



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
City of Kent Special Events Center
Public Facilities District

King County

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

Published August 28, 2017

Report No. 1019736





Office of the Washington State Auditor
Pat McCarthy

August 28, 2017

Board of Directors
City of Kent Special Events Center Public Facilities District
Kent, Washington

Report on Financial Statements

Please find attached our report on the City of Kent Special Events Center Public Facilities District's financial statements.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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**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**

**City of Kent Special Events Center Public Facilities District
King County
January 1, 2016 through December 31, 2016**

Board of Directors
City of Kent Special Events Center Public Facilities District
Kent, 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 governmental activities and each major fund of the City of Kent Special Events Center Public Facilities District, King County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 16, 2017.

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 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 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

August 16, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Kent Special Events Center Public Facilities District King County January 1, 2016 through December 31, 2016

Board of Directors
City of Kent Special Events Center Public Facilities District
Kent, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Kent Special Events Center Public Facilities District, King County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Kent Special Events Center Public Facilities District, as of December 31, 2016, and the respective changes in financial position 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 on pages 10 through 14 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 August 16, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

August 16, 2017

FINANCIAL SECTION

**City of Kent Special Events Center Public Facilities District
King County
January 1, 2016 through December 31, 2016**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Governmental Funds Balance Sheet/Statement of Net Position – 2016

Governmental Funds Revenues, Expenditures and Changes in Fund Balance/Statement of
Activities – 2016

Notes to Financial Statements – 2016

INTRODUCTION:

The City of Kent formed the City of Kent Special Events Center Public Facilities District (PFD) in August 2007. The district was established pursuant to State legislation and codified under RCW 35.57, with the powers and authority set forth by law. The purpose of the PFD is to provide the financing necessary to construct an events center in the City of Kent. The PFD provided the financing for the design and construction of the special events center, known as ShoWare Center. Although the PFD provided much of the funding for the center, the asset is owned by the City of Kent per the interlocal agreement between the PFD and the City.

This discussion and analysis of the PFD's financial performance provides an overview of the PFD's financial activities for the fiscal year ended December 31, 2016. The intent of this discussion and analysis is to look at the PFD's financial performance as a whole. Readers should also review the basic financial statements and notes to enhance their understanding of the PFD's financial performance.

FINANCIAL HIGHLIGHTS:

- Net position (\$78,022,134) increased by \$2,510,739 or 3.1 percent from 2015 levels.
- Net bonded debt of \$4,430,000 decreased by \$55,000,869 or 92.6 percent from 2015 levels. In June 2016, \$53,150,000 of District Sales Tax Bonds were defeased.
- Notes payable-debt refinancing (district bond) of \$48,780,000 was created in 2016 for the advance from the City to defease the PFD Sales Tax Bonds.
- The district recorded a special item of \$4,045,000 on the debt refinancing transaction.
- Notes payable-debt advances of \$25,121,554 increased \$3,183,351 (principal and interest) or 14.5 percent with the 2016 payment and accrued interest from the City under the Contingent Loan and Support Agreement.
- Sales tax revenues of \$900,659 increased by \$70,376 or 8.5 percent compared to amounts collected in 2015.

OVERVIEW OF THE FINANCIAL STATEMENTS:

This discussion and analysis is intended to serve as an introduction to the City of Kent Special Events Center Public Facilities District (PFD) basic financial statements. The PFD's basic financial statements are comprised of governmental funds: (1) Balance Sheet/Statement of Net Position, (2) Revenues, Expenditures and Changes in Fund Balance/Statement of Activities and (3) notes to the financial statements.

The government-wide financial statements and fund financial statements have been combined in the basic financial statements segregated in separate columns and are accompanied by a reconciliation between the statements (see the "Adjustments" column for details).

- **Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the PFD's finances in a manner similar to

a private-sector business. The government-wide financial statements include 1) Statement of Net Position and 2) Statement of Activities.

- **Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The PFD uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the PFD are major governmental funds for the purposes of this financial report. The focus of these funds is on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the PFD's near-term financing requirements. The fund financial statements include 1) Balance Sheet and 2) Revenues, Expenditures and Changes in Fund Balance.

Balance Sheet/Statement of Net Position - This statement presents a snap-shot view of the assets of the PFD, the liabilities it owes and the net difference or net position. It focuses on the resources available for future operations.

