



Washington State Auditor's Office

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Financial Statements Audit Report

Everett Public Facilities District

Snohomish County

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

Published September 10, 2015

Report No. 1014650





Washington State Auditor's Office

September 10, 2015

Board of Directors
Everett Public Facilities District
Everett, Washington

Report on Financial Statements

Please find attached our report on the Everett Public Facilities District's financial statements.

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

Sincerely,

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

TABLE OF CONTENTS

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	4
Independent Auditor's Report On Financial Statements	6
Financial Section.....	9
About The State Auditor's Office.....	37

**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**

**Everett Public Facilities District
Snohomish County
January 1, 2013 through December 31, 2014**

Board of Directors
Everett Public Facilities District
Everett, 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 Everett Public Facilities District, Snohomish County, Washington, as of and for the year ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 26, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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 audits 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 District's financial statements are free from material misstatement, we performed tests of the District'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 audits, 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



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

June 26, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Everett Public Facilities District Snohomish County January 1, 2013 through December 31, 2014

Board of Directors
Everett Public Facilities District
Everett, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Everett Public Facilities District, Snohomish County, Washington, as of and for the year ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District'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 District'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 District'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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Everett Public Facilities District, as of December 31, 2014 and 2013, 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 10 through 16 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 audits 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 26, 2015 on our consideration of the District'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 District's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 26, 2015

FINANCIAL SECTION

**Everett Public Facilities District
Snohomish County
January 1, 2013 through December 31, 2014**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014 and 2013

BASIC FINANCIAL STATEMENTS

Comparative Statement of Net Position – 2014 and 2013

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

Comparative Statement of Cash Flows – 2014 and 2013

Notes to Comparative Financial Statements – 2014 and 2013

Everett Public Facilities District
Management's Discussion and Analysis
2014 and 2013

Our discussion and analysis of the Everett Public Facility District (EPFD) financial performance provides an overview of the EPFD's financial activities for the fiscal years ended December 31, 2014 and 2013.

Financial Highlights

The EPFD was created by statute in 2001 to oversee the construction and operation of what is now known as the Everett Events Center in Everett Washington. The Everett Events Center was completed in September 2003, and operations commenced with an inaugural event on October 4, 2003. In August 2007 the facility was renamed the Comcast Arena at the Everett Events Center in conjunction with a naming rights sponsorship. In 2008 the facility was then renamed the Comcast Arena at Everett in conjunction with the naming rights agreement. In 2014, the Center was re-named Xfinity Arena at Everett as part of Comcast's national re-branding of its internet, cable and phone services. Comparative statements are presented for the 12 months ended December 31, 2014 and 2013.

The EPFD is governed by a five-member Board of Directors appointed by the Everett City Council. The Directors serving in 2014 were:

Gary Weikel, President
Gigi Burke, Vice-President
Thomas Gaffney, CPA, Treasurer
Lanie McMullin, Secretary
Bob Bavasi

Introduction to the Financial Statements

The operations of the EPFD are grouped into one business type fund for financial reporting purposes.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows and accompanying footnotes provide information about the activities and finances of the EPFD as a whole and about its activities in a way that helps communicate the financial condition of the EPFD.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position are prepared using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the EPFD's net position and changes in them. The EPFD's net position represents the difference between assets and liabilities. It is one way to measure the EPFD's financial position. Over time, increases or decreases in the EPFD's net position are one indicator of whether its financial condition is improving or deteriorating.

The Statement of Cash Flows reflects the EPFD's sources and uses of cash. This statement includes a reconciliation of Operating Income from the accrual based statements to the Net

Cash Provided by Operating Activities. You will need to consider other non financial factors, however, such as changes in the EPFD's funding structures and the condition of the EPFD's operating assets, to assess the overall health of the EPFD.

Condensed Statements of Net Position

	2014	2013	2012
Assets:			
Capital assets	\$ 39,694,012	\$ 40,953,225	\$ 42,328,611
Restricted assets	2,329,333	2,329,333	2,329,333
Other assets	2,001,714	2,031,131	2,726,473
Total assets	<u>\$ 44,025,059</u>	<u>\$ 45,313,689</u>	<u>\$ 47,384,417</u>
Liabilities and Net Position:			
Liabilities:			
Other liabilities	\$ 3,194,299	\$ 2,948,978	\$ 3,251,996
Long-term liabilities	48,757,932	49,774,590	50,975,033
Total liabilities	<u>51,952,231</u>	<u>52,723,568</u>	<u>54,227,029</u>
Net Position:			
Net investment in capital assets	(10,253,920)	(9,916,365)	(9,646,422)
Restricted	2,329,333	2,329,333	2,329,333
Unrestricted	(2,585)	177,153	474,477
Total Net Position	<u>\$ (7,927,172)</u>	<u>\$ (7,409,879)</u>	<u>\$ (6,842,612)</u>

Current Assets - Unrestricted

Current Assets - Unrestricted are those assets which are cash or are expected to be converted to cash within one year's period of time. These assets decreased from \$2,726,473 at December 31, 2012 to \$2,031,131 as of December 31, 2013 and \$2,001,714 at December 31, 2014. These funds are maintained to provide liquidity for day-to-day operations, debt service requirements, and capital replacements.

Current Assets – Restricted

Current Assets – Restricted are held in the Local Government Investment Pool (LGIP) with the State of Washington and represent the required debt service reserves in support of the Series A Limited Sales Tax and Inter-local Bonds.

Capital Assets

Capital Assets are those assets that are not expected to be converted to cash within one year's period of time. These assets are presented net of accumulated depreciation and decreased primarily as a result of depreciation expense from \$42,328,611 to \$40,953,225 to \$39,694,012 at December 31, 2012, 2013 and 2014, respectively.

In 2014, depreciation and amortization totaled \$1,395,891 while capital additions were \$136,678, consisting primarily of new LED sports lighting in the main arena.

In 2013, depreciation expense and amortization totaled \$1,439,969 while capital additions were \$64,583, consisting primarily of communications equipment, ice rink glass and kickboard replacement and a major compressor motor overhaul.

Details regarding Capital Assets may be found in Note 2-C to the financial statements.

Current Liabilities

In February 2007, the EPFD completed a series of agreements with the City of Everett relating to the refinance of its outstanding debt. Key components included modification to the ground lease, the inception of a \$500,000 annual support payment to be applied toward debt reduction, and a long-term extension to the Hotel/Motel Tax revenue pledge in the amount of \$100,000 per year.

