



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

# **Financial Statements Audit Report**

## **Everett Public Facilities District**

**For the period January 1, 2018 through December 31, 2018**

**Published September 12, 2019**

**Report No. 1024386**





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

September 12, 2019

Board of Directors  
Everett Public Facilities District  
Everett, Washington

**Report on Financial Statements**

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

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA

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**Everett Public  
Facilities District**

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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**Everett Public Facilities District  
January 1, 2018 through December 31, 2018**

This schedule presents the status of findings reported in prior audit periods.

<b>Audit Period:</b> January 1, 2017 through December 31, 2017	<b>Report Ref. No.:</b> 1022509	<b>Finding Ref. No.:</b> 2017-001
<b>Finding Caption:</b> The District's internal controls over financial statement preparation were not adequate to ensure accurate reporting.		
<b>Background:</b> In 2017, the Public Facilities District's management company changed its account coding structure, affecting the presentation of the District's financial activities in the trial balance. While preparing the fiscal year 2017 financial statements the CPA noticed a large, unanticipated decrease in the District's event revenues and event expenses. Ultimately, the CPA and District management discovered the building charges account was inadvertently applied twice to both the event revenues and event expenses, causing them to be overstated.  The Everett Public Facilities District provided general ledger data to the CPA, but did not adequately communicate that there were amounts that should not be included in the financial statements. In addition, those reviewing the financial statements on behalf of the Public Facilities District lacked adequate training to identify material errors. This caused the event revenues and event expenses to be overstated from fiscal years 2006 through 2016.		
<b>Status of Corrective Action: (check one)</b> <input checked="checked" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
<b>Corrective Action Taken:</b> <i>The District self-reported the error, restated prior year statements and made proper disclosures to the State Auditor's Office and in the financial statements.</i> <i>The District continues to review its annual financial statements presented to the State Auditor's Office for their annual audit.</i> <i>As stated in the District's response to this finding, the reporting errors did not impact reported operating income, cash flows or net position.</i>		

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

**Everett Public Facilities District  
January 1, 2018 through December 31, 2018**

Board of Directors  
Everett Public Facilities District  
Everett, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the District, as of and for the year ended December 31, 2018, 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 26, 2019.

**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 26, 2019

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## Everett Public Facilities District January 1, 2018 through December 31, 2018

Board of Directors  
Everett Public Facilities District  
Everett, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Everett Public Facilities District, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to

design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the , as of December 31, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

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

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2019 on our consideration of the District's internal control over financial reporting and



on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Pat McCarthy

State Auditor

Olympia, WA

June 26, 2019

## **FINANCIAL SECTION**

### **Everett Public Facilities District January 1, 2018 through December 31, 2018**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2018

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2018

Statement of Revenues, Expenses and Changes in Net Position – 2018

Statement of Cash Flows – 2018

Notes to Financial Statements – 2018

Everett Public Facilities District  
Management's Discussion and Analysis

Our discussion and analysis of the Everett Public Facility District (EPFD) financial performance provides an overview of the EPFD's financial activities for the fiscal year ended December 31, 2018.

### **Financial Highlights**

The EPFD was created by statute in 2001 to oversee the construction and operation of what is now known as the Everett Events Center in Everett Washington. The Everett Events Center was completed in September 2003, and operations commenced with an inaugural event on October 4, 2003. In 2017, a new naming rights sponsorship agreement was executed with the Stillaguamish Tribe of Indians and the facility is now known as the Angel Of The Winds Arena. The statements are presented for the 12 months ended December 31, 2018.

The EPFD is governed by a five-member Board of Directors appointed by the Everett City Council. The Directors serving in 2018 were:

Gary Weikel, President  
Mike Dutton, Vice-President  
Scott Murphy, Secretary  
Carol Wheeler, Treasurer  
Michael Swanson

### **Introduction to the Financial Statements**

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

### **Using this Annual Report**

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

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

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

## Condensed Statements of Net Position

	2018	2017
Assets:		
Capital Assets	36,002,907	37,098,683
Restricted Assets	1,398,776	2,329,333
Other Assets	3,910,062	1,932,257
Total Assets	41,311,745	41,360,273
Deferred charge on refunding	\$ 87,653	\$ -
Combined Assets and Deferred Outflows of Resources	\$ 41,399,398	\$ 41,360,273
Liabilities and Net Position:		
Liabilities:		
Current liabilities	3,614,079	2,930,490
Long-term liabilities	44,568,359	45,713,154
Total Liabilities	48,182,438	48,643,644
Deferred inflows of resources	131,250	446,250
Net Position:		
Net investment in capital assets	(9,012,800)	(10,533,737)
Restricted	1,398,776	2,329,333
Unrestricted	699,733	474,783
Total Net Position	(6,914,291)	(7,729,621)

### Current Assets - Unrestricted

Current Assets - Unrestricted are those assets which are cash or are expected to be converted to cash within one year's period of time. These assets increased \$1,977,805 from December 31, 2017 to December 31, 2018. These funds are maintained to provide liquidity for day-to-day operations, debt service requirements, and capital replacements.

### Current Assets – Restricted

Current Assets – Restricted are held in the Local Government Investment Pool (LGIP) with the State of Washington and represent the required debt service reserves in support of the GO Refunding Bonds 2018A and 2018B.

### Capital Assets

Capital Assets are those assets that are not expected to be converted to cash within one year's period of time. These assets are presented net of accumulated depreciation and decreased \$1,095,776 primarily as a result of depreciation expense.

In 2018, depreciation expense totaled \$1,466,210 while capital additions were \$447,465, consisting primarily of a new dasher and glass system for the main arena ice rink, signage for the new Naming Rights sponsor, and a new fire control system.

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

## **Current Liabilities**

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

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

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

In 2018 the EPFD refinanced its outstanding 2007 Limited Sales Tax Bonds which had a remaining balance of \$17,695,000 using a combination of Tax Exempt and Taxable Bonds.

Current liabilities, comprised primarily of current portion of long-term debt, trade payables and event revenues collected in advance increased \$683,589 in 2018 due to higher event ticket sales for 2019 events.

## **Long-term Liabilities**

Non-current liabilities at December 31, 2018 represent the long-term debt financing completed in February 2007, October 2014, and November 2018. Details of long-term debt are provided in Footnote 1-E-6 of the financial statements and under Debt Administrative below.

## **Deferred Outflows and Inflows of Resources**

Deferred outflows of resources is the loss on refunding and will be amortized over eight years. Deferred inflows of resources is associated with the Spectra Food Services and Hospitality agreements further described at Note 1-E-5 to the financial statements. Due to a change in the management agreement in 2018 the Venue Management portion was taken into revenues during 2018.

## **Net Position**

The EPFD's Net Position at December 31, 2017 and 2018 was \$(7,729,621) and \$(6,914,288), respectively. Excluding the impact of accumulated depreciation of \$21,432,409 through December 31, 2018, Net Position at December 31, 2018 would be \$14,518,120.

## Condensed Statements of Revenues, Expenses and Changes in Net Position

	2018	2017
Revenues:		
Operating Revenue -		
Event Revenue	3,236,960	2,757,393
Contractually Obligated Income	1,088,091	1,139,268
Concessions and Catering Revenue	1,015,271	782,225
Ticketing Fees	603,600	429,310
Community Rink Revenue	809,311	770,945
Other Revenue	600,274	357,639
Total Operating Revenues	7,353,507	6,236,780
Non-Operating Revenue -		
Intergovernmental Revenues-		
Sales tax rebate	1,833,220	1,751,491
Admission tax	369,339	252,229
Operating Grants and Contributions	850,000	775,000
Interest Revenue	67,124	37,850
Total Non-Operating Revenue	3,119,683	2,816,570
Total Revenues	10,473,190	9,053,350
Operating Expenses -		
Event Expenses	2,534,095	2,252,273
Ticketing Expenses	222,386	171,240
Community Rink Expenses	21,899	21,262
Indirect Operating Expenses	5,686,744	5,640,164
Total Operating Expenses	8,465,124	8,084,939
Non-Operating Expenses-		
Interest	1,117,704	1,222,896
Loss on disposition of Fixed Assets	75,032	-
Total Non-Operating Expenses	1,192,736	1,222,896
Total Expenses	9,657,860	9,307,835
Revenues in Excess of Expenses (Expenses in Excess of Revenues)	815,330	(254,485)
Net Position, Beginning of Year	(7,729,621)	(7,475,136)
Net Position, End of Year	(6,914,291)	(7,729,621)

## **Operating Revenue**

With three calendar years of operations completed as of December 31, 2006, revenue and expenses became fairly consistent from year to year. The EPFD experienced positive cash flow from operations in 2005 through 2010. In 2011 through 2013 cash flow from operations was not sufficient for debt service, and required that reserves be used to meet those requirements. In 2014 the EPFD experienced positive cash flow from operations of \$46,844 and was near break-even in 2015 at (\$2,351). This was accomplished in spite of lost event and concession revenue in excess of \$185,000 associated with the Washington Stealth lacrosse games in 2013. In 2016, cash flow from operations was again positive at \$95,838, but the material decline in Event Revenue in 2017 resulted in negative cash flow from operations of (\$464,786). While the number of events rose slightly from 2016 to 2017, direct event revenues declined by over \$400,000. In 2018 the Everett Silvertips had an extended run in the playoffs and the venue hosted Skate America, which helped to increase event revenue by over \$470,000.

Operating income (losses) for 2017 and 2018 were (\$1,848,159) and (\$1,111,614), respectively.

## **Non-Operating Revenues**

The EPFD's rebate from the State of Washington on Sales Taxes paid within the City of Everett increased from \$1,085,986 in 2017 to \$1,119,019 in 2018.

Beginning in January 2006, the EPFD began collecting the 5% Admission Tax allowed by statute. This revenue stream was critical to the EPFD's initial financial projections and will be applied to the reduction of its tax backed bonds. A significantly increased event schedule along with additional Everett Silvertip playoff games in 2018 resulted in an increase of \$117,110 in Admission Taxes.

Other Intergovernmental Revenues from the City of Everett are for fixed annual amounts, with the Hotel/Motel Tax Grant increasing to \$150,000 annually in 2017 and 2018.

In 2017, a Hotel/Motel Tax Grant from Snohomish County in the amount of \$125,000 was applied towards the replacement costs of retractable seating in the east end of the arena bowl. In 2018, an additional Hotel/Motel Tax Grant from Snohomish County in the amount of \$200,000 was applied towards replacement of the main arena dasher boards and glass.

The Snohomish County Public Facilities District (SCPFD) funds the EPFD in two tiers, one fixed, and the other variable. Tier 1 funds are received monthly, at \$529,640 per year. Tier 2 funds are discretionary, paid as funds are available. EPFD received its first distribution of Tier 2 funds in 2009 in the amount of \$346,404. This represented several years' accumulation of surplus funds by the SCPFD, and will not be recurring at this level. Tier 2 funds received in 2017 and 2018 were \$135,865 and \$184,561, respectively.

Increased interest revenue was due to improved cash balances from higher deferred ticket revenues and higher interest rates.

## **Debt Administration**

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

In 2017, the Washington State Legislature passed Engrossed House Bill 1201, which extended the term of the State Sales Tax Revenue allocated for existing local Public Facilities Districts from twenty-five to forty years. This action will greatly benefit the EPFD cash flow in future years, as

the SCPFD determined that the EPFD would receive 30.4% of the available revenues during the statutorily extended period from 2026 to 2041. This will allow the refunding of the EPFD fixed rate Limited Sales Tax and Interlocal Revenue Bonds to extend and reduce annual principal reductions scheduled between 2018 and 2026.

At the end of 2018 the EPFD refunded the 2007 Limited Sales Tax and Interlocal Revenue Bonds. This was done issuing \$19,625,000 in LTGO refunding bonds. These Bonds carry maturities which begin in December, 2019, and conclude in December 1, 2041.

## **Overall Analysis of Financial Position and Result of Operations**

The EPFD continues ongoing planning with the City of Everett to enhance its earnings capacity and retire its construction debt. In 2007, agreements were rendered with the City of Everett to restructure the EPFD's Ground Lease, provide an additional annual payment of \$500,000 specified for reduction of debt (commencing in 2007) and an extension of the annual Hotel/Motel Tax pledge of \$100,000 through 2033.

The EPFD has been working to reduce operating losses through enhanced revenues and reduced expenses. Significant improvements were made in 2014, 2015 and 2016, with operations providing positive cash flow in 2014, a near break-even in 2015, and positive cash flow again in 2016 for the first time since 2010. These measures have had a positive, if small, impact of improving the EPFD's financial position. While 2017 results were a falloff from the immediately preceding years, a rebound occurred in 2018. While the 2017 event schedule provided a comparable number of events and attendance to 2016, it was not nearly as successful in generating revenue to the venue. The 2018 event schedule has provided a significantly greater event revenue due to the extended play-off success of the Everett Silvertips and the return of Skate America in the fall of 2018.

## **Fund Analysis**

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

## **Economic Factors**

All major contract and sponsorship renewals, most of which were effective during the course of 2013 through 2016 provided comparable or improved revenue to the EPFD. In June 2017 the naming rights sponsorship agreement with Comcast Cable Management LLC expired. Vigorous marketing efforts resulted in a new 10-year naming rights sponsorship agreement effective December 1, 2017 with the Stillaguamish Tribe of Indians (Tribe). The facility has since been renamed the "Angel Of The Winds Arena." The agreement has an additional five-year option exercisable by the Tribe. This agreement restores a critical revenue element to the EPFD.

Activity and attendance for the Everett Silvertips and numerous family shows provided strength to the event schedule with an especially strong Disney on Ice tour. As described above, the 2018 event schedule provided a substantial increase in event revenues and the new naming rights sponsorship agreement provided positive momentum for a return to profitability for the EPFD in 2018.



The 2017 legislative extension of the State Sales Tax Revenue allocation described above will also have a very positive impact on the future EPFD cash flow. The debt refunding in 2014 lifted the burden of increasing variable interest rates from the EPFD. The replacement of the facility's aging scoreboard in the fall of 2015 also provided new revenue by providing additional advertising sales opportunities as well as an enhanced spectator experience.

As the anchor tenant of the facility, the Everett Silvertips have enjoyed great success in terms of both games played and attendance. This WHL team played five home post-season games in 2005, eight in 2006, and six in 2007, thereby exceeding our budget expectation of two and contributing positively to the EPFD's financial results. In 2010, there were four home play-off games. In 2008, 2009, 2011, 2012, 2013 and 2014, the team played only two home playoff games, but in 2014 those games were a significant financial success as the opponent was the local rival – Seattle Thunderbirds. In 2015, there were six home play-off games, and four in 2016 and 2017. In 2018 the team had a successful run to the WHL finals which added twelve additional games.

Due largely to an increase in ice rental rates in both the Main Arena and Community Ice Rink in 2018, the revenue from ice rink operations has increased during 2018.

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

### **Contacting the EPFD's Financial Management**

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

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

Attention: Gary Weikel, EPFD President

Everett Public Facilities District  
Statement of Net Position  
December 31, 2018

	<b>2018</b>
Current Assets - Not Restricted:	
Cash and cash equivalents	\$ 2,777,726
Change and imprest cash	8,000
Accounts receivable - net	793,285
Prepaid expenses	<u>331,051</u>
Total Current Assets - Not Restricted	<u>3,910,062</u>
Current Assets - Restricted:	
Cash and cash equivalents	<u>1,398,776</u>
Total Current Assets - Restricted	<u>1,398,776</u>
Non-Current Assets - Not Restricted:	
Capital Assets	
Land improvements, net	257,074
Building and improvements, net	32,851,566
Leasehold improvements, net	32,300
Facility equipment, net	2,779,038
Office equipment, net	<u>82,929</u>
Total Capital Assets - Not Restricted	<u>36,002,907</u>
Total Assets	<u>\$ 41,311,745</u>
Deferred Outflow of Resources	
Deferred charge on refunding	<u>\$ 87,653</u>
Total Deferred Outflow of Resources	<u>\$ 87,653</u>
Combined Assets and Deferred Outflows of Resources	<u>\$ 41,399,398</u>

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

Everett Public Facilities District  
Statement of Net Position (Continued)  
December 31, 2018

Current Liabilities:	
Current portion of long-term debt	535,000
Accounts payable	773,715
Current accrued interest payable	76,665
Accrued expenses	68,974
Taxes payable	35,568
Revenues collected in advance	2,112,157
Deposits	<u>12,000</u>
Total Current Liabilities	<u>3,614,079</u>
Long-term Debt, Net of Current Portion:	
Limited sales tax and interlocal bonds	
2018 Refunding Bonds	19,945,484
Due to other government	<u>24,622,875</u>
Total Long Term Debt, Net of Current	<u>44,568,359</u>
Total Liabilities	<u>48,182,438</u>
Deferred Inflows of Resources:	
Deferred inflows of resources related to food service contract	<u>131,250</u>
Total Deferred Inflows of Resources	<u>131,250</u>
Net Position:	
Net investment in capital assets *	(9,012,800)
Restricted	1,398,776
Unrestricted	<u>699,733</u>
Total Net Position	<u>\$ (6,914,291)</u>

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

Everett Public Facilities District  
Statement of Revenues, Expenses and Changes in Net Position  
For the Year Ended December 31, 2018

	<b>2018</b>
Revenues:	
Operating Revenue -	
Event Revenue	3,236,960
Contractually Obligated Income	1,088,091
Concessions and Catering Revenue	1,015,271
Ticketing Fees	603,600
Community Rink Revenue	809,311
Other Revenue	600,274
Total Operating Revenues	<u>7,353,507</u>
Operating Expenses:	
Direct Expenses	
Event Revenue	2,534,095
Ticketing	222,386
Community Ice Rink	21,899
Indirect Operating Expenses -	
Personnel expenses	2,190,166
Professional services	70,727
Depreciation expense	1,466,210
B&O taxes	63,848
Utilities	699,615
Insurance	164,095
Commission expense - COI	32,715
Management Fee	154,442
Cleaning	124,823
Protective services	3,316
Telephone	38,323
Supplies	118,089
Advertising and promotion	112,005
Printing and signage	5,175
Repairs and maintenance	154,995
Equipment rental	44,253
Information services expense	152,149
Dues and subscriptions	17,914
Meetings, conferences and training	10,701
Postage and freight	2,073
Travel and entertainment	14,860
Bad Debts	7,636
Credit card fees	8,353
Other	30,261
Total Operating Expense	<u>8,465,124</u>
Operating Gain (Loss)	(1,111,617)

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

Everett Public Facilities District  
Statement of Revenues, Expenses and Changes in Net Position (Continued)  
For the Year Ended December 31, 2018

Non-Operating Revenue -	
Intergovernmental Revenues-	
Sales tax rebate - City of Everett	1,119,019
Sales tax rebate - Sno County PFD	714,201
Admission tax	369,339
Interlocal Agreement - City of Everett	500,000
Hotel/Motel Tax Grants -	
City of Everett	150,000
Snohomish County	200,000
Interest Revenue	67,124
Interest Expense	(1,117,704)
Loss on disposition of fixed assets	<u>(75,032)</u>
Total Non-Operating Revenue	<u>1,926,947</u>
Change in Net Position	815,330
Net Position, Beginning of Year	<u>(7,729,621)</u>
Net Position, End of Year	<u><u>(6,914,291)</u></u>

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

Everett Public Facilities District  
Statement of Cash Flows  
For the Year Ended December 31, 2018

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers and users	\$ 8,966,497
Payments to suppliers	(5,081,570)
Payments to employees	(2,186,794)
Net Cash Provided by Operating Activities	<u>1,698,133</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Sales tax rebate - City of Everett	1,121,223
Sales tax rebate - Snohomish County PFD	758,338
Grant - City of Everett	500,000
Admissions taxes - EPFD	371,108
Hotel/Motel tax grant - City of Everett	150,000
Hotel/Motel tax grant - Snohomish County	<u>200,000</u>
Net Cash Provided by (Used in)	
Noncapital Financing Activities	<u>3,100,669</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING**

Proceeds from capital debt	20,397,403
Refunding of Capital Debt	(17,695,000)
Principal paid on capital debt	(4,975,082)
Interest paid on capital debt	(1,031,158)
Acquisition and construction of capital assets	(447,466)
Proceeds from sale of capital assets	<u>2,000</u>
Net Cash Provided by (Used in) Capital	
and Related Financing Activities	<u>(3,749,303)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment income	<u>67,124</u>
Net Cash Provided by Investment Activities	<u>67,124</u>

Net Increase (Decrease) in Cash and

Cash Equivalents	1,116,623
Cash and Cash Equivalents, January 1	<u>3,067,879</u>

Cash and Cash Equivalents, Dec. 31	<u><u>\$ 4,184,502</u></u>
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Current cash and cash equivalents	2,777,726
Change and imprest cash	8,000
Restricted cash and cash equivalents	<u>1,398,776</u>
Cash and Cash Equivalents, Dec. 31	<u><u>4,184,502</u></u>

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

Everett Public Facilities District  
Statement of Cash Flows (Continued)  
For the Year Ended December 31, 2018

RECONCILIATION OF OPERATING INCOME TO NET  
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating income (loss)	\$ (1,111,617)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation expense	1,466,210
Change in Assets and Liabilities:	
(Increase) decrease in receivables	144,040
(Increase) decrease in prepaid expenses	(122,774)
Increase (decrease) in accounts and other payables	(143,386)
Increase (decrease) in taxes payable	(3,290)
Increase (decrease) in revenue collected in advance	1,471,950
Increase(decrease) in other current liabilities	<u>(3,000)</u>
Total Adjustments	<u>2,809,750</u>
Net Cash Provided by Oper. Activities	<u><u>\$ 1,698,133</u></u>

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

Everett Public Facilities District  
Notes to the Financial Statements  
For the Year Ended December 31, 2018

Note 1 - Summary of Significant Accounting Policies:

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

A. Reporting Entity

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

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

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

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

B. Fund Accounting

1. Background

The RSEC includes three primary elements – a 10,000 seat, 211,100 square foot Arena, a 36,200 square foot Community Ice Rink and a 51,600 square foot



Conference Center. The Conference Center was paid for and is owned by the City of Everett, but is managed by the EPFD.

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

## 2. Proprietary Fund

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

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

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

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

## C. Basis of Accounting

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

## D. Budgets and Budgetary Accounting

### 1. Scope of Budget

Budgets are adopted on a basis consistent with the District's generally accepted accounting policies. An annual appropriated budget is adopted at the level of the fund and the budget constitutes the legal authority for expenditures.

### 2. Procedures for Adopting the Budget

The EPFD's budget procedures are as follows:

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

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

### 3. Amending the Budget

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

## E. Assets, Liabilities and Net Position:

### 1. Cash and Cash Equivalents

The EPFD maintains primary deposit accounts with the Washington State Local Government Investment Pool (LGIP) and Coastal Community Bank. The funds deposited in these accounts are managed with the intent to optimize return on all temporary cash surpluses consistent with a high degree of security, while meeting daily cash flow demands. Funds held in the Washington State LGIP are reported at amortized cost. At December 31, 2018, the EPFD cash and cash equivalents balances were \$4,184,502.

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

Custodial credit risk is the risk that in the event of a failure of the counter party to an investment transaction the EPFD would not be able to recover the value of the investment or collateral securities. The EPFD had no exposure to custodial risk in its investment accounts at December 31, 2018.

Funds held at Coastal Community Bank in excess of FDIC issued limits of \$250,000 totaled \$1,789,078 at December 31, 2018. The uninsured balances are collateralized by securities held by the bank.

### 2. Receivables

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

### 3. Capital Assets

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

#### Buildings and Leasehold Improvements

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

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

Furniture, Fixtures, and Equipment

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

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

**Schedule of Changes in Capital Assets 2018**

	Beginning Balance January 1, 2018	Increases	Decreases	Ending Balance December 31, 2018
Capital Assets, Not Being Depreciated:				
Land improvements	257,074	-	-	257,074
Total Capital Assets, Not Being Depreciated	257,074	-	-	257,074
Capital Assets, Being Depreciated:				
Building	49,709,147	10,318	-	49,719,465
Leasehold improvements	136,000	-	-	136,000
Facility equipment	6,815,425	437,147	372,982	6,879,590
Office equipment	418,533	-	-	418,533
Vehicle	24,652	-	-	24,652
Total Capital Assets, Being Depreciated	57,103,757	447,465	372,982	57,178,240
Less Accumulated Depreciation For:				
Building	15,760,672	1,107,227	-	16,867,899
Leasehold improvements	96,900	6,800	-	103,700
Facility equipment	4,056,168	340,335	295,950	4,100,553
Office equipment	323,757	11,847	-	335,604
Vehicle	24,652	-	-	24,652
Total Accumulated Depreciation	20,262,149	1,466,209	295,950	21,432,408
Total Capital Assets Being Depreciated, Net	36,841,608	(1,018,744)	77,032	35,745,832
Total Capital Assets, Net	37,098,682	(1,018,744)	77,032	36,002,906

**4. Accounts Payable**

Accounts payable as of December 31, 2018 was \$773,715.

**5. Deferred Inflows and Outflows of Resources**

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

The agreement provides for a payment of \$375,000 by Spectra towards capital improvements in the RSEC. This revenue is being recognized over the 63 month term of the agreement as there is a repayment obligation for the unearned balance should the agreement be terminated early. The unamortized balance of deferred inflows of resources at December 31, 2018 was \$131,250.

The EPFD recorded an accounting loss on refunding in 2018 of \$87,653. This unamortized balance of deferred outflows of resources will be amortized over 8 years.

## 6. Debt

In October 2014, the City of Everett and the Everett Public Facilities District entered into an Interlocal Agreement which provided for the issuance by the City of Everett of \$35,865,000 of Limited Tax General Obligation Refunding Bonds. From the bond proceeds, \$27,415,000 was used to retire the EPFD's 2007 Project Revenue Bonds, plus accrued interest of \$52,569 and issuance costs of \$199,324 (totaling \$27,666,893). This is designated in the Interlocal as the "2014 PFD Refunding Bonds" and are payable to the City of Everett.

The Limited Tax General Obligation Refunding Bonds are floating rate bonds with interest at the SIFMA (Securities Industries & Financial Markets Association) rate plus 40 basis points, interest calculated weekly and payable monthly. As of December 31, 2018 the weekly rate paid was 2.11%.

Under the terms of the Interlocal Agreement, The City of Everett will make all payments on the Bonds, but will bill EPFD for its share of the interest and principal payments as they are made, on a monthly basis. Amounts so billed, but unpaid by the EPFD per conditions of the Interlocal Agreement described below, will constitute a "Repayment Deficiency Loan" (RDL) from the City to EPFD. The unpaid balance of advances made under the RDL will accrue interest at the City's Interfund Loan Rate. Any balance outstanding at the time that title to the RSEC passes to the City of Everett shall be deemed fully satisfied. With the Washington State Legislature's 2017 extension of the Sales Tax Revenue for existing Public Facility Districts from twenty to forty years, passage of ownership in the RSEC to the City of Everett is anticipated to occur December 1, 2041.

In 2015, the EPFD entered into an Interlocal Agreement with the City to borrow \$665,000 to be used for replacement of the RSEC scoreboard. The unpaid balance will accrue interest at the City's Interfund Loan Rate and be added to the RDL. Any balance outstanding at the time that title to the RSEC passes to the City of Everett shall be deemed fully satisfied.

In August of 2018, the City of Everett and the Everett Public Facilities District entered into an Interlocal Agreement, which consolidated all prior agreements into one master agreement. Through this Interlocal, the City agreed to a contingent loan guarantee to support the EPFD's refinance of its 2007 Limited Sales Tax and Interlocal Revenue Bonds.

In November of 2018, the EPFD entered into a current refunding of its 2007 Limited Sales Tax and Interlocal Revenue Bonds and an advance refunding of a portion of the 2014 City of Everett Limited Tax General Obligation Refunding Bonds.

The EPFD transferred \$4,975,081.93 for the advance refunding to the City to be held in escrow until June 1, 2019, when the bonds will be redeemed. The amount in escrow will be sufficient to call \$4,770,000 in bond principal plus accrued interest.

The 2018 Bonds consist of 11,800,000 of Limited General Obligation Refunding Bonds, Series 2018A (tax exempt), and \$7,825,000 of Limited General Obligation Refunding Bonds, Series 2018B (Taxable).

In 2018, additions to the RDL totaled \$519,069.33, consisting of payments on the 2014 PFD Refunding Bonds of \$486,997 and interfund interest of \$32,102. The City of Everett Interfund interest rate as of December 31, 2018 was 2.2000%.

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

- \* Payment of all current obligations for interest and principal on the EPFD's 2018 Limited General Obligation Bonds Series A and Series B
- \* Payment of all costs of operations and maintenance of the RSEC
- \* Contributions to a Capital Reserve Fund equal to the Annual Capital Repair Reserve Payment set forth in the Capital Needs Assessment.

Per IRS section 148(f) the EPFD accrues for arbitrage amounts earned on the capital reserve amount that was established for the \$11,800,000 Series A (tax exempt) Limited General Obligation Refunding Bonds. The reserve fund established for the Series A offering is \$864,463 and the Net Interest Cost used to calculate the arbitrage amount is 3.777155%. For 2018 the liability was calculated at \$-0.

The reserve fund established for the Series B (taxable) offering is \$534,312, and is required to be held until repayment of the Series B Bonds.

#### 7. Restricted Assets and Restricted Net Position

Restricted accounts contain reserves for debt service. Specific debt service reserve requirements are described at Note 1-E-6, Debt. A Capital Reserve Fund is required as funds are available under terms of the October 2014 City of Everett Interlocal Agreement, as described at Note 1-E-6, Debt. The capital reserve fund as of December 31, 2018 is \$636,863.

#### Note 2 - Operating Lease:

The EPFD has an interlocal agreement with the City of Everett for an operating lease of the ground on which the RSEC is located. The agreement, dated February 28, 2002, is for a term of 25 years, with all the improvements to the property passing to the City of Everett upon termination. The amendment dated August 23, 2018 allowed for a possible extension to 35 years. Initial terms of the ground lease called for an initial payment of \$500,000 on March 31, 2007 and annual payments representing the greater of a minimum payment or 50% of the net cash flow after debt service in each succeeding year. The lease was amended effective January 1, 2007 to provide for rent in the amount of fifty percent of cash flow after permitted debt service. The

requirement of an initial payment on March 31, 2007 was eliminated. Future rental payments are contingent upon operating results and payment in full of outstanding debt.

Note 3 - Major Agreements:

Interlocal Agreements

The EPFD, City of Everett, Snohomish County, and the Snohomish County Public Facilities District entered into an interlocal agreement dated December 20, 2001 regarding the Regional Special Events Center and a new county parking garage. The Agreement is for a term of 25 years. Tier 1 provides for the payment by the Snohomish County PFD of \$44,137 per month to the EPFD and an additional graduated annual payment to Snohomish County for the parking garage. The Agreement grants the EPFD specific access to the parking garage for event related purposes. In 2009, the agreement was amended to provide for the allocation of a second tier of funding - "Tier 2" - representing aggregate funds available to the Snohomish County PFD in excess of its initial Tier 1 commitments. The agreement provides that the EPFD is to receive 30.4205% of the aggregate Tier 2 allocations as determined by the Snohomish County PFD Board of Directors. In 2018 the EPFD received \$228,694 of Tier 2 funds.

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

Hockey License Agreement

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

The term of the license agreement is 10 years, effective with the 2003-2004 WHL season, with three successive five-year options held by the licensee with financial terms to be negotiated. The first five-year option was exercised in 2013. The license agreement was renewed and amended on August 31, 2018 for 5 years through the 2022-2023 hockey season. This renewal includes \$500,000 of capital funding throughout the renewal term. The EPFD received the first \$250,000 from the Everett Silvertips in 2018 to be used towards purchase and installation of a new dasher boards and glass system. There is no repayment obligation for these capital funds.

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



## Professional Management Contract

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

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

The term of the agreement extended three years from the Opening Date of the Special Events Center, October 3, 2003. The agreement has been extended on a number of occasions, most recently for five years, beginning January 1, 2016. The agreement provided \$300,000 of investment into improvements at the Special Events Center. This investment was originally being amortized into revenue over the 120 month term of the agreement.

The agreement includes a fixed base management fee plus an incentive fee which can be earned by exceeding the financial and service parameters outlined in the agreement. 2018 addendums to the agreement removed certain termination rights of the EPFD which would have required the EPFD to return any unearned investment. This resulted in the previously unearned investment balance becoming revenue in 2018.

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

## Commercial Rights Marketing

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

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

## Food and Beverage Management

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

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

The agreement provides for a payment of \$375,000 by Spectra towards capital improvements in the RSEC. This revenue is being recognized over the 63-month term of the agreement as there is a repayment obligation for the unearned balance



should the agreement be terminated early. The balance of deferred inflows of resources at December 31, 2018 was \$131,250.

#### Naming Rights Agreement

The EPFD entered into a 10-year naming rights sponsorship agreement effective December 1, 2017 with the Stillaguamish Tribe of Indians (Tribe). The facility has since been renamed the “Angel Of The Winds Arena.” The agreement has an additional five-year option exercisable by the Tribe.

#### Note 4 - Risk Management:

##### Insurance Pool Membership

EPFD is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2018, there were 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 \$25,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$225,000 on a property loss.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Liability coverage limit is \$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 EPFD made no material claims against the pool in 2018.

Coverages through Enduris include:

Comprehensive General Liability, Auto Liability, and Public Officials Errors and Omissions Liability coverages provide a \$20,000,000 limit and \$1,000 deductible.

Employment Practices Liability provides coverage at a \$20,000,000 limit with a 20% Co Pay.

Terrorism Liability, Cyber Coverage, Crime Blanket with Performance of Duty, Identity Fraud Expense Reimbursement and Property Coverages with varying limits and deductibles are also provided.

There were no material claims made against these policies in 2018.

Other Coverages:

Employee Dishonesty Liability Insurance

Under the terms of its professional management contract, Global Spectrum, LP is required to maintain employee dishonesty insurance. The current coverage is for \$1,000,000, with a \$15,000 deductible. There were no claims against this policy in 2018.

#### Note 5 - Long Term Debt

The EPFD issued \$19,625,000 in Limited General Obligation Refunding Bonds with interest rates ranging from 2.93% to 5.00%. The proceeds were used to advance refund \$17,695,000 of outstanding Limited Sales Tax and Inter-local Bonds, 2007, which had an interest rate of 5.00% as well as \$4,770,000 of the 2014 Refunding Bonds payable to the City of Everett. The net proceeds, including \$860,056 in premium less \$240,871 in underwriting fees and other issuance costs, were deposited in an irrevocable trust with an escrow agent to provide funds for future debt service payment on the refunded bonds. The refunded bonds are considered defeased, and the liability for those bonds has been removed from the Statement of Net Position. As a result of the advanced refunding, the EPFD increased its total debt service requirements by \$3,385,119, which resulted in an estimated economic

gain (difference between the present value of the debt service payments on the old and new debt) of \$847,078. At December 31, 2018, \$16,205,000 of outstanding bonds are considered defeased.

General obligation bonds outstanding at December 31, 2018, are as follows:

NAME OF ISSUE / PURPOSE	DATE OF ISSUE	DATE OF FINAL MATURITY	INTEREST RATE(S)	AMOUNT ORIGINALLY ISSUED	REDEMPTIONS TO DATE	DEBT OUTSTANDING
Limited GO Refunding Bond 2018A	11/15/2018	12/1/2041	4.0-5.0%	\$11,800,000		\$11,800,000
Limited GO Refunding Bond 2018B	11/15/2018	12/1/2030	2.93-4.15%	7,825,000		\$ 7,825,000
<b>TOTAL GENERAL OBLIGATION BONDS</b>				<b>\$19,625,000</b>	<b>\$ -</b>	<b>\$19,625,000</b>

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

YEAR ENDING DECEMBER 31,	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS
2019	535,000	863,451	1,398,451
2020	585,000	811,033	1,396,033
2021	605,000	793,015	1,398,015
2022	625,000	773,776	1,398,776
2023	645,000	753,276	1,398,276
2024-2028	3,580,000	3,404,192	6,984,192
2029-2033	4,375,000	2,608,500	6,983,500
2034-2038	5,465,000	1,427,500	6,892,500
2039-2043	3,210,000	231,200	3,441,200
<b>TOTAL</b>	<b>\$ 19,625,000</b>	<b>\$ 11,665,941</b>	<b>\$ 31,290,941</b>

The EPFD received government loans from the City of Everett. In 2014, an interlocal agreement provided for refunding of \$27,415,000 of the 2007 Project Revenue Bonds, plus accrued interest of \$52,569 and issuance costs of \$199,324 for a total of \$27,666,893. The EPFD also received a capital projects loan in 2015 by interlocal agreement with the City of Everett for \$665,000. These loans accrue monthly interest.

During the years ended December 31, 2018, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2018	Additions	Reductions	Ending Balance 12-31-18	Due Within One Year
Bonds payable:					
General obligation bonds	\$ 17,695,000	\$ 19,625,000	\$ (17,695,000)	19,625,000	\$ 535,000
Plus deferred amounts:					
For issuance discounts		(77,525)	303	(77,222)	(3,364)
For issuance premiums	429,266	937,581	(434,142)	932,705	40,690
Total bonds payable:	18,124,266	20,485,056	(18,128,839)	20,480,483	572,326
Governmental loans	29,088,888	509,069	(4,975,082)	24,622,875	
	<u>\$ 47,642,420</u>	<u>\$ 21,931,706</u>	<u>\$ (23,538,063)</u>	<u>\$ 46,036,063</u>	<u>\$ 572,326</u>

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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