

Washington State Auditor's Office

Financial Statements Audit Report

**Foss Waterway Development Authority
Pierce County**

Audit Period

January 1, 2013 through December 31, 2013

Report No. 1012121

Issue Date
June 26, 2014



**Washington State Auditor
Troy Kelley**

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

June 26, 2014

Board of Directors
Foss Waterway Development Authority
Tacoma, Washington

Report on Financial Statements

Please find attached our report on the Foss Waterway Development Authority's financial statements.

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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Pierce County
January 1, 2013 through December 31, 2013**

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

**Foss Waterway Development Authority
Pierce County
January 1, 2013 through December 31, 2013**

Board of Directors
Foss Waterway Development Authority
Tacoma, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Foss Waterway Development Authority, Pierce County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 20, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

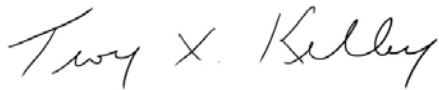
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



TROY KELLEY
STATE AUDITOR

May 20, 2014

Independent Auditor's Report on Financial Statements

Foss Waterway Development Authority Pierce County January 1, 2013 through December 31, 2013

Board of Directors
Foss Waterway Development Authority
Tacoma, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Foss Waterway Development Authority, Pierce County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 5.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foss Waterway Development Authority, as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

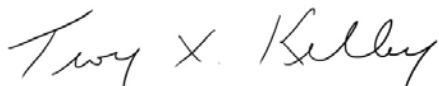
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

May 20, 2014

Financial Section

**Foss Waterway Development Authority
Pierce County
January 1, 2013 through December 31, 2013**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013 and 2012

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013 and 2012

Statement of Revenues, Expenses, and Changes in Net Position – 2013 and 2012

Statement of Cash Flows – 2013 and 2012

Notes to Financial Statements – 2013 and 2012

Management's Discussion and Analysis

Foss Waterway Development Authority
Years Ended December 31, 2013 and 2012

Introduction

The following is a narrative overview and analysis of the financial activities of Foss Waterway Development Authority (the Authority) for the years ended December 31, 2013 and 2012. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and identify any changes in financial position. The information presented here should be read in conjunction with the Authority's financial statements, which begin on page six.

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

Overview of Financial Statements

The financial section of this annual report consists of three parts: management's discussion and analysis, basic financial statements, and notes to the financial statements. The basic financial statements include: Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows.

The management's discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position inform us if the Authority as a whole is better or worse off as a result of the years' activities. The Statement of Net Position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the Authority is improving or deteriorating. The Statement of Revenues, Expenses, and Changes in Net Position show how the Authority's net position changed during the most recent year. These changes are reported as the underlying event occurs, regardless of the timing of related cash flows. The notes to the financial statements contain more detail on the information presented in the financial statements.

Financial Highlights

- Assets and deferred outflow of resources of the Authority exceeded liabilities and deferred inflow of resources at close of calendar year 2013 by \$24,501,876. Of this amount, \$22,774,420 is net investment in capital. Net position totaled \$24,476,463 at the end of calendar year 2012, with \$23,279,713 net investment in capital.
- In 2013 net position increased by \$25,413 compared to a \$2,915,885 increase in 2012. The increase in 2012 net position was due to a contribution of a land parcel valued at \$1.4 million and bond contributions from City of Tacoma of \$1.6 million.

Management's Discussion and Analysis

Foss Waterway Development Authority
Years Ended December 31, 2013 and 2012

- A. The Authority's total liabilities and deferred inflow of resources increased by \$12,326 at December 31, 2013. Liabilities and deferred inflow of resources at December 31, 2013 and 2012, totaled \$4,278,815 and \$4,266,489, respectively, and consisted primarily of financing capital improvements.
- B. Current and other liabilities decreased \$2,482 for 2013 while these same accounts decreased by \$70,539 for 2012.

Financial Analysis

The Authority's total assets and deferred outflow of resources exceeded liabilities and deferred inflow of resources by \$24,501,876 at December 31, 2013. Ninety-three percent of the total net position reflects the Authority's investment in capital, less any outstanding debt used to acquire those assets. The remaining seven percent of the total net position are "unrestricted", meaning they are available for meeting the Authority's ongoing business activities.

