



# Washington State Auditor's Office

Government that works for citizens

## Financial Statements Audit Report

# Foss Waterway Development Authority

Pierce County

For the period January 1, 2014 through December 31, 2015

Published August 29, 2016

Report No. 1017204





## Washington State Auditor's Office

August 29, 2016

Board of Directors  
Foss Waterway Development Authority  
Tacoma, Washington

### Report on Financial Statements

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

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

Sincerely,

TROY KELLEY  
STATE AUDITOR  
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, 2014 through December 31, 2015**

Board of Directors  
Foss Waterway Development Authority  
Tacoma, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Foss Waterway Development Authority, a component unit of the City of Tacoma, Pierce County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated July 13, 2016.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

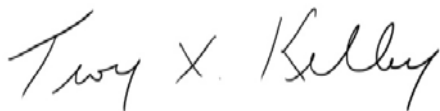
## **COMPLIANCE AND OTHER MATTERS**

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

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

## **PURPOSE OF THIS REPORT**

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



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

July 13, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Foss Waterway Development Authority Pierce County January 1, 2014 through December 31, 2015**

Board of Directors  
Foss Waterway Development Authority  
Tacoma, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Foss Waterway Development Authority, a component unit of the City of Tacoma, Pierce County, Washington, as of and for the years ended December 31, 2015 and 2014, 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, 2015 and 2014, 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.

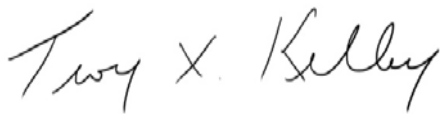
## **Other Matters**

### ***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 July 13, 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.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

July 13, 2016



## **FINANCIAL SECTION**

**Foss Waterway Development Authority  
Pierce County  
January 1, 2014 through December 31, 2015**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2015 and 2014

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2015 and 2014

Statement of Revenues, Expenditures and Changes in Net Position – Proprietary Funds –  
2015 and 2014

Statement of Cash Flows – Proprietary Funds – 2015 and 2014

Notes to Financial Statements – 2015 and 2014

## Management's Discussion and Analysis

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Foss Waterway Development Authority  
Years Ended December 31, 2015 and 2014

### 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, 2015 and 2014. 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 2015 by \$23,850,585. Of this amount, \$21,875,756 is net investment in capital assets. Net position totaled \$23,747,496 at the end of calendar year 2014, with \$21,460,552 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 2015 the Authority's net position increased by \$103,089 compared to a \$754,380 decrease in 2014. The increase in 2015 net position was due to a principal payment of \$1.0 million to the Authority's long term loan in spite of the decrease of \$315,000 in current assets and \$585,000 in capital assets.

## Management's Discussion and Analysis

Foss Waterway Development Authority  
Years Ended December 31, 2015 and 2014

- A. The Authority's total liabilities and deferred inflow of resources decreased by \$1.0 million at December 31, 2015 due to the principal payment of a long term loan. Liabilities and deferred inflow of resources at December 31, 2015, 2014 and 2013 totaled \$2,606,147, \$3,609,691, and \$4,278,815 respectively, and consisted primarily of financing capital improvements.
- B. Current and other liabilities decreased \$1,170 for 2015 while these same accounts decreased by \$13,025 for 2014.

### Financial Analysis

The Authority's total assets and deferred outflow of resources exceeded liabilities and deferred inflow of resources by \$23,850,585 at December 31, 2015. Ninety two 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 eight 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

