Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Spokane Public Facilities District

Spokane County

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

Published April 20, 2017

Report No. 1018853

Office of the Washington State Auditor
Pat McCarthy

April 20, 2017

Board of Directors
Spokane Public Facilities District
Spokane, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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Spokane Public Facilities District
Spokane County
January 1, 2015 through December 31, 2015

Board of Directors
Spokane Public Facilities District
Spokane, 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 business-type activities and the aggregate discretely presented component units and remaining fund information of the Spokane Public Facilities District, Spokane County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 10, 2017. As discussed in Note 11 to the financial statements, during the year ended December 31, 2015, the District implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

State Auditor

Olympia, WA

February 10, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Spokane Public Facilities District
Spokane County
January 1, 2015 through December 31, 2015

Board of Directors
Spokane Public Facilities District
Spokane, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units and remaining fund information of the Spokane Public Facilities District, Spokane County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units and remaining fund information of the Spokane Public Facilities District, as of December 31, 2015, and the respective changes in financial position and, where applicable, 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 11 to the financial statements, in 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 16 and pension plan information on page 52 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 February 10, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

February 10, 2017

FINANCIAL SECTION

Spokane Public Facilities District
Spokane 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 Fund Net Position – 2015
Statement of Cash Flows – 2015
Statement of Fiduciary Net Position – 2015
Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability and Schedule of Employer Contributions – 2015

SPOKANE PUBLIC FACILITIES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015

The following discussion and analysis provides a narrative overview and analysis of the Spokane Public Facilities District's financial activities for the fiscal year ended December 31, 2015. The District owns and operates the Spokane Veterans Memorial Arena, the INB Performing Arts Center and the Spokane Convention Center. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and notes to the financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- Total assets plus deferred outflows of resources, of the Spokane Public Facilities District exceeded its liabilities plus deferred inflows of resources at December 31, 2015 by $50 million.
- The District's total long-term debt at December 31, 2015 was $186 million.
- During 2015, the District completed work on the Convention Center completion project.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction and an overview to Spokane Public Facilities District's basic financial statements. This information will assist users in interpreting the basic statements. Required statements for proprietary funds are: 1) Statement of Net Position, 2) Statement of Revenues, Expenses and Changes in Fund Net Position, and 3) Statement of Cash Flows. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position are prepared using the economic resource measurement focus and the accrual basis of accounting. This report also contains other supplementary information in addition to the basic financial statements themselves.

The Spokane Public Facilities District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. While the District utilizes several funds in its day-to-day operations (operating, tax revenue, City tax revenue, debt service, debt service reserve, county loan reserve, construction, project, facilities maintenance, operating reserves and an administration fund), all are combined for financial statement reporting purposes and are reported as a single proprietary fund. Proprietary funds are used to report activities where fees and charges are expected to cover the costs of doing business.

The **Statement of Net Position** presents information on all of the District's assets, deferred outflows of resources and liabilities, with the difference between the three reported as net position. This statement serves a purpose similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net position may serve as a useful indicator of whether the District's financial position is improving or deteriorating. Nonfinancial factors should also be considered to assess the overall position of the District.

The **Statement of Revenues, Expenses, and Changes in Fund Net Position** present information showing how the District's net position changed during the fiscal year. All changes in net position are reported using the accrual basis of accounting, similar to the method used by most private-sector companies. The accrual basis of accounting requires that revenues be reported when they are earned and expenses are reported when the goods and services are received, regardless of the timing of related cash flows. Revenues and expenses are reported for some items that will only result in cash flows in the subsequent years.

The **Statement of Cash Flows** as the name implies, is concerned solely with the flows of cash and cash equivalents. Only transactions that affect the District's cash position are reflected in this statement. Transactions are segregated into three sections on the statement: 1) cash flows from operating activities, 2) cash flows from capital and related financing activities, and 3) cash flows from investing activities.

Net Position Analysis

As of December 31, 2015, the District reported net position of $50 million. Of the $50 million, $47 million of net position is accounted for by investments in capital assets, net of related debt and $9 million is restricted for debt service. This leaves ($7) million as unrestricted. Current restricted assets decreased and capital assets increased in 2015 as Measure One project spending continued.

	2015	2014	% Change
ASSETS			
Current assets	$ 21,605,851	$ 19,954,292	8.28%
Current restricted assets	1,694,101	10,451,959	-83.79%
Capital assets	193,978,926	195,529,138	-0.79%
Noncurrent restricted assets	10,769,700	10,519,700	2.38%
Total assets	228,048,577	236,455,089	-3.56%
DEFERRED OUTFLOWS	10,845,002	11,115,418	-2.43%
LIABILITIES			
Current liabilities	2,953,809	6,392,265	-53.79%
Long term liabilities	185,716,315	189,110,675	-1.79%
Total liabilities	188,670,123	195,502,940	-3.49%
DEFERRED INFLOWS	345,989	-	
NET POSITION			
Net investment in capital assets	47,491,873	53,708,235	-11.57%
Restricted	8,956,990	8,643,673	3.62%
Unrestricted	(6,571,397)	(10,284,341)	-36.10%
Total net position	$ 49,877,466	$ 52,067,567	-4.21%

Revenue and Expense Analysis

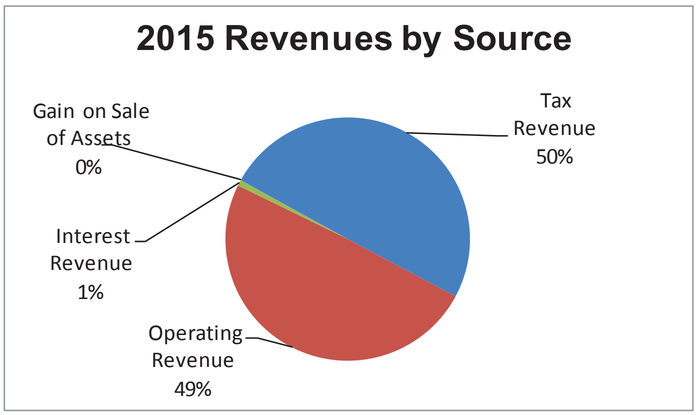
	2015	2014	% Change
OPERATING REVENUES			
Admission taxes	$ 940,348	$ 999,019	-5.87%
Charges for goods & services	2,421,085	2,108,874	14.80%
Rent, parking, concessions & merchandise	8,106,436	6,639,149	22.10%
Lodging tax	3,332,223	2,893,203	15.17%
Total operating revenue	14,800,092	12,640,245	17.09%
OPERATING EXPENSES			
Salaries and benefits	4,208,717	3,936,194	6.92%
Supplies	1,703,360	584,837	191.25%
Services & charges	10,796,005	10,721,568	0.69%
Taxes	142,126	112,573	26.25%
Depreciation	5,996,665	4,866,440	23.22%
Total operating expenses	22,846,873	20,221,613	12.98%
OPERATING INCOME (LOSS)	(8,046,781)	(7,581,368)	6.14%
NONOPERATING REVENUES (EXPENSES)			
Local retail sales tax	8,970,527	8,571,621	4.65%
Hotel/motel excise tax	2,935,529	2,617,561	12.15%
Local retail sales tax rebate	2,982,763	2,843,172	4.91%
Interest on invested cash & contracts	228,265	209,428	8.99%
Gain/(loss) on sale of capital assets	9,522	-	100.00%
Interest on long-term debt and the DS costs	(6,471,741)	(4,299,964)	50.51%
Total nonoperating revenue (expense)	8,654,864	9,941,818	-12.94%
INCOME BEFORE CONTRIBUTED CAPITAL	608,083	2,360,451	-74.24%
Contributed Capital	163,143	25,000	552.57%
CHANGE IN NET POSITION	771,226	2,385,451	-67.67%
Total net position - beginning	52,067,567	48,302,530	7.79%
Change in Accounting Principles - GASB 68/71	(2,168,425)		
Prior Period Correction	(792,901)	1,379,586	-157.47%
TOTAL NET POSITION - ENDING	$ 49,877,466	$ 52,067,567	-4.21%

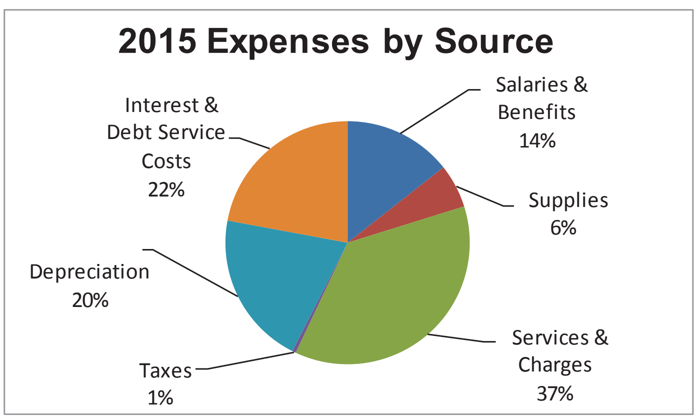
Total operating expenses for the year ran 154% of operating income, resulting in an operating loss of $8 million. After adding non-operating revenues and expenses and contributed capital of $8.8 million, the change in net position during the year is $.8 million.