Revenues, Expenditures and Changes in Fund Balance/Statement of Activities - This statement presents all revenues and expenditure of the PFD during the fiscal year, including other sources and uses.

Notes to the financial statements - The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements and should be read in conjunction with the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS:

The PFD's overall financial position increased in 2016 by \$2,510,739 or 3.1 percent from 2015 levels to a deficit of \$78,022,134. This increase in fund balance is primarily due to the special items of \$4,045,000 due to the debt refinancing, offset by additional advances from the City for debt payments on PFD bonds.

City of Kent's Special Events Center Public Facilities District Statement of Net Position		
	2016	2015
Assets		
Current and other assets	\$ 329,922	\$ 1,084,019
<u>Total Assets</u>	<u>329,922</u>	<u>1,084,019</u>
Liabilities		
Other liabilities	20,502	247,820
<u>Long-term debt</u>	<u>78,331,554</u>	<u>81,369,072</u>
<u>Total Liabilities</u>	<u>78,352,056</u>	<u>81,616,892</u>
Net Position		
Unrestricted	(78,022,134)	(80,532,873)
<u>Total Net Position</u>	<u>\$(78,022,134)</u>	<u>\$(80,532,873)</u>

Highlights from the Statement of Net Position:

- Taxes receivables (\$164,002) increased by \$9,444 or 6.1%. The increase in the receivable is due to increased sales tax revenues in 2016 (8.5 percent increase for the year).
- Outstanding long-term bonded debt was reduced by \$55,000,869 primarily as the result of the principal payment made during 2016 and the defeasance of the sales tax bonds.

**City of Kent Special Events Center
Public Facilities District (PFD)**

**Management's Discussion and Analysis
For the Year Ended December 31, 2016**

- Notes payable-debt advances increased by \$3,183,351 or 14.5 percent in 2016 with the City's 2016 support under the contingent loan and support agreement and accrued interest on the note.
- Notes payable-debt refinancing increased \$48,780,000 with the issuance of the PFD note to the City for the proceeds of the City's 2016 LTGO Refunding Bonds, Series B loaned by the City to defease the PFD Sales Tax Bonds.
- The PFD netted a gain of \$4,045,000 on the refinancing transaction.
- The PFD's deficit net position is the result of the agreement established between the PFD and the City of Kent. The PFD was established to provide the financing necessary to construct an events center in the City of Kent. The PFD issued bonds to fund the design and construction of the special events center, known as ShoWare Center. Although the PFD provided much of the funding for the construction of the center, the asset is owned by the City of Kent. Since the asset resides within the financials of the City of Kent, but the long-term debt belongs to the PFD, the PDF will likely show a deficit net position throughout the life of the bonds. The last of the bonds will mature in December 2020, but the PFD will continue to have notes payable to the City for payments the City has made under the contingent loan agreement as well as the PFD note payable for the refinancing of the sales tax bonds.

The following table details the changes in net position.

City of Kent's Special Events Center Public Facilities District Statement of Activities		
	2016	2015
Revenues		
Sales tax	\$ 900,659	\$ 830,283
Investment earnings	1,826	665
Total Revenues	902,485	830,948
Expenses		
Other Services and Charges	1,009,603	-
Interest expense	1,427,143	3,051,836
Total Expenses	2,436,746	3,051,836
Other Financing Sources (Uses)		
Special item – debt forgiveness	4,045,000	-
Total Other Financing Sources (Uses)	4,045,000	-
Increase in net position	2,510,739	(2,220,888)
Net Position – January 1	(80,532,873)	(78,311,985)
Net Position – December 31	\$(78,022,134)	\$(80,532,873)

Overall, the PFD saw an increase in net position of \$2,510,739. Key highlights:

- Sales tax revenue (\$900,659) increased by \$70,376 or 8.5 percent compared to the previous year as the result of the improving economy.
- Interest expense (\$1,427,143) decreased by \$1,624,693 or 46.8 percent as compared to 2015 due to the defeasance of the sales tax bonds.
- Other services and charges expense increased \$1,009,603 as the District is now responsible for paying the City for the debt service on the 2016 Series B LTGO Refunding Bonds.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS:

The focus of the governmental funds is to provide information on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing the PFD's near-term financing requirements.

At the end of the current fiscal year, the PFD's governmental funds reported combined ending fund balances of \$290,212, an increase of \$6,996 from the previous year. Any fund balance available in the funds is restricted for future payments on the PFD's debt.

