



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

Downtown Redevelopment Authority

Clark County

For the period January 1, 2015 through December 31, 2015

Published June 27, 2016

Report No. 1016967





Washington State Auditor's Office

June 27, 2016

Board of Directors
Downtown Redevelopment Authority
Vancouver, Washington

Report on Financial Statements

Please find attached our report on the Downtown Redevelopment Authority's financial statements.

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

Sincerely,

A handwritten signature in dark ink that reads "Troy X. Kelley".

TROY KELLEY
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**

**Downtown Redevelopment Authority
Clark County
January 1, 2015 through December 31, 2015**

Board of Directors
Downtown Redevelopment Authority
Vancouver, 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 Downtown Redevelopment Authority, Clark County, Washington, as of and for the year ended December 31, 2015, 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 17, 2016.

Our report includes a reference to other auditors who audited the financial statements of the Vancouver Hotel and Convention Center Project, as described in our report of the Authority's financial statements. This report includes our consideration of the results of the other auditor's testing of internal controls over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the report of the other auditors. The financial statements of the Vancouver Hotel and Convention Center Project were not audited in accordance with *Governmental Auditing Standards*, and accordingly this report does not include reporting on internal control over financial reporting or instances reportable noncompliance associated with the Vancouver Hotel and Convention Center Project.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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

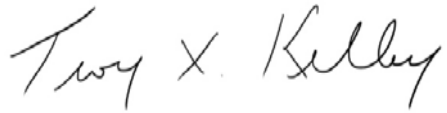
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct 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.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

June 17, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Downtown Redevelopment Authority Clark County January 1, 2015 through December 31, 2015

Board of Directors
Downtown Redevelopment Authority
Vancouver, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Downtown Redevelopment Authority, Clark County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Vancouver Hotel and Convention Center Project, which represents 2.1 percent, 2.1 percent, 100 percent and 87 percent, respectively, of the assets and deferred outflows, net position, operating revenue and operating expenses of the Authority. Those financial statements were audited by other auditors, whose report thereon had been furnished to us, and our opinion insofar as it relates to the amounts included for the Vancouver Hotel and Convention Center Project, is based solely on the reports of other auditors. We conducted our audit 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. The financial statements of the Vancouver Hotel and Convention Center Project were not audited in accordance with *Government Auditing Standards*.

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, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Downtown Redevelopment Authority, as of December 31, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

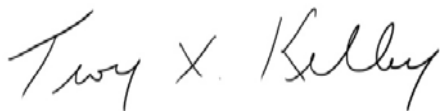
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 15 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 17, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

June 17, 2016

FINANCIAL SECTION

**Downtown Redevelopment Authority
Clark County
January 1, 2015 through December 31, 2015**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015

Statement of Revenues, Expenses and Changes in Net Position – 2015

Statement of Cash Flows – 2015

Notes to Financial Statements – 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS
VANCOUVER DOWNTOWN REDEVELOPMENT AUTHORITY (DRA)
(A Component Unit of the City of Vancouver)
For the Year Ended December 31, 2015

Vancouver Downtown Redevelopment Authority's (the "Authority" or "DRA") discussion and analysis offers readers of the DRA's financial statements a narrative overview and analysis of the Authority's financial activities for the fiscal year ended December 31, 2015. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and notes to the financial statements (which immediately follow this discussion).

FINANCIAL HIGHLIGHTS

The Hotel/Convention Center, constructed and owned by the DRA, opened its doors and commenced operations on June 15, 2005. The Fiscal Year 2015 represents the tenth full year of operations of the Hotel/Convention Center. The results of the facility's operations are presented in the DRA's financial statements.

The Authority reported net operating income of \$2,252,273 in 2015, which is a 32.3% increase over last year.

Capital assets and related bond liabilities account for the bulk of total assets and total liabilities of the Authority. The majority of the Authority's net position is restricted by the bond indenture for capital and debt service purposes. The Authority's total net position decreased by \$373,807 during 2015. The decrease should be analyzed in two components. First, from operations primarily as a result of stronger operating income, resulted in an increased change in net position of \$1.6 million in the current year. However, the Authority recognized a prior period adjustment of \$1.9 million resulting in a decrease to net position. The prior period adjustment related to the identification of assets that had previously been recorded as a portion of the building at the time of construction and given a 40 year life versus being identified separately with a much shorter useful life. At December 31, 2015, the liabilities of the DRA exceeded its assets and deferred outflows of resources by \$19,341,450.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provides an introduction and overview to the DRA's basic financial statements. This information will assist users in interpreting the basic financial statements. We will also provide other financial discussion and analysis of certain plans, projects, and trends necessary for understanding the full context of the financial condition of the Authority. The DRA is a special purpose business-type government. The purpose of the Authority is to provide oversight on the activities and operations of the Hotel/Convention Center and to approve its budget.