	2015	2014	2013
Current and other assets	2,124,451	2,440,110	1,906,271
Capital assets	24,332,281	24,917,078	26,874,420
<b>Total Assets</b>	<b>26,456,732</b>	<b>27,357,188</b>	<b>28,780,691</b>
Deferred outflow of resources	-	-	-
Current and other liabilities	80,564	81,734	94,759
Long-term liabilities outstanding	2,513,018	3,514,742	4,158,238
<b>Total Liabilities</b>	<b>2,593,582</b>	<b>3,596,476</b>	<b>4,252,997</b>
Deferred inflow of resources			
Unavailable revenues	12,565	13,215	25,818
<b>Total Deferred inflow of resources</b>	<b>12,565</b>	<b>13,215</b>	<b>25,818</b>
Net Position:			
Net Investment in Capital Assets	21,875,756	21,460,552	22,774,420
Unrestricted	1,974,829	2,286,944	1,727,456
<b>Total Net Position</b>	<b>23,850,585</b>	<b>23,747,496</b>	<b>24,501,876</b>

## Management's Discussion and Analysis

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Foss Waterway Development Authority  
Years Ended December 31, 2015 and 2014

### Capital Assets

The Authority's net investment in capital is \$24,332,281. In 2015 capital assets decreased by \$584,796. Depreciation on capital assets was \$632,523 in both year of 2015 and 2014. Bond and non-departmental fund transfer from City of Tacoma supported projects capitalized at \$106,693.

	FY 2015	FY 2014	FY 2013
Land	7,002,138	7,002,138	8,408,388
Construction in progress	1,909,910	1,850,961	2,523,789
Building	1,565,900	1,565,900	1,565,900
Park	1,444,943	1,444,943	1,444,943
Marinas	17,100,041	17,100,041	16,345,783
Infrastructure	79,587	79,587	79,587
Office equipments	30,000	30,000	30,000
Less accumulated deperciation	(4,800,239)	(4,156,493)	(3,523,970)
Total	<u>24,332,280</u>	<u>24,917,077</u>	<u>26,874,420</u>

### Outstanding Debt

The Authority's debt at December 31, 2015 was \$2,456,525 for a City of Tacoma General Fund Loan – The Authority previously secured \$4.1 million loan from the City of Tacoma General Fund. This is an interest only loan that is due on November 14, 2017. The Authority entered into a Development Contribution Agreement with Foss Waterway Management (FWM) on January 1, 2015. According to the terms of that agreement, the Authority received \$1.5 million development contribution from FWM which was deposited to the Authority's money market account on February 12, 2015. The Authority made \$1.0 million principal payment on the General Fund Loan FWDA on March 27, 2015 from its checking account after transferring funds from its money market account. The Authority had previously made a principal payment on the General Fund Loan in the amount of \$643,475 on November 2014. Annual loan interest in the amount of \$24,345 was paid in quarterly installments from the Authority's Agency Fund. Annual loan interest was \$33,331 for 2014 and \$38,571 for 2013.

	FY 2015	FY 2014	FY 2013
Generla Fund Loan	2,465,525	3,456,525	4,100,000

## Management's Discussion and Analysis

Foss Waterway Development Authority  
Years Ended December 31, 2015 and 2014

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Operating Revenue</b>			
Property Rental Income	\$ 195,857	\$ 450,586	\$ 445,622
<b>Non-Operating Revenues</b>			
Intergovernmental	47,252	47,745	-
Investment Income	11,473	22,356	3,139
Miscellaneous Income	20,372	25,969	63,314
Insurance Premium and Recoveries	-	-	-
Gain (Loss) on Sale of Capital Assets	-	(119,299)	476,259
<b>Total Revenues</b>	<u>274,954</u>	<u>427,357</u>	<u>988,334</u>
<b>Operating Expenses</b>			
Personnel Services	253,130	250,851	244,718
Supplies, Services, and Charges	319,368	329,654	474,628
Depreciation	643,746	632,523	633,332
<b>Non-Operating Expenses</b>			
Interest Expenses	<u>24,345</u>	<u>33,331</u>	<u>38,571</u>
<b>Total Expenses</b>	<u>1,240,589</u>	<u>1,246,359</u>	<u>1,391,249</u>
Excess (deficiency) before contribution	<u>(965,635)</u>	<u>(819,002)</u>	<u>(402,915)</u>
Contribution			
Contribution	969,670	-	-
Contribution from City of Tacoma	<u>146,799</u>	<u>64,622</u>	<u>428,328</u>
Change in Net Postion	<u>150,834</u>	<u>(754,380)</u>	<u>25,413</u>
Net Position			
Beginning of Year	23,747,496	24,501,876	24,476,463
Prior Period Adjustment	<u>(47,745)</u>	<u>-</u>	<u>-</u>
Beginning of Year - Restated	<u>23,699,751</u>	<u>24,501,876</u>	<u>24,476,463</u>
Net Position, Ending	<u>23,850,585</u>	<u>23,747,496</u>	<u>24,501,876</u>

