Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Edmonds Public Facilities District

Snohomish County

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

Published December 4, 2017

Report No. 1020121

Office of the Washington State Auditor
Pat McCarthy

December 4, 2017

Board of Directors
Edmonds Public Facilities District
Edmonds, Washington

Report on Financial Statements

Please find attached our report on the Edmonds 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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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*

Edmonds Public Facilities District
Snohomish County
January 1, 2016 through December 31, 2016

Board of Directors
Edmonds Public Facilities District
Edmonds, 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 Edmonds Public Facilities District, a component unit of the City of Edmonds, Snohomish County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 6, 2017. Our report includes information about the status of the District's financial condition.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

In addition, we noted certain matters that we have reported to the management of the District in a separate letter dated November 16, 2017.

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

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

October 6, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Edmonds Public Facilities District
Snohomish County
January 1, 2016 through December 31, 2016

Board of Directors
Edmonds Public Facilities District
Edmonds, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Edmonds Public Facilities District, a component unit of the City of Edmonds, Snohomish County, Washington, as of and for the year ended December 31, 2016, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Edmonds Public Facilities District, as of December 31, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis Regarding Fiscal Sustainability

As discussed in Note 3 and Note 10 to the financial statements, in 2016, the District continues to experience operating losses at year-end. The District has had to borrow from the City of Edmonds in order to make debt service payments on outstanding bonds. The contingent loan agreement between the District and the City of Edmonds obligates the City to lend money to the District for the purpose of paying debt service on the bonds. The District's cash flow constraints are expected to continue in the near future. As a result, there exists uncertainty about the District's ability to maintain services at present levels under these conditions. 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 and pension plan information listed on page 9 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 October 6, 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

October 6, 2017

FINANCIAL SECTION

Edmonds Public Facilities District
Snohomish County
January 1, 2016 through December 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Edmonds Public Facilities District (the District) presents this Management's Discussion and Analysis of its financial activities for the fiscal year ended December 31, 2016. The Management's Discussion and Analysis is designed to:

- Assist the reader in focusing on significant financial issues.
- Provide an overview of the District's financial activity.
- Identify changes in the District's financial position (its ability to meet future years' challenges)

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements provide information about the District's overall financial position and results of operations. These statements, which are presented on the accrual basis, consist of Management's Discussion and Analysis (this section), the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows; and the Notes to the Financial Statements.

The District is a business-type activity, the purpose of which is to construct, maintain and operate a performing arts center within the boundaries of the City of Edmonds. Business-type activities provide specific goods or services to a group of customers that are paid for by fees charged to those customers. There is a direct relationship between the fees paid and the services rendered. The District is also supported by a legally separate entity, a 501(c)(3) not-for-profit corporation called Edmonds Center for the Arts (ECA), the purpose of which is to assist the District with community outreach, audience development and securing contributions from private sources to help support the operation of the District. EGA's financial activities are included within the Financial Statements of the District, as the non-profit is a blended component unit of the District.

FINANCIAL HIGHLIGHTS

In Fiscal Year 2015, The District (as with many public agencies across the country) was required to implement GASS Pronouncement #68 *(Accounting and Financial Reporting for Pensions).* The implementation of this new pronouncement required a change to the Statement of Net Position, which now includes line items called "Deferred Inflow of Resources" and "Deferred Outflow of Resources;" as well as a change to the Statement of Revenues, Expenses and Changes in Net Position which now includes a line item called "Pension Expense Under GASS 68." These are operating expenses that do not require substantial cash outlay in the foreseeable future. This change in accounting standards is permanent and affects The District's 2016 Financial Statements, as well as all future Financial Statements for The District. Please see Note 6 of the accompanying Notes to the Financial Statements for additional information regarding the purpose of these calculations and their impact on The District's financial position.

FINANCIAL STATEMENTS

Statement of Net Position

The Statement of Net Position presents information on all the District's assets and liabilities, with the difference between the two reported as net position. This statement is similar to the balance sheet of a private sector business. Over time, increases or decreases in net position may serve as useful indicators of improvement or deterioration in the District's overall financial position.

Condensed Statement of Net Position

	2016	2015
Current and other assets	$496,762	$670,271
Capital assets(net)	11,951,981	12,380,868
Total assets	12,448,743	13,051,139
Deferred outflows of resources related to pensions	$144,004	$83,321
Total assets and deferred outflows of resources	$12,592,747	$13,134,460
Current and other liabilities	$1,177,756	$1,202,472
Long-term liabilities	8,105,779	8,378,989
Total liabilities	9,283,535	9,581,461
Deferred inflows of resources related to pensions	$11,477	$75,961
Total liabilities and deferred inflows of resources	$9,295,012	$9,657,422
Net Position		
Net investment in capital assets	$3,953,601	$3,999,677
Restricted	148,925	492,134
Unrestricted	(804,790)	(1,014,773)
Total net position	$3,297,736	$3,477,038

Analysis of Net Position

The total net position of the District (assets in excess of liabilities) at December 31, 2016 was $3,297,736. There was a decrease of $179,302 or 5.2% compared to December 31, 2015.

The largest component of the District's net position is its investment in capital assets, less debt related to the acquisition of those assets. These assets, such as buildings and equipment, are used to provide services to citizens. As a result, these assets are not for sale, and are therefore not available to fund current District obligations.

$148,925 of the District's total net position was restricted for debt service payments. This restricted portion decreased by $343,209, or 69.7% in 2016. Correspondingly, the District's unrestricted net position increased by $209,990. The remaining, unrestricted net position of the District may be used for functions of District operations such as employee salaries, programming, advertising and supplies.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues and gains) and decreases (expenses and losses) in the District's net position during the current year.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2016	2015
Revenues		
Operating revenues	$2,304,180	$2,100,784
Non - operating revenues	729,051	648,256
Total Revenues	$3,033,231	$2,749,040
Expenses		
Operating Expenses	$2,991,434	$2,704,456
Non - operating expense	221,100	235,327
Total Expenses	$3,212,534	$2,939,783
Change in net position	(179,302)	(190,743)
Net position - beginning	3,477,038	4,124,420
Pension changes in accounting standards		(456,638)
Net position - end of period	$3,297,736	$3,477,038

Analysis of Revenue, Expenses and Changes in Net Position

Revenues:
The District's total revenues increased $284,191 or 10.34% over the prior year. Operating revenues increased $203,396 or 9.7%.

Expenses:
Total expenses for the District increased $272,751 or 9.28% over the prior period. Operating expenses increased $286,978 or 10.6%, due primarily to increases in Payroll, Taxes and Benefits.

Notes to the Financial Statements

The Notes to the Financial Statements are integral to the financial statements. They immediately follow the Financial Statements in this report, and they provide additional disclosures essential to a full understanding of the statements.

FINANCIAL CONDITION, RESULTS AND OUTLOOK

Edmonds Public Facilities District, including its non-for-profit affiliate, Edmonds Center for the Arts (ECA), has grown significantly in its first ten years of operation from a $500,000 operation to a $2.3 million operation. Management expects this growth to continue and to accelerate in the coming decade as a result of expanding programs and services, a rapidly growing population in the Puget Sound region, and opportunities for future campus improvements and/or expansion.

The District experienced an operating deficit, exclusive of depreciation, in 2016. The District has identified the primary reasons for the 2016 operating deficit, and has taken corrective steps to ensure a balanced operating performance in 2017.

While the District's operating results have generally been strong over the most recent six-year period, its overall financial position has declined slightly due to significant and unexpected shortfalls in Intergovernmental Revenue as compared to original projections. The impact of this tax revenue shortfall is discussed in detail below (see "Non-Operating Performance").

Operating Performance

FY 2016, the District suffered an operating loss before depreciation. There were two key factors that led to this unexpected operating shortfall. These items included:

- Payroll, taxes and employee benefits: As the level of activity has increased for the District in the form of expanded presentations and education/outreach programs, as well as tremendous growth in the number and scope of rental events, the labor required to support such growth by necessity has also increased. The District added five part-time and one full-time position to its payroll in FY 2016. The rising cost of health and retirement benefits was also a significant factor.

- Server system replacement and recovery: As a result of a failure of the District's network server system in November of 2015, the District invested in and installed a new server and hired temporary labor to help rebuild the District's accounting system. In addition, the State Auditor's Office conducted additional review and testing of the District's information technology policies and systems to ensure security and compliance. These additional, one-time costs, which totaled approximately $18,000, were included in the District's FY 2016 operating expenses.

The District has implemented new strategies to help improve its operating performance and improve its financial stability. The steps the District has taken include:

- Facility Condition Assessment - In April of 2017, McKinstry, Inc. completed a comprehensive Facility Condition Assessment for the District, and provided the District with a Preventative Maintenance and Capital Replacement Schedule. This plan includes a complete inventory of structural, mechanical, electrical and other equipment/systems. Further, it provides timelines and associated costs for maintaining and replacing each item or system, allowing the District to plan for short- and long-term capital needs.

- Historic Facility Preservation Fee - In November of 2016, the District approved as part of its FY 2017 Budget (and all future annual operating budgets), the collection of a new fee on each ticket sold through the Edmonds Center for the Arts box office. The revenue from this fee will be placed on reserve and restricted for facility maintenance and replacement projects as identified in the District's new Preventative Maintenance and Capital Replacement Schedule. Priorities for expending these funds will be set by the District's Facilities and Operations Committee, and will be recommended to and approved by the District's Board of Directors. In FY 2017, the District will collect and place on reserve all revenue collected through this fee structure. The budget for FY 2018 for facility maintenance and replacement projects will equal the amount of revenue collected in FY 2017. This budgeting and fund management practice will continue for all future fiscal years. As of June 2017, the District has collected approximately $20,000 as a result of the new Historic Facility Preservation Fee.

- In January 2017, the District contracted with a new Information Technology consultant. This new consultant immediately improved the District's network server configuration, has significantly upgraded network security and functionality, and has guaranteed the safe backup and storage of the organization's shared files and systems. The consultant has also developed a plan to migrate the District's email system and a selection of shared files to the cloud to further ensure stability, security and functionality. The District anticipates that this migration will be completed by September of 2017.

Non-Operating Performance

The District's Intergovernmental Revenue, which exclusively funds its Bond Debt Service, comprises direct sales tax rebates from the State of Washington, contributions from Snohomish County Public Facilities District established by inter-local agreement, and a portion of net revenue generated by the operation of Edmonds Center for the Arts. The economic crisis that began in 2008 has resulted in average annual shortfalls of approximately $125,000 between projected sales tax revenues and actual receipts.

Between 2011 and 2016, the District's annual bond payment obligations have been met, in part, with loans from the City of Edmonds as prescribed in a Contingent Loan Agreement (CLA) between the two entities signed in 2008 (see Note 3 in the accompanying Notes to the Financial Statements). Under the terms of the CLA, the City of Edmonds is contractually obligated to advance to the District, as a loan, the amount of any shortfall in the District's Debt Service Fund each year. The City of Edmonds pledges its full faith and credit thereto. The City will continue to provide the same contingent financial support to the District for the life of the bonds, or until such assistance is no longer required.

The District has been making strides to secure new revenue streams to address these annual shortfalls in sales tax revenues resulting from the economic crisis, both to pay back past loans, and to eliminate the need for future loans from the City of Edmonds. Some positive new developments include the following:

- For the past three years, the City of Edmonds and Snohomish County have experienced significant increases in sales tax revenues. As macro-economic conditions continue to improve, the sales tax revenue the District receives has increased and has helped to close the gap between non-operating revenue and bond payments. The District received additional funds from Snohomish County Public Facilities District in 2016 (referred to as the "Tier 2" allocation) for just the third time since FY 2009. The District received $66,149 from this allocation, and this secondary allocation has increased in FY 2017 to $97,831, further closing the gap between sales tax revenues and bond debt expense.

- In the most recent legislative session, The Washington State Legislature passed House Bill 1201, and the Bill was subsequently signed into law by Governor Jay Inslee in April, 2017. This new law extends the current legislation establishing and governing Public Facilities Districts, including the related sales tax rebate, by a period of 15 years beyond its current sunset date (2026) to the year 2041. The extension of this funding source will provide the District with several options for re-funding or refinancing long-term debt for the purpose of capital maintenance, replacement or improvements.

- In FY 2018, The District's 2008 Bond Issue will become callable and will be eligible for re-funding. The District has secured Piper Jaffray Financial Services to provide analysis and advice regarding the potential re-funding options available to The District. With the extension of the sales tax revenue stream to 2041, and the continued economic growth in the Puget Sound region, management predicts that the need to borrow further funds from the City of Edmonds to help meet bond debt payments will be eliminated by the end of 2019.

- In May 2013, the Boards of Edmonds Public Facilities District and Edmonds Center for the Arts adopted a comprehensive Strategic Business Plan, which includes strategies designed to ensure the long-term financial stability and sustainability of the District and the Center. The plan is currently in its sunset year. Beginning in June of 2017, the District and the Not-For-Profit Boards and staff will embark on a planning process to update the Strategic Business Plan for the next five-year period (2018 - 2022).

REQUESTS FOR INFORMATION

The following Financial Statements are designed to provide users with a general overview of the District's financial performance as well as to demonstrate accountability to its citizens, investors, creditors, and other customers. If you have a question about this report, please contact Edmonds Public Facilities District, 410 Fourth Avenue North, Edmonds, Washington, WA 98020, (425) 275-4485.

Edmonds Public Facilities District
Statement of Net Position
As of December 31, 2016

ASSETS:		
Current Assets:		
Cash and Cash Equivalents - Unrestricted	$	195,069
Cash and Cash Equivalents - Restricted		97,647
Customer Accounts Receivable		48,827
Pledges Receivable		31,887
Due from Other Governments		50,338
Inventory		3,523
Prepayments		69,472
Total Current Assets	$	496,762
Noncurrent Assets:		
Land	$	3,444,885
Buildings, Equipment, Furniture and Other Depreciable Assets		14,514,408
Accumulated Depreciation		(6,007,311)
Total Noncurrent Assets	$	11,951,981
TOTAL ASSETS	$	12,448,743
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		144,004
TOTAL OUTFLOWS OF RESOURSES	$	144,004
LIABILITIES:		
Current Liabilities:		
Accounts Payable	$	180,803
Wages and Benefits Payable		51,655
Liability for Compensated Absences		17,386
Unearned Ticket Sales and Other Unearned Revenue		347,987
Liabilities for Customer Deposits		32,940
Accrued Interest ·		16,984
Current Portion of Long-Term Liabilities		530,000
Total Current Liabilities	$	1,177,756
Noncurrent Liabilities:		
Bond Payable		2,655,000
Contractual Obligation to the City of Edmonds		3,640,000
Loan Payable to the City of Edmonds		1,173,381
Net Pension Liability		637,398
Total Noncurrent Liabilities	$	8,105,779
TOTAL LIABILITIES	$	9,283,534
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		11,477
TOTAL INFLOWS OF RESOURSES	$	11,477
NET POSITION:		
Net Investment in Capital Assets	$	3,953,601
Restricted		148,925
Unrestricted		(804,790)
TOTAL NET POSITION	$	3,297,736
TOTAL LIABILITIES AND NET POSITION	$	12,592,747

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

Differences due to rounding.

Edmonds Public Facilities District
Statement of Revenue, Expenses and Changes in Net Position
For the Period Ended December 31, 2016

	12/31/2016
Operating Revenues:	
Ticket Sales and Fees	$ 661,443
Rentals	508,236
Education and Outreach	47,079
Concessions	112,674
Contributions	972,498
Advertising	2,250
Total Operating Revenue	$2,304,180
Operating Expenses:	
Artist Presentations and Theatre	$ 548,303
Advertising and Marketing	193,787
Education and Outreach	58,204
Development	87,982
Payroll, Taxes and Employee Benefits	1,045,502
Pension Expense under GASB 68	54,193
Facilities Maintenance and Utilities	151,308
Contracted Services	16,639
Supplies and Other Operating Expenses	253,488
Depreciation	582,028
Total Operating Expenses	$2,991,434
Operating Income (Loss)	$ (687,254)
Non-operating Revenue and (Expenses):	
Intergovernmental Revenue	$ 608,713
Grant Revenue	119,144
Interest Expense	(221,100)
Interest Earned	1,033
Loss/Gain on Stock Realized	161
Non-Operating Income (Loss)	$ 507,953
TOTAL NET INCOME (LOSS)	$ (179,302)
BEGINNING NET POSITION	$ 3,477,038
END OF YEAR NET POSITION	$3,297,736

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

Differences due to rounding.

Edmonds Public Facilities District
Statement of Cash Flows
For the Year Ended December 31, 2016

Cash Flows from Operating Activities:		
Ticket Sales		683,273
Rental Receipts		523,297
Concession Sales		112,620
Contributions Received		1,001,627
Payments to Artists		(629,806)
Payments to Suppliers		(453,499)
Payments to Employees		(843,722)
Other Outside Payments		(298,408}
Net cash provided (used) by operating activities	$	95,382
Cash Flows from Noncapital Financing Activities:		
Net cash borrowed from the City of Edmonds	$	129,690
Net interfund transfers		
Net cash flows from noncapital financing activities	$	129,690
Cash Flows from Capital and Related Financing Activities		
Receipt of sales taxes & other intergovernmental payments		629,896
Receipt of grant revenue		119,144
Principal paid on long-term debt		
2008 bonds payable		(210,000)
Contractual obligation to the City of Edmonds		(285,000)
Interest paid on long-term debt		(223,370)
Principal and interest paid on other debt		(17,500)
Purchase of capital assets		(153,143)
Net cash flows from noncapital financing activities	$	(139,973)
Cash Flows from Investing Activities:		
Interest received on investments		1,033
Loss on sale of investment		161
Net cash provided by investing activities	$	1,194
Total adjustments	$	86,293
Beginning Cash	$	206,423
Ending Cash	$	292,716
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating Loss	$	(687,254)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation		582,028
Changes in assets and liabilities:		
Accounts Receivables		261,976
Inventory		(54)
Prepayments		(23,299)
Account Payable		(48,703)
Salaries & Benefits Payable		5,674
Compensated Absences		(335)
Unearned Revenues		(27,499)
Unearned customer deposits		13,195
Pension Liability		19 653
Net cash provided by operating activities	$	95,382

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Edmonds Public Facilities District (referred to hereafter as the "District"), which conform to generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board (GASS), are regulated by the Washington State Auditor's Office. The District's financial statements are comprised of the accounts of the District per se, a government body, and its private-sector not-for-profit affiliate, Edmonds Center for the Arts (ECA). The District's significant accounting policies are described below.

ECA follows accounting standards promulgated by the Financial Accounting Standards Board. It applies those standards by utilizing guidance contained in the American Institute of Certified Public Accountants Audit and Accounting Guide, "Not-for Profit Entities." Financial statements for ECA alone are included in its Form 990, filed annually with the Internal Revenue Service. Copies of Forms 990 filed by ECA for the three most recent years may be downloaded without charge from the website of Guidestar, Inc. (http://www.guidestar.org/).

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

A. Reporting Entity

The District is a municipal corporation in the State of Washington. It was created in 2001 by City of Edmonds Ordinance No. 3358 pursuant to Chapter 35.57 of the Revised Code of Washington to "design, construct, operate, and maintain an undesignated public facility." It is a discreet component unit of the City of Edmonds. Its governing board is appointed by the City Council of Edmonds and comprises five members who serve staggered four-year terms, with one term renewal permitted.

ECA is a not-for-profit corporation organized and operated in conformity with Section 501(c) (3) of the Internal Revenue Code. EGA's activities are limited to providing support for the District and its performing arts center. ECA conducts various activities to raise funds, primarily from private-sector sources, including individuals, corporations and other businesses, and foundations. Its eighteen-member Board of Directors is appointed by the Board of the District for three-year terms renewable two times. ECA Board members provide advice and counsel to the entity as a whole.

B. Basis of Accounting

The District uses the economic resources measurement focus and full accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred.

The District's operating expenses include all costs associated with its presenting, rental and concessions businesses, as well as the costs associated with administration and fund raising. Financial costs, principally interest expense, are recorded as non-operating expenses.

The District receives and records operating revenue from the sources described below. It records sales tax rebate receipts, intergovernmental revenues, as well as interest and other investment revenues as non-operating revenues.

(1) *Ticket Sales* to EGA Presentations are recorded as a liability, "Unearned Revenue," until the date of the performance. Ticket revenue is therefore recognized as earned on the date of each performance. Tickets returned by patrons prior to performances are reclassified as contribution revenue at amounts equal to the original ticket sale price.

(2) *Rental Revenue* is derived from rentals of the auditorium, as well as other spaces in the facility. Rentals received in advance are recorded as "Unearned Revenue," a current liability on the Statement of Net Position. Unpaid rents are recorded as accounts receivable.

(3) *Sales Tax Revenue and Intergovernmental Revenue* are recorded as non-operating revenues on the Statement of Revenues, Expenses and Changes in Net Position. District sales tax revenue represents a rebate of a portion of State of Washington sales taxes assessed and collected within the District. Intergovernmental revenue consists of the proceeds of an Inter-Local Agreement between the City of Edmonds, Edmonds Public Facilities District, Snohomish County, and the Snohomish County Public Facilities District. That agreement provides for rebates of sales taxes assessed and collected elsewhere in Snohomish County to public facilities districts in the county, including the District.

Under the agreements which generate these revenues, they must be used first to pay the annual principal and interest on the District's long-term debt. The debt that must be so serviced comprises the District's 2008 Sales Tax Obligation and Refunding Bonds (see Note 3) and also the 2012 Contractual Obligation to the City of Edmonds (see Note 3). In any fiscal year in which the Sales Tax and Intergovernmental Revenues exceed the amounts required to service those two liabilities, the excess may be used by the District for operations, capital expenditures, or other debt reduction.

The Sales Tax and Intergovernmental Revenues are recorded as revenue during the fiscal period in which they are assessed. Revenues earned but not yet received are recorded in the Statement of Net Position in the current asset line titled "Due from Other Governments."

(4) *Contributions* are the principal revenue source for Edmonds Center for the Arts. They are received in three different forms: cash donations, donation of financial instruments, and donated performance tickets. Contributions are recorded as revenue when they are in the form of voluntary unconditional promises to give. EGA records donations as revenue on the date of receipt. EGA's policy is to sell donated financial instruments immediately thereafter. Donated tickets are placed back into inventory for sale to the public.

C. <u>Cash and Cash Equivalents</u>

In the statement of Net Position, Cash and Equivalents includes cash in the bank and short-term investments held in the Washington State Local Government Investment Pool (LGIP). These investments are reported at amortized cost.

D. Receivables

Customer accounts receivable generally consist of amounts due from renters. Pledges receivable consist of amounts due on promised contributions. The amount due from other governments consists of sales tax from Snohomish County and contributions made from the City of Edmonds.

E. Inventories

Inventories consist primarily of goods held for sale as concessions. Inventories are valued at historic cost under the FIFO identification method.

F. Restricted Assets

These accounts contain resources for debt service and construction. Specific debt service reserve requirements are described in Note 3.

The restricted assets are composed of the following:

Cash - Debt Service	$92,260
Cash - Construction	$ 5,387

G. Compensated Absences

The District accrues compensated vacation time for eligible regular full-time employees. Employees who do not use their accrued vacation time during the current year can carry over one year's accrual only to the following year. Any accrued time not used beyond the one year will be forfeited. The one year's liability at December 31, 2016 was $17,386.

H. Deterred Outflows/Inflows of Resources

In the Statement of Net Position, Deferred Outflows/Inflows of Resources is related to pensions. See Note 6.

NOTE 2 - CAPITAL ASSETS

Capital assets include land, buildings, equipment and technology/software. The District capitalizes purchased items having a useful life of more than one year and an acquisition value in excess of $5,000. Purchased assets are recorded at cost when placed in service. The District's major capital asset is its renovated auditorium and the un-renovated structure of which it forms a part. That building is being depreciated over a 25-year life using the straight-line method. Other depreciable capital assets are depreciated over a period of 7 years or less using the straight-line method. Land and construction in progress are not depreciated.
The schedule that follows shows beginning and ending balances, as well as the changes in capital assets and accumulated depreciation during the year ended December 31, 2016.

Schedule of Capital Asset Activity

	Balance 1/1/2016	Increases	Decreases	Balance 12/31/2016
Capital assets, nondepreciable:				
Land	3,444,885			3,444,885
Construction in Progress	25,111		25,111	
Total capital assets, nondepreciable:	$3,469,996		25,111	$3,444,885
Capital assets, depreciable:				
Building	14,014,486	166,310		14,180,796
Furniture and Equipment	292,890	11,944		304,834
Technology and Software	28,778			28,778
Total capital assets depreciable:	$14,336,154	178,253		$14,514,407
Less accumulated depreciation for:				
Building	(5,177,650)	(563,941)		(5,741,591)
Furniture and Equipment	(227,314)	(13,976)		(241,290)
Technology and Software	(20,319)	(4,111)		(24,430)
Total accumulated depreciation:	(5,425,283)	(582,028)		(6,007,311)
Total net' depreciable capital assets :	$8,910,871	(403,775)		$8,507,096
Total capital assets, net:	$12,380,867	(403,775)	25,111	$11,951,981

NOTE 3-LONG-TERM DEBT

In 2008, Edmonds Public Facilities District issued Sales Tax Obligation and Refunding Bonds in the amount of $4,000,000. The bond proceeds were used to refund the District's outstanding balance on its 2005 General and Revenue Obligation Line of Credit ($3,883,804). The remaining proceeds were used to pay bond issuance costs and a portion was placed in reserve for future debt payments. The Bonds were issued pursuant to chapters 35.57 and 39.46 of the Revised Code of Washington and Resolution No. 27 adopted by the District's Board of Directors. When the Sales Tax Obligation and Refunding Bonds were issued, the District entered into a Contingent Loan Agreement (CLA) with the City of Edmonds (the City) providing credit support for the bonds.

Sales Tax Obligation and Refunding Bonds currently outstanding as follows:

Issue Name	Maturity Date	Interest Rates	Balance 12/31/2015	Paid in 2016	Balance 12/31/2016
Sales Tax Obligation and Refunding Bonds	12/1/2025	4.1%-4.5%	$3,090,000	$210,000	$2,880,000

Following is a table which reflects debt service to maturity for the 2008 Bonds:

Year	Principal	Interest	Total
2017	225,000	123,520	348,520
2018	250,000	114,295	364,295
2019	265,000	104,045	369,045
2020-2023	1,315,000	292,780	1,607,780
2024-2026	825,000	55,000	880,000
	$2,880,000	$689,640	$3,569,640

In 2002 Edmonds Public Facilities District became obligated under an inter-local agreement with the City of Edmonds to apply its receipts of sales tax revenues to the City over the life of the City's Limited General Obligation Bonds issued in 2002. A major portion of the proceeds of that bond issue was used for the acquisition, renovation and initial operation of a Performing Arts Center by the District.

On October 12, 2012, the City of Edmonds refunded the 2002 Limited Tax General Obligation Refunding Bonds with a face amount of $5,650,000. The 2012 refunding bonds are in total a liability of the City of Edmonds and are not reported as liability of the District. However, the District remains contractually obligated to the City of Edmonds to continue to apply its sales tax receipts to the City under the Inter-local agreement as per the schedule below. The liability to the City has been appropriately recorded on the District's Statement of Net Position as "Contractual Obligation to the City of Edmonds." The amount of the District's obligation to the City at the date of refunding was $4,965,000 with interest rates ranging from 1.75% to 3.0%, depending on the maturity of each principal installment. The bonds are scheduled to be retired in annual amounts beginning in 2013 and continuing through 2026.

District Contractual Obligation to the City of Edmonds currently outstanding as follows:

Issue Name	Maturity Date	Interest Rates	Balance 12/31/2015	Paid in 2016	Balance 12/31/2016
Contractual Obligation to the City of Edmonds	12/1/2026	1.75%-3%	$4,230,000	$285,000	$3,945,000

Following is a table which reflects debt service to maturity for the Contractual Obligation to the City of Edmonds:

Year	Principal	Interest	Total
2017	305,000	80,293	385,293
2018	330,000	74,192	404,192
2019	350,000	67,593	417,593
2020-2023	1,660,000	187,270	1,847,270
2024-2026	1,300,000	46,620	1,346,620
	$3,945,000	$455,968	$4,400,968

The CLA states that the City pledges its "full faith, credit and resources" in an "absolute and unconditional" obligation to lend money to the District for paying debt service on the bonds. Although the District made higher payments on the 2012 Sales tax Obligations and Refunding Bonds than the previous year, it borrowed the same amount from the City in 2016 of $125,000.

The District has made no payments on this loan. The total principal and interest due on the CLA at December 31, 2016 is $1,173,381. Interest accrues on the outstanding balance at the Local Government Investment Pool monthly rate.

The maturity date of this guarantee is 12/01/2026, which is when the bonds will be paid in full. The District will repay the loan starting 01/31/2027, using the sales tax revenue received.

NOTE 4 - CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

Issue Name	Balance 1/1/2016	Additions	Payments	Balance 12/31/2016	Due Within One Year
2008 Refunding Bonds	3,090,000		210,000	2,880,000	225,000
Contractual Obligation to CoE	4,230,000		285,000	3,945,000	305,000
CLA - City of Edmonds	1,043,690	129,690		1,173,380	
Net Pension Liability	492 578	145.323		637 901	
Total Long-Term Liabilities	$8,856,268	$275,013	$495,000	$8,636,281	$530,000

NOTE 5 - OTHER INCOME

In 2016, The District received a Community Development Block Grant in the amount of $119,144 to partially cover the costs of removing barriers and updating a women's bathroom in the facility's "back-of-house" area to comply with the Americans with Disabilities Act. The renovation was completed in June of 2016, the cost of which is included in the increase of capital assets building of $166,310. See Note 2.

NOTE 6 - PENSION PLAN

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 2016:

Pension Liability	$637,398
Pension Assets	-
Deferred Outflows of Resources	$144,004
Deferred Inflows of Resources	$11,477
Pension Expense	$100,610

State Sponsored Pension Plans

Substantially all Edmonds Public Facility District's full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS) administered by the Washington State Department of Retirement Systems (DRS), 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 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 .

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.

Contributions

The **PERS Plan 1-member** contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as percentage of covered payroll) for 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee***
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	**11.18%**	**6.00%**

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
- 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 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2***
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**11.18%**	**6.12%**

The District's actual PERS plan contributions $34,540 to PERS Plan 1 and $45,113 to PERS Plan 2/3 for the year ended December 31, 2016.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. 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 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, 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 was a minor change in methods and assumptions since the last valuation.

- For all systems, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

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; the District has no employees in this plan). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, 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 SO-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, 2016, 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	20.00%	1.70%
Tangible Assets	5.00%	4.40%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.60%
Private Equity	23.00%	9.60%
	100.00%	

Sensitivity of the Net Position Liability/ (Asset)

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.

	1% Decrease	**Current Discount Rate**	**1% Increase**
	6.50%	**7.50%**	**8.50%**
PERS 1	6,476,248,000	5,370,471,000	4,418,882,000
0.005395%	349,394	289,737	238,399
PERS 2/3	9,270,195,000	5,034,921,000	(2,620,967,000)
0.006905%	640,107	347,661	(180,978)

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, 2016, the District reported a total pension liability of $637,398 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	$289,737
PERS 2/3	$347 661
Total	$637,398

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

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportionate Share
PERS 1	.005002%	.005395%	.000393%
PERS 2/3	.006463%	.006905%	.000442%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1, in which the District does not participate.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, the District recognized pension expense of $100,610 as follows:

PERS 1	$38,045
PERS 2/3	$62,565
TOTAL	$100,610

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the District reported deferred outflows of resources of $144,004 and deferred inflows of resources of $11,477 related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		
Changes of assumptions		
Net difference between projected and actual earnings on pension plan investments	$7,295	
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	$17,005	
Total	$24,300	

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$18,513	$11,477
Changes of assumptions	$3,593	
Net difference between projected and actual earnings on pension plan investments	$42,544	
Changes in proportion and differences between contributions and proportionate share of contributions	$32,844	
Contributions subsequent to the measurement date	$22,210	
Total	$119,704	$11,477

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, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	PERS 1	PERS 2/3
2017	$ {1,796)	$16,059
2018	$ {1,796)	$16,059
2019	$ 6,700	$43,623
2020	$ 4,188	$10,276
Thereafter	-	-
Total	$7,295	$86,017

NOTE 7 - LONG-TERM RENTAL AGREEMENT

In 2006, The District entered a long-term rental agreement with a customer for the use of some of its facilities on designated future dates. The initial term of the agreement was ten years, which expired on October 31, 2013, with the tenant having options to renew for three successive five-year terms. The tenant exercised its option and the agreement now extends through December 31, 2018, with options for two additional five-year terms. The rent is received in monthly payments by the District and totaled $79,201 in 2016, which is included in "Rental Revenues" on the District's Statement of Revenues, Expenses and Changes in Net Position. The rent will increase by 3% per annum in each future year, including renewals. Rents for the years 2017 and 2018 will be:

Year 2017- $81,574
Year 2018 - $84,021

NOTE 8 - DEPOSIT AND INVESTMENTS

Credit Risk. The District complies with state law which requires all investments of the District's funds be obligations of the U.S. Government, U.S. agency issues, Obligations of the State of Washington, repurchase agreements, prime banker's acceptances, the Washington State Local Government Investment Pool, and time certificates of deposit with authorized Washington State banks.

Custodial Credit Risk - Deposits. All District and ECA deposits are insured by Federal Depository Insurance Corporation (FDIC) coverage limits.

The standard insurance amount is $250,000 per depositor, per insured bank, for each account ownership category. The FDIC provides separate coverage for deposits held in different account ownership categories. Depositors may qualify for coverage over $250,000 if they have funds in different ownership categories and all FDIC requirements are met. All deposits that an accountholder has in the same ownership category at the same bank are added together and insured up to the standard insurance amount.

Investments. The Washington State Local Government Investment Pool (LGIP), created by the Washington State Legislature in 1986, is managed and operated solely by the Office of the State Treasurer. The State Finance Committee administers the statute that created the pool and adopts appropriate rules. The State Treasurer established the LGIP Advisory Committee to provide advice on the pool's operation. The advisory committee includes 12 members selected from the active pool participants. Eight members are appointed by the participant associations, and four are appointed by the State Treasurer.

The LGIP is considered extremely low-risk and is recorded as a cash equivalent. The pool is unrated by financial rating agencies. It is operated in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940. Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The PFD's position in the pool is the same as the value of the shares.

As of December 31, 2016, the District held $46,594 in the LGIP at amortized cost.

NOTE 9 - RISK MANAGEMENT

<u>Property/Casualty Risk:</u>

Edmonds Public Facilities District 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, 2016, there are 524 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 $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $249,000 on a property loss.
- Enduris is responsible for the $4,000 deductible on boiler and machinery 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 $20 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.

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.

The District believes its various property and casualty risks are covered appropriately by its Enduris membership. The amount of settlements has not exceeded insurance coverage in each of the past three years.

NOTE 10- FINANCIAL CONDITION

The Board of Directors and Management of Edmonds Public Facilities District are confident that the financial condition of the District is stable, and that the strategies outlined in the Management's Discussion and Analysis section of this report will lead to long-term financial stability. Further, the recently adopted extension of the Public Facilities District legislation by the State of Washington (please see "Subsequent Events" below) provides a continuing sales tax revenue stream through 2041 that has added a conservatively-estimated $15 Million in new projected revenue, a resource that will help the District plan for and manage major capital improvements and replacements.

Financial reports through April 2017 show an improvement in the District's operating performance by approximately $50,000 through the first four months of the fiscal year, as compared to the same period in FY 2016. District staff has improved operating efficiencies, and has opened new revenue streams such as the sale of advertising in its event programs and other publications. Revenue also increased from ticket sales, rentals and contributions during the 2016-2017 Season, and all indications suggest that this growth will continue for the 2017-2018 Season.

In FY 2016, it is important to note that the District's depreciation expense comprised 19.5% of its reported operating expenses. A performing arts center relies upon ticket revenue, rental revenue and private contributions to meet its annual operating requirements and, therefore, it can be challenging to achieve an operating surplus of 20% or higher each fiscal year to cover depreciation. To help meet this challenge, the District's Board of Directors has applied a new fee on tickets sold through the Edmonds Center for the Arts box office that is restricted to capital maintenance and replacement. Please see Management's Discussion and Analysis for more information about this new initiative.

NOTE 11 - SUBSEQUENT EVENTS

In the most recent legislative session, The Washington State Legislature passed House Bill 1201, and the Bill was subsequently signed into law by Governor Jay Inslee in April 2017. This new law extends the current legislation establishing and governing Public Facilities Districts, including the related sales tax rebate, by a period of 15 years beyond its current sunset date (2026) to the year 2041. The extension of this funding source will provide the District with a number of options for re-funding or refinancing long-term debt for capital maintenance, replacement or improvements.

In July of 2017, the District will begin construction on the replacement of the roof over its 1939 gymnasium, and will replace the coping (flashing cap) over the walls surrounding the perimeter of the entire facility (gymnasium, school building, and theatre). The District received two grants in FY 2015 for the purpose of replacing the gymnasium roof: $225,000 from Snohomish County, and $250,000 from the State of Washington, for a total of $475,000 for the project. Once the roof replacement project is complete, any remaining funds from the State appropriation may be invested to help address climate control issues in the gymnasium.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability Plan PERS 1 As of June 30, 2016	2015	2016
Employer's proportion of the net pension liability (asset)	0.005002%	0.005395%
Employer's proportionate share of the net pension liability	$261,651	$289,737
Employer's covered employee payroll	$583,133	$661,838
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	44.87%	43.77%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%

Schedule of Proportionate Share of the Net Pension Liability Plan PERS 2/3 As of June 30, 2016	2015	2016
Employer's proportion of the net pension liability (asset)	0.006463%	0.006905%
Employer's proportionate share of the net pension liability	$230,927	$347,661
Employer's covered employee payroll	$583,133	$661,838
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	39.60°1<	52.53%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%

Schedule of Proportionate Share of Employer Contributions Plan PERS 1 As of December 31, 2016	2015	2016
Contractually required contributions	$26,654	$34,540
Contributions in relation to the contractually required contributions	$26,654	$34,540
Contribution deficiency (excess)	0	0
Covered employer payroll	$597,937	$724,116
Contributions as a percentage of covered employee payroll	0.04457%	4.77%

Schedule of Proportionate Share of Employer Contributions		
Plan PERS 2/3		
As of December 31, 2016		
	2015	2016
Contractually required contributions	$34,212	$45,112
Contributions in relation to the contractually required contributions	$34,212	$45,112
Contribution deficiency (excess)	0	0
Covered employer payroll	$597,937	$724,116
Contributions as a percentage of covered employee payroll	0.057216%	6.23%

These schedules will be built prospectively until they contain ten years of data.
There were no changes of benefit terms for the pension plans.
There were no changes of assumptions for the pension plans.

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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