



# Washington State Auditor's Office

Independence • Respect • Integrity

## Financial Statements Audit Report

# Foss Waterway Development Authority

Pierce County

For the period January 1, 2013 through December 31, 2014

Published July 6, 2015

Report No. 1014623





## Washington State Auditor's Office

July 6, 2015

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,

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

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# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

## **Foss Waterway Development Authority Pierce County January 1, 2013 through December 31, 2014**

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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 15, 2015.

### **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.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

June 15, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Foss Waterway Development Authority Pierce County January 1, 2013 through December 31, 2014**

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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 9.

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

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our 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, 2014 and 2013, 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 10 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2015 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.



JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 15, 2015



## **FINANCIAL SECTION**

**Foss Waterway Development Authority  
Pierce County  
January 1, 2013 through December 31, 2014**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2014 and 2013

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2014 and 2013

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds –  
2014 and 2013

Statement of Cash Flows – Proprietary Funds – 2014 and 2013

Notes to Financial Statements – 2014 and 2013

## Management's Discussion and Analysis

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Foss Waterway Development Authority  
Years Ended December 31, 2014 and 2013

### 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, 2014 and 2013. 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 2014 by \$23,747,496. Of this amount, \$21,460,552 is net investment in capital assets. Net position totaled \$24,501,876 at the end of calendar year 2013, with \$22,774,420 net investment in capital assets.
- In 2014 the Authority's net position decreased by \$754,380 compared to a \$25,413 increase in 2013. The decrease in 2014 net position was due to the sale of a parcel of land valued at \$1.4 million and a principal payment of \$643,475 to the Authority's long term loan.

## Management's Discussion and Analysis

Foss Waterway Development Authority  
Years Ended December 31, 2014 and 2013

- A. The Authority's total liabilities and deferred inflow of resources decreased by \$669,124 at December 31, 2014. Liabilities and deferred inflow of resources at December 31, 2014 and 2013 totaled \$3,609,691 and \$4,278,815 respectively, and consisted primarily of financing capital improvements.
- B. Current and other liabilities decreased \$13,025 for 2014 while these same accounts decreased by \$2,482 for 2013.

## Financial Analysis

The Authority's total assets and deferred outflow of resources exceeded liabilities and deferred inflow of resources by \$23,747,496 at December 31, 2014. Ninety percent of the total net assets reflect the Authority's investment in capital assets, less any outstanding debt used to acquire those assets. The remaining ten percent of the total net assets are "unrestricted", meaning they are available for meeting the Authority's ongoing business activities.

### Foss Waterway Development Authority Statement of Net Position

	2014	2013	2012
Current and other assets	2,440,110	1,906,271	1,363,239
Capital assets	24,917,077	26,874,420	27,379,713
<b>Total Assets</b>	<b>27,357,187</b>	<b>28,780,691</b>	<b>28,742,952</b>
Deferred outflow of resources	-	-	-
Current and other liabilities	81,734	94,759	97,241
Long-term liabilities outstanding	3,514,742	4,158,238	4,143,715
<b>Total Liabilities</b>	<b>3,596,476</b>	<b>4,252,997</b>	<b>4,240,956</b>
Deferred inflow of resources			
Unavailable revenues	13,215	25,818	25,533
Total Deferred inflow of resources	13,215	25,818	25,533
Net Position:			
Net Investment in Capital Assets	21,460,552	22,774,420	23,279,713
Unrestricted	2,286,944	1,727,456	1,196,750
<b>Total Net Position</b>	<b>23,747,496</b>	<b>24,501,876</b>	<b>24,476,463</b>

## Management's Discussion and Analysis

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Foss Waterway Development Authority  
Years Ended December 31, 2014 and 2013

### Capital Assets

The Authority's net investment in capital is \$24,917,077. In 2014 capital assets decreased by \$1,957,343. Land valued at \$1,406,250 sold with a loss of \$119,299 in 2014 (Site 1). Depreciation on capital assets was \$632,523 in 2014. Bond supported projects capitalized at \$29,133. The transfer of funds from City of Tacoma was to help support the Authority's operational fund.

