



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

South Correctional Entity Facility Public Development Authority

King County

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

Published September 19, 2016

Report No. 1017513





Washington State Auditor's Office

September 19, 2016

Administrative Board
South Correctional Entity Facility Public Development Authority
Des Moines, Washington

Report on Financial Statements

Please find attached our report on the South Correctional Entity Facility Public Development Authority's financial statements.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**South Correctional Entity Facility Public Development Authority
King County**

January 1, 2015 through December 31, 2015

Administrative Board

South Correctional Entity Facility Public Development Authority

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 Facility Public Development Authority, 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 Authority's basic financial statements, and have issued our report thereon dated September 2, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

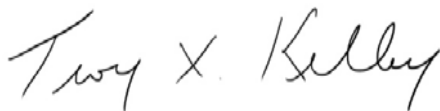
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 2, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

South Correctional Entity Facility Public Development Authority King County January 1, 2015 through December 31, 2015

Administrative Board
South Correctional Entity Facility Public Development Authority
Des Moines, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the South Correctional Entity Facility Public Development Authority, 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 Authority's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Correctional Entity Facility Public Development Authority, as of December 31, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

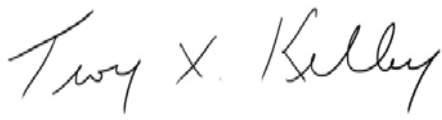
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 12 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 Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in 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

FINANCIAL SECTION

**South Correctional Entity Facility Public Development Authority
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

Management's Discussion and Analysis

South Correctional Entity (SCORE) Facility Public Development Authority (SCORE Public Development Authority) management discussion and analysis is designed to:

- Assist the reader in focusing on significant financial issues
- Provide an overview of SCORE Public Development Authority's financial activity
- Identify changes in SCORE Public Development Authority'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 Public Development Authority's financial statements.

Financial Highlights

- This is the seventh year's financial statements for SCORE Public Development Authority and the fourth full year of operation for the SCORE facility.
- The assets of SCORE Public Development Authority equal its liabilities at the close of 2015 because the receivable from SCORE is limited to the amount needed by the SCORE Public Development Authority to satisfy its liabilities.
- SCORE Public Development Authority made its third principal payment on its bonds payable in 2015.
- SCORE Public Development Authority activity for 2015 was attributable to the continuing debt service and related administrative costs of the debt issued to construct the South Correctional Entity (SCORE) facility.

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 Public Development Authority as a whole and present a longer-term view of SCORE Public Development Authority's finances.

Reporting SCORE Public Development Authority 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 Public Development Authority as a whole and about its activities in a way that helps communicate the financial condition of SCORE Public Development Authority. 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 Public Development Authority's net position, and changes in them, as well as how cash was generated and used during the year. SCORE Public Development Authority's net position is the difference between assets plus deferred outflows and liabilities plus deferred inflows. Since SCORE Public Development Authority has no items requiring recognition as deferred inflows or deferred outflows SCORE Public Development Authority's net position is the difference between its assets and liabilities. It is one way to measure SCORE Public Development Authority's financial position. However, as indicated above, the assets of SCORE Public Development Authority equal its liabilities at the close of 2014 because the receivable from SCORE is limited to the amount needed by the SCORE Public Development Authority to satisfy its liabilities. As such, there are no expected future increases or decreases in SCORE Public Development Authority's net position.

SCORE Public Development Authority financial statements are presented in three parts:

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

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 Public Development Authority 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 Public Development Authority 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. SCORE Public Development Authority currently has only one enterprise fund.

Notes to the Financial Statements

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

Financial Analysis

The statement of net position can serve as a useful indicator of SCORE Public Development Authority's financial position. SCORE Public Development Authority net position (assets in excess of liabilities) at December 31, 2015 totaled \$0. Following is a condensed version of the statement of net position.