Foss Waterway Development Authority Statement of Net Position

	2013	2012	2011
Current and other assets	\$ 1,906,271	\$ 1,363,239	\$ 1,163,177
Capital Assets	26,874,420	27,379,713	24,987,504
Total Assets	28,780,691	28,742,952	26,150,681
Deferred outflow of resources	-	-	-
Current and other liabilities	94,759	97,241	167,780
Long-term liabilities outstanding	4,158,238	4,143,715	4,396,589
Total Liabilities	4,252,997	4,240,956	4,564,369
Deferred inflow of resources	25,818	25,533	25,734
Net Position:			
Net Investment in Capital	22,774,420	23,279,713	20,598,425
Unrestricted	1,727,456	1,196,750	962,153
Total Net Position	\$ 24,501,876	\$ 24,476,463	\$ 21,560,578

Management's Discussion and Analysis

Foss Waterway Development Authority
Years Ended December 31, 2013 and 2012

Capital Assets

The Authority's net investment in capital is \$26,874,420. In 2013 capital assets decreased by \$505,293. Bond supported projects capitalized \$128,039. The assets totaling \$13,217 have been removed from net investment in capital with the accumulated depreciation in 2013. A real property valued at \$214,200 transferred from City of Tacoma and sold with the gain of \$476,259 in 2013. The transfer from City of Tacoma was to support the Authority's operational fund.

	FY 2013	FY 2012
Land	8,408,388	8,408,388
Construction in progress	2,523,789	2,395,750
Buildings	1,565,900	1,565,900
Park	1,444,943	1,444,943
Marinas	16,345,783	16,345,783
Infrastructure	79,587	79,587
Office Equipment	30,000	43,217
Less accumulated depreciation	<u>(3,523,970)</u>	<u>(2,903,855)</u>
Total	26,874,420	27,379,713

Outstanding Debt

The Authority's debt at December 31, 2013 was \$ 4,158,238. The \$4.1 million loan from the City of Tacoma is an interest only loan that is currently due on December 31, 2017. The Authority initiated negotiations for revised terms for this loan with City of Tacoma in 2013. Annual loan interest payments for 2013 equal \$38,571.

	FY 2013	FY 2012
General Fund Loan	4,100,000	4,100,000
Compensated Absences	<u>58,238</u>	<u>43,715</u>
Total	4,158,238	4,143,715

Management's Discussion and Analysis

Foss Waterway Development Authority
Years Ended December 31, 2013 and 2012

Statement of Revenues, Expenses, and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenue			
Property Rental Income	\$ 445,622	\$ 457,632	\$ 461,590
Non-Operating Revenues			
Intergovernmental	-	580,000	117,475
Investment Income	3,139	10,949	9,638
Miscellaneous Income	63,314	1,554	71,931
Insurance Premium and Recoveries	-	28,133	-
Gain (Loss) on Sale of Capital Assets	476,259	-	-
Total Revenue	<u>988,334</u>	<u>1,078,268</u>	<u>660,634</u>
Operating and Non Operating Expenses			
Personnel Services	244,718	194,795	205,115
Supplies, Services, and Charges	474,628	150,881	730,269
Depreciation	633,332	592,216	559,976
Non-Operating Expenses			
Interest Expenses	38,571	62,827	85,875
Total Expenses	<u>1,391,249</u>	<u>1,000,719</u>	<u>1,581,235</u>
Excess (deficiency) before contribution	(402,915)	77,549	(920,601)
Contribution			
Contribution from City of Tacoma	428,328	2,838,336	746,273
Change in Net Position	25,413	2,915,885	(174,328)
Net Position			
Beginning of Year	24,476,463	21,560,578	21,526,041
Prior Period Adjustment	-	-	208,865
Beginning of Year - Restated	24,476,463	21,560,578	21,734,906
Net Position, Ending	<u>\$ 24,501,876</u>	<u>\$ 24,476,463</u>	<u>\$ 21,560,578</u>

Revenues

Overall operating revenues decreased by \$12,010 or 2.62% to \$445,622 in 2013, primarily through property leases. The decrease was due to a sale of a leased property and a tenant's loss of some usable space while the City repaired the failing seawall in Site 9 leased property. During 2012 operating revenues decreased by \$3,958 or 0.85% for a total of \$457,632. Non-operating revenues/expenses for 2013 totaled \$504,141 and \$557,809 for 2012, a decrease of

Management's Discussion and Analysis

Foss Waterway Development Authority
Years Ended December 31, 2013 and 2012

\$53,668 due in part to a decrease in grant revenues in 2013 while there was a gain on sale of real property, \$476,259.