The *General Fund* is the chief operating fund of the PFD. At the end of the current fiscal year, fund balance of the General Fund was \$290,212 representing a \$6,996 or 2.5 percent increase from the 2015 balance. The primary revenue sources for the general fund are sales tax revenues and interest income. Sales taxes for 2016 were \$900,659, an increase of \$70,376 or 8.5 percent from 2015. Interest income for 2016 was \$1,826, up 174.6 percent from 2015 with higher cash balances due to the revenue increase and slowly rising interest rates. With the refinancing of the District's 2008 Sales Tax Bonds with City LTGO Bonds, the District is now responsible for paying the City the amount of the debt service on the City's 2016 Series B LTGO Refunding Bonds. In 2016, these payments were \$1,334,603.

The *Debt Service Fund* is used to account for payment of principal and interest of long-term debt. Transfers from the PFD's General Fund along with loans from the City provide the financing source to cover such debt. During 2016, the PFD paid \$980,000 toward principal and \$1,650,400 for interest expense for debt service. The debt service fund also records the other financing source for the revenues advanced from the City under the contingent loan and support agreement to cover the District debt payments. In 2016, the City advanced \$3,069,514 to the District, down 3.6 percent from 2015, as well as \$49,105,000 in proceeds from the City's 2016 LTGO Series B Bonds to defease the PFD's sales tax bonds.

LONG-TERM DEBT:

At the end of the current fiscal year, the PFD had total net bonded debt outstanding of \$4,430,000 and \$73,901,554 notes payable to the City. Under a Contingent Loan and Support Agreement, the City has irrevocably pledged its full faith, credit and resources for making the City contingent loan payments to the PFD as required in order for the PFD to meet their debt service requirements on the bonds, to the extent that PFD sales tax revenues are not sufficient for that purpose.

City of Kent's Special Events Center Public Facilities District Outstanding Debt December 31		
	2016	2015
Net sales tax bonds	\$ -	\$ 54,020,869
Revenue bonds	4,430,000	5,410,000
Notes payable-debt advances	25,121,554	21,938,203
Notes payable-debt refinancing	48,780,000	-
Total debt	\$ 78,331,554	\$ 81,369,072

The District's total bonded debt decreased by \$55,000,869 or 92.6 percent during the current fiscal year, primarily due to the defeasance of the sales tax bonds. The required debt service payments were made

during 2016. The notes payable to the City increased by \$51,963,351 due to the refinancing and City advances under the Contingent Loan Agreement. Net debt of the PFD decreased \$3,037,518 in 2016.

The PFD carries an "AA+" rating from Standard and Poor's as of April 21, 2016 and an "A2" rating from Moody's as of April 17, 2015.

Additional information on the PFD's long-term debt can be found in Note 5 of this report.

ECONOMIC OUTLOOK:

The PFD continues to be faced with many of the challenges of the slow recovery to the recent recession. Its primary revenue source is sales tax revenue which, although slowly recovering, continues to lag from the pre-recession levels. Per the PFD's intergovernmental agreement with the City, it receives loans from the City to help cover its debt service should it not receive enough in sales tax revenue during the year. Any net proceeds of the ShoWare Center operations are pledged towards the PFD revenue bond debt service, but with the slow economic recovery, the ShoWare Center continues to not meet expectations as far as the number of events and the number of attendees at such events and has not yet had net proceeds from operations. Because of this, the PFD turns to the general operations of the City of Kent to help cover the annual debt service costs. During 2016, the PFD received \$3,069,514 from the City. For 2017, the City has budgeted accordingly to reflect the needs of the PFD to cover such costs.

