



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

South Correctional Entity

King County

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

Published September 19, 2016

Report No. 1017511





Washington State Auditor's Office

September 19, 2016

Administrative Board
South Correctional Entity
Des Moines, Washington

Report on Financial Statements

Please find attached our report on the South Correctional Entity's financial statements.

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

Sincerely,

TROY KELLEY
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	7
Financial Section.....	10
About The State Auditor's Office.....	51

**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**

**South Correctional Entity
King County
January 1, 2015 through December 31, 2015**

Administrative Board
South Correctional Entity
Des Moines, 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 South Correctional Entity, King County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Entity's basic financial statements, and have issued our report thereon dated September 2, 2016. As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the Entity implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Entity'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 Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Entity'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 Entity'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

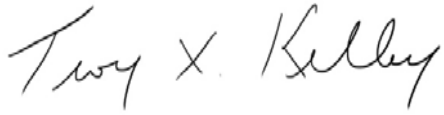
As part of obtaining reasonable assurance about whether the Entity's financial statements are free from material misstatement, we performed tests of the Entity's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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 Entity'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 Entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 2, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

South Correctional Entity King County January 1, 2015 through December 31, 2015

Administrative Board
South Correctional Entity
Des Moines, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the South Correctional Entity, King County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Entity'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 Entity'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 Entity'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 South Correctional Entity, as of December 31, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2015, the Entity adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

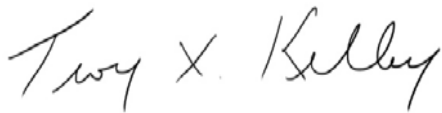
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 15 and pension plan information on pages 45 through 50 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 September 2, 2016 on our consideration of the Entity'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 Entity's internal control over financial reporting and compliance.

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

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 2, 2016

FINANCIAL SECTION

**South Correctional Entity
King County
January 1, 2015 through December 31, 2015**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015

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

Statement of Cash Flows – 2015

Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability PERS 1 – 2015

Schedule of Proportionate Share of the Net Pension Liability PERS 2/3 – 2015

Schedule of Proportionate Share of the Net Pension Liability PSERS 2 – 2015

Schedule of Employer Contributions PERS 1 – 2015

Schedule of Employer Contributions PERS 2/3 – 2015

Schedule of Employer Contributions PSERS 2 – 2015

Management's Discussion and Analysis

South Correctional Entity (SCORE) is determined to be a joint venture of the cities of Auburn, Burien, Federal Way, Renton, SeaTac and Tukwila. Shares of equity are included in the financial statements of said cities. South Correctional Entity (SCORE) Management Discussion and Analysis is designed to:

- Assist the reader in focusing on significant financial issues
- Provide an overview of SCORE's financial activity
- Identify changes in SCORE's financial position
- Identify any material deviations from the approved budget

The Management Discussion and Analysis is designed to focus on the current year's activities, resulting changes and currently known facts. Therefore, it should be read in conjunction with the SCORE financial statements.

Financial Highlights

- This is the sixth year's financial statements for SCORE and the fourth full year of operation for the facility.
- The assets and deferred outflow of resources of SCORE exceeded its liabilities and deferred inflows of resources at the close of 2015 by \$11,036,138. Net Position decreased by \$3,704,933 from previously reported Net Position in 2014, due mainly to the change in accounting for pensions.
- SCORE's net position from the Statement of Revenues, Expenses and Changes in Net Position increased \$518,283.
- SCORE increase in activity for 2015 was attributable to the increase in operations of the SCORE facility due to additional contract agencies, increased average daily population of persons in jail and increased average length of stay.

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows found after Management's Discussion and Analysis, provide information about the activities of SCORE as a whole and present a longer-term view of SCORE's finances.

Reporting SCORE as a Whole

The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows report information about SCORE as a whole and about its activities in a way that helps communicate the financial condition of SCORE. These statements include all assets and liabilities 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 statements report SCORE's net position, and changes in them, as well as how cash was generated and used during the year. SCORE's net position is the difference between assets plus deferred outflows and liabilities plus deferred inflows. It is one way to measure SCORE's financial position. Over time, increases or decreases in SCORE's net position are one indicator of whether its financial condition is improving or deteriorating. You also need to consider other non-financial factors, such as the physical condition of the operating facility; and changes in laws, legislative and judicial rules that all impact components of the greater criminal justice system to assess the overall financial health of SCORE.

SCORE's annual financial report is presented in four parts:

1. This Management's Discussion and Analysis as required supplementary information
2. Financial statements
3. Notes to the financial statements
4. Required Supplementary Information

Financial Statements

The Financial Statements are presented in conformity with the Governmental Accounting Standards Board (GASB) Statements. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or meet certain objectives. SCORE only has one fund type; proprietary funds.

Proprietary funds are used by governments to account for their business-type activities and use the same basis of accounting utilized in private industry. Business-type activities provide specific goods or services to a group of customers that are paid for by fees charged to those customers. There is a direct relationship between the fees paid and the services rendered.

SCORE has one type of proprietary fund; Enterprise funds. Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services and that fee is set to recover the costs of operations, including depreciation. SCORE currently has only one enterprise fund.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the financial information provided in the financial statements.

Financial Analysis

The statement of net position can serve as a useful indicator of SCORE's financial position. SCORE's net position (assets plus deferred outflows in excess of liabilities plus deferred inflows) at December 31, 2015 totaled \$11,036,138. Following is a condensed version of the statement of net position.

SOUTH CORRECTIONAL ENTITY (SCORE)
Condensed Statement of Net Position

	2015	2014*
Current assets	\$ 22,209,944	\$ 20,237,256
Capital assets, net	78,054,968	80,559,226
Long-term assets	-	329,218
TOTAL ASSETS	100,264,912	100,796,482
 TOTAL DEFERRED OUTFLOWS OF RESOURCES	 1,208,625	 464,729
 Long-term liabilities	 84,752,623	 85,042,796
Other liabilities	5,035,794	4,798,380
TOTAL LIABILITIES	89,788,417	89,841,176
 TOTAL DEFERRED INFLOWS OF RESOURCES	 648,982	 1,234,398
 NET POSITION:		
Net investment in capital assets	(2,569,723)	(2,098,880)
Restricted	-	-
Unrestricted	13,605,861	12,616,735
TOTAL NET POSITION	\$ 11,036,138	\$ 10,517,855

* The information presented for 2014 has been restated due to the change in accounting for pensions. While the prior period adjustment is reflected in the 2014 comparison column, it is reflected as a restatement of beginning net position in the Statement of Revenues, Expenses, and Changes in Net Position for the year ended December 31, 2015 as SCORE presents single year statements. This restatement is necessary to reflect the consistent and comparable application of accounting principles for both 2014 and 2015.