In October 2014 the EPFD and City of Everett entered into an additional Interlocal Agreement for the refunding of the EPFD's variable rate Project Revenue Bonds. This agreement, while relieving the EPFD of future debt service on \$27,415,000 of debt, requires the establishment of a \$1,000,000 Capital Reserve fund over the next several years after operating costs and debt service reserves are fully funded.

Details regarding modifications and additions to the Major Agreements with the City of Everett and the refinance terms may be found in the Debt Administration discussion herein and Notes 3 and 2-E to the financial statements.

Current liabilities, comprised primarily of current portion of long-term debt, trade payables and event revenues collected in advance remained at consistent levels between 2012 and 2014, with balances of \$3,251,996 and \$2,948,978 and \$3,194,299 at December 31, 2012, 2013 and 2014, respectively.

Non-Current Liabilities

Non-current liabilities at December 31, 2014 and 2013 represent the long-term debt financing completed in February 2007 and October 2014. Details of long-term debt are provided in Footnote 2E of the financial statements and under Debt Administrative below.

Net Position

The EPFD's Net Position at December 31, 2012, 2013 and 2014 was \$(6,842,612) and \$(7,409,879), and \$(7,927,172) respectively. Excluding the impact of accumulated depreciation of \$16,409,896 through December 31, 2014, Net Position at December 31, 2014 would be \$8,482,724. In 2012, non-cash depreciation and amortization expense was \$1,459,158, while premium accretion impacting interest expense was a \$105,444 reduction in non-cash expense. In 2013, non-cash depreciation and amortization totaled \$1,439,369, while premium accretion impacting interest expense was a \$105,444 reduction of non-cash expense. In 2014, non-cash depreciation and amortization expense was \$1,395,891, while premium accretion impacting interest expense was a \$99,948 reduction in non-cash expense.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2014	2013	2012
Revenues:			
Operating Revenue -			
Event revenue	\$ 4,399,149	\$ 4,455,707	\$ 4,852,017
Contractually obligated income	1,334,672	1,528,003	1,508,319
Concessions and catering revenue	684,457	742,213	802,167
Ticketing fees	459,560	397,229	551,838
Community rink revenue	828,014	844,368	755,407
Other revenue	136,324	125,923	147,517
Total Operating Revenue	7,842,176	8,093,443	8,617,265
Non-Operating Revenue -			
Intergovernmental Revenues -			
Sales tax rebate – City of Everett	945,429	901,873	858,431
Sales tax rebate – Snohomish County, PFD	544,208	529,640	529,640
Admissions tax	254,621	263,537	304,816
Interlocal Agreement - City of Everett	500,000	500,000	500,000
Hotel/Motel Tax Grant - City of Everett	100,000	100,000	100,000
Interest revenue	3,584	5,840	7,939
Total Non-Operating Revenue	2,347,842	2,300,890	2,300,826
Total Revenues	10,190,018	10,394,333	10,918,091
Operating Expenses	9,291,288	9,691,179	10,285,013
Non-Operating Expenses -			
Interest	1,216,699	1,270,421	1,348,565
Debt issuance costs	199,324	-	20,000
Total Expenses	10,707,311	10,961,600	11,653,578
Expenses in Excess of Revenues	\$ (517,293)	\$ (567,267)	\$ (735,487)
Changes in Net Position	\$ (517,293)	\$ (567,267)	\$ (735,487)
Net Position, Beginning of Year	(7,409,879)	(6,842,612)	(6,107,125)
Net Position, End of Year	\$ (7,927,172)	\$ (7,409,879)	\$ (6,842,612)

Operating Revenue

With three calendar years of operations completed as of December 31, 2006, revenue and expenses had become fairly consistent from year to year. The EPFD had experienced positive cash flow from operations in 2005 through 2010. In 2011 through 2013 cash flow from

operations was not sufficient for debt service, and required that reserves be used to meet those requirements. In 2014 the EPFD experienced positive cash flow from operations of \$46,844. This was accomplished in spite of lost event and concession revenue in excess of \$185,000 associated with the Washington Stealth lacrosse games in 2013.

Operating income (losses) for 2012, 2013 and 2014 were \$(1,667,748), \$(1,597,736), and \$(1,449,112), respectively.

Non-Operating Revenues

The EPFD's rebate from the State of Washington on Sales Taxes paid within the City of Everett increased to \$858,431 in 2012, \$901,873 in 2013 and \$945,429 in 2014 consistent with the region's economic recovery.

Beginning in January 2006, the EPFD began collecting the 5% Admission Tax allowed by statute. Prior to this time, the City of Everett was collecting a separate 5% Admission Tax. It was competitively infeasible for both entities to collect this tax from event patrons and the City of Everett agreed to cease its collection of the tax in January 2006. This revenue stream was critical to the EPFD's initial financial projections and will be applied to the reduction of its tax backed bonds. Revenue from EPFD Admissions Tax for 2012 was \$304,816 but declined to \$263,537 in 2013 and \$254,621 in 2014 due to significantly lower concert activity and the departure of the Washington Stealth.

Other Intergovernmental Revenues from the City of Everett are for fixed annual amounts.

The Snohomish County Public Facilities District (SCPDF) funds the EPFD in two tiers, one fixed, and the other variable. Tier 1 funds are received monthly, at \$529,640 per year. Tier 2 funds are discretionary, paid as funds are available. EPFD received its first distribution of Tier 2 funds in 2009 in the amount of \$346,404. This represented several years' accumulation of surplus funds by the SCPDF, and will not be recurring at this level. Tier 2 funds received in 2012, 2013 and 2014 were \$-0-, \$-0- and \$14,568, respectively.

In 2012, 2013 and 2014, interest revenue was \$7,939, \$5,840 and \$3,584, respectively due to reduced cash balances and lower rates paid on short-term invested funds.

Debt Administration

As discussed at Note 2-E to the financial statements, the EPFD completed a refunding of its short-term debt in February 2007 and its variable rate debt in 2014.

The \$28,180,000 of fix rate Limited Sales Tax and Interlocal Revenue Bonds have maturities which began at December 2007, and conclude December 1, 2026.

The new 2014 PFD Refunding Bonds and Repayment Deficiency Loan advances financed with the City of Everett have variable interest rates. In November of 2014 the City of Everett (the City) issued \$35,865,000 in floating rate LTGO refunding bonds under its own direct credit. A Portion of Everett's 2014 LTGO refunding issue was used to refund \$27,415,000 of Project Revenue Bonds issued by the EPFD in 2007. The EPFD has no obligation under any circumstances to repay bond holders of the City's 2014 LTGO refunding bonds.

