Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Kennewick Public Facilities District (Three Rivers Convention Center)

Benton County

For the period January 1, 2016 through December 31, 2017

Published July 5, 2018

Report No. 1021643

Office of the Washington State Auditor
Pat McCarthy

July 5, 2018

Board of Directors
Three Rivers Convention Center
Kennewick, Washington

Report on Financial Statements

Please find attached our report on the Three Rivers Convention Center's financial statements.

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Three Rivers Convention Center
Benton County
January 1, 2016 through December 31, 2017

Board of Directors
Three Rivers Convention Center
Kennewick, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Three Rivers Convention Center, Benton County, Washington, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 27, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

June 27, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Three Rivers Convention Center
Benton County
January 1, 2016 through December 31, 2017

Board of Directors
Three Rivers Convention Center
Kennewick, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Three Rivers Convention Center, Benton County, Washington, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Three Rivers Convention Center, as of December 31, 2017 and 2016, 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 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 27, 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

State Auditor

Olympia, WA

June 27, 2018

FINANCIAL SECTION

Three Rivers Convention Center
Benton County
January 1, 2016 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

Kennewick Public Facilities District
Management's Discussion and Analysis

As management of the Kennewick Public Facilities District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2017. Financial information for the current year and two prior years is presented within this analysis. The information presented within this overview should be considered in conjunction with the basic financial statements, which follow this analysis.

Overview of the Financial Statements

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

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

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

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

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

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

Financial Highlights

- For the twelve months ending December 31, 2017, total net position increased by $646,739. The majority of this increase is attributable to an increase in operational outcomes, investments in new capital, as well as principal pay downs on existing debt.

- As shown on the Statement of Net Position, assets and deferred outflows of resources of the District exceeded liabilities as of December 31, 2016 by $3,572,112. Of this amount, $2,116,508 (Unrestricted Net Position) may be used to meet ongoing obligations to creditors. This is $237,115 greater than the prior year due to the increased revenues achieved in 2017.

- Referring to the Statement of Revenues, Expenses and Changes in Fund Net Position, total operating revenues for 2017 were $2,658,550. Operating revenues for 2017 increased by $689,505 when compared to the prior year. The main increases were recognized in Food and Beverage Sales, Building Rent, and In House Event Revenues, growing by 53.7%, 15.7%, and 8.2%, respectively.

- Again, referring to the Statement of Revenues, Expenses and Changes in Fund Net Position, operating expenses of the District's Three Rivers Convention Center were $612,296 higher than operating expenses during 2016. This increase is driven primarily by changes in Professional Fees, Occupancy, and Services and Operations. Occupancy reflects some of the challenges of maintaining an aging building. The increases in Professional Fees and Service and Operations is directly attributable to supporting the new revenues achieved in 2017.

- Non-operating revenues totaled $1,384,736 for the year ended December 31, 2017, which was an improvement of $69,381. This category of revenues consists of (1) sales taxes received directly from the State of Washington and from other public facilities districts pursuant to interlocal agreements, and (2) interest income. Sales taxes received, the primary component of Non-Operating Revenues, has increased by an average of 5.4% per year over the five-year period of 2013 to 2017.

- 2017 continues to recognize the receipt of annual contractual contributions received from the City of Kennewick. With the retirement of capital debt issued by the City for construction of the convention center, this amount was $360,941 in 2017 and is designed to help offset the impact of the ongoing bond principal payments. This amount is supplemented by an additional $55,416 contributed by VenuWorks in support of construction costs for the connection with the new hotel. Combined, the total contractual contributions for 2017 are $416,357. Due to an offsetting factor that adjusts this amount down as certain sales taxes grow, this category shows a decrease of $58,330 from the 2016 total.

- Working capital has grown for six of the last eight years, and was $1.26 million at the end of 2017.

Financial Analysis

As noted above, net position may serve over time as a useful indicator of the District's financial position. As of December 31, 2017, the District's assets and deferred outflows of resources exceeded liabilities by $4,218,851. The following is a condensed version of the Statement of Net Position, including the value of net position for December 31, 2017, 2016, and 2015, respectively.