SCORE's net position increased by \$518,283 as SCORE ended its fourth year of full operations. The increase in Net Position from the Statement of Revenues, Expenses and Changes in Net Position is reported as \$518,283. Net investment in capital assets is a negative \$2,569,723 due to accumulated depreciation on the facility exceeding the cumulative debt principal payments. There are no significant restrictions on resources as future financing costs will be funded from future financing assessments. SCORE's net position is also a reflection of financial policies the Administrative Board adopted which include a 10% contingency reserve, a fully funded equipment replacement reserve and a policy to use current contract revenues in the following year to reduce member and host cities contributions.

Changes in Net Position

The condensed version of the statement of revenues, expenses and changes in net position, which follows, shows again that net position increased by \$0.5 million during the year. There was an increase in operating activity. At the end of 2014, SCORE had 32 contract agencies and was housing on average 311 contract inmates daily. By the end of 2015 SCORE had 35 contract agencies and was housing on average 320 contract inmates daily. SCORE was housing an average daily population of 621 in 2014 and it increased to an average daily population of 638 in 2015. The average length of stay for inmates staying at SCORE increased from 8.28 days in 2014 to 10.02 days in 2015. This increase in population required an increase in correctional officers, food services and other inmate services.

SOUTH CORRECTIONAL ENTITY (SCORE)
Condensed Statement of Revenues, Expenses and Changes in Net Position

	2015	2014*
REVENUES:		
Charges for services	\$ 27,098,063	\$ 24,834,819
Owner cities financing assessments	-	5,540,135
Other services	23,016	3,994
Intergovernmental revenues	43,414	43,415
Interest revenues	16,857	4,299
Insurance recoveries	2,212	-
TOTAL REVENUES	<u>27,183,562</u>	<u>30,426,662</u>
EXPENSES:		
Administrative and general	3,239,873	2,586,571
Operations and maintenance	17,424,168	15,233,928
Depreciation expense	2,533,697	2,553,675
SCORE PDA financing expenses	3,449,158	3,526,393
Loss on capital asset disposition	18,383	7,355
TOTAL EXPENSES	<u>26,665,279</u>	<u>23,907,922</u>
Increase in net position	518,283	6,518,740
NET POSITION, JANUARY 1, AS PREVIOUSLY REPORTED	10,517,855	8,222,331
Net Effect of Change in Accounting for Pensions		(4,223,216)
NET POSITION, JANUARY 1, AS RESTATED	10,517,855	3,999,115
NET POSITION, DECEMBER 31	<u>\$ 11,036,138</u>	<u>\$ 10,517,855</u>

* The information presented for 2014 has been restated due to the change in accounting for pensions. This restatement is necessary to reflect the consistent and comparable application of accounting principles for both 2014 and 2015.

Capital Assets

At the end of 2015, SCORE had \$78,054,968 recorded in capital assets, including land, buildings, other improvements, machinery and equipment, and intangible assets for the SCORE facility. The SCORE facility was substantially complete and operation of the new facility began in September, 2011. SCORE added \$147,822 in capital assets during 2015. The net decrease in capital assets was approximately \$2.5 million mainly attributable to depreciation.

More detailed information on capital assets is provided in Note 4.

Long-term Liabilities

At year-end, SCORE continues to have an \$80.38 million obligation to the South Correctional Entity Facility Public Development Authority (SCORE PDA) related to the special obligation bonds issued to finance the acquisition, construction, and equipping of the SCORE facility. Principal payments on the special obligations bonds began January 1, 2013. Debt decreased due to a payment of \$1.99 million in 2015. Another principal payment is scheduled for January 1, 2016.

Additional information on long-term liabilities is provided in Note 6.

Budgetary Highlights

The 2015 budget was adopted in the amount of \$33.85 million. This budget represents 2015 operating and debt service costs. The 2015 budget was amended twice during the year for a total increase to the operating budget of \$730,372 which included true up of beginning fund balances, one federal grant, adding 2 additional administrative staff and related expenses, additional mental health professional services, and set aside money for a future lobby remodel.

Requests for Information

This financial report is designed to provide a general overview of SCORE's finances. Questions concerning this report, or requests for additional information, may be addressed to the Finance Director of SCORE at 20817 17th Avenue South, Des Moines, WA 98198.

**South Correctional Entity (SCORE)
Statement of Net Position
December 31, 2015**

ASSETS

Current assets:

Cash and cash equivalents	\$ 19,201,922
Restricted cash:	
Inmate trust cash	39,609
Due from other governmental units	2,804,988
Other receivables	19,267
Prepayments	144,158

Total current assets	22,209,944
----------------------	------------

Noncurrent assets:

Capital assets (net)	78,054,968
----------------------	------------

Total noncurrent assets	78,054,968
-------------------------	------------

TOTAL ASSETS	100,264,912
--------------	-------------

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pension	1,208,625
--------------------------------------	-----------

LIABILITIES

Current liabilities:

Current portion of due to SCORE PDA	3,781,756
Accrued employee wages and benefits	1,008,263
Accounts payable	199,574
Taxes payable	2,842
Custodial accounts payable	3,750
Payable from restricted assets	39,609

Total current liabilities	5,035,794
---------------------------	-----------

Long-term liabilities

Compensated absences payable	699,209
Net pension liability	5,493,723
Due to SCORE PDA	78,559,691

Total long-term liabilities	84,752,623
-----------------------------	------------

TOTAL LIABILITIES	89,788,417
-------------------	------------

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pension	648,982
-------------------------------------	---------

NET POSITION

Net investment in capital assets	(2,569,723)
----------------------------------	-------------

Restricted	-
------------	---

Unrestricted	13,605,861
--------------	------------

TOTAL NET POSITION	\$ 11,036,138
--------------------	---------------

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

South Correctional Entity (SCORE)
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2015

OPERATING REVENUES:	
Charges for services	\$ 27,098,063
Other services	23,016
TOTAL OPERATING REVENUES	<u>27,121,079</u>
OPERATING EXPENSES:	
Administrative and general	3,239,873
Operations and maintenance	17,424,168
Depreciation expense	2,533,697
TOTAL OPERATING EXPENSES	<u>23,197,738</u>
OPERATING INCOME	<u>3,923,341</u>
NON-OPERATING REVENUES (EXPENSES):	
Intergovernmental revenues	43,414
Interest revenues	16,857
Loss sale of asset	(18,383)
SCORE PDA financing expenses	(3,449,158)
Insurance recovery	2,212
NON-OPERATING REVENUE NET OF EXPENSE	<u>(3,405,058)</u>
CHANGE IN NET POSITION	<u>518,283</u>
NET POSITION, JANUARY 1, 2015, as previously reported	14,741,071
Net Effect of Change in Accounting for Pensions	(4,223,216)
NET POSITION, JANUARY 1, 2015, as restated	<u>10,517,855</u>
NET POSITION, DECEMBER 31	<u>\$ 11,036,138</u>

