Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Edmonds Public Facilities District

Snohomish County

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

Published July 5, 2018

Report No. 1021605

Office of the Washington State Auditor
Pat McCarthy

July 5, 2018

Board of Directors
Edmonds Public Facilities District
Edmonds, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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Edmonds Public Facilities District
Snohomish County
January 1, 2017 through December 31, 2017

Board of Directors
Edmonds Public Facilities District
Edmonds, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Edmonds Public Facilities District, Snohomish 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 June 28, 2018. Our report includes information about the status of the District's financial condition.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

June 28, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Edmonds Public Facilities District
Snohomish County
January 1, 2017 through December 31, 2017

Board of Directors
Edmonds Public Facilities District
Edmonds, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Edmonds Public Facilities District, Snohomish 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 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Edmonds Public Facilities District, as of December 31, 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.

Matters of Emphasis Regarding Fiscal Sustainability

As discussed in Note 3 and Note 10 to the financial statements, in 2017, the District continues to experience operating losses at year-end. The District has had to borrow from the City of Edmonds in order to make debt service payments on outstanding bonds. The contingent loan agreement between the District and the City of Edmonds obligates the City to lend money to the District for the purpose of paying debt service on the bonds. The District's cash flow constraints are expected to continue in the near future. As a result, there exists uncertainty about the District's ability to maintain services at present levels under these conditions. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also describe in Notes 3 and 10. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 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.

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

June 28, 2018

FINANCIAL SECTION

Edmonds Public Facilities District
Snohomish County
January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

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Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2017

MANAGEMENT’S DISCUSSION AND ANALYSIS

Edmonds Public Facilities District (the District) presents this Management’s Discussion and Analysis of its financial activities for the fiscal year ended December 31, 2017. The Management’s Discussion and Analysis is designed to:

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

FINANCIAL STATEMENTS

Statement of Net Position

The Statement of Net Position presents information on the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position equals assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources. This statement is similar to a balance sheet in the private sector. Over time, increases or decreases in net position may serve as one indicator on whether an entity's financial position is improving or deteriorating.

Condensed Statement of Net Position

	2017	2016
Current and other assets	$322,635	$496,762
Capital assets(net)	11,350,591	11,951,981
Total assets	11,673,226	12,448,743
Deferred outflows of resources related to pensions	$153,649	$144,004
Total assets and deferred outflows of resources	$11,826,875	$12,592,747
Current and other liabilities	$1,187,913	$1,177,756
Long-term liabilities	7,573,595	8,105,779
Total liabilities	8,761,509	9,283,535
Deferred inflows of resources related to pensions	$96,236	$11,477
Total liabilities and deferred inflows of resources	$8,857,745	$9,295,012
Net Position		
Net investment in capital assets	$3,801,525	$3,953,601
Restricted	226,042	148,925
Unrestricted	(1,058,438)	(804,790)
Total net position	$2,969,130	$3,297,736

Analysis of Net Position

The total net position of the District (assets in excess of liabilities) at December 31, 2017 was $2,969,130. There was a decrease of $328,606 or 10% compared to December 31, 2016.

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

$226,042 of the District's total net position was restricted. This restricted portion increased by $77,117, or 51.8% in 2017 (See Note 1 (f)), the District's unrestricted net position decreased by $253,648, or 31.5%. The remaining, unrestricted net position of the District may be used for functions of District operations such as employee salaries, programming, advertising and supplies.

Statement of Revenues, Expenses and Changes in Net Position

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

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2017	**2016**
Revenues		
Operating revenues	$2,544,419	$2,304,180
Non - operating revenues	700,419	729,051
Total Revenues	$3,244,838	$3,033,231
Expenses		
Operating Expenses	$3,358,473	$2,991,434
Non - operating expense	214,971	221,100
Total Expenses	$3,573,444	$3,212,534
Change in net position	(328,606)	(179,302)
Net position - beginning	3,297,736	3,477,038
Net position - end of period	$2,969,130	$3,297,736

Analysis of Revenues, Expenses and Changes in Net Position

Revenues**:**
The District's total revenues increased $211,607 or 7.00% over the prior year. Operating revenues increased $240,239 or 8.9%.

Expenses:
Total expenses for the District increased $360,910 or 11.2% over the prior period. Operating expenses increased $367,039 or 12.3%, due primarily to increases in Payroll, Taxes and Benefits.

Notes to the Financial Statements

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

FINANCIAL CONDITION, RESULTS AND OUTLOOK

Edmonds Public Facilities District, including its non-for-profit affiliate, Edmonds Center for the Arts (ECA), has grown significantly in its first eleven years of operation, increasing operating revenues from $500,000 in 2007 to $2.5 million in 2017. Management expects this growth to continue and to accelerate in the coming decade as a result of expanding programs and services, a rapidly growing population in the Puget Sound region, and opportunities for future campus improvements and/or expansion.

The District experienced an operating deficit, exclusive of depreciation, in 2017. The District has identified the primary reasons for the 2017 operating deficit and has taken corrective steps to ensure a balanced operating performance in 2018.

While the District's operating results have generally been strong over the most recent six-year period, its overall financial position has declined slightly due to significant and unexpected shortfalls in Intergovernmental Revenue as compared to original projections, and due to recently identified trends in fundraising cycles. The impact of these shortfalls is discussed in detail below:

Operating Performance

In FY 2017, the District incurred an operating loss before depreciation. There were several key factors that led to this unexpected operating shortfall. These items included:

- *Payroll, taxes and employee benefits*: As the level of activity has increased for the District in the form of expanded presentations and education/outreach programs, as well as tremendous growth in the number and scope of rental events, the labor required to support such growth by necessity has also increased. In 2017, the District increased its payroll costs by 16% compared to the prior year through the addition of four event staff and a new full-time position with the recruitment of the Director of Operations. The rising cost of health and retirement benefits was also a significant factor. These factors coupled with standard cost of living increase accounted for a significant percentage of additional expense prior to depreciation.

- *Non-Payroll Operating Expense*: In early 2017, the District engaged with two contractors to assist with two critical priorities. In collaboration with Mckinstry, Inc., a Facilities Condition Assessment was completed to assess and forecast the growing maintenance needs of the District's historically significant facilities. Also, with the assistance of BERK Consulting the District has made substantial progress on the development of a new Five-Year Strategic Business Plan. These costs (approximately $40,000) were not included in the original approved budget for FY 2017 but were recommended and approved by the District Board. These investments were paid for in part with operating reserve funds. Furthermore, in late 2017 the District incurred unanticipated Information Technology costs with the emergency replacement of critical parts of its network server.

- *Revenue Shortfall*: The district noted a 10.2% shortfall in its budgeted contributed revenue. This has been most directly linked to two key factors. First, an analysis of prior years' activities has revealed a cycle in which contributed revenue tends to decline every third year. 2017's revenue performance supports this trend. The trend in this revenue cycle had been compounded by lower than normal attendance at two critical fundraising events due to unforeseen conflicting events.

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

- *Changes in Staffing Structure*: In August 2017, the District hired its first Director of Operations which is a new position supported in part by a multi-year grant from a private foundation. The Director of Operations' role was designed to provide direct oversight of the Accounting, Human Resources, Information Technology, Facilities, Rental/Production and Patron Services Departments, allowing the Executive Director to focus efforts on strategic leadership, marketing, fundraising and overall business development for the District.

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

- *Strategic Planning:* In May 2013, the Boards of Edmonds Public Facilities District and Edmonds Center for the Arts adopted a comprehensive Strategic Business Plan, which includes strategies designed to ensure the long-term financial stability and sustainability of the District and the Center. Beginning in June of 2017, the District and the Not-For-Profit Boards and staff embarked on a planning process to update the Strategic Business Plan for the next five-year period (2018 – 2022). The district anticipates the completion of the Strategic Business by June 2018.

- *Information Technology:* In January 2017, the District contracted with a new Information Technology consultant. This new consultant has greatly improved the District's network server configuration and security and has continued to manage the safe backup and storage of the organization's shared files and systems. As of late 2017 the consultant had migrated the District's email system and staff have begun the process of migrating personal work files to the cloud. It is anticipated that in 2018 active shared server files will migrate from the District's internal server to the cloud to further ensure stability, security and functionality.

- *Historic Facility Preservation Fee:* In September 2017, the District instituted a new Historic Facility Preservation Fee per ticket sold. The revenue from this fee has been and will continue to be placed on reserve and restricted for facility maintenance and replacement projects as identified in the District's new Preventative Maintenance and Capital Replacement Schedule. Priorities for expending these funds will be set by the District's Facilities and Operations Committee and will be recommended to and approved by the District's Board of Directors. The budget for FY 2018 for facility maintenance and replacement projects is equal the amount of revenue that was collected in FY 2017 from this fee. This budgeting and fund management practice will continue for all future fiscal years. As of December 31st, 2017, the District had collected $33,755 as a result of the new fee, and it anticipates collecting as much as $70,000 in 2018. The District's Facilities and Operations Committee has drafted a policy for the management and use of these funds, which be approved in its final form in 2018.

- *New Summer Programs*: In 2017, the District introduced a new Summer Series to its programming model and will continue this series through the 2018/19 season in an effort expand its audience base and improve revenue in the summer months.

Non-Operating Performance

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

Between 2011 and 2017, the District's annual bond payment obligations have been met, in part, with loans from the City of Edmonds as prescribed in a Contingent Loan Agreement (CLA) between the two entities signed in 2008 (see Note 3 in the accompanying Notes to the Financial Statements). Under the terms of the CLA, the City of Edmonds is contractually obligated to advance to the District, as a loan, the amount of any shortfall in the District's Debt Service Fund each year. The City of Edmonds pledges its full faith and credit thereto. The City will continue to provide the same contingent financial support to the District for the life of the bonds, or until such assistance is no longer required.

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

- *Increased Sales Tax Revenues*: For the past five years, the City of Edmonds and Snohomish County have experienced significant increases in sales tax revenues. As macro-economic conditions continue to improve, the sales tax revenue the District receives has increased and has helped to close the gap between non-operating revenue and bond payments. The District received additional funds from Snohomish County Public Facilities District in 2017 (referred to as the "Tier 2" allocation) for the fourth time since FY 2009. The District received $66,149 in FY 2016 and $97,831 in FY 2017 from this allocation, and is projected to receive $132,895 in FY 2018, further closing the gap between sales tax revenues and bond debt expense.

- *Extension of Public Facilities District Legislation*: In 2017 the Washington State Legislature passed House Bill 1201, and the Bill was subsequently signed into law by Governor Jay Inslee in April, 2017 extending the sales tax rebate for Public Facilities Districts by a period of 15 years from 2027 to the year 2041. The extension of this funding source provides the District with several options for re-funding or refinancing its long-term debt for capital maintenance, replacement and improvements, or for operations if required.

- *Debt Refinancing*: In FY 2018, The District's 2008 Bond Issue will become callable and will be eligible for refinancing. To date the District, in collaboration with its financial advisor, Piper Jaffray Financial Services, has retained Kutak Rock as its Bond Counsel to negotiate a refinancing of the bonds prior to the due date of the mid-year bond payment. This will potentially provide significant savings for the District on its debt interest payments. With the extension of the sales tax revenue stream to 2041, and the continued economic growth in the Puget Sound region, management predicts that the need to borrow further funds from the City of Edmonds to help meet bond debt payments will be eliminated by the end of FY 2019.

REQUESTS FOR INFORMATION

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

Edmonds Public Facilities District
Statement of Net Position
As of December 31, 2017

ASSETS:		
Current Assets:		
Cash and Cash Equivalents - Unrestricted	$	52,873
Cash and Cash Equivalents - Restricted		97,903
Customer Accounts Receivable		28,850
Pledges Receivable		24,824
Due from Other Governments		75,049
Inventory		4,507
Prepayments		38,629
Total Current Assets	$	322,635
Noncurrent Assets:		
Land	$	3,444,885
Construction in Progress		30,860
Buildings, Equipment, Furniture and Other Depreciable Assets		14,514,408
Accumulated Depreciation		(6,639,561)
Total Noncurrent Assets	$	11,350,591
TOTAL ASSETS	$	11,673,226
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		153,649
	$	153,649
LIABILITIES:		
Current Liabilities:		
Accounts Payable	$	187,549
Wages and Benefits Payable		70,960
Unearned Ticket Sales and Other Unearned Revenue		302,562
Liabilities for Customer Deposits		31,136
Accrued Interest		15,708
Current Portion of Long-Term Liabilities		580,000
Total Current Liabilities	$	1,187,913
Noncurrent Liabilities:		
Bond Payable	$	2,405,000
Contractual Obligation to the City of Edmonds		3,310,000
Loan Payable to the City of Edmonds		1,254,066
Liability for Compensated Absences		29,084
Net Pension Liability		575,445
Total Noncurrent Liabilities	$	7,573,595
TOTAL LIABILITIES	$	8,761,509
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		96,236
	$	96,236
NET POSITION:		
Net Investment in Capital Assets		3,801,525
Restricted		226,042
Unrestricted		(1,058,438)
TOTAL NET POSITION	$	2,969,130

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

Edmonds Public Facilities District

Statement of Revenue, Expenses and Changes in Net Position

For the Period Ended December 31, 2017

Operating Revenues:		
Ticket Sales and Fees	$	735,515
Rentals		599,137
Education and Outreach		41,547
Concessions		139,166
Contributions		951,099
Advertising		44,200
Facilities		33,755
Total Operating Revenue	$	2,544,419
Operating Expenses:		
Artist Presentations and Theatre	$	561,670
Rentals		45,414
Education and Outreach		72,941
Development		99,358
Advertising and Marketing		231,216
Payroll, Taxes and Employee Benefits		1,212,900
Pension Expense under GASB 68		54,278
Facilities Maintenance and Utilities		164,787
Contracted Services		41,796
Supplies and Other Operating Expenses		241,864
Depreciation		632,250
Total Operating Expenses	$	3,358,473
Operating Income (Loss)	$	(814,054)
Non-operating Revenue and (Expenses):		
Intergovernmental Revenue	$	671,982
Grant Revenue		25,110
Interest Expense		(214,971)
Interest Earned		2,752
Loss/Gain on Stock Realized		575
Non-Operating Income (Loss)	$	485,448
TOTAL NET INCOME (LOSS)	$	(328,606)
BEGINNING NET POSITION	$	3,297,736
END OF YEAR NET POSITION	$	2,969,130

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

Edmonds Public Facilities District
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash Flows from Operating Activities:		
Ticket Sales		809,592
Rental Receipts		617,310
Concession Sales		138,182
Contributions Received		957,962
Payments to Artists		(649,182)
Payments to Suppliers		(398,756)
Payments to Employees		(1,223,014)
Other Outside Payments		(372,370)
Net cash provided (used) by operating activities	$	(120,276)
Cash Flows from Noncapital Financing Activities:		
Cash borrowed from the City of Edmonds	$	80,685
Cash flows from noncapital financing activities	$	80,685
Cash Flows from Capital and Related Financing Activities		
Receipt of sales taxes & other intergovernmental payments		647,471
Receipt of grant revenue		25,110
Principal paid on long-term debt		
2008 bonds payable		(225,000)
Contractual obligation to the City of Edmonds		(305,000)
Interest paid on long-term debt		(216,247)
Principal and interest paid on other debt		-
Purchase of capital assets		(30,860)
Net cash flows from noncapital financing activities	$	(104,526)
Cash Flows from Investing Activities:		
Interest received on investments		1,603
Loss on sale of investment		575
Net cash provided by investing activities	$	2,178
Total adjustments	$	(141,939)
Beginning Cash	$	292,716
Ending Cash	$	150,776
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating Loss	$	(814,054)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation		632,250
Changes in assets and liabilities:		
Accounts Receivables		26,840
Inventory		(984)
Prepayments		30,843
Account Payable		7,895
Salaries & Benefits Payable		19,305
Compensated Absences		11,698
Unearned revenues		(45,425)
Unearned customer deposits		(1,804)
Pension Liability		13,161
Net cash provided by operating activities	$	(120,276)

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

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

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

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

A. Reporting Entity

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

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

B. Basis of Accounting

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

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

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

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

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

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

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

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

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

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

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

D. Receivables

Customer accounts receivable consist of amounts due from private individuals or organizations for goods and services. Pledges receivable consist of amounts due on promised contributions. The amount due from other governments consists of sales tax from Snohomish County, Washington State, Edmonds Arts Commission and Edmonds Diversity Commission, have yet to be collected.

E. Inventories

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

F. Restricted Assets

These accounts contain resources for debt services, grants and facilities. Specific debt service reserve requirements are described in (Note 3). In 2017, the District received a grant to add a new position, Director of Operations. The District implemented a facility ticket fee which are designated for specific purposes generally not part of the Operating Budget. Specifically, for the sole purpose of making Capital improvements, or to make emergency maintenance outside of the normal day to day operations of the facility with authorization from the EPFD Board. The amount due from governments consists of sales tax from Snohomish County, Snohomish County Parks (roof grant, posted to revenue but not collected) and contributions made from Snohomish County Tax and Lodging, Washington State Arts Commission, Edmonds Arts Commission and Edmonds Diversity Commission. From time to time, the District has found it necessary to obtain its Board authority and approval to transfer funds temporarily to its Operations fund (Inter-fund Loan).

The restricted assets are composed of the following:

Cash – Debt Service	$ 51,546
Cash – Facilities	$ 33,732
Cash – Grant	$ 12,625
Grant – Ukuleles	$ 941
Due from governments	$ 75,049
Inter-fund Loan	$ 52,149
Total Restricted Assets	$ 226,042

G. Compensated Absences

Employees who work 30 or more hours per week earn compensated vacation each pay period based on the number of hours worked. The amount of paid leave an employee can earn depends on their length of service with the organization and the number of hours they are regularly scheduled to work each week. A maximum of 30 unused vacation days may be carried over from one year to the next.

The Districts long term year's liability at December 31, 2017 was $29,084.

H. Deferred Outflows/Inflows of Resources

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

NOTE 2 – CAPITAL ASSETS

Capital assets include land, buildings, equipment and technology/software. The District capitalizes purchased items having a useful life of more than one year and an acquisition value more than $5,000. Purchased assets are recorded at cost when placed in service. The District's major capital asset is its renovated auditorium and the un-renovated structure of which it forms a part. That building is being depreciated over a 25-year life using the straight- line method. Other capital assets are depreciated over a period of 7 years or less using the straight-line method. Land and construction in progress are not depreciated. Donated Assets are valued at acquisition cost. During the audit of the District's 2016 financial statements, it was determined the balances of various depreciable assets and accumulated depreciation reported in the financial statements required an adjustment. The net effect was an overall increase in net depreciation assets of $47,465 in 2017.

The schedule that follows shows beginning and ending balances, as well as the changes in capital assets and accumulated depreciation during the year ended December 31, 2017.

Schedule of Capital Asset Activity

	Balance 1/1/2017	Increases	Decreases	Balance 12/31/2017
Capital assets, non-depreciable:				
Land	3,444,885			3,444,885
Construction in Progress		30,860		30,860
Total capital assets, non-depreciable:	$3,444,885	30,860		$3,475,745
Capital assets, depreciable:				
Building	14,180,796			14,180,796
Furniture and Equipment	304,834			304,834
Technology and Software	28,778			28,778
Total capital assets depreciable:	$14,514,408			$14,514,408
Less accumulated depreciation for:				
Building	(5,741,591)	(614,229)		(6,355,820)
Furniture and Equipment	(241,290)	(13,910)		(255,200)
Technology and Software	(24,430)	(4,111)		(28,541)
Total accumulated depreciation:	(6,007,311)	(632,250)		(6,639,561)
Total net depreciable capital assets:	$8,507,076	(632,250)		$7,874,826
Total capital assets, net:	$11,951,981	(601,390)		$11,350,591

NOTE 3 – LONG-TERM DEBT

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

Sales Tax Obligation and Refunding Bonds currently outstanding as follows:

Issue Name	Maturity Date	Interest Rates	Balance 12/31/2016	Paid in 2017	Balance 12/31/2017
Sales Tax Obligation and Refunding	12/1/2025	4.1%-4.5%	$2,880,000	$225,000	$2,655,000

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

Year	Principal	Interest	Total
2018	250,000	114,295	364,295
2019	265,000	104,045	369,045
2020	295,000	92,915	387,915
2021-2024	1,420,000	236,165	1,656,165
2025-2026	425,000	18,700	443,700
	$2,655,000	$566,120	$3,221,120

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

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

NOTE 3 – LONG-TERM DEBT - Continued

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

Issue Name	Maturity Date	Interest Rates	Balance 12/31/2016	Paid in 2017	Balance 12/31/2017
Contractual Obligation to the City of Edmonds	12/1/2026	1.75%-3%	$3,945,000	$305,000	$3,640,000

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

Year	Principal	Interest	Total
2018	330,000	74,192	404,192
2019	350,000	67,593	417,593
2020	375,000	60,593	435,593
2021-2024	1,765,000	151,208	1,916,208
2025-2026	820,000	22,090	842,090
	$3,640,000	$375,676	$4,015,676

The CLA states that the City pledges its “full faith, credit and resources” in an “absolute and unconditional” obligation to lend money to the District for paying debt service on the bonds. Although the District made higher payments on the 2012 Sales tax Obligations and Refunding Bonds than the previous year, it reduced its borrowing from the City from $125,000 in 2016 to $70,000 in 2017.

The District has made no payments on this loan. The total principal and interest due on the CLA at December 31, 2017 is $1,254,066. Interest accrues on the outstanding balance at the Local Government Investment Pool monthly rate.

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

NOTE 4 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2017, the following changes occurred in long-term liabilities:

Issue Name	Balance 1/1/2017	Additions	Reductions	Balance 12/31/2017	Due Within One Year
2008 Refunding Bonds	2,880,000		225,000	2,655,000	250,000
Contractual Obligation: City of Edmonds	3,945,000		305,000	3,640,000	330,000
CLA - City of Edmonds	1,173,380	80,686		1,254,066	
Net Pension Liability	637,398		61,953	575,445	
Compensated Absences		29,084		29,084	
Total Long-Term Liabilities	$8,635,778	$109,770	$591,953	$8,153,595	$580,000

NOTE 5 – OTHER INCOME

In July of 2017, the District began the process of construction on the replacement of the roof over its 1939 gymnasium and will replace the coping (flashing cap) over the walls surrounding the perimeter of the entire facility (gymnasium, school building, and theatre). The District received two grants in FY 2015 for replacing the gymnasium roof: $225,000 from Snohomish County, and $250,000 from the State of Washington, for a total of $475,000 for the project. Once the roof replacement project is complete, any remaining funds from the State appropriation may be invested to help address climate control issues in the gymnasium. The District has anticipations that the project will be completed by July of 2018.

From the above grants, we received $25,110 in 2017.

NOTE 6 – PENSION PLAN

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2017:

Aggregate Pension Amounts - All Plans	
Pension liabilities	$ 575,445
Pension assets	$ -
Deferred outflows of resources	$ 153,648
Deferred inflows of resources	$ 96,235
Pension expense/expenditures	$ 113,962

State Sponsored Pension Plans

Substantially all Edmonds Public Facility District's full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS) administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380 Olympia, WA 98540-8380

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

Public Employees' Retirement System (PERS)

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

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1-member** contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as percentage of covered payroll) for 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee***
January – June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	**11.18%**	**6.00%**
July – December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	**12.70%**	**6.00%**

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

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of- living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2***
January – June 2017		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**11.18%**	**6.12%**
July – December 2017:		
PERS Plan 2/3	**7.49%**	**7.38%**
PERS Plan 1 UAAL	5.03%	
Employee PERS Plan 3		varies
Total	**12.70%**	**7.38%**

The District's actual PERS plan contributions $41,117 to PERS Plan 1 and $59,684 to PERS Plan 2/3 for the year ended December 31, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2015 Economic Experience Study.*

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation**: 3% total economic inflation; 3.75% salary inflation
- **Salary increases**: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return**: 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were changes in methods and assumptions since the last valuation.

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent. To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent; the District has no employees in this plan). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1 and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100.00%	

Sensitivity of the Net Position Liability/ (Asset)

The table below presents the District's proportionate share of the net pension liability, calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS 1	5,780,412,000	4,745,078,000	3,848,257,000
0.006117%	353,588	290,256	235,398
PERS 2/3	9,360,726,000	3,474,522,000	(1,348,349,000)
0.008208%	768,328	285,189	(110,672)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the District reported a total pension liability of $575,445 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	$290,256
PERS 2/3	$285,189
Total	$575,445

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportionate Share
PERS 1	.005395%	.006117%	.000722%
PERS 2/3	.006905%	.008208%	.001303%

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

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the District recognized pension expense of $113,962 as follows:

PERS 1	$55,415
PERS 2/3	$58,547
TOTAL	$113,962

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the District reported deferred outflows of resources of $153,649 and deferred inflows of resources of $96,236 related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		
Net difference between projected and actual earnings on pension plan investments		$10,832
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	$21,534	
Total	$21,534	$10,832

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$28,896	$9,379
Net difference between projected and actual earnings on pension plan investments		$76,024
Changes of assumptions	$3,029	
Changes in proportion and differences between contributions and proportionate share of contributions	$68,571	
Contributions subsequent to the measurement date	$31,798	
Total	$132,294	$85,403

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	PERS 1	PERS 2/3
2018	$ (7,321)	$(10,447)
2019	$ 2,311	$23,210
2020	$ (537)	$1,876
2021	$ (5,285)	$(22,965)
2022		$10,182

Thereafter	-	$13,236
Total	$ (10,832)	$15,092

NOTE 7 – LONG-TERM RENTAL AGREEMENT

In 2006, The District entered a long-term rental agreement with a customer for the use of some of its facilities on designated future dates. The initial term of the agreement was ten years, which expired on October 31, 2013, with the tenant having options to renew for three successive five- year terms. The tenant exercised its option and the agreement now extends through December 31, 2018, with options for two additional five-year term. The rent is received in monthly payments by the District and totaled $81,578 in 2017, which is included in “Rental Revenues” on the District’s Statement of Revenues, Expenses and Changes in Net Position. The rent will increase by 3% in November each future year, including renewals. The tenant has every intention on renewing this agreement beyond 2023: Rents for the year 2018 through year 2022 will be:

Year 2018	$84,025
Year 2019	$86,331
Year 2020	$89,142
Year 2021	$91,817
Year 2022	$94,571

NOTE 8 – DEPOSIT AND INVESTMENTS

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

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

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

Investments. The district is a participant in the Local Government Investment Pool was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the:

Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at

http://www.tre.wa.gov.

As of December 31, 2017, the District held $25,343 in the LGIP at amortized cost.

NOTE 9 – RISK MANAGEMENT

Property/Casualty Risk:

Edmonds PFD is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Inter-Local 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 array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

- $1,000,000 deductible on liability loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $999,000 on a liability loss.
- $250,000 deductible on property loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $249,000 on a property loss.
- Enduris is responsible for the $4,000 deductible on boiler and machinery loss.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, 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. The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

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

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

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

NOTE 10– FINANCIAL CONDITION

The Board of Directors and Management of Edmonds Public Facilities District are confident that the financial condition of the District is stable, and that the strategies outlined in the Management's Discussion and Analysis section of this report will lead to long-term financial stability.

Further, the recently adopted extension of the Public Facilities District legislation by the State of Washington will conservatively provide an estimated $15 Million in new projected revenue. This new law extends the current legislation establishing and governing Public Facilities Districts, including the related sales tax rebate, by a period of 15 years beyond its original sunset date (2026) to the year 2041. The extension of this funding source will provide the District with several options for re-funding or refinancing long-term debt for capital maintenance, replacement or improvements.

District staff has improved operating efficiencies and has opened new revenue streams such as the sale of advertising in its event programs and other publications adding $44,000 in revenue for FY 2017. Revenue also increased from ticket sales by 11%, rentals by 18% and concessions by 23% during the 2017-2018 Season, and all indications suggest that this growth will continue for the 2018-2019 Season.

In FY 2017, it is important to note that the District's depreciation expense comprised 18.8% of its reported operating expenses. A performing arts center relies upon ticket revenue, rental revenue and private contributions to meet its annual operating requirements and, therefore, it can be challenging to achieve an operating surplus of 20% or higher each fiscal year to cover depreciation. To help meet this challenge, the District's Board of Directors has applied a new fee on tickets sold through the Edmonds Center for the Arts box office that is restricted to capital maintenance and replacement. Total revenue earned in 2017 from the new facility fee was $33,755.

NOTE 11 – SUBSEQUENT EVENTS

The Board of Directors and Management of Edmonds Public Facilities District have identified and acted upon several opportunities following the close of this reporting period which will further assure the financial stability of the District. For example, the District currently is in the process of refinancing bond debt, implementing operational cost savings, procuring new theater equipment with Snohomish County grant funds as well as focusing on new revenue sources and identifying staffing efficiencies.

- *Bond Debt Refinancing*: In FY 2018, The District's 2008 Bond Issue will become callable and will be eligible for refinancing. The District in collaboration with its financial advisor, Piper Jaffray Financial Services, has retained Kutak Rock as its Bond Counsel to negotiate a refinancing of these bonds prior to the June 2018 bond payment potentially providing significant interest savings. This opportunity with the extension of the sales tax revenue stream to 2041, and continued economic growth in the Puget Sound region, leads management to predict that the need to borrow further funds from the City of Edmonds to help meet bond debt payments will be eliminated by the end of 2019.

- *Changes in Staffing Structure*: In January 2018, the District's Development Director retired. With this vacancy and the recent hire of the Director of Operations, the Executive Director has taken the opportunity to restructure staffing, increase efficiencies and reduce costs. The Executive Director now performs the duties of the Development Director. This is made possible with the addition of the new Director of Operations who focuses on financial management and oversees facilities, human resources, information technology and general management – duties previously assigned to the Executive Director.

- *New Revenue*: The Executive Director in partnership with key Board Members organized a special fundraising event in February 2018 for donors who traditionally do not participate in the District's major regularly-scheduled fundraising events. The District anticipates the event to increase revenue by approximately $100,000 above and beyond the budgeted contributed revenue for 2018.

- *Cost Controls*: In 2017, in addition to staff restructuring, the district implemented several cost-saving projects that will be completed in 2018. First, the District was awarded a $125,000 grant from Snohomish County to replace critical theater equipment. In early 2018, the District using this grant purchased a new sound system, which eliminated the need to rent supplemental sound equipment from outside vendors. Based on prior years' expenditures, the District will reduce costs by approximately $6,000 per year for the first four years and potentially $29,000 per year once the financing terms between the vendor and the District have been completed. The district anticipates additional savings when the remaining grant-funded items have been purchased and installed.

  Second, the District anticipates added operational efficiencies in energy consumption by replacing the District's boiler management software and the current plan to slowly upgrade strategic areas of the facilities to LED lighting. The facilities department has made greater efforts to reduce contracted labor by working with the production and rental departments to schedule more janitorial services in-house which is estimated to reduce cost by $5,000-$10,000 in FY 2018.

- *Growth in Intergovernmental Revenues*: The District's non-operating income consists of three distinct revenue streams:
  - *Direct State Sales Tax Rebate*: In accordance with the State of Washington's Public Facilities District Legislation, Edmonds Public Facilities District receives a rebate directly from the State of Washington of a portion of State sales taxes collected within the boundaries of the City of Edmonds. Revenue from this direct sales tax rebate has increased by an average of 7.6% over the most recent four-year period.
  - *Snohomish County Public Facilities District – "Tier 1" Allocation*: The District receives monthly payments from Snohomish County Public Facilities District that were originally established by inter-local agreement in 2002. These set payments increase slightly each year to help keep pace with annual increases in debt service payments.
  - *Snohomish County Public Facilities District – "Tier 2" Allocation*: The District receives semi-annual payments from Snohomish County Public Facilities District per an addendum to the 2002 inter-local agreement which was signed and took effect in 2008. This secondary allocation is equal to 21.9% of revenue collected by Snohomish County PFD after its "Tier 1" obligations have been met. Revenue from the "Tier 2" allocation grew by 32% in 2017 and is expected to grow again in 2018 by 36% (see chart below).

This chart provides a three-year look at actual and projected revenues for Fiscal Years 2016 – 2018 from these three intergovernmental revenue streams.

Tax Revenue 2016-2018			
Tax Revenue Source:	**2016**	**2017**	**2018**
State of Washington Direct Sales Tax Rebate	$269,909	$289,019	$299,424
Snohomish County "Tier 1" Agreement	$272,656	$285,132	$297,985
Snohomish County "Tier 2" Agreement	$66,149	$97,831	$132,895
Total:	**$608,713**	**$671,982**	**$730,304**

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability Plan PERS 1 As of June 30, 2017			
	2015	2016	2017
Employer's proportion of the net pension liability (asset)	0.005002%	0.005395%	0.006117%
Employer's proportionate share of the net pension liability	$261,651	$289,737	$290,256
Employer's covered employee payroll	$583,133	$661,838	$832,051
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	44.87%	43.77%	34.88%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%

Schedule of Proportionate Share of the Net Pension Liability Plan PERS 2/3 As of June 30, 2017			
	2015	2016	2017
Employer's proportion of the net pension liability (asset)	0.006463%	0.006905%	0.008208%
Employer's proportionate share of the net pension liability	$230,927	$347,661	$285,189
Employer's covered employee payroll	$583,133	$661,838	$832,051
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	39.60%	52.53%	34.28%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%

Schedule of Proportionate Share of Employer Contributions Plan PERS 1 As of December 31, 2017			
	2015	**2016**	**2017**
Contractually required contributions	$26,654	$34,540	$41,117
Contributions in relation to the contractually required contributions	$26,654	$34,540	$41,117
Contribution deficiency (excess)	0	0	0
Covered employer payroll	$597,937	$724,116	$900,087
Contributions as a percentage of covered employee payroll	4.46%	4.77%	4.57%

Schedule of Proportionate Share of Employer Contributions Plan PERS 2/3 As of December 31, 2017			
	2015	**2016**	**2017**
Contractually required contributions	$34,212	$45,112	$59,684
Contributions in relation to the contractually required contributions	$34,212	$45,112	$59,684
Contribution deficiency (excess)	0	0	0
Covered employer payroll	$597,937	$724,116	$900,087
Contributions as a percentage of covered employee payroll	5.72%	6.23%	6.63%

These schedules will be built prospectively until they contain 10 years of data

There were no changes of benefit terms for the pension plans

There were no changes of assumptions for the pension plans

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
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Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
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