



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

Everett Public Facilities District

Snohomish County

For the period January 1, 2014 through December 31, 2015

Published July 14, 2016

Report No. 1017054





Washington State Auditor's Office

July 14, 2016

Board of Directors
Everett Public Facilities District
Everett, Washington

Report on Financial Statements

Please find attached our report on the Everett 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 cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

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	4
Independent Auditor's Report On Financial Statements	6
Financial Section.....	9
About The State Auditor's Office.....	38

**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**

**Everett Public Facilities District
Snohomish County
January 1, 2014 through December 31, 2015**

Board of Directors
Everett Public Facilities District
Everett, 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 Everett Public Facilities District, Snohomish County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 24, 2016.

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.

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.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

June 24, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Everett Public Facilities District Snohomish County January 1, 2014 through December 31, 2015

Board of Directors
Everett Public Facilities District
Everett, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Everett Public Facilities District, Snohomish County, Washington, as of and for the years ended December 31, 2015 and 2014, 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 Everett Public Facilities District, as of December 31, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2016 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 "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

June 24, 2016

FINANCIAL SECTION

**Everett Public Facilities District
Snohomish County
January 1, 2014 through December 31, 2015**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015 and 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015 and 2014

Statement of Revenues, Expenses and Changes in Net Position – 2015 and 2014

Statement of Cash Flows – 2015 and 2014

Notes to Financial Statements – 2015 and 2014

Everett Public Facilities District
Management's Discussion and Analysis
2015 and 2014

Our discussion and analysis of the Everett Public Facility District (EPFD) financial performance provides an overview of the EPFD's financial activities for the fiscal years ended December 31, 2015 and 2014.

Financial Highlights

The EPFD was created by statute in 2001 to oversee the construction and operation of what is now known as the Everett Events Center in Everett Washington. The Everett Events Center was completed in September 2003, and operations commenced with an inaugural event on October 4, 2003. In August 2007 the facility was renamed the Comcast Arena at the Everett Events Center in conjunction with a naming rights sponsorship. In 2008 the facility was then renamed the Comcast Arena at Everett in conjunction with the naming rights agreement. In 2014, the Center was re-named Xfinity Arena at Everett as part of Comcast's national re-branding of its internet, cable and phone services. Comparative statements are presented for the 12 months ended December 31, 2015 and 2014.

The EPFD is governed by a five-member Board of Directors appointed by the Everett City Council. The Directors serving in 2015 were:

Gary Weikel, President
Lanie McMullin, Vice-President
Thomas Gaffney, CPA, Treasurer
Mike Dutton, Secretary
Ryan Crowther

Introduction to the Financial Statements

The operations of the EPFD are grouped into one business type fund for financial reporting purposes.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows and accompanying footnotes provide information about the activities and finances of the EPFD as a whole and about its activities in a way that helps communicate the financial condition of the EPFD.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position are prepared using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the EPFD's net position and changes in them. The EPFD's net position represents the difference between assets and liabilities. It is one way to measure the EPFD's financial position. Over time, increases or decreases in the EPFD's net position are one indicator of whether its financial condition is improving or deteriorating.

The Statement of Cash Flows reflects the EPFD's sources and uses of cash. This statement includes a reconciliation of Operating Income from the accrual based statements to the Net Cash Provided by Operating Activities. You will need to consider other non financial factors, however, such as changes in the EPFD's funding structures and the condition of the EPFD's operating assets, to assess the overall health of the EPFD.

Everett Public Facilities District
Management's Discussion and Analysis
2015 and 2014

Condensed Statements of Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets:			
Capital assets	\$ 39,170,739	\$ 39,694,012	\$ 40,953,225
Restricted assets	2,329,333	2,329,333	2,329,333
Other assets	<u>2,107,429</u>	<u>2,001,714</u>	<u>2,031,131</u>
Total assets	<u>\$ 43,607,501</u>	<u>\$ 44,025,059</u>	<u>\$ 45,313,689</u>
Liabilities and Net Position:			
Liabilities:			
Other liabilities	\$ 2,905,336	\$ 3,194,299	\$ 2,948,978
Long-term liabilities	48,168,691	48,757,932	49,774,590
Deferred inflows of resources	<u>356,250</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>51,430,277</u>	<u>51,952,231</u>	<u>52,723,568</u>
Net Position:			
Net investment in capital assets	(10,282,852)	(10,253,920)	(9,916,365)
Restricted	2,329,333	2,329,333	2,329,333
Unrestricted	<u>130,743</u>	<u>(2,585)</u>	<u>177,153</u>
Total Net Position	<u>\$ (7,822,776)</u>	<u>\$ (7,927,172)</u>	<u>\$ (7,409,879)</u>

Current Assets - Unrestricted

Current Assets - Unrestricted are those assets which are cash or are expected to be converted to cash within one year's period of time. These assets decreased from \$2,031,131 at December 31, 2013 to \$2,001,714 as of December 31, 2014 and increased to \$2,107,429 at December 31, 2015. These funds are maintained to provide liquidity for day-to-day operations, debt service requirements, and capital replacements.

Current Assets – Restricted

Current Assets – Restricted are held in the Local Government Investment Pool (LGIP) with the State of Washington and represent the required debt service reserves in support of the Series A Limited Sales Tax and Inter-local Bonds.

Capital Assets

Capital Assets are those assets that are not expected to be converted to cash within one year's period of time. These assets are presented net of accumulated depreciation and decreased primarily as a result of depreciation expense from \$40,953,225 to \$39,694,012 to \$39,170,739 at December 31, 2013, 2014 and 2015, respectively.

Everett Public Facilities District
Management's Discussion and Analysis
2015 and 2014

In 2015, depreciation expense and amortization totaled \$1,414,354 while capital additions were \$1,143,294, consisting primarily of a new state of the art scoreboard and restaurant fixtures and equipment in the Arena Grill restaurant.

In 2014, depreciation and amortization totaled \$1,395,891 while capital additions were \$136,678, consisting primarily of new LED sports lighting in the main arena.

Details regarding Capital Assets may be found in Note 1-E-3 to the financial statements.

Current Liabilities

In February 2007, the EPFD completed a series of agreements with the City of Everett relating to the refinance of its outstanding debt. Key components included modification to the ground lease, the inception of a \$500,000 annual support payment to be applied toward debt reduction, and a long-term extension to the Hotel/Motel Tax revenue pledge in the amount of \$100,000 per year.

In October 2014 the EPFD and City of Everett entered into an additional Interlocal Agreement for the refunding of the EPFD's variable rate Project Revenue Bonds. This agreement, while relieving the EPFD of future debt service on \$27,415,000 of debt, requires the establishment of a \$1,000,000 Capital Reserve fund over the next several years after operating costs and debt service reserves are fully funded.

Details regarding modifications and additions to the Major Agreements with the City of Everett and the refinance terms may be found in the Debt Administration discussion herein and Notes 1-E-6 and 2 to the financial statements.

Current liabilities, comprised primarily of current portion of long-term debt, trade payables and event revenues collected in advance remained at consistent levels between 2013 and 2015, with balances of \$2,948,978, \$3,194,299, and \$2,905,336 at December 31, 2013, 2014 and 2015, respectively.

Deferred Inflows of Resources

Deferred inflows of resources is associated with the Spectra Food Services and Hospitality agreement further described at Note 1-E-5 to the financial statements.

Non-Current Liabilities

Non-current liabilities at December 31, 2015 and 2014 represent the long-term debt financing completed in February 2007 and October 2014. Details of long-term debt are provided in Footnote 1-E-6 of the financial statements and under Debt Administrative below.

Net Position

The EPFD's Net Position at December 31, 2013, 2014 and 2015 was \$(7,409,879), \$(7,927,172) and \$(7,822,776), respectively. Excluding the impact of accumulated depreciation of \$17,512,380 through December 31, 2015, Net Position at December 31, 2015 would be \$9,689,604. In 2013, non-cash depreciation and amortization expense was \$1,439,369, while premium accretion impacting interest expense was a \$105,444 reduction in non-cash expense. In 2014, non-cash depreciation and amortization totaled \$1,395,891, while premium accretion impacting interest expense was a \$99,948 reduction of non-cash expense. In 2015, non-cash depreciation and amortization expense was \$1,396,279, while premium accretion impacting interest expense was a \$97,307 reduction in non-cash expense.

Everett Public Facilities District
Management's Discussion and Analysis
2015 and 2014

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Revenues:			
Operating Revenue -			
Event revenue	\$ 4,964,690	\$ 4,399,149	\$ 4,455,707
Contractually obligated income	1,307,129	1,334,672	1,528,003
Concessions and catering revenue	765,271	684,457	742,213
Ticketing fees	714,436	459,560	397,229
Community rink revenue	848,054	828,014	844,368
Other revenue	104,478	136,324	125,923
	<u>8,704,058</u>	<u>7,842,176</u>	<u>8,093,443</u>
Total Operating Revenue			
Non-Operating Revenue -			
Intergovernmental Revenues -			
Sales tax rebate - City of Everett	1,155,350	945,429	901,873
Sales tax rebate - Snohomish County, PFD	646,810	544,208	529,640
Admissions tax	342,499	254,621	263,537
Interlocal Agreement - City of Everett	500,000	500,000	500,000
Hotel/Motel Tax Grant - City of Everett	175,000	100,000	100,000
Interest revenue	5,701	3,584	5,840
	<u>2,825,360</u>	<u>2,347,842</u>	<u>2,300,890</u>
Total Non-Operating Revenue			
Total Revenues	<u>11,529,418</u>	<u>10,190,018</u>	<u>10,394,333</u>
Operating Expenses	10,069,417	9,291,288	9,691,179
Non-Operating Expenses -			
Interest	1,103,392	1,216,699	1,270,421
Loss on disposition of fixed assets	252,213	-	-
Debt issuance costs	-	199,324	-
	<u>11,425,022</u>	<u>10,707,311</u>	<u>10,961,600</u>
Total Expenses			
Revenues in Excess of Expenses or (Expenses in Excess of Revenues)	\$ 104,396	\$ (517,293)	\$ (567,267)
Net Position, Beginning of Year	<u>(7,927,172)</u>	<u>(7,409,879)</u>	<u>(6,842,612)</u>
Net Position, End of Year	<u>\$ (7,822,776)</u>	<u>\$ (7,927,172)</u>	<u>\$ (7,409,879)</u>

Everett Public Facilities District
Management's Discussion and Analysis
2015 and 2014

Operating Revenue

With three calendar years of operations completed as of December 31, 2006, revenue and expenses had become fairly consistent from year to year. The EPFD had experienced positive cash flow from operations in 2005 through 2010. In 2011 through 2013 cash flow from operations was not sufficient for debt service, and required that reserves be used to meet those requirements. In 2014 the EPFD experienced positive cash flow from operations of \$46,844 and was near break-even in 2015 at (\$2,351). This was accomplished in spite of lost event and concession revenue in excess of \$185,000 associated with the Washington Stealth lacrosse games in 2013.

Operating income (losses) for 2013 and 2014 and 2015 were \$(1,597,736), \$(1,449,112), and \$(1,365,359), respectively.

Non-Operating Revenues

The EPFD's rebate from the State of Washington on Sales Taxes paid within the City of Everett increased to \$901,873 in 2013, \$945,429 in 2014 and \$1,155,350 in 2015 consistent with the region's economic recovery.

Beginning in January 2006, the EPFD began collecting the 5% Admission Tax allowed by statute. Prior to this time, the City of Everett was collecting a separate 5% Admission Tax. It was competitively infeasible for both entities to collect this tax from event patrons and the City of Everett agreed to cease its collection of the tax in January 2006. This revenue stream was critical to the EPFD's initial financial projections and will be applied to the reduction of its tax backed bonds. Revenue from EPFD Admissions Tax for 2013 was \$263,537, declined to \$254,621 in 2014 and improved to \$342,499 in 2015 due to significantly lower concert activity and the departure of the Washington Stealth in 2014, with the 2015 improvement related in large part to the highly successful Disney on Ice tour and hockey play-off games.

Other Intergovernmental Revenues from the City of Everett are for fixed annual amounts, with the Hotel/Motel Tax Grant having been increased by \$75,000 for 2015 only.

The Snohomish County Public Facilities District (SCPFD) funds the EPFD in two tiers, one fixed, and the other variable. Tier 1 funds are received monthly, at \$529,640 per year. Tier 2 funds are discretionary, paid as funds are available. EPFD received its first distribution of Tier 2 funds in 2009 in the amount of \$346,404. This represented several years' accumulation of surplus funds by the SCPFD, and will not be recurring at this level. Tier 2 funds received in 2013, 2014 and 2015 were \$-0-, \$14,568 and \$73,033, respectively.

In 2013, 2014 and 2015, interest revenue was \$5,840, \$3,584 and \$5,701, respectively due to reduced cash balances and lower rates paid on short-term invested funds.

Everett Public Facilities District
Management's Discussion and Analysis
2015 and 2014

Debt Administration

As discussed at Note 1-E-6 to the financial statements, the EPFD completed a refunding of its short-term debt in February 2007 and its variable rate debt in 2014.

The \$28,180,000 of fix rate Limited Sales Tax and Interlocal Revenue Bonds have maturities which began at December 2007, and conclude December 1, 2026.

The new 2014 PFD Refunding Bonds and Repayment Deficiency Loan advances financed with the City of Everett have variable interest rates. In November of 2014 the City of Everett (the City) issued \$35,865,000 in floating rate LTGO refunding bonds under its own direct credit. A Portion of Everett's 2014 LTGO refunding issue was used to refund \$27,415,000 of Project Revenue Bonds issued by the EPFD in 2007. The EPFD has no obligation under any circumstances to repay bond holders of the City's 2014 LTGO refunding bonds.

In conjunction with the refinance of the EPFD's 2007 Project Revenue Bonds, the City and the EPFD entered into an Interlocal Agreement, which established the rights and obligations of each party relating to this transaction. The Interlocal Agreement provided that the principal amount refunded on the EPFD's behalf would be a long-term liability of the EPFD payable to the City of Everett. In addition, The EPFD is required to reimburse the City for any principal and interest payments made on the portion of the 2014 LTGO refunding bonds issued to refund the EPFD's 2007 Project Revenue Bonds.

The rates experienced on the variable rate debt through 2015 continued at historical lows, with the rate at .13% at December 31, 2013, .44% at December 31, 2014 and .41% at December 31, 2015.

In March 2014 the EPFD was notified that Standard and Poor's Rating Services, as part of its regularly scheduled bi-annual review, had lowered their rating on the Limited Sales Tax and Interlocal Bonds from "A-" to "BBB." This rating was affirmed in March 2016. To date, this downgrade, which applies to the fixed rate bonds, has not had a material impact on the EPFD.

Overall Analysis of Financial Position and Result of Operations

The EPFD has had ongoing planning with the City of Everett to enhance its earnings capacity and retire its construction debt. In early 2006, the City discontinued its collections of Admissions Tax, which provided an additional economically viable revenue source to the EPFD. In 2007, in connection with the refinance described above under Debt Administration, agreements were rendered with the City of Everett to restructure the EPFD's Ground Lease, provide an additional annual payment of \$500,000 specified for reduction of debt (commencing in 2007) and an extension of the annual Hotel/Motel Tax pledge of \$100,000 through 2033.

The EPFD has been working to reduce operating losses through enhanced revenues and reduced expenses. Significant improvements were made in 2014 and 2015, with operations providing positive cash flow in 2014 and a near break-even in 2015 for the first time since 2010.

Everett Public Facilities District
Management's Discussion and Analysis
2015 and 2014

Fund Analysis

The EPFD's Net Position is segregated by Net Investment in Capital Assets, Assets Restricted for Debt Service Reserves and Unrestricted. The debt service reserve requirements are detailed in Note 1-E-6. In addition, the October 2014 Interlocal Agreement requires a restricted Capital Replacement Fund, but operating conditions stipulated in the Interlocal Agreement have yet to allow actual funding of this reserve.

Economic Factors

All major contract and sponsorship renewals, most of which were effective during the course of 2013 through 2015, provide comparable or improved revenue to the EPFD.

The difficulties of attracting concerts to the Everett venue continue to present the greatest challenge to operating income. Activity and attendance for the Everett Silvertips and numerous family shows continue to provide strength to the event schedule with an especially strong Disney on Ice tour in 2015. The debt refunding in 2014 lifted the burden of increasing variable interest rates from the EPFD. The replacement of the facility's aging scoreboard in the fall of 2015 also provides new revenue opportunities as well as an enhanced spectator experience.

As the anchor tenant of the facility, the Everett Silvertips have enjoyed great success in terms of both games played and attendance. This WHL team played five home post-season games in 2005, eight in 2006, and six in 2007, thereby exceeding our budget expectation of two and contributing positively to the EPFD's financial results. In 2010, there were four home play-off games. In 2008, 2009, 2011, 2012, 2013 and 2014, the team played only two home playoff games, but in 2014 those games were a significant financial success as the opponent was the local rival – Seattle Thunderbirds. In 2015, there were six home play-off games.

The Washington Stealth was a source of new revenue in 2010 through 2013. The first of two five-year extension options was exercised at August 1, 2012, but the team subsequently terminated their license agreement and relocated to British Columbia.

The Conference center has seen increased activity from local event coordinators for banquets and special events.

While the general economy has seen recovery in the past three years, attraction of concert events to Xfinity Arena has continued to be the greatest challenge to its financial success. Local sales tax revenue has improved significantly since the recession.

Contacting the EPFD's Financial Management

This financial report is designed to provide our citizens and public officials with a general overview of the EPFD's finances and to show the EPFD's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the EPFD at:

Everett Public Facilities District
2000 Hewitt Avenue, Suite 200
Everett, WA 98201

Attention: Rick Comeau, General Manager

Everett Public Facilities District
Comparative Statement of Net Position
December 31, 2015 and 2014

Assets

	<u>2015</u>	<u>2014</u>
Current Assets – Not Restricted:		
Cash and cash equivalents	\$ 961,572	\$ 1,108,692
Change and imprest cash	8,000	8,000
Accounts receivable – net	784,074	556,705
Prepaid expenses	<u>353,783</u>	<u>328,317</u>
Total Current Assets – Not Restricted	<u>2,107,429</u>	<u>2,001,714</u>
Current Assets – Restricted:		
Cash and cash equivalents	<u>2,329,333</u>	<u>2,329,333</u>
Total Current Assets - Restricted	<u>2,329,333</u>	<u>2,329,333</u>
Non-Current Assets – Not Restricted:		
Capital Assets:		
Land improvements	257,074	257,074
Building and improvements, net	36,161,898	37,268,609
Leasehold improvements, net	52,700	59,500
Facility equipment, net	2,698,046	2,105,764
Office equipment, net	1,021	3,065
Vehicle, net	<u>-</u>	<u>-</u>
Total Capital Assets – Not Restricted	<u>39,170,739</u>	<u>39,694,012</u>
 Total Assets	 <u>\$ 43,607,501</u>	 <u>\$ 44,025,059</u>

The accompanying notes are an integral part of these financial statements.

Everett Public Facilities District
Comparative Statement of Net Position (Continued)
December 31, 2015 and 2014

Liabilities and Net Position

	<u>2015</u>	<u>2014</u>
Current Liabilities:		
Current portion of long-term debt	\$ 1,285,000	\$ 1,190,000
Accounts payable	578,736	611,192
Current accrued interest payable	86,245	91,786
Accrued expenses	105,292	45,261
Taxes payable	43,960	32,895
Revenues collected in advance	771,103	1,188,165
Deposits	<u>35,000</u>	<u>35,000</u>
Total Current Liabilities	<u>2,905,336</u>	<u>3,194,299</u>
Long-term Debt, Net of Current Portion:		
Limited sales tax and interlocal bonds	19,687,334	21,069,641
Due to other government	<u>28,481,357</u>	<u>27,688,291</u>
Total long-term debt, Net of Current Portion	<u>48,168,691</u>	<u>48,757,932</u>
Deferred Inflows of Resources	<u>356,250</u>	<u>-</u>
Total Liabilities	<u>51,430,277</u>	<u>51,952,231</u>
Net Position:		
Net investment in capital assets	(10,282,852)	(10,253,920)
Restricted for debt service reserve	2,329,333	2,329,333
Unrestricted	<u>130,743</u>	<u>(2,585)</u>
Total Net Position	<u>\$ (7,822,776)</u>	<u>\$ (7,927,172)</u>

The accompanying notes are an integral part of these financial statements.

Everett Public Facilities District
Comparative Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Event revenues	\$ 4,964,690	\$ 4,399,149
Contractually obligated income (COI)	1,307,129	1,334,672
Concessions and catering revenue	765,271	684,457
Ticketing fees	714,436	459,560
Novelty revenues	27,591	25,050
Community rink revenue	848,054	828,014
Miscellaneous revenues	76,887	111,274
Total Operating Revenues	<u>8,704,058</u>	<u>7,842,176</u>
Operating Expenses:		
Direct Expenses -		
Event Revenue	4,270,119	3,679,117
Ticketing	330,656	211,769
Community ice rink	43,159	81,059
Indirect Operating Expenses -		
Personnel expenses	1,996,263	1,971,586
Professional services	122,583	68,185
Depreciation and amortization	1,414,354	1,395,891
B&O taxes	86,830	76,684
Utilities	587,149	531,782
Insurance	156,099	155,325
Commission expense – COI	60,659	143,583
Management fee	157,624	154,989
Cleaning	125,018	131,192
Protective services	3,506	2,473
Telephone	33,323	36,925
Supplies	124,968	107,440
Advertising and promotion	203,787	192,150
Printing and signage	2,377	1,639
Repairs and maintenance	130,636	136,675
Equipment rental	52,990	32,388
Information services expense	112,297	106,534
Dues and subscriptions	13,730	11,296
Meetings, conferences and training	7,147	8,360
Postage and freight	3,522	4,105
Travel and entertainment	17,289	17,231
Bad debts	2,400	2,200
Credit card fees	8,654	14,385
Other	2,278	16,325
Total Operating Expenses	<u>10,069,417</u>	<u>9,291,288</u>
Operating Loss	<u>\$ (1,365,359)</u>	<u>\$ (1,449,112)</u>

The accompanying notes are an integral part of these financial statements.

Everett Public Facilities District
Comparative Statement of Revenues, Expenses
and Changes in Net Position (Continued)
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Non-Operating Revenues (Expenses):		
Intergovernmental Revenues		
Sales tax rebate – City of Everett	\$1,155,350	\$ 945,429
Sales tax rebate – Snohomish County PFD	646,810	544,208
Admissions tax	342,499	254,621
Interlocal Agreement - City of Everett	500,000	500,000
Hotel/Motel Tax Grant – City of Everett	175,000	100,000
Interest revenue	5,701	3,584
Interest expense	(1,103,392)	(1,216,699)
Loss on disposition of fixed assets	(252,213)	-
Debt issuance costs	<u>-</u>	<u>(199,324)</u>
Total Non-Operating Revenues (Expenses)	<u>1,469,755</u>	<u>931,819</u>
Change in Net Position	104,396	(517,293)
Total Net Position, Beginning of Year	<u>(7,927,172)</u>	<u>(7,409,879)</u>
Total Net Position, End of Year	<u><u>\$(7,822,776)</u></u>	<u><u>\$(7,927,172)</u></u>

The accompanying notes are an integral part of these financial statements.

Everett Public Facilities District
Comparative Statement of Cash Flows
For the Years Ended December 31, 2015 and 2014

Cash Flows from Operating Activities:	2015	2014
Cash received from customers	\$ 8,397,198	\$ 7,770,565
Cash paid to suppliers for goods and services	(6,947,578)	(6,272,319)
Cash paid to employees for services	(1,451,971)	(1,451,402)
Net Cash (Used) Provided by Operating Activities	<u>(2,351)</u>	<u>46,844</u>
Cash Flows from Capital and Related Financing Activities:		
Interest paid	(1,206,240)	(1,321,264)
Acquisition and construction of capital assets	(1,143,294)	(136,678)
Principal payment on Bonds – Series A (non-taxable)	(1,190,000)	(585,000)
Principal Payment on Bonds - Series B (taxable)	-	(510,000)
Principal payment on Project Revenue Bonds (non-taxable)	-	(27,415,000)
Proceeds from 2014 Refunding Bonds (non-taxable)	-	27,666,893
Proceeds from Repayment Deficiency Bonds (non-taxable)	793,066	21,398
Debt issuance costs	-	(199,324)
Net Cash Used by Capital and Related Financing Activities	<u>(2,746,468)</u>	<u>(2,478,975)</u>
Cash Flows from Non-Capital Financing:		
Sales tax rebate – City of Everett	970,368	945,429
Sales tax rebate – Snohomish County PFD	602,673	544,208
Grant – City of Everett	500,000	500,000
Admissions taxes - EPFD	347,957	252,173
Hotel/Motel Tax Grant – City of Everett	175,000	100,000
Cash Provided by Non-Capital Financing	<u>2,595,998</u>	<u>2,341,810</u>
Cash Flows from Investing Activities:		
Interest on investments	5,701	3,584
Net Cash Provided by Investment Activities	<u>5,701</u>	<u>3,584</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(147,120)	(86,737)
Cash and Cash Equivalents, Beginning of Year	3,446,025	3,532,762
Cash and Cash Equivalents, End of Year	<u>\$ 3,298,905</u>	<u>\$ 3,446,025</u>
Current Cash and Cash Equivalents	\$ 961,572	\$ 1,108,692
Restricted Cash and Cash Equivalents	2,329,333	2,329,333
Change and Imprest Cash	8,000	8,000
Cash and Cash Equivalents, December 31	<u>\$ 3,298,905</u>	<u>\$ 3,446,025</u>

The accompanying notes are an integral part of these financial statements.

Everett Public Facilities District
Comparative Statement of Cash Flows (Continued)
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income (loss)	<u>\$(1,365,359)</u>	<u>\$(1,449,112)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities -		
Depreciation and amortization	1,414,354	1,395,891
Provision for bad debts	2,400	2,200
Change in Assets and Liabilities -		
(Increase) decrease in receivables	(6,108)	(47,402)
(Increase) decrease in other current assets	(25,466)	(9,671)
Increase (decrease) accounts payable	(32,456)	(59,873)
Increase (decrease) in taxes payable	11,065	(14,486)
Increase (decrease) in revenue collected in advance	(60,812)	210,281
Increase (decrease) in other current liabilities	<u>60,031</u>	<u>19,016</u>
Total Adjustments	<u>1,363,008</u>	<u>1,495,956</u>
Net Cash (Used) Provided by Operating Activities	<u>\$ (2,351)</u>	<u>\$ 46,844</u>
Non-Cash Operating Activity with Customers and Suppliers -		
Trade agreements	\$ 239,940	\$ 234,490
Non-cash Investing, Capital and Financing Activities:		
Capital assets received in trade	\$ -	\$ -
Bond premium amortization	\$ 97,307	\$ 99,948

The accompanying notes are an integral part of these financial statements.

Everett Public Facilities District
Notes to Comparative Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 1 - Summary of Significant Accounting Policies:

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

A. Reporting Entity

The Everett Public Facilities District was created by City of Everett Ordinance No. 2511-01 pursuant to Chapter 35.57 of the Revised Code of Washington. The Ordinance, adopted on March 15, 2001, and effective on April 10, 2001, established the Everett Public Facilities District as a municipal corporation of the State of Washington. The Everett Public Facilities District is a component unit of the City of Everett for financial reporting purposes.

The Board of Directors consists of 5 members – the first directors appointed by the Everett City Council as provided for by Resolution #5030. At least one board members' term expires annually at which time the Everett City Council appoints a new member. Although the City of Everett is responsible for appointing members of the board, its accountability for this organization does not extend beyond making the appointments.

On January 24, 2001, the Everett City Council held a public hearing and authorized the formation of a citizens' committee to review and evaluate the feasibility study prepared by Brailsford and Dunlavey for a Regional Special Events Center (RSEC). On March 7, 2001, the Everett City Council adopted Resolution #5019, accepting the report of the RSEC Feasibility Committee. The Committee's report concluded that the feasibility study provided a fair analysis of the project and stated the Committee's belief that the project would generate positive economic and civic benefits to Everett.

On March 15, 2001, Everett City Council adopted Ordinance 2511-01, which established the Everett Public Facilities District (EPFD) to finance, design, construct, operate, and maintain the RSEC. On April 4, 2001, the Everett City Council adopted Resolution #5030, appointing board members to the EPFD. On December 20, 2001, the Everett City Council approved an Interlocal Agreement among the City of Everett, the EPFD, Snohomish County, and Snohomish County PFD concerning participation in and financial commitments to the RSEC. Construction of the RSEC began in late 2001, and was completed in September 2003.

Everett Public Facilities District
Notes to Comparative Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 1 - Summary of Significant Accounting Policies (Continued):

B. Fund Accounting

1. Background

The RSEC includes three primary elements – a 10,000 seat, 211,100 square foot Arena, a 36,200 square foot Community Ice Rink and a 51,600 square foot Conference Center. The Conference Center was paid for and is owned by the City of Everett, but is managed by the EPFD.

The RSEC is primarily supported by the collection of sales tax rebates, hotel/motel taxes, grant revenue from City of Everett, admissions taxes, and user fees associated with Center operations; accordingly, the EPFD's financial accounts are organized as a proprietary fund.

2. Proprietary Fund

Proprietary funds are reported using the flow of economic resources measurement focus. The EPFD maintains a full set of accounts that comprises its assets, liabilities, net position, revenues, and expenses. All assets and liabilities associated with the entity's activity, whether current or noncurrent, are included on its statement of net position. Reported fund equity or net total assets are classified as total net position. The statement of revenues, expenses and changes in net position presents increases (revenues and gains) and decreases (expenses and losses) as changes in net position.

Operating revenues include event revenues, advertising and sponsorship revenues (contractually obligated income), concession and catering revenues, novelty revenues, community rink and other revenue directly associated with operation of the RSEC.

Operating expenses include all expenses associated with operation of the RSEC.

Non-operating revenues and expenses include tax support for the RSEC, interest income and interest expense associated with financing of the RSEC.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The EPFD uses the full accrual basis of accounting, meaning that transactions and events are recognized when they occur, regardless of the timing of related cash flows.

Everett Public Facilities District
Notes to Comparative Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 1 - Summary of Significant Accounting Policies (Continued):

The EPFD has adopted Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities, effective for periods beginning after December 15, 2012. The impact of this pronouncement to the EPFD is that Debt Issuance Costs are to be accounted for as period costs rather than capitalized and amortized over the term of the associated debt.

The EPFD has also adopted Governmental Accounting Standards Board Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position. The impact of this pronouncement to the EPFD is the modification of statement titles and the description of the changes in net position. For example, the previously titled "Statement of Revenues, Expenses and Changes in Net Assets" is now presented as the "Statement of Revenues, Expenses and Changes in Net Position."

D. Budgets and Budgetary Accounting

1. Scope of Budget

Budgets are adopted on a basis consistent with the District's generally accepted accounting policies. An annual appropriated budget is adopted at the level of the fund and the budget constitutes the legal authority for expenditures. For the initial operating period beginning October 1, 2003, a 15-month budget was adopted.

2. Procedures for Adopting the Budget

The EPFD's budget procedures are as follows:

The management agreement with Spectra Venue Management (SVM) provides for the submission by SVM to the EPFD a proposed operating budget for the upcoming year 90-days prior to the beginning of the new calendar year.

The Directors make adjustments to the proposed budget and adopt by resolution prior to the commencement of the new year.

3. Amending the Budget

The Directors may make amendments to the budget as they determine to be appropriate from time to time during the course of the budget period.

Everett Public Facilities District
Notes to Comparative Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 1 - Summary of Significant Accounting Policies (Continued):

E. Assets, Liabilities and Net Position:

1. Cash and Cash Equivalents

The EPFD maintains primary deposit accounts with the Washington State Local Government Investment Pool and Coastal Community Bank. The funds deposited in these accounts are managed with the intent to optimize return on all temporary cash surpluses consistent with a high degree of security, while meeting daily cash flow demands. At December 31, 2015 and 2014, the EPFD cash and cash equivalents balances were \$3,298,905 and \$3,446,025, respectively.

For purposes of the Statement of Cash Flows, the EPFD considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

Custodial credit risk is the risk that in the event of a failure of the counter party to an investment transaction the EPFD would not be able to recover the value of the investment or collateral securities. The EPFD had no exposure to custodial risk in its investment accounts at December 31, 2015, 2014 or 2013.

Funds held at Coastal Community Bank in excess of FDIC issued limits of \$250,000 totaled \$299,451 and \$579,623 at December 31, 2015 and 2014, respectively. The uninsured balances are collateralized by securities held by the bank.

2. Receivables

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

3. Capital Assets

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

The EPFD had an interlocal agreement with the City of Everett for the reimbursement of additional construction costs incurred for the Conference Center shell in the amount of \$8,939,522 including \$8,919,862 with PCL Construction Services, Inc. The Conference Center build-outs were made under the direction of the City of Everett.

Buildings and Leasehold Improvements

The Arena and Community Ice Rink buildings are depreciated using the straight-line method over the expected useful life of 45 years, commencing October 1, 2003.

By agreement with the City of Everett, the EPFD occupies office space in the Conference Center building. EPFD incurred \$136,000 in tenant improvements to this space, which are being amortized over their expected useful life of twenty years, commencing October 1, 2003.

Everett Public Facilities District
Notes to Comparative Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 1 - Summary of Significant Accounting Policies (Continued):

Furniture, Fixtures, and Equipment

Facility equipment, office furniture and vehicles are depreciated using the straight-line method over the expected useful lives of the assets. Asset additions of \$5,000 or greater are capitalized by the EPFD.

	<u>Description</u>	<u>Method</u>	<u>Estimated Useful Lives</u>
	Major facility equipment	Straight-line	20
	Building signage	Straight-line	20
	Scoreboard	Straight-line	20
	Minor equipment	Straight-line	5 - 10
	Office furniture	Straight-line	15
	Computer equipment	Straight-line	5
	Telephone equipment	Straight-line	7
	Vehicles	Straight-line	5

<u>Schedule of Changes in Capital Assets</u> <u>2015</u>				
	<u>Beginning Balance January 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance December 31, 2015</u>
Capital Assets, Not Being Depreciated:				
Land improvements	\$ 257,074	\$ -	\$ -	\$ 257,074
Total Capital Assets, Not Being Depreciated	257,074	-	-	257,074
Capital Assets, Being Depreciated:				
Building	49,709,147	-	-	49,709,147
Leasehold improvements	136,000	-	-	136,000
Facility equipment	5,736,972	1,143,294	(624,083)	6,256,183
Office equipment	300,063	-	-	300,063
Vehicle	24,652	-	-	24,652
Total Capital Assets, Being Depreciated	55,906,834	1,143,294	(624,083)	56,426,045
Less Accumulated Depreciation For:				
Building	12,440,539	1,106,711	-	13,547,250
Leasehold improvements	76,500	6,800	-	83,300
Facility equipment	3,631,207	298,799	(371,870)	3,558,136
Office equipment	296,998	2,044	-	299,042
Vehicle	24,652	-	-	24,652
Total Accumulated Depreciation	16,469,896	1,414,354	(371,870)	17,512,380
Total Capital Assets Being Depreciated, Net	39,436,938	(271,060)	(252,213)	38,913,665
Total Capital Assets, Net	\$ 39,694,012	\$ (271,060)	\$ 252,313	\$ 39,170,739

Everett Public Facilities District
Notes to Comparative Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 1 - Summary of Significant Accounting Policies (Continued):

Schedule of Changes in Capital Assets 2014				
	Beginning Balance January 1, 2014	Increases	Decreases	Ending Balance December 31, 2014
Capital Assets, Not Being Depreciated:				
Land improvements	\$ 257,074	\$ -	\$ -	\$ 257,074
Total Capital Assets, Not Being Depreciated	257,074	-	-	257,074
Capital Assets, Being Depreciated:				
Building	49,709,147	-	-	49,709,147
Leasehold improvements	136,000	-	-	136,000
Facility equipment	5,600,294	136,678	-	5,736,972
Office equipment	300,063	-	-	300,063
Vehicle	24,652	-	-	24,652
Total Capital Assets, Being Depreciated	55,770,156	136,678	-	55,906,834
Less Accumulated Depreciation For:				
Building	11,333,828	1,106,711	-	12,440,539
Leasehold improvements	69,700	6,800	-	76,500
Facility equipment	3,354,129	277,078	-	3,631,207
Office equipment	291,696	5,302	-	296,998
Vehicle	24,652	-	-	24,652
Total Accumulated Depreciation	15,074,005	1,395,891	-	16,469,896
Total Capital Assets Being Depreciated, Net	40,696,151	(1,259,213)	-	39,436,938
Total Capital Assets, Net	\$ 40,953,225	\$ (1,259,213)	\$ -	\$ 39,694,012

Everett Public Facilities District
Notes to Comparative Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 1 - Summary of Significant Accounting Policies (Continued):

4. Accounts Payable

Accounts payable as of December 31, 2015 and 2014 were \$578,736 and \$611,192, respectively.

5. Deferred Inflows of Resources

In October 2015, the EPFD entered into a catering and concession agreement with Spectra Food Services and Hospitality (Spectra).

The agreement provides for a payment of \$375,000 by Spectra towards capital improvements in the RSEC. This revenue is being recognized over the 63 month term of the agreement as there is a repayment obligation for the unearned balance should the agreement be terminated early. The balance of deferred inflows of resources at December 31, 2015 was \$356,250.

6. Debt

Through March 1, 2007, the EPFD had approval to issue Tax Revenue Commercial Paper Notes (Tax Notes) up to \$18,000,000, and Project Revenue Commercial Paper Notes (Project Notes) up to \$38,445,000. The Tax Notes were tax exempt and the Project Notes could be issued in either tax exempt (Series A) or taxable (Series B) form. Through the end of 2006, all issued notes were tax exempt. The Commercial Paper, held in trust by U.S. Bank matured within 270 days of year end. The Bank of America had issued a non-revocable letter of credit to secure the payment on the notes. The City of Everett guaranteed the Project Notes with its full faith and credit.

In February of 2007, the EPFD entered into a refunding of its Short-Term Debt.

The debt was divided into \$27,425,000 of Project Revenue Bonds and \$28,180,000 of Limited Sales Tax and Interlocal Revenue Bonds, of which \$22,140,000 (Series A) are tax exempt, and \$6,040,000 (Series B) are taxable.

In 2011, the Project Revenue Bond terms were modified to switch from a daily to a weekly term. The financial institution providing the letter of credit for re-marketing of the Project Revenue Bonds was changed from Dexia to Bank of New York. Bond terms were subsequently revised from weekly to daily re-marketing. These Bonds were paid in full through a refunding completed on October 30, 2014.

The Project Revenue Bonds carried a variable interest rate, and matured on an increasing scale between April 1, 2018 and April 1, 2036. Interest was computed daily by the remarketing agent and paid monthly. In addition to the pledge of operating revenues and any surplus tax revenues, these bonds were subject to an Advance Agreement whereby the City of Everett agreed to make advances to the EPFD, if required, to meet the servicing requirements of the bonds.

Everett Public Facilities District
Notes to Comparative Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 1 - Summary of Significant Accounting Policies (Continued):

In October 2014, the City of Everett and the Everett Public Facilities District entered into an Interlocal Agreement which provided for the issuance by the City of Everett of \$35,865,000 of Limited Tax General Obligation Refunding Bonds. A portion of which, \$27,415,000 was paid to retire the EPFD's 2007 Project Revenue Bonds, plus accrued interest of \$52,569 paid thereon and issuance costs of \$199,324 (totaling \$27,666,893) were designated in the Interlocal as the "2014 PFD Refunding Bonds" and are payable to the City of Everett. This represents approximately 77% of the City's new issuance and cost thereof.

The Limited Tax General Obligation Refunding Bonds are floating rate bonds with interest at the SIFMA (Securities Industries & Financial Markets Association) rate plus 40 basis points, interest calculated weekly and payable monthly. As of December 31, 2015 and 2014, the weekly rate paid was .41% and .44%, respectively.

Under the terms of the Interlocal Agreement, The City of Everett will make all payments on the Bonds, but will bill EPFD for its share of the interest and principal payments as they are made, on a monthly basis. Amounts so billed, but unpaid by the EPFD per conditions of the Interlocal Agreement described below, will constitute a "Repayment Deficiency Loan" (RDL) from the City to EPFD. The unpaid balance of advances made under the RDL will accrue interest at the City's Interfund Loan Rate. Any balance outstanding at the time that title to the RSEC passes to the City of Everett, currently anticipated to be December 1, 2026, shall be deemed fully satisfied. In 2015 additions to the RDL totaled \$793,066 consisting of payments on the 2014 PFD Refunding Bonds of \$120,253, interfund interest of \$7,813 and additional borrowings of \$665,000 used for replacement of the RSEC scoreboard. The City of Everett Interfund interest rate as of December 31, 2015 and 2014 was 1.570% and 1.745%, respectively.

The Interlocal allows for payments on the 2014 PFD Refunding Bonds and advances made under the RDL only after the EPFD has met the following requirements:

- * Payment by the EPFD of all costs of operations and maintenance of the RSEC
- * Payment of all obligations for interest and principal on the EPFD's Limited Sales Tax and Interlocal Bonds
- * Funding of a \$1,000,000 Capital Reserve Fund. Initial funding of the Capital Reserve Fund is to be at the rate of \$20,278 per month, increasing by four percent per year until the balance of \$1,000,000 has been achieved.

As of December 31, 2015 and 2014 funds were insufficient to begin funding the Capital Reserve Fund under the ordering of conditions of required funds and reserves for operations, maintenance and debt service of the EPFD's Limited Sales Tax and Interlocal Bonds of the Interlocal Agreement.

Everett Public Facilities District
Notes to Comparative Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 1 - Summary of Significant Accounting Policies (Continued):

Both series of the Limited Sales Tax and Interlocal Bonds carried fixed interest rates. The taxable (Series B) bonds were repaid in full on December 1, 2014. Interest is due on June 1 and December 1 of each year, with maturities scheduled on an increasing scale beginning December 1, 2007 and concluding December 1, 2026. The primary sources of repayment for these Bonds are the sales tax rebates from the City of Everett and Snohomish County, Admission Taxes, Hotel/Motel Tax Grants and annual City of Everett Interlocal Agreement payment (beginning in 2007).

At issuance, the fixed rate Limited Sales Tax and Interlocal Bonds sold at premiums of \$1,479,216 and \$37,120 on Series A and B, respectively. These premiums are being amortized as adjustments to interest expense over the lives of the bonds. Total amortization in 2015 and 2014 was \$97,307 and \$99,948, respectively. Interest rates on all tax exempt bonds in Series A are at 5.00%. Interest rates on the taxable Series B bonds, repaid in 2014, ranged from 5.246% to 6.00%.

Per IRS section 148(f) the EPFD accrues for arbitrage amounts earned on the capital reserve amount that was established with the \$22,140,000 Series A Limited Sales Tax and Interlocal Revenue Bonds issued in 2007. The reserve fund established for the Series A offering was \$1,830,072 and the Net Interest Cost used to calculate the arbitrage amount is 4.2696852%. For 2015 and 2014 the liability was calculated at \$-0- each year. Rebates are due at least once every 5 years and the first 5 year period for the related bonds ended in February 2012.

The reserve fund established for the Series B offering was \$499,261 and is required to be held until repayment of the Series A Bonds.

As of December 31, 2015, balances outstanding were as follows:

<u>Name of Issue</u>	<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Interest Rate</u>
Limited Sales Tax and Inter-local Bonds Series A	02-27-07	12-01-26	5.00
2014 PFD Refunding Bonds payable to City of Everett	10-30-14	12-01-26 *	Variable
Repayment Deficiency Loan payable to City of Everett	11-30-14	12-01-26 *	Variable
Total			

*City of Everett obligations will be satisfied in full when title of the RSEC passes to it; currently scheduled to occur December 1, 2026.

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Amount Originally Issued	Current Year Additions	Redemptions To Date	Debt Outstanding	Premiums at Issuance	Accumulated Amortization	Total
\$ 22,140,000	\$ -	\$ (1,775,000)	\$ 20,365,000	\$ 1,479,216	\$ (871,882)	\$ 20,972,334
27,666,893	-	-	27,666,893	-	-	27,666,893
21,398	793,066	-	814,464	-	-	814,464
\$ 49,828,291	\$ 793,066	\$ (1,775,000)	\$ 48,846,357	\$ 1,479,216	\$ (871,882)	\$ 49,453,691

As of December 31, 2014, balances outstanding were as follows:

<u>Name of Issue</u>	<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Interest Rate</u>
Limited Sales Tax and Inter-local Bonds			
Series A	02-27-07	12-01-26	5.00
Series B (taxable)	02-27-07	12-01-14	5.42
Project revenue bonds	02-27-07	04-01-36	Variable
2014 PFD Refunding Bonds			
payable to City of Everett	10-30-14	12-01-26 *	Variable
Repayment Deficiency Loan			
payable to City of Everett	11-30-14	12-01-26 *	Variable
Total			

Annual debt service requirements to maturity as of December 31, 2015 are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2016	\$ 1,285,000	\$ 1,012,793	\$ 2,297,793
2017	1,385,000	948,118	2,333,118
2018	1,490,000	878,423	2,368,423
2019	1,605,000	803,434	2,408,434
2020	1,725,000	722,675	2,447,675
2021 – 2025	10,710,000	2,176,019	12,886,019
2026	30,646,357	1,807,448	32,453,805
Total	\$ 48,846,357	\$ 8,348,910	\$ 57,195,267

The \$1,285,000 due in 2016 on the Limited Sales Tax and Interlocal Bonds represents the only long-term liability of the EPFD due within one year of December 31, 2015.

	<u>Limited Sales Tax and Interlocal Bonds – Series A</u>	<u>2014 PFD Refunding Bonds</u>	<u>Repayment Deficiency Loan</u>
Interest rates at December 31, 2015	<u>5.00%</u>	<u>.41%</u>	<u>1.57%</u>

Amount Originally Issued	Current Year Additions	Redemptions To Date	Debt Outstanding	Premiums at Issuance	Accumulated Amortization	Total
\$ 22,140,000	\$ -	\$ (585,000)	\$ 21,555,000	\$ 1,479,216	\$ (774,575)	\$ 22,259,641
6,040,000	-	(6,040,000)	-	37,120	(37,120)	-
27,415,000	-	(27,415,000)	-	-	-	-
27,666,893	-	-	27,666,893	-	-	27,666,893
-	21,398	-	21,398	-	-	21,398
\$ 83,261,893	\$ 21,398	\$ (34,040,000)	\$ 49,243,291	\$ 1,516,336	\$ (811,695)	\$ 49,947,932

The \$1,190,000 due in 2015 on the Limited Sales Tax and Interlocal Bonds represented the only long-term liability of the EPFD due within one year of December 31, 2014.

	Limited Sales Tax and Interlocal Bonds – Series A	2014 PFD Refunding Bonds	Repayment Deficiency Loan
Interest rates at December 31, 2014	5.00%	.44%	1.745%

7. Restricted Assets and Restricted Net Position

These accounts contain reserves for debt service. Specific debt service reserve requirements are described at Note 1-E-6, Debt. A Capital Reserve Fund is required as funds are available under terms of the October 2014 City of Everett Interlocal Agreement, as described at Note 1-E-6, Debt.

Note 2 - Operating Lease:

The EPFD has an interlocal agreement with the City of Everett for an operating lease of the ground on which the RSEC is located. The agreement, dated February 28, 2002 is for a term of 25 years, with possible extension to 30 years, with all the improvements to the property passing to the City of Everett upon termination. Initial terms of the ground lease called for an initial payment of \$500,000 on March 31, 2007 and annual payments representing the greater of a minimum payment or 50% of the net cash flow after debt service in each succeeding year. The lease was amended effective January 1, 2007 to provide for rent in the amount of fifty percent of cash flow after permitted debt service. The requirement of an initial payment on March 31, 2007 was eliminated. There were no rental payments due for 2015 or 2014. Future rental payments are contingent upon operating results and payment in full of outstanding debt.

Interlocal Agreements

The EPFD, City of Everett, Snohomish County, and the Snohomish County Public Facilities District entered into an interlocal agreement dated December 20, 2001 regarding the Regional Special Events Center and a new county parking garage. The Agreement is for a term of 25 years. Tier 1 provides for the payment by the Snohomish County PFD of \$44,137 per month to the EPFD and an additional graduated annual payment to Snohomish County for the parking garage. The Agreement grants the EPFD specific access to the parking garage for event related purposes. In 2009, the agreement was amended to provide for the allocation of a second tier of funding - "Tier 2" - representing aggregate funds available to the Snohomish County PFD in excess of its initial Tier 1 commitments. The agreement provides that the EPFD is to receive 30.4205% of the aggregate Tier 2 allocations as determined by the Snohomish County PFD Board of Directors. In 2015 and 2014, the EPFD received \$73,029 and \$14,564 of Tier 2 funds, respectively.

The EPFD entered into an Interlocal Agreement with the City of Everett on February 15, 2007 as part of the refinance package described at footnote 2-E. The interlocal provides for payment of \$500,000 per year by the City of Everett to the EPFD for the lessor of thirty years or until all EPFD debt is paid in full. The EPFD agrees to maintain the Regional Special Events Center in first class condition for eventual acquisition and use by the City of Everett.

Hockey License Agreement

On April 19, 2002, the EPFD entered in a License Agreement with the Everett Silvertips Hockey Club of the Western Hockey League as the anchor tenant of the RSEC. The license agreement provides for team facilities within the RSEC.

The term of the license agreement is 10 years, effective with the 2003-2004 WHL season, with three successive five year options held by the licensee with financial terms to be negotiated. The first five year option was exercised in 2013.

The license agreement provides for payments to the EPFD of a percentage of Silvertips' ticket sales, and a sharing of EPFD concession revenues with the team.

Professional Management Contract

Effective December 1, 2002 the EPFD entered into a Pre-opening Services and Management Agreement with Global Spectrum, LP, now called Spectra Venue Management.

The agreement extends to all elements of the RSEC, including the City of Everett owned Conference Center.

The term of the agreement extended three years from the Opening Date of the Special Events Center, October 3, 2003. The agreement has been extended on a number of occasions, most recently for five years, beginning January 1, 2016.

The agreement includes a fixed base management fee plus an incentive fee which can be earned by exceeding the financial and service parameters outlined in the agreement.

Spectra Venue Management is tasked with the hiring and supervision of all Special Events Center staff, facility maintenance, event booking, operational budgets and coordination with the Everett Silvertips Hockey Team and Spectra Food Services and Hospitality.

Commercial Rights Marketing

Effective March 14, 2003, the EPFD contracted with Sports Facilities Marketing Group (SFMG) for the provision of marketing services related to commercial rights at the Special Events Center.

This agreement was modified on May 20, 2004 to provide a lump sum payment and termination of the agreement effective May 20, 2004. Since that date, responsibility for the sale of commercial rights has been assumed by Spectra Venue Management staff.

Food and Beverage Management

Effective June 7, 2003, the EPFD contracted with Centerplate for catering and concession services to the facility. Centerplate paid a percentage of concessions and catering gross revenues to the EPFD.

The Centerplate agreement was terminated effective October 1, 2015. The 2012 extension required an additional \$300,000 in capital improvements to the "Arena Grill" restaurant in the RSEC. Upon termination, the unamortized portion of the \$300,000 capital improvements of \$217,872 was paid by EPFD to Centerplate to acquire those improvements.

Effective October 1, 2015 the EPFD contracted with Spectra Food Services and Hospitality (Spectra) for catering and concession services. Spectra pays a percentage of concessions and catering gross revenue to the EPFD. As Spectra Food Services and Hospitality is affiliated with Spectra Venue Management, the EPFD Board of Directors negotiated the terms of the new food and beverage agreement independently, with the assistance of an independent food and beverage consultant.

The initial term of the agreement is for 63 months, ending December 31, 2020. The EPFD has the option to extend the agreement for five additional years.

The agreement provides for a payment of \$375,000 by Spectra towards capital improvements in the RSEC. This revenue is being recognized over the 63 month term of the agreement as there is a repayment obligation for the unearned balance should the agreement be terminated early. The balance of deferred inflows of resources at December 31, 2015 was \$356,250.

Naming Rights Agreement

Effective July 1, 2007 the EPFD entered into a Naming Rights agreement with Comcast Cable Management, LLC. The agreement is for ten years and provides for cash payments as well as trade advertising placement.

Note 4 - Risk Management:

Insurance Pool Membership

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

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is: \$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss. \$250,000 deductible on property loss - the member is responsible for the first \$25,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$225,000 on a property loss.

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

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

Everett Public Facilities District
Notes to Comparative Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 4 - 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.

The EPFD made no material claims against the pool in 2015, 2014 or 2013.

General Liability Insurance

General liability insurance, provided by Enduris, is maintained on the facility. Policy limits include a \$2,000,000 general aggregate per event, \$1,000,000 for products completed operations aggregate, \$1,000,000 personal and advertising injury (\$1,000,000 per occurrence). There were no material claims made against this policy in 2015, 2014 or 2013.

Employee Dishonesty Insurance

Under the terms of its professional management contract, Global Spectrum, LP is required to maintain employee dishonesty insurance. The current coverage is for \$1,000,000, with a \$15,000 deductible. There were no claims against this policy in 2015, 2014 or 2013.

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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