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

**South Correctional Entity (SCORE)
Statement of Cash Flows
For the Year Ended December 31, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received for services	\$ 26,781,430
Cash received for other operating activities	23,016
Cash paid to suppliers for goods & services	(6,320,021)
Cash paid to employees for services	(13,317,496)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>7,166,929</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Acquisition & construction of capital assets	(147,822)
Sale of capital asset	100,000
Insurance recoveries	2,212
SCORE PDA financing expenses	(5,406,870)
NET CASH PROVIDED BY CAPITAL FINANCING ACTIVITIES	<u>(5,452,480)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	16,857
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>16,857</u>
NET INCREASE IN CASH & CASH EQUIVALENTS	<u>1,731,306</u>
CASH & CASH EQUIVALENTS, JANUARY 1	17,510,225
CASH & CASH EQUIVALENTS, DECEMBER 31	<u>\$ 19,241,531</u>
CASH AND CASH EQUIVALENTS CONSISTS OF:	
Unrestricted cash and cash equivalents	19,201,922
Restricted cash and cash equivalents	39,609
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 19,241,531</u>

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

**South Correctional Entity (SCORE)
Statement of Cash Flows
For the Year Ended December 31, 2015**

RECONCILIATION OF OPERATING INCOME (LOSS) TO
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating income (loss)	\$ 3,923,341
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	2,533,697
Pension expense	710,864
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(12,947)
(Increase) decrease in due from other governments	(318,849)
(Increase) decrease in prepaid expenses	90,414
Increase (decrease) in accounts payable	(59,167)
Increase (decrease) in other payables	15,505
Increase (decrease) in accrued wages and employee benefits	284,071
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 7,166,929</u>
 NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:	
SCORE PDA financing	760,879
TOTAL NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	 <u>\$ 760,879</u>

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

SOUTH CORRECTIONAL ENTITY (SCORE)**Notes to the Financial Statements
December 31, 2015****NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The South Correctional Entity (SCORE) consolidated correctional facility was established February 25, 2009, when an Interlocal Agreement (the "Original Interlocal Agreement") was entered into by seven participating municipal governments, the cities of Auburn, Burien, Des Moines, Federal Way, Renton, SeaTac and Tukwila (the "Member Cities"), under the authority of the "Interlocal Cooperation Act" (chapter 39.34 RCW). This "Original Interlocal Agreement" was amended and restated October 1, 2009 and named the City of Des Moines as the "Host City" and the remaining Member Cities as "Owner Cities". The amended and restated interlocal agreement is referred to as the "SCORE Formation Interlocal Agreement". Pursuant to a separate "Host City Agreement" dated October 1, 2009, the Host City will not enjoy the same equity position as the Owner Cities until all debts issued are paid and the Host City fulfills all of its obligations as outlined in the Agreement.

SCORE shall have the power to acquire, construct, own, operate, maintain, equip, and improve a correctional facility known as the "SCORE Facility" and to provide correctional services and functions incidental thereto, for the purpose of detaining arrestees and sentenced offenders in the furtherance of public safety and emergencies within the jurisdiction of the Member Cities. The SCORE Facility may serve the Member Cities and Subscribing Agencies which are in need of correctional facilities. Subscribing Agencies are government or tribal agencies, other than the Member Cities, that enter into a contract to use SCORE for the purpose of detaining arrestees and housing sentenced offenders. Any agreement with a Subscribing Agency shall be in writing and approved by SCORE as provided within the SCORE Formation Interlocal Agreement. The affairs of SCORE shall be governed by the Administrative Board formed pursuant to Section 5 of the SCORE Formation Interlocal Agreement. The Administrative Board shall have the authority to:

1. Recommend action to the legislative bodies of the Member Cities;
2. Approve the Budget, adopt financial policies and approve expenditures;
3. Establish policies for investing funds and incurring expenditures of Budget items for the SCORE facility;
4. Review and adopt a personnel policy for the SCORE Facility;
5. Establish a fund, or special funds, as authorized by chapter 39.34 RCW for the operation of the SCORE Facility;
6. Conduct regular meetings as may be designated by the Administrative Board;
7. Determine what services shall be offered at the SCORE Facility pursuant to powers of SCORE and under what terms they shall be offered;
8. Enter into agreements with third parties for goods and services necessary to fully implement the purposes of the SCORE Formation Interlocal Agreement;

9. Establish rates for services provided to members, subscribers or participating agencies;
10. Direct and supervise the activities of the Operations Board and the Facility Director;
11. Enter into an agreement with a public corporation or otherwise to incur debt;
12. Make purchases or contract for services necessary to fully implement the purposes of the SCORE Formation Interlocal Agreement;
13. Enter into agreements with and receive and distribute funds from any federal, state or local agencies;
14. Receive and account for all funds allocated to the SCORE Facility from its members;
15. Purchase, take, receive, lease, take by gift, or otherwise acquire, own, hold, improve, use and otherwise deal in and with real or personal property, or any interest therein, in the name of the SCORE Facility;
16. Sell, convey, mortgage, pledge, lease, exchange, transfer and otherwise dispose of property and assets;
17. Sue and be sued, complain and defend, in all courts of competent jurisdiction in its name;
18. Make and alter bylaws for the administration and regulation of its affairs;
19. Enter into contracts with Subscribing Agencies to provide correctional services;
20. Employ employees as necessary to accomplish the terms of the SCORE Formation Interlocal Agreement;
21. Establish policies and procedures for adding new cities as parties to the SCORE Formation Interlocal Agreement; and
22. Engage in any and all other acts necessary to further the goals of the SCORE Formation Interlocal Agreement.

The duration of the initial agreement is ten (10) years, and thereafter shall automatically extend for additional five (5) year periods unless terminated as provided by the SCORE Formation Interlocal Agreement. Notwithstanding the foregoing, the SCORE Formation Interlocal Agreement shall not terminate until all Bonds (defined below) issued by the South Correctional Entity Facility Public Development Authority (the "SCORE PDA") as provided in the SCORE Formation Interlocal Agreement are no longer outstanding.

In order to finance costs of acquiring, constructing, improving and equipping the SCORE Facility, the City of Renton chartered the SCORE PDA. The purpose of the SCORE PDA is to issue bonds to finance and refinance the acquisition, construction, improvement and equipping of the SCORE Facility. The Administrative Board serves *ex officio* as the Board of Directors of the SCORE PDA as further provided in the SCORE PDA's organizational charter. The SCORE PDA issued its Bonds, Series 2009A and its Bonds, Series 2009B (Taxable Build America Bonds) (together, the "Bonds") in the aggregate principal amount of \$86,235,000. Under the SCORE Formation Interlocal Agreement, each Owner City is

obligated to pay its capital contribution towards the payment of the Bonds without regard to the payment or lack thereof by any other Owner City. The obligation of each Owner City to pay its capital contribution is an irrevocable full faith and credit obligation of such Owner City, payable from property taxes levied within the constitutional and statutory authority provided without a vote of the electors of the Owner City on all of the taxable property within the Owner City and other sources of revenues available therefor.