REQUESTS FOR INFORMATION:

This financial report is designed to provide a general overview of the City of Kent Special Events Center Public Facilities District (PFD) finances. Questions concerning the information provided in this report may be addressed to:

City of Kent Special Events Center, Public Facilities District
c/o Finance Department
220 Fourth Avenue South
Kent, WA 98032

CITY OF KENT SPECIAL EVENTS CENTER PFD
 GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET POSITION
 December 31, 2016

	General Fund	Debt Service Fund	Totals	Adjustments (note 2)	Statement of Net Position
ASSETS					
Restricted assets:					
Cash & equity in pooled investments (Note 3)	\$ 126,210	\$ -	\$ 126,210	\$ -	\$ 126,210
Receivables (net of allowance for estimated uncollectables (Note 4)					
Other taxes receivable	164,002	-	164,002	-	164,002
Prepaid Insurance	-	-	-		
Current				10,138	10,138
Long-term				29,572	29,572
TOTAL ASSETS	<u>290,212</u>	<u>-</u>	<u>290,212</u>	<u>39,710</u>	<u>329,922</u>
LIABILITIES					
Accrued interest payable	-	-	-	20,502	20,502
Due within one year:					
Revenue bonds payable, current portion (Note 5)	-	-	-	1,100,000	1,100,000
Notes payable - debt refinancing, current portion (Note 5)	-	-	-	485,000	485,000
Due in more than one year:					
Sales Tax bonds payable, non-current portion (net of unamortized bond premium) (Note 5)	-	-	-	-	-
Revenue bonds payable, noncurrent portion (Note 5)	-	-	-	3,330,000	3,330,000
Notes payable-debt advances (Note 5)				25,121,554	25,121,554
Notes payable-debt refinancing (District bond) (Note 5)	-	-	-	48,295,000	48,295,000
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>78,352,056</u>	<u>78,352,056</u>
FUND BALANCE					
Restricted	290,212	-	290,212	(290,212)	-
TOTAL LIABILITIES AND FUND BALANCE	<u>290,212</u>	<u>-</u>	<u>290,212</u>	78,061,844	
NET POSITION					
Unrestricted					(78,022,134)
TOTAL NET POSITION					<u>(78,022,134)</u>

See accompanying notes to the financial statements

**CITY OF KENT SPECIAL EVENTS CENTER PFD
GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>	<u>Adjustments (note 2)</u>	<u>Statement of Activities</u>
REVENUES					
Taxes:					
Sales and use tax	900,659	-	900,659		900,659
Miscellaneous revenue:					
Interest income	1,826	-	1,826		1,826
TOTAL REVENUES	<u>902,485</u>	<u>-</u>	<u>902,485</u>	<u>-</u>	<u>902,485</u>
EXPENDITURES/EXPENSES					
Other Services and Charges	1,334,603		1,334,603	(325,000)	1,009,603
Debt service					
Principal	-	980,000	980,000	(980,000)	-
Interest	-	1,650,400	1,650,400	(223,257)	1,427,143
TOTAL EXPENDITURES/EXPENSES	<u>1,334,603</u>	<u>2,630,400</u>	<u>3,965,003</u>	<u>(1,528,257)</u>	<u>2,436,746</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	(432,118)	(2,630,400)	(3,062,518)	1,528,257	(1,534,261)
OTHER FINANCING SOURCES (USES)					
Issuance of notes payable		52,174,514	52,174,514	(52,174,514)	-
Payment to escrow agent		(49,105,000)	(49,105,000)	49,105,000	-
Special item-debt forgiveness	-	-	-	4,045,000	4,045,000
Transfers in	827,785	388,671	1,216,456	(1,216,456)	-
Transfers out	(388,671)	(827,785)	(1,216,456)	1,216,456	-
TOTAL OTHER FINANCINGS SOURCES (USES)	<u>439,114</u>	<u>2,630,400</u>	<u>3,069,514</u>	<u>975,486</u>	<u>4,045,000</u>
NET CHANGE IN FUND BALANCE	6,996	-	6,996	(6,996)	
NET CHANGE IN NET POSITION				2,503,743	2,510,739
FUND BALANCES/NET POSITION					
Beginning of year	283,216	-	283,216		(80,532,873)
End of year	<u>290,212</u>	<u>-</u>	<u>290,212</u>		<u>(78,022,134)</u>

See accompanying notes to the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**a. Reporting Entity**

The City of Kent established the Kent Special Events Center Public Facilities District (PFD) in August 2007. The district was established pursuant to State legislation and codified under RCW 35.57, with the powers and authority set forth by law. The PFD is established for the sole purpose of pursuing the design, construction, and/or financing of a regional center comprised of a Special Events Center, individually or in cooperation with any other governmental and/or private entities as allowed by law.