In conjunction with the refinance of the EPFD's 2007 Project Revenue Bonds, the City and the EPFD entered into an Interlocal Agreement, which established the rights and obligations of each party relating to this transaction. The Interlocal Agreement provided that the principal amount refunded on the EPFD's behalf would be a long-term liability of the EPFD payable to the City of Everett. In addition, The EPFD is required to reimburse the City for any principal and interest payments made on the portion of the 2014 LTGO refunding bonds issued to refund the EPFD's 2007 Project Revenue Bonds.

The rates experienced on the variable rate debt through 2014 continued at historical lows, with the rate at .13% at December 31, 2013 and .44% at December 31, 2014.

In March 2014 the EPFD was notified that Standard and Poor's Rating Services, as part of its regularly scheduled bi-annual review, had lowered their rating on the Limited Sales Tax and Interlocal Bonds from "A-" to "BBB." To date, this downgrade, which applies to the fixed rate bonds, has not had a material impact on the EPFD.

Overall Analysis of Financial Position and Result of Operations

The EPFD has had ongoing planning with the City of Everett to enhance its earnings capacity and retire its construction debt. In early 2006, the City discontinued its collections of Admissions Tax, which provided an additional economically viable revenue source to the EPFD. In 2007, in connection with the refinance described above under Debt Administration, agreements were rendered with the City of Everett to restructure the EPFD's Ground Lease, provide an additional annual payment of \$500,000 specified for reduction of debt (commencing in 2007) and an extension of the annual Hotel/Motel Tax pledge of \$100,000 through 2033.

The EPFD has been working to reduce operating losses through enhanced revenues and reduced expenses. Significant improvements were made in 2014, with operations providing positive cash flow for the first time since 2010.

Fund Analysis

Through December 31, 2013, the EPFD maintained a single fund (Revenue Fund) The Net Position is segregated by Net investment in capital assets, assets restricted for debt service reserves and unrestricted. The debt service reserve requirements are detailed in Note 2-E. In addition, the October 2014 Interlocal Agreement requires a restricted Capital Replacement Fund, but operating conditions stipulated in the Interlocal Agreement have yet to allow actual funding of this reserve.

Economic Factors

All major contract and sponsorship renewals, most of which were effective during the course of 2013 and 2014, provide comparable or improved revenue to the EPFD.

The difficulties of attracting concerts to the Everett venue continue to present the greatest challenge to operating income. Activity and attendance for the Everett Silvertips and numerous family shows continue to provide strength to the event schedule. The debt refunding in 2014 lifts the burden of increasing variable interest rates from the EPFD. The anticipated replacement of the facility's aging scoreboard in 2015 will also provide new revenue opportunities as well as an enhanced spectator experience.

As the anchor tenant of the facility, the Everett Silvertips have enjoyed great success in terms of both games played and attendance. This WHL team played five home post-season games in 2005, eight in 2006, and six in 2007, thereby exceeding our budget expectation of two and contributing positively to the Comcast Arena at Everett's financial results. In 2010, there were four home play-off games, with slightly lower attendance than budgeted. In 2008, 2009, 2011, 2012, 2013 and 2014, the team played only two home playoff games, but in 2014 those games were a significant financial success as the opponent was the local rival – Seattle Thunderbirds.

The Washington Stealth was a source of new revenue in 2010 through 2013. The first of two five-year extension options was exercised at August 1, 2012, but the team subsequently terminated their license agreement and relocated to British Columbia.

The Conference center has seen increased activity from local event coordinators for banquets and special events.

While the general economy has seen recovery in the past two years, attraction of concert events to Xfinity Arena has continued to be the greatest challenge to its financial success. Further, local sales tax revenue is expected to continue at lower rates than those experienced prior to the recession.

Contacting the EPFD's Financial Management

This financial report is designed to provide our citizens and public officials with a general overview of the EPFD's finances and to show the EPFD's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the EPFD at:

Everett Public Facilities District
2000 Hewitt Avenue, Suite 200
Everett, WA 98201

Attention: Rick Comeau, General Manager

Everett Public Facilities District
Comparative Statement of Net Position
December 31, 2014 and 2013

Assets

	<u>2014</u>	<u>2013</u>
Current Assets – Not Restricted:		
Cash and cash equivalents	\$ 1,108,692	\$ 1,195,429
Change and imprest cash	8,000	8,000
Accounts receivable – net	556,705	509,056
Prepaid expenses	<u>328,317</u>	<u>318,646</u>
Total Current Assets – Not Restricted	<u>2,001,714</u>	<u>2,031,131</u>
Current Assets – Restricted:		
Cash and cash equivalents	<u>2,329,333</u>	<u>2,329,333</u>
Total Current Assets - Restricted	<u>2,329,333</u>	<u>2,329,333</u>
Non-Current Assets – Not Restricted:		
Capital Assets:		
Land improvements	257,074	257,074
Building and improvements, net	37,268,609	38,375,320
Leasehold improvements, net	59,500	66,300
Facility equipment, net	2,105,764	2,246,164
Office equipment, net	3,065	8,367
Vehicle, net	<u>-</u>	<u>-</u>
Total Capital Assets – Not Restricted	<u>39,694,012</u>	<u>40,953,225</u>
Total Assets	<u>\$ 44,025,059</u>	<u>\$ 45,313,689</u>

The accompanying notes are an integral part of these financial statements.

Liabilities and Net Position

	<u>2014</u>	<u>2013</u>
Current Liabilities:		
Current portion of long-term debt	\$ 1,190,000	\$ 1,095,000
Accounts payable	611,192	671,065
Current accrued interest payable	91,786	96,403
Accrued expenses	45,261	26,245
Taxes payable	32,895	47,381
Revenues collected in advance	1,188,165	977,884
Deposits	<u>35,000</u>	<u>35,000</u>
Total Current Liabilities	<u>3,194,299</u>	<u>2,948,978</u>
Long-term Debt, Net of Current Portion:		
Limited sales tax and interlocal bonds	21,069,641	22,359,590
Project revenue bonds	-	27,415,000
Due to other government	<u>27,688,291</u>	<u>-</u>
Total long-term debt, Net of Current Portion	<u>48,757,932</u>	<u>49,774,590</u>
Total Liabilities	<u>51,952,231</u>	<u>52,723,568</u>
Net Position:		
Net investment in capital assets	(10,253,920)	(9,916,365)
Restricted for debt service reserve	2,329,333	2,329,333
Restricted for capital replacement fund	-	-
Unrestricted	<u>(2,585)</u>	<u>177,153</u>
Total Net Position	<u>\$ (7,927,172)</u>	<u>\$ (7,409,879)</u>

The accompanying notes are an integral part of these financial statements.