Any Member City may withdraw its membership and terminate its participation in this SCORE Formation Interlocal Agreement by providing written notice and serving that notice on the other Member Cities on or before December 31 in any one-year. After providing appropriate notice, that Member City's membership withdrawal shall become effective on the last day of the year following delivery and service of appropriate notice to all other Member Cities.

Four (4) or more Member Cities may, at any one time, by written notice provided to all Member Cities, call for a termination of SCORE and the SCORE Formation Interlocal Agreement. Upon an affirmative supermajority vote (majority plus one) by the Administrative Board, SCORE shall be directed to terminate business, and a date will be set for final termination, which shall be at least one (1) year from the date of the vote to terminate the SCORE Formation Interlocal Agreement. Upon the final termination date, the SCORE Formation Interlocal Agreement shall be fully terminated, provided no debt remains outstanding.

In the event any Owner City or the Host City fails to budget or provide its applicable annual funding requirements for SCORE, the remaining Member Cities may, by majority vote, immediately declare the underfunding City to be terminated from the SCORE Formation Interlocal Agreement and to have forfeited all its rights under the SCORE Formation Interlocal Agreement. The remaining Member Cities may, at their option, withdraw SCORE's correctional services from that City, or alternatively, enter into a Subscribing Agency agreement with that City under terms and conditions as the remaining Member Cities deem appropriate.

If an individual Owner City withdraws its membership in SCORE, the withdrawing City will forfeit any and all rights it may have to SCORE's real or personal property, or any other ownership in SCORE, unless otherwise provided by the Administrative Board.

Upon termination of the SCORE Formation Interlocal Agreement, all property acquired during the life of the SCORE Formation Interlocal Agreement shall be disposed of in the following manner:

All real and personal property acquired pursuant to the SCORE Formation Interlocal Agreement shall be distributed to the Owner Cities based on the Owner Percentages; and

All unexpected funds or reserve funds shall be distributed based on the percentage of average daily population at the SCORE Facility for the last three (3) years prior to the termination date of those Member Cities still existing on the day prior to the termination date.

Notwithstanding any of the other rights, duties or obligations of any Member City under the SCORE Formation Interlocal Agreement, the withdrawal of any Owner City from the SCORE Formation Interlocal Agreement shall not discharge or relieve the Owner City that has withdrawn or been terminated of its obligation to pay debt service on Bonds issued by the SCORE PDA. An Owner City may be relieved of its obligation under the SCORE Formation Interlocal Agreement to make payments with respect to its

capital contribution only if the Administrative Board, by supermajority vote (majority plus one), authorizes such relief based on a finding that such payments are not required to pay debt service on Bonds issued by the SCORE PDA.

The financial statements of South Correctional Entity (SCORE) 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. Significant accounting policies are described in the following notes.

The South Correctional Entity (SCORE) implemented the following accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions* was adopted for fiscal year 2015 reporting.

This Statement changes how SCORE accounts and reports for its three cost sharing multiemployer pension plans. Pension related deferred outflows of resources and deferred inflows of resources are recognized and changes in them are used in calculating annual pension expense. This adjustment is reflected as a prior period adjustment for a change in accounting principle in SCORE's 2015 financial statements.

A. Reporting Entity

South Correctional Entity (SCORE) is determined to be a joint venture of the cities of Auburn, Burien, Federal Way, Renton, SeaTac and Tukwila. Shares of equity are included in the financial statements of said cities. The purpose of the joint operation is to provide correctional services and functions incidental thereto, for the purpose of detaining arrestees and sentenced offenders in the furtherance of public safety and emergencies within the jurisdiction of the Member Cities and Subscribing Agencies. SCORE is served by an Administrative Board composed of the Mayors, City Managers or designated representatives of the Member Cities. In addition, an Operations Board provides administration and consists of one (1) member designated by each of the Member Cities and up to two (2) at-large members selected by majority vote by the Subscribing Agencies to represent the police departments of the Subscribing Agencies.

Similar to SCORE, SCORE PDA is determined to be a joint venture of the Owner Cities, and therefore, is not considered a component unit of either SCORE or the Owner Cities.

B. Basis of Presentation – Fund Accounting

The accounts of the South Correctional Entity (SCORE) are organized on the fund basis, with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The South Correctional Entity (SCORE) resources are allocated to and accounted for in a fund as summarized in the financial statements, for the year 2015, included in this Annual Report.

C. Basis of Accounting

The South Correctional Entity (SCORE) is a proprietary fund with the purpose to acquire, construct, own, operate, maintain, equip and improve the SCORE Facility. Following is a description of the proprietary fund type used by SCORE for financial reporting purposes.

Proprietary Fund Types

Proprietary funds are accounted for on the “flow of economic resources” measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with the activity are included in the Statement of Net Position. The reported net position is segregated into invested in capital assets, restricted and unrestricted. Proprietary fund operating statements present increases (revenues and gains) and decreases (expenses and losses) in the changes in net position. The proprietary fund measurement focus is upon the determination of net income, financial position, and statement of cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenue for SCORE is charges for services. Operating revenues also include grants designed to specifically assist in supplementing operations. Operating expenses for proprietary funds include the costs of providing correctional services, administrative expenses, taxes, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses, or as capital contributions.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements.

Accrual Basis of Accounting

The accrual basis of accounting is followed in Proprietary Funds. Revenues are recognized when earned and expenses are recognized when incurred.

GASB Statement No. 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements provides a codification of private-sector standards of accounting and financial reporting issued prior to December 1, 1989, to be followed in the financial statements of proprietary fund types. SCORE has adopted provisions of GASB Statement No. 62.

D. Budgetary Information

Typically, annual appropriated budgets are adopted for proprietary funds. NCGA Statement No. 1 does not require, and the financial statements do not present, budgetary comparisons for these funds.

During the construction period, the budget was developed based on the full project length budget. Annual appropriated budgets are adopted at the entity level. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control tool, the subsidiary ledgers monitor expenditures for individual functions and activities by object class.