SOUTH CORRECTIONAL ENTITY (SCORE) DEVELOPMENT AUTHORITY Condensed Statement of Net Position

	2015	2014
Current assets	\$ 4,542,635	\$ 4,507,434
Noncurrent assets	78,559,691	80,668,106
TOTAL ASSETS	83,102,326	85,175,540
 TOTAL DEFERRED OUTFLOWS OF RESOURCES	 -	 -
 Long-term liabilities	 78,559,692	 80,668,106
Other liabilities	4,542,634	4,507,434
TOTAL LIABILITIES	83,102,326	85,175,540
 TOTAL DEFERRED INFLOWS OF RESOURCES	 -	 -
 NET POSITION:		
Net investment in capital assets	-	-
Restricted	-	-
Unrestricted	-	-
TOTAL NET POSITION	\$ -	\$ -

SCORE Public Development Authority's net position did not change from 2014 to 2015 because the receivable from SCORE is limited to the amount needed by the SCORE Public Development Authority to satisfy its liabilities.

Changes in Net Position

The condensed summary of activities, which follows, shows again that net position did not change during the year. Activity for the SCORE Public Development Authority is limited to debt service and related administrative costs of the debt issued to construct the South Correctional Entity (SCORE) facility. The decrease in revenues from 2014 to 2015 corresponds to the decrease in interest expense and a minor increase in administrative costs.

South Correctional Entity Public Development Authority Financial Report	2015
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South Correctional Entity (SCORE) Development Authority
Statement of Net Position
December 31, 2015

ASSETS

Current assets:

Cash	\$ 760,879
Due from other governmental units	3,781,756
Total current assets	4,542,635

Noncurrent assets:

Due from other governmental units	78,559,691
Total noncurrent assets	78,559,691
TOTAL ASSETS	83,102,326

DEFERRED OUTFLOWS OF RESOURCES

-

LIABILITIES

Current liabilities:

Accrued interest payable	2,477,634
Special obligation bonds payable -Current	2,065,000
Total current liabilities	4,542,634

Long-term liabilities

Special obligation bonds payable	78,315,000
Unamortized premium on special obligation bonds	328,284
Unamortized discount on special obligation bonds	(83,592)
Total long-term liabilities	78,559,692
TOTAL LIABILITIES	83,102,326

DEFERRED INFLOWS OF RESOURCES

-

NET POSITION

Net investment in capital assets	-
Restricted	-
Unrestricted	-
TOTAL NET POSITION	\$ -

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

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

OPERATING REVENUES:	
Charges for services	\$ -
TOTAL OPERATING REVENUES	-
OPERATING EXPENSES:	
Administrative and general	11,565
TOTAL OPERATING EXPENSES	11,565
OPERATING INCOME (LOSS)	(11,565)
NON-OPERATING REVENUES (EXPENSES):	
BABs interest subsidy	1,517,676
Intergovernmental revenues	3,449,158
Interest revenues	-
Interest expense	(4,955,269)
NON-OPERATING REVENUE NET OF EXPENSE	11,565
INCOME (LOSS) BEFORE CONTRIBUTIONS	-
Transfers in (out)	-
CHANGE IN NET POSITION	-
NET POSITION, JANUARY 1	-
NET POSITION, DECEMBER 31	\$ -

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

South Correctional Entity Public Development Authority Financial Report	2015
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South Correctional Entity (SCORE) Development Authority
Statement of Cash Flows
For the Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash paid to suppliers for goods & services	\$ (11,565)
NET CASH PROVIDED (USED) BY	
OPERATING ACTIVITIES	(11,565)
 CASH FLOWS FROM CAPITAL	
FINANCING ACTIVITIES:	
Interest paid on capital debt	(5,038,483)
Principal paid on capital debt	(1,990,000)
BABs interest subsidy	1,517,676
Intergovernmental revenues	5,450,284
NET CASH PROVIDED (USED) BY	
CAPITAL FINANCING ACTIVITIES	(60,523)
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	-
NET CASH PROVIDED (USED) BY	
INVESTING ACTIVITIES	-
 NET INCREASE (DECREASE) IN CASH &	
CASH EQUIVALENTS	(72,088)
 CASH & CASH EQUIVALENTS, JANUARY 1	832,967
CASH & CASH EQUIVALENTS, DECEMBER 31	\$ 760,879
 RECONCILIATION OF OPERATING INCOME (LOSS) TO	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (11,565)
Adjustments to reconcile operating income (loss) to	
net cash provided (used) by operating activities:	
Increase (decrease) in accounts payable	-
NET CASH PROVIDED (USED) BY	
OPERATING ACTIVITIES	\$ (11,565)
 NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Net amortization of bond premium and discount	\$ (43,414)
TOTAL NONCASH INVESTING, CAPITAL AND	
FINANCING ACTIVITIES	\$ (43,414)