Based on the criteria of Statement No. 14, as amended by Statement No. 61, of the Government Accounting Standards Board (GASB), "The Financial Reporting Entity", the City of Kent, WA (City) has included the PFD in the City's financial statements utilizing the discrete presentation method. The City appoints a voting majority of the PFD board, and the organization presents a potential financial benefit or burden to the City. A copy of the City of Kent's Comprehensive Annual Financial Report is available at the City of Kent located at 220 – 4th Avenue South, Kent, WA 98032.

A copy of the City of Kent Special Events Center Public Facilities District's financial statements is available at the City of Kent located at 220 – 4th Avenue South, Kent, WA 98032.

As a component unit of the City, the PFD follows the accounting practices of the City. The following provides a summary of the City's more significant accounting policies. They are presented to assist the reader in interpreting the financial statements and other data in this report.

b. Basic financial statements

The basic financial statements include both entity-wide and fund financial statements. The district uses an alternate presentation allowable under accounting principles generally accepted in the United States that combines the fund statements and entity wide statements (the Governmental Funds Balance Sheet / Statement of Net Position and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance / Statement of Activities).

c. Measurement focus, basis of accounting, and financial statement presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements use the economic resources measurement focus, and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows

The *modified accrual basis* of accounting is used by the PFD for the fund statements. Revenues and other financial resources are recognized when they become susceptible to accrual, i.e., when the related funds become both measurable and available to finance expenditures of the current period. To be considered "available", revenue must be collected during the current period or soon enough thereafter to pay current liabilities. For this purpose, revenue is considered to be available when collected within sixty days after year-end. However, debt service expenditures, and payments for claims and judgments are recorded when due.

Sales taxes and intergovernmental revenues are susceptible for accrual. Investment earnings are accrued when earned. Charges for services, fines and forfeitures, licenses and permits, and other miscellaneous revenues are recorded upon receipt and are not susceptible for accrual. Expenditures are recognized when the related fund liability is incurred. Since the recognition of depreciation does not reduce net financial resources, it is not considered an expenditure. Other exceptions include (1) inventories of materials and prepaid items are reported as expenditures when purchased, (2) interest

on long-term debt is not accrued, but is recorded as an expenditure when due.

The PFD reports the following major governmental funds:

General Fund - The PFD’s General Fund is maintained in the office of the Treasurer separate and distinct from all other funds and accounts for the financial resources of the PFD which are not accounted for in any other fund. Principal sources of revenue are comprised of sales and use tax and interest income. Primary uses are transfers to the PFD’s Debt Service Fund to cover its annual debt payment.

Debt Service Fund – The Debt Service Fund is maintained in the office of the Treasurer separate and distinct from all other funds. This fund is used to account for payment of principal and interest of long-term debt. Transfers from the PFD’s General Fund along with intergovernmental funds revenue provide the financing sources to cover such debt.

d. Budgetary Information

The PFD is not legally required to adopt an annual budget, and therefore does not adopt a budget or provide budgetary statements in this report.

e. Assets, deferred outflows, liabilities, deferred inflows, and net position

(1) Cash and cash equivalents

The PFD has defined cash and cash equivalents as cash on hand, demand deposits, and any short-term investments, including restricted assets, with original maturities of three months or less from the date of purchase. Included in this category are all funds invested in the Local Government Investment Pool (LGIP).

(2) Restricted assets

Since the PFD is established for the sole purpose of pursuing the design, construction, and/or financing of a regional center comprised of a Special Events Center, all assets of the PFD are restricted for the repayment of the outstanding debt of the PFD.

f. Interfund Transfers

Transfers are required where revenue is generated in one fund and expenditures are paid for in other funds. In the case of the PFD, the interfund transfers which occur are transferred to the debt service fund to cover the annual debt service payments.

A summary of transfers by fund type is as follows:

	Transfers In	Transfers Out
Major Funds		
General Fund	\$ 827,785	\$ 388,672
Debt Service Fund	388,671	827,785
Total	\$ 1,216,456	\$ 1,216,456

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Included in the Balance Sheet/Statement of Net Position is the reconciliation between *fund balance – total governmental funds and net position – governmental activities* as reported in compliance with GASB Statement No. 34. Those adjusting items can be found in the “Adjustment” column of the Governmental Funds Balance Sheet/Statement of Net Position. Details relating to those adjustments are shown below.