SCORE's budget procedures are in accordance with Section 9 of the Interlocal Agreement, as adopted October 1, 2009, and include:

1. The Facility Director shall distribute a proposed Budget to the Operations Board on or before August 1 of each year, which Budget shall then be provided to the Administrative Board no later than September 1 of such year. Thereafter, the Member Cities shall be advised of the programs and objectives as contained in said proposed Budget, and of the required financial participation for the ensuing year.
2. The Administrative Board shall develop financial policies for SCORE as part of the budgetary process. Such policies may include, but are not limited to, (1) items to be provided for in the Budget, (2) a minimum contribution amount for each Member City to pay for Costs of Maintenance and Operations, (3) the process for allocating unexpended amounts paid by the Member Cities for Costs of Maintenance and Operations and assessing the Member Cities in the event of cost overruns, (4) establishing and maintaining reserve accounts, if any, and (5) the process for adding a new party to this SCORE Formation Interlocal Agreement.
3. The allocation of prorated financial participation among the Member Cities shall be calculated as provided in Section 15 of the Interlocal Agreement. Each Member City shall be unconditionally obligated to provide its allocable share of costs as provided in the SCORE Formation Interlocal Agreement.

The 2015 budget was adopted in the amount of \$33.85 million. This budget represents 2015 operating and debt service costs. The 2015 budget was amended twice increasing the operating budget by \$730,372 which included true up of beginning fund balances, one federal grant, adding 2 additional administrative staff and related expenses, additional mental health professional services, and set aside money for a future lobby remodel.

E. Cash

It is SCORE's policy to invest all temporary cash surpluses. As of December 31, 2015, all cash surpluses were held in only the Local Government Investment Pool (LGIP) but can be invested in the Local Government Investment Pool (LGIP) and certificates of deposit. Restricted cash is reported for amounts held in trust for inmates.

Cash and Cash Equivalents include all monies in checking and savings accounts, petty cash funds, and the Local Government Investment Pool (LGIP).

F. Receivables

Customer accounts receivable consist of amounts owed from organizations for services received. If the transactions are with another governmental unit, it is accounted for within "Due from other governmental units".

G. Capital Assets and Depreciation

Capital assets, which include land, buildings, equipment, intangible assets and other improvements, are defined by SCORE as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are reported at estimated fair market value at the date of donation. See Note 4 for additional information.

The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Construction in progress costs are transferred to their respective capital asset category upon completion.

Depreciation and amortization are charged to operations using the straight-line method based on the estimated useful life. The estimated useful lives of depreciable and intangible assets are as follows:

Buildings	40 years
Other Improvements	10 years
Equipment/Intangible Assets	3-20 years

H. Compensated Absences

SCORE accrues accumulated unpaid vacation and other leave and associated employee-related costs when earned (or estimated to be earned) by the employee. These accrued amounts are expensed when incurred. The current portion is included in liabilities under "Accrued employee wages and benefits" and the non-current portion is included in liabilities under "Compensated absences payable".

I. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

J. Net Position

The components of Net position as of December 31, 2015 are as follows:

<u>Net Position</u>	
	Net Position
Component	December 31, 2015
Net investment in capital assets	
Capital assets (net)	78,054,968
Current portion of due to SCORE PDA	(2,065,000)
Long term portion of due to SCORE PDA	(78,559,691)
Unspent debt proceeds	-
Net investment in capital assets	\$ (2,569,723)
Restricted	-
Unrestricted	13,605,861
Total Net Position	<u>\$ 11,036,138</u>

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions, and there have been no expenditures exceeding legal appropriations.

NOTE 3 – DEPOSITS AND INVESTMENTS

Investments of funds can be in the form of federal government securities, repurchase agreements, banker's acceptances, certificates of deposit, Local Government Investment Pool (LGIP), and savings accounts. Investments are stated at fair value as of the year-end. Available cash is deposited into savings accounts and/or other types of investments as cash flow allows. Interest earned is credited to the appropriate investing source. The book value of deposits does not differ materially from the bank balance of deposits.

Custodial Credit risk is the risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, it is the risk that SCORE would not be able to recover its deposits or collateralized securities that are in the possession of the outside parties. SCORE minimizes custodial credit risk by following the restrictions set forth in state law.

Bank deposits are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC); and by the Washington Public Depository Protection Commission (WPDPC) (established under Chapter 39.58 of the Revised Code of Washington) for amounts over \$250,000. The deposits are not subject to additional legal or contractual provisions. SCORE's deposits and investment position at fair value at the end of fiscal year 2015 are:

Deposits and Investments

Source	Fair Value December 31, 2015
Checking	\$ 6,714,926
LGIP	12,526,605
Total	<u>\$ 19,241,531</u>

Custodial credit risk is the risk that in the event of a failure of the counterparty to an investment transaction, SCORE would not be able to recover the value of the investment or collateral securities. At the end of 2015, SCORE funds were being held in checking accounts and the Local Government Investment Pool (LGIP). Investments can be in the Local Government Investment Pool (LGIP) and certificates of deposit where the exposure to custodial credit risk is deemed minimal.

For purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on deposit with financial institutions and amounts invested in the Local Government Investment Pool, administered by the State Treasurer's Office because it is operated in a manner consistent with a Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940. The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The State Treasurer's Office is responsible for establishing the investment policy for the pool and reviews it annually. Any proposed changes are reviewed by the LGIP Advisory Committee. The terms of the policy are designed to ensure the safety and liquidity of the funds deposited in the LGIP.

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, SCORE invests in LGIP which is considered a cash equivalent due to its very short term nature. LGIP is valued at the pool's share price and is not rated by any credit rating agencies.

NOTE 4 – CAPITAL ASSETS

A. Capital Assets

Capital assets of proprietary funds are capitalized in the Statement of Net Position. These assets are stated at cost or estimated cost when original cost is not available, or appraised value at the time received as in the case of donations. Depreciation and amortization expense is charged to operations of the proprietary fund to allocate the cost of depreciable and intangible assets over their estimated useful lives, using the straight-line method with useful lives of 3 to 40 years.

A summary of SCORE's property, plant and equipment at December 31, 2015 is shown below:

Capital Assets

	Beginning Balance 12/31/2014	Additions 2015	Deletions 2015	Ending Balance 12/31/2015
Capital assets, not being depreciated:				
Land and land improvements	\$ 8,346,158	\$ -	\$ -	\$ 8,346,158
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	8,346,158	-	-	8,346,158
Capital assets, being depreciated:				
Buildings	\$ 73,832,245	\$ -	\$ -	\$ 73,832,245
Other Improvements	2,247,088	-	-	2,247,088
Machinery and equipment	2,523,311	147,822	152,752	2,518,381
Capital assets, being amortized:				
Intangible assets	1,105,596	-	-	1,105,596
Total capital assets	\$ 88,054,398	\$ 147,822	\$ 152,752	\$ 88,049,468
Accumulated depreciation/amortization	\$ 7,495,172	\$ 2,533,697	\$ 34,369	\$ 9,994,500
Total capital assets, net	\$ 80,559,226	\$ (2,385,875)	\$ 118,383	\$ 78,054,968

NOTE 5 – RISK MANAGEMENT

SCORE is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 179 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self-insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance. The facility is insured up to a maximum of \$35 million for damage and fire and includes a \$5,000 deductible.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

There have been no settlements exceeding insurance coverage in the last three years.

