



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Greater Wenatchee Regional Events Center Public Facilities District (Town Toyota Center)

Chelan County

For the period January 1, 2017 through December 31, 2017

Published September 20, 2018

Report No. 1022051





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

September 20, 2018

Board of Directors
Town Toyota Center
Wenatchee, Washington

Report on Financial Statements

Please find attached our report on the Greater Wenatchee Regional Events Center Public Facilities District's financial statements.

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized "P" and "M".

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**

**Town Toyota Center
Chelan County
January 1, 2017 through December 31, 2017**

Board of Directors
Town Toyota Center
Wenatchee, 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 Town Toyota Center, Chelan County, Washington, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 16, 2018.

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 will report to the management of the District in a separate letter dated September 12, 2018.

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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

August 16, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Town Toyota Center Chelan County January 1, 2017 through December 31, 2017

Board of Directors
Town Toyota Center
Wenatchee, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Town Toyota Center, Chelan County, Washington, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 Town Toyota Center, as of December 31, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 August 16, 2018 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

August 16, 2018

FINANCIAL SECTION

**Town Toyota Center
Chelan County
January 1, 2017 through December 31, 2017**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Revenues, Expenses and Changes in Net Position – 2017

Statement of Cash Flows – 2017

Notes to Financial Statements – 2017

Introduction

The following is the Greater Wenatchee Regional Event Center Public Facility District's (the District) Management Discussion and Analysis (MD&A) of financial activities and the performance for the calendar year ended December 31, 2017. The discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the District, to identify any significant changes in financial position and provide information on challenges in the next and subsequent years. Information contained in the MD&A has been prepared by District management and should be considered in conjunction with the financial statements and notes. The notes to the financial statements are essential to a full understanding of data contained in the financial statements.

Background

The District was formed June 2006 under Revised Code of Washington (RCW) 35.57. The center was substantially complete and opened in October 2008. The District had an agreement to lease with an option to purchase the event center upon substantial completion of the construction, and closed on the option to purchase the center in December 2008 by issuing three-year short term bond and tax anticipation notes, which were refunded in 2012 (see below). The District terminated the management contract with Global Entertainment Corporation in September 2009 and elected to self-manage the facility. As a result, the District hired a General Manager in October 2009. The District had an inter-local agreement with the City of Wenatchee (the City) to provide staff support and as result of this agreement the City began managing the financial records at the event center in June 2009. The District and the City revised the support staff agreement to an agreement for accounting and other services in October 2009. This agreement for services from the City terminated at the end of 2012. In late 2012, the District hired its own financial manager to oversee the accounting of the District's operations in addition to outside consultants for information technology and accounting services.

Financial Analysis of the District

The District falls under the control of the Governmental Accounting Standards Board (GASB). Since the District is comprised of a single enterprise fund, no fund level financial statements are shown nor required.

The financial section of this annual report consists of three parts: MD&A, the basic financial statements, and the notes to the financial statements. The basic financial statements include: the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows.

See accompanying notes to financial statements

The statement of net position and the statement of revenues, expenses and changes in net position provide the District with an overall financial position and results of operations to assist the user in assessing whether that financial position has improved or deteriorated as a result of the annual activities. Over time, increases or decreases in net position may serve as an indicator of whether the District is financially stable or if there is a going concern.

The statement of revenues, expenses and changes in net position show how the District's net position changed during the most recent year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows.

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing, and investing activities. A reconciliation of the cash used by operating activities to the District's operating loss as reflected on the statement of revenues, expenses and changes in net position is also included.

The notes to the financial statements provide the reader additional detailed information that may not be apparent from the actual financial statements. The notes to the financial statements can be found immediately following the financial statements.

In 2008, the District sold \$41,770,000 in Limited Sales Tax and Special Tax Bond Anticipation Notes (BANs). The notes were due on December 1, 2011 but the District did not pay the notes at the maturity date. In September 2012, the District sold \$48,235,000 in Limited Sales Tax Bonds and used the bond proceeds to refund, or payoff, BANs originally issued in November 2008, plus interest. Additional sales tax of .2 percent within the City and .1 percent within the District were imposed to provide a revenue stream for the bond debt service. The additional .1 percent sales tax is imposed until one year after the date the bonds have been paid in full. The bond maturity dates range from 2017 to 2042. The additional .2 percent sales tax imposed by the City is imposed until July 1, 2042 or until the bond fund is sufficient to pay all principal and interest on the bonds then outstanding, if sooner. The District has also authorized allocation of .033 percent of the State sales tax for operation and debt service of their regional events center. This .033 percent sales tax remittance to the District terminates on July 1, 2031, which is prior to the final stated maturity of the bonds. In 2018 the District extended the remittance of the .033 percent sales tax consistent with amendments to state law allowing for collection up to a maximum forty year period.

In 2015 and 2016, the District partnered with Chelan County PUD to upgrade to a more efficient lighting package for the entire complex. Newly developed LED lighting was installed throughout the facility. In 2015, the Community Rink, back of the house areas, and the parking lot lights were replaced with the new lights at a cost of \$76,993. In 2016 the arena lights were replaced at a cost of \$217,684. As a result of Chelan County PUD incentive programs to promote using less energy, rebates totaling \$295,972 were received to cover the cost of these projects.

See accompanying notes to financial statements

An Overview of the District's Financial Position and Operations

The District's overall financial position and operations for the past two years are summarized in the following table based on the information included in the current and prior financial statements.

TABLE 1
STATEMENT OF NET POSITION

	2017	2016
Current and other assets	\$ 10,002,700	\$ 9,837,155
Net capital assets	33,402,603	35,363,445
Total assets	<u>\$ 43,405,303</u>	<u>\$ 45,200,600</u>
Deferred outflows	<u>\$ -</u>	<u>\$ -</u>
Current liabilities	\$ 2,283,403	\$ 2,218,335
Noncurrent liabilities	44,698,493	47,325,852
Total liabilities	<u>\$ 46,981,896</u>	<u>\$ 49,544,187</u>
Deferred inflows	<u>\$ -</u>	<u>\$ -</u>
Net position		
Net investment in capital assets	\$ (10,472,397)	\$ (9,506,555)
Restricted for debt service	7,673,345	7,586,652
Unrestricted	(777,541)	(2,423,684)
Total net position	<u>\$ (3,576,593)</u>	<u>\$ (4,343,587)</u>

Total Assets

The District's total assets decreased by \$1,795,297 during 2017. This decrease is primarily due to depreciation on capital assets.

Total Liabilities

The District's total liabilities decreased by \$2,562,291 during 2017. This decrease primarily reflects principal payments of \$995,000 on the 2012 taxable bonds and \$1,629,730 on City subordinate note.

Total Net Position

The District's financial position increased by \$766,994 during 2017.

See accompanying notes to financial statements

Greater Wenatchee Regional Events Center Public Facilities District
MCAG No. 2930
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2017

TABLE 2
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2017	2016
Operating revenues		
Daily operations revenue	\$ 1,017,881	\$ 1,136,747
Event revenue	998,308	1,377,121
Food and beverage revenue	843,826	879,792
Nonoperating revenues		
Sales tax revenue	5,950,529	5,776,346
Nonoperating rebate	-	217,684
Interest	3,500	2,615
Total revenues	<u>8,814,044</u>	<u>9,390,305</u>
Operating expenses		
Daily operations expenses	1,931,439	1,913,010
Depreciation	2,026,514	1,997,422
Event expenses	1,180,889	1,254,109
Food and beverage expenses	585,501	574,187
Nonoperating expenses		
Interest expense	<u>2,322,707</u>	<u>2,360,468</u>
Total expenses	<u>8,047,050</u>	<u>8,099,196</u>
Change in net position	766,994	1,291,109
NET POSITION - BEGINNING OF YEAR	<u>(4,343,587)</u>	<u>(5,634,696)</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ (3,576,593)</u>	<u>\$ (4,343,587)</u>

Major Factors Affecting the Statement of Revenues, Expenses and Changes in Net Position

Revenues decreased by \$576,261 primarily due to decreased event revenues and nonoperating rebate. Expenses decreased by \$52,146 due primarily to decreased event expenses.

In 2015, food and beverage services were taken in house after notice of termination of lease was given by the concession vendor. Effective June 1, 2015, the District assumed 100% control of food and beverage operations. This change resulted in net revenue in 2017 of \$258,325, which is a 31% profit. The goal is to increase catering services utilizing our in house catering service to bolster revenues. It is management's opinion that the move to take food and beverage operations in house will financially benefit the District in years to come.

See accompanying notes to financial statements

Capital Assets and Debt Activity

Capital Assets

As of year-end, the District had approximately \$33 million invested, net of accumulated depreciation, in a variety of capital assets. This represents a net decrease of \$1,960,842 from the previous year. Net decrease would include all additions, disposals and depreciation. The capital assets are reflected in the following schedule:

**TABLE 3
CAPITAL ASSETS**

	2017	2016
Land	\$ 1,706,915	\$ 1,706,915
Intangible asset	41,254	41,254
Buildings	48,964,973	48,918,996
Machinery and equipment	2,792,749	2,773,054
Accumulated depreciation	(20,103,288)	(18,076,774)
Total	<u>\$ 33,402,603</u>	<u>\$ 35,363,445</u>

The decrease to the capital assets in 2017 was related to annual depreciation, net of capital assets additions of \$65,672. See Note 3 to financial statements for further information.

Long-Term Debt

The District's long-term debt as of December 31, 2017 consisted of limited sales tax bonds and a subordinate note with the City. See Note 6 to the financial statements for further information.

Economic Factors

During 2017 the North Central Washington region continued to see a recovery from the recession. Retail sales tax for the region rose and the regions primary economic drivers, tree fruit and tourism, continue to do well in relation to the local economies of most of the country. In addition, the annexation of the Olds Station area into the City in late fall 2016 increased the .2 percent sales tax revenue.

See accompanying notes to financial statements

Economic Factors - continued

In 2015, the City of Wenatchee was annexed by Chelan County Fire District No. 1. Prior to the annexation, fire protection services were provided for no additional cost to the District. Pursuant to RCW 52.30.020, the District is required to enter an agreement with the Fire District for fire protection services. In 2016 the fees and charges for fire protection services were based on assessed valuation and, commencing in 2017, the fees and charges for fire protection services will be based on a percentage of insured value. These annual payments will be phased-in over a five year period, with 50% of the annual payment due in 2017, increasing 12.5% per year until full payment due in 2021 and each year thereafter.

In early 2016 the District was made aware of a sales tax rebate arising from data center activity in Douglas County, Washington. The rebate may result in recoupment by the Washington State Department of Revenue of sales tax remitted to local jurisdictions in prior years. The financial impact to the District was \$59,841, which was off-set against the July 2017 tax remittance to the District from the Department of Revenue.

Request for Information

This financial report is designed to provide a general overview of the District's finances and to show accountability of public funds. If you should have additional questions regarding the financial information, you can contact our office in writing at the following address:

Greater Wenatchee Regional Events Center Public Facilities District
Attn: Mark Miller, General Manager
1300 Walla Walla Street
Wenatchee, WA 98801

Greater Wenatchee Regional Events Center Public Facilities District
MCAG No. 2930
STATEMENT OF NET POSITION
December 31, 2017

ASSETS AND DEFERRED OUTFLOWS

CURRENT ASSETS

Cash and cash equivalents [Note 2]	
Operating accounts	\$ 800,534
Operating reserves	<u>1,088,477</u>
Total cash and cash equivalents	1,889,011
Restricted debt service accounts [Note 2]	3,298,719
Accounts receivable, net of allowance for doubtful accounts of \$17,993	168,320
Taxes receivable	1,112,887
Inventory	74,006
Prepaid expenses	<u>16,885</u>
Total current assets	6,559,828

NONCURRENT ASSETS

Capital assets [Notes 3 and 6]	
Land	1,706,915
Intangible asset	41,254
Buildings	48,964,973
Machinery and equipment	<u>2,792,749</u>
Total costs	53,505,891
Accumulated depreciation	<u>20,103,288</u>
Net capital assets	33,402,603
Restricted debt service accounts [Note 2]	<u>3,442,872</u>
Total noncurrent assets	<u>36,845,475</u>

TOTAL ASSETS	<u><u>\$ 43,405,303</u></u>
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DEFERRED OUTFLOWS	<u><u>\$ -</u></u>
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Greater Wenatchee Regional Events Center Public Facilities District

MCAG No. 2930

STATEMENT OF NET POSITION

December 31, 2017

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

CURRENT LIABILITIES

Long-term debt payable within one year [Note 6]	\$ 1,025,000
Accounts payable	102,131
Accrued taxes payable	64,897
Compensated absences payable	10,853
Accrued wages payable	30,844
Accrued interest payable	753,753
Other accrued expenses payable	5,038
Event deposits and prepaid ticket sales	<u>290,887</u>

Total current liabilities	<u>2,283,403</u>
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NONCURRENT LIABILITIES

Long-term debt payable after one year [Note 6]	45,375,925
Discounts on bonds payable	<u>(677,432)</u>

Total noncurrent liabilities	<u>44,698,493</u>
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TOTAL LIABILITIES	<u><u>\$ 46,981,896</u></u>
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DEFERRED INFLOWS	<u><u>\$ -</u></u>
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NET POSITION

Net investment in capital assets	\$ (10,472,397)
Restricted for debt service	7,673,345
Unrestricted	<u>(777,541)</u>

TOTAL NET POSITION	<u><u>\$ (3,576,593)</u></u>
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See accompanying notes to financial statements

Greater Wenatchee Regional Events Center Public Facilities District
MCAG No. 2930
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2017

OPERATING REVENUES	
Daily operations revenue	\$ 1,017,881
Event revenue	998,308
Food and beverage revenue	<u>843,826</u>
Total operating revenues	2,860,015
OPERATING EXPENSES	
Daily operations expenses	
Depreciation	2,026,514
Salaries and wages	884,639
Utilities	287,849
Payroll taxes and benefits [Note 4]	218,789
Professional fees	124,896
Insurance	90,209
Repairs and maintenance	85,682
Marketing	64,354
Operating supplies	19,069
Other daily operations expense [Note 7]	155,952
Event expenses	
Talent and artists	325,618
Event wages	249,870
Sound and lighting	133,725
Marketing	126,820
Promoter and booking fees	117,171
Ticketing and credit card fees	71,654
Payroll taxes and benefits [Note 4]	52,232
Outside services	21,535
Other event expense	82,264
Food and beverage expenses	
Cost of food and beverages sold	370,041
Food and beverage wages	129,665
Payroll taxes and benefits [Note 4]	23,723
Supplies	19,731
Other food and beverage expense	<u>42,341</u>
Total operating expenses	<u>5,724,343</u>
OPERATING LOSS	(2,864,328)

Greater Wenatchee Regional Events Center Public Facilities District
MCAG No. 2930
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2017

NONOPERATING REVENUES (EXPENSES)	
Sales tax revenue	\$ 5,950,529
Interest income	3,500
Interest expense	<u>(2,322,707)</u>
Total nonoperating revenues (expenses)	<u>3,631,322</u>
CHANGE IN NET POSITION	766,994
NET POSITION - BEGINNING OF YEAR	<u>(4,343,587)</u>
NET POSITION - END OF YEAR	<u><u>\$ (3,576,593)</u></u>

See accompanying notes to financial statements

Greater Wenatchee Regional Events Center Public Facilities District
MCAG No. 2930
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 2,995,810
Cash paid to suppliers	(2,441,233)
Cash paid to employees	<u>(1,250,370)</u>

Net cash used by operating activities (695,793)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING
ACTIVITIES

Purchases of capital assets	(65,672)
Taxes collected for bond debt service	5,896,215
Transfer to restricted debt service accounts	(46,693)
Principal paid on capital debt	(2,624,730)
Interest paid on capital debt	<u>(2,306,056)</u>

Net cash provided by capital and related financing activities 853,064

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>3,500</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS 160,771

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR 1,728,240

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 1,889,011

Greater Wenatchee Regional Events Center Public Facilities District
MCAG No. 2930
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2017

RECONCILIATION OF OPERATING LOSS TO NET
CASH USED BY OPERATING ACTIVITIES

Operating loss	\$ (2,864,328)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	2,026,514
Bad debt expense	7,993
Change in operating assets and liabilities:	
Accounts receivable	42,612
Inventory	(9,570)
Prepaid expenses	55,198
Accounts payable	(50,867)
Accrued taxes payable	1,797
Compensated absences payable	289
Accrued wages payable	4,368
Other accrued expenses payable	(2,982)
Event deposits and prepaid ticket sales	<u>93,183</u>
Net cash used by operating activities	<u><u>\$ (695,793)</u></u>

See accompanying notes to financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Greater Wenatchee Regional Events Center Public Facilities District (the District) have been prepared in conformity with generally accepted accounting principles in the United States of America (U.S. 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 District's significant accounting policies are described below:

A. Reporting entity

The District was formed as a municipal corporation in June 2006 under the authority of RCW 35.57 (to oversee the construction and operation of an event center facility). The formation itself was accomplished through an interlocal agreement that includes the City of Wenatchee, City of Cashmere, City of Chelan, City of East Wenatchee, City of Entiat, City of Rock Island, The Town of Waterville, Chelan County and Douglas County. The District is a component unit of the City.

B. Basis of accounting and 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* (BARS) in the State of Washington.

The District financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are ticket sales, charges to customers for facility rental, food and beverage sales, and other event related services. Operating expenses for the District include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Cash and cash equivalents

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

D. Investments

See Note 2.

E. Receivables

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. Taxes receivable consist of sales taxes collected but not yet remitted to the District.

F. Inventory

Inventory consists of expendable food, beverages and supplies held for consumption. The cost is recorded as expenditure at the time individual inventory items are consumed.

Inventory is valued by the first in, first out method using the lower-of-cost or market value.

G. Capital assets

See Note 3.

H. Compensated absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation pay is accrued when incurred in the District's financial statements.

Vacation pay, which may be accumulated up to 40 hours, is payable upon resignation, retirement, or death. Sick leave may be accumulated up to 480 hours, but is not payable upon resignation, retirement or death.

I. Deferred compensation

See Note 4.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

J. Other accrued expenses payable

These accounts consist of accrued tips and accrued employee benefits.

K. Long-term debt

See Note 6.

L. Event deposits and prepaid ticket sales

This account includes amounts received but not recognized as revenue because the revenue recognition criteria have not been met.

M. Net position

Net investment in capital assets

This component of net position consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes or other related borrowings that are attributable to the acquisition, construction or improvements of those capital assets.

Restricted net position

In accordance with bond resolutions, and certain related agreements, separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses, including construction, debt service and other special reserve requirements. Restricted resources currently include the following:

- a) Bond fund, consisting of debt service account, debt service reserve account, supplemental reserve account and supplemental bond redemption account.
 - 1) The debt service account is funded with the .2 percent City and .1 percent District sales tax revenues until the minimum fund balance is satisfied. The debt service account requirement is the amount of debt service on the bonds payable in the current bond year ending September 1st.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

M. Net position - continued

- 2) The debt service reserve account is funded with the .2 percent City and .1 percent District sales tax revenues, not required to be deposited into the debt service account, until the minimum fund balance is satisfied. The debt service reserve account requirement is the lessor of (i) the maximum amount of debt service on the bonds payable in any one bond year, (ii) 125 percent of the average amount of debt service on the bonds payable in any bond year in which the bonds remain outstanding, or (iii) 10 percent of the initial aggregate principal amount of the bonds. The debt service reserve account was fully funded at bond issuance.

The debt service reserve account is also the primary recipient of the .033 percent District sales tax revenues if the minimum fund balance is not satisfied.

- 3) The supplemental reserve account is funded with the .2 percent City and .1 percent District sales tax revenue not required to be deposited into the debt service account or the debt service reserve account, until the minimum fund balance is satisfied. The supplemental reserve account requirement is one-half of the maximum amount of debt service on the bonds payable in any one year in which the bonds remain outstanding.
 - 4) The supplemental bond redemption account is funded with the .2 percent City and .1 percent District sales tax revenue not required to be deposited into the debt service account, debt service reserve account, supplemental reserve account or subordinate note fund. This fund may be used by the District to redeem or cancel bonds.
- b) Subordinate note fund is funded with .2 percent City and .1 percent District sales tax revenue not required to be deposited into the debt service account, debt service reserve account or the supplemental reserve account to the extent that any principal remains outstanding on the subordinate note payable to the City.
 - c) Supplemental tax revenue fund is funded with .033 District sales tax revenue, unless used to fund the debt service reserve account or for making bond payments, this fund may be used for maintenance and operations, operating reserves, capital reserves and payment on loans to the City pursuant to 2012 credit facility. The City loans are only paid after the reserve accounts at the District are fully funded.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

M. Net position - continued

The balances in the restricted funds at December 31, 2017 are as follows:

Debt service account	\$ 1,787,185
Debt service reserve account	3,301,813
Supplemental reserve account	1,650,906
Supplemental bond redemption account	<u>1,687</u>
Total restricted debt service accounts	6,741,591
Current portion of restricted debt service accounts	<u>3,298,719</u>
Noncurrent portion of restricted debt service accounts	<u>\$ 3,442,872</u>

Unrestricted net position

This component consists of all other net position that doesn't meet the definitions for "Net investment in capital assets" or "Restricted for debt service".

N. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

The District's deposits are entirely covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

NOTE 2 - DEPOSITS AND INVESTMENTS - continued

Operational accounts

As required by state law, the District's operations funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities (the State treasurer's investment pool), bankers' acceptances, or certificates of deposit with Washington State banks and savings and loan institutions.

Investments

It is the District's policy to invest all restricted cash reserves. The District entered into an escrow agreement with US Bank and the City of Wenatchee as part of the bond issuance in September of 2012. The escrow agreement outlines the flow of funds associated with sales taxes received and bond payments made by US Bank (all as further described in the escrow agreement, bond resolution and related documents). The reserves are currently invested in U.S. Treasury demand deposit accounts.

At December 31, 2017 the funds held by US Bank pursuant to the escrow agreement totaled \$7,078,869.

All temporary investments are stated at fair value. Other property and investments are shown on the statement of net position at historical cost.

Custodial risk is the risk that in event of failure of the counterparty to an investment transaction the District would not be able to recover the value of the investment or collateral securities. Of the District's total net position of \$8,630,602 in deposits and investments, \$7,078,869 is exposed to custodial credit risk because the investments are held by the District's escrow agent, which is also the counter party in these particular investments. The District does not currently have a policy regarding custodial credit risk.

NOTE 2 - DEPOSITS AND INVESTMENTS - continued

Investments - continued

Investments Measured at Fair Value

The District measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

At December 31, 2017, the District had the following investments measured at fair value:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	12/31/17			
Cash held in US Bank escrow	\$ 7,078,869	\$ 7,078,869	\$ -	\$ -

Greater Wenatchee Regional Events Center Public Facilities District
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NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS - continued

Investments - continued

Summary of Deposit and Investment Balances

Reconciliation of District's deposits and investment balances as of December 31, 2017 is as follows:

Cash on hand	\$ 50,018
Amount of deposits with private financial institutions	1,501,715
Non-pooled investments	<u>7,078,869</u>
Total deposits and investments	<u><u>\$ 8,630,602</u></u>
Deposits	
Current	
Cash and cash equivalents	\$ 1,551,733
Restricted cash and cash equivalents	-
Noncurrent	
Restricted cash and cash equivalents	<u>-</u>
Total deposits	1,551,733
Investments	
Current	
Short-term investments	337,278
Restricted short-term investments	3,298,719
Noncurrent	
Restricted investments	<u>3,442,872</u>
Total investments	<u>7,078,869</u>
Total deposits and investments	<u><u>\$ 8,630,602</u></u>

NOTE 3 - CAPITAL ASSETS

Capital assets, which include property, plant, and equipment assets, are reported in the District's financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

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

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the District is depreciated using the straight-line method. Building and improvements are assigned lives of 15 to 25 years, machinery and equipment 5 to 7 years. Capital assets from initial facility construction were placed in service the first full calendar year after construction was completed. Subsequent capital asset additions were placed in service using a mid-month convention. There is no material difference in accumulated depreciation using these two methods.

Greater Wenatchee Regional Events Center Public Facilities District
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NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 3 - CAPITAL ASSETS - continued

A. Capital asset activity for the year ended December 31, 2017 was as follows:

	Balance 1/01/2017	Increase	Decrease	Balance 12/31/2017
Capital assets not being depreciated				
Land	\$ 1,706,915	\$ -	\$ -	\$ 1,706,915
Intangible asset	41,254	-	-	41,254
Total capital assets not being depreciated	1,748,169	-	-	1,748,169
Capital assets being depreciated				
Buildings	48,918,996	45,977	-	48,964,973
Machinery and equipment	2,773,054	19,695	-	2,792,749
Total capital assets being depreciated	51,692,050	65,672	-	51,757,722
Less accumulated depreciation				
Buildings	15,575,358	1,966,406	-	17,541,764
Machinery and equipment	2,501,416	60,108	-	2,561,524
Total accumulated depreciation	18,076,774	2,026,514	-	20,103,288
Net capital assets being depreciated	33,615,276	(1,960,842)	-	31,654,434
Total net capital assets	\$ 35,363,445	\$ (1,960,842)	\$ -	\$ 33,402,603

NOTE 4 - PENSION PLANS

The District does not participate in the Public Employees' Retirement System (PERS) but offers all full-time salaried employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan utilizes an independent plan administrator and permits employees to defer a portion of their salary until termination, retirement, death, or unforeseeable emergency. The plan administrator is trustee for the assets and the District has no liability for the funds. The District matches employee contributions in an amount not to exceed 2% of compensation. Employer contributions for 2017 were \$7,786.

NOTE 5 - RISK MANAGEMENT

The District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local governmental 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, 2017, there are 540 Enduris members representing a broad range 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 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 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 deductible 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, cyber 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.

NOTE 5 - RISK MANAGEMENT - continued

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.

Settlement claims have not exceeded insurance coverage for any of the past three years. In addition, there were no unpaid claims as of December 31, 2017.

NOTE 6 - LONG-TERM DEBT

A. The District's long-term debt consists of the following:

Bonds were issued in 2012 to refund the construction of the regional events center. The issuance of \$45,235,000 is to be retired by semi-annual installments on March 1st and September 1st, beginning September 1, 2016, and maturing on September 1, 2042. Semi-annual interest only payments ranging from 3% to 5.5% began on March 1, 2013. The bonds may be called on or after September 1, 2022. The District has agreed in an Interlocal Agreement not to cause or permit the retirement in full of all bonds prior to July 1, 2031.	\$ 43,875,000
A non-interest bearing, limited obligation note to the City of Wenatchee is subordinate to the bonds issued in 2012. Payments may only be made from excess sales tax collections. The note matures on July 1, 2042 and will be cancelled if excess tax revenues are not adequate to pay off the note.	<u>2,525,925</u>
Total long-term debt	46,400,925
Long-term debt payable within one year	<u>1,025,000</u>
Long-term debt payable after one year	<u><u>\$ 45,375,925</u></u>

Greater Wenatchee Regional Events Center Public Facilities District
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NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 6 - LONG-TERM DEBT - continued

B. Annual debt service requirements to maturity are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 1,025,000	\$ 2,273,719
2019	1,060,000	2,237,844
2020	1,100,000	2,198,094
2021	1,145,000	2,154,094
2022	1,190,000	2,106,863
2023 - 2027	6,890,000	9,611,315
2028 - 2032	8,705,000	7,666,264
2033 - 2037	8,650,000	5,358,375
2038 - 2042	16,635,925	2,703,800
Total	<u>\$ 46,400,925</u>	<u>\$ 36,310,368</u>

Bonds are recorded net of discounts. Annual interest expense is increased by the amortization of these discounts.

C. Long-term debt activity for the year ended December 31, 2017 was as follows:

<u>Type of Debt</u>	<u>Balance 1/01/2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2017</u>	<u>Due Within One Year</u>
General obligation bonds:					
2012A Special Tax Bond	\$ 44,870,000	\$ -	\$ 995,000	\$ 43,875,000	\$ 1,025,000
Total general obligation bonds	44,870,000	-	995,000	43,875,000	1,025,000
Other long-term debt:					
City of Wenatchee - Limited Sales					
Tax Subordinate Note	4,155,655	-	1,629,730	2,525,925	-
Total other long-term debt	4,155,655	-	1,629,730	2,525,925	-
Total long-term debt	<u>\$ 49,025,655</u>	<u>\$ -</u>	<u>\$ 2,624,730</u>	<u>\$ 46,400,925</u>	<u>\$ 1,025,000</u>

NOTE 7 - OPERATING LEASES

The District leases office equipment under a noncancelable operating lease which expires in October 2018. Total cost for such lease was \$3,616 for the year ended December 31, 2017. The future minimum lease payments for this lease are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2018	\$ 3,013

NOTE 8 - SUBSEQUENT EVENTS

The District has evaluated subsequent events through May 21, 2018, the date which the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

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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