	<b>FY 2014</b>	<b>FY 2013</b>
Land	7,002,138	8,408,388
Construction in progress	1,850,961	2,523,789
Buildings	1,565,900	1,565,900
Park	1,444,943	1,444,943
Marinas	17,100,041	16,345,783
Infrastructure	79,587	79,587
Office Equipment	30,000	30,000
Less accumulated depreciation	<u>(4,156,493)</u>	<u>(3,523,970)</u>
Total	24,917,077	26,874,420

### Outstanding Debt

The Authority's debt at December 31, 2014 was \$ 3,514,742. The \$4.1 million loan from the City of Tacoma is an interest only loan that is due on November 14, 2017. The Authority entered into an Amendment to the Loan Agreement with City of Tacoma on November 12, 2014, adding additional properties as security for the repayment of remaining loan balance. The amendment also allowed 50% of the proceeds from the sale of Site 1, in the amount of \$1,286,950, to repay a portion of \$4.1 million loan. Accordingly, a principal payment in the amount of \$643,475 was made in November, 2014 from the Authority's Agency Fund. Annual loan interest payments for 2014 equal \$33,331.

	<b>FY 2014</b>	<b>FY 2013</b>
General Fund Loan	3,456,525	4,100,000
Compensated Absences	<u>58,217</u>	<u>58,238</u>
Total	3,514,742	4,158,238

## Management's Discussion and Analysis

Foss Waterway Development Authority  
Years Ended December 31, 2014 and 2013

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Operating Revenue</b>			
Property Rental Income	\$ 450,586	\$ 445,622	\$ 457,632
<b>Non-Operating Revenues</b>			
Intergovernmental	47,745	-	580,000
Investment Income	22,356	3,139	10,949
Miscellaneous Income	25,969	63,314	1,554
Insurance Premium and Recoveries	-	-	28,133
Gain (Loss) on Sale of Capital Assets	(119,299)	476,259	-
<b>Total Revenues</b>	<u>427,357</u>	<u>988,334</u>	<u>1,078,268</u>
<b>Operating Expenses</b>			
Personnel Services	250,851	244,718	194,795
Supplies, Services, and Charges	329,654	474,628	150,881
Depreciation	632,523	633,332	592,216
<b>Non-Operating Expenses</b>			
Interest Expenses	33,331	38,571	62,827
<b>Total Expenses</b>	<u>1,246,359</u>	<u>1,391,249</u>	<u>1,000,719</u>
Excess (deficiency) before contribution	<u>(819,002)</u>	<u>(402,915)</u>	<u>77,549</u>
Contribution			
Contribution from City of Tacoma	<u>64,622</u>	<u>428,328</u>	<u>2,838,336</u>
Change in Net Position	<u>(754,380)</u>	<u>25,413</u>	<u>2,915,885</u>
Net Position			
Beginning of Year	24,501,876	24,476,463	21,560,578
Prior Period Adjustment	-	-	-
Beginning of Year - Restated	<u>24,501,876</u>	<u>24,476,463</u>	<u>21,560,578</u>
Net Position, Ending	<u>23,747,496</u>	<u>24,501,876</u>	<u>24,476,463</u>

### Revenues

Overall operating revenues increased by \$4,964 or 1.11% to \$450,586 in 2014, primarily through property leases. The increase was due to an increase in monthly lease amounts. During 2013 operating revenues decreased by \$12,010 or 2.62% for a total of \$445,622. Non-operating

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

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Foss Waterway Development Authority  
Years Ended December 31, 2014 and 2013

revenues/expenses for 2014 totaled (\$56,560) and \$504,141 for 2013, a decrease of \$560,701 due to a loss on sale of real property of \$119,299 in 2014 while there was a gain of \$476,259 on sale of real property in 2013

### **Expenses**

Operating expenses in 2014 decreased 10.32% or \$139,650 compared to 2013. Personnel services increased \$6,133 or 2.51% of the previous year, for a total of \$250,851 in 2014. Personnel services for 2013 totaled \$244,718. Supplies, services and charges totaled \$329,654 in 2014 and decreased by \$144,974 over 2013. This decrease is due, in large part, to a decrease in legal expenses.