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

**SOUTH CORRECTIONAL ENTITY (SCORE)
PUBLIC DEVELOPMENT AUTHORITY
Notes to the Financial Statements
December 31, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The SCORE Public Development Authority, hereafter referred to as the “Authority”, 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 Authority was formed to provide an independent legal entity to finance a portion of the costs of acquiring, constructing, improving and equipping a consolidated correctional facility to be known as the South Correctional Entity (SCORE) facility through the issuance and servicing of its Bonds, Series 2009A and its Bonds, Series 2009B (Taxable Build America Bonds) (together, the “Bonds”) issued in the aggregate principal amount of \$86,235,000, and to perform other functions specified in its charter.

The Authority is an independent legal entity exclusively responsible for its own debts, obligations and liabilities. All liabilities incurred by the Authority shall be satisfied exclusively from the assets and credit of the Authority. Unless otherwise agreed to by the Member Cities (defined below), no creditor or other persons shall have any recourse to the assets, credit or services of the Member Cities on account of any debts, obligations, liabilities, acts or omissions of the Authority.

In accordance with the Amended and Restated Interlocal Agreement dated October 1, 2009 (the “SCORE Formation Interlocal Agreement”), among 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) and ordinances passed by the cities of Auburn, Burien, Federal Way, Renton, SeaTac and Tukwila (the “Owner Cities”), each Owner City is obligated to pay its allocable portion of debt service on the Bonds, as the same shall become due and payable, and to pay administrative expenses with respect to the Bonds. Each Owner City is obligated to pay its share of the debt service on the Bonds, and its obligation is limited to its allocable share, without regard to payment or lack thereof by any other jurisdiction. The obligation of each Owner City to pay its allocable portion 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. All payments with respect to the Bonds will be made to SCORE in its capacity as administrator and servicer of the bonds issued by the Authority.

For the purpose of securing the exemption from federal income taxation for interest on obligations of the Authority, the Authority constitutes an authority and instrumentality of the Owner Cities (within the meaning of those terms in regulations of the United States treasury and rulings of the Internal Revenue Service prescribed pursuant to Section 103 and Section 115 of the Internal Revenue Code of 1986 as amended.) For purposes of Section 265(b)(3)(C)(iii) of the Internal Revenue Code of 1986, as amended, the amount of each issue of obligations of the Authority shall be allocated among each of the Owner Cities.

The financial statements of the Authority 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.

A. Reporting Entity

The Authority is a public corporation organized pursuant to RCW 35.21.730 through 35.21.757 and Ordinance No. 5444 of the City of Renton. The Authority was formed to provide an independent legal entity to finance a portion of the acquisition, construction, and equipping of the South Correctional Entity (SCORE) facility through the issuance and servicing of \$86,235,000 of Bonds, and to perform other functions specified in its charter.

A Board of Directors serves the Authority. The Administrative Board of SCORE, established pursuant to Section 5 of the SCORE Formation Interlocal Agreement, including all amendments acts ex officio as the Board of Directors of the Authority. Board members shall have terms coextensive with their terms as members of the Administrative Board of SCORE.

The Authority 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 Authority are organized on the fund basis, with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The Authority's 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.

The Authority is a proprietary fund whose operations consist of payment of principal and interest for the bonds that it issued in 2009. For 2015, the Authority's revenues consist of intergovernmental revenue related to payment of the debt service and interest income. Following is a description of the proprietary fund type used by the Authority 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. Their reported net position are 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. Because the Authority is a financing entity and not an operating entity, substantially all revenues and expenses are considered non-operating.

C. Basis of Accounting

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.

The participating cities provide the funds necessary to amortize the bond indebtedness of the Authority. The Owner Cities will provide funds to pay the debt service on the bond issue as the amounts become due and payable and to pay administrative expenses with respect to the Bonds. No Owner City shall be obligated to pay the share of any other Owner City. All payments with respect to the bonds shall be made to SCORE in its capacity as administrator and servicer of the bonds issued by the Authority.

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. Cash

As of December 31, 2015, there were no cash surpluses. All cash on hand will be used for current debt service requirements.