Expenses

Operating expenses in 2013 increased 44.23% or \$414,786 compared to 2012. Personnel services increased \$49,923 or 25.63% of the previous year, for a total of \$244,718 in 2013. This increase is primarily due to the promotion of the Interim Executive Director to the Executive Director position. Personnel services for 2012 totaled \$194,795. Supplies, services and charges totaled \$474,628 in 2013 and increased by \$323,747 over 2012. This increase is due in large part to legal expenses for defending a lawsuit regarding the redevelopment of Site 4.

Economic Factors and Future Outlook

The Authority's operating results are reflective of a strategic business plan. The Authority's major strategies are attracting private investment on upland sites and achieving operational self-sufficiency in the long term.

The continuing recession from previous years has impacted the ability of the Authority to gain operational funding. The Authority's operational funding comes primarily from the sale of upland development sites to private investors and secondarily from lease and marina revenues. Given economic conditions until 3rd quarter, 2013, the private investment on upland sites had not occurred as expected and the Authority's lease and marina revenues had not been adequate to continue funding operations. Accordingly, the Authority has received some financial support from City of Tacoma to assist in funding its operations.

With the economic recovery from the 4th quarter, 2013, the Authority completed a contract on the sale of a land which transferred from City of Tacoma on October 2013. The Authority also has been in the final stage of selling Site 1 located at 1933 Dock Street. The sale of Site 1 was completed on February 6, 2014. Currently, the Authority has sufficient funding to support its operation for the next biennium.

The Authority is continuing redevelopment strategies that advance infrastructure for redevelopment and public access, supports environmental remediation, and leverages private investment with grants for public infrastructure.

Foss Waterway Development Authority
Statement of Net Position
For the Years Ended December 31, 2013 and 2012

	2013	2012
ASSETS		
Cash	\$ 227,184	207,441
Equity in Pooled Cash & Investments	1,481,873	987,342
Cash and Cash Equivalents	1,709,057	1,194,783
Accounts Receivable	-	1,000
Accounts Receivable - Other	154,782	130,854
Prepaid Expenses	37,733	36,602
Due from City of Tacoma	4,699	-
Capital Assets		
Non-Depreciable:		
Land	8,408,388	8,408,388
Construction in Progress	2,523,789	2,395,750
Non-Depreciable Capital Assets	10,932,177	10,804,138
Depreciable:		
Buildings	1,565,900	1,565,900
Accumulated Depreciation	(422,435)	(389,413)
Parks	1,444,943	1,444,943
Accumulated Depreciation	(175,144)	(131,358)
Marinas	16,345,783	16,345,783
Accumulated Depreciation	(2,912,432)	(2,360,871)
Infrastructure	79,587	79,587
Accumulated Depreciation	(7,959)	(5,306)
Property, Plant & Equipment	30,000	43,217
Accumulated Depreciation	(6,000)	(16,907)
Depreciable Capital Assets, Net	15,942,243	16,575,575
TOTAL ASSETS	28,780,691	28,742,952
Deferred outflow of resources	-	-
Total deferred outflow of resources	-	-
LIABILITIES		
Current Liabilities		
Accounts Payable	25,861	25,074
Leasehold Tax Payable	22,807	24,441
Deposits	29,300	29,300
Accrued Leave Benefits	6,471	4,857
Due to City of Tacoma	10,320	13,569
Non-Current Liabilities		
Accrued Leave Benefits	58,238	43,715
Due to City of Tacoma	4,100,000	4,100,000
TOTAL LIABILITIES	4,252,997	4,240,956
Deferred inflow of resources	25,818	25,533
Total deferred inflow of resources	25,818	25,533
NET POSITION		
Net Investment in Capital Assets	22,774,420	23,279,713
Unrestricted	1,727,456	1,196,750
Total Net Position	\$ 24,501,876	24,476,463

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

Foss Waterway Development Authority
Statement of Revenues, Expenses, and Changes in Net Position
For The Years Ended December 31, 2013 and 2012