### Revenues

Overall operating revenues decreased by \$254,729 or 56.53% to \$195,857 in 2015, primarily through property leases. The decrease was due to the Fourth Amendment to Agreement of Marina Lease which changed rent from percentage to base. The Authority received a development contribution of \$1.5 million in place of future rent revenue from Foss Waterway Management. During 2014 operating revenues increased by \$4,964 or 1.11% for a total of \$450,586. Operating revenue totaled \$445,622 for the year of 2013. Non-operating

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

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Foss Waterway Development Authority  
Years Ended December 31, 2015 and 2014

revenues/expenses for 2015 totaled \$54,752 and (\$56,560) for 2014, an increase of \$111,312 due to a loss on sale of real property of \$119,299 in 2014 in spite of the decrease of investment and miscellaneous revenues in 2015. Non-operating revenues/expenses for 2013 totaled \$504,141.

### **Expenses**

Operating expenses in 2015 increased 0.27% or \$3,216 compared to 2014. Personnel services increased \$2,279 or 0.91% of the previous year, for a total of \$253,130 in 2015. Personnel services for 2014 and 2013 totaled \$250,851 and \$244,718, respectively. Supplies, services and charges totaled \$319,368 in 2015 and decreased by \$10,286 over 2014. This decrease is due, in large part, to a decrease of \$64,000 in legal expenses, maintenance expenses, external contract service expenses, and rent expenses while professional services expenses and assessment cost assessed out from City of Tacoma were increased by \$31,000 and 27,000.

### **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. As the sale of real property continues, future revenue will be affected. With minimal contributions from the City's General Fund, the Authority will have sufficient funding to support its operations through the 2015-2016, 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, 2015 and 2014**

	2015	2014
<b>ASSETS</b>		
Cash	\$ 262,338	\$ 241,754
Equity in Pooled Cash & Investments	1,822,438	2,049,835
Cash and Cash Equivalents	<u>2,084,776</u>	<u>2,291,589</u>
Accounts Receivable - Other	2,821	110,829
Prepaid Expenses	36,854	27,957
Due from City of Tacoma	-	9,735
Capital Assets		
Non-Depreciable:		
Land	7,002,138	7,002,138
Construction in Progress	<u>1,909,910</u>	<u>1,850,961</u>
<b>Non-Depreciable Capital Assets</b>	<u>8,912,048</u>	<u>8,853,099</u>
Depreciable:		
Buildings	1,565,900	1,565,900
Accumulated Depreciation	(488,478)	(455,456)
Parks	1,444,943	1,444,943
Accumulated Depreciation	(262,717)	(218,931)
Marinas	17,100,042	17,100,042
Accumulated Depreciation	(4,026,779)	(3,463,994)
Infrastructure	79,587	79,587
Accumulated Depreciation	(13,265)	(10,612)
Property, Plant & Equipment	30,000	30,000
Accumulated Depreciation	<u>(9,000)</u>	<u>(7,500)</u>
<b>Depreciable Capital Assets, Net</b>	<u>15,420,233</u>	<u>16,063,979</u>
<b>TOTAL ASSETS</b>	<u>26,456,732</u>	<u>27,357,188</u>
Deferred outflow of resources	-	-
<b>Total deferred outflow of resources</b>	<u>-</u>	<u>-</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable	25,896	24,386
Leasehold Tax Payable	8,118	11,310
Deposits	29,300	29,300
Accrued Leave Benefits	6,277	6,288
Due to City of Tacoma	10,973	10,450
<b>Non-Current Liabilities</b>		
Accrued Leave Benefits	56,493	58,217
Due to City of Tacoma	<u>2,456,525</u>	<u>3,456,525</u>
<b>TOTAL LIABILITIES</b>	<u>2,593,582</u>	<u>3,596,476</u>
Deferred inflow of resources		
Unavailable revenue	<u>12,565</u>	<u>13,215</u>
<b>Total deferred inflow of resources</b>	<u>12,565</u>	<u>13,215</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	21,875,756	21,460,552
Unrestricted	<u>1,974,829</u>	<u>2,286,944</u>
<b>Total Net Position</b>	<u>\$ 23,850,585</u>	<u>\$ 23,747,496</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, 2015 and 2014**

