



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

## **Financial Statements Audit Report**

# **Greater Wenatchee Regional Events Center Public Facilities District (Town Toyota Center)**

**Chelan County**

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

**Published November 17, 2014**

**Report No. 1012986**





## Washington State Auditor Troy Kelley

November 17, 2014

Board of Directors  
Town Toyota Center  
Wenatchee, Washington

### Report on Financial Statements

Please find attached our report on the Town Toyota Center's financial statements.

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

Sincerely,

TROY KELLEY  
STATE AUDITOR

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## **Status of Prior Audit Findings**

### **Town Toyota Center Chelan County January 1, 2012 through December 31, 2012**

The status of findings contained in the prior years' audit reports of the Town Toyota Center is provided below:

#### **1. The District invested public funds in ineligible investments.**

Report No. 1010627, dated September 30, 2013

#### **Background**

The District issued Limited Sales Tax Bonds Series A and B in the amount of \$48,235,000 on September 20, 2012. Approximately \$4 million of this bond issuance was deposited with the escrow agent as debt service reserve. As of December 31, 2012, the escrow agent invested the \$4 million debt service reserve and approximately \$470,000 from sales tax revenue in a taxable money market fund that includes debt obligations of foreign banks and foreign corporations, which are not allowable investments for municipalities under state law.

We recommend the District advise its escrow agent of state law regarding allowable investments and instruct the escrow agent to invest the District funds accordingly.

#### **Status**

Prior to fiscal year end December 31, 2013, the District divested the ineligible investments identified in the prior audit. We confirmed that these funds were re-invested into an allowable investment account. We consider this issue resolved.

# **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***

**Town Toyota Center  
Chelan County  
January 1, 2013 through December 31, 2013**

Board of Directors  
Town Toyota Center  
Wenatchee, 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 Town Toyota Center, Chelan County, Washington, as of and for the year ended December 31, 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 November 10, 2014. As discussed in Note 9 to the financial statements, during the year ended December 31, 2013, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

## ***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audit 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 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.

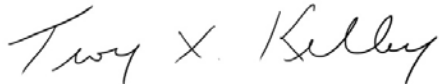
## ***COMPLIANCE AND OTHER MATTERS***

As part of obtaining reasonable assurance about whether the 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 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 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.



**TROY KELLEY**  
STATE AUDITOR

November 10, 2014

# **Independent Auditor's Report on Financial Statements**

**Town Toyota Center  
Chelan County  
January 1, 2013 through December 31, 2013**

Board of Directors  
Town Toyota Center  
Wenatchee, Washington

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

We have audited the accompanying financial statements of the Town Toyota Center, Chelan County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

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

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

### ***Auditor's Responsibility***

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

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 opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Town Toyota Center, as of December 31, 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.

### ***Matters of Emphasis***

As discussed in Note 9 to the financial statements, in 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 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 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 November 10, 2014 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.

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

**TROY KELLEY**  
STATE AUDITOR

November 10, 2014

## **Financial Section**

**Town Toyota Center  
Chelan County  
January 1, 2013 through December 31, 2013**

### ***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2013

### ***BASIC FINANCIAL STATEMENTS***

Statement of Net Position – 2013

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

Statement of Cash Flows – 2013

Notes to Financial Statements – 2013

## **Introduction**

The following is the Greater Wenatchee Regional Event Center Public Facility District's (the District) Management Discussion and Analysis (MD&A) of financial activities and the performance for the calendar years ended December 31, 2013 and 2012. The discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the District, to identify any significant changes in financial position and provide information on challenges in the next and subsequent years. Information contained in the MD&A has been prepared by District management and should be considered in conjunction with the financial statements and notes. The notes to the financial statements are essential to a full understanding of data contained in the financial statements.

## **Background**

The District was formed June 2006 under RCW 35.57. The center was substantially complete and opened in October 2008. The District had an agreement to lease with an option to purchase the event center upon substantial completion of the construction, and closed on the option to purchase the center in December 2008 by issuing three-year short term bond and tax anticipation notes. The District terminated the management contract with Global Entertainment Corporation in September 2009 and elected to self-manage the facility. As a result, the District hired a General Manager in October 2009. The District had an inter-local agreement with the City of Wenatchee (the City) to provide staff support and as result of this agreement the City began managing the financial records at the event center in June 2009. The District and the City revised the support staff agreement to an agreement for accounting and other services in October 2009. This agreement for services from the City terminated at the end of 2012. In late 2012, the District hired its own financial manager to oversee the accounting of the District's operations in addition to outside consultants for information technology and accounting services.