Everett Public Facilities District
Comparative Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Event revenues	\$ 4,399,149	\$ 4,455,707
Contractually obligated income (COI)	1,334,672	1,528,003
Concessions and catering revenue	684,457	742,213
Ticketing fees	459,560	397,229
Novelty revenues	25,050	18,106
Community rink revenue	828,014	844,368
Miscellaneous revenues	111,274	107,817
Total Operating Revenues	<u>7,842,176</u>	<u>8,093,443</u>
Operating Expenses:		
Direct Expenses -		
Event Revenue	3,679,117	3,810,039
Ticketing	211,769	169,263
Community ice rink	81,059	122,452
Indirect Operating Expenses -		
Personnel expenses	1,971,586	2,058,024
Professional services	68,185	59,227
Depreciation and amortization	1,395,891	1,439,969
B&O taxes	76,684	89,564
Utilities	531,782	519,655
Insurance	155,325	153,666
Commission expense – COI	143,583	198,425
Management fee	154,989	153,000
Cleaning	131,192	135,230
Protective services	2,473	2,592
Telephone	36,925	39,334
Supplies	107,440	101,100
Advertising and promotion	192,150	262,049
Printing and signage	1,639	7,832
Repairs and maintenance	136,675	125,737
Equipment rental	32,388	45,301
Information services expense	106,534	100,093
Dues and subscriptions	11,296	10,756
Meetings, conferences and training	8,360	8,630
Postage and freight	4,105	4,162
Travel and entertainment	17,231	26,602
Bad debts	2,200	15,880
Credit card fees	14,385	12,714
Other	16,325	19,883
Total Operating Expenses	<u>9,291,288</u>	<u>9,691,179</u>
Operating Loss	<u>\$ (1,449,112)</u>	<u>\$ (1,597,736)</u>

The accompanying notes are an integral part of these financial statements.

	2014	2013
Non-Operating Revenues (Expenses):		
Intergovernmental Revenues		
Sales tax rebate – City of Everett	\$ 945,429	\$ 901,873
Sales tax rebate – Snohomish County PFD	544,208	529,640
Admissions tax	254,621	263,537
Interlocal Agreement - City of Everett	500,000	500,000
Hotel/Motel Tax Grant – City of Everett	100,000	100,000
Interest revenue	3,584	5,840
Interest expense	(1,216,699)	(1,270,421)
Debt issuance costs	(199,324)	-
Total Non-Operating Revenues (Expenses)	931,819	1,030,469
Net Loss	\$ (517,293)	\$ (567,267)
Change in Net Position	\$ (517,293)	\$ (567,267)
Total Net Position, Beginning of Year	(7,409,879)	(6,842,612)
Total Net Position, End of Year	\$(7,927,172)	\$(7,409,879)

The accompanying notes are an integral part of these financial statements.

Everett Public Facilities District
Comparative Statement of Cash Flows
For the Years Ended December 31, 2014 and 2013

Cash Flows from Operating Activities:	2014	2013
Cash received from customers	\$ 7,770,565	\$ 7,551,358
Cash paid to suppliers for goods and services	(6,272,319)	(6,570,754)
Cash paid to employees for services	(1,451,402)	(1,532,203)
Net Cash (Used) Provided by Operating Activities	<u>46,844</u>	<u>(551,599)</u>
Cash Flows from Capital and Related Financing Activities:		
Interest paid	(1,321,264)	(1,385,185)
Acquisition and construction of capital assets	(136,678)	(64,583)
Principal payment on Bonds – Series A (non-taxable)	(585,000)	-
Principal Payment on Bonds - Series B (taxable)	(510,000)	(1,000,000)
Principal payment on Project Revenue Bonds (non-taxable)	(27,415,000)	-
Proceeds from 2014 Refunding Bonds (non-taxable)	27,666,893	-
Proceeds from Repayment Deficiency Bonds (non-taxable)	21,398	-
Debt issuance costs	(199,324)	-
Net Cash Used by Capital and Related Financing Activities	<u>(2,478,975)</u>	<u>(2,449,768)</u>
Cash Flows from Non-Capital Financing:		
Sales tax rebate – City of Everett	945,429	901,873
Sales tax rebate – Snohomish County PFD	544,208	529,640
Grant – City of Everett	500,000	500,000
Admissions taxes - EPFD	252,173	263,819
Hotel/Motel Tax Grant – City of Everett	100,000	100,000
Cash Provided by Non-Capital Financing	<u>2,341,810</u>	<u>2,295,332</u>
Cash Flows from Investing Activities:		
Interest on investments	3,584	5,840
Net Cash Provided by Investment Activities	<u>3,584</u>	<u>5,840</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(86,737)	(700,195)
Cash and Cash Equivalents, Beginning of Year	<u>3,532,762</u>	<u>4,232,957</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,446,025</u>	<u>\$ 3,532,762</u>
Current Cash and Cash Equivalents	\$ 1,108,692	\$ 1,195,429
Restricted Cash and Cash Equivalents	2,329,333	2,329,333
Change and Imprest Cash	8,000	8,000
Cash and Cash Equivalents, December 31	<u>\$ 3,446,025</u>	<u>\$ 3,532,762</u>

The accompanying notes are an integral part of these financial statements.

	2014	2013
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income (loss)	<u>\$(1,449,112)</u>	<u>\$(1,597,736)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities -		
Depreciation and amortization	1,395,891	1,439,969
Provision for bad debts	2,200	15,880
Change in Assets and Liabilities -		
(Increase) decrease in receivables	(47,402)	(66,409)
(Increase) decrease in other current assets	(9,671)	45,394
Increase (decrease) accounts payable	(59,873)	(135,619)
Increase (decrease) in taxes payable	(14,486)	3,498
Increase (decrease) in revenue collected in advance	210,281	(258,981)
Increase (decrease) in other current liabilities	<u>19,016</u>	<u>2,405</u>
Total Adjustments	<u>1,495,956</u>	<u>1,046,137</u>
Net Cash (Used) Provided by Operating Activities	<u>\$ 46,844</u>	<u>\$ (551,599)</u>
Non-Cash Operating Activity with Customers and Suppliers -		
Trade agreements	\$ 234,490	\$ 206,695
Non-cash Investing, Capital and Financing Activities:		
Capital assets received in trade	\$ -	\$ -
Bond premium amortization	\$ 99,948	\$ 105,443

The accompanying notes are an integral part of these financial statements.

Everett Public Facilities District
Notes to Comparative Financial Statements
For the Years Ended December 31, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies:

The financial statements of the Everett Public Facilities District (EPFD) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the EPFD's accounting policies are described below.