	2015	2014
<b>Operating Revenue</b>		
Property Rental Income	\$ 195,857	\$ 450,586
<b>Total Operating Revenues</b>	<u>195,857</u>	<u>450,586</u>
<b>Operating Expenses</b>		
Personnel Services	253,130	250,851
Supplies, Services and Charges	319,368	329,654
Depreciation Expense	<u>643,746</u>	<u>632,523</u>
<b>Total Operating Expenses</b>	<u>1,216,244</u>	<u>1,213,028</u>
<b>Operating Income (Loss)</b>	(1,020,387)	(762,442)
<b>Non-Operating Revenues (Expenses)</b>		
WA Department of Ecology	22,252	47,745
WA Department of Commerce	25,000	-
Investment Income	11,473	22,356
Interest Expense	(24,345)	(33,331)
Miscellaneous Income	20,372	25,969
Gain (Loss) on Sale of Capital Assets	<u>-</u>	<u>(119,299)</u>
<b>Total Non-Operating Revenue (Expenses)</b>	<u>54,752</u>	<u>(56,560)</u>
Contributions from others	989,670	-
Contributions from COT	<u>126,799</u>	<u>64,622</u>
<b>Net Income (Loss) after Contribution</b>	<u>1,171,221</u>	<u>8,062</u>
<b>Change in Net Position</b>	<u>150,834</u>	<u>(754,380)</u>
<b>Net Position</b>		
Beginning of Year	23,747,496	24,501,876
Prior Period Adjustment	<u>(47,745)</u>	<u>-</u>
Beginning of Year - Restated	<u>23,699,751</u>	<u>24,501,876</u>
<b>Nets Position, Ending</b>	<u><u>\$ 23,850,585</u></u>	<u><u>\$ 23,747,496</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, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Receipt from customer and users	303,865	494,539
Receipts from interfund services provided	-	(5,037)
Contribution received - employee/employer	-	-
Payment to suppliers	(306,295)	(302,426)
Payments to employees	(254,865)	(251,054)
Payments to insurance carriers	-	-
Payments for interfund services used	(48,018)	(21,161)
Payments for taxes	(13,771)	(21,736)
Other operating or non-operating revenue (expenses)	19,781	25,969
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(299,303)</u>	<u>(80,906)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from (to) other funds	-	35,489
Grant received	47,843	-
Contribution and donation	(3,212)	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>44,631</u>	<u>35,489</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Transfers from (to) other funds	-	76,878
Acquisition and construction of capital assets	(58,949)	(81,430)
Proceeds from the sale of capital assets	-	1,286,951
Principal paid on capital debt	(1,000,000)	(643,475)
Interest and issuance costs paid on capital debt	(24,346)	(33,331)
Contributions and donations	1,119,681	-
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	<u>36,386</u>	<u>605,593</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and dividends received	18,078	22,069.57
Rental and other income	-	-
Investment long-term	(6,605)	286.44
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>11,473</u>	<u>22,356</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(206,813)</u>	<u>582,532</u>
CASH AND CASH EQUIVALENTS, JANUARY 1	2,291,589	1,709,057
CASH, RESTRICTED CASH & CASH EQUIVALENTS	<u>2,084,776</u>	<u>2,291,589</u>

The accompanying notes are an integral part of these statements.

