



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Kennewick Public Facilities District

(Three Rivers Convention Center)

For the period January 1, 2022 through December 31, 2023

Published August 29, 2024

Report No. 1035431



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

August 29, 2024

Board of Directors
Three Rivers Convention Center
Kennewick, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

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 January 1, 2022 through December 31, 2023

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 Three Rivers Convention Center, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 21, 2024.

REPORT ON 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

PURPOSE OF THIS REPORT

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

A handwritten signature in black ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

August 21, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Three Rivers Convention Center January 1, 2022 through December 31, 2023

Board of Directors
Three Rivers Convention Center
Kennewick, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of Three Rivers Convention Center, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Three Rivers Convention Center, as of December 31, 2023 and 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;


- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2024 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 the effectiveness of the District's 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

August 21, 2024

FINANCIAL SECTION

Three Rivers Convention Center January 1, 2022 through December 31, 2023

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2023 and 2022

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2023 and 2022

Statement of Revenues, Expenses and Changes in Net Position – 2023 and 2022

Statement of Cash Flows – 2023 and 2022

Notes to Financial Statements – 2023 and 2022

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, 2023. 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, 2023, total net position increased by \$1,064,059. The majority of this increase is attributable to an ongoing increase in tax revenues, 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, 2023, by \$8,264,968. Of this amount, \$1,863,875 (Unrestricted Net Position) may be used to meet ongoing obligations to creditors. This is \$192,392 more than the prior year due to the fact that events and attendance have essentially returned to pre-pandemic levels. These increases are the result of operational outcomes.
- Referring to the Statement of Revenues, Expenses and Changes in Fund Net Position, total operating revenues for 2023 were \$3,096,303. Operating revenues for 2023 increased by \$1,125,551 when compared to the prior year, or 57.1% over 2022. In 2022, the Center was open all year for the first time since 2019, but attendance at events was still about 70% of what was normal prior to COVID. The number of events and the overall attendance continued increasing in 2023 and the affected revenues increased along with that.
- 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 \$847,416 higher than operating expenses during 2022, an increase of 26.3%. This increase is driven by the increased services and staffing required to facilitate the increased event activities and customer growth encountered during 2023.
- Non-operating revenues totaled \$2,093,159 for the year ended December 31, 2023, which was a decrease of \$27,551. 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.
- Direct sales taxes received (excluding those taxes received from other agencies), the primary component of Non-Operating Revenues, reflects a year-over-year increase of 3.2% for 2023, and has increased by an average of 5.6% per year over the five-year period of 2019 to 2023.
- 2023 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 \$125,000 in 2023 and is designed to help offset the impact of the ongoing bond principal payments. There is an offsetting factor that adjusts this amount down as certain sales taxes grow. This contribution shows an increase of \$14,680 from the 2022 total. This calculation is addressed in Note 6.B of the District's financial statements.
- Working capital had been decreasing the last few years, but increased slightly in 2022 and 2023. After adjusting for principal debt payments, working capital was \$583,876 at the end of 2023. Overall, until 2020, the years that showed a decrease in working capital coincided with large capital investments made by the Center. Separate from that are 2020 and 2021, where the decrease in working capital is the direct result of the very restricted operational outcomes for those years. The positive trend that was seen in 2022 continued into 2023, showing an increase of \$122,393.

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, 2023, the District's assets and deferred outflows of resources exceeded liabilities by \$8,264,969. The following is a condensed version of the Statement of Net Position, including the value of net position for December 31, 2023, 2022, and 2021, respectively.

