance (the NWSA) under programs of the federal government for the year ended December 31, 2021. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the NWSA, it is not intended to, and does not, present the financial position, changes in net position or cash flows of the NWSA.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

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

Note 4. Subrecipients

There were no federal awards passed through to subrecipients for the year ended December 31, 2021. As noted on the Schedule, the federal awards reported are passed-through from the Port of Seattle.

The Northwest Seaport Alliance

**Summary Schedule of Prior Year Audit Findings
Year Ended December 31, 2021**

There were no reported financial statement findings or findings and questioned costs for federal awards during the year ended December 31, 2020.