**Foss Waterway Development Authority**  
**Statement of Cash Flows**  
**Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	<u>(1,020,387)</u>	<u>(762,442)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by		
operating activities:		
Depreciation expense	643,746	632,523
(Increase) decrease in accounts receivable	108,009	43,953
(Increase) decrease in intergovernmental receivable	9,735	-
(Increase) decrease in due from other funds	-	(5,037)
(Increase) decrease in inventories	-	-
(Increase) decrease in prepaid items	(8,898)	9,776
(Increase) decrease in other current assets	-	-
Increase (decrease) in deposit payable	-	-
Increase (decrease) in accounts payable	(1,681)	(12,973)
Increase (decrease) in accrued wages payable	(1,735)	(183)
Increase (decrease) in compensated absences	-	(20)
Increase (decrease) in due to other funds	-	129
Increase (decrease) in deferred revenues	(651)	(12,602)
Increase (decrease) in other current liabilities	523	-
Increase (decrease) in notes, contracts, and leases payable	-	-
Increase (decrease) in long term liabilities	-	-
Increase(decrease) in prior period adjustment	(47,745)	-
Miscellaneous non-operating revenues (expenditures)	<u>19,781</u>	<u>25,969</u>
Total adjustments	<u>721,084</u>	<u>681,536</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>(299,303)</u></u>	<u><u>(80,906)</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, 2015 and 2014

### **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. The City includes in its financial statements all governmental activities, organizations and functions, whether they are structured as funds, account groups, departments, agencies, institutions, boards, commissions, districts, authorities, or in other ways for which the Tacoma City Council is financially accountable. The Authority's financial information is presented as a component unit in the City's financial statements.

#### **Operating Agreements with the City of Tacoma**

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

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

## **Notes to Financial Statements**

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### **Foss Waterway Development Authority December 31, 2015 and 2014**

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.

In November 2015, the Authority signed the amendment to third operating agreement to extend the terms for approximately four years until December 31, 2020. The amendment also included that the Authority will submit its budget in accordance with the City budgeting schedule and requirements.

### **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 remaining balance of the total bond amount as of December 31, 2015 is \$238,405. 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. 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. Grants and other similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Operating revenue consists primarily of 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.

## Notes to Financial Statements

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Foss Waterway Development Authority  
December 31, 2015 and 2014

### Use of Estimates

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

### Capital Assets

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

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

#### Capital Assets

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

	Cost at 01/01/15	Additions and Transfers	Deletions and Transfers	Cost at 12/31/15
<b>Non-Depreciable:</b>				
Land	7,002,138	-	-	7,002,138
Construction in Progress	1,850,961	106,693	(47,745)	1,909,909
Total Non-Depreciable Assets	8,853,099	106,693	(47,745)	8,912,047
<b>Depreciable:</b>				
Buildings	1,565,900	-	-	1,565,900
Parks	1,444,943	-	-	1,444,943
Marinas	17,100,042	-	-	17,100,042
Infrastructure	79,587	-	-	79,587
Property, Plant, and Equipment	30,000	-	-	30,000
Accumulated Depreciation	(4,156,493)	(643,745)	-	(4,800,238)
Total Depreciable Assets	16,063,979	(643,745)	-	15,420,234
<b>Total Capital Assets</b>	<b>24,917,078</b>	<b>(537,052)</b>	<b>(47,745)</b>	<b>24,332,281</b>

## Notes to Financial Statements

Foss Waterway Development Authority  
December 31, 2015 and 2014

### Capital Assets

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

Accumulated depreciation totaled \$4,800,238 and \$4,156,493 at December 31, 2015 and 2014, respectively. Depreciation expense for the years ended December 31, 2015 and 2014 were \$643,746 and \$632,523, 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. Equity in pooled cash and investment for the years ended December 31, 2015 and 2014 was \$1,822,438 and \$2,049,835, respectively.