## **Financial Analysis of the District**

The District falls under the control of the Governmental Accounting Standards Board (GASB). Since the District is comprised of a single enterprise fund, no fund level financial statements are shown nor required.

The financial section of this annual report consists of three parts: MD&A, the basic financial statements, and the notes to the financial statements. The basic financial statements include: the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows.

The statement of net position and the statement of revenues, expenses and changes in net position provide the District with an overall financial position and results of operations to assist the user in assessing whether that financial position has improved or deteriorated as a result of the annual activities. Over time, increases or decreases in net position may serve as an indicator of whether the District is financially stable or if there is a going concern.

The statement of revenues, expenses and changes in net position show how the District'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 statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing, and investing activities. A reconciliation of the cash used by operating activities to the District's operating loss as reflected on the statement of revenues, expenses and changes in net position is also included.

The notes to the financial statements provide the reader additional detailed information that may not be apparent from the actual financial statements. The notes to the financial statements can be found immediately following the financial statements.

In 2008, the District sold \$41,770,000 in Limited Sales Tax and Special Tax Bond Anticipation Notes (BANs). The notes were due on December 1, 2011 but the District did not pay the notes at the maturity date. In 2012, the District sold \$48,235,000 in Limited Sales Tax Bonds and used the bond proceeds to refund, or payoff, BANs originally issued in November 2008, plus interest. Additional sales tax of .2 percent within the City of Wenatchee and .1 percent within the District were imposed to provide a revenue stream for the bond debt service. The additional .1 percent sales tax is imposed until one year after the date the bonds have been paid in full. The bond maturity dates range from 2016 to 2042. The additional .2 percent sales tax imposed by the City of Wenatchee is imposed until July 1, 2042 or until the bond fund is sufficient to pay all principal and interest on the bonds then outstanding, if sooner. The District has also authorized allocation of .033 percent of the State sales tax for operation and debt service of their regional events center. This .033 percent sales tax remittance to the District terminates on July 1, 2031, which is prior to the final stated maturity of the bonds.

Greater Wenatchee Regional Events Center Public Facilities District  
MCAG No. 2930  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2013

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### An Overview of the District's Financial Position and Operations

The District's overall financial position and operations for the past two years are summarized in the following table based on the information included in the current and prior financial statements.

<b>TABLE 1</b>			
<b>STATEMENT OF NET POSITION</b>			
		2013	2012
Current and other assets		\$ 7,001,992	\$ 6,466,119
Capital assets		40,755,764	43,141,200
<b>Total assets</b>		<b>\$ 47,757,756</b>	<b>\$ 49,607,319</b>
Current liabilities		\$ 2,248,799	\$ 1,657,919
Noncurrent liabilities		51,605,343	52,525,705
<b>Total liabilities</b>		<b>53,854,142</b>	<b>54,183,624</b>
<b>Net position:</b>			
Net investment in capital assets		(6,992,743)	(5,320,981)
Restricted for debt service		5,440,213	4,798,598
Unrestricted		(4,543,856)	(4,053,922)
<b>Total net position</b>		<b>(6,096,386)</b>	<b>(4,576,305)</b>
<b>Total liabilities and net position</b>		<b>\$ 47,757,756</b>	<b>\$ 49,607,319</b>

#### Total Assets

The District's total assets decreased by \$1,849,563 during 2013. This decrease is primarily due to depreciation on capital assets.

#### Total Liabilities

The District's total liabilities decreased by \$329,482 during 2013. This decrease reflects principal payments on bonds and other long-term liabilities.

#### Total Net Position

The District's financial position decreased by \$1,520,081 during 2013, of which \$2,431,649 represents depreciation on capital assets and \$241,426 represents a restatement for retrospective application of a new accounting principle.