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

E. Net Position

The net position of the Authority is zero as all liabilities are expected to be paid by the Owner Cities pursuant to the Formation Interlocal Agreement effective October 1, 2009.

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 market 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.

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 the Authority would not be able to recover its

deposits or collateralized securities that are in the possession of the outside parties. The Authority 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.

Deposits totaled \$760,879 as of December 31, 2015. The bank balances of deposits are substantially the same as the recorded deposits. The Authority's deposits at the end of fiscal year 2015 are:

Deposits and Investments

Source	Fair Value December 31, 2015
Checking	\$ 760,879
Total	<u>\$ 760,879</u>

NOTE 4 – LONG TERM DEBT

The Authority's long term debt consists of its Bonds, Series 2009A and its Bonds, Series 2009B (Taxable Build America Bonds) (together, the "Bonds"). The Bonds were issued 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. The Authority 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 2016.

BAB subsidy request form is Form 8038-CP. The Authority 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 6.8 percent reduction in the 2016 BAB subsidy will be \$115,111.

The Bonds were issued for the purpose of providing funds to acquire, construct, and equip a new regional jail facility (SCORE). SCORE provides an essential governmental service to many governmental agencies in South King County.

Pursuant to an Amended and Restated Interlocal Agreement among the Cities of Auburn, Burien, Des Moines, Federal Way, Renton, SeaTac and Tukwila effective October 1, 2009 (the "SCORE Formation Interlocal Agreement"), the Owner Cities have agreed to finance the new SCORE facility and contribute to its capital and operational costs as provided therein. Under the SCORE Formation Interlocal Agreement and ordinances passed by the cities of Auburn, Burien, Federal Way, Renton, SeaTac and Tukwila (the "Owner Cities"), each Owner City has pledged to contribute their allocable share to pay debt service on the Bonds, as the same shall become due and payable and to pay administrative expenses with respect to the Bonds.

Each Owner City's obligation is limited to its allocable share of principal and interest on the Bonds and all such payments shall be made without regard to the payment or lack thereof by any other jurisdiction. No City is obligated to pay the share of any other City, and each City has obligated and committed itself to budget for and pay its allocable share of the financial obligations represented by the Bonds. The obligation of each Owner City to pay its allocable share of principal and interest on the Bonds is an irrevocable full faith and credit obligation, payable from property taxes levied within its constitutional and statutory authority provided without a vote of the electors of the Owner City on all of the taxable property within the City and other sources of revenue available therefor. Amortization of premium and discount is not included in interest expense because it is recorded directly to due from other governmental units. Federal arbitrage rules apply to the Bonds. No amounts related to a potential arbitrage liability have been reported in the financial statements for the year ended December 31, 2015.

Long Term Debt

Debt Type	Issue Amount	Issue Date	Beginning Balance 01/01/2015	Additions 2015	Deductions 2015	Ending Balance 12/31/2015	Due Within One Year
2009 Special Obligation Bonds	\$86,235,000	November 4, 2009	\$ 82,370,000	\$ -	\$ 1,990,000	\$ 80,380,000	\$ 2,065,000
Unamortized (discount)/premium	505,179	November 4, 2009	288,106	-	43,414	244,692	-
Total Long Term Debt			\$ 82,658,106	\$ -	\$ 2,033,414	\$ 80,624,692	\$ 2,065,000

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>

NOTE 5 – RISK MANAGEMENT

The Authority pursuant to the Interlocal Agreement has insurance coverage through SCORE. 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 – MATERIAL RELATED PARTY TRANSACTIONS

The SCORE Public Development Authority 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 Authority was formed to provide an independent legal entity to finance the acquisition, construction, and equipping of the South Correctional Entity (SCORE) facility through the issuance and servicing of \$86,235,000 of Bonds, and to perform other functions specified in its charter. Payment of principal of and interest on the Bonds is secured by the full faith and credit of the Owner Cities.

The Authority is an independent legal entity exclusively responsible for its own debts, obligations and liabilities. All liabilities incurred by the Authority shall be satisfied exclusively from the assets and credit of the Authority. 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 Authority. Pursuant to the SCORE Formation Interlocal Agreement, the Owner Cities are liable for their respective share of all debt issued by the Authority.

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 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 \$3.3 million for 2015.

END OF NOTES

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

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.

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