NOTE 6 – CHANGES IN LONG-TERM LIABILITIES

SCORE's long-term liabilities are made up of amounts due to the SCORE PDA related to the outstanding special obligation bonds of the Authority and compensated absences. SCORE accrues accumulated unpaid leave and associated employee-related costs when earned (or estimated to be earned) by the employee. Changes in long-term liabilities during 2015 are as follows:

<u>Long-Term Liabilities</u>						
Long-Term Liability	Beginning Balance 12/31/2014	Additions 2015	Deductions 2015	Ending Balance 12/31/2015	Due Within One Year	
Due to SCORE PDA	\$ 84,071,041	\$ -	\$ 2,029,800	\$ 82,041,241	\$ 3,781,756	
Compensated Absences	588,925	110,284	-	699,209	104,486	
Total Long-term liabilities	\$ 84,659,966	\$ 110,284	\$ 2,029,800	\$ 82,740,450	\$ 3,886,242	

The amount shown as due within one year in the chart above includes accrued interest payable as of December 31, 2015.

Total Due to SCORE PDA presented above	\$ 82,041,241
Unamortized Discount/Premium	\$ 244,692
BABS Subsidy Reduction	(55,514)
Total Amount Due to SCORE PDA	<u>\$ 82,341,447</u>
Current portion of Due to SCORE PDA	\$ 3,781,756
Long-term portion of Due to SCORE PDA	78,559,691
Total amount Due to SCORE PDA	<u>\$ 82,341,447</u>

Payments on the Due to SCORE PDA match the debt service on the special obligation bonds. Debt service to maturity as reported in SCORE PDA's financial statements is as follows:

Summary of Debt Service Requirements

Year	Principal	Interest	BABs	
			Subsidy	Total
2016	2,065,000	4,911,886	(1,517,676)	5,459,210
2017	2,145,000	4,820,241	(1,511,685)	5,453,556
2018	2,240,000	4,715,979	(1,511,685)	5,444,294
2019	2,310,000	4,602,229	(1,475,151)	5,437,078
2020	2,385,000	4,484,854	(1,437,475)	5,432,379
2021-2025	13,405,000	20,377,998	(7,109,462)	26,673,536
2026-2030	16,325,000	15,803,611	(5,715,798)	26,412,813
2031-2035	20,095,000	9,856,351	(3,682,383)	26,268,968
2036-2039	19,410,000	2,636,145	(1,147,380)	20,898,765
Totals	<u>\$ 80,380,000</u>	<u>\$ 72,209,294</u>	<u>\$ (25,108,695)</u>	<u>\$ 127,480,599</u>

The Bonds were issued by SCORE PDA on November 4, 2009 for an aggregate principal amount of \$86,235,000. The interest rates on the Bonds range from 3.001% to 6.616%. In accordance with the American Recovery and Reinvestment Act of 2009, the Authority elected to issue a portion of the Bonds as "Build America Bonds" and to receive payments from the federal government equal to 35% of the corresponding interest payable on such bonds on each interest payment date. SCORE PDA believed this subsidy would be intact for the life of the bonds outstanding. Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended in 2012 certain automatic reductions took place as of March 1, 2013. These required reductions of 8.9% to refundable credits under section 6431 of the Internal Revenue applicable to certain qualified bonds. The sequester reduction is applied to section 6431 amounts claimed by an issue on any Form 8038-CP filed with the Service which results in a payment to such issuer on or after March 1, 2013. The sequestration reduction rate will be applied until the end of fiscal year 2021 as a reduction to the refundable credits of 7.3% or intervening Congressional action, at which time the sequestration rate is subject to change. The BABs subsidy reflected in the summary of debt service chart is based on the subsidy rate in effect for 2015.

BAB subsidy request form is Form 8038-CP. The SCORE PDA BAB reduction from Congress sequestration measures for 2015 was \$118,377. The original 2015 annual BAB subsidy was \$1,632,787, less actual BAB subsidy received of \$1,514,410. Congress sequestration measure to reduce BAB subsidies by 7.3 percent continues through 2021. It is forecasted that the 7.3 percent reduction in the 2016 BAB subsidy will be \$115,111.

Estimated Arbitrage Rebate

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt over \$5 million to make payments to the United States Treasury of investment interest received at yields that exceed the issuer's tax-exempt borrowing rates. Payments of arbitrage rebate amounts due under these regulations must be made to the U.S. Treasury every five years. SCORE engaged an outside agency to calculate our arbitrage rebate liability on SCORE's outstanding tax-exempt bonds. No amounts related to a potential arbitrage liability have been reported in the financial statements for the year ended December 31, 2015.

NOTE 7 – LEASES

SCORE entered into a new operating lease for three copiers in 2015. SCORE also has non-cancelable operating lease for postage equipment. Total cost for these leases were \$4,187 and \$3,894 respectively for the year ended December 31, 2015. The future minimum lease payments for these leases are as follows:

<u>Leases</u>		
	<u>December 31</u>	<u>Equipment</u>
2016	\$	15,824
2017	\$	15,824
2018	\$	14,203
2019	\$	11,933
2020	\$	7,798
Total	\$	<u>65,582</u>

NOTE 8 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts - All Plans

Pension liabilities	\$	(5,493,723)
Pension assets	\$	-
Deferred outflows of resources	\$	1,208,625
Deferred inflows of resources	\$	(648,982)
Pension expense/expenditures	\$	710,864

SCORE employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

The following disclosures are made pursuant to GASB Statement 68, *Accounting and Financial Reporting for Pensions*.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS participants, who joined the PERS system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977; and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees, have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service. The annual benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may also elect to receive an additional COLA

amount that provides an automatic annual adjustment based on the Consumer Price Index. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after completion of five years of eligible service. Plan 2 members may retire at age 65 with five years of service with an allowance of two percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculation at one percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years if twelve months were earned after age 44; or after five service credit years earned in PERS 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. Plan 3 members who retire prior to age 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. Plan 3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

Membership in PERS consisted of the following at June 30, 2014, the date of the latest actuarial valuation for all plans:

<u>Number of Participating Members</u>					
Plans Administered by the State	Retirees and Beneficiaries Receiving Benefits	Terminated Members Entitled to but not yet Receiving Benefits	Active Plan Members Vested	Active Plan Members Nonvested	Total Members
PERS 1	51,070	1,178	4,548	234	57,030
PERS 2	35,142	25,963	87,567	29,418	178,090
PERS 3	2,634	4,575	12,869	17,825	37,903
Total	88,846	31,716	104,984	47,477	273,023

The following is a summary of the number of government employers participating in PERS as of June 30, 2015:

<u>Number of Participating Employers</u>					
Plan	State Agencies	School Districts	Counties/ Municipalities	Other Political Subdivisions	Total Employers
PERS 1	123	200	132	140	595
PERS 2	157	-	276	510	943
PERS 3	149	-	211	323	683
Total	429	200	619	973	2,221