Greater Wenatchee Regional Events Center Public Facilities District  
MCAG No. 2930  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2013

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**TABLE 2**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**

	2013	2012
Operating revenues		
Daily operations revenue	\$ 1,003,239	\$ 1,311,457
Event revenue	1,430,773	1,856,669
Nonoperating revenues		
Sales tax revenue	4,264,212	1,872,404
Settlement income	-	250,000
Interest	1,190	693
Total revenues	<u>6,699,414</u>	<u>5,291,223</u>
Operating expenses		
Daily operations expenses	1,856,051	1,842,007
Depreciation	2,431,649	2,430,740
Event expenses	1,100,870	1,616,656
Nonoperating expenses		
Interest expense	2,539,499	2,419,514
Other nonoperating expense	<u>50,000</u>	<u>1,746,036</u>
Total expenses	<u>7,978,069</u>	<u>10,054,953</u>
Change in net position	(1,278,655)	(4,763,730)
NET POSITION - BEGINNING OF YEAR, AS ORIGINALLY REPORTED	(4,576,305)	187,425
ADJUSTMENT FOR APPLICATION OF NEW ACCOUNTING PRINCIPLE	<u>(241,426)</u>	<u>-</u>
TOTAL NET POSITION - BEGINNING OF YEAR, AS RESTATED	<u>(4,817,731)</u>	<u>187,425</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ (6,096,386)</u>	<u>\$ (4,576,305)</u>

Major Factors Affecting the Statement of Revenue, Expenses and Changes in Net Position

Income increased by \$1,408,191 due to increased sales tax revenues. Included in this income is \$734,114 of decreased operating and event revenues. Expenses decreased by \$2,076,884 due to nonoperating expenses for legal services associated with the bond default. Included in this expense is \$500,833 decreased operating expenses.

## Economic Factors

During 2013 the North Central Washington region began to see a slight recovery from the recession. Retail sales tax for the region rose and the regions primary economic drivers, tree fruit and tourism, continue to do well in relation to the local economies of most of the country.

## Capital Assets and Debt Activity

### Capital Assets

As of year-end, the District had \$40.8 million invested, net of accumulated depreciation, in a variety of capital assets. This represents a net decrease of \$2,385,436 from the previous year. Net decrease would include all additions, disposals and depreciation. The capital assets are reflected in the following schedule:

<b>TABLE 3</b>				
<b>CAPITAL ASSETS</b>				
		2013		2012
Land		\$ 1,706,915		\$ 1,706,915
Intangible asset		41,254		-
Buildings		48,624,320		48,624,320
Machinery and equipment		2,433,796		2,428,837
Accumulated depreciation		(12,050,521)		(9,618,872)
<b>Total</b>		<b>\$ 40,755,764</b>		<b>\$ 43,141,200</b>

The decrease to the capital assets in 2013 was related to annual depreciation, net of capital asset additions of \$46,213.

### Long-Term Debt

The District's long-term debt as of December 31, 2013 consisted of limited sales tax bonds, a subordinate note with the City of Wenatchee and a lease to purchase the kitchen equipment at the events center.

### **Request for Information**

This financial report is designed to provide a general overview of the District's finances and to show accountability of public funds. If you should have additional questions regarding the financial information, you can contact our office in writing at the following address:

Greater Wenatchee Regional Events Center Public Facilities District  
Attn: Mark Miller, General Manager  
1300 Walla Walla Street  
Wenatchee, WA 98801



Greater Wenatchee Regional Events Center Public Facilities District  
MCAG No. 2930  
STATEMENT OF NET POSITION  
December 31, 2013

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ASSETS			
CURRENT ASSETS			
	Cash and cash equivalents [Note 2]		
	Operating accounts	\$	455,060
	Capital reserves		45,681
	Total cash and cash equivalents		500,741
	Restricted debt service accounts [Note 2]		3,300,256
	Accounts receivable, net of allowance for doubtful accounts of \$1,000		253,112
	Taxes receivable		759,030
	Prepaid expenses		48,896
	Total current assets		4,862,035
NONCURRENT ASSETS			
	Capital assets [Notes 3, 6 and 7]		
	Land		1,706,915
	Intangible asset		41,254
	Buildings		48,624,320
	Machinery and equipment		2,433,796
	Total costs		52,806,285
	Accumulated depreciation		12,050,521
	Net capital assets		40,755,764
	Restricted debt service accounts [Note 2]		2,139,957
	Total noncurrent assets		42,895,721
	TOTAL ASSETS	\$	47,757,756