### **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 Authority's operational funding comes primarily from the sale of upland development sites to private investors and secondarily from lease and marina revenues. With the economic recovery from the 4<sup>th</sup> quarter, 2013, the Authority completed a contract on the sale of Site 1 located at 1933 Dock Street on February 6, 2014. Currently, the Authority has sufficient funding to support its operations 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, 2014 and 2013**

	2014	2013
<b>ASSETS</b>		
Cash	\$ 241,754	227,184
Equity in Pooled Cash & Investments	<u>2,049,835</u>	<u>1,481,873</u>
Cash and Cash Equivalents	2,291,589	1,709,057
Accounts Receivable - Other	110,829	154,782
Prepaid Expenses	27,957	37,733
Due from City of Tacoma	9,735	4,699
Capital Assets		
Non-Depreciable:		
Land	7,002,138	8,408,388
Construction in Progress	<u>1,850,961</u>	<u>2,523,789</u>
<b>Non-Depreciable Capital Assets</b>	8,853,099	10,932,177
Depreciable:		
Buildings	1,565,900	1,565,900
Accumulated Depreciation	(455,456)	(422,435)
Parks	1,444,943	1,444,943
Accumulated Depreciation	(218,931)	(175,144)
Marinas	17,100,042	16,345,783
Accumulated Depreciation	(3,463,994)	(2,912,432)
Infrastructure	79,587	79,587
Accumulated Depreciation	(10,612)	(7,959)
Property, Plant & Equipment	30,000	30,000
Accumulated Depreciation	<u>(7,500)</u>	<u>(6,000)</u>
<b>Depreciable Capital Assets, Net</b>	16,063,979	15,942,243
<b>TOTAL ASSETS</b>	<u>27,357,188</u>	<u>28,780,691</u>
Deferred outflow of resources	<u>-</u>	<u>-</u>
<b>Total deferred outflow of resources</b>	<u>-</u>	<u>-</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable	24,386	25,861
Leasehold Tax Payable	11,310	22,807
Deposits	29,300	29,300
Accrued Leave Benefits	6,288	6,471
Due to City of Tacoma	10,450	10,320
<b>Non-Current Liabilities</b>		
Accrued Leave Benefits	58,217	58,238
Due to City of Tacoma	<u>3,456,525</u>	<u>4,100,000</u>
<b>TOTAL LIABILITIES</b>	<u>3,596,476</u>	<u>4,252,997</u>
Deferred inflow of resources		
Unavailable revenue	<u>13,215</u>	<u>25,818</u>
<b>Total deferred inflow of resources</b>	<u>13,215</u>	<u>25,818</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	21,460,553	22,774,420
Unrestricted	<u>2,286,944</u>	<u>1,727,456</u>
<b>Total Net Position</b>	<u>\$ 23,747,497</u>	<u>24,501,876</u>