	2013	2012
Operating Revenue		
Property Rental Income	\$ 445,622	\$ 457,632
Total Operating Revenues	<u>445,622</u>	<u>457,632</u>
Operating Expenses		
Personnel Services	244,718	194,795
Supplies, Services and Charges	474,628	150,881
Depreciation Expense	<u>633,332</u>	<u>592,216</u>
Total Operating Expenses	<u>1,352,678</u>	<u>937,892</u>
Operating Income (Loss)	(907,056)	(480,260)
Non-Operating Revenues (Expenses)		
WA Department of Commerce	-	200,000
WA Department of Ecology	-	380,000
Investment Income	3,139	10,949
Interest Expense	(38,571)	(62,827)
Miscellaneous Income	63,314	1,554
Insurance Premium and Recoveries	-	28,133
Gain (Loss) on Sale of Capital Assets	<u>476,259</u>	<u>-</u>
Total Non-Operating Revenue (Expenses)	<u>504,141</u>	<u>557,809</u>
Contributions from COT	<u>428,328</u>	<u>2,838,336</u>
Net Income (Loss) after Contribution	<u>932,469</u>	<u>3,396,145</u>
Change in Net Position	<u>25,413</u>	<u>2,915,885</u>
Net Position		
Beginning of Year	24,476,463	21,560,578
Prior Period Adjustment	<u>-</u>	<u>-</u>
Beginning of Year - Restated	<u>24,476,463</u>	<u>21,560,578</u>
Nets Position, Ending	<u><u>\$ 24,501,876</u></u>	<u><u>\$ 24,476,463</u></u>

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

**Foss Waterway Development Authority
Statement of Cash Flows
Years Ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Cash received from customers	422,979	596,228
Cash paid to employees	(228,581)	(197,989)
Cash paid to suppliers	(484,554)	(165,908)
Net Cash Provided by (used in) Operating Activities	<u>(290,156)</u>	<u>232,331</u>
Cash Flows from Noncapital and Related Financing Activities		
Cash received from City of Tacoma	428,328	2,588,336
Cash received from miscellaneous income	63,314	1,554
Cash received from federal and state grants	-	580,000
Net Cash Provided by (used in) Noncapital Financing Activities	<u>491,642</u>	<u>3,169,890</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(128,039)	(2,984,425)
Interest paid	(38,571)	(62,827)
Gain/Loss on Impairment/Sale of Assets	476,259	28,133
Net Cash Provided by (used in) Capital and Related Financing Activities	<u>309,649</u>	<u>(3,019,119)</u>
Cash Flows from Investing Activities		
Investment Income	<u>3,139</u>	<u>10,949</u>
Net Cash Provided by (used in) Investing Activities	<u>3,139</u>	<u>10,949</u>
Net increase (decrease) in Cash	<u>514,274</u>	<u>394,051</u>
Cash and Cash Equivalents		800,732
Beginning of Year	<u>1,194,783</u>	-
End of Year Cash and Cash Equivalents	<u><u>1,709,057</u></u>	<u><u>\$ 1,194,783</u></u>
Reconciliation of Net Cash Used in Operating Activities and Operating Loss		
Operating income (loss)	<u>(907,056)</u>	<u>(480,260)</u>
Depreciation	633,332	592,216
Changes in Assets & Liabilities		
Accounts receivable	1,000	11,854
Other receivables	(23,928)	126,953
Customer deposits	-	-
Prepaid Insurance	(1,131)	(1,153)
Deferred Revenue	285	(211)
Employee Benefits payable	16,137	(3,194)
Accounts payable	787	(34,169)
Leasehold Tax payable	(1,634)	(10,530)
Due to/Due from City of Tacoma	(7,948)	30,825
Net Cash Provided by (used in) Operating Activities	<u><u>(290,156)</u></u>	<u><u>\$ 232,331</u></u>
Non Cash Investing, Capital, and Financing Activities		
Contribution of Capital Assets	214,200	1,356,850

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

Notes to Financial Statements

Foss Waterway Development Authority
December 31, 2013 and 2012

Note 1 – Summary of Significant Accounting Policies

Nature of Organization

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

Reporting Entity

For financial reporting purposes, in conformance with GASB No. 14, *The Financial Reporting Entity*, as amended by GASB No. 34 and GASB No. 61, the Authority is considered a discretely presented component unit of the City. GASB No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, establishes additional guidance on the application of existing standards for the assessment of potential component units in determining the financial reporting entity. GASB No. 61 improves guidance relating to component units & equity interest transactions, making financial statements more relevant. This statement also improves focus of the financial reporting entity on the primary government and allows for better distinction of primary government & component unit. The City includes in its financial statements all governmental activities, organizations and functions, whether they are structured as funds, account groups, departments, agencies, institutions, boards, commissions, districts, authorities, or in other ways for which the Tacoma City Council is financially accountable. The Authority's financial information is presented as a component unit in the City's financial statements.