See accompanying notes

STATEMENT OF NET POSITION

December 31, 2013

LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
	Long-term debt payable within one year [Notes 6 and 7]	\$	941,010
	Accounts payable		175,803
	Accrued taxes payable		20,452
	Compensated absences payable		9,240
	Accrued wages payable		39,708
	Accrued interest payable		807,304
	Other accrued expenses payable		2,149
	Event deposits and prepaid ticket sales		253,133
	Total current liabilities		2,248,799
NONCURRENT LIABILITIES			
	Long-term debt payable after one year [Notes 6 and 7]		52,392,259
	Discounts on bonds payable		(786,916)
	Total noncurrent liabilities		51,605,343
	TOTAL LIABILITIES		53,854,142
NET POSITION			
	Net investment in capital assets		(6,992,743)
	Restricted for debt service		5,440,213
	Unrestricted		(4,543,856)
	Total net position		(6,096,386)
	TOTAL LIABILITIES AND NET POSITION	\$	47,757,756

See accompanying notes

Greater Wenatchee Regional Events Center Public Facilities District  
MCAG No. 2930  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
For the Year Ended December 31, 2013

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OPERATING REVENUES	
Daily operations revenue	\$ 1,003,239
Event revenue	<u>1,430,773</u>
Total operating revenues	2,434,012
OPERATING EXPENSES	
Daily operations expenses	
Depreciation	2,431,649
Salaries and wages	783,126
Utilities	310,170
Professional fees	193,216
Payroll taxes and benefits [Note 4]	158,365
Repairs and maintenance	121,267
Insurance	70,970
Operating supplies	39,340
Marketing	34,766
Other daily operations expense	144,831
Event expenses	
Talent and artists	349,751
Ticketing and credit card fees	170,497
Catering and concessions	127,712
Event wages	122,773
Marketing	87,044
Sound and lighting	55,451
Outside services	52,503
Promoter and booking fees	22,835
Other event expense	<u>112,304</u>
Total operating expenses	<u>5,388,570</u>
OPERATING LOSS	(2,954,558)
NONOPERATING REVENUES (EXPENSES)	
Sales tax revenue	4,264,212
Interest income	1,190
Interest expense	(2,539,499)
Settlement expense	<u>(50,000)</u>
Total nonoperating revenues (expenses)	<u>1,675,903</u>
CHANGE IN NET POSITION	(1,278,655)
NET POSITION - BEGINNING OF YEAR, AS ORIGINALLY REPORTED	(4,576,305)
ADJUSTMENT FOR APPLICATION OF NEW ACCOUNTING PRINCIPLE [NOTE 9]	<u>(241,426)</u>
NET POSITION - BEGINNING OF YEAR, AS RESTATED	<u>(4,817,731)</u>
NET POSITION - END OF YEAR	<u>\$ (6,096,386)</u>

See accompanying notes

Greater Wenatchee Regional Events Center Public Facilities District  
MCAG No. 2930  
STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2013

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CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers		\$ 2,380,088
Cash paid to suppliers		(1,938,913)
Cash paid to employees		(990,830)
Net cash used by operating activities		(549,655)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Settlement payments		(50,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets		(4,959)
Taxes collected for bond debt service		4,236,329
Transfer to restricted debt service accounts		(641,615)
Principal paid on capital debt		(713,674)
Interest paid on capital debt		(2,292,512)
Net cash provided by capital and related financing activities		583,569
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received		1,190
NET DECREASE IN CASH AND CASH EQUIVALENTS		(14,896)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		515,637
CASH AND CASH EQUIVALENTS - END OF YEAR		<u>\$ 500,741</u>

See accompanying notes

## STATEMENT OF CASH FLOWS

For The Year Ended December 31, 2013

RECONCILIATION OF OPERATING LOSS TO NET			
CASH USED BY OPERATING ACTIVITIES			
	Operating loss		\$ (2,954,558)
	Adjustments to reconcile operating loss to net cash		
	used by operating activities:		
	Depreciation		2,431,649
	Change in operating assets and liabilities:		
	Accounts receivable		(103,173)
	Prepaid expenses		(35,576)
	Accounts payable		63,128
	Accrued taxes payable		1,607
	Compensated absences payable		1,404
	Accrued wages payable		(2,250)
	Other accrued expenses payable		(1,135)
	Event deposits and prepaid ticket sales		49,249
	Net cash used by operating activities		\$ (549,655)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
	Acquisition of intangible asset through reduction of obligations		\$ 41,254

See accompanying notes

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Greater Wenatchee Regional Events Center Public Facilities District (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described in the following notes:

### A. Reporting entity

The District was formed as a municipal corporation in June 2006 under the authority of RCW 35.57 (to oversee the construction and operation of an event center facility). The formation itself was accomplished through an interlocal agreement that includes the City of Wenatchee, City of Cashmere, City of Chelan, City of East Wenatchee, City of Entiat, City of Rock Island, The Town of Waterville, Chelan County and Douglas County.