Basic Financial Statements

The basic financial statements are comprised of two components: 1) enterprise fund financial statements, and 2) notes to the financial statements. Because the Authority is a special-

purpose government engaged only in business-type activities, only fund financial statements are presented as the basic financial statements.

Enterprise Fund Financial Statements

A fund is a grouping of related accounts that are used to maintain control over resources that are segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting for compliance with finance related legal requirements. The single fund of the DRA is reported as an enterprise fund. The financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

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. This statement serves a purpose similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net position may serve as one indicator of whether the financial position of the DRA is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Authority's net position changed during 2015. The DRA distinguishes between operating revenues and expenses and nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the DRA are charges to customers for lodging, meals and banquet services. This statement separates operating program revenue (revenue generated by specific programs through charges for services) from general nonoperating revenue (revenue provided by taxes and other sources not tied to a particular program). This shows the extent to which a program relies on general revenue for funding. All changes in net position are reported using the accrual basis of accounting, similar to the method used by most private-sector companies. The accrual basis of accounting requires that revenues are reported when they are earned and expenses are reported as soon as liabilities are incurred. Items such as unpaid vendor invoices for items received in 2015 and earned but unused vacation leave will be included in the statement of revenues, expenses and changes in net position as an expense, even though the cash associated with these items was not distributed in 2015.

The Statement of Cash Flows presents the cash and cash equivalent activity of the Authority. It classifies cash flows into four activities: 1) operating activities, 2) non-capital financing activities, 3) capital and related financing activities and 4) investing activities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the fund statements. The notes to the financial statements can be found following the statement of cash flows.

FINANCIAL ANALYSIS

Statement of Net Position

As noted earlier, changes in net position over time may serve as a useful indicator of a government's financial position. The Authority's total net position is negative \$19,341,450 at

December 31, 2015. The following table reflects the condensed and comparative version of the Statement of Net Position:

**Vancouver Downtown Redevelopment Authority
Statement of Net Position**

	December 31, 2015	December 31, 2014
Current and other assets	\$ 9,594,618	\$ 9,965,957
Noncurrent assets	41,979,067	41,726,857
Total assets	51,573,685	51,692,814
Deferred outflows of resources	1,251,761	1,321,303
Current liabilities	3,652,825	2,888,688
Noncurrent liabilities	68,514,071	69,093,070
Total liabilities	72,166,896	71,981,758
Net position		
Net investment in capital assets	(17,965,661)	(18,177,633)
Restricted for capital purposes	-	1,427,332
Restricted for debt service	2,970,030	2,465,706
Unrestricted	(4,345,819)	(4,683,048)
Total net position	\$ (19,341,450)	\$ (18,967,643)

Noncurrent assets and liabilities account for the majority of the Authority's total assets and liabilities. In 2015, the total net position decreased by \$373,807. The Prior Period Adjustment of a negative \$1.9 million, related to readjustment of capital assets, is the primary cause of the decrease. Without consideration of the prior period adjustment, there was a \$1.6 million increase in total net position.

The majority of the Authority's assets are subject to restrictions imposed by the bond indenture.

Statement of Revenues, Expenses and Changes in Net Position

Key elements in the changes in net position are discussed below. A condensed version of the Statement of Revenues, Expenses and Changes in Net Position for the past two years is shown in the following table. The full statement is a tabular depiction of the relationship of revenues and expenses for the DRA.

Vancouver Downtown Redevelopment Authority
Summary of Changes in Net Position
Comparative 2015-2014

	<u>2015</u>	<u>2014</u>
Revenues		
Operating revenues		
Charges for services	\$ 16,140,744	\$ 14,085,504
Nonoperating revenues		
Interest earned	962	957
Intergovernmental contributions	2,331,873	1,971,270
Total revenues	<u>18,473,579</u>	<u>16,057,731</u>
Expenses		
Operating expenses		
Supplies, personnel, and		
contractual services	12,283,248	10,947,006
Depreciation	1,605,223	1,435,725
Nonoperating expenses		
Interest and fiscal charges	3,032,794	2,984,732
Intergovernmental payments	125,523	117,790
Total expenses	<u>17,046,788</u>	<u>15,485,253</u>
Special items	149,256	194,457
Change in net position	1,576,047	766,935
Net position - Beginning	(18,967,643)	(19,734,578)
Prior Period Adjustment	(1,949,854)	-
Net position - Ending	<u>\$ (19,341,450)</u>	<u>\$ (18,967,643)</u>

In 2015, total revenues increased by \$2,415,848 due primarily to an increase in charges for services, which are the results of the improving economy.

The Authority's total expenses increased by \$1,561,535. This is primarily related to increase in operating expenses which directly correlates within increased operations.

The Authority had a change net position of \$1,576,047 which is an increased over the prior year by \$809,112. This primarily relates to the strong operations which are returning to pre-recession marks. However, in 2015, the total net position decreased by \$373,807. The Prior Period Adjustment of a negative \$1.9 million, related to readjustment of capital assets, is the primary cause of the decrease.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2015, the Authority's investment in capital assets, which includes buildings and equipment for the Hotel/Convention Center, totaled \$41,979,067. The increase of accumulated depreciation is the contributing to the decrease in total capital assets. See Note II.C for more information.

	Total Activities	
	12/31/2015	12/31/2014
Construction in Progress	\$ 5,320,263	\$ 1,780,488
Buildings (net of depreciation)	34,087,018	39,563,837
Equipment (net of depreciation)	2,571,786	382,532
Total	<u>\$ 41,979,067</u>	<u>\$ 41,726,857</u>

Long Term Debt

At December 31, 2015, the DRA had total revenue bonds outstanding of \$59.2 million. During 2015, the Authority had interest only payments due on the 2013 series debt; therefore no principal reduction is seen related to this debt. The \$7.4 million Due to Other Governmental Units reflects the DRA's liability to the County PFD for the construction and operation of the Hotel/Convention Center.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Authority opened and began operations of the Hotel/Convention Center in June of 2005. The operations are said to remain in startup phase for 36 months after opening, which is common for the hospitality industry. Operations were ramping up as expected at the 3 year mark, when the Great Recession hit. Local consumer spending declined and companies began curtailing business travel, which had a negative impact on the Hotel/Convention Center. During 2015 the Hotel/Convention Center showed an increase in operating income, as signs of the improving economy. Management monitors actuals closely in order to make immediate changes to operate within limited resources.

Budgeted spending and revenues for 2016 are expected to be similar to 2015, as the travel industry is one of the last to feel the effects of the recovery, and the Authority expects stable operations into 2016. The priority of DRA Management will be continued focus on ways to increase demand and market growth as well as ensuring increased cash flow to meet debt service requirements and operating needs.

Requests for Information

This financial report is designed to provide a general overview of DRA finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Vancouver, Financial & Management Services, PO Box 1995, Vancouver, WA, 98668-1995.

DOWNTOWN REDEVELOPMENT AUTHORITY
STATEMENT OF NET POSITION
A component unit of the City of Vancouver
December 31, 2015

ASSETS

Current assets

Cash and cash equivalents	\$	94,656
Restricted cash with fiscal/escrow agent		7,773,566
Receivables (net)		
Taxes		819,816
Accounts		729,903
Interest		221
Inventory		35,441
Prepaid expenses		141,015
Total current assets		<u>9,594,618</u>

Noncurrent assets

Capital assets

Construction in progress	5,320,263
Buildings	46,219,685
Machinery and equipment	6,807,317
Less accumulated depreciation	<u>(16,368,198)</u>
Total noncurrent assets	<u>41,979,067</u>
TOTAL ASSETS	<u>51,573,685</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred charge on refunding	<u>1,251,761</u>
Total deferred outflows of resources	<u>1,251,761</u>

LIABILITIES

Current liabilities

Accounts payable	312,172
Accrued interest payable	1,297,431
Accrued liabilities	958,457
Unearned revenue	184,765
Bonds, notes and loans payable	<u>900,000</u>
Total current liabilities	<u>3,652,825</u>

Noncurrent liabilities

Other long term payables	808,597
Bonds, notes and loans payable from restricted assets	60,296,489
Due to other governmental units	<u>7,408,985</u>
Total noncurrent liabilities	<u>68,514,071</u>
TOTAL LIABILITIES	<u>72,166,896</u>

NET POSITION

Net investment in capital assets	(17,965,661)
Restricted for capital purposes	-
Restricted for debt service	2,970,030
Unrestricted	<u>(4,345,819)</u>
TOTAL NET POSITION	\$ <u>(19,341,450)</u>

The accompanying notes are an integral part of this statement

DOWNTOWN REDEVELOPMENT AUTHORITY**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

A component unit of the City of Vancouver

For the Year Ended December 31, 2015

OPERATING REVENUES

Charges for services	\$	16,116,775
Miscellaneous		23,969
Total operating revenues		<u>16,140,744</u>

OPERATING EXPENSES

Supplies and contractual services		12,283,248
Depreciation		1,605,223
Total operating expenses		<u>13,888,471</u>

Operating income (loss)		2,252,273
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NONOPERATING REVENUES (EXPENSES)

Interest earnings		962
Intergovernmental contributions		2,331,873
Intergovernmental payments		(125,523)
Interest and fiscal charges		<u>(3,032,794)</u>
Total nonoperating revenues (expenses)		<u>(825,482)</u>

SPECIAL ITEMS

Gain on extinguishment of Debt		107,813
Claims Settlement		41,443
Total special items		<u>149,256</u>

Change in net position		1,576,047
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TOTAL NET POSITION - BEGINNING		(18,967,643)
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Prior year adjustments		<u>(1,949,854)</u>
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TOTAL NET POSITION - ENDING	\$	<u><u>(19,341,450)</u></u>
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The accompanying notes are an integral part of this statement

DOWNTOWN REDEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS
A component unit of the City of Vancouver
For the Fiscal Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from other operating activities	\$ 15,661,262
Cash payments for goods and services	<u>(12,072,573)</u>
Net cash provided (used) by operating activities	<u>3,588,689</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Receipts from other governments	3,215,273
Payments to other governments	<u>(1,039,034)</u>
Net cash used by noncapital financing activities	<u>2,176,239</u>

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

Interest paid on capital debt	(2,594,863)
Purchase of capital assets	<u>(4,185,775)</u>
Net cash provided by capital and related financing activities	<u>(6,780,638)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Receipts of claims settlement	41,443
Receipt of interest	<u>979</u>
Net cash used in investing activities	<u>42,422</u>

**NET INCREASE (DECREASE) IN
CASH AND CASH EQUIVALENTS**

(973,288)

CASH AND CASH EQUIVALENTS - BEGINNING

8,841,510

CASH AND CASH EQUIVALENTS - ENDING

\$ 7,868,222

**Reconciliation of operating income (loss) to net
cash used by operating activities:**

Net operating income (loss)	\$ 2,252,273
Adjustments to reconcile net operating income (loss) to net cash provided by operations:	
Depreciation expense	1,605,223
(Increase) Decrease in receivables	(447,803)
(Increase) Decrease in inventories	(1,303)
(Increase) Decrease in prepaid assets	(58,563)
Increase (Decrease) in current payables	270,541
Increase (Decrease) in unearned revenues	<u>(31,676)</u>
Total adjustments	<u>1,336,419</u>
Net cash provided (used) by operating activities	<u>\$ 3,588,692</u>

The accompanying notes are an integral part of this statement

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Vancouver Downtown Redevelopment Authority (the Authority or DRA) conform to generally accepted accounting principles as applied to local governmental units. The more significant accounting policies are described below.

A. REPORTING ENTITY

The Downtown Redevelopment Authority (DRA) is a special purpose government established in 1997 to plan, design, finance, acquire, construct, equip, own, maintain, operate, repair, remodel, expand and promote the Vancouver Convention Center and Hotel Project. The DRA is a component unit of the City of Vancouver, Washington, the primary government. The DRA Board is composed of seven (7) members who are appointed by the City Council of Vancouver to four year terms. The City is able to impose its will on the Authority; however, the DRA's services do not exclusively or almost exclusively benefit the City of Vancouver. Therefore, financial statements are discretely presented in the City of Vancouver's annual financial report. The City of Vancouver's financial statements can be obtained from the City of Vancouver, Finance Department, PO Box 1995, Vancouver, WA 98668-1995.

The Downtown Redevelopment Authority retains the Hilton Hotels Corporation as a Manager for its Hotel/Convention Center project, which constitutes most of the Authority's ongoing operations. Financial statements for the Hotel/Convention Center project can be obtained from the City of Vancouver, Finance Department, PO Box 1995, Vancouver, WA 98668-1995.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, contributions, and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are room rents and meal revenues from hotel and restaurant usage. Operating expenses for this enterprise fund include the cost of personnel and contractual services and supplies. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

It is the government's policy to use restricted resources for their intended uses, and unrestricted resources for other uses.

C. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY

1. Deposits and investments

The DRA's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments. Statutes authorize the Authority to invest in obligations of the U. S. Treasury, commercial paper, repurchase agreements, Local Government Investment Pools and the State Treasurer's Investment Pool. The City of Vancouver Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Investments for the Authority are reported at fair value.

2. Receivables and payables

All trade receivables are shown net of an allowance for uncollectible accounts. Accrued interest receivable consists of amounts earned on investments, but not received at the end of the year.

3. Inventories and prepaid items.

The inventories consist primarily of food, beverage, china, glass, silver, and linens used in the operation of the Hotel/Convention Center and are stated at the lower of cost or market using a first-in first-out valuation method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the DRA financial statements.

4. Restricted assets

These accounts contain resources being held by the trustee for debt service and operation of the Hotel/Convention Center. The use of these assets is limited by applicable bond covenants.

5. Capital assets

Capital assets are generally considered property, plant, and equipment owned by the Authority costing \$5,000 or more, and having an estimated useful life of more than three years. Such assets are recorded at historical cost or estimated historical cost if the actual cost is not available and are reported in the statement of net assets. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are recorded in Construction in progress as they are constructed, and capitalized upon completion.

Assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Category	Useful Life
Buildings	40
Structures	20
Leasehold Improvements	5
Other Improvements	5-22
Equipment	5-25

6. Compensated absences

DRA does not have any employees. However, the Hotel/Convention Center employees can accumulate a certain amount of earned but unused vacation benefits. Accumulated amounts of vacation leave are accrued when earned and a liability is reported. Each employee starts to accrue vacation on their 91st day of employment on a bi-weekly basis. Leave accruals vary depending on employee status and at December 31, 2015, the recorded liability for vacation leave amounted to \$283,322. This amount is recorded as a part of accrued liabilities in the Statement of Net Position and in charges for services, fees fines and forfeitures in the Statement of Statement of Revenues, Expenses and Changes in Net Position.

7. Long-term obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

8. Unearned revenue

This includes amounts available but not yet earned and Hotel/Convention Center guest advance deposits.

9. Use of estimates

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Generally accepted accounting principles (GAAP), require management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates and assumptions.

D. ADOPTION OF NEW GASB PRONOUNCEMENTS

For the fiscal years ending through December 31, 2015, the Authority implemented GASB Pronouncements through GASB Statement No. 72. The adoption of new standards has had no material impact to the District's financial statements.

NOTE II. DETAILED NOTES

A. DEPOSITS AND INVESTMENTS

Deposits

The City of Vancouver Treasurer acts in a fiduciary capacity for the Authority and administers an investment pool in which the Authority participates. Cash and investments are presented on the balance sheet in the basic financial statements at fair value or amortized cost, which approximates fair value, in accordance with GASB Statement No. 31, *"Accounting and Financial Reporting for Certain Investments and for External Investment Pools."*

Activities undertaken by the pool on behalf of the Authority are not part of the operating, capital, investing, or financing activities, and details of these transactions are not reported in the Statement of Cash Flows. In general, interest earned from the pooled investments is allocated to each fund based on the average earnings and daily cash balance of each fund.

The Federal Deposit Insurance Corporation (FDIC) insures the Authority's deposit and investments up to \$250,000. All deposits and bank and investment pools not covered by FDIC are covered under the State of Washington Public Deposit Protection Commission Act of 1969. Total public deposits may not exceed one and one-half times its net worth or 30% of the total public funds on deposit statewide in each qualified public depository. If public deposits exceed either of these limitations, it must collateralize the excess at 100%.

Investments

As required by state law, all investments of the Authority's funds are obligations of the U.S. Government, U.S. agency issues, the State Treasurer's Investment Pool, bankers' acceptances, overnight repurchase agreements, commercial paper, the City of Vancouver Investment Pool, money market accounts, or certificates of deposit with Washington State banks and savings and loan institutions.

All of the Authority's unrestricted funds are invested in the City of Vancouver Investment Pool. The Authority's interest in the pool at December 31, 2015, was \$94,656, which is stated at fair value.

Investments in the City's pool are not subject to categorization because specific instruments cannot be distinguished between those participating in the pool. The fair value of the Authority's position in the pool is the same as the fair value of the pool shares.

B. CAPITAL ASSETS

A summary of capital asset activity for the year ended December 31, 2015 was as follows:

	Ending Balance 12/31/14	Amount of Restatement	Restated Beginning Balance 01/01/15	Increases	Decreases	Ending Balance 12/31/15
Capital assets, not being depreciated:						
Construction in progress	\$ 1,780,488	\$ -	\$ 1,780,488	\$ 3,807,286	\$ 267,511	\$ 5,320,263
Capital assets, being depreciated:						
Buildings and system	\$ 51,605,004	\$ (5,385,319)	\$ 46,219,685	\$ -	\$ -	\$ 46,219,685
Machinery and equipment	6,677,310	5,385,319	12,062,629	267,511	5,522,824	6,807,316
Total capital assets, being depreciated	58,282,314	-	58,282,314	267,511	5,522,824	53,027,001
Less accumulated depreciation for:						
Buildings and system	12,041,167	(1,063,992)	10,977,175	1,155,492	-	12,132,667
Machinery and equipment	6,294,778	3,013,846	9,308,624	449,731	5,522,824	4,235,531
Total accumulated depreciation	18,335,945	1,949,854	20,285,799	1,605,223	5,522,824	16,368,198
Total capital assets, being depreciated, net	39,946,369	(1,949,854)	37,996,515	(1,337,712)	-	36,658,803
Business-type activities capital assets, net	\$ 41,726,857	\$ (1,949,854)	\$ 39,777,003	\$ 2,469,574	\$ 267,511	\$ 41,979,066

The beginning balance have been restated, in total by \$1,949,854, due to the identification of assets that had previously be recorded as a portion of the building at the time of construction and given a 40 year life versus being identified separately with a much shorter useful life.

Depreciation expense was charged to the Authority for the year ending December 31, 2015 for \$1,605,223.

C. LEASE AGREEMENTS

Operating Lease

The Authority leases land and premises under an operating lease entered into on December, 2003 that grants early termination rights. The land is leased from Vancouver Public Facilities District for 50 years, for a one time rental payment of \$10.

D. LONG-TERM DEBT

Revenue Bonds

In 2003, the Downtown Redevelopment Authority (DRA), a component unit of the City, issued bonds in which it pledged income derived from the acquired or constructed assets to pay debt service. The revenue bonds were authorized by resolution adopted by the DRA Board, and financed from operating revenues. The revenue bonds were issued to finance construction of the Conference Center and Hotel capital project. In June 2013, the remaining outstanding balance of \$63,105,000 of the 2003 DRA Revenue bonds were refunded by issuing two series of revenue refunding bonds.

\$41,185,000 DRA Conference Center Project Refunding Revenue Bonds were authorized by Resolution No. 2013-05-14-1 by the DRA Board. The Project Revenue Bonds are payable primarily from Project Revenues received by the Authority. In addition, the City has agreed pursuant to the Amended and Restated Payment Agreement, dated June 1, 2013, between the City and the Authority to make payments to the Trustee from any available funds if and to the

extent necessary to pay debt service on the 2013 Project Revenue Bonds. The 2013 Amended and Restated Payment Agreement provides that if on the 10th business day prior to each interest payment date or principal payment date, if there is not sufficient money on deposit with the Trustee in the Project Revenue Bonds Debt Service Account as required by the Indenture, the City shall pay to the Trustee, in immediately available funds, on or prior to the 5th business day prior to the debt service date, the amount of any such deficiency; provided that the aggregate amount of such payments by the City to the Trustee in any calendar year shall not exceed the amount with to respect to such calendar year listed in Note V.B.1. The contingent payment amounts equal the annual debt service payments on the Project Revenue Bonds. Any payment by the City of the Conditional Payment Amount to pay interest and/or principal on the 2013 Project Revenue Bonds will constitute a loan by the City to the Authority, with interest payable on such amounts at the rate or rates on such 2013 Project Revenue Bonds and the City shall have full rights of subrogation.

The City shall take such action as may be necessary under the Amended and Restated Payment Agreement to include all payments due in its operating budget for each fiscal year commencing on and after the date of execution, and to make all appropriations for such payments at such time and in such manner and amounts as may be necessary in order to make all debt service payments when due.

In addition, \$18,045,000 of DRA Conference Center Project Sales and Lodging Tax Refunding Revenue Bonds were issued in June 2013. These bonds were authorized by Resolution No. 2013-05-14-1 by the DRA Board. The Tax Revenue Bonds are payable primarily from 1) certain proceeds of special sales and use taxes imposed by the Vancouver Public Facilities District (the "City PFD") and the Clark County Public Facilities District (the "County PFD"); 2) certain proceeds of a special lodging tax levied by the City (the "Lodging Tax Revenues"); and 3) certain amounts of certain funds and accounts established under the Indenture. The Sales Taxes imposed by the City PFD will expire March 2026 and the Sales Tax imposed by the County PFD will expire March 2028. Lodging Tax Revenues will continue to be pledged for payment of principal and interest on the Tax Revenue Bonds until the final maturity of this bond series.

DRA Revenue Refunding bonds outstanding at year-end are as follows:

Outstanding DRA Revenue Bond Debt

Name of Issuance	Original Debt in \$1,000	Issuance Date	Maturity Date	Interest Rate	Debt Outstanding
2013 DRA Conference Center Project Refunding Revenue Bonds	\$ 41,185	6/27/2013	1/1/2044	4.38%	\$ 41,185
2013 DRA Conference Center Project Sales & Lodging Tax Refunding Revenue Bonds	\$ 18,045	6/27/2013	1/1/2034	4.05%	\$ 18,045
<i>Total Revenue Bonds</i>	<u>\$ 59,230</u>				<u>\$ 59,230</u>

In order to make the 2013 refunding economically viable, ACA contributed \$4,000,000 to the Authority, \$1,430,554.61 of which is in consideration of the execution of a Note issued by the Authority to ACA, and the balance of which is in consideration for the elimination of any exposure ACA may have in respect to the Series 2003A Bonds. This Note is subordinate to the Project Revenue and Tax Revenue Bonds. There is a note associated with this contribution. Depending on the cash flows of the project, payments may start on 1/1/2033.

DRA 2013 Project Revenue Bonds and the DRA 2013 Tax Revenue Bond debt service requirements to maturity are as follows:

	2013 Project Revenue Refunding Bonds				2013 Tax Revenue Refunding Bonds		
	Principal	Interest	Total Requirements		Principal	Interest	Total Requirements
2016	\$ 170,000	\$ 1,794,712	\$ 1,964,712	\$	730,000	\$ 786,650	\$ 1,516,650
2017	290,000	1,787,812	2,077,812		795,000	763,775	1,558,775
2018	360,000	1,778,062	2,138,062		860,000	730,350	1,590,350
2019	740,000	1,761,563	2,501,563		945,000	685,225	1,630,225
2020	895,000	1,737,037	2,632,037		1,035,000	635,725	1,670,725
2021-2025	5,090,000	8,007,062	13,097,062		6,720,000	2,293,650	9,013,650
2026-2030	6,465,000	6,625,962	13,090,962		4,895,000	894,812	5,789,812
2031-2035	7,920,000	5,145,562	13,065,562		2,065,000	207,413	2,272,413
2036-2040	9,755,000	3,263,281	13,018,281		-	-	-
2041-2044	9,500,000	878,625	10,378,625		-	-	-
	\$ 41,185,000	\$ 32,779,681	\$ 73,964,681	\$	18,045,000	\$ 6,997,600	\$ 25,042,600

The subordinate note to ACA, as described above, debt service requirements to maturity are estimated as follows:

Other long-term loans and notes payable			
	Principal	Interest	Total Requirements
2016 \$	-	\$ -	\$ -
2017	-	-	-
2018	-	-	-
2019	-	-	-
2020	-	-	-
2021-2025	-	-	-
2026-2030	-	-	-
2031-2035	146,098	132,916	279,014
2036-2040	506,828	557,885	1,064,713
2041-2044	777,629	1,001,805	1,779,434
	<u>\$ 1,430,554</u>	<u>\$ 1,692,607</u>	<u>\$ 3,123,161</u>

Intergovernmental Obligations

Under an Interlocal agreement with the Clark County PFD, DRA is liable to the Clark County PFD for state sales credit monies received by the DRA. Payments under this agreement are received by Clark County PFD monthly and forwarded to the DRA. This creates a liability for the DRA to repay these funds via two methods. The first is a predetermined tax cap in the 2003A Bond Indenture, which is carried forward to the 2013 Bond Indenture. The tax cap amount changes each year through 2034, for Clark County PFD, Vancouver PFD, and City of Vancouver lodging taxes, so that the funds in excess of the tax cap are returned to the Clark County PFD. The second method occurs after funds flow through the 2013 Bond Indenture distribution requirements. The monies available in the end are split equally between the Authority and the Clark County PFD, and any amounts so distributed to the Clark County PFD will decrease the DRA liability to Clark County PFD after each payment.