A. Reporting Entity

The Everett Public Facilities District was created by City of Everett Ordinance No. 2511-01 pursuant to Chapter 35.57 of the Revised Code of Washington. The Ordinance, adopted on March 15, 2001, and effective on April 10, 2001, established the Everett Public Facilities District as a municipal corporation of the State of Washington. The Everett Public Facilities District is a component unit of the City of Everett for financial reporting purposes.

The Board of Directors consists of 5 members – the first directors appointed by the Everett City Council as provided for by Resolution #5030. At least one board members' term expires annually at which time the Everett City Council appoints a new member. Although the City of Everett is responsible for appointing members of the board, its accountability for this organization does not extend beyond making the appointments.

On January 24, 2001, the Everett City Council held a public hearing and authorized the formation of a citizens' committee to review and evaluate the feasibility study prepared by Brailsford and Dunlavey for a Regional Special Events Center (RSEC). On March 7, 2001, the Everett City Council adopted Resolution #5019, accepting the report of the RSEC Feasibility Committee. The Committee's report concluded that the feasibility study provided a fair analysis of the project and stated the Committee's belief that the project would generate positive economic and civic benefits to Everett.

On March 15, 2001, Everett City Council adopted Ordinance 2511-01, which established the Everett Public Facilities District (EPFD) to finance, design, construct, operate, and maintain the RSEC. On April 4, 2001, the Everett City Council adopted Resolution #5030, appointing board members to the EPFD. On December 20, 2001, the Everett City Council approved an Interlocal Agreement among the City of Everett, the EPFD, Snohomish County, and Snohomish County PFD concerning participation in and financial commitments to the RSEC. Construction of the RSEC began in late 2001, and was completed in September 2003.

Everett Public Facilities District
Notes to Comparative Financial Statements
For the Years Ended December 31, 2014 and 2013

B. Fund Accounting

1. Background

The RSEC includes three primary elements – a 10,000 seat, 211,100 square foot Arena, a 36,200 square foot Community Ice Rink and a 51,600 square foot Conference Center. The Conference Center was paid for and is owned by the City of Everett, but is managed by the EPFD.

The RSEC is primarily supported by the collection of sales tax rebates, hotel/motel taxes, grant revenue from City of Everett, admissions taxes, and user fees associated with Center operations; accordingly, the EPFD's financial accounts are organized as a proprietary fund.

2. Proprietary Fund

Proprietary funds are reported using the flow of economic resources measurement focus. The EPFD maintains a full set of accounts that comprises its assets, liabilities, net position, revenues, and expenses. All assets and liabilities associated with the entity's activity, whether current or noncurrent, are included on its statement of net position. Reported fund equity or net total assets are classified as total net position. The statement of revenues, expenses and changes in net position presents increases (revenues and gains) and decreases (expenses and losses) as changes in net position.

Operating revenues include event revenues, advertising and sponsorship revenues (contractually obligated income), concession and catering revenues, novelty revenues, community rink and other revenue directly associated with operation of the RSEC.

Operating expenses include all expenses associated with operation of the RSEC.

Non-operating revenues and expenses include tax support for the RSEC, interest income and interest expense associated with financing of the RSEC.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The EPFD uses the full accrual basis of accounting, meaning that transactions and events are recognized when they occur, regardless of the timing of related cash flows.

The EPFD has adopted Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities, effective for periods beginning after December 15, 2012. The impact of this

pronouncement to the EPFD is that Debt Issuance Costs are to be accounted for as period costs rather than capitalized and amortized over the term of the associated debt.

The EPFD has also adopted Governmental Accounting Standards Board Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position. The impact of this pronouncement to the EPFD is the modification of statement titles and the description of the changes in net position. For example, the previously titled “Statement of Revenues, Expenses and Changes in Net Assets” is now presented as the “Statement of Revenues, Expenses and Changes in Net Position.”

D. Budgets and Budgetary Accounting

1. Scope of Budget

Budgets are adopted on a basis consistent with the District’s generally accepted accounting policies. An annual appropriated budget is adopted at the level of the fund and the budget constitutes the legal authority for expenditures. For the initial operating period beginning October 1, 2003, a 15-month budget was adopted.

2. Procedures for Adopting the Budget

The EPFD’s budget procedures are as follows:

The management agreement with Global Spectrum (GS) provides for the submission by GS to the EPFD a proposed operating budget for the upcoming year 90-days prior to the beginning of the new calendar year.

The Directors make adjustments to the proposed budget and adopt by resolution prior to the commencement of the new year.

3. Amending the Budget

The Directors may make amendments to the budget as they determine to be appropriate from time to time during the course of the budget period.

Note 2 - Assets, Liabilities and Net Position:

A. Cash and Cash Equivalents

The EPFD maintains primary deposit accounts with the Washington State Local Government Investment Pool and Coastal Community Bank. The funds deposited in these accounts are managed with the intent to optimize return on all temporary cash surpluses consistent with a high degree of security, while meeting daily cash flow demands. At December 31, 2014 and 2013, the EPFD cash and cash equivalents balances were \$3,446,025 and \$3,532,762, respectively.

For purposes of the Statement of Cash Flows, the EPFD considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

Custodial credit risk is the risk that in the event of a failure of the counter party to an investment transaction the EPFD would not be able to recover the value of the investment or collateral securities. The EPFD had no exposure to custodial risk in its investment accounts at December 31, 2014, 2013 or 2012.

Funds held at Coastal Community Bank in excess of FDIC issued limits of \$250,000 totaled \$579,623 and \$299,157 at December 31, 2014 and 2013, respectively. The uninsured balances are collateralized by securities held by the bank.

B. Receivables

Accounts receivable consist of customer accounts receivable owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared.

C. Capital Assets

Capital assets are recorded at historical cost and defined by the EPFD as assets with an initial cost of more than \$5,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized.

The EPFD had an interlocal agreement with the City of Everett for the reimbursement of additional construction costs incurred for the Conference Center shell in the amount of \$8,939,522 including \$8,919,862 with PCL Construction Services, Inc. The Conference Center build-outs were made under the direction of the City of Everett.

Buildings and Leasehold Improvements

The Arena and Community Ice Rink buildings are depreciated using the straight-line method over the expected useful life of 45 years, commencing October 1, 2003.

By agreement with the City of Everett, the EPFD occupies office space in the Conference Center building. EPFD incurred \$136,000 in tenant improvements to this space, which are being amortized over their expected useful life of twenty years, commencing October 1, 2003.

Furniture, Fixtures, and Equipment

Facility equipment, office furniture and vehicles are depreciated using the straight-line method over the expected useful lives of the assets.

<u>Description</u>	<u>Method</u>	<u>Estimated Useful Lives</u>
Major facility equipment	Straight-line	20
Building signage	Straight-line	20
Scoreboard	Straight-line	20
Minor equipment	Straight-line	5 - 10
Office furniture	Straight-line	15
Computer equipment	Straight-line	5
Telephone equipment	Straight-line	7
Vehicles	Straight-line	5

Schedule of Changes in Capital Assets 2014

	<u>Beginning Balance January 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance December 31, 2014</u>
Capital Assets, Not Being Depreciated:				
Land improvements	\$ 257,074	\$ -	\$ -	\$ 257,074
Total Capital Assets, Not Being Depreciated	257,074	-	-	257,074
Capital Assets, Being Depreciated:				
Building	49,709,147	-	-	49,709,147
Leasehold improvements	136,000	-	-	136,000
Facility equipment	5,600,294	136,678	-	5,736,972
Office equipment	300,063	-	-	300,063
Vehicle	24,652	-	-	24,652
Total Capital Assets, Being Depreciated	55,770,156	136,678	-	55,906,834
Less Accumulated Depreciation For:				
Building	11,333,828	1,106,711	-	12,440,539
Leasehold improvements	69,700	6,800	-	76,500
Facility equipment	3,354,129	277,078	-	3,631,207
Office equipment	291,696	5,302	-	296,998
Vehicle	24,652	-	-	24,652
Total Accumulated Depreciation	15,074,005	1,395,891	-	16,409,896
Total Capital Assets Being Depreciated, Net	40,696,151	(1,259,213)	-	39,436,938
Total Capital Assets, Net	\$ 40,953,225	\$ (1,259,213)	\$ -	\$ 39,694,012

Schedule of Changes in Capital Assets
2013

	Beginning Balance January 1, 2013	Increases	Decreases	Ending Balance December 31, 2013
Capital Assets, Not Being Depreciated:				
Land improvements	\$ 257,074	\$ -	\$ -	\$ 257,074
Total Capital Assets, Not Being Depreciated	257,074	-	-	257,074
Capital Assets, Being Depreciated:				
Building	49,709,147	-	-	49,709,147
Leasehold improvements	136,000	-	-	136,000
Facility equipment	5,535,711	64,583	-	5,600,294
Office equipment	300,063	-	-	300,063
Vehicle	24,652	-	-	24,652
Total Capital Assets, Being Depreciated	55,705,573	64,583	-	55,770,156
Less Accumulated Depreciation For:				
Building	10,225,617	1,108,211	-	11,333,828
Leasehold improvements	62,900	6,800	-	69,700
Facility equipment	3,035,557	318,572	-	3,354,129
Office equipment	285,310	6,386	-	291,696
Vehicle	24,652	-	-	24,652
Total Accumulated Depreciation	13,634,036	1,439,969	-	15,074,005
Total Capital Assets Being Depreciated, Net	42,071,537	(1,375,386)	-	40,696,151
Total Capital Assets, Net	\$ 42,328,611	\$ (1,375,386)	\$ -	\$ 40,953,225

D. Accounts Payable

Accounts payable as of December 31, 2014 and 2013 were \$611,192 and \$671,065, respectively.

E. Debt

Through March 1, 2007, the EPFD had approval to issue Tax Revenue Commercial Paper Notes (Tax Notes) up to \$18,000,000, and Project Revenue Commercial Paper Notes (Project Notes) up to \$38,445,000. The Tax Notes were tax exempt and the Project Notes could be issued in either tax exempt (Series A) or taxable (Series B) form. Through the end of 2006, all issued notes were tax exempt. The Commercial Paper, held in trust by U.S. Bank matured within 270 days of year end. The Bank of America had issued a non-revocable letter of credit to secure the payment on the notes. The City of Everett guaranteed the Project Notes with its full faith and credit.

In February of 2007, the EPFD entered into a refunding of its Short-Term Debt.

The debt was divided into \$27,425,000 of Project Revenue Bonds and \$28,180,000 of Limited Sales Tax and Interlocal Revenue Bonds, of which \$22,140,000 (Series A) are tax exempt, and \$6,040,000 (Series B) are taxable.

In 2011, the Project Revenue Bond terms were modified to switch from a daily to a weekly term. The financial institution providing the letter of credit for remarketing of the Project Revenue Bonds was changed from Dexia to Bank of New York. Bond terms were subsequently revised from weekly to daily remarketing. These Bonds were paid in full through a refunding completed on October 30, 2014.

The Project Revenue Bonds carried a variable interest rate, and matured on an increasing scale between April 1, 2018 and April 1, 2036. Interest was computed daily by the remarketing agent and paid monthly. In addition to the pledge of operating revenues and any surplus tax revenues, these bonds were subject to an Advance Agreement whereby the City of Everett agreed to make advances to the EPFD, if required, to meet the servicing requirements of the bonds.

In October 2014, the City of Everett and the Everett Public Facilities District entered into an Interlocal Agreement which provided for the issuance by the City of Everett of \$35,865,000 of Limited Tax General Obligation Refunding Bonds. A portion of which, \$27,415,000 was paid to retire the EPFD's 2007 Project Revenue Bonds, plus accrued interest of \$52,569 paid thereon and issuance costs of \$199,324 (totaling \$27,666,893) were designated in the Interlocal as the "2014 PFD Refunding Bonds" and are payable to the City of Everett. This represents approximately 77% of the City's new issuance and cost thereof.

The Limited Tax General Obligation Refunding Bonds are floating rate bonds with interest at the SIFMA (Securities Industries & Financial Markets Association) rate plus 40 basis points, interest calculated weekly and payable monthly. As of December 31, 2014 the weekly rate paid was .44%.

Under the terms of the Interlocal Agreement, The City of Everett will make all payments on the Bonds, but will bill EPFD for its share of the interest and principal payments as they are made, on a monthly basis. Amounts so billed, but unpaid by the EPFD per conditions of the Interlocal Agreement described below, will constitute a "Repayment Deficiency Loan" (RDL) from the City to EPFD. The unpaid balance of advances made under the RDL will accrue interest at the City's Interfund Loan Rate. Any balance outstanding at the time that title to the RSEC passes to the City of Everett, currently anticipated to be December 1, 2026, shall be deemed fully satisfied. The city of Everett Interfund interest rate as of December 31, 2014 was 1.745%.