### B. Basis of accounting and presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the *Budgeting, Accounting and Reporting System for Proprietary – Type Districts* in the State of Washington.

The District uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate fund.

The District distinguishes between operating revenues and expenses from nonoperating ones. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District include ticket sales, charges to customers for facility rental, catering service, and other event related services. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

### C. Cash and cash equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

D. Investments

See Note 2.

E. Receivables

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Taxes receivable consist of sales taxes collected but not yet remitted to the District.

F. Capital assets

See Note 3.

G. Compensated absences

Compensated absences are absences for which employees will be paid for vacation or personal leave. The District records unpaid leave for compensated absences as an expense and liability when incurred.

Vacation pay, which may be accumulated up to 40 hours, is payable upon resignation, retirement, or death. Sick leave may be accumulated up to 480 hours, but is not payable upon resignation, retirement or death.

H. Deferred compensation

See Note 4.

I. Net position

Net investment in capital assets

This component of net position consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes or other related borrowings that are attributable to the acquisition, construction or improvements of those capital assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

I. Net position - continued

Restricted net position

In accordance with bond resolutions, and certain related agreements, separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses, including construction, debt service and other special reserve requirements. Restricted resources currently include the following:

a) Bond fund, consisting of debt service account, debt service reserve account, supplemental reserve account and supplemental bond redemption account.

- 1) The debt service account is funded with the .2 percent City and .1 percent District sales tax revenues until the minimum fund balance satisfied. The debt service account requirement is the amount of debt service on the bonds payable in the current bond year ending September 1<sup>st</sup>.
- 2) The debt service reserve account is funded with the .2 percent City and .1 percent District sales tax revenues, not required to be deposited into the debt service account, until the minimum fund balance is satisfied. The debt service reserve account requirement is the lessor of (i) the maximum amount of debt service on the bonds payable in any one bond year, (ii) 125 percent of the average amount of debt service on the bonds payable in any bond year in which the bonds remain outstanding, or (iii) 10 percent of the initial aggregate principal amount of the bonds. The debt service reserve account was fully funded at bond issuance.

The debt service reserve account is also the primary recipient of the .033 percent District sales tax revenues if the minimum fund balance is not satisfied.

- 3) The supplemental reserve account is funded with the .2 percent City and .1 percent District sales tax revenue not required to be deposited into the debt service account or the debt service reserve account, until the minimum fund balance is satisfied. The supplemental reserve account requirement is one-half of the maximum amount of debt service on the bonds payable in any one year in which the bonds remain outstanding.



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

I. Net position - continued

- 4) The supplemental bond redemption account is funded with the .2 percent City and .1 percent District sales tax revenue not required to be deposited into the debt service account, debt service reserve account, supplemental reserve account or subordinate note fund. This fund may be used by the District to redeem or cancel bonds.
- b) Subordinate note fund is funded with .2 percent City and .1 percent District sales tax revenue not required to be deposited into the debt service account, debt service reserve account or the supplemental reserve account to the extent that any principal remains outstanding on the subordinate note payable to the City.
- c) Supplemental tax revenue fund is funded with .033 District sales tax revenue, unless used to fund the debt service reserve account or for making bond payments, this fund may be used for maintenance and operations, operating reserves, capital reserves and payment on the subordinate note to the City. The subordinate note is only paid after the reserve accounts at the District are fully funded.

The balances in the restricted funds at December 31, 2013 are as follows:

Debt service account	\$ 1,375,390
Debt service reserve account	3,302,006
Supplemental reserve account	505,133
Supplemental bond redemption account	899
Supplemental tax revenue account	256,785
Total restricted debt service accounts	5,440,213
Current portion of restricted debt service accounts	3,300,256
Noncurrent portion of restricted debt service accounts	\$ 2,139,957

Unrestricted net position

This component consists of all other net position that doesn't meet the definitions for "Net investment in capital assets or "Restricted net position".

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

J. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

The District's deposits are entirely covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Operational accounts

As required by state law, the District's operations funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities (the State treasurer's investment pool), bankers' acceptances, or certificates of deposit with Washington State banks and savings and loan institutions.

Investments

It is the District's policy to invest all restricted cash reserves. The District entered into an escrow agreement with US Bank and the City of Wenatchee as part of the bond issuance in September of 2012. The escrow agreement outlines the flow of funds associated with sales taxes received and bond payments made by US Bank (all as further described in the escrow agreement, bond resolution and related documents).

During 2013 it was determined that the escrow deposits were invested in instruments that are not allowed by Washington State law. Upon this discovery the escrow deposits were moved into U.S. Treasury demand deposit accounts, which are allowable investments. The District has been working to engage a qualified municipal investment advisor. The escrow deposits will remain invested in the U.S. Treasury demand deposit accounts until a qualified advisor can be hired or other arrangements satisfactory to the District's Board are made.

## NOTE 2 - DEPOSITS AND INVESTMENTS - continued

### Investments - continued

At December 31, 2013 the funds held by US Bank pursuant to the escrow agreement totaled \$5,440,213.

All temporary investments are stated at fair value. Other property and investments are shown on the statement of net position at historical cost.

Custodial risk is the risk that in event of failure of the counterparty to an investment transaction the District would not be able to recover the value of the investment or collateral securities. Of the District's total position of \$5,940,954 in deposits and investments, \$5,440,213 is exposed to custodial credit risk because the investments are held by the District's escrow agent, which is also the counter party in these particular investments.

## NOTE 3 - CAPITAL ASSETS

- A. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. All capital assets are valued at historical cost.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method. Buildings and improvements are assigned lives of 25 years, machinery and equipment 5 years.

In the case of the sale of a significant operating unit or system, the original cost is removed from the capital asset accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

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NOTE 3 - CAPITAL ASSETS - continued

B. Capital asset activity for the year ended December 31, 2013 was as follows:

	Balance			Balance
	1/1/2013	Increase	Decrease	12/31/2013
Capital assets not being depreciated				
Land	\$ 1,706,915	\$ -	\$ -	\$ 1,706,915
Intangible asset	-	41,254	-	41,254
Total capital assets not being depreciated	1,706,915	41,254	-	1,748,169
Capital assets being depreciated				
Buildings	48,624,320	-	-	48,624,320
Machinery and equipment	2,428,837	4,959	-	2,433,796
Total capital assets being depreciated	51,053,157	4,959	-	51,058,116
Less accumulated depreciation				
Buildings	7,779,537	1,944,972	-	9,724,509
Machinery and equipment	1,839,335	486,677	-	2,326,012
Total accumulated depreciation	9,618,872	2,431,649	-	12,050,521
Net capital assets being depreciated	41,434,285	(2,426,690)	-	39,007,595
Total net capital assets	\$ 43,141,200	\$ (2,385,436)	\$ -	\$ 40,755,764

NOTE 4 - PENSION PLANS

The District does not participate in the Public Employees' Retirement System (PERS) but offers all employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan utilizes an independent plan administrator and permits employees to defer a portion of their salary until termination, retirement, death, or unforeseeable emergency. The plan administrator is trustee for the assets and the District has no liability for the funds. The District matches employee contributions in an amount not to exceed 2% of compensation. Employer contributions for 2013 were \$5,479.

## NOTE 5 - RISK MANAGEMENT

The District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local governmental 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 range 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 \$5,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$245,000 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.

NOTE 5 - RISK MANAGEMENT - continued

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.

NOTE 6 - LONG-TERM DEBT

A. The District's long-term debt consists of the following:

Bonds were issued in 2012 to refund the construction of the regional events center. The issuance of \$45,235,000 is to be retired by semi-annual installments on March 1st and September 1st, beginning September 1, 2016, and maturing on September 1, 2042. Semi-annual interest only payments ranging from 3% to 5.5% began on March 1, 2013. The bonds may be called on or after July 1, 2031.		\$ 45,235,000
Bonds were issued in 2012 to refund the construction of the regional events center. The issuance of \$3,000,000 is to be retired by semi-annual installments on March 1st and September 1st, which began March 1, 2013, plus interest at 5%. The bonds mature on September 1, 2016.		2,365,000

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NOTE 6 - LONG-TERM DEBT - continued