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contributions rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for state agencies and local government unit employees, and 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2 and Plan 3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. All employers are required to contribute at the level established by the Legislature. Under PERS 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates (expressed as a percentage of current-year covered payroll) for 2015 were as follows:

Required Contribution Rates

Contributor	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*			
January through June 2015	9.21%	9.21%	9.21%**
July through December 2015	11.18%	11.18%	11.18%
Employee			
January through June 2015	6.00%	4.92%	***
July through December 2015	6.00%	6.12%	***

* The employer rates include the employer administrative expense fee currently set at 0.18%

** Plan 3 defined benefit portion only.

*** Variable from 5.0% minimum to 15.0% maximum

Both SCORE and the employees made the required contributions. SCORE's required contributions for years ended December 31, were as follows:

SCORE Required Contributions

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3
2015	\$ 5,844	\$ 116,435	\$ 37,850
2014	\$ 9,988	\$ 91,587	\$ 35,025
2013	\$ 10,721	\$ 66,318	\$ 33,282
2012	\$ 9,259	\$ 55,883	\$ 26,707

Public Safety Employee's Retirement Systems (PSERS) Plan 2

Plan Description

The Legislature created PSERS in 2004 and the system became effective July 1, 2006. PSERS Plan 2 membership includes full-time employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria. PSERS retirement benefit provisions are established in Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

Covered employers include the following: State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol; corrections departments of Washington State counties;

corrections departments of Washington State cities except for Seattle, Tacoma and Spokane; and interlocal corrections agencies.

To be eligible for PSERS, an employee must work on a full-time basis and have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce criminal laws of Washington and carry a firearm as part of the job; or have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or function as a Washington peace officer, as defined by RCW 10.93.020; or have primary responsibility to supervise eligible members who meet the above criteria.

PSERS Plan 2 members are vested after completing five years of eligible service. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at the age of 60 with at least ten years of PSERS service credit, or at 53 with 20 years of service with an allowance of two percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 members who retire prior to the age of 60 receive reduced benefits. If retirement is at the age of 53 or older with at least 20 years of service, a three percent per year reduction for each year between the age of retirement and age 60 applies. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

Membership in PSERS consisted of the following at June 30, 2014, the date of the latest actuarial valuation for all plans:

<u>Number of Participating Members</u>					
Plans Administered by the State	Retirees and Beneficiaries Receiving Benefits	Terminated Members Entitled to but not yet Receiving Benefits	Active Plan Members Vested	Active Plan Members Nonvested	Total Members
PSERS 2	62	213	3,014	1,806	5,095
Total	62	213	3,014	1,806	5,095

The following is a summary of the number of government employers participating in PERS as of June 30, 2015:

<u>Number of Participating Employers</u>					
Plan	State Agencies	School Districts	Counties/ Municipalities	Other Political Subdivisions	Total Employers
PSERS 2	9	-	65	1	75
Total	9	-	65	1	75

Each biennium, the state Pension Funding Council adopts PSERS Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. The Plan 2 employer rates include a component to address the PERS Plan 1 unfunded actuarial accrued liability and an administrative expense that is currently set at 0.18 percent. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contributions requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RWC.

The required contribution rates (expressed as a percentage of current-year covered payroll) for 2015 were as follows:

Required Contribution Rates

Contributor	PSERS Plan 2
Employer*	
January through June 2015	10.54%
July through December 2015	11.54%
Employee	
January through June 2015	6.36%
July through December 2015	6.59%

* The employer rates include the employer administrative expense fee currently set at 0.18%

Both SCORE and the employees made the required contributions. SCORE's required contributions for the year ended December 31 were as follows:

SCORE Required Contributions

Year	PSERS Plan 2
2015	\$ 887,714
2014	\$ 751,021
2013	\$ 555,580
2012	\$ 464,105

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, and PSERS 2 employers, whose rates include a component for the PERS 1). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best

estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents SCORE's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what SCORE's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

Sensitivity of NPL

	Current Discount		
	1% Decrease (6.5%)	Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 5,342,423	\$ 4,388,018	\$ 3,567,317
PERS 2/3	\$ 1,781,142	\$ 609,135	\$ (288,227)
PSERS 2	\$ 3,773,249	\$ 496,570	\$ (1,834,279)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, SCORE's reported a total pension liability of \$5,493,723 for its proportionate share of the net pension liabilities as follows:

	<u>Liability (or Asset)</u>
PERS 1	\$ 4,388,018
PERS 2/3	\$ 609,135
PSERS 2	\$ 496,570

At June 30, SCORE's proportionate share of the collective net pension liabilities was as follows:

	<u>Proportionate Share 6/30/2014</u>	<u>Proportionate Share 6/30/2015</u>	<u>Change in Proportion</u>
PERS 1	0.069353%	0.083886%	0.014533%
PERS 2/3	0.014301%	0.017048%	0.002747%
PSERS 2	2.273449%	2.720635%	0.447186%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2015, SCORE's recognized pension expense as follows:

	<u>Pension Expense</u>
PERS 1	\$ 650,639
PERS 2/3	\$ 164,391
PSERS 2	\$ 943,677

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, SCORE's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net Difference between projected and actual investment earnings on pension plan investments	-	240,073
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	234,023	-
TOTAL	\$ 234,023	\$ 240,073
PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 64,751	\$ -
Net Difference between projected and actual investment earnings on pension plan investments	-	162,610
Changes of assumptions	981	-
Changes in proportion and differences between contributions and proportionate share of contributions	88,389	-
Contributions subsequent to the measurement date	48,736	-
TOTAL	\$ 202,857	\$ 162,610
PSERS 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 465,229	\$ -
Net Difference between projected and actual investment earnings on pension plan investments	-	246,299
Changes of assumptions	3,074	-
Changes in proportion and differences between contributions and proportionate share of contributions	27,296	-
Contributions subsequent to the measurement date	276,146	-
TOTAL	\$ 771,745	\$ 246,299

Deferred outflows of resources related to pensions resulting from SCORE's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	PERS 1	PERS 2/3	PSERS 2
2016	\$ (93,044)	\$ (18,152)	\$ (15,693)
2017	93,044	(18,152)	(15,693)
2018	(93,044)	(18,153)	(15,720)
2019	39,059	(45,969)	131,222
2020	-	-	82,604
Thereafter	-	-	82,578

NOTE 9 – APPORTIONMENT OF EQUITY

The Owner Cities share in the equity of SCORE pursuant to the SCORE Formation Interlocal Agreement. The equity as of December 31, 2015 belonging to the six Owner Cities is as follows:

	<u>Apportionment of Equity</u>							
	Auburn	Burien	Des Moines	Federal Way	Renton	SeaTac	Tukwila	Total
Equity 01/01/2015	\$ 4,243,235	\$ 515,410	\$ 292,161	\$ 3,676,724	\$ 4,220,405	\$ 712,666	\$ 1,080,470	\$ 14,741,071
Prior Period Adjustment	(1,048,625)	(155,837)	(113,182)	(1,204,461)	(1,134,356)	(240,723)	(326,032)	(4,223,216)
Current Year Increase (Decrease)	137,167	17,268	18,288	148,312	136,621	26,524	34,103	518,283
Equity 12/31/2015	\$ 3,331,777	\$ 376,841	\$ 197,267	\$ 2,620,575	\$ 3,222,670	\$ 498,467	\$ 788,541	\$ 11,036,138
% of Equity	30.00%	3.00%	2.00%	24.00%	29.00%	5.00%	7.00%	100.00%
% of 2015 Apportionment	26.47%	3.33%	3.53%	28.61%	26.36%	5.12%	6.58%	100.00%

NOTE 10 – MATERIAL RELATED PARTY TRANSACTIONS

The SCORE PDA was chartered by the City of Renton, pursuant to RCW 35.21.730 through 35.21.757 and Ordinance No. 5444 of the City of Renton. The SCORE PDA was formed to provide an independent legal entity to finance the acquisition, construction, and equipping of the SCORE facility through the issuance and servicing of \$86,235,000 of Bonds, and to perform other functions specified in the charter. Payment of principal and interest on the Bonds is secured by the full faith and credit of the Owner Cities.

The SCORE PDA is an independent legal entity exclusively responsible for its own debts, obligations and liabilities. All liabilities incurred by the SCORE PDA shall be satisfied exclusively from the assets and credit of the SCORE PDA. Unless otherwise agreed to by the Member Cities, no creditor or other persons shall have any recourse to the assets, credit, or services of the SCORE Member Cities on account of any debts, obligations, liabilities, acts or omissions of the SCORE PDA. Pursuant to the SCORE Formation Interlocal Agreement, the Owner Cities are liable for their respective share of all debt issued by the SCORE PDA.

SCORE will be responsible for billing and collecting the annual debt service payments from the SCORE Owner Cities. Once SCORE has received the debt service payments from the Owner Cities, SCORE will remit the funds to the Authority and the Authority will make all semi-annual debt service payments to the Bank of New York. The carrying costs were funded from the bond proceeds during the construction period (through January 1, 2012). Debt service payments net of the federal interest subsidy at 32.53% of interest costs received in connection with the Build America Bonds totaled \$3.4 million for 2015 which includes \$1.71 million accrued by the Authority in 2015 for January 1, 2016 debt service payments.

In addition to the allocations of equity and ending equity balances of the owner cities as of December 31, 2015 as provided in Note 9, the following chart provides information related to transactions and balances between SCORE and its Owner Cities as of December 31, 2015 and for year the then ended.

Owner City	Other Governments	Charges for Services	SCORE PDA Obligation
Auburn	\$ 304,905	\$ 3,658,863	\$ 24,353,504
Burien		651,557	3,142,388
Des Moines		457,934	-
Federal Way		4,276,614	14,140,744
Renton		4,138,311	28,281,489
SeaTac		951,212	2,356,791
Tukwila		1,232,427	6,284,776
Total All Owner Cities	\$ 304,905	\$ 15,366,918	\$ 78,559,691

END OF NOTES

A copy of this report is available at SCORE, 20817 17th Avenue South, Des Moines, WA 98198.

REQUIRED SUPPLEMENTARY INFORMATION
South Correctional Entity
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2015
Last 10 Fiscal Years*

	2015
<u>Employer's proportion of the net pension liability (asset)</u>	% 0.083887%
Employer's proportionate share of the net pension liability	\$ 4,388,018
TOTAL	\$
<u>Employer's covered employee payroll</u>	\$ 73,259
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	% 5989.73%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	% 59.10%

* Information available for 2015 only

REQUIRED SUPPLEMENTARY INFORMATION
South Correctional Entity
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2015
Last 10 Fiscal Years*

		<u>2015</u>
<u>Employer's proportion of the net pension liability (asset)</u>	%	0.017048%
Employer's proportionate share of the net pension liability	\$	609,135
TOTAL	\$	
<u>Employer's covered employee payroll</u>	\$	1,512,777
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	40.27%
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%

* Information available for 2015 only

REQUIRED SUPPLEMENTARY INFORMATION
South Correctional Entity
Schedule of Proportionate Share of the Net Pension Liability
PSERS 2
As of June 30, 2015
Last 10 Fiscal Years*

		<u>2015</u>
<u>Employer's proportion of the net pension liability (asset)</u>	%	2.720635%
Employer's proportionate share of the net pension liability	\$	496,570
TOTAL	\$	
<u>Employer's covered employee payroll</u>	\$	8,104,918
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	6.13%
Plan fiduciary net position as a percentage of the total pension liability	%	95.08%

* Information available for 2015 only

REQUIRED SUPPLEMENTARY INFORMATION

South Correctional Entity
Schedule of Employer Contributions
PERS 1

As of December 31, 2015
Last 10 Fiscal Years*

		<u>2015</u>
<u>Statutorily or contractually required contributions</u>	\$	5,844
<u>Contributions in relation to the statutorily or contractually required contributions</u>	\$	<u>(5,844)</u>
<u>Contribution deficiency (excess)</u>	\$	<u>0</u>
<u>Covered employer payroll</u>	\$	57,311
<u>Contributions as a percentage of covered employee payroll</u>	%	10.20%

* Information available for 2015 only

REQUIRED SUPPLEMENTARY INFORMATION

South Correctional Entity
Schedule of Employer Contributions
PERS 2/3

As of December 31, 2015
Last 10 Fiscal Years*

		<u>2015</u>
<u>Statutorily or contractually required contributions</u>	\$	154,285
<u>Contributions in relation to the statutorily or contractually required contributions</u>	\$	<u>(154,285)</u>
<u>Contribution deficiency (excess)</u>	\$	<u>0</u>
<u>Covered employer payroll</u>	\$	1,513,061
<u>Contributions as a percentage of covered employee payroll</u>	%	10.20%

* Information available for 2015 only

REQUIRED SUPPLEMENTARY INFORMATION

South Correctional Entity
Schedule of Employer Contributions
PSERS 2

As of December 31, 2015

Last 10 Fiscal Years*

		<u>2015</u>
<u>Statutorily or contractually required contributions</u>	\$	887,714
<u>Contributions in relation to the statutorily or contractually required contributions</u>	\$	<u>(887,714)</u>
<u>Contribution deficiency (excess)</u>	\$	<u>0</u>
<u>Covered employer payroll</u>	\$	8,173,672
<u>Contributions as a percentage of covered employee payroll</u>	%	10.86%

* Information available for 2015 only

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

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

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

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov