



**Office of the Washington State Auditor**  
**Pat McCarthy**

**Financial Statements Audit Report**  
**Kennewick Public Facilities District**  
**(Three Rivers Convention Center)**

**Benton County**

**For the period January 1, 2015 through December 31, 2016**

**Published June 22, 2017**

**Report No. 1019324**





**Office of the Washington State Auditor**  
**Pat McCarthy**

June 22, 2017

Board of Directors  
Three Rivers Convention Center  
Kennewick, Washington

**Report on Financial Statements**

Please find attached our report on the Three Rivers Convention Center'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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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**Three Rivers Convention Center  
Benton County  
January 1, 2015 through December 31, 2016**

Board of Directors  
Three Rivers Convention Center  
Kennewick, 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 Three Rivers Convention Center, Benton County, Washington, as of and for the years ended December 31, 2016 and 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 June 16, 2017.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our 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.

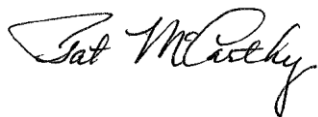
## COMPLIANCE AND OTHER MATTERS

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

June 16, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Three Rivers Convention Center Benton County January 1, 2015 through December 31, 2016**

Board of Directors  
Three Rivers Convention Center  
Kennewick, Washington

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

We have audited the accompanying financial statements of the Three Rivers Convention Center, Benton County, Washington, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

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

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Three Rivers Convention Center, as of December 31, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 June 16, 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

June 16, 2017



## **FINANCIAL SECTION**

**Three Rivers Convention Center  
Benton County  
January 1, 2015 through December 31, 2016**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2016 and 2015

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2016 and 2015

Statement of Revenues, Expenses and Changes in Net Position – 2016 and 2015

Statement of Cash Flows – 2016 and 2015

Notes to Financial Statements – 2016 and 2015

## **Kennewick Public Facilities District Management's Discussion and Analysis**

As management of the Kennewick Public Facilities District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2016. Financial information for the current year and two prior years is presented within this analysis. The information presented within this overview should be considered in conjunction with the basic financial statements, which follow this analysis.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements and as a tool to assist users in their interpretation of them. As a special purpose government entity engaged in only one business-type activity, the basic financial statements are comprised of two components: (1) enterprise fund financial statements, and (2) notes to the financial statements. This report contains other supplementary information in addition to the basic financial statements themselves.

These enterprise fund financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to those of a private-sector business.

The Statement of Net Position presents information on all assets and liabilities, and deferred inflows and outflows of resources; the difference is reported as net position. Analyzing the net position over a period of time may be a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Fund Net Position presents information on how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses for some items reported in this statement will result in cash flows only in future fiscal periods. Examples of these items include uncollected taxes and earned, but unpaid, salaries and benefits.

The Statement of Cash Flows provides information on the cash receipts and cash payments, and how they relate to operating, non-capital financing, capital and related financing, and investing activities. This statement may be used in conjunction with the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position to assess the District's ability to meet its cash flow requirements.

The Notes to Financial Statements provide additional information that is considered essential to a full understanding of the information provided in the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Fund Net Position, and the Statement of Cash Flows.

### **Financial Highlights**

- For the twelve months ending December 31, 2016, total net position increased by \$528,507. The majority of this increase is attributable to an increase in operational outcomes, investments in new capital, as well as principal pay downs on existing debt.
- As shown on the Statement of Net Position, assets and deferred outflows of resources of the District exceeded liabilities as of December 31, 2016 by \$3,572,112. Of this amount, \$1,879,393 (Unrestricted Net Position) may be used to meet ongoing obligations to creditors. This is \$70,444 greater than the prior year due to the increased revenues achieved in 2016.
- Referring to the Statement of Revenues, Expenses and Changes in Fund Net Position, total operating revenues for 2016 were \$1,969,045. Operating revenues for 2016 increased by \$194,475 when compared to the prior year. The main increases were recognized in Building Rent, Food and Beverage Sales, and In House Event Revenues, growing by 16.7%, 3.1%, and 28.8%, respectively.
- Again, referring to the Statement of Revenues, Expenses and Changes in Fund Net Position, operating expenses of the District's Three Rivers Convention Center were \$104,013 higher than operating expenses during 2015. This increase is driven primarily by changes in Occupancy and Services and Operations. Occupancy reflects some of the challenges of maintaining an aging building. The increase in Service and Operations is directly attributable to supporting the new revenues achieved in 2016.
- Non-operating revenues totaled \$1,315,354 for the year ended December 31, 2016, which was an improvement of \$67,743 over the prior year and a two-year increase over 2014 of \$174,366. This category of revenues consists of (1) sales taxes received directly from the State of Washington and from other public facilities districts pursuant to interlocal agreements, and (2) interest income. Sales taxes received, the primary component of Non-Operating Revenues, has increased by an average of 5.7% per year over the five-year period of 2012 to 2016.
- 2016 continues to recognize the receipt of annual contractual contributions received from the City of Kennewick. With the retirement of capital debt issued by the City for construction of the convention center, this amount was \$419,271 in 2016 and is designed to help offset the impact of the ongoing bond principal payments. This amount is supplemented by an additional \$55,416 contributed by VenuWorks in support of construction costs for the connection with the new hotel. Combined, the total contractual contributions for 2016 are \$474,687. Due to an offsetting factor that adjusts this amount down as certain sales taxes grow, this category shows a decrease of \$15,888 from the 2015 total.
- Working capital has grown for five of the last seven years, and was \$1.07 million at the end of 2016.