The increase in both operating revenue and expenses was primarily due to the January 2015 completion of the 92,000 square foot addition to the Convention Center.

Operating expenses include several Renewal and Replacement projects at a cost of $1.7 million (in Services and Charges and Supplies). 2015 projects include concession, administration office and bathroom remodels at the Arena, major lighting upgrades and mechanical system repairs at both the Convention Center and Performing Arts Center as well as the refinishing of the Performing Arts Center stage. Also, as the Convention Center addition was nearing completion, $1.2 million of non-capitalized furniture and equipment purchases were made to outfit the building for operation. If the non-cash depreciation charge, the Renewal and Replacement expenses and the equipping of the new Convention Center addition were ignored, net operating income for the year would have been $900,000. Historically, the combined operations are profitable.

The following graphs reflect the Revenues and Expenses by Source for year ended December 31, 2015.





CAPITAL ASSETS

The District's total investment in capital assets, including construction in progress, as of December 31, 2015 amounts to $194 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, and construction in progress. Analysis of changes in capital assets is as follows:

	2015	2014
Land	$ 22,747,477	$ 20,592,877
Other Capital Assets	7,684,365	6,741,874
Construction in progress	22,868	52,037,703
Buildings	159,568,299	115,068,919
Machinery and equipment	1,921,698	1,087,766
Other Improvements	2,034,218	-
Total capital assets, net	$ 193,978,925	$ 195,529,138

The major capital asset events during the current fiscal year included the following:

- Replaced the District phone system
- Purchased a new hockey dasher system at the Arena
- Purchased a skid steer with snow blower attachment for the Arena
- Completed several art installations including *360 Anamorphic Mural* by the Benson Brothers in the Arena entrance, *Memory and Hope* by Steve Adams in the Riverside Overlook, *Spokane to Coeur d'Alene* by Ben Joyce in the Riverside Hall and the Centennial Trail Art Rail by 2 Simmons at the Convention Center, and *Dance of the Redband* by Ken Spiering at the corner of Division and Spokane Falls Blvd
- The Arena *Illuminating Courage Memorial* was donated to the District by the Gold Star Families Military Memorial Committee
- Purchased an array of projectors, screens and other audio/video equipment at both the Arena and the Convention Center
- Purchased a new marquee for the Convention Center
- Completed construction on the $53 million Convention Center addition
- Completed construction on the skywalk between the Convention Center and the Grand Hotel
- Created box seats at the Performing Arts Center

Additional information regarding the District's capital assets can be found in the notes to the financial statements.

LONG-TERM DEBT

At December 31, 2015, the District had total bonded debt outstanding of $130 million. The District holds an "A2" rating from Moody's and an "A+" rating from Standard & Poor's.

	2015	2014
Revenue bonds	$ 130,235,000	$ 133,705,000
Unamortized premium	15,313,348	16,295,996
Total bonds payable	$ 145,548,348	$ 150,000,996

Further detail pertaining to the District's long-term obligations can be found in the notes to the financial statements.

ECONOMIC FACTORS

In 2012, the District asked Spokane voters to approve Measure One which would extend current taxes in order to allow bonding that would fund three projects – Convention Center Completion, Centennial Trail/Riverbank improvements and new Arena seating. The measure was approved, bonds were issued in 2013 and the projects are nearly complete. The largest project, the Convention Center Completion, connects to the new adjacent hotel, allowing the District to provide more meeting space, accommodate more simultaneous events and make Spokane a more competitive destination. Convention Centers, as a rule, lose money on operations. The costs of owning, maintaining and operating such a large facility simply cannot be recouped from users of the facilities. The sole role of a convention center in a community is to bring visitors into the region that will spend money and generate economic impact for all levels of beneficiaries – local businesses as well as City, County and State governments. Since the District owns and operates two other buildings that generate a profit, the Spokane Arena and the INB Performing Arts Center, the Convention Center losses have so far been offset by the profits of these other buildings. With a larger building, however, the potential losses will be larger. The District, along with its community partners, Visit Spokane, the Hotel Motel Association and the Spokane Sports Commission, have been aggressively marketing the new space and making deliberate choices to keep the operating costs as low as possible.

In addition, the District has been asked to partner with the Spokane Sports Commission and Spokane County to operate a proposed Sportsplex that will be built adjacent to the Spokane Arena and Riverfront Park. It will feature an indoor track, volleyball courts, basketball courts, wrestling mats, multi-sport space and possibly an ice rink. A portion of the property for the Sportsplex is expected to be leased from the Spokane Parks Department. With a sports tourism role similar to the convention center, it too will operate at a loss. This is still in the planning stages, but the District Board has taken steps to start and fund the process which is expected to culminate in a public vote in 2017.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Spokane Public Facilities District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Executive Officer, Spokane Public Facilities District, 720 W. Mallon Avenue, Spokane, Washington, 99201.

SPOKANE PUBLIC FACILITIES DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2015

ASSETS	PRIMARY GOVERNMENT	COMPONENT UNIT
Cash and Cash Equivalents	$ 17,276,018	$ 63,587
Current Restricted Cash - Revenue Bond Covenants	1,694,101	-
Accounts Receivable	853,241	1,284
Interest Receivable	16,595	37
Due from Other Governments	3,356,450	-
Prepaid Expenses	103,548	-
Non-Current Restricted Cash - Debt Covenants	10,769,700	-
Capital Assets:		
Furniture, Fixtures, and Equipment (net)	1,921,698	5,096
Buildings (net)	159,568,299	-
Other Improvements (net)	2,034,218	-
Land	22,747,477	-
Other Capital Assets - Non-Depreciable	7,684,365	-
Construction in Progress	22,868	-
Total Capital Assets	193,978,926	5,096
Total Assets	228,048,577	70,005
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflow - Loss on Refunding	10,530,396	-
Deferred Outflow - Pensions	314,606	-
Total Deferred Outflows of Resources	10,845,002	-
LIABILITIES		
Accounts Payable	1,743,555	35,684
Wages Payable	456,486	-
Interest Payable	576,259	-
Customer Deposits Payable	177,510	-
Long-term Liabilities:		
Due within 1 year:		
Due to Other Governments	1,289,543	-
Bonds Payable	3,620,000	-
Due in more than 1 year:		
Compensated Absences Payable	436,352	-
Due to Other Governments	36,249,810	-
Revenue Bonds net of Unamortized Premium	141,928,348	-
Net Pension Liability	2,192,262	
Total Liabilities	188,670,123	35,684
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflow - Pensions	345,989	-
Total Deferred Inflows of Resources	345,989	-
NET POSITION		
Net Investment in Capital Assets	47,491,873	5,096
Restricted for Debt Service	8,956,990	-
Unrestricted	(6,571,397)	29,225
Total Net Position	$ 49,877,466	$ 34,321

See accompanying Notes to Financial Statements.

SPOKANE PUBLIC FACILITIES DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEAR ENDED DECEMBER 31, 2015

	PRIMARY GOVERNMENT	COMPONENT UNIT
OPERATING REVENUES		
Admission Taxes	$ 940,348	$ -
Charges for Goods & Services	2,421,085	-
Rent, Parking, Concessions & Merchandise	8,106,436	250,445
Lodging Tax	3,332,223	-
Total Operating Revenue	14,800,092	250,445
OPERATING EXPENSES		
Salaries & Benefits	4,208,717	-
Supplies	1,703,360	-
Services & Charges	10,796,005	278,924
Taxes	142,126	1,135
Depreciation	5,996,665	5,096
Total Operating Expenses	22,846,873	285,154
Operating Income (Loss)	(8,046,781)	(34,709)
NONOPERATING REVENUES (EXPENSES)		
Local Retail Sales Tax	8,970,527	-
Hotel/Motel Excise Tax	2,935,529	-
Local Retail Sales Tax Rebate	2,982,763	-
Interest on Invested Cash	228,265	564
Gain/(Loss) on Sale of Capital Assets	9,522	-
Interest on Long-Term Debt and Other Debt Service Costs	(6,471,741)	-
Total Nonoperating Revenue (Expense)	8,654,864	564
INCOME (LOSS) BEFORE CONTRIBUTED CAPITAL	608,083	(34,145)
Capital Contributions	163,143	-
CHANGE IN NET POSITION	771,226	(34,145)
Total Net Position - Beginning	52,067,567	68,466
Change in Accounting Principle - GASB 68/71	(2,168,425)	-
Prior Period Correction	(792,901)	
Total Net Position - Beginning, as Restated	49,106,241	-
TOTAL NET POSITION - ENDING	$ 49,877,466	$ 34,321

See accompanying Notes to Financial Statements.

SPOKANE PUBLIC FACILITIES DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015

	PRIMARY GOVERNMENT	COMPONENT UNIT
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating Receipts from Customers	$ 14,364,737	249,786
Payments to Employees	(4,246,831)	-
Payments for Operating Expenses	(12,156,495)	(265,573)
Net Cash Provided (Used) by Operating Activities	(2,038,588)	(15,786)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Taxes Levied for Capital Debt Service Purposes	14,687,687.37	-
Acquisitions and Construction of Capital Assets	(8,642,132)	-
Payments to Other Governments per Interlocal Agreements	(1,129,746)	-
Principal Paid on Capital Debt	(3,470,000)	-
Interest Paid on Capital Debt	(7,048,079)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(5,602,269)	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on Invested Cash	237,972	580
Net Cash Provided (Used) in Investing Activities	237,972	580
Net Increase (Decrease) in Cash and Cash Equivalents	$ (7,402,885)	$ (15,206)
Cash and Cash Equivalents - Beginning of Year	$ 37,142,704	$ 78,793
Cash and Cash Equivalents - End of Year	$ 29,739,819	$ 63,587
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	$ (8,046,781)	$ (34,709)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	5,996,665	5,096
Change in Assets & Liabilities:		
Accounts Receivable	(209,621)	(659)
Due from other Governments	(147,738)	-
Prepaid Assets	94	-
Customer Deposits	(77,996)	-
Accounts Payable	484,902	14,486
Wages Payable	(93,335)	-
Net Pension Liability	55,221	
Net Cash Provided (Used) by Operating Activities	$ (2,038,588)	$ (15,786)
Noncash Investing, Capital, and Financing Activities:		
Net Amortization of Bond Premium and Deferred Loss on Refunding	397,626	

See accompanying Notes to Financial Statements.

SPOKANE PUBLIC FACILITIES DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
YEAR ENDED DECEMBER 31, 2015

ASSETS		
Cash & Cash Equivalents	$	(64,666)
Accounts Receivable		
Interest Receivable		20
Total Assets		(64,646)
LIABILITIES		
Held for Future Year Disbursement		(64,646)
Total Liabilities		(64,646)
NET POSITION	$	-

See accompanying Notes to Financial Statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Spokane Public Facilities District was created by the Washington State Legislature under RCW 36.100 in order to acquire, construct, own and operates a new sports and entertainment facility within Spokane County. Through the adoption of the September 1989 resolutions, the Spokane County Commissioners and Spokane City Council appointed two members each to the District Board of Directors. The legislation called for the fifth member to be selected by the other four members and required that one member be a representative of the hospitality industry. Through a county-wide election in 1992, voters approved a 1/10 of 1% Sales and Use tax and a 2% Hotel/Motel tax to fund the new Spokane Veterans Memorial Arena.

In 2002, the District began collecting a state-authorized Sales & Use tax rebate of .033% for due diligence on three qualifying projects. In May 2002 Spokane County voters expanded the authority of the District to the full extent allowed by the RCW, in order to take on these new projects. They also voted to extend the 1/10 of 1% Sales and Use tax and the 2% Hotel/Motel tax that was currently funding the Arena, to fund three regional projects totaling $96 million. These projects included improvements to the Fair & Expo Center, improvements to Mirabeau Point and Convention Center expansion. During 2003, bonds were issued to finance the projects. The District issued $77 million to fund the three-phase Convention Center expansion project. Spokane County issued $12 million to fund the Fair & Expo Center improvements and the City of Spokane Valley issued $7 million to fund the Mirabeau Point improvements. Since the District is collecting the full amount of the tax revenue, it is responsible for paying the County and the City of Spokane Valley an amount equal to their debt service payments each year. A long-term liability, “Due to Other Governments”, has been set up to account for these payments in accordance with GAAP. Phase 1, the new Convention Center, was complete in 2006. Phase 2, the existing Convention Center remodel, was complete in 2007. Phase 3, south site acquisition for future expansion and development of a surface parking facility, was complete in 2010.

On September 1, 2003, the City of Spokane, through various interlocal agreements, transferred to the District a 2/3 ownership in Spokane Center, which includes the INB Performing Arts Center, Spokane Convention Center and Washington State International Agricultural Trade Center facilities. At the same time, the operating responsibilities for the Arena and Spokane Center shifted from the City to the District.

Discretely Presented Component Unit – A component unit is a legally separate organization that a primary government must include as part of its financial reporting entity for fair presentation in conformity with GAAP. The component unit discussed below is included in the District reporting entity because of its operational or financial relationship with the District.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Discretely Presented Component Unit – (Continued)

In 2007, the District partnered with the Doubletree Hotel forming the non-profit Spokane Convention Center Condominium Owners Association (the Association). The District owns units 1 and 3. The Doubletree owns unit 2. Units 1 and 2 are the parking garage. Unit 3 is the Spokane Convention Center. There are 3 board members – one representing each unit. To effectively operate and manage the parking garage, the District and Doubletree agreed to a Parking Development and Use Agreement. The Agreement addresses revenue and expenses plus a host of other issues. The District's 2015 portion of operating profit was $34,000 and is included in the operating revenue of the District. The District holds the monies for the Association within its group of funds at the County and handles all accounting duties. It is reported as a component unit by the District.

B. Basis of Presentation

1. Background

The initial mission of the Spokane Public Facilities District was to administer the operation and finance of the Spokane Veteran's Memorial Arena, the construction of which was completed in September 1995. This mission was expanded by voter approval and now includes operations of the Spokane Convention Center and INB Performing Arts Center as well as the Arena. The District's formal mission statement is: To operate the finest public assembly facilities and provide the highest quality of guest services in a manner that ensures profitable operations and financial sustainability, returns value to the stakeholders and maximizes economic impact to the Inland Northwest. Since user charges will primarily support the facilities over the long term, the District's accounts are organized as a proprietary fund. The District uses several separate funds, but all are combined as one for reporting purposes.

2. Proprietary Fund Definition

A proprietary fund is accounted for with a separate set of accounts that comprises its assets, liabilities, fund equity, revenues and expenses.

Proprietary funds are accounted for using the economic resources measurement focus. This means that all assets and all liabilities, whether current or long-term, associated with their activity are included on their statements of net position. The operating statement presents increases (revenues and gains) and decreases (expenses and losses) in net position. A separate statement that presents investing and financing activities discloses the District's cash flows.

3. Fiduciary Fund

Generally accepted accounting principles also direct that fiduciary funds be used to report assets held in a trustee or agency capacity for others. Accordingly, the resources of a legally separate entity that does not qualify as a component unit may nonetheless still have to be included within the primary government's financial statements as a fiduciary fund.

During 2012, the District partnered with other public facilities districts across the state to form a voluntary association whose members desire to coordinate and cooperate to facilitate the development, improvement, operation, maintenance, service delivery, and other matters to enhance the function and purpose of public facilities districts in the State of Washington. The District holds the monies for the association within its group of funds at the County and handles all accounting duties. It is reported as a fiduciary (agency) fund by the District and is excluded from the Statement of Net Position.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Fiduciary Fund (Continued)

During 2014, the District spearheaded a project to beautify a triangle shaped concrete intersection across from the Convention Center. Though the District does not own the land, it took the lead by organizing the invested partners (City of Spokane, Washington State Department of Transportation, Washington State University/University District and the Business Improvement District), arranging for the design and construction activity and collecting financial commitments from the partners. The design process was underway in 2014 with the construction phase mostly complete by the end of 2015. The District holds the monies for the project within its group of funds at the County and handles all accounting duties. It is reported as a fiduciary (agency) fund by the District and is excluded from the Statement of Net Position.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The District uses the accrual basis of accounting, which recognizes increases and decreases in economic resources as soon as the underlying event or transaction occurs. Thus, revenues are recognized as soon as they are earned and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash inflows and outflows.

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 the funds principal ongoing activity. The principal operating revenues of the District are 1) charges to customers for use of its buildings, parking lots, equipment and staff, 2) a portion of ticket fees, concession and merchandise sales during events, 3) admission tax paid on each purchased ticket and 4) the lodging taxes received from the City of Spokane per the interlocal agreement between the City and the District. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the District will utilize restricted resources first, then unrestricted resources as needed.

D. Budgeting Requirements

The District budgeting process is a financial planning tool used to establish the estimated revenues and expenses of the District. The budget is developed after reviewing revenue forecasts, and the impact of changes in rates for goods and services, rents, taxes and other charges, prior year actual, current operating requirements, and the overall economic climate of the region.

E. Assets, Liabilities, and Equities

1. Cash and Cash Equivalents

Per RCW 36.100.100, Spokane County is required to be the District’s fiscal agent. The Spokane County Treasurer automatically invests money deposited by the District in the Spokane County Investment Pool (SCIP). It is the policy of Spokane County to invest public funds in accordance with governing statutes and in a manner which will provide the best investment return. Investments are made by designated personnel in accordance with the Spokane County

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. Cash and Cash Equivalents (Continued)

Treasurer's Investment Policy. County policy dictates that all investment instruments other than certificates of deposit and County notes be transacted on the delivery-versus-payment basis. Due to the brief length of time short-term (three months or less) cash investments are held, market value approximates cost.

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted and unrestricted cash) with a maturity of three months or less when purchased to be cash equivalents. See Note 3 for a discussion of the nature of restricted cash.

2. Accounts Receivable

Accounts receivable consists of amounts owed from private individuals or organizations for goods and services received, but not yet paid for. The amount owed at December 31, 2015 was $853,241.

3. Interest Receivable

The amount of interest earned on SCIP investments, but not yet received, as of December 31, 2015 was $16,595.

4. Due from Other Governments

Most tax revenue is received two months after it is earned. According to the full accrual basis of accounting, revenue is recognized when it is earned rather than when it is received. The amount of $3,356,450 was receivable from other governments at December 31, 2015. Of that, $787,842 was due from the City of Spokane for Lodging Tax receipts and $2,568,608 was due from the State of Washington for Sales and Use Tax, Sales and Use Tax Rebate and Hotel/Motel Tax receipts.

5. Prepaid Expenses

Since the majority of the District's insurance policies are on an October 1 through September 30 year, the amount of $94,000 is for prepaid insurance at December 31, 2015. Occasionally annual dues, conference registrations, travel reservations and other expenses are paid for in a year prior to which they are for. Total prepaid expenses at December 31, 2015 are $103,548.

6. Capital Assets

Capital assets are recorded in the Statement of Net Position. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The costs for normal maintenance and repairs are not capitalized.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the District during the current fiscal year is $6,636,578. Of this amount, $164,837 was included as part of the cost of capital assets under construction in connection with the Convention Center Completion project.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Furniture, Fixtures, and Equipment	3 – 20 Years
Buildings	20 – 40 Years
Other Improvements	40 Years

7. Customer Deposits

The balance of funds held as deposits toward future events at December 31, 2015 was $177,510.

8. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Employees who leave District employment after one year are entitled to a cash payment for accrued vacation leave to a maximum of two times their annual accrual based on years of service. Employees who leave District employment after two years are entitled to a cash payment for accrued sick leave to a maximum of two times their annual accrual. The amount owed to employees, including taxes, at December 31, 2015 was $436,352.

9. Net Position

Net position has been classified on the statement of net position into the following components:

Net Investment in Capital Assets: - Capital assets are shown net of accumulated depreciation, deferred inflows/outflow of resources, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted component: – Consists of restricted assets reduced by liabilities and deferred inflow of resources related to those assets that have third party restrictions placed on them.

Unrestricted component: - is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

NOTE 2 - STEWARDSHIP AND ACCOUNTABILITY

There have been no material violations of finance related legal or contractual provisions.

NOTE 3 - CASH AND CASH EQUIVALENTS

Per RCW 36.100.100, Spokane County is required to be the District's fiscal agent and holds all of the District's deposits. The Spokane County Treasurer automatically invests money deposited by the District in the Spokane County Investment Pool (SCIP). The SCIP is not SEC registered and there is no credit rating of the Pool. Investments in the Pool are in the custody of the Spokane County Treasurer under the policy guidance of the Spokane County Finance Committee. There are no withdrawal restrictions placed on the District.

Investments in the SCIP principally consist of investments in the Washington State Local Government Investment Pool, US government agency securities, commercial bank certificates of deposit, and Spokane County bonds. Spokane County is limited by county and state statutes as to the types of investments in which it may invest. For a more detailed list of the types of investments allowed under Washington State law contact the Spokane County Treasurers Office at www.spokanecounty.org.

At December 31, 2015 the District's fair value of the position in the pool approximated the same as the value of the pool shares.

Amounts are classified on the statement of net position as follows:

Cash and cash equivalents	$	17,276,018
Current restricted cash - debt covenants		1,694,101
Non Current restricted cash - debt covenants		10,769,700
	$	29,739,819

As of December 31, 2015, the District had the following cash and cash equivalents:

Petty cash	$	250
Spokane County Investment Pool		29,739,569
	$	29,739,819

Restricted cash:

Per Resolution #11-07, dated December 13, 2011 providing for the issuance of the 2011 bonds and per Resolution #13-05 dated April 23, 2013 providing for the issuance of the 2013 bonds, beginning December 1st each year, all tax revenue received into the Tax Revenue Fund is to be transferred to the Bond Fund until the fund balance is sufficient to cover the next two debt service payments (June 1 and December 1 of the following year). The cash balance in the Bond fund at December 31, 2015 was $1,232,024.

The resolutions also require the District to either maintain a certain balance in the Bond Reserve fund as resources set aside to compensate for any potential future deficiencies in the ability of the District to make the required bond payments or to have an equivalent form of insurance. Originally the reserve requirement was satisfied by a surety bond from MBIA, but when MBIA's rating was significantly

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

downgraded, the District was required to replace the bond with cash reserves. The cash balance in the Bond Reserve Fund at December 31, 2015 was $10,019,700.

Per Resolution #12-04, dated October 9, 2012, providing for the County Loan, $250,000 will be reserved each year for five years with the balance pledged solely to the repayment of the County Loan. (See Note 8) The cash balance in the County Loan Reserve fund at December 31, 2015 was $750,000.

Cash restricted for construction	$	462,077
Cash restricted for Bond fund		1,232,024
Cash restricted for Bond Reserve fund		10,019,700
Cash restricted for County Loan Reserve fund		750,000
	$	12,463,801

Component Unit and Fiduciary Fund – The component unit and fiduciary fund deposit cash with the Spokane County Treasurer and it is automatically invested in the Spokane County Investment Pool. The balance at December 31, 2015 was $63,587 for the component unit and ($64,666) for the Fiduciary fund.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 was as follows:

NOTE 4 - CAPITAL ASSETS (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 20,592,877	2,154,600.00	-	$ 22,747,477
Other Capital Assets	6,741,874	942,491	-	7,684,365
Construction in progress	52,037,703	22,868	(52,037,703)	22,868
Total capital assets, not being depreciate	79,372,453	3,119,960	(52,037,703)	30,454,710
Capital assets, being depreciated:				
Buildings	169,180,369	53,129,175	(3,730,197)	218,579,347
Machinery and equipment	7,089,304	1,307,708	(451,593)	7,945,419
Other Improvements	-	2,081,042	-	2,081,042
Total capital assets, being depreciated	176,269,673	56,517,925	(4,181,790)	228,605,808
Less accumulated depreciation for:				
Buildings	54,111,450	5,532,855	(633,256)	59,011,048
Machinery and equipment	6,001,538	416,988	(394,804)	6,023,722
Other Improvements	-	46,823	-	46,823
Total accumulated depreciation	60,112,988	5,996,666	(1,028,060)	65,081,593
Total capital assets, being depreciated, n	116,156,685	50,521,259	(3,153,730)	163,524,215
Total capital assets, net	$ 195,529,138	$ 53,641,219	$ (55,191,432)	$ 193,978,925

Component Unit

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Machinery and equipment	$ 25,480	$ -	$ -	$ 25,480
Accumulated depreciation	(15,288)	(5,096)	-	(20,384)
Total capital assets, net	$ 10,192	$ (5,096)	$ -	$ 5,096

NOTE 5 - PENSION PLANS

The District participates in three types of pension plans for its full-time employees – Spokane Employees' Retirement System (SERS), Public Employee Retirement System (PERS) and Voya.

Prior to September 1, 2003, the District had only one qualifying employee. That employee was in the PERS system. When the District took over operating responsibilities from the City of Spokane on September 1, 2003 the District hired 30 more employees. Many of those were former City employees. Those employees that were vested in the Spokane Employee Retirement System at the time of transfer to the District, and did not retire from the City, were permitted to remain in that system, with City Council approval. All new hires automatically join PERS. The third plan, Voya, is for the employees that retired from the City and are not eligible for PERS.

Prior to July 2008, the SERS plan was the most generous, with the employee and employer contribution rates both at 6.72%. The District, in an attempt to make retirement benefits as equitable as possible to the SERS plan, required that the contribution rates for the PERS plans equal a minimum of

NOTE 5 - PENSION PLANS (Continued)

6.72%. Since PERS had set rates (see below), both the employee and the. employer were putting an additional amount into the employees' Voya 401(a)/457 account so that the total contributed by both parties was 6.72%. On July 1st, however, the PERS employer rates were increased higher than the 6.72% rate. The extra employer contributions into the 401(a) account were stopped. On January 1, 2009, the SERS rate was raised from 6.72% to 7.75% and on September 1, 2014 to 8.25%. For the Voya plan, both employer and employee contribute 6.72% to the 401(a)/457 account.

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:

Component	SERS Plan	PERS 1 Plan	PERS 2/3 Plan	Voya	Total
Pension liabilities	$ 474,484	$ 911,803	$ 805,974	$ -	$ 2,192,262
Deferred outflows of resources	68,596	41,906	204,103	-	314,606
Deferred inflows of resources	80,947	49,886	215,157	-	345,989
Pension expense	29,822	134,328	113,739	21,068	298,956

A. Spokane Employees' Retirement System

1. General

The City administers three single-employer, defined benefit retirement plans. The District only participates in the Spokane Employees' Retirement System (SERS).

2. Plan Description

The Spokane Employees' Retirement System (SERS) is a single employer defined benefit pension plan covering employees of the City of Spokane, administered in accordance with Chapters 3.05 and 4.14 of the Spokane Municipal Code (SMC).

SERS is a pension trust fund of the City of Spokane and is presented within the fiduciary funds of the City's comprehensive annual financial report. SERS has separate legal standing. The City is financially accountable for SERS because a financial burden is imposed on the City using the criteria of financial accountability. SERS has determined that there are no entities that require inclusion within its financial statements.

All permanent employees of the City, including employees of the Plan, are eligible to belong to SERS with the exception of police and firefighters who are members of the Washington State Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF).

Management of SERS is vested in the SERS Board, which consists of seven members—three members are elected by active employee plan members, three members are appointed by the Spokane City Council, and one member (who may not be an elected official or employee of the city) is appointed by the other six members.

SERS provides retirement, death, and disability benefits. All employees hired on or before December 31, 2008 who participate in SERS are eligible for service retirement after completing five years of service if they are age 50 or older. Their retirement benefits are calculated by multiplying 2.15% by the member's highest consecutive two-year average salary times the member's years of creditable service, not to exceed 64.5%.

Employees hired prior to January 1, 2009, have a choice at retirement of choosing a 2.15% multiplier with a service cap of 30 years or a 2.0% multiplier with a service cap of 35 years. In

NOTE 5 - PENSION PLANS (Continued)

2. Plan Description (Continued)

addition, the normal retirement age for the Plan is 62. For either group, benefits may be reduced on an actuarially equivalent basis based on the retirement annuity option selected..

The SERS Board of Administration considers issuing ad hoc adjustments for retiree benefits each year. The Board can grant an ad hoc adjustment if the GASB 67 funded ratio is 90% or greater and remains above 90% after the ad hoc adjustment is granted. The GASB 67 funded ratio is less than 90% as of December 31, 2015. The last ad hoc retiree adjustment occurred in 2001. Based on the current GASB 67 funded ratio, it will take continued significant favorable experience in the investment markets or a future increase in contribution levels to raise the funded ratio above the ad hoc threshold.

Plan Membership

Membership of the City administered plan, as of the last actuarial valuation, is as follows:

Plan	Retirees and Beneficaries Receiving Benefits	Inactive Members Entitled to But Not Receiving Benefits	Active Plan Members	Total Members	Membership as of the Latest Actuarial Valuation
SERS	1,424	97	1,300	2,821	12/31/15

The District has three active plan members. The other statistics are not tracked for District employees.

3. Summary of Significant Accounting Policies

Basis of Accounting

For purposes of measuring the net pension liability, deferred outflows/deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's pension plans and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the City. For this purpose, employee and employer contributions are recorded as revenues in the period in which payroll is due and benefit payments, including refunds of employee contributions, are recognized when due and payable. Interest income is recognized when earned and dividend income is recognized on the ex-dividend date. Investments are reported at fair value.

Stand Alone Statements

The methods and assumptions required for financial reporting are the same methods and assumptions used in determining a plan's funding requirement and are described in the publicly available actuarial reports for the three pension plans administered by the City of Spokane. Those reports may be obtained by writing to the Retirement Department, City Hall, 808 West Spokane Falls Blvd, Suite 604, Spokane, Washington, 99201 or by calling (509) 625-6330.

Use of Estimates

Management is required to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at year end, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 5 - PENSION PLANS (Continued)

4. **Deposits and Investments**

Rate of Return
The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested is presented in a table below.

The long-term expected rate of return on pension plan investments was determined using statistical methods to determine the best-estimate future real rate of return (net of pension plan investment expense and inflation) based on long-term performance of the major asset classes. These returns are used to determine the estimated portfolio return based on the target asset allocation percentage of each asset class. Best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2015, are summarized in the following table:

For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan expense, is shown in the table below:

	SERS
Rate of return	-.94%

Targeted Rates of Return
Below are the targeted rates of return for the pension plan as of December 31, 2015:

Long-term expected real rate of return	SERS
Global equity	7.0%
Global fixed income	3.5%
Long/short and special opportunities	7.1%
Absolute return	4.0%
Real Estate	6.6%
Private equity	0.0%
Commodities	6.5%
Tangible assets	0.0%
Cash	0.5%

Investments
Each plan's investments may be used only for the benefit of the members of that plan in accordance with the terms of the plan.

No investments were made in loans to or leases with any Plan official, government employer official, or party related to a Plan official.

NOTE 5 - PENSION PLANS (Continued)

The SERS investment management policy is set by the Board of Administration. The investment policy sets strategic asset allocation targets and ranges for all approved asset classes. SERS' investments are governed by the "prudent person rule." The prudent person rule, as set forth by state statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the System. SERS investments are categorized by type to give an indication of the level of risk assumed by the System.

Investments of the pension trust funds are reported at fair market value. The Board of Administration maintains a formal Statement of Investment Policy, which addresses governing provisions and additional guidelines for the investment process. In fulfilling its responsibilities, the Board of Administration has contracted with investment managers, a custodian, and an independent investment consultant. Investment manager contracts include specific guidelines regarding the investments under management. All investments are held in custody. The independent investment consultant monitors the fund on a regular basis and provides quarterly reports to staff and the Board. The SERS' Retirement Director monitors the fund on a regular basis.

The Board has an asset allocation policy that includes an allocation to alternative investments. Funding of these limited partnerships began in 2007 and continues on an ongoing basis. The term "alternative investments" encompasses a broad category of nontraditional investments. Each alternative investment that SERS enters into has been carefully studied by the System's independent investment consultant, has been reviewed by staff, and approved the Board. The asset allocation study that was modeled by the independent consultant demonstrated that alternative assets can add value to the portfolio over time through diversification and higher expected returns. The Retirement Director and Board believe that the use of alternative investments increases the expected return of the plan compared to investing only in traditional asset classes.

The target asset allocations as of December 31, 2015 were:

Target allocation	**SERS**
Global equity	50.0%
Global fixed income	15.0%
Long/short and special opportunities	14.0%
Absolute return	10.0%
Real Estate	6.0%
Private equity	0.0%
Commodities	4.0%
Tangible assets	0.0%
Cash	1.0%

NOTE 5 - PENSION PLANS (Continued)

Methods Used to Value Investments

All fixed income, common stock, and short-term investments are reflected in the Statement of Fiduciary Net Position and are listed at fair market value. Fixed income securities and common stock traded on national exchanges are valued at the last reported sales price. This market value methodology of pricing is performed by Interactive Data Corporation on a daily basis. Bloomberg and Merrill Lynch are also pricing sources. Investments that do not have an established market are reported at estimated fair value.

Certain investments, such as mutual funds and limited partnerships, deduct their management fees before the fund itself reports net investment income for the period. These investment expenses are netted against investment income in the Statement of Changes in Fiduciary Net Position to arrive at a net investment income amount.

Investments are exposed to various risks, such as interest rate, market, credit, and regulatory risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in values of investments will occur in the near term and that such changes could materially affect total net position and the amounts reported in the Statement of Fiduciary Net Position. See Note 2 for additional information related to interest rate and credit risk.

5. Net Pension Liability

The components of the net pension liability was calculated based on the actuarial reports dated December 31, 2015 for SERS, calculated in accordance with GASB 67/68, are shown in the table below.

Component	SERS Plan	SPFD Share
Total pension liability	$ 491,393,125	$ 1,133,926
Plan fiduciary net position	285,772,821	$ 659,442
Net pension liability	205,620,304	474,484
Plan fiduciary net position as a % of total pension liability	58.16%	58.16%

6. Actuarial Assumptions

The total net pension liability was determined by an actuarial evaluation using the following actuarial assumptions, applied to all periods in the measurement. The measurement date was December, 31, 2014. The valuation date was December 31, 2014.

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.

NOTE 5 - PENSION PLANS (Continued)

6. Actuarial Assumptions (Continued)

Pension Funding Status (in thousands)	Employees' Retirement System
Valuation date	12/31/2014
Actuarial cost method	Entry age normal
Amortization method	Level % of pay over not more than 30 years
Remaining amortization years (closed)	
Asset valuation method	Expected value method with 5-year smoothing and 90-110% market value.
Actuarial assumptions	
Investment rate of return	7.5%
Projected salary increases	0.0-10.0%*
Includes inflation at	3.0%
Cost of living adjustments	0.0%
Mortality	1994 Group Annuity Mortality Statistic Table
*0% for members with more than 5 years of service in years 2013, 2014 and 2015. Otherwise, ranges from 3.0% for employees with 16 or more years of service to 10.0% for employees with less than two years of service.	

7. Discount Rate

The blended discount rate used to measure the total pension liability was 5.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current 8.25% contribution rate and that city contributions will be made at the same rate. GASB 67 requires the use of a blended discount rate to the extent future contributions are not projected to be sufficient to provide future benefits for the current closed group of plan participants. If that is the case, the expected long-term rate of return on plan assets (7.5%) is used for the period where assets are projected to be sufficient and the current yield on the 20-year AA municipal bonds (3.50% as of 12/31/15) is used thereafter.

Consistent with current law, the asset sufficiency test included an assumed 7.70 % long-term discount rate to determine funding liabilities for calculating future contribution rate requirements.

Consistent with the long-term expected rate of return, a 7.50 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.

NOTE 5 - PENSION PLANS (Continued)

7. Discount Rate (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate
The following table represents the net pension liability calculated using the blended discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent lower or 1 percent higher than the current rate:

Plan	1% Decrease (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
SERS	265,558,390	205,620,304	155,104,569
SPFD Share	612,796	474,484	357,915

8. Pension Expense

For the year ended December 31, 2015, the City and the District recognized pension expense as follows:

Description	SERS	SPFD Share
Service Cost	$ 11,405,611	$ 26,319
Interest Cost	25,718,424	59,347
Benefit Changes	86,298	199
Experience Loss	1,613,582	3,723
Change in Assumptions	-	-
Contributions - Employer	-	-
Contributions - Employee	(6,822,279)	(15,743)
Net Investment Income:		-
Expected Return on Investments	(20,706,601)	(47,782)
Investment Loss Expensed	1,241,740	2,865
Investment Gain Deferred	-	-
Benefits Paid, including Refunds of Employee Contributions	-	-
Administrative Expense	386,713	892
Other Changes		-
Total Pension Expense	$ 12,923,488	$ 29,822

9. Deferred Outflows/Inflows of Resources

Deferred outflows on pensions are recorded when actual earnings on pension plan investments exceed projected earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred outflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or

NOTE 5 - PENSION PLANS (Continued)

9. Deferred Outflows/Inflows of Resources (Continued)

changes in the city's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan. City contributions to pension plans made subsequent to the measurement date are also deferred and reduce net pension liability in the subsequent year.

Deferred inflows on pensions are recorded when projected earnings on pension plan investments exceed actual earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred inflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the city's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan.

At December 31, 2015, the City reported deferred outflows and deferred inflows of resources related to pensions from the following sources.

Differences Between the Projected and Actual Investment Earnings on Pension Plan Investments		
Year	**SERS**	**SPFD Share**
2015	$ -	$ -
2016	(993,392)	(2,745)
2017	(993,392)	(2,745)
2018	(993,392)	(2,745)
2019	(993,392)	(2,745)
2020	(993,392)	(2,745)
Thereafter	-	-
Total Deferred (Inflows)/Outflows	(4,966,960)	(13,725)
Recognition Period (in years)	5.0	5.0

Differences Between Expected and Actual Experience		
Year	**SERS**	**SPFD Share**
2015	$ -	$ -
2016	(1,472,903)	(4,070)
2017	(1,472,903)	(4,070)
2018	(1,472,903)	(4,070)
2019	(1,472,903)	(4,070)
2020	(1,472,903)	(4,070)
Thereafter	(9,529,685)	(26,332)
Total Deferred (Inflows)/Outflows	(16,894,202)	(46,682)
Recognition Period (in years)	11.47	11.47

NOTE 5 - PENSION PLANS (Continued)

10. Funding Policies

The table at the end of this section provides the actual contribution rate (expressed as a percentage of current year covered payroll) at the close of December 31, 2015.