### Note 2- Commitments

#### Operating Lease

The Authority leases office space under a lease agreement which expires December 2020. Lease payments for the year ending December 31, 2016 are estimated at \$26,515. Rent expense for the years ended December 31, 2015 and 2014, was \$26,515 and \$25,998, respectively.

### Foss Waterway Development Authority December 31, 2015 and 2014

#### **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. The Authority received 90-day notice of intent to retire from the Executive Director in December, 2015, but Susan has agreed to stay on until a new E/D has been hired and an orderly transition has occurred.

#### **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 \$6,277 for 2015 and long term liability for compensated absences equals \$56,493 for the year ended December 31, 2015. Current liability for compensated absences was \$6,288 for 2014 and long term liability for compensated absences was \$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 which was amended in November 2014. The Authority entered into a Development Contribution Agreement with Foss Waterway Management (FWM) on January 1, 2015 in compliance with the Fourth Amendment to Agreement of Marina Lease. Under the agreement, the Authority received a \$1.5 million contribution from FWM and Tenant's total rent obligation under amended Lease converted to Base Rent only, at a variable rate that will offset the Authority's DNR shorelands lease payments. The amended Lease no longer includes a percentage rent component, which will reduce the Authority's annual rental revenue, but the Tenant is obligated to pay for all maintenance and capital replacement costs over the term of the Lease. The Authority applied \$1.0 million of the development contribution to a principal payment on the Authority's \$4.1M General Fund loan in accordance with the contribution agreement and the amendment. The Authority previously made a principal payment in the amount of \$643,475 from the Agency Fund in November, 2014. Interest expense was reported at \$24,345 and \$33,331 for 2015 and 2014.

#### **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, 2015, consist of five lease agreements, with monthly rentals totaling approximately \$14,239. Monthly rental income for 2014 was \$36,540. The decrease of monthly rental income was due to the Fourth Amendment to Agreement of Marina Lease with Foss Waterway Management which its rent obligation changed from Percentage Rent to Base Rent. Leases are either month-to-month, or long-term leases. All leases in excess of one-year must be approved by either the

## Notes to Financial Statements

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### Foss Waterway Development Authority December 31, 2015 and 2014

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, but is subject to periodic extensions under defined conditions.

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

2016	120,971
2017	148,705
2018	143,705
2019	153,914
2020	153,914
2021	153,914
<b>Total</b>	<b>\$ 875,123</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 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 2015 and 2014 totaled \$45,201 and \$44,792 respectively.

#### Note 5 – Risk Management

In 2015 the Authority made payments totaling \$42,779 to Enduris Washington. The insurance premium in 2015 increased \$844 from \$41,935 in 2014. 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.



## Notes to Financial Statements

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### Foss Waterway Development Authority December 31, 2015 and 2014

The Authority also made a payment in the amount of \$2,500 to Citizen's Insurance Co in 2015. 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 – Contribution**

The Authority received a development contribution of \$1.5 million from Foss Waterway Management in consideration of the mutual promises and covenants set forth in the Fourth Amendment to Agreement of Marina Lease. The Authority agreed to apply \$1.0 million towards the repayment of the General Fund Loan and place \$500,000 in a reserve fund established by the Authority with Greater Tacoma Community Foundation and dedicated to the ongoing maintenance of the George H Weyerhaeuser Jr. Park, Central Park, and Waterway Park on the Thea Foss Waterway. The Authority contributed \$500,000 to Greater Tacoma Community Foundation (GTCF) in compliance with the Amendment on July 2015.

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Contact information for the State Auditor's Office	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>