A non-interest bearing, limited obligation note to the City of Wenatchee is subordinate to the bonds issued in 2012.		
Payments may only be made from excess sales tax collections.		
The note matures on July 1, 2042 and will be cancelled if excess tax revenues are not adequate to pay off the note.		\$ 5,584,762
Capital leases [Note 7]		148,507
Total long-term debt		53,333,269
Long-term debt payable within one year		941,010
Long-term debt payable after one year		\$ 52,392,259

B. Annual debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
2014	\$ 941,010	\$ 2,441,017
2015	982,497	2,393,846
2016	955,000	2,346,506
2017	995,000	2,306,056
2018	1,025,000	2,273,719
2019 - 2023	5,740,000	10,750,208
2024 - 2028	7,235,000	9,266,815
2029 - 2033	8,665,000	7,209,251
2034 - 2038	9,125,000	4,882,625
2039 - 2042	17,669,762	1,927,750
Total	\$ 53,333,269	\$ 45,797,793

Bonds are recorded net of discounts. Annual interest expense is increased by the amortization of these discounts.



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NOTE 6 - LONG-TERM DEBT - continued

C. Long-term debt activity for the year ended December 31, 2013 was as follows:

Type of Debt	Balance 1/01/2013	Additions	Reductions	Balance 12/31/2013	Due Within One Year
General obligation bonds:					
2012A Special Tax Bond	\$ 45,235,000	\$ -	\$ -	\$ 45,235,000	\$ -
2012B Special Tax Bond	3,000,000	-	635,000	2,365,000	865,000
Total general obligation bonds	48,235,000	-	635,000	47,600,000	865,000
Other long-term debt:					
City of Wenatchee - Limited Sales					
Tax Subordinate Note	5,584,762	-	-	5,584,762	-
Capital leases [Note 7]	227,181	-	78,674	148,507	76,010
Total other long-term debt	5,811,943	-	78,674	5,733,269	76,010
Total long-term debt	\$ 54,046,943	\$ -	\$ 713,674	\$ 53,333,269	\$ 941,010

NOTE 7 - LEASES

A. Operating leases

The District's leases office equipment under a noncancelable operating lease which expires in October 2018. Total cost for such lease was \$5,106 for the year ended December 31, 2013. The future minimum lease payments for this lease are as follows:

Year Ending December 31	Amount
2014	\$ 3,336
2015	3,336
2016	3,336
2017	3,336
2018	2,780
Total future minimum lease payments	\$ 16,124



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NOTE 7 - LEASES - continued

B. Capital leases

The District's capital leases consisted of the following:

A capital lease payable to Municipal Asset Management secured by kitchen equipment, is being retired by monthly payments of \$7,434, including imputed interest at 5.5%. The lease matures in October 2015.		\$ 148,507
Amount payable within one year		76,010
Amount payable after one year		\$ 72,497

The assets acquired through capital leases are as follows:

Kitchen equipment		\$ 497,594
Less accumulated depreciation		398,075
Net book value		\$ 99,519

The future minimum lease obligation and the net present value of these minimum lease payments are as follows:

Year Ending December 31	Amount
2014	\$ 81,771
2015	74,337
Total future minimum lease payments	156,108
Less amount representing imputed interest	7,601
Present value of future minimum lease payments	\$ 148,507

#### NOTE 8 - CONTINGENCIES AND LITIGATIONS

The District received a letter dated December 7<sup>th</sup>, 2011, from the Division of Enforcement of the Securities and Exchange Commission (SEC) regarding an informal investigation entitled "In the Matter of Greater Wenatchee Regional Events Center Public Facilities District". The District completed their response to the requested record disclosure in the Spring of 2012. The matter was settled in November 2013 and the District paid civil penalties of \$20,000 as part of the settlement. An additional \$30,000 was paid to the City of Wenatchee and another party for reimbursement of legal fees and expenses incurred as a result of the SEC investigation. These costs are included in nonoperating expenses on the statement of revenue, expenses and changes in net position.

#### NOTE 9 - APPLICATION OF NEW ACCOUNTING PRINCIPLE

In 2013, the District adopted GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which requires debt issue costs to be recognized as expense in the period incurred. The financial statements have been retroactively restated for the change, which resulted in a decrease in the change in net position of \$241,426. Net position at the beginning of the year has been adjusted for the retroactive application of the new standard.

#### NOTE 10 - SUBSEQUENT EVENTS

The District has evaluated subsequent events through May 19, 2014, the date which the financial statements were available to be issued.

## 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.

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

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