### **Financial Analysis**

As noted above, net position may serve over time as a useful indicator of the District's financial position. As of December 31, 2016, the District's assets and deferred outflows of resources exceeded liabilities by \$3,572,112. The following is a condensed version of the Statement of Net Position, including the value of net position for December 31, 2016, 2015, and 2014, respectively.

Statement of Net Position			
	12/31/2016	12/31/2015	12/31/2014
<b>Assets</b>			
Current Assets	\$2,076,320	\$2,014,150	\$2,749,626
Capital Assets	12,500,987	12,793,010	12,442,813
<b>Total Assets</b>	<b>14,578,407</b>	<b>14,807,160</b>	<b>15,192,440</b>
<b>Deferred Outflow of Resources</b>			
Deferred Amount on Refunding	328,130	368,944	409,758
<b>Total Deferred Outflow of Resources</b>	<b>328,130</b>	<b>368,944</b>	<b>409,758</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$14,904,537</b>	<b>\$15,176,104</b>	<b>\$15,602,197</b>
<b>Liabilities</b>			
Current Liabilities	1,001,927	950,201	943,432
Noncurrent Liabilities	10,330,498	11,182,298	11,974,098
<b>Total Liabilities</b>	<b>11,332,425</b>	<b>12,132,499</b>	<b>12,917,530</b>
<b>Net Position</b>			
Net Investment in Capital Assets	1,692,719	1,234,656	183,473
Unrestricted Net Position	1,879,393	1,808,949	2,501,194
<b>Total Net Position</b>	<b>3,572,112</b>	<b>3,043,605</b>	<b>2,684,667</b>
<b>Total Liabilities and Net Position</b>	<b>\$14,904,537</b>	<b>\$15,176,104</b>	<b>\$15,602,197</b>

Over 52.6% of the KPF's 2016 net position total is unrestricted, and may be used to supplement operations or to meet the District's ongoing obligations to its creditors. The remaining 47.4% reflects an investment in capital assets such as buildings, furniture, fixtures and equipment, less any related debt used to acquire those assets that is still outstanding. The total principal amount outstanding at December 31, 2016, was \$10,765,000. These capital assets are used for the purposes of operating a convention center, which is a business-type activity. Therefore, it should be noted that although the investment in capital assets is reported net of related debt, other resources will be drawn upon to repay this debt, since the capital assets themselves cannot be used to liquidate this liability.

Working capital, which is a measure of liquidity that is determined by subtracting current liabilities from current assets, increased by \$10,444 during the year ended December 31, 2016. The district has generated a positive working capital in five of the last seven years – the exceptions being in 2013 when the first large principal payment was made on existing bonds, and 2015 when a large investment was made to connect the Center to the adjacent hotel that opened that year.

There has been a fair amount of volatility in the convention industry over the last several years, both locally and regionally. To add a brief historical perspective, between 2011 and 2012 the District experienced its highest recorded operating revenues to date. During that period the Hanford site received approximately \$2 billion in federal stimulus spending for accelerated clean-up efforts, creating an increased demand for meeting and conference space in the Tri-Cities region and for the District. In 2013, the District experienced a decline in operating revenue as compared to these peak years. This was primarily attributable to the completion of stimulus projects (and the loss of the related federal funding) in 2012 and the impacts of the federal government shutdown in the fall of 2013, the latter causing a series of event cancellations with very short notice. In 2014, business activity began to increase driven by some advance bookings and expected



momentum gained from the building of a connecting hotel. The opening was delayed a few times, but 2015 saw the completion of the adjoining hotel. Since large bookings are made two to three years in the future, the activity and revenue bump is not expected to be fully realized until 2017 and beyond.

As mentioned above in the financial highlights section of this analysis, net position increased by \$528,507 for the year ended December 31, 2016. This is primarily the combination of operational outcomes which are offset and supplemented by tax revenues received in support of the operation of the Center.

The following is a condensed comparative statement of revenues, expenses and changes in fund net position for the years ended December 31, 2016, 2015, and 2014, respectively.

Comparative Statement of Revenues, Expenses and Changes in Fund Net Position			
	2016	2015	2014
Operating revenues	\$1,969,045	\$1,774,570	\$1,908,692
Operating expenses	(2,790,891)	(2,686,878)	(2,632,216)
Net operating loss	(821,846)	(912,308)	(723,525)
Non-operating revenues (expenses)			
Sales Taxes	1,313,007	1,247,630	1,138,040
Interest Income	2,347	2,981	2,948
Debt Issuance Costs	-	-	(81,100)
Interest Expense	(439,688)	(469,940)	(514,311)
Total non-operating revenues (expenses)	875,666	780,671	56,577
Loss before contributions	53,820	(131,637)	(177,948)
Contractual contributions	474,687	490,575	522,938
Change in net position	528,507	358,938	344,990
Net position January 1	3,043,605	2,684,667	2,339,677
Net position December 31	\$ 3, 572,112	\$ 3,043,605	\$ 2,684,667

The following are some of the notable differences between the Statement of Revenues, Expenses and Changes in Fund Net Position for 2016, 2015, and 2014:

- Food and Beverage operations were brought in-house in 2009, and have been shown with the full burden of income and expense since that time. The net operating contribution from this segment was \$555,350 in 2016. This is a decrease of \$9,512 when compared to 2015.

Net Annual Contribution from Food and Beverage Operations			
	2016	2015	2014
Net contribution from Food and Beverage	555,350	564,862	635,822

- There was an increase in the overall operating revenue total (adjusted for Cost of Goods Sold) of \$194,475, or 11.0%, when compared to 2015. This is \$71,462 over the preceding five year average for 2011-2015.
- Total operating expenses (including depreciation costs) were \$2,790,891, an increase of 3.9% over 2015. This is \$136,040 over the 2011-2015 average, which had an increase of 1.6% per year over that same period.

- Non-operating revenues increased by \$64,743, or 5.2%, in 2016 with continued strong performance in the receipt of sales taxes. This revenue line continues to add to the center's available cash and working capital balances. For the preceding five year period of 2011 through 2015, taxes from all sources have experienced an average annual growth of 5.8%.

## **Capital Assets and Debt Administration**

### **Capital Assets:**

The investment in capital assets as of December 31, 2016, amounted to \$12,500,088 net of accumulated depreciation. This investment includes buildings, improvements, furniture and fixtures, and equipment. The following information summarizes capital assets as of December 31, 2016, 2015, and 2014, respectively.

<b>Capital Assets, net of depreciation</b>			
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>12/31/2014</b>
Building	\$12,226,887	\$12,671,002	\$12,245,461
Expansion Plan and Pre-Design, WIP	76,756	76,756	125,554
Furniture, Fixtures and Equipment	196,464	45,252	71,798
<b>Total Capital Assets</b>	<b>\$12,500,087</b>	<b>\$12,793,010</b>	<b>\$12,442,813</b>

Building assets were decreased in 2016 due to ongoing depreciation entries. Furniture, Fixtures and Equipment increased in 2016 with the upgrade and replacement of food and beverage equipment and building improvements.

### **Long-term Debt:**

As of December 31, 2016 the District had total outstanding external debt of \$10,765,000 (principal only). This represents a decrease of \$745,000 from the prior year which was the net effect of the principal amount that was due and paid in 2016.

The District currently has a rating of A1 from Moody's Investors Service, which was most recently affirmed in 2011 at the time the District completed a partial refunding of its 2003 limited sales tax obligation bond issue.

Washington State statutes limit the amount of general obligation debt the District can issue to a percentage of the total assessed value of the taxable property within the District. The District is allowed up to 0.5% of total assessed value for non-voted debt and up to 1.25% for total non-voted and voted debt. As of December 31, 2016 the District had \$18,208,959 in non-voted capacity and \$61,662,399 in total voted and non-voted capacity. Due to some large principal payments and an increase in the total assessed valuation, the excess capacity increased over the previous year for both voted and non-voted limits.

Additional information on the District's long-term debt can be found in Note 1.D(11).

### **Economic Factors**

Washington State law requires the District to adopt its budget prior to the start of the fiscal period being budgeted. As a result, the District adopted its 2016 budget in the winter of 2015. Preparation of the 2015 budget focused primarily on servicing the events that were scheduled at the Three Rivers Convention Center during 2016 and planning for events that were to be booked and serviced during 2016 and into 2017 and beyond.

The 2016 budget was developed based on the assumption that the convention center would incur an operating loss as it is meant to support the overall travel and hospitality economy for the community. As a result, the District will continue to be reliant on its ongoing non-operating revenues, including sales taxes, to help subsidize current operations.

The District's board of directors and management continue to focus their attention on providing a high quality product to consumers and targeting a specific niche market for the rental of convention space. The convention industry requires several years to generate bookings and to establish a facility as a desirable site in the convention center market. The 2015 completion of the adjoining hotel has opened up new opportunities for the building by making it a viable option for conferences that required that feature. The Center has seen a positive influx in inquiries and bids for future events as a result of this addition.

The following are some factors that may impact the District's operations in 2016 and in the future:

- The District currently outsources the management of the facility to a third party firm, VenuWorks of Kennewick LLC. The current contract was approved in 2014 and represents the third of three consecutive five-year terms and will tentatively expire on May 31, 2019. There is an existing contract extension for an additional three years that is contingent on the completion of the exhibition hall expansion for the convention center.
- The Convention Center was completed and put into active service in 2004. As we embark on our fourteenth year of operation, it is necessary to acknowledge that a number of systems are at the end of their lifespan and will need a significant amount of capital investment to maintain the level of service we have worked to provide. The primary areas impacted are kitchen and serving equipment, lighting, and audio visual equipment.
- There is some momentum from regional, statewide, and national groups looking to hold conferences in less expensive areas like the Tri-Cities. This is complemented by the strong regional tourism draw supported by the Regional Chambers of Commerce and the Tri-City Development Council.
- There has been continued growth in our sales tax base as the region continues to realize greater economic diversity. The direct sales tax received by the District has grown an average of 4.1% over the last decade, and averaging almost 6.0% per since 2013.
- The District is involved in a partnership with a privately developed headquarters hotel adjacent to the Convention Center. This is improving the marketability and functionality of the Center by allowing visitors to lodge onsite, while the costs of operating the hotel are completely separate as a private enterprise. The hotel opened in 2015 and there has been an observable increase in inquiries for future bookings. Because of the advanced nature of these bookings, 2017 represents the first fiscal period that this growth benefit is fully realized.

- In late 2017 or early 2018, the District will be going out for a public vote to increase local sales tax by .02%. This will allow the planned building of an expansion to the existing Center consisting of a dedicated exhibition hall along with additional meeting room space to accommodate larger conferences. The new expansion will also include a flexible lecture and theater space, allowing for high-caliber touring shows and plays as well as improved conference functionality. This has been a limiting factor for groups seeking to secure convention space and has put us at a competitive disadvantage when compared to some other regional facilities.

A copy of the District's annual budget is available upon request.

### **Requests for Information**

This financial report is designed to provide a general overview of the Kennewick Public Facilities District's finances for those with an interest. The District cannot guarantee that its financial results for 2016 or any other year will approximate the results of prior years. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Finance Director  
Three Rivers Convention Center  
7016 W. Grandridge Blvd.  
Kennewick, WA 99336



**Kennewick Public Facilities District**Statement of Net Position  
December 31, 2016 and 2015

	2016	2015
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 1,111,929	\$ 1,016,045
Investments	539,129	538,395
Receivables	302,353	367,233
Inventory	70,474	41,786
Prepayments	52,435	50,691
Total Current Assets	2,076,320	2,014,150
Noncurrent Assets:		
Capital Assets (Net of Accumulated Depreciation):		
Furniture, Fixtures and Equipment	196,464	45,252
Expansion - WIP	76,756	76,756
Building	12,226,867	12,671,002
Total Capital Assets	12,500,087	12,793,010
Total Noncurrent Assets	12,500,087	12,793,010
Total Assets	14,576,407	14,807,160
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Amount on Refunding	328,130	368,944
Total Deferred Outflows of Resources	328,130	368,944
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 14,904,537</b>	<b>\$ 15,176,104</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	\$ 46,054	\$ 51,364
Current Year Debt Service	805,000	745,000
Other Current Liabilities	150,873	153,836
Total Current Liabilities	1,001,927	950,201
Noncurrent Liabilities:		
Noncurrent Portion of Long-Term Obligations	10,330,498	11,182,298
Total Liabilities	11,332,425	12,132,499
<b>NET POSITION</b>		
Net Investment in Capital Assets	1,692,719	1,234,656
Unrestricted Net Position	1,879,393	1,808,949
Total Net Position	3,572,112	3,043,605
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 14,904,537</b>	<b>\$ 15,176,104</b>

*See Accompanying Notes to Financial Statements.*

**Kennewick Public Facilities District**Statement of Revenues, Expenses and Changes in Fund Net Position  
December 31, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Building Rent	\$ 340,870	\$ 292,142
Food and Beverage	1,492,314	1,447,142
Less: Food & Beverage Cost of Goods Sold	(304,585)	(302,386)
In-House Event Revenue	365,808	283,983
Miscellaneous Event Revenues	74,638	53,689
Total Operating Revenues	<u>1,969,045</u>	<u>1,774,570</u>
OPERATING EXPENSES		
Professional Services	1,449,291	1,450,357
General and Administrative	37,967	34,302
Occupancy	320,698	277,200
Travel	12,053	14,234
Event Expenses	87,418	93,841
Services & Operations	425,689	374,317
Depreciation	457,775	442,627
Total Operating Expenses	<u>2,790,891</u>	<u>2,686,878</u>
Net Operating Loss	(821,846)	(912,308)
NON-OPERATING REVENUES (EXPENSES)		
Sales Taxes	1,313,007	1,247,630
Interest Income	2,347	2,981
Debt Issue Costs	-	-
Interest Expense	(439,688)	(469,940)
Total Non-Operating Revenues (Expenses)	<u>875,666</u>	<u>780,671</u>
Loss Before Contributions and Transfers	53,820	(131,637)
Contractual Contributions	474,687	490,575
Change in Net Position	528,507	358,938
Total Net Position - Beginning	<u>3,043,605</u>	<u>2,684,667</u>
Total Net Position - Ending	<u>\$ 3,572,112</u>	<u>\$ 3,043,605</u>

*See Accompanying Notes to Financial Statements.*

**Kennewick Public Facilities District**

## Statement of Cash Flows

December 31, 2016 and 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from Customers	\$ 2,215,105	\$ 2,137,611
Less: Food & Beverage Cost of Goods Sold	(304,585)	(302,386)
Payments for Professional Services	(1,445,506)	(1,442,476)
Payments to Suppliers and Subcontractors	(915,612)	(858,356)
Net Cash Used by Operating Activities	(450,599)	(465,607)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Net Repayment from (Advances to) Related Agency	128,133	31,735
Net Cash Provided (Used) by Non-Capital Financing Activities	128,133	31,735
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>		
Proceeds from Refunding Debt	-	-
Issuance Costs on Capital Debt	-	-
Interest paid on Capital Debt	(448,154)	(475,926)
Principal paid on Capital Debt	(745,000)	(695,000)
Acquisition and Construction of Capital Assets	(164,853)	(792,824)
Taxes for Capital Related Debt	1,300,057	1,261,183
Contractual Contribution	474,687	490,575
Net Cash Provided by Capital Financing Activities	416,737	(211,991)
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Purchase of Investments	(734)	(1,614)
Interest on Investments	2,347	2,981
Net Cash Provided (Used) by Investing Activities	1,613	1,367
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>95,884</b>	<b>(644,496)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>1,016,045</b>	<b>1,660,540</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 1,111,929</b>	<b>\$ 1,016,044</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Net Operating Loss	\$ (821,846)	\$ (912,308)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	457,775	442,627
Changes in Assets and Liabilities:		
Receivables, net	(50,302)	59,229
Inventory	(28,688)	(5,280)
Prepaid Expenses	(1,744)	(6,643)
Accounts Payable	(1,526)	(36,246)
Other Current Liabilities	(4,267)	(6,986)
Total Adjustments	371,247	446,701
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (450,599)</b>	<b>\$ (465,607)</b>

*See Accompanying Notes to Financial Statements.*

**Kennewick Public Facilities District  
Notes to Financial Statements  
December 31, 2016 and 2015**

**Note 1 - Summary of Significant Accounting Policies**

The financial statements of the Kennewick Public Facilities District (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 District was created in December 2000 under the authority of RCW 35.57 with a primary mission to acquire, build, own and operate a regional convention center. As required by generally accepted accounting principles, the financial statements present the District's financial data with no component units.

The District is included in the City of Kennewick's (City) reporting entity as a discretely presented component unit because of the financial accountability relationship. The City appoints the District's five-member board and has the ability to impose its will on the District.

**B. Measurement Focus, Basis of Accounting and Basis of Presentation**

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

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private sector guidance for business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private sector guidance.

C. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted by the District's Board of Directors on the accrual basis of accounting.

2. Amending the Budget

The Finance Director is authorized to transfer budgeted amounts within the fund; however, any revisions that alter the total expenditures of the District, must be approved by the Board of Directors. Changes that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Executive Director.

When the District's Board of Directors determines that it is in the best interest of the District to increase or decrease the budget appropriation, it may do so by resolution approved by one more than the majority after holding any required public hearing(s).

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

Budget Summary for 2016				
	Adopted 2015 Budget	Adopted 2016 Budget	2016 Changes	Amended 2016 Budget
Operating Income	\$ 2,316,700	\$ 2,254,450	\$ 60,000	\$ 2,314,450
Cost of Goods Sold	\$ (331,700)	\$ (347,550)	\$ -	\$ (347,550)
Gross Profit	\$ 1,985,000	\$ 1,906,900	\$ 60,000	\$ 1,966,900
Operating Expense	\$ (2,265,000)	\$ (2,304,900)	\$ (80,000)	\$ (2,384,900)
Net Operating Budget	\$ (280,000)	\$ (398,000)	\$ (20,800)	\$ (418,000)

The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

D. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

It is the District's policy to invest all temporary cash surpluses. At December 31, 2016, the treasurer was holding \$1,111,929 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents.

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

2. Investments

See (Note E(1), *Deposits and Investments*).

3. Receivables

Taxes receivable consists of sales taxes, and other intergovernmental transfers, and related interest and penalties.

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

Receivables as of December 31, 2016 and 2015, were as follows:

Accounts Receivable Distribution at December 31, 2016 - 2015		
	2016	2015
Taxes, Other Governmental Entities	\$ 95,340	\$ 173,652
Business Activities	\$ 207,013	\$ 193,581
Other	\$ -	\$ -
Total	\$ 302,353	\$ 367,233

4. Inventories

The only non-capital inventory that the District maintains is perishable food and beverage supplies. These items are generally short-lived with the shelf balances reconciled each month as part of the regular monthly closing.

5. Capital Assets

Major outlays for capital assets and improvements are capitalized as projects are constructed. In June 2004, the District's Three Rivers Convention Center was substantially completed and put into use. Through that date, all costs directly related to the construction of the convention center were capitalized as work in progress and became a part of the final capitalized cost of the facility. Interest incurred during the construction phase of the convention center was also included as part of the capitalized value of the project.

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



Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives. Depreciation begins the first of the year following purchase and/or installation of the asset.

Building and Improvements	25 – 50 years
Furniture, Fixtures and Equipment	2 – 20 years

Capital Assets Activity for the Year Ending December 31, 2016				
	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016
<b>Non-Depreciable Capital Assets:</b>				
Construction in Progress	\$ 76,756	\$ -	\$ -	\$ 76,756
<b>Depreciable Capital Assets:</b>				
Furniture, Fixtures and Equipment	384,484	164,853	-	\$ 549,337
Building	17,484,860	-	-	\$ 17,484,860
Subtotal - Depreciable Capital Assets	17,869,344	164,853	-	\$ 18,034,197
<b>Accumulated Depreciation:</b>				
Furniture, Fixtures and Equipment	(339,232)	(13,640)	-	\$ (352,872)
Building	(4,813,858)	(444,135)	-	\$ (5,257,993)
Subtotal - Accumulated Depreciation	(5,153,090)	(457,775)	-	\$ (5,610,866)
<b>Total</b>	<b>\$ 12,793,010</b>	<b>\$ (292,923)</b>	<b>\$ -</b>	<b>\$ 12,500,087</b>

Capital Assets Comparison 2016 - 2015		
	2016	2015
<b>Non-Depreciable Capital Assets:</b>		
Construction in Progress	\$ 76,756	\$ 76,756
<b>Depreciable Capital Assets:</b>		
Furniture, Fixtures and Equipment	549,337	384,484
Building	17,484,860	17,484,860
Subtotal - Depreciable Capital Assets	18,034,197	17,869,344
<b>Accumulated Depreciation:</b>		
Furniture, Fixtures and Equipment	(352,872)	(339,232)
Building	(5,257,993)	(4,813,858)
Subtotal - Accumulated Depreciation	(5,610,866)	(5,153,090)
<b>Total</b>	<b>\$ 12,500,087</b>	<b>\$ 12,793,010</b>

#### 6. Compensated Absences

All paid employees are employees of VenuWorks of Kennewick, LLC. There are no employees of the District directly, thus no liability to report.

7. Pensions

The District does not have a pension plan. All operational personnel are employees of VenuWorks of Kennewick, LLC, and are subject to the terms and conditions of the VenuWorks corporate plan.

8. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

9. Long-Term Debt

In July 2003, the District issued Limited Sales Tax Obligation bonds with a total par value of \$12,830,000 and coupon rates varying from 4.7% to 5%, depending on maturity date. Due to market interest rates at the time of issuance, the bonds were sold at a premium of \$185,722.

In November 2011, the District refunded a portion of the 2003 bond issue to take advantage of the favorable interest rate changes that had occurred. A total of \$9,210,000 of the original issue was refunded, leaving \$3,620,000 outstanding from the original issue. The newly issued portion including all flotation and underwriting fees was \$9,390,000.

In April 2014, the District refunded an additional portion of the 2003 bond issue. A total of \$3,615,000 of the original issue was refunded, leaving only a final year balance of \$5,000 for the 2003 bonds. The newly issued portion including all flotation and underwriting fees was \$3,775,000—for a total bonds payable balance of \$12,910,000. As of December 31, 2016, the total bonds payable balance is \$10,765,000. These bonds represent the only outstanding debt of the District as of December 31, 2016.



Annual debt service requirements to maturity for these bonds are as follows:

Annual Debt Service Requirements			
Year	Principal	Interest	Total
2017	805,000	418,384	1,223,384
2018	860,000	386,213	1,246,213
2019	925,000	351,842	1,276,842
2020	990,000	314,871	1,304,871
2021	1,070,000	265,500	1,335,500
2022-2026	6,085,000	682,915	6,767,915
2027	30,000	1,163	31,163
<b>Total</b>	<b>\$10,765,000</b>	<b>\$2,420,888</b>	<b>\$13,185,888</b>

The following is a summary of changes in noncurrent liabilities during 2016:

Long Term Debt Activity for the Year Ending December 31, 2016					
	Balance 1/1/2016	Additions	Reductions	Balance 12/31/2016	Due Within One Year
Bonds Payable - Long Term	\$ 10,765,000	\$ -	\$ (805,000)	\$ 9,960,000	\$ -
Bonds Payable - Current	745,000	805,000	(745,000)	805,000	805,000
Subtotal - Consolidated Debt Activity	11,510,000	805,000	(1,550,000)	10,765,000	805,000
Unamortized Discount 2003 Bonds	-	-	-	-	-
Unamortized Premium 2011 Bonds	417,298	-	(46,800)	370,498	-
Deferred Amount on Refunding	(368,944)	40,814	-	(328,130)	-
<b>Total</b>	<b>\$ 11,558,354</b>	<b>\$ 845,814</b>	<b>\$ (1,596,800)</b>	<b>\$ 10,807,368</b>	<b>\$ 805,000</b>

Long Term Debt Comparison 2016 - 2015		
	2016	2015
Bonds Payable (includes current portion)	\$ 10,765,000	\$ 11,510,000
Deferred and Unamortized Amounts	42,368	48,355
<b>Total Noncurrent Liabilities</b>	<b>\$ 10,807,368</b>	<b>\$ 11,558,355</b>

#### 10. Unearned Revenues

This account includes amounts recognized as receivables or prepayments, but not revenues in governmental funds because the revenue recognition criteria have not been met.

E. Other

1. Deposits and Investments

The following is a summary of deposits, including money market accounts and certificates of deposit, as of December 31, 2016 and 2015. The District's certificates of deposit are classified as investments for financial statement purposes, since the original maturities are more than three months. However, they are classified as deposits for purposes of risk disclosure. The District's deposits are entirely covered by the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

<u>Cash and Cash Equivalents</u>	<u>2016</u>	<u>2015</u>
Checking Account	\$ 329,388	\$ 234,810
Money Market Accounts	780,561	779,822
Savings Accounts	1,980	1,413
Total	\$1,111,929	\$1,016,045

As of December 31, 2016, the District held the following investments at amortized cost. The original term on this investment was for twelve months.

<u>Investments</u>	<u>2016</u>	<u>2015</u>
Certificates of Deposit	\$539,129	\$538,395

2. Contribution Agreements

The District and the City have entered into an Annual Contribution Agreement whereby both parties agreed to jointly develop and operate the convention center, with the understanding that the District is the agency with primary responsibility for financing, construction, operation and maintenance of the facility. As part of this agreement, the City agreed to issue bonds to support the project and to provide annual payments to the District.

Until 2027, the City will pay the District during each calendar year a sum equal to: (1) \$725,000, less (2) an amount equal to the aggregate debt service payments on the bonds during such calendar year, and less (3) the Annual Credit. The Annual Credit in each calendar year will be equal to the lesser of (i) \$600,000 and (ii) the sum of amounts received by the District during such calendar year from the Pasco Public Facility District that are in excess of \$150,000. During 2027, the City's payments under this agreement will be limited to the scheduled debt service on the bonds, reduced by amounts received by the District from the Pasco Public Facility District and from the Benton County Public Facility District.

The City's contribution for each calendar year is made in two approximately equal payments in May and November. The District may use such money for any lawful expenditure related to the convention center including, but not limited to, costs of operating the facility, capital costs and debt service. Contributions are presented as a non-operating contractual contribution on the Statement of Revenues, Expenses and Changes in Fund Net Position.

### 3. Risk Management

The District is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2016, there are 205 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive and Collision, Equipment Breakdown, and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, which are included to fit members' various needs.

The program acquires liability insurance through their Administrator, Clear Risk Solutions, which is subject to a per-occurrence self-insured retention of \$100,000, with the exception of Wrongful Acts and Law Enforcement Liability, which have a self-insured retention of \$25,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention.

Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$1,718,302.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible. Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member, with the exception of Pumps & Motors, which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before December 1, to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the

state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending December 1, 2016, were \$1,484,482.16.

Director and officers coverage, which includes employment practices liability coverage, is also included under this policy with separate limits at \$11,000,000 with a \$1,000 deductible per any one claim.

#### 4. Leases

The District and the City have entered into a lease under which the City provides the land on which the Three Rivers Convention Center is located. The lease has an initial term of 50 years, through April 15, 2053, with renewal options thereafter. The annual rent through April 15, 2026 is being waived by the City as an in-kind contribution. Therefore, no rent is due to the City. During this time, the rent will be valued at 10% of the fair market value of the leasehold real estate as determined by the City, subject to review every five years. Beginning April 15, 2026, the rent will change to \$1.00 per year. In addition to the payment of nominal rent, the District is responsible for all costs of maintenance, utilities, insurance and operation of the convention center.

#### 5. Related Party Transactions and Agreements

The District currently outsources the management of the facility to a third party firm, VenuWorks of Kennewick, LLC. All employees working in the building are employees of VenuWorks, not the KPFD. As a result, there are no Personnel Costs listed on the included statements. Instead, these costs have been categorized as Professional Services. Other costs incurred by the District for these services are included under the Services and Operations classification.

The District has an interlocal agreement with the City of Kennewick to manage the Toyota Center (formerly the Coliseum) and Toyota Arena. This agreement gives the District authority for all daily operations, with capital funding and authority still retained and funded by the City via a mandated Joint Coliseum Advisory Committee. (This is separate from the fiscal commitments specific to the Three Rivers Convention Center per the details in "Note 3.E – Agreements".) The current term ends on April 29, 2019, and is subject to automatic five-year extensions unless action is taken to terminate the agreement.

#### 6. Reporting Changes

There were no significant accounting or reporting changes implemented for the year ended December 31, 2016.

## 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.

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