Statement of Net Position			
	12/31/2023	12/31/2022	12/31/2021
Assets			
Current Assets	\$2,500,118	\$2,128,430	\$2,053,721
Capital Assets	10,161,560	10,505,880	10,962,173
Total Assets	12,661,678	12,634,310	13,015,894
Deferred Outflow of Resources			
Deferred Amount on Refunding	42,432	83,246	124,060
Total Deferred Outflow of Resources	42,432	83,246	124,060
Total Assets and Deferred Outflows of Resources	\$12,704,110	\$12,717,556	\$13,139,954
Liabilities			
Current Liabilities	1,916,242	1,666,947	1,595,726
Noncurrent Liabilities	2,522,900	3,849,700	5,106,500
Total Liabilities	4,439,142	5,516,647	6,702,226
Net Position			
Net Investment in Capital Assets	6,401,092	5,529,426	4,834,733
Unrestricted Net Position	1,863,876	1,671,483	1,602,995
Total Net Position	8,264,968	7,200,909	6,437,728
Total Liabilities and Net Position	\$12,704,110	\$12,717,556	\$13,139,954

Almost 23% of the KPPD's 2023 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 77% 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, 2023, was \$3,760,000. 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 \$122,393 during the year ended December 31, 2023. The District has

generated a positive working capital in five of the last ten years – the exceptions being caused by capital investment in the building or its equipment except for 2020 and 2021, where the decrease was caused by the operational limitations experienced during the ongoing shutdown.

As mentioned above in the financial highlights section of this analysis, net position increased by \$1,064,059 for the year ended December 31, 2023. This is from 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, 2023, 2022, and 2021, respectively.

Comparative Statement of Revenues, Expenses and Changes in Fund Net Position			
	2023	2022	2021
Operating revenues	\$3,096,303	\$1,970,752	\$648,230
Operating expenses	(4,072,081)	(3,224,665)	(2,110,900)
Net operating loss	(975,778)	(1,253,912)	(1,462,670)
Non-operating revenues (expenses)			
Sales Taxes	2,092,171	2,117,586	1,942,894
Interest Income	987	3,125	181
Interest Expense	(178,321)	(213,936)	(255,955)
Total non-operating revenues (expenses)	1,914,837	1,906,774	1,687,120
Loss before contributions	939,059	652,861	224,450
Contractual and other contributions	125,000	110,320	375,360
Change in net position	1,064,059	763,182	599,810
Net position January 1	7,200,909	6,437,728	5,837,918
Net position December 31	\$ 8,264,968	\$ 7,200,909	\$ 6,437,728

The following are some of the notable differences between the Statement of Revenues, Expenses and Changes in Fund Net Position for 2023, 2022, and 2021:

- There was an increase in the overall operating revenue total (adjusted for Cost of Goods Sold) of \$1,125,551, or 57.1%, when compared to 2022. 2022 was still affected by the aftermath of the shutdowns. 2023 is significantly ahead of 2022, and represents the return to being fully open without COVID related constraints. The emergency order was fully lifted in October 2022.
- The net operating contribution from Food and Beverage operations (table below) was \$1,123,061 in 2023. This is an improvement of \$650,407 over 2022, and represents a return to 2017-2018 levels.

Net Annual Contribution from Food and Beverage Operations			
	2023	2022	2021
Net contribution from Food and Beverage	1,123,061	472,654	102,709

- Total operating expenses (including depreciation costs) were \$4,072,081, an increase of 26.3% from 2022. This increase is driven by the increased services and staffing required to facilitate the increased

event activities encountered during 2023. Our expenses are very heavily affected by the automatic increases in minimum wage each year, and the impact of salary and overtime rules mandated by the state.

- Non-operating revenues decreased by \$27,551, or 1.3%, in 2023. Despite a year over year decrease, this revenue category continues to add to the Center's available cash and working capital balances. For the five-year period of 2019 through 2023, taxes from all sources have experienced an average annual growth of 7.9%.

Capital Assets and Debt Administration

Capital Assets:

The investment in capital assets as of December 31, 2023, amounted to \$10,161,560, net of accumulated depreciation. This investment includes buildings, improvements, furniture and fixtures, and equipment. The following information summarizes capital assets as of December 31, 2023, 2022, and 2021, respectively.

Capital Assets, net of depreciation			
	12/31/2023	12/31/2022	12/31/2021
Building	\$9,117,922	\$9,562,057	\$10,006,192
Expansion Plan and Pre-Design, WIP	233,245	160,777	134,225
Furniture, Fixtures and Equipment	806,243	774,746	809,306
Intangible Assets	4,150	8,300	12,450
Total Capital Assets	\$10,161,560	\$10,505,880	\$10,962,173

Net building assets decreased in 2023 due to ongoing depreciation entries, which exceeded the amount of new capital added last year.

Long-term Debt:

As of December 31, 2023, the District had total outstanding external debt of \$3,760,000 (principal only). This represents a decrease of \$1,210,000 from the prior year which was the net effect of the principal amount that was due and paid in 2022. The current year (2023) principal payment due is \$1,280,000.

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, 2023, the District had \$44,316,824 in non-voted capacity and \$116,432,060 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. When looking at the 2024 assessed valuation for the city, our capacities increase to \$54,368,056 and \$141,560,140, respectively.

Additional information on the District's long-term debt can be found in Note 5.

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 2023 budget in the winter of 2022. Preparation of the 2023 budget focused primarily on servicing the events that were scheduled at the Three Rivers Convention Center during 2023 and planning for events that were to be booked and serviced during 2023 and into 2024 and beyond.

The 2023 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 continuing and positive influx in inquiries and bids for future events as a result of this addition.

The following are some factors that have impacted the 2023 results, and may impact the District's operations in 2024 and into the future:

- Looking back, 2021 and 2022 were about walking through the recovery and finding the new normal for conference and convention management. As pandemic restrictions were lifted, we saw groups slowly regain their confidence in leaving their homes and gathering together again. As we progressed through 2022, we were encouraged to see the industry recovering strongly and business settling back in with some pre-COVID levels of consistency.
- As we consider 2023, the positive trends we are seeing in attendance at events and the need for event space is exciting. We have events that experienced the highest attendance in their history in early 2023, which is drastically different from the overall attitude of attendees that we saw in 2021 and early into 2022. Our calendar for April had only two days without events and there were several events that we were unable to accommodate due to the packed house. This trend continued through the rest of 2023 and the building calendar remains busy for 2024. We are confident that our event load will continue to be strong and that the growing demand would be able to support the additional venue space expected with the expansion project.

- The District currently outsources the management of the facility to a third-party firm, VenuWorks of Kennewick LLC. The current contract extension was approved in 2022 and represents the fourth consecutive renewal and will be subject to renew or expire on December 31, 2032.
- The Convention Center was completed and put into active service in 2004. As we embark on our twentieth year of operation, it is necessary to acknowledge that a number of systems are at the end of their functional lifespan and a significant amount of capital investment will be needed to maintain the level of service we have worked to provide. The primary areas impacted are kitchen and serving equipment, lighting, and meeting room sound and other audio-visual equipment. With the revenue excesses that were achieved in 2017 and 2018, we were able to undertake the replacement and updates of some of these systems, but this progress all stopped in 2020. Looking toward 2024, it will be necessary to increase our capital spending again to keep the building successful.
- 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. The larger convention centers are growing their facilities, and as a result, the larger metro areas are attracting and competing for more national and international conventions. This is a stimulus for regional conventions to look to more economical market options like the Three Rivers Convention Center. Demand has continued to grow, and we are no longer limited by pandemic restrictions on how many people we can host in one room at a time. This allows us to pursue an increasing amount of business to bring economic dollars to our community.
- The Three Rivers Convention Center is a showcase for leading-edge technology designed to support the telecommunications and audio/visual needs of every event regardless of type, size or complexity. Our Great Hall has state-of-the-art LED programmable lights that provide extensive functionality for our clients and the various aspects of their events. As recently as April 2023 we have invested in the upgrade of our lighting systems in all our meeting rooms, and we continue to move forward with additional lighting upgrades throughout the facility. The Center will continue to develop and expand these capabilities as technologies change.
- While we see live events return and planners push for attending fully in person, it is also evident that virtual events are here to stay. These hybrid virtual components allow guests to attend in a way that makes sense for their time, budget and comfort level. In order to accommodate this new necessity for our clients, we are looking at what technologies are available and how we can provide this service in the most efficient and cost-effective way. According to an article by Bloomberg (Bloomberg, 2021), 94% of event organizers planned a virtual event in 2022. Plus, 84% of attendees mentioned they would like to have the option of attending an event remotely. As a result of these statistics, it seems that hybrid events will remain part of our industry into the foreseeable future, and we plan to adapt accordingly.
- As the industry begins to forecast our recovery the latest trends tend to show a full recovery in 2024. However, the smaller markets such as ours, appear to be recovering sooner than expected and this is reflected in our booking and hotel occupancies in the Tri-Cities. Due to the fact our area is more agriculturally based we expect this to aid in a more rapid and robust recovery as well. The rise in fuel prices will also aid in many events staying regional as they may choose to reconsider larger conferences as a way to combat travel costs.

- There have been significant impacts to the supply-chain for all departments, and with increasing prices for almost everything we need to do business, the key to success seems to be staying flexible. Prices and availability in the market change daily, and we do our best to mitigate the impact of this on our clients. Each department has developed strategies to forecast issues as best we can, and to develop creative solutions for any area that may affect the client. Most planners are experiencing this on their end as well, so they tend to be understanding and open to adjusting when necessary.
- Even as the entire country shut down and the West coast was one of the last regions of the country to open, we continue to see an increase in sales tax revenues in our jurisdiction. This is a reflection of the retail hub that Kennewick has become and the willingness of visitors to travel to Kennewick. Related to that, 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 5.5% per year over the last decade, with 2023 generating almost \$1.1 million dollars for the Center.
- The City of Kennewick is involved in a partnership with a private development group that is working on a large-scale multi-phase project to build a second headquarters hotel adjacent to the Convention Center. This will continue to improve the marketability and functionality of the Center by allowing a greater number of visitors to lodge onsite, while the costs of operating the hotel are completely separate as a private enterprise. In conjunction with this, the District and the City of Kennewick are working together to fund a much-needed expansion of the Convention Center. When completed, this expansion is expected to provide: 60,000 feet of new exhibition space, approximately 24,000 square feet of additional lobby and common space, and 30,000 square feet of space for supporting services. This expansion is established as a condition for the building of the additional hotel. The development group has been actively pursuing investors and they are nearing their funding goals.

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 2023 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

As of December 31, 2023 and 2022

	2023	2022
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,055,914	\$ 635,761
Investments	550,218	549,119
Receivables	685,901	781,595
Inventory	86,766	66,169
Prepayments	121,319	95,786
Total Current Assets	2,500,118	2,128,430
Noncurrent Assets:		
Capital Assets (Net of Accumulated Depreciation):		
Furniture, Fixtures and Equipment	806,243	774,746
Intangible Assets	4,150	8,300
Expansion - WIP	233,245	160,777
Building	9,117,922	9,562,057
Total Capital Assets	10,161,560	10,505,880
Total Noncurrent Assets	10,161,560	10,505,880
Total Assets	12,661,678	12,634,310
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amount on Refunding	42,432	83,246
Total Deferred Outflows of Resources	42,432	83,246
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 12,704,110	\$ 12,717,556
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 73,193	\$ 42,908
Current Year Debt Service	1,280,000	1,210,000
Other Current Liabilities	563,049	414,039
Total Current Liabilities	1,916,242	1,666,947
Noncurrent Liabilities:		
Noncurrent Portion of Long-Term Obligations	2,522,900	3,849,700
Total Liabilities	4,439,142	5,516,647
NET POSITION		
Net Investment in Capital Assets	6,401,092	5,529,426
Restricted Net Position - Current Year Debt Service	0	0
Unrestricted Net Position	1,863,876	1,671,483
Total Net Position	8,264,968	7,200,909
TOTAL LIABILITIES AND NET POSITION	\$ 12,704,110	\$ 12,717,556

See Accompanying Notes to Financial Statements.

Kennewick Public Facilities District

Statement of Revenues, Expenses and Changes in Fund Net Position

For the Years Ended December 31, 2023 and 2022

	2023	2022
OPERATING REVENUES		
Building Rent	\$ 330,043	\$ 312,946
Food and Beverage	2,534,020	1,479,170
Less: Food & Beverage Cost of Goods Sold	(550,855)	(374,437)
In-House Event Revenue	757,291	520,943
Miscellaneous Event Revenues	25,804	32,130
Total Operating Revenues	3,096,303	1,970,752
OPERATING EXPENSES		
Professional Services	2,259,209	1,791,869
General and Administrative	143,823	77,989
Occupancy	453,515	343,403
Travel	0	2,485
Event Expenses	131,254	94,559
Services & Operations	375,204	293,751
Food and Beverage *	126,088	53,265
Depreciation	582,988	567,343
Total Operating Expenses	4,072,081	3,224,665
Net Operating Loss	(975,778)	(1,253,912)
NON-OPERATING REVENUES (EXPENSES)		
Sales Taxes	2,092,171	2,117,586
Interest Income	987	3,125
Interest Expense	(178,321)	(213,936)
Total Non-Operating Revenues (Expenses)	1,914,837	1,906,774
Gain/(Loss) Before Contributions and Transfers	939,059	652,861
Contractual Contributions	125,000	110,320
Other Contributions	0	0
Total Contributions	125,000	110,320
Change in Net Position	1,064,059	763,182
Total Net Position - Beginning	7,200,909	6,437,728
Total Net Position - Ending	\$ 8,264,968	\$ 7,200,909

See Accompanying Notes to Financial Statements.

* New expense category added in 2022.

Kennewick Public Facilities District

Statement of Cash Flows

For the Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers	\$ 3,960,859	\$ 2,062,915
Less: Food & Beverage Cost of Goods Sold	(550,855)	(374,437)
Payments for Professional Services	(2,259,209)	(1,821,969)
Payments to Suppliers and Subcontractors	(1,220,448)	(941,144)
Net Cash Used by Operating Activities	(69,653)	(1,074,635)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Net Repayment from (Advances to) Related Agency	(146,885)	120,394
VenuWorks Economic Development Grant	68,955	65,560
Net Cash Provided (Used) by Non-Capital Financing Activities	(77,929)	185,954
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Interest paid on Capital Debt	(188,337)	(222,794)
Principal paid on Capital Debt	(1,210,000)	(1,145,000)
Acquisition and Construction of Capital Assets	(238,667)	(111,051)
Taxes for Capital Related Debt	2,079,852	2,126,099
Contractual Contribution	125,000	110,320
Net Cash Provided by Capital Financing Activities	567,848	757,574
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of Investments	(1,099)	(3,069)
Interest on Investments	987	3,125
Net Cash Provided (Used) by Investing Activities	(112)	56
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	420,153	(131,050)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	635,761	766,811
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,055,914	\$ 635,761
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Net Operating Loss	\$ (975,779)	\$ (1,253,912)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	582,988	567,343
Changes in Assets and Liabilities:		
Receivables, net	254,899	(290,575)
Inventory	(20,597)	(18,910)
Prepaid Expenses	(25,532)	(22,113)
Accounts Payable	27,152	(76,626)
Other Current Liabilities	87,217	20,158
Total Adjustments	906,126	179,278
NET CASH USED BY OPERATING ACTIVITIES	\$ (69,653)	\$ (1,074,635)

See Accompanying Notes to Financial Statements.

Kennewick Public Facilities District
Notes to Financial Statements
December 31, 2023 and 2022

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Kennewick Public Facilities 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. The District capitalizes identified capital asset purchases and accounts for long-term liabilities, adjusting for any current year principal due.

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.

Operating Budget Summary for 2023				
	Final 2022 Budget	Adopted 2023 Budget	2023 Changes	Final 2023 Budget
Operating Income	\$ 2,216,874	\$ 2,866,100	\$ 803,900	\$ 3,670,000
Cost of Goods Sold	\$ (344,304)	\$ (456,250)	\$ (83,750)	\$ (540,000)
Gross Profit	\$ 1,872,570	\$ 2,409,850	\$ 720,150	\$ 3,130,000
Operating Expense	\$ (2,661,760)	\$ (2,959,850)	\$ (720,150)	\$ (3,680,000)
Net Operating Budget	\$ (789,190)	\$ (550,000)	\$ -	\$ (550,000)

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

D. Assets, Liabilities, Fund Balances, Net Position

1. Cash and Cash Equivalents

In the Statement of Net Position, Cash and Equivalents includes cash in the bank, petty cash, event deposits, deposits in transit, and short-term investments with maturity dates of three months or less including any funds held in the State Treasurer's Investment Pool. See Note 3.

2. Deposits and Investments

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. See Note 3.

3. Receivables

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

Customer accounts receivables consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. See Note 3.

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

See Note 4.

6. Deferred Outflows/Inflows of Resources

In the Statement of Net Position, Deferred Outflows/Inflows of Resources includes loss/gain on refunding of District Bonds originally issued in 2003, 2011, and 2014. See Note 5.

Note 2 – Component Unit Information

The District is included in the consolidated financial statements of the City of Kennewick as a discrete component unit.

Note 3 – Deposits and Investments

A. Cash and Cash Equivalents

It is the policy of the District to invest all temporary cash surpluses. At December 31, 2023, the District was holding \$1,055,914 in short-term investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents.

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.

B. Deposits and Investments

The following is a summary of deposits, including money market accounts and certificates of deposit, as of December 31, 2023 and 2022. 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).

<u>Cash and Cash Equivalents</u>	<u>2023</u>	<u>2022</u>
Checking Account	\$ 733,842	\$ 313,752
Money Market Accounts	254,774	254,719
Savings Accounts	67,298	67,290
Total	\$ 1,055,914	\$ 635,761

As of December 31, 2023, the District held the following investments at amortized cost. The original term on this investment was for twelve months.

<u>Investments</u>	<u>2023</u>	<u>2022</u>
Certificates of Deposit	\$550,218	\$549,119

C. Receivables

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

Customer accounts receivables ("Business Activities") consists 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, 2023 and 2022, were as follows:

Accounts Receivable Distribution at December 31, 2023 - 2022		
	2023	2022
Taxes, Other Governmental Entities	\$ 495,582	\$ 265,230
Business Activities	\$ 190,319	\$ 516,365
Total	\$ 685,901	\$ 781,595

Note 4 – 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 (or system) 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. The one exception to this rule is the original building value, which calculates from the actual in-service date of June 1, 2004.

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

Capital Assets Activity for the Year Ending December 31, 2023				
	Balance			Balance
	1/1/2023	Additions	Deletions	12/31/2023
Non-Depreciable Capital Assets:				
Construction in Progress	\$ 160,777	\$ 72,468	\$ -	\$ 233,245
Depreciable Capital Assets:				
Furniture, Fixtures and Equipment	1,663,661	166,200		1,829,861
Intangible Assets	20,750	-		20,750
Building	17,484,859	-	-	17,484,859
Subtotal - Depreciable Capital Assets	19,169,270	166,200	-	19,335,470
Accumulated Depreciation:				
Furniture, Fixtures and Equipment	(888,913)	(134,703)		(1,023,616)
Intangible Assets	(12,450)	(4,150)		(16,600)
Building	(7,922,802)	(444,135)		(8,366,937)
Subtotal - Accumulated Depreciation	(8,824,165)	(582,988)	-	(9,407,153)
Total	10,505,880	(344,320)	\$ -	10,161,560

Capital Assets Comparison 2023 - 2022		
	2023	2022
Non-Depreciable Capital Assets:		
Construction in Progress	\$ 233,245	\$ 160,777
Depreciable Capital Assets:		
Furniture, Fixtures and Equipment	1,829,861	1,663,661
Intangible Assets	20,750	20,750
Building	17,484,859	17,484,859
Subtotal - Depreciable Capital Assets	19,335,470	19,169,270
Accumulated Depreciation:		
Furniture, Fixtures and Equipment	(1,023,616)	(888,913)
Intangible Assets	(16,600)	(12,450)
Building	(8,366,937)	(7,922,802)
Subtotal - Accumulated Depreciation	(9,407,153)	(8,824,165)
Total	\$ 10,161,560	\$ 10,505,880

Note 5 – 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, 2023, the total bonds payable balance is \$3,760,000. These bonds represent the only outstanding debt of the District as of December 31, 2023.

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

Annual Debt Service Requirements			
Year	Principal	Interest	Total
2024	1,280,000	139,981	1,419,981
2025	1,410,000	92,058	1,502,058
2026	1,040,000	39,747	1,079,747
2027	<u>30,000</u>	<u>1,163</u>	<u>31,163</u>
Total	\$3,760,000	\$272,947	\$4,032,947

The following is a summary of changes in noncurrent liabilities during 2023:

Long Term Debt Activity for the Year Ending December 31, 2023					
	Balance 1/1/2023	Additions	Reductions	Balance 12/31/2023	Due Within One Year
Bonds Payable - Long Term	\$ 3,760,000	\$ -	\$ (1,280,000)	\$ 2,480,000	\$ -
Bonds Payable - Current	1,210,000	1,280,000	(1,210,000)	1,280,000	1,280,000
Subtotal - Consolidated Debt Activity	6,115,000	1,280,000	(2,490,000)	3,760,000	1,280,000
Unamortized Premium 2011 Bonds	89,700	-	(46,800)	42,900	-
Deferred Amount on Refunding	(83,246)	40,814	-	(42,432)	-
Total	\$ 6,127,440	\$ 1,320,814	\$ (2,536,800)	\$ 3,760,468	\$ 1,280,000

Long Term Debt Comparison 2023 - 2022		
	2023	2022
Bonds Payable (includes current portion)	\$ 3,760,000	\$ 4,970,000
Deferred and Unamortized Amounts	468	6,454
Total Noncurrent Liabilities	\$ 3,760,468	\$ 4,976,454

Note 6 – Major Agreements

A. Related Party Transactions

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 6.B – Contribution Agreements”.) The current term ends on December 31, 2032, and is subject to automatic five-year extensions unless action is taken to terminate the agreement.

B. 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.

C. 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.

Note 7 – Personnel Costs, Retirement and Pensions

A. 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.

B. 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.

C. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

Note 8 – 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 November 30, 2023, membership includes 196 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, Crime Protection and Liability, including General, Automobile, Wrongful Acts, and Cyber, which are included to fit the member's various needs.

The program acquires reinsurance through their administrator, Clear Risk Solutions. Liability coverage is purchased to a group aggregate limit of \$50,000,000 with a self-insured retention (SIR) of \$750,000. Members are responsible for a \$1,000 to \$50,000 deductible for each claim (can vary by member), while the program is responsible for the \$500,000 SIR. Since the program is a cooperative program, there is joint liability among the participating members toward the sharing of the \$500,000 SIR, in addition to the deductible. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$8,347,047, which is fully funded in its annual

budget.

Property insurance is subject to a per occurrence SIR of \$750,000. Members are responsible for a \$1,000 deductible for each claim (some member deductibles vary). The program bears the \$750,000 SIR, in addition to the deductible.

Crime insurance is subject to a per occurrence SIR of \$25,000. Members are responsible for a \$1,000 deductible for each claim (some member deductibles vary). The program bears the \$25,000 SIR, in addition to the deductible.

Equipment Breakdown insurance is subject to a per occurrence deductible of \$2,500 (cities and special districts) and \$500 (fire districts), 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 SIR on this coverage, with the exception of Pumps & Motors, which is \$15,000 and is covered by CIAW.

Cyber liability insurance is subject to a per-occurrence SIR of \$50,000. Members are responsible for a \$10,000 deductible for each claim, while the program is responsible for the remaining \$40,000 SIR.

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.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, underwriting, claims adjustment, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ending December 1, 2023, were \$3,172,937.

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.

Directors 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.

Note 9 – Other

A. 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.

B. Reporting Changes

There were no significant accounting or reporting changes implemented for the year ended December 31, 2023.

C. Subsequent Events

As of May 28, 2024, there are no subsequent events that are known.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

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

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