Fund Balance – Total Governmental Funds	\$ 290,212
Accrue interest on long-term debt	(20,502)
Unamortized prepaid bond insurance on long-term debt	39,710
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds:	
Revenue bonds	(4,430,000)
Note payable-Debt Subsidy	(25,121,554)
Note payable-Debt Refinancing	(48,780,000)
Net Position – ending of Governmental Activities	\$ (78,022,134)

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Included in the governmental fund statement of revenues, expenditures, and changes in fund balances/statement of activities is the reconciliation between *net changes in fund balances – total governmental funds and changes in net position of governmental activities* in compliance with GASB Statement No. 34. Those adjusting items can be found in the “Adjustment” column of the Governmental Fund Revenues Expenditures and Changes in Fund Balances/Statement of Activities. Details relating to those adjustments are shown below.

Net change in Fund Balance – Total Governmental Funds	\$ 6,996
Issuance of Note Payable	(3,069,514)
Other Services and Charges	325,000
Special item-debt forgiveness	4,045,000
Debt principal payments	980,000
Accrued interest on long-term liabilities	113,481
Current year amortization of prepaid bond insurance	(761,093)
Current year amortization of bond premiums	870,869
Change in Net Position of Governmental Activities	\$ 2,510,739

3. DEPOSITS AND INVESTMENTS

The deposits and investment practices of the PFD are accounted for with a modified pooled cash arrangement. According to the investment policy presented in the Kent City Code Chapter 3.02, allowable investments consist of the State Treasurer’s Investment Pool, banker’s acceptances, certificates of

deposit, U.S. government securities, U.S. governmental agency securities, and bonds of the State of Washington or any local government in the State of Washington.

DEPOSITS

The PFD's deposits are entirely covered by federal depository insurance (FDIC) up to \$100,000 and by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC) for amounts over \$100,000 as per State Law (RCW 39.58).

INVESTMENTS

Investments in the State Treasurer's Local Government Investment Pool (LGIP) are valued at amortized cost, which approximates fair value. The LGIP portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the Governmental Accounting Standards Board in Statement No. 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized costs. Each month, earnings from the LGIP are deposited to the City's bank account. The State Investment Pool was created by State statute, and is governed by the State Finance Committee and administered by the State Treasurer.

Reconciliation of cash, cash equivalents, deposits and investments to Statement of Net Position:

Special Events Center PFD	
Cash on hand and in bank	\$ 126,210
Total Cash and investments	\$ 126,210

The PFD follows the City of Kent's investment policy.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits, to the extent possible, the average life of the portfolio not to exceed five years. As of December 31, 2016, the weighted average of maturity for the portfolio was 614 days. Participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. As of December 31, 2016, the LGIP had a weighted average maturity of 30 days.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statute, as well as City policy, requires at the time of purchase that an investment carry a rating of one of the three highest credit ratings of a nationally recognized rating agency. As of December 31, 2016, the ratings for all fixed rate non-callable and callable agency securities were AAA. The credit risk of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand accounts and certificates of deposit.

Concentration of Credit Risk: According to the City's investment policy, with the exception of US Treasuries and the LGIP, no more than 25% of the City's total investment portfolio will be invested in securities offered by a single issuer. In accordance with GASB Statement No. 40, the City will report any investment in any one issuer that is 5% or more of the total City portfolio. As of December 31, 2016, the City did not have any investments meeting that criterion.

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counter party to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City's investment policy requires that all security transactions entered into by the City are conducted on delivery-versus-payment (DVP) and

that securities are to be held in safekeeping at the trust department of the City's primary bank. The custodian provides the City with monthly market values along with safekeeping receipts. All bank deposits are covered 100% by federal depository insurance and pledged collateral on deposit with the Washington State Public Deposit Protection Commission (WSPDPC). Per GASB Statement No. 40 guidelines, the LGIP balances are not subject to custodial credit risk.

1. Fair value hierarchy:

The City categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Securities classified as Level 1 in the fair value hierarchy are valued using prices quoted in active markets for identical securities; Level 2 securities are valued using observable inputs; Level 3 securities are valued using unobservable inputs. The City has the following recurring fair value measurements as of December 31, 2016:

- Certificates of Deposit are valued using quoted prices in active markets (Level 1)
- All U.S Treasury securities are valued using other observable inputs (Level 2)
- All agency coupon securities are valued using other observable inputs (Level 2)

4. RECEIVABLES

The PFD uses the modified accrual basis of accounting. In adopting this basis of accounting, the PFD recognizes revenue by recording various receivables and accrued revenue in its financial statements. The revenue recognition criteria by source is as follows:

a. **TAXES RECEIVABLE**

Sales and use taxes are collected by the state and remitted to the PFD on the last day of each month. Sales tax revenue is accrued at year end per GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange transactions." As of December 31, 2016, receivables totaled \$164,002.

5. LONG-TERM INDEBTEDNESS

Bonded Debt

In February 2008, the Public Facilities District (PFD) issued Special Events Center Sales Tax Bonds of \$53,150,000 and Special Events Center Revenue Bonds (Taxable), of \$10,130,000 to finance a portion of the costs of developing the Events Center, capitalizing interest on the Bonds, and paying costs of issuance for the Bonds.

On June 15, 2016, the City of Kent issued \$49,105,000 in general obligation bonds (2016 LTGO Refinancing Bonds, Series B) for the purpose of refunding \$53,150,000 of Public Facilities District Sales Tax Bonds. Although the bonds are now a formal debt of the City of Kent, the City and the PFD have entered into an Interlocal Financing Agreement whereby the City agrees to lend the District the proceeds of the 2016 Refunding bonds, and the District hereby borrows said sum from the City for the purpose of refunding the PFD's 2008 Sales Tax Bonds. The PFD has recorded a note payable (District Bond) to the City for the amount of the bond proceeds. The District agrees, in satisfaction of the District Bond, to remit all sales tax revenue and other Special Events Center revenues which are received by and available to the District to the City for the purpose of enabling the City to pay the principal of and interest on the 2016 Refunding Bonds, Series B on their scheduled maturity dates or earlier mandatory installment redemption dates.

Notes to the Financial Statements
December 31, 2016

Special Events Center Public Facilities District

If at any time the sales tax revenue and other Special Events Center revenues are insufficient to provide for the payment of principal of and interest on the 2016 Refunding Bonds, the City shall provide for that deficiency from other available City revenues (city advance), and the amount of the city advance shall be deemed an additional loan by the City to the District. The District shall repay any city advances from future available sales tax revenue and other Special Events Center revenues. The outstanding principal amount of any city advance shall bear interest at a rate set by the City's Finance Director on the date a loan is made, based on the then-current yield of the City's pooled investments.

As of December 31, 2016, the PFD had total net bonded debt outstanding of \$4,430,000, payable from PFD revenue remaining, if any, after the PFD transfers sufficient revenues to the City to pay the 2016 General Obligation Bonds. The debt is further secured by a pledge of PFD Revenues received from the City under the terms of the Contingent Loan and Support Agreement. Under the Contingent Loan and Support Agreement, the City has irrevocably pledged its full faith, credit and resources for the making of City Contingent Loan Payments to the PFD as required in order for the PFD to meet their debt service requirements on the bonds, if and to the extent that Sales Tax Revenue and/or Special Events Center revenues are not sufficient for that purpose. During 2016, the City advanced to the PFD, \$3,069,514, for a total to date of \$25,121,554, including \$374,366 in accrued interest from 2009 through 2016.

The following is a summary of long-term bonded debt transactions of the Special Events Center Public Facilities District for the year ended December 31, 2016:

	Outstanding Debt 1/1/16	Debt Retired, Extinguished & Amortized	Outstanding Debt 12/31/16
Sales Tax Bonds	\$ 53,150,000	\$ (53,150,000)	\$ -
Plus: Unamortized Premium	870,869	(870,869)	-
Revenue Bonds	5,410,000	(980,000)	4,430,000
Total Long-term Debt Payable	\$ 59,430,869	\$ (55,000,869)	\$ 4,430,000

The following is a summary of bonded debt issuance and redemption information as of December 31, 2016:

	Issuance Date	Maturity Date	Interest Rate	Original Amount	Redemption to Date	Outstanding 12/31/16	Due Within One Year
Sales Tax Bonds	2008	2037	4-5.25%	\$ 53,150,000	\$(53,150,000)	-	-
Plus: Unamortized Premium				870,869	(870,869)	-	
Revenue Bonds	2008	2020	3.16-5.75%	10,130,000	(5,700,000)	4,430,000	1,100,000
Total Bonded Debt				\$ 64,150,869	\$(59,720,869)	4,430,000	\$ 1,100,000

The Special Events Center Public Facilities District's annual debt service requirements to maturity for their revenue bonds are as follows:

Special Events Center Public Facilities District			
Year	Principal	Interest	Total
2017	1,100,000	245,977	1,345,977
2018	1,250,000	187,083	1,437,083
2019	1,400,000	118,283	1,518,283
2020	680,000	39,127	719,127
Total	\$ 4,430,000	\$ 590,470	\$ 5,020,470

Advance Refundings

As of December 31, 2016 the following bonds have been defeased by placing funds with an escrow agent in an irrevocable trust, but are not yet callable:

2008 Public Facilities District Sales Tax Bonds	53,150,000
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Notes Payable

The City of Kent (City) and the Kent Special Events Center Public Facilities District (District) entered into a contingent loan and support agreement (the agreement) effective February 20, 2008. The contingent loan agreement remains in effect as long as the 2008 bonded debt of the District, or the City's 2016 LTGO Refinancing Bonds, Series B bonds are outstanding (2037). Under the agreement, in the event that the District is unable to timely provide for the payment of principal or interest on any bonds, the City shall provide the District the amount necessary to make such timely payment. The City's obligation under the agreement is absolute and unconditional. The full faith, credit and resources of the City are pledged irrevocably for the payments of any District shortfalls on the debt payments. The City paid the District \$3,069,514 under the agreement in 2016. Cumulatively, the City has paid the District \$24,747,188 under the agreement. The agreement terms these payments as loans between the City and the District, payable by the District as District revenues become available for that purpose as defined with Section 4 of the agreement. Additionally, \$374,366 interest has been accrued on the note for a total of \$25,121,554 due to the City. To date, no repayments have been made on these loans and it is deemed unlikely that future District revenues will be available for this purposes. Therefore, no schedule has been set for the repayment of these loans and the entire balance is classified as long-term on the District's Statement of Net Position.

As noted in the bonded debt discussion above, in 2016, the City loaned the PFD the proceeds of the City's 2016 LTOG Refinancing Bonds, Series B for the PFD to defease the 2008 Sales Tax Bonds and the PFD created a notes payable (District Bond) for the amount of the loan (\$49,105,000). This loan (bond) reduces as payments are made on the 2016 LTGO Refinancing Bonds, Series B. In 2016, a payment of \$325,000 was made leaving a balance of \$48,780,000 outstanding at December 31.

Arbitrage Compliance

All arbitrage compliance regulations as per Section 148(f) of the Internal Revenue Service regulations, as amended, of the Internal Revenue Code for the PFD's tax-exempt bonds are current.

6. FUND BALANCE/NET POSITION**Fund Balance**

Fund balance presented in the governmental fund financial statements represent the difference between assets and liabilities reported within the governmental fund. Fund balance is classified into the following categories:

Nonspendable – items that cannot be spent due to form; inventories, prepaid amounts, long-term loan receivables, or amounts that must be maintained intact legally.

Restricted – amounts constrained for specific purposes imposed by external parties. The PFD has \$290,211 restricted for debt service as of December 31, 2016.

Committed – amounts that may only be used for specific purposes pursuant to constraints imposed by formal action (resolution) of the PFD Board.

Assigned – all amounts remaining in governmental funds, other than the general fund, not classified as nonspendable, restricted or committed. Amounts reported as assigned also include year-end encumbrances that have received approval from the city council and re-appropriated in the following year's carry forward budget.

Unassigned – any remaining fund balance in the general fund not classified as nonspendable, restricted, committed or assigned.

The PFD considers restricted amounts to have been spent first when expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available. When expenditures of unrestricted fund balance are incurred, the PFD considers committed amounts spent first, then assigned amounts and lastly, unassigned amounts.

Net Position

Although the PFD's governmental funds reflected a positive fund balance of \$290,212 at December 31, 2016 (restricted for debt service), when adjusted to the district-wide financials presented in accordance with GASB Statement No. 34, the total liabilities exceed the total assets of the PFD resulting in a deficit net position. Per the interlocal agreement with the City of Kent, the PFD was created to finance the construction of the event center and make the debt service payments on the bonds sold to finance that construction. The capital assets, once constructed by the PFD, were turned over to the City, but the PFD retains the long-term debt. Because of this, the PFD's financials will reflect a deficit net position through the life of the bonds, including the 2016 refinancing (December 2037).