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, 2014 and 2013**

	2014	2013
<b>Operating Revenue</b>		
Property Rental Income	\$ 450,586	\$ 445,622
<b>Total Operating Revenues</b>	<u>450,586</u>	<u>445,622</u>
<b>Operating Expenses</b>		
Personnel Services	250,851	244,718
Supplies, Services and Charges	329,654	474,628
Depreciation Expense	<u>632,523</u>	<u>633,332</u>
<b>Total Operating Expenses</b>	<u>1,213,028</u>	<u>1,352,678</u>
<b>Operating Income (Loss)</b>	(762,442)	(907,056)
<b>Non-Operating Revenues (Expenses)</b>		
WA Department of Commerce	47,745	-
Investment Income	22,356	3,139
Interest Expense	(33,331)	(38,571)
Miscellaneous Income	25,969	63,314
Insurance Premium and Recoveries	-	-
Gain (Loss) on Sale of Capital Assets	<u>(119,299)</u>	<u>476,259</u>
<b>Total Non-Operating Revenue (Expenses)</b>	<u>(56,560)</u>	<u>504,141</u>
Contributions from COT	<u>64,622</u>	<u>428,328</u>
<b>Net Income (Loss) after Contribution</b>	<u>8,062</u>	<u>932,469</u>
<b>Change in Net Position</b>	<u>(754,380)</u>	<u>25,413</u>
<b>Net Position</b>		
Beginning of Year	24,501,876	24,476,463
Prior Period Adjustment	-	-
Beginning of Year - Restated	<u>24,501,876</u>	<u>24,476,463</u>
<b>Nets Position, Ending</b>	<u>\$ 23,747,496</u>	<u>\$ 24,501,876</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, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Receipt from customer and users	494,539	422,693
Receipts from interfund services provided	(5,037)	(4,699)
Contribution received - employee/employer	-	-
Payment to suppliers	(302,426)	(439,927)
Payments to employees	(251,054)	(228,582)
Payments to insurance carriers	-	-
Payments for interfund services used	(21,161)	(22,929)
Payments for taxes	(21,736)	(16,715)
Other operating or non-operating revenue (expenses)	25,969	63,314
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(80,906)</u>	<u>(226,844)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from (to) other funds	35,489	63,141
Advance from (to) other fund	(643,475)	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(607,986)</u>	<u>63,141</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Transfers from (to) other funds	76,878	365,188
Acquisition and construction of capital assets	(81,430)	(342,239)
Proceeds from the sale of capital assets	1,286,951	690,459
Principal paid on capital debt	-	-
Interest and issuance costs paid on capital debt	(33,331)	(38,571)
Contributions and donations	-	-
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	<u>1,249,068</u>	<u>674,837</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and dividends received	22,356	3,139
Rental and other income	-	-
Investment long-term	-	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>22,356</u>	<u>3,139</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>582,532</u>	<u>514,273</u>
Beginning of year	1,709,057	1,194,784
CASH, RESTRICTED CASH & CASH EQUIVALENTS	<u><u>2,291,589</u></u>	<u><u>1,709,057</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, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	<u>(762,442)</u>	<u>(907,056)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by		
operating activities:		
Depreciation expense	632,523	633,332
(Increase) decrease in accounts receivable	43,953	(22,928)
(Increase) decrease in intergovernmental receivable	-	-
(Increase) decrease in due from other funds	(5,037)	(4,699)
(Increase) decrease in inventories	-	-
(Increase) decrease in prepaid items	9,776	(1,131)
(Increase) decrease in other current assets	-	-
Increase (decrease) in deposit payable	-	-
Increase (decrease) in accounts payable	(12,973)	(847)
Increase (decrease) in accrued wages payable	(183)	1,614
Increase (decrease) in compensated absences	(20)	14,522
Increase (decrease) in due to other funds	129	(3,249)
Increase (decrease) in deferred revenues	(12,602)	284
Increase (decrease) in other current liabilities	-	-
Increase (decrease) in notes, contracts, and leases payable	-	-
Increase (decrease) in long term liabilities	-	-
Miscellaneous non-operating revenues (expenditures)	<u>25,969</u>	<u>63,314</u>
Total adjustments	<u>681,536</u>	<u>680,212</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>(80,906)</u></u>	<u><u>(226,844)</u></u>

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

## Notes to Financial Statements

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Foss Waterway Development Authority  
December 31, 2014 and 2013

### **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.

## **Notes to Financial Statements**

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### **Foss Waterway Development Authority December 31, 2014 and 2013**

A second operating agreement was signed in December 1999 after a determination that all of the tasks specified in the first agreement had been substantially completed. The second agreement covers activities to be accomplished through 2002. It also stipulates that identified properties are to be transferred by the City to the Authority, with the City continuing to provide financial 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 was 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 terminated sooner 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 use 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

## **Notes to Financial Statements**

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### **Foss Waterway Development Authority December 31, 2014 and 2013**

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. 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.

## Notes to Financial Statements

### Foss Waterway Development Authority December 31, 2014 and 2013

#### Capital Assets

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

	Cost at 01/01/14	Additions and Transfers	Deletions and Transfers	Cost at 12/31/14
<b>Non-Depreciable:</b>				
Land	8,408,388	-	(1,406,250)	7,002,138
Construction in Progress	2,523,789	12,727	(685,554)	1,850,961
Total Non-Depreciable Assets	10,932,176	12,727	(2,091,804)	8,853,099
<b>Depreciable:</b>				
Buildings	1,565,900	-	-	1,565,900
Parks	1,444,943	-	-	1,444,943
Marinas	16,345,784	754,258	-	17,100,042
Infrastructure	79,587	-	-	79,587
Property, Plant, and Equipment	30,000	-	-	30,000
Accumulated Depreciation	(3,523,970)	(632,523)	-	(4,156,493)
Total Depreciable Assets	15,942,244	121,735	-	16,063,979
<b>Total Capital Assets</b>	<b>26,874,420</b>	<b>134,462</b>	<b>(2,091,804)</b>	<b>24,917,078</b>