Changes in Long Term Liabilities

The following is a summary of long-term debt changes of the authority for the year (in thousands):

	Beginning Balance 1/1/15	Additions	Reductions	Ending Balance 12/31/15	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 59,230	\$ -	\$ -	\$ 59,230	\$ 900
Less deferred amounts					
For issuance premiums (discounts)	565	-	29	536	29
Due to other governments	6,951	1,132	675	7,408	-
Total bonds payable	66,746	1,132	704	67,174	929
Other long-term loans and notes	1,431	-	-	1,431	-
Subordinate management fee	916	-	108	808	-
Total long term liabilities	\$ 69,093	\$ 1,132	\$ 812	\$ 69,413	\$ 929

E. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

At December 31, 2015, Vancouver Downtown Redevelopment Authority (DRA), a component unit of the City, had a deficit in the fund net position of \$19,341,450. The DRA activities involve the operation of a hotel and convention center in the City's central downtown area. This is a cash flow based project and the negative net position balance is primarily attributed to accumulated depreciation, a non-cash item. Additionally, during the recession the economic environment had a negative impact on the convention and lodging business which is also reflected in the net position change. Deep cost-cutting measures were put in place. The Board and the management of the DRA as well as the project monitor activities monthly. A series of revenue generating guidelines and on-going expense reductions have been implemented. With the improving economy, the fund continues to improve slightly, while still remaining in a deficit position.

NOTE III. OTHER DISCLOSURES

A. RELATED PARTY TRANSACTIONS

The Authority constructed and operates the Hotel Conference/Convention Center, which is managed by Hilton Hotels Corporation.

The Vancouver Public Facility District (PFD) was created to acquire, construct, own, finance, and operate the Convention Center Project. The Clark County Public Facility District was created for the purpose of participating in the development of regional centers, consisting of the Convention Center Project and the Exposition Center at the Clark County Fairgrounds. The Vancouver PFD, the County PFD, the City of Vancouver, and DRA entered into interlocal agreements which detail their support for the project.

During 2015, the Downtown Redevelopment Authority recognized Intergovernmental revenue of \$1,271,496 in sales tax credit monies from the Vancouver PFD for the bond servicing of the Hotel and Conference/Convention Center project and the City of Vancouver contributed \$1,060,377 of lodging tax. The amount of support from the Clark County Public Facility District is described in Note II.D. Intergovernmental Obligations.

The City signed an agreement on December 1, 2003, to participate in the construction and operation of the Vancouver Conference Center, using tourism funds.

In June 2013, the DRA refinanced the debt associated with the construction of the Vancouver Conference Center. As a part of the refinancing, the City agreed that, if, prior to each Interest Payment Date or Principal Payment Date, the amounts on deposit with the Trustee in the Project Revenue Bonds

Debt Service Account and in the Authority Reserve Account are insufficient to pay the principal and interest due on the 2013 Project Revenue Bonds, upon notice of such deficiency from the Trustee, the City shall pay to the Trustee an amount equal to the deficiency; the maximum obligation on that payment date being the debt service amount of the 2013 Project Revenue Bonds due on such date.

Any payment by the City of this conditional payment amount shall constitute a loan by the City to the DRA, with interest payable on such amounts at the rate or rates on the 2013 Project Revenue bonds.

In 2015, the City made no payments under its contingent payment obligation. The city has no current expectation of having to make any such payments, as it expects project revenues and tax revenues to be sufficient for such purposes.

B. SPECIAL ITEMS

Forgiveness of Debt

As part of the refinancing of the DRA debt in June 2013, a new agreement was signed with the Manager of the Vancouver Conference Center (Hilton Hotels) that provides for forgiveness of the above fee amounts over a 10-year period, on a straight-line basis. The forgiveness of these fees is recorded as a Special Item, Forgiveness of Debt on the Statement of Revenues, Expenses and Changes in Net Position. During December 31, 2015, \$107,813 had been forgiven. The outstanding obligation recorded on the Statement of Net Position as of December 31, 2015, is \$808,597.

Claims settlement

On January 2, 2009, Lehman Brothers Special Finance Inc. failed to tender for sale to the Downtown Redevelopment Authority the Qualified Securities pursuant to the terms of the Forward Purchase Agreement (FPA), and did not correct the issue in the Cure Period. Based on this, the Authority reinvested the investment balance held with the Trustee for 6-months in qualified investments, which matured on July 1, 2009, and was reinvested thereafter with maturities to coincide with the semi-annual interest and principal payments. The rate of return on the reinvestment was substantially below the 5.05%. The Authority pursued a claim with the Bankruptcy Court against Lehman Brothers Inc., and Lehman Brothers Special Finance Inc. for the difference between the fixed rate of 5.05% and the rate that a new Forward Purchase Agreement will generate. During 2015, the Authority received a distribution in the amount of \$41,443 as a result of the bankruptcy claim. If the Lehman bankruptcy estate receives additional funds, more distributions are possible.

C. SUBSEQUENT EVENTS

The Authority has evaluated events subsequent to the fiscal year-end December 31, 2015, and has identified no events that, if disclosed, would influence the readers' opinion concerning these financial statements.

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.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
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