Member and employer contribution rates are established by SMC Chapter 4.14. The funding of SERS is currently based on the entry age normal method. SERS funding objective is to achieve and maintain an actuarial liability funded status between 90% and 110%. Member contributions are 8.25% of eligible compensation and are deducted from the member's salary and paid into the retirement fund; the City contributes 8.25% of eligible compensation for a combined total of 16.50%. It is contemplated that the contribution by the City will, when added to the member's contribution, plus other revenues, be enough to properly fund the retirement benefits set forth. Combined contributions from employees and the employer were $14.8 million in 2015 and $13.6 million in 2014. Combined District contributions from employees and the employer were $36,000 in 2015 and $32,000 in 2014.

There are no long-term contracts for contributions outstanding and no legally required reserves.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2015, are as follows:

Actual Contribution Rates	Employer	Employee	
SERS	8.25%	8.25%	
The annual required contribution was developed to equal actual employer contributions, if possible. If not, the maximum allowable amortization period is used. Because the contribution rates are fixed, the effective amortization period for the unfunded accrued liability will change over time as actual experience emerges that is different from the actuarial assumptions.			

11. Employer Contributions Paid

The following table presents the District's contributions to cost-sharing plans in accordance with the funding policy. There are no long term contracts for contributions for any of the retirement plans administered by the City.

Plan	2015	2014	2013
SERS	7,398,945	6,822,279	6,715,376
SERS SPFD Share	18,150	15,808	18,547

B. State Sponsored Pension Plan

Substantially all District full-time and qualifying part-time employees participate in the statewide retirement system administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

NOTE 5 - PENSION PLANS (Continued)

B. State Sponsored Pension Plan (Continued)

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 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

1. Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30,1977. The District has no employees in Plan 1.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or

NOTE 5 - PENSION PLANS (Continued)

PERS Plan 2/3 (Continued)

- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 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. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2**
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

The District's actual contributions to the plan were $208,164 for the year ended December 31, 2015.

NOTE 5 - PENSION PLANS (Continued)

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 and TERS 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 except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested

NOTE 5 - PENSION PLANS (Continued)

Discount Rate (Continued)

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, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). 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 the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District'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.

NOTE 5 - PENSION PLANS (Continued)

Sensitivity of NPL (Continued)

Plan	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 1,110,123	$ 911,803	$ 741,267
PERS 2/3	2,356,711	805,974	(381,366)
Total	$ 3,466,834	$ 1,717,778	$ 359,900

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, the District reported a total pension liability of $1,717,778 for its proportionate share of the net pension liabilities as follows:

Plan	Liability
PERS 1	$ 911,803
PERS 2/3	805,974
Total	$ 1,717,778

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

Plan	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.016012%	0.017431%	0.001419%
PERS 2/3	0.020615%	0.022557%	0.001942%

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*.

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.

NOTE 5 - PENSION PLANS (Continued)

Pension Expense

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

Plan	Pension Expense
PERS 1	$ 134,328
PERS 2/3	113,739
Total	248,067

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the District 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	$ -	49,886
Changes of assumptions	$ -	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ -	$ -
Contributions subsequent to the measurement date	41,906	$ -
Total	$ 41,906	$ 49,886

NOTE 5 - PENSION PLANS (Continued)

Deferred Outflows of Resources and Deferred inflows of Resources (Continued)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 85,675	$ -
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ 215,157
Changes of assumptions	$ 1,299	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ 62,487	$ -
Contributions subsequent to the measurement date	$ 54,642	
Total	$ 204,103	$ 215,157

Deferred outflows of resources related to pensions resulting from the District'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
2016	$ (19,334)
2017	$ (19,334)
2018	$ (19,334)
2019	$ 8,116

Year ended December 31:	PERS 2/3
2016	$ (40,038)
2017	$ (40,038)
2018	$ (40,038)
2019	$ 54,418

NOTE 5 - PENSION PLANS (Continued)

Voya 401(a)/457 Plan

This pension option is for those employees that are ineligible for the other two options - SERS and PERS.

The required contribution rate expressed as a percentage of current-year covered payroll, as of December 31, 2015, was as follows:

	Voya 401(a)/457
Employer	6.72%
Employee	6.72%

Both the District and the employees made the required contributions. The District's required contributions for the year ending December 31 were as follows:

	Voya 401(a)
2015	$21,068
2014	$19,152
2013	$15,839

NOTE 6 - NET POSITION

Net investment in capital assets consists of the following:

Capital assets	$	193,978,926
Long-term debt related to capital assets		(159,948,001)
Deferred loss on refunding		10,530,396
Construction fund cash (unspent bond proceeds)		462,077
Debt service reserves funded by 2013 bonds		2,468,475
	$	47,491,873

Restricted net position consists of the following:

Cash restricted for debt service	$	8,956,990

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District is self-funded for unemployment insurance, but maintains commercial coverage for everything else. During 2015, there were three unemployment claims totaling $5,235 and no liability has been recorded for unpaid claims as of December 31, 2015. There were no unemployment claims in 2014, two claims totaling $33 in 2013, no claims in 2012, and six claims totaling $4,957 in 2011.

Spokane PFD is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2015, there are 507 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- $1,000,000 deductible on liability loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $999,000 on a liability loss.
- $250,000 deductible on property loss - the member is responsible for the first $10,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $240,000 on a property loss.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is
for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Liability coverage limit is $10 million per occurrence and property coverage limit is $1 billion per occurrence. Enduris offers crime coverage up to a limit of $1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

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

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

NOTE 7 - RISK MANAGEMENT (Continued)

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

NOTE 8 - LONG-TERM DEBT

Revenue Bonds

On December 28, 2011 the District issued Series 2011A/B, AMT and non-AMT, Refunding Bonds in the amount of $14,310,000 in order to refund the 2001 Bonds that refunded the 1992 Bonds that provided for construction of the Spokane Veterans Memorial Arena. These will be paid in full in 2017.

On May 8, 2013, the District issued $83,995,000 of Hotel/Motel and Sales/Use Tax Refunding Bonds, Series 2013B, for the purposes of advance refunding $74,945,000 of Convention Center expansion Hotel/Motel and Sales/Use Tax Revenue Bonds, Series 2003, and paying amounts due to terminate a swaption agreement issued in connection with the Series 2003 Bonds.

Total debt service on the Series 2013B Bonds will be $137,807,321 through December 2033 for an increase of $8,917,970 compared to debt service on the Series 2003 Bonds over the same period. The District will experience an economic loss (difference between the present values of the debt service payments on the old and new bonds) of $5,814,734. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $12,285,462, which is reported as a deferred loss on refunding and will be amortized over the life of the 2013B Bonds (through 2033).

On May 9, 2013, the District issued $43,985,000 of Hotel/Motel and Sales/Use Tax Bonds, Series 2013A, for the purposes of the Convention Center Completion project. Total debt service on the Series 2013A Bonds will be $97,548,311 through 2043.