Operating Agreements with the City of Tacoma

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

A second operating agreement was signed in December 1999 after a determination that all of the tasks specified in the first agreement had been substantially completed. The second agreement covers activities to be accomplished through 2002. It also stipulates that identified properties are to be

Notes to Financial Statements

Foss Waterway Development Authority December 31, 2013 and 2012

transferred by the City to the Authority, with the City continuing to provide financial supports until the Authority is able to become self-sufficient. The second agreement names the Authority as the interim manager of the City-owned properties located on the Waterway, effective January 1, 2000, and states that all proceeds from existing leases or other agreements on these properties are to be deposited to the Authority.

In June 2003, the Authority and the City signed an agreement to continue operating under the second agreement until a third agreement is created.

The Authority signed a third operating agreement with the City in January 2011. The terms of this agreement shall extend for a period of four years, with an automatic extension for a period of two years, for maximum term of six years.

Bond Agreement with the City of Tacoma

In February 2011, the Authority reached an agreement that the City shall reimburse the Authority from 2010 LTGO Bond Series E for its expenditures incurred, or anticipated to be incurred, in performing capital projects, in the total amount not to exceed \$1,500,000. This agreement shall operate retroactively to September 14, 2010 and shall terminate on or about April 30, 2013, unless sooner terminated or extended by the agreement of both parties. However, the Authority and the City amended the agreement in April 2013 to provide flexibility in the used of unexpended bond funds and to extend the deadline for use of the funds until April 2016. This agreement does not increase the amount of bond funds. The Authority will have no obligation to repay the City any amounts paid to the Authority by the City under the Bond Agreement.

Financial Support

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

Basis of Accounting and Presentation

The accounting policies of the Authority conform to generally accepted accounting principles in the United States of America, as applicable to governmental units. The Authority adopted Statement 62 of Governmental Accounting Standard Board for 2012 financial statements. The Statement addresses the codification of accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements. The objective of the Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements issued on or before November 30, 1989. The Authority is accounted for on a flow of economic resources measurement focus.

The authority uses the accrual basis of accounting where revenue is recognized when earned and expenses are recognized when liabilities incurred, regardless of the timing of the related cash flows.

Notes to Financial Statements

Foss Waterway Development Authority December 31, 2013 and 2012

Operating revenue consists primarily of rents earned on properties owned by the Authority and the City and sale of land. Non-operating revenue consists primarily of loans/bond received from the City, sales of capital assets, investment income, and grants.

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Capital Assets

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

Building and property, plant and equipment is stated at original cost, less allowance for depreciation. The Authority's capitalization policy is to capitalize additions over \$2,000. Depreciation for capital assets is computed over the estimated useful lives, three to 50 years, using the straight-line method.

Capital Assets

The following activity took place in land and capital assets during the current year:

	Cost at 01/01/13	Additions and Transfers	Deletions and Transfers	Cost at 12/31/13
Non-Depreciable:				
Land	\$8,408,388	214,200	(214,200)	\$8,408,388
Construction in Progress	2,395,750	128,039	-	2,523,789
Total Non-Depreciable Assets	10,804,138	342,239	(214,200)	10,932,176
Depreciable:				
Buildings	1,565,900	-	-	1,565,900
Parks	1,444,943	-	-	1,444,943
Marinas	16,345,783	-	-	16,345,783
Infrastructure	79,587	-	-	79,587
Property, Plant, and Equipment	43,217	-	(13,217)	30,000
Accumulated Depreciation	(2,903,854)	(633,333)	13,217	(3,523,970)
Total Depreciable Assets	16,575,577	(633,333)	-	15,942,244
Total Capital Assets	27,379,714	(291,094)	(214,200)	26,874,420

Notes to Financial Statements

Foss Waterway Development Authority December 31, 2013 and 2012

Capital Assets

The following activity took place in land and capital assets during the previous year:

	Cost at 01/01/12	Additions and Transfers	Deletions and Transfers	Cost at 12/31/12
Non-Depreciable:				
Land	\$8,408,388	-	-	\$8,408,388
Construction in Progress	768,175	1,627,575	-	2,395,750
Total Non-Depreciable Assets	9,176,563	1,627,575	-	10,804,138
Depreciable:				
Buildings	\$1,565,900	-	-	\$1,565,900
Parks	1,444,943	-	-	1,444,943
Marinas	14,988,933	1,356,850	-	16,345,783
Infrastructure	79,587	-	-	79,587
Property, Plant, and Equipment	43,217	-	-	43,217
Accumulated Depreciation	(2,311,639)	(592,215)	-	(2,903,854)
Total Depreciable Assets	15,810,941	764,635	-	16,575,576
Total Capital Assets	24,987,504	2,392,210	-	27,379,714

Accumulated depreciation totaled \$3,523,970 and \$2,903,854 at December 31, 2013 and 2012, respectively. Depreciation expense for the years ended December 31, 2013 and 2012 were \$633,332 and \$592,216, respectively.

Equity in Pooled Cash and Investments - City of Tacoma

Equity in pooled cash and investments includes certain short-term investments held in the City treasury pool. These highly liquid investments are readily convertible to cash and carried at fair value. The change in fair value is included in investment income in the accompanying financial statements.

Note 2- Commitments

Operating Lease

The Authority leases office space under a non-cancellable lease agreement which expires December 2015. Lease payments for the year ending December 31, 2014 are estimated at \$25,998. Rent expense for the years ended December 31, 2013 and 2012, was \$25,998 and \$25,245, respectively.

Notes to Financial Statements

Foss Waterway Development Authority
December 31, 2013 and 2012

Employment Contract

Susan Dowie has served as an Interim Executive Director since January 1, 2010. The Authority executed an employment agreement for the Executive Director position and approved Susan Dowie as an Executive Director in 2013.

Compensated Absences

Compensated absences are Personal Time Off (vacation and sick leave) for which all full-time employees are eligible. All vacation and sick leave is accrued in the year earned. Current liability for compensated absences was \$6,470.85 for 2013 and long term liability for compensated absences equals \$58,237.62 for the year ended December 31, 2013.

Long-Term Debt

The City of Tacoma provided a loan of \$4.1 million to the Authority in 2008 for the Balfour Dock project as an interest only loan for 10 years. The interest rate was reduced from a flat 5% rate to a variable rate that is tied to the City's Treasury rate of return, which is currently around .95%. A total of \$38,571 was paid in interest during 2013. The interest payment for 2012 was \$61,643.

Note 3 – Rental Income Agreement

The Authority has entered into various rental income agreements with entities located on properties along Thea Foss Waterway. The leases are a combination of month-to-month and long-term, typically ten years or longer.

Rental income agreements at December 31, 2013, consist of six lease agreements, with monthly rentals totaling approximately \$36,540. Leases are either month-to-month, annual, or long-term leases. All leases in excess of one-year must be approved by either the City Manager or the City Council and, as such, the Council has approved a marina lease with Foss Waterway Management, LLC that expires in 2025 and a lease with the Foss Waterway Seaport that expires in 2062.

Projected future rentals to be received on these agreements for the years ending December 31 are as follows:

2014	471,866
2015	451,729
2016	420,585
2017	403,367
2018	428,274
2019	431,140
Total	\$2,606,961

Projected future rentals include annual shared revenue from Foss Waterway Management.

Notes to Financial Statements

Foss Waterway Development Authority
December 31, 2013 and 2012

Note 4 – Pension Plan

The Authority maintains a 401 (k) profit-sharing plan that covers all employees who meet the eligibility requirements. Participants may contribute the maximum amount allowed by the IRS each year. The Authority makes an automatic 3 percent safe-harbor contribution to the plan each year, and may also make discretionary matching contributions up to 100 percent of the first 7.89 percent of each employee's total deferral. Safe-harbor and matching contributions for 2013 and 2012 totaled \$40,440 and \$34,482, respectively.

Note 5 – Risk Management

In 2013 the Authority made payments totaling \$40,499 to Enduris Washington. The purpose of the pool is to provide members with the capability and authority to jointly purchase property/liability insurance, provide a plan of self-insurance, establish and maintain a reserve to pay for self-insurance coverage, and to provide related purchased reinsurance to provide for major claims in excess of \$1,000,000 per occurrence. Coverage under this pool includes, but is not limited to, General Liability, Employment Practices Liability, Public Official Errors & Omission Liability, Business Interruption and Rental Income & Tax Interruption Coverage, Terrorism Liability, and Property/Mobile Equipment/Boiler & Machinery Liability.



ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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