#### Capital Assets

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

	Cost at 01/01/13	Additions and Transfers	Deletions and Transfers	Cost at 12/31/13
<b>Non-Depreciable:</b>				
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	10,804,137	342,239	(214,200)	10,932,176
<b>Depreciable:</b>				
Buildings	1,565,900	-	-	1,565,900
Parks	1,444,943	-	-	1,444,943
Marinas	16,345,784	-	-	16,345,784
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
<b>Total Capital Assets</b>	<b>27,379,714</b>	<b>(291,094)</b>	<b>(214,200)</b>	<b>26,874,420</b>

## **Notes to Financial Statements**

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### **Foss Waterway Development Authority December 31, 2014 and 2013**

Accumulated depreciation totaled \$4,156,493 and \$3,523,970 at December 31, 2014 and 2013, respectively. Depreciation expense for the years ended December 31, 2014 and 2013 were \$632,523 and \$633,332, 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 lease agreement which expires December 2015. Lease payments for the year ending December 31, 2015 are estimated at \$26,515. Rent expense for the years ended December 31, 2014 and 2013, was \$25,998 and \$25,998, respectively.

#### **Employment Contract**

The Authority has a three-year employment agreement with its Executive Director, Susan M. Dowie, which commenced June 1, 2013 and expires May 31, 2016. The agreement shall be subject to renewal for such additional period of time as the Board shall determine in its discretion. Under terms of the agreement, the Executive Director is eligible for a severance package equal to one year of salary if she is terminated without cause, and six months of salary if terminated for nonperformance of specified goals. The agreement also details specific benefits and allowances available to the Executive Director.

#### **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 \$6,288 for 2014 and long term liability for compensated absences equals \$58,217 for the year ended December 31, 2014.

#### **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 First Amendment to Foss Waterway development Authority Loan Agreement, Balfour Dock, Pier and Moorage was approved by City Council on October 21, 2014 and became effective November 14, 2014. The amendment added additional properties as security for repayment of the loan and divided the proceeds of

## Notes to Financial Statements

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### Foss Waterway Development Authority December 31, 2014 and 2013

\$1,286,950 from the sale of Site 1 property as follows: \$643,475 as a principal payment on the Authority's \$4.1 M General Fund loan: \$643,475 to be retained by the Authority to support its development activities. Accordingly, the Authority made a principal payment of \$643,475 from the Agency Fund in November, 2014. Interest expense was reported at \$33,331 and \$38,571 for 2014 and 2013.

#### **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, 2014, consist of six lease agreements, with monthly rentals totaling approximately \$36,540. Leases are either month-to-month, 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.

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

2015	167,690
2016	165,674
2017	148,884
2018	171,380
2019	172,981
2020	174,622
<b>Total</b>	<b>\$ 1,001,231</b>

Projected future rentals no longer include annual shared revenue for the Marina and reflect the decreased monthly revenue from Foss Waterway Management due to City Council approval and the Authority's execution of two documents: the 4<sup>th</sup> Amendment to Agreement of Marina Lease and the Development Contribution Agreement.

#### **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



## **Notes to Financial Statements**

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### **Foss Waterway Development Authority December 31, 2014 and 2013**

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 2014 and 2013 totaled \$44,792 and \$40,440 respectively.

#### **Note 5 – Risk Management**

In 2014 the Authority made payments totaling \$41,935 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.

The Authority also made a payment in the amount of \$2,500 to Citizen's Insurance Co. The purpose of this insurance is to provide Marine Operators Liability, and Protection & Indemnity Liability coverage that is not included in the Enduris Washington policy.

#### **Note 6 – Subsequent Event**

Subsequent to year-end, the Authority entered into a Fourth Amendment to Agreement of Marina Lease with Foss Waterway Management LLC commencing on January 1, 2015 and continuing throughout the term of the marina lease, which expires December 31, 2025. The Authority also entered into a Development Contribution Agreement with Foss Waterway Management LLC. Under this Agreement, Foss Waterway Management LLC shall pay a development contribution of one million five hundred thousand dollars (\$1,500,000.00) to the Authority. Upon receipt of the development contribution, the Authority is obligated to apply one million dollars (\$1,000,000.00) of the development contribution toward repayment of the Authority's \$4.1 M general fund and deposit five hundred thousand dollars (\$500,000.00) in a reserve fund established by the Authority with the Greater Tacoma Community Foundation that is dedicated to the ongoing maintenance of the George H. Weyerhaeuser Jr. Park, Central Park and Waterway Park on the Thea Foss Waterway.

## 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 to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

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