The Interlocal allows for payments on the 2014 PFD Refunding Bonds and advances made under the RDL only after the EPFD has met the following requirements:

- * Payment by the EPFD of all costs of operations and maintenance of the RSEC
- * Payment of all obligations for interest and principal on the

EPFD's Limited Sales Tax and Interlocal Bonds

- * Funding of a \$1,000,000 Capital Reserve Fund. Initial funding of the Capital Reserve Fund is to be at the rate of \$20,278 per month, increasing by four percent per year until the balance of \$1,000,000 has been achieved.

As of December 31, 2014 funds were insufficient to begin funding the Capital Reserve Fund under the ordering of conditions of required funds and reserves for operations, maintenance and debt service of the EPFD's Limited Sales Tax and Interlocal Bonds of the Interlocal Agreement.

Both series of the Limited Sales Tax and Interlocal Bonds carried fixed interest rates. The taxable (Series B) bonds were repaid in full on December 1, 2014. Interest is due on June 1 and December 1 of each year, with maturities scheduled on an increasing scale beginning December 1, 2007 and concluding December 1, 2026. The primary sources of repayment for these Bonds are the sales tax rebates from the City of Everett and Snohomish County, Admission Taxes, Hotel/Motel Tax Grants and annual City of Everett Interlocal Agreement payment (beginning in 2007).

At issuance, the fixed rate Limited Sales Tax and Interlocal Bonds sold at premiums of \$1,479,216 and \$37,120 on Series A and B, respectively. These premiums are being amortized as adjustments to interest expense over the lives of the bonds. Total amortization in 2014 and 2013 was \$99,948 and \$105,444, respectively. Interest rates on all tax exempt bonds in Series A are at 5.00%. Interest rates on the taxable Series B bonds ranged from 5.246% to 6.00%.

Per IRS section 148(f) the EPFD accrues for arbitrage amounts earned on the capital reserve amount that was established with the \$22,140,000 Series A Limited Sales Tax and Interlocal Revenue Bonds issued in 2007. The reserve fund established for the Series A offering was \$1,830,072 and the Net Interest Cost used to calculate the arbitrage amount is 4.2696852%. For 2014 and 2013 the liability was calculated at \$-0- each year. Rebates are due at least once every 5 years and the first 5 year period for the related bonds ended in February 2012.

The reserve fund established for the Series B offering was \$499,261 and is required to be held until repayment of the Series A Bonds.

As of December 31, 2014, balances outstanding were as follows:

<u>Name of Issue</u>	<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Interest Rate</u>
Limited Sales Tax and Inter-local Bonds			
Series A	02-27-07	12-01-26	5.00
Series B (taxable)	02-27-07	12-01-14	5.42
Project revenue bonds	02-27-07	04-01-36	Variable
2014 PFD Refunding Bonds payable to City of Everett	10-30-14	12-01-26 *	Variable
Repayment Deficiency Loan payable to City of Everett	11-30-14	12-01-26 *	Variable
Total			

*City of Everett obligations will be satisfied in full when title of the RSEC passes to it; currently scheduled to occur December 1, 2026.

As of December 31, 2013, balances outstanding were as follows:

<u>Name of Issue</u>	<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Interest Rate</u>
Limited Sales Tax and Inter-local Bonds			
Series A	2-27-07	12-01-26	5.00
Series B (taxable)	2-27-07	12-01-14	5.317-6.00
Project revenue bonds	2-27-07	04-01-36	Variable
Total			

<u>Amount Originally Issued</u>	<u>Redemptions To Date</u>	<u>Debt Outstanding</u>	<u>Premiums at Issuance</u>	<u>Accumulated Amortization</u>	<u>Total</u>
\$ 22,140,000	\$ (585,000)	\$21,555,000	\$ 1,479,216	\$ (774,575)	\$22,259,641
6,040,000	(6,040,000)	-	37,120	(37,120)	-
27,415,000	(27,415,000)	-	-	-	-
27,666,893	-	27,666,893	-	-	27,666,893
21,398	-	21,398	-	-	21,398
<u>\$ 83,283,291</u>	<u>\$ (34,040,000)</u>	<u>\$49,243,291</u>	<u>\$ 1,516,336</u>	<u>\$ (811,695)</u>	<u>\$49,947,932</u>

<u>Amount Originally Issued</u>	<u>Redemptions To Date</u>	<u>Debt Outstanding</u>	<u>Premiums at Issuance</u>	<u>Accumulated Amortization</u>	<u>Total</u>
\$ 22,140,000	\$ -	\$22,140,000	\$ 1,479,216	\$ (674,626)	\$22,944,590
6,040,000	(5,530,000)	510,000	37,120	(37,120)	510,000
27,425,000	(10,000)	27,415,000	-	-	27,415,000
<u>\$ 55,605,000</u>	<u>\$ (5,540,000)</u>	<u>\$50,065,000</u>	<u>\$ 1,516,336</u>	<u>\$ (711,746)</u>	<u>\$50,869,590</u>

Annual debt service requirements to maturity as of December 31, 2014 are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2015	1,190,000	\$ 1,072,697	\$ 2,262,697
2016	1,285,000	1,012,793	2,297,793
2017	1,385,000	948,118	2,333,118
2018	1,490,000	878,423	2,368,423
2019	1,605,000	803,434	2,408,434
2020 - 2024	9,990,000	2,678,577	12,668,577
2025 - 2026	32,298,291	2,167,703	34,465,994
Total	<u>\$ 49,243,291</u>	<u>\$ 9,561,745</u>	<u>\$ 58,805,036</u>

The \$1,190,000 due in 2015 on the Limited Sales Tax and Interlocal Bonds represents the only long-term liability of the EPFD due within one year of December 31, 2014.

	<u>Limited Sales Tax and Interlocal Bonds – Series A</u>	<u>2014 PFD Refunding Bonds</u>	<u>Repayment Deficiency Loan</u>
Interest rates at December 31, 2014	<u>5.00%</u>	<u>.44%</u>	<u>1.745%</u>

The \$1,095,000 due in 2014 on the Limited Sales Tax and Interlocal Bonds represented the only long-term liability of the EPFD due within one year of December 31, 2013.

	<u>Limited Sales Tax and Interlocal Bonds Series A</u>	<u>Series B</u>	<u>Project Revenue Bonds</u>
Interest rates at December 31, 2013	<u>5.00%</u>	<u>5.424%</u>	<u>.13%</u>

F. Restricted Assets and Restricted Net Position

These accounts contain reserves for debt service. Specific debt service reserve requirements are described at Note 2, Debt. A Capital Reserve Fund is required as funds are available under terms of the October 2014 City of Everett Interlocal Agreement, as described at Note 2, Debt.