The revenue bonds currently outstanding are as follows:

Bond Issue	Interest Rates	Amount
2011 Refunding-Spokane Arena	4.0 - 5.0%	5,690,000
2013B Refunding-Convention Center Expansion	3.0 - 5.0%	82,280,000
2013A-Convention Center Completion	3.0 - 5.0%	42,265,000
		130,235,000

Revenue bond debt service requirements to maturity are as follows:

NOTE 8 - LONG-TERM DEBT (Continued)

Year Ending December 31	Principal	Interest
2016	3,620,000	6,392,200
2017	3,795,000	6,219,650
2018	3,980,000	6,038,700
2019	4,180,000	5,839,700
2020	4,385,000	5,630,700
2021-2025	25,450,000	24,636,500
2026-2030	26,390,000	18,003,250
2031-2035	23,355,000	11,497,938
2036-2040	20,290,000	6,474,250
2041-2043	14,790,000	1,266,725
	$ 130,235,000	$ 91,999,613

Due to Other Governments

In 2002, the District began collecting a state-authorized Sales & Use tax rebate of .033% for due diligence on three qualifying projects. In May 2002, Spokane County voters voted to extend the 1/10 of 1% Sales and Use tax and the 2% Hotel/Motel tax that is currently funding the Spokane Veterans Memorial Arena. These three tax revenues funded three regional projects totaling $96 million. These projects included improvements to the Fair & Expo Center, certain improvements to Mirabeau Point and Convention Center expansion. During 2003, three separate bonds were issued to finance the projects. The District issued $77 million to fund the Convention Center expansion. Spokane County issued $12 million to fund the Fair & Expo improvements and the City of Spokane Valley issued $7 million to fund the Mirabeau Point improvements. Per the interlocal agreements between the District and the County and the City of Spokane Valley, since the District is collecting the full amount of the tax revenue, the District is responsible for paying the County and the City of Spokane Valley an amount equal to their debt service payments each year until the bonds are paid off in 2033. A liability, “Due to Other Governments”, has been set up to account for these payments in accordance with GAAP. Spokane County refunded its bonds in 2012 and the amount due has been adjusted. The amount at December 31, 2015 that is payable during 2016 is $624,321 to Spokane County and $380,300 to the City of Spokane Valley. The long-term portions are $15,370,028 and $6,765,050 respectively.

In December of 2012, the District entered into an agreement with Spokane County whereby the County issued bonds and loaned $15,000,000 of proceeds to the District. This loan, in combination with the proceeds from the District’s own 2013A bonds, will fully fund the April 17, 2012 voter approved Measure One projects. The loan, along with its issuance costs, will be repaid by the District with semi-annual payments that match the County’s debt service schedule through its maturity in 2043 and is included in the liability, “Due to Other Governments.” As of December 31, 2015, the District owed $14,399,653 to Spokane County. Of this, $284,921 is payable during 2016 and the remaining $14,114,732 is payable after 2016.

NOTE 8 - LONG-TERM DEBT (Continued)

Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable:					
Revenue Bonds	$ 133,705,000	$ -	$ (3,470,000)	$ 130,235,000	$ 3,620,000
Unamortized Premium	16,295,996	-	(982,648)	15,313,348	
Total Bonds Payable	150,000,996	-	(4,452,648)	145,548,348	3,620,000
				-	
Compensated Absences	440,581	-	(4,229)	436,352	-
Net Pension Liability	-	2,192,262	-	2,192,262	-
Due to Other Governments	38,669,099	-	(1,129,746)	37,539,353	1,289,543
Total Long-Term Liabilities	$ 189,110,675	$ 2,192,262	$ (5,586,622)	$ 185,716,315	$ 4,909,543

NOTE 9 - CONSTRUCTION COMMITMENTS

The District had one active construction project at December 31, 2015. At year-end, the District had spent $931,811 with $621,589 remaining due on the 720 W Mallon remodel project.

NOTE 10 - CONTINGENCIES AND LITIGATIONS

The District's financial statements include all material liabilities. There are no material contingent liabilities to include.

NOTE 11 - OTHER DISCLOSURES

A. Extraordinary/Special Items

2003 Expense Recovery

According to generally accepted accounting principles, the offsetting entry to record the Due to Other Governments payable (see Note 8) is expense. Therefore, the full amount to be paid to Spokane County and the City of Spokane Valley, $39,344,826, was expensed in 2003. The large negative impact that this had on equity will be recovered steadily over the next 30 years as the revenue associated with the debt is received and recorded in full. As the two entities have refunded these bonds (Spokane County in 2012 and City of Spokane Valley in 2014), the District recorded a prior period adjustment in those years to record the net present value savings to the District.

NOTE 11 - OTHER DISCLOSURES (Continued)

B. Subsequent Events

The District has been asked to partner with the Spokane Sports Commission and Spokane County to operate a proposed Sportsplex that will be built adjacent to the Spokane Arena and Riverfront Park. It will feature an indoor track, volleyball courts, basketball courts, wrestling mats, multi-sport space and possibly an ice rink. A portion of the property for the Sportsplex is expected to be leased from the Spokane Parks Department. This is still in the planning stages, but the District Board has taken steps to start and fund the process which is expected to culminate in a public vote in 2017.

C. Change in Accounting Principle

In 2015, the District implemented two new Governmental Accounting Standards Board pronouncements; GASB Statements 68 and 71.

Statement No. 68, Accounting and Financial Reporting for Pensions, was implemented for the year ended December 31, 2015. GASB Statement No. 68 requires entities who participate in a cost-sharing benefit plan to recognize pension liabilities, expenses, deferred outflows of resources and deferred inflows of resources. The amounts to be recorded represent an allocation of balances which exist on the records of the pension plan itself. Restatement in accordance with GASB Statement No. 68 resulted in a reduction to Beginning Net Position in the amount of $2,168,425 due to the cumulative effect of a change in accounting principle.

Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, was implemented for the year ended December 31, 2015. GASB Statement No. 71 amends GASB Statement No. 68 to require entities to recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability.

D. Prior Period Adjustments

During the prior year audit, it was determined that some capital asset transaction corrections needed to be made:

- The value of the DoubleTree Hotel parking lot that was purchased in 2010 for the Convention Center Expansion project was recorded incorrectly. This resulted in an overstatement of Buildings, Accumulated Depreciation and Depreciation expense and an understatement of Land. The following adjustment was made in 2015 to properly state Land, Buildings and Accumulated Depreciation.

Land	2,154,600
Buildings	(2,154,600)
Buildings - Accum Depr	436,307
Beginning Net Position	(436,307)

NOTE 11 - OTHER DISCLOSURES (Continued)

- Shenanigan's Restaurant, that was purchased in 2010 in anticipation of the Convention Center Completion project, was demolished in 2013 when the project began. The building was not removed from the District's asset list upon its destruction as it should have been. The following adjustment was made in 2015 to properly state Buildings and Accumulated Depreciation.

Buildings	(1,575,597)
Buildings - Accum Depr	196,950
Beginning Net Position	1,378,647

- Per generally accepted accounting principles, works of art should not be depreciated as they are considered to have an indefinite life. Works of art acquired since 2013 have been handled correctly, but works of art acquired prior to 2013 were not. The following adjustment was made in 2015 to properly state Furniture, Fixtures and Equipment, Accumulated Depreciation and Other Capital Assets – Non-Depreciable.

Furniture, Fixtures & Equipment	(206,228)
Furniture, Fixtures & Equipment - Accum Depr	149,439
Other Capital Assets - Not Depreciable	206,228
Beginning Net Position	(149,439)

Spokane Public Facilities District
Required Supplementary Information
For the Year Ended December 31, 2015

	PERS 1	PERS 2/3	SERS
Schedule of Proportionate Share of the Net Pension Liability	As of June 30, 2015		As of December 31, 2014
Employer's proportion of the net pension liability (asset)	0.017431%	0.022557%	0.230757%
Employer's proportionate share of the net pension liability	$ 911,803	$ 805,974	$ 474,484
Employer's covered employee payroll	$ 1,998,835	$ 1,998,835	$ 200,000
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	45.62%	40.32%	237.24%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	89.20%	58.16%
Schedule of Employer Contributions	As of December 31, 2015		As of December 31, 2015
Statutorily or contractually required contributions	N/A	$ 204,518	$ 18,150
Contributions in relation to the statutorily or contractually required contributions	N/A	$ 204,518	$ 18,150
Contribution deficiency (excess)	N/A	$ -	$ -
Covered employer payroll	N/A	$ 2,080,719	$ 220,000
Contributions as a percentage of covered employee payroll	N/A	9.83%	8.25%

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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