Statement of Net Position			
	12/31/2017	**12/31/2016**	**12/31/2015**
Assets			
Current Assets	$2,476,118	$2,076,320	$2,014,150
Capital Assets	12,098,725	12,500,087	12,793,010
Total Assets	14,574,843	14,576,407	14,807,160
Deferred Outflow of Resources			
Deferred Amount on Refunding	287,316	328,130	368,944
Total Deferred Outflow of Resources	287,316	328,130	368,944
Total Assets and Deferred Outflows of Resources	$14,862,159	$14,904,537	$15,176,104
Liabilities			
Current Liabilities	1,219,609	1,001,927	950,201
Noncurrent Liabilities	9,423,699	10,330,498	11,182,298
Total Liabilities	10,643,308	11,332,425	12,132,499
Net Position			
Net Investment in Capital Assets	2,102,343	1,692,719	1,234,656
Unrestricted Net Position	2,116,508	1,879,393	1,808,949
Total Net Position	4,218,851	3,572,112	3,043,605
Total Liabilities and Net Position	$14,862,159	$14,904,537	$15,176,104

Over 50% of the KPFD's 2017 net position total is unrestricted and may be used to supplement operations or to meet the District's ongoing obligations to its creditors. The remaining 49.8% reflects an investment in capital assets such as buildings, furniture, fixtures and equipment, less any related debt used to acquire those assets that is still outstanding. The total principal amount outstanding at December 31, 2017, was $9,960,000. These capital assets are used for the purposes of operating a convention center, which is a business-type activity. Therefore, it should be noted that although the investment in capital assets is reported net of related debt, other resources will be drawn upon to repay this debt, since the capital assets themselves cannot be used to liquidate this liability.

Working capital, which is a measure of liquidity that is determined by subtracting current liabilities from current assets, increased by $182,116 during the year ended December 31, 2017. The district has generated a positive working capital in six of the last eight years – the exceptions being in 2013 when the first large principal payment was made on existing bonds, and 2015 when a large investment was made to connect the Center to the adjacent hotel that opened that year. Related to that, as a result of the ongoing positive cash flows and high 2017 revenue, the Center is making significant capital investments in 2018 to replace some of the legacy sound and lighting systems. These investments are expected to increase the marketability of the Center, which in turn, will continue to drive positive outcomes.

For a brief historical perspective, prior to 2017, the periods between 2011 and 2012 provided the District with its highest recorded operating revenues to date. During that period the Hanford site received approximately $2 billion in federal stimulus spending for accelerated clean-up efforts, creating an increased demand for meeting and conference space in the Tri-Cities region and for the District. In 2013, the District experienced a decline in operating revenue as compared to these peak years. This was primarily attributable to the completion of stimulus projects (and the loss of the related federal funding) in 2012 and the impacts of the federal government shutdown in the fall of 2013, the latter causing a series of event cancellations with very short notice. In 2014, business activity began to increase driven by some advance bookings and expected momentum gained from the building of a connecting hotel. The opening was delayed a few times, but 2015 saw the completion of the adjoining hotel. Since large bookings are made two to three years in the future, the activity and revenue bump was not fully realized until 2017. While large non-annual or rotating regional or national events can create some variability year over year, it is expected that the growth seen in 2017 will continue to be the standard.

As mentioned above in the financial highlights section of this analysis, net position increased by $646,739 for the year ended December 31, 2017. This is primarily the combination of operational outcomes which are offset and supplemented by tax revenues received in support of the operation of the Center.

The following is a condensed comparative statement of revenues, expenses and changes in fund net position for the years ended December 31, 2017, 2016, and 2015, respectively.

Comparative Statement of Revenues, Expenses and Changes in Fund Net Position

	2017	2016	2015
Operating revenues	$2,658,550	$1,969,045	$1,774,570
Operating expenses	(3,403,187)	(2,790,891)	(2,686,878)
Net operating loss	(744,637)	(821,846)	(912,308)
Non-operating revenues (expenses)			
Sales Taxes	1,381,994	1,313,007	1,247,630
Interest Income	2,742	2,347	2,981
Debt Issuance Costs	-	-	-
Interest Expense	(409,717)	(439,688)	(469,940)
Total non-operating revenues (expenses)	975,019	875,666	780,671
Loss before contributions	230,382	53,820	(131,637)
Contractual contributions	416,357	474,687	490,575
Change in net position	646,739	528,507	358,938
Net position January 1	3,572,112	3,043,605	2,684,667
Net position December 31	$ 4,218,851	$ 3,572,112	$ 3,043,605

The following are some of the notable differences between the Statement of Revenues, Expenses and Changes in Fund Net Position for 2017, 2016, and 2015:

- Food and Beverage operations were brought in-house in 2009, and have been shown with the full burden of income and expense since that time. 2017 was a year of extraordinary growth. The net operating contribution from this segment was $1,060,467 in 2017. This is an increase of $505,117 when compared to 2016.

Net Annual Contribution from Food and Beverage Operations

	2017	2016	2015
Net contribution from Food and Beverage	1,060,467	555,350	564,862

- There was an increase in the overall operating revenue total (adjusted for Cost of Goods Sold) of $689,505, or 35.0%, when compared to 2016. This is $775,334 over the preceding five-year average for 2012-2016.

- Total operating expenses (including depreciation costs) were $3,403,187, an increase of 21.9% over 2016. The increased expenses were in support of the higher revenues achieved in 2017, allowing the Center to show an improvement in Net Operating Revenues of $77,209 over 2016 and $43,504 over the five-year average.

- Non-operating revenues increased by $68,987, or 5.2%, in 2017 with continued strong performance in the receipt of sales taxes. This revenue line continues to add to the center's available cash and working capital balances. For the preceding five-year period of 2011 through 2015, taxes from all sources have experienced an average annual growth of 5.7%.

Capital Assets and Debt Administration

Capital Assets:

The investment in capital assets as of December 31, 2017, amounted to $12,098,725 net of accumulated depreciation. This investment includes buildings, improvements, furniture and fixtures, and equipment. The following information summarizes capital assets as of December 31, 2017, 2016, and 2015, respectively.

Capital Assets, net of depreciation			
	12/31/2017	**12/31/2016**	**12/31/2015**
Building	$11,782,732	$12,226,867	$12,671,002
Expansion Plan and Pre-Design, WIP	-	76,756	76,756
Furniture, Fixtures and Equipment	315,993	196,464	45,252
Total Capital Assets	$12,098,725	$12,500,087	$12,793,010

Building assets were decreased in 2017 due to ongoing depreciation entries. Furniture, Fixtures and Equipment increased in 2017 with the upgrade and replacement of food and beverage equipment and a large investment in audio visual equipment to improve the ongoing revenue capabilities for the Center.

Long-term Debt:

As of December 31, 2017, the District had total outstanding external debt of $9,960,000 (principal only). This represents a decrease of $805,000 from the prior year which was the net effect of the principal amount that was due and paid in 2016.

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

Washington State statutes limit the amount of general obligation debt the District can issue to a percentage of the total assessed value of the taxable property within the District. The District is allowed up to 0.5% of total assessed value for non-voted debt and up to 1.25% for total non-voted and voted debt. As of December 31, 2017, the District had $19,705,554 in non-voted capacity and $64,203,885 in total voted and non-voted capacity. Due to some ongoing principal payments and an increase in the total assessed valuation, the excess capacity continues to increase over the previous years for both voted and non-voted limits.

Additional information on the District's long-term debt can be found in Note 1.D(9).

Economic Factors

Washington State law requires the District to adopt its budget prior to the start of the fiscal period being budgeted. As a result, the District adopted its 2017 budget in the winter of 2016. Preparation of the 2016 budget focused primarily on servicing the events that were scheduled at the Three Rivers Convention Center during 2017 and planning for events that were to be booked and serviced during 2017 and into 2018 and beyond.

The 2017 budget was developed based on the assumption that the convention center would incur an operating loss as it is meant to support the overall travel and hospitality economy for the community. As a result, the District will continue to be reliant on its ongoing non-operating revenues, including sales taxes, to help subsidize current operations.

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

The following are some factors that may impact the District's operations in 2018 and in the future:

- The District currently outsources the management of the facility to a third party firm, VenuWorks of Kennewick LLC. The current contract was approved in 2014 and represents the third of three consecutive five-year terms and will tentatively expire on May 31, 2019. There is an existing contract extension for an additional three years that is contingent on the completion of the exhibition hall expansion for the convention center.

- The Convention Center was completed and put into active service in 2004. As we embark on our fifteenth year of operation, it is necessary to acknowledge that a number of systems are at the end of their lifespan and will need a significant amount of capital investment to maintain the level of service we have worked to provide. The primary areas impacted are kitchen and serving equipment, lighting, and audio visual equipment. With the revenue excesses achieved in 2017, there are plans in place during 2018 for large scale renovation and updates in these core areas.

- There is some momentum from regional, statewide, and national groups looking to hold conferences in less expensive areas like the Tri-Cities. This is complemented by the strong regional tourism draw supported by the Regional Chambers of Commerce and the Tri-City Development Council.

- There has been continued growth in our sales tax base as the region continues to realize greater economic diversity. The direct sales tax received by the District has grown an average of 4.0% per year over the last decade, and averaging over 5.0% per since 2013.

- The District is involved in a partnership with a privately developed headquarters hotel adjacent to the Convention Center. This is improving the marketability and functionality of the Center by allowing visitors to lodge onsite, while the costs of operating the hotel are completely separate as a private enterprise. The hotel opened in 2015 and there has been an observable increase in inquiries for future bookings. Because of the advanced nature or these bookings, 2017 represents the first fiscal period that this growth benefit is fully realized.

- In 2017, the District went out for a public vote to increase local sales tax by .02%. This would have allowed the planned building of an expansion to the existing Center consisting of a dedicated exhibition hall along with additional meeting room space to accommodate larger conferences. The new expansion would also include a flexible lecture and theater space, allowing for high-caliber touring shows and plays as well as improved conference functionality. This has been a limiting factor for groups seeking to secure convention space and has put us at a competitive disadvantage when compared to some other regional facilities. The campaign was not successful, and the initiative was defeated. The partners in this effort continue to look for new ways to expand the facility.

- With the extraordinary results in 2017 and the growth in working capital, the Center has committed to some significant capital upgrades to internal systems and equipment. 2017 recognized the purchase of several large and modern projectors, allowing us to better serve the needs of incoming groups. In 2018, approximately $400K will be committed to upgrading the lighting and sound capabilities and function throughout the Center.

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

Requests for Information

This financial report is designed to provide a general overview of the Kennewick Public Facilities District's finances for those with an interest. The District cannot guarantee that its financial results for 2017 or any other year will approximate the results of prior years. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

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

Kennewick Public Facilities District

Statement of Net Position

December 31, 2017 and 2016

	2017	2016
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 1,085,533	$ 1,111,929
Investments	541,153	539,129
Receivables	734,960	302,353
Inventory	58,139	70,474
Prepayments	56,333	52,435
Total Current Assets	2,476,118	2,076,320
Noncurrent Assets:		
Capital Assets (Net of Accumulated Depreciation):		
Furniture, Fixtures and Equipment	315,993	196,464
Expansion - WIP		76,756
Building	11,782,732	12,226,867
Total Capital Assets	12,098,725	12,500,087
Total Noncurrent Assets	12,098,725	12,500,087
Total Assets	14,574,843	14,576,407
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amount on Refunding	287,316	328,130
Total Deferred Outflows of Resources	287,316	328,130
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 14,862,159	$ 14,904,537
LIABILITIES		
Current Liabilities:		
Accounts Payable	$ 184,205	$ 46,054
Current Year Debt Service	860,000	805,000
Other Current Liabilities	175,404	150,873
Total Current Liabilities	1,219,609	1,001,927
Noncurrent Liabilities:		
Noncurrent Portion of Long-Term Obligations	9,423,699	10,330,498
Total Liabilities	10,643,308	11,332,425
NET POSITION		
Net Investment in Capital Assets	2,102,343	1,692,719
Unrestricted Net Position	2,116,508	1,879,393
Total Net Position	4,218,851	3,572,112
TOTAL LIABILITIES AND NET POSITION	$ 14,862,159	$ 14,904,537

See Accompanying Notes to Financial Statements.

Kennewick Public Facilities District

Statement of Revenues, Expenses and Changes in Fund Net Position

December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Building Rent	$ 394,344	$ 340,870
Food and Beverage	2,293,527	1,492,314
Less: Food & Beverage Cost of Goods Sold	(501,784)	(304,585)
In-House Event Revenue	395,857	365,808
Miscellaneous Event Revenues	76,606	74,638
Total Operating Revenues	2,658,550	1,969,045
OPERATING EXPENSES		
Professional Services	1,643,381	1,449,291
General and Administrative	139,909	37,967
Occupancy	374,215	320,698
Travel	23,474	12,053
Event Expenses	112,990	87,418
Services & Operations	634,616	425,689
Depreciation	474,602	457,775
Total Operating Expenses	3,403,187	2,790,891
Net Operating Loss	(744,637)	(821,846)
NON-OPERATING REVENUES (EXPENSES)		
Sales Taxes	1,381,994	1,313,007
Interest Income	2,742	2,347
Debt Issue Costs	-	-
Interest Expense	(409,717)	(439,688)
Total Non-Operating Revenues (Expenses)	975,019	875,666
Loss Before Contributions and Transfers	230,382	53,820
Contractual Contributions	416,357	474,687
Change in Net Position	646,739	528,507
Total Net Position - Beginning	3,572,112	3,043,605
Total Net Position - Ending	$ 4,218,851	$ 3,572,112

See Accompanying Notes to Financial Statements.

Kennewick Public Facilities District

Statement of Cash Flows

December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers	2,888,894	$ 2,215,105
Less: Food & Beverage Cost of Goods Sold	(501,784)	(304,585)
Payments for Professional Services	(1,633,162)	(1,445,506)
Payments to Suppliers and Subcontractors	(1,123,007)	(915,612)
Net Cash Used by Operating Activities	(369,059)	(450,599)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Net Repayment from (Advances to) Related Agency	(154,763)	128,133
Net Cash Provided (Used) by Non-Capital Financing Activities	(154,763)	128,133
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds from Refunding Debt	-	-
Issuance Costs on Capital Debt	-	-
Interest paid on Capital Debt	(418,384)	(448,154)
Principal paid on Capital Debt	(805,000)	(745,000)
Acquisition and Construction of Capital Assets	(73,239)	(164,853)
Taxes for Capital Related Debt	1,376,974	1,300,057
Contractual Contribution	416,357	474,687
Net Cash Provided by Capital Financing Activities	496,708	416,737
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of Investments	(2,024)	(734)
Interest on Investments	2,742	2,347
Net Cash Provided (Used) by Investing Activities	718	1,613
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(26,396)	95,884
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,111,929	1,016,045
CASH AND CASH EQUIVALENTS AT END OF YEAR	1,085,533	$ 1,111,929
RECONCILIATION OF OPERATING LOSS TO NET CASH		
USED BY OPERATING ACTIVITIES:		
Net Operating Loss	(744,637)	$ (821,846)
Adjustments to Reconcile Operating Loss to		
Net Cash Used by Operating Activities:		
Depreciation	474,602	457,775
Changes in Assets and Liabilities:		
Receivables, net	(272,825)	(50,302)
Inventory	12,335	(28,688)
Prepaid Expenses	(3,898)	(1,744)
Accounts Payable	148,371	(1,526)
Other Current Liabilities	16,993	(4,267)
Total Adjustments	375,578	371,247
NET CASH USED BY OPERATING ACTIVITIES	(369,059)	$ (450,599)

See Accompanying Notes to Financial Statements.

Kennewick Public Facilities District
Notes to Financial Statements
December 31, 2017 and 2016

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Kennewick Public Facilites District (District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

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

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

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

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

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

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

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

C. Budgetary Information

1. Scope of Budget

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

2. Amending the Budget

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

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

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

Budget Summary for 2017

	Amended 2016 Budget	Adopted 2017 Budget	2017 Changes	Amended 2017 Budget
Operating Income	$ 2,314,450	$ 2,345,000	$ 690,000	$ 3,035,000
Cost of Goods Sold	$ (347,550)	$ (315,000)	$ (120,000)	$ (435,000)
Gross Profit	$ 1,966,900	$ 2,030,000	$ 570,000	$ 2,600,000
Operating Expense	$ (2,384,900)	$ (2,428,000)	$ (378,000)	$ (2,806,000)
Net Operating Budget	$ (418,000)	$ (398,000)	$ 192,000	$ (206,000)

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

D. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

It is the District's policy to invest all temporary cash surpluses. At December 31, 2017, the treasurer was holding $1,085,533 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents.

Cash and Cash Equivalents		2017		2016
Checking Account		$ 302,275		$ 329,388
Money Market Accounts		781,275		780,561
Savings Accounts		1,983		1,980
Total		$1,085,533		$1,111,929
Investments		2017		2016
Certificates of Deposit		$541,153		$539,129

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

2. Investments

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

3. Receivables

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

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

Receivables as of December 31, 2017 and 2016, were as follows:

Accounts Receivable Distribution at December 31, 2017 - 2016				
		2017		**2016**
Taxes, Other Governmental Entities		$ 255,122		$ 95,340
Business Activities		$ 479,838		$ 207,013
Other		$ -		$ -
Total		$ 734,960		$ 302,353

4. Inventories

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

5. Capital Assets

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

Capital assets are defined as assets with an initial, individual cost of more than $5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

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

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

Capital Assets Activity for the Year Ending December 31, 2017

	Balance 1/1/2017	Additions	Deletions	Balance 12/31/2017
Non-Depreciable Capital Assets:				
Construction in Progress	$ 76,756	$ -	$ (76,756)	$ -
Depreciable Capital Assets:				
Furniture, Fixtures and Equipment	549,337	149,996	-	$ 699,333
Building	17,484,859	-	-	$ 17,484,859
Subtotal - Depreciable Capital Assets	18,034,196	149,996	-	$ 18,184,192
Accumulated Depreciation:				
Furniture, Fixtures and Equipment	(352,872)	(30,467)	-	$ (383,339)
Building	(5,257,993)	(444,135)	-	$ (5,702,128)
Subtotal - Accumulated Depreciation	(5,610,865)	(474,602)	-	$ (6,085,467)
Total	$ 12,500,087	$ (324,606)	$ (76,756)	$ 12,098,725

Capital Assets Comparison 2017 - 2016		
	2017	**2016**
Non-Depreciable Capital Assets:		
Construction in Progress	$ -	$ 76,756
Depreciable Capital Assets:		
Furniture, Fixtures and Equipment	699,333	549,337
Building	17,484,859	17,484,859
Subtotal - Depreciable Capital Assets	18,184,192	18,034,196
Accumulated Depreciation:		
Furniture, Fixtures and Equipment	(383,339)	(352,872)
Building	(5,702,128)	(5,257,993)
Subtotal - Accumulated Depreciation	(6,085,467)	(5,610,865)
Total	$ 12,098,725	$ 12,500,087

6. Compensated Absences

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

7. Pensions

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

8. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

9. Long-Term Debt

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

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

In April 2014, the District refunded an additional portion of the 2003 bond issue. A total of

$3,615,000 of the original issue was refunded, leaving only a final year balance of $5,000 for the 2003 bonds. The newly issued portion including all flotation and underwriting fees was $3,775,000 – for a total bonds payable balance of $12,910,000. As of December 31, 2017, the total bonds payable balance is $9,960,000. These bonds represent the only outstanding debt of the District as of December 31, 2017.

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

Annual Debt Service Requirements			
Year	Principal	Interest	Total
2018	860,000	386,213	1,246,213
2019	925,000	351,842	1,276,842
2020	990,000	314,871	1,304,871
2021	1,070,000	265,500	1,335,500
2022	1,145,000	222,794	1,367,794
2023 - 2027	4,970,000	461,284	5,431,284
Total	$9,960,000	$2,002,504	$11,962,504

The following is a summary of changes in noncurrent liabilities during 2017:

Long Term Debt Activity for the Year Ending December 31, 2017					
	Balance 1/1/2017	Additions	Reductions	Balance 12/31/2017	Due Within One Year
Bonds Payable - Long Term	$ 9,960,000	$ -	$ (860,000)	$ 9,100,000	$ -
Bonds Payable - Current	805,000	860,000	(805,000)	860,000	860,000
Subtotal - Consolidated Debt Activity	10,765,000	860,000	(1,665,000)	9,960,000	860,000
Unamortized Discount 2003 Bonds	-	-		-	-
Unamortized Premium 2011 Bonds	370,499	-	(46,800)	323,699	-
Deferred Amount on Refunding	(328,130)	40,814	-	(287,316)	-
Total	$ 10,807,369	$ 900,814	$ (1,711,800)	$ 9,996,383	$ 860,000

Long Term Debt Comparison 2017 - 2016		
	2017	2016
Bonds Payable (includes current portion)	$ 9,960,000	$ 10,765,000
Deferred and Unamortized Amounts	36,383	42,369
Total Noncurrent Liabilities	$ 9,996,383	$ 10,807,369

10. Unearned Revenues

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

E. Other

1. Deposits and Investments

The following is a summary of deposits, including money market accounts and certificates of deposit, as of December 31, 2017 and 2016. The District's certificates of deposit are classified as investments for financial statement purposes, since the original maturities are more than three months. However, they are classified as deposits for purposes of risk disclosure. The District's deposits are entirely covered by the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Cash and Cash Equivalents	2017	2016
Checking Account	$ 302,275	$ 329,388
Money Market Accounts	781,275	780,561
Savings Accounts	1,983	1,980
Total	$1,085,533	$1,111,929

As of December 31, 2017, the District held the following investments at amortized cost. The original term on this investment was for twelve months.

Investments	2017	2016
Certificates of Deposit	$541,153	$539,129

2. Contribution Agreements

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

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

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

3. Risk Management

The District is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2017, there are 201 members in the program.

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

The program acquires liability insurance through their administrator, Clear Risk Solutions, which is subject to a per-occurrence self-insured retention (SIR) of $100,000, with the exception of Wrongful Acts and Law Enforcement Liability, which have a self-insured retention of $25,000. The standard member deductible is $1,000 for each claim (deductible may vary per member), while the program is responsible for the $100,000 self-insured retention. Insurance carriers cover insured losses over $101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members toward the sharing of the $100,000 of the selfinsured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of $1,784,067.00.

Property insurance is subject to a per-occurrence self-insured retention of $25,000. Members are responsible for a $1,000 deductible for each claim. The program bears the $25,000 self-insured retention, in addition to the deductible. Privacy and Network Liability coverage is offered with a $10,000 member deductible and $40,000 self-insured retention for systems using encryption and $50,000 member deductible and $50,000 self-insured retention for those without encryption.

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

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

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending December 1, 2017, were $1,501,903.83.

Director and officers coverage is included under the Wrongful Acts Liability coverage under this policy with a combined limit at $11,000,000 ($10 million plus $1 million excess coverage) with a $1,000 deductible per any one claim.

4. Leases

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

5. Related Party Transactions and Agreements

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

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

6. Reporting Changes

There were no significant accounting or reporting changes implemented for the year ended December 31, 2017.

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.

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