Note 3 - Operating Lease:

The EPFD has an interlocal agreement with the City of Everett for an operating lease of the ground on which the RSEC is located. The agreement, dated February 28, 2002 is for a term of 25 years, with possible extension to 30 years,

with all the improvements to the property passing to the City of Everett upon termination. Initial terms of the ground lease called for an initial payment of \$500,000 on March 31, 2007 and annual payments representing the greater of a minimum payment or 50% of the net cash flow after debt service in each succeeding year. The lease was amended effective January 1, 2007 to provide for rent in the amount of fifty percent of cash flow after permitted debt service. The requirement of an initial payment on March 31, 2007 was eliminated. There were no rental payments due for 2014 or 2013. Future rental payments are contingent upon operating results and payment in full of outstanding debt.

Note 4 - Major Agreements:

Interlocal Agreements

The EPFD, City of Everett, Snohomish County, and the Snohomish County Public Facilities District entered into an interlocal agreement dated December 20, 2001 regarding the Regional Special Events Center and a new county parking garage. The Agreement is for a term of 25 years. Tier 1 provides for the payment by the Snohomish County PFD of \$44,137 per month to the EPFD and an additional graduated annual payment to Snohomish County for the parking garage. The Agreement grants the EPFD specific access to the parking garage for event related purposes. In 2009, the agreement was amended to provide for the allocation of a second tier of funding - "Tier 2" - representing aggregate funds available to the Snohomish County PFD in excess of its initial Tier 1 commitments. The agreement provides that the EPFD is to receive 30.4205% of the aggregate Tier 2 allocations as determined by the Snohomish County PFD Board of Directors. In 2014 and 2013, the EPFD received \$14,564 and \$-0- of Tier 2 funds, respectively.

The EPFD entered into an Interlocal Agreement with the City of Everett on February 15, 2007 as part of the refinance package described at footnote 2-E. The interlocal provides for payment of \$500,000 per year by the City of Everett to the EPFD for the lessor of thirty years or until all EPFD debt is paid in full. The EPFD agrees to maintain the Regional Special Events Center in first class condition for eventual acquisition and use by the City of Everett.

Hockey License Agreement

On April 19, 2002, the EPFD entered in a License Agreement with the Everett Silvertips Hockey Club of the Western Hockey League as the anchor tenant of the RSEC. The license agreement provides for team facilities within the RSEC.

The term of the license agreement is 10 years, effective with the 2003-2004 WHL season, with three successive five year options held by the licensee with financial terms to be negotiated. The first five year option was exercised in 2013.

The license agreement provides for payments to the EPFD of a percentage of Silvertips' ticket sales, and a sharing of EPFD concession revenues with the team.

Professional Management Contract

Effective December 1, 2002 the EPFD entered into a Pre-opening Services and Management Agreement with Global Spectrum, LP.

The agreement extends to all elements of the RSEC, including the City of Everett owned Conference Center.

The term of the agreement extended three years from the Opening Date of the Special Events Center, October 3, 2003. The agreement has been extended on a number of occasions, most recently for three years, expiring December 31, 2015.

The agreement includes a fixed base management fee plus an incentive fee which can be earned by exceeding the financial and service parameters outlined in the agreement.

Global Spectrum is tasked with the hiring and supervision of all Special Events Center staff, facility maintenance, event booking, operational budgets and coordination with the Everett Silvertips Hockey Team and Centerplate.

Commercial Rights Marketing

Effective March 14, 2003, the EPFD contracted with Sports Facilities Marketing Group (SFMG) for the provision of marketing services related to commercial rights at the Special Events Center.

This agreement was modified on May 20, 2004 to provide a lump sum payment and termination of the agreement effective May 20, 2004. Since that date, responsibility for the sale of commercial rights has been assumed by Global Spectrum staff.

Food and Beverage Management

Effective June 7, 2003, the EPFD contracted with Centerplate for catering and concession services to the facility. Centerplate pays a percentage of concessions and catering gross revenues to the EPFD.

The Centerplate agreement has been extended on a number of occasions, most recently on October 1, 2012 for a five year term. The 2012 extension required an additional \$300,000 in capital improvements to the "Arena Grill" restaurant in the RSEC.

Naming Rights Agreement

Effective July 1, 2007 the EPFD entered into a Naming Rights agreement with Comcast Cable Management, LLC. The agreement is for ten years and provides for cash payments as well as trade advertising placement.

Indoor Lacrosse License Agreement

On August 1, 2009 the EPFD entered in a three year License Agreement with the Washington Stealth of the National Lacrosse League. There were two five year extension options, the first of which was exercised at August 1, 2012, but later terminated by the Washington Stealth at the conclusion of the 2013 season.

The agreement provided for the team's eight regular season home games and any home playoff games to be played at the RSEC.

The license agreement provided for payments to the EPFD of a minimum rent. The agreement also provided for reimbursement of EPFD game expenses and a sharing of EPFD concession revenues with the team.

Note 5 - Risk Management:

Insurance Pool Membership

EPFD is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2013, there are 486 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides "per occurrence" based policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of \$1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis:

\$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on liability loss; \$250,000 deductible on property loss - the member is responsible for the first \$25,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$225,000 on property loss. Enduris is responsible for \$0 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

The EPFD made no material claims against the pool in 2014, 2013 or 2012.

General Liability Insurance

General liability insurance is maintained on the facility. Policy limits include a \$2,000,000 general aggregate per event, \$1,000,000 for products completed operations aggregate, \$1,000,000 personal and advertising injury (\$1,000,000 per occurrence). There were no material claims made against this policy in 2014, 2013 or 2012.

Employee Dishonesty Insurance

Under the terms of its professional management contract, Global Spectrum, LP is required to maintain employee disability insurance. The current coverage is for \$1,000,000, with a \$15,000 deductible. There were no claims against this policy in 2014, 2013 or 2012.

Note 6 - Subsequent Events:

The EPFD was notified on March 27, 2014 that Standard and Poor's Rating Services, as part of its regularly scheduled bi-annual review, had lowered their rating on the Limited Sales Tax and Interlocal Revenue bonds from "A-" to "BBB." The reduced rating has not had a material financial impact on the EPFD to the date of these financial statements, May 8, 2015.

In May 2015 the City of Everett and EPFD have reached agreement to enter into an Interlocal Agreement for the advance of \$665,000 by the City of Everett to the EPFD for replacement of the RSEC scoreboard. Under the terms of the October 2014 Interlocal Agreement, these funds will be made as additional advances under the Repayment Deficiency Loan described in Note 2, Debt.

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	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov