

Washington State Auditor's Office
Financial Statements Audit Report

**Snohomish County Public Facilities
District**

Audit Period
January 1, 2004 through December 31, 2004

Report No. 69561

Issue Date
October 14, 2005



Washington _____
State Auditor
_____ Brian Sonntag



**Washington State Auditor
Brian Sonntag**

October 14, 2005

Board of Directors
Snohomish County Public Facilities District
Everett, Washington

Report on Financial Statements

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

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

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Snohomish County Public Facilities District January 1, 2004 through December 31, 2004

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Independent Auditor's Report on Compliance and Internal Control over Financial Reporting in Accordance with Government Auditing Standards

Snohomish County Public Facilities District January 1, 2004 through December 31, 2004

Board of Directors
Snohomish County Public Facilities District
Everett, Washington

We have audited the basic financial statements of the Snohomish County Public Facilities District, Snohomish County, Washington, as of and for the year ended December 31, 2004, and have issued our report thereon dated June 30, 2005.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts, that would be material in relation to the financial statements, being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the Board of Directors. 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, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

June 30, 2005

Independent Auditor's Report on Financial Statements

Snohomish County Public Facilities District January 1, 2004 through December 31, 2004

Board of Directors
Snohomish County Public Facilities District
Everett, Washington

We have audited the accompanying financial statements of the governmental activities and major fund of the Snohomish County Public Facilities District, Snohomish County, Washington, as of and for the year ended December 31, 2004, as listed on page 5. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Snohomish County Public Facilities District, as of December 31, 2004, and the changes in financial position thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 6 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of

management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

June 30, 2005

Financial Section

Snohomish County Public Facilities District January 1, 2004 through December 31, 2004

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2004

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2004

Statement of Activities – 2004

Balance Sheet – Governmental Funds – 2004

Statement of Revenues, Expenditures and Changes in Fund Balance – Government Funds –
2004

Notes to the Financial Statements – 2004

Snohomish County Public Facilities District
Management's Discussion and Analysis
As Of And For the Year Ended
December 31, 2004

The Management Discussion and Analysis (MD&A) provides an objective and easily readable analysis of the Snohomish County Public Facilities District's financial activities (from herein referred to as the PFD). The MD&A provides summary financial information about the PFD and should be read in conjunction with the PFD financial statements and the notes to the financial statements which follow. Our discussion and analysis of the PFD's financial performance provides an overview of the PFD financial activities for the year ended December 31, 2004.

Discussion of the Basic Financial Statements

The PFD basic financial statements are comprised of two sets of financial statements and the notes to the financial statements. The statements presented are: 1) the government-wide statements and 2) the fund financial statements. The government-wide statements present an overall picture of the PFD's financial position and results of operations. They present a long-term view of the PFD finances. The fund financial statements provide information about how the funds' services were financed in the short term as well as what remains for future spending. The fund statements also report the PFD operations in more detail than the government-wide statements. The notes to the financial statements provide additional information concerning the PFD that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government Wide-Financial Statements

Basis of accounting refers to the time when revenues and expenses are recognized in the accounts and reported in the financial statements. The *Government-Wide Statement of Net Assets* and the *Government-Wide Statement of Activities* present financial information on a full accrual basis. Revenues are recognized only when earned and expenses are recognized when expenditures are incurred. The Statement of Activities presents information on all revenues and expenditures of the PFD and the change in net assets. Expenses are reported first, followed by related revenues, which is a required reporting format that allows readers to discern net cost. Most funding is provided via tax revenues; therefore, the PFD's revenues and expenses are reported as governmental activities. Net assets at year-end are restricted for administrative operating costs as well as non-operating payments to the PFD projects.

Fund Financial Statements

The fund financial statements presented are the *Governmental Fund Balance Sheet* and the *Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance*. The fund financial statements are prepared using the modified accrual accounting basis which has a current financial resources measurement focus. Therefore the fund focus is: (1) how cash and other financial assets can be readily converted to available resources, and (2) the balances at year-end that are available for spending. For purposes of this report, the modified accrual basis differs from full accrual in the following ways:

1. Revenues are recognized only when they become both measurable and available to finance expenditures of the current period. Revenues that are measurable but not available are recorded as receivable and offset by deferred revenues. Interest and investment earnings are recorded when earned only if recorded within 60 days.
2. Purchases of capital assets are considered expenditures.
3. Debt proceeds received in the current year is considered a current resource.

Snohomish County Public Facilities District
Management's Discussion and Analysis
As Of And For the Year Ended
December 31, 2004

Reconciliation of the Fund Financial Statements to the Entity Wide Statements

Governmental accounting standards under GASB 34 require a reconciliation of the fund statements (modified accrual) to the entity-wide statements (full accrual). Reconciling items are due to applying the modified accrual or the full accrual bases of accounting. Since all PFD revenue was received by December 31, 2004, no accrual was deemed necessary. No accrual for depreciation was required since all capital assets and associated depreciation are recorded by the projects and there are no long term debt obligations incurred. Therefore, no Reconciling Statements are required.

Condensed Comparative Financial Data

The *Government-Wide Statement of Net Assets* presents the financial position of the PFD. Asset and liability information is presented in that statement with the difference reported as net assets. All PFD net assets are reported as restricted. The following table summarizes the changes in net assets between the years ended December 31, 2004 and 2003.

Net Assets

	2004	\$ Change Increase (decrease)	2003
Total Assets	\$ 156,820	\$ (352,026)	\$ 508,846
Total Liabilities	\$ 237	\$ (508,609)	\$ 508,846
Total Net Assets	\$ 156,583	\$ 156,583	\$ 0

Change in Net Assets

While net assets provide information about the year-end financial position of the PFD, the difference between total revenues and total expenditures, as represented in the following table of Changes in Net Assets, reflects the annual changes in position.

	2004	Increase (decrease)	2003
Total Revenue	\$ 1,439,279	\$ 98,119	\$ 1,341,160
Total Expenses	\$ (1,282,696)	\$ (850,449)	\$ (2,133,145)
Change in Net Assets	\$ 156,583	\$ 948,568	\$ (791,985)
Net Assets Beginning	\$ 0	\$ (791,985)	\$ 791,985
Net Assets Ending	\$ 156,583	\$ 156,583	\$ 0

Snohomish County Public Facilities District
Management's Discussion and Analysis
As Of And For the Year Ended
December 31, 2004

Overall Analysis of Change in Financial Position

The following table provides detail fund information about the District's change in financial position as of December 31, 2004 and 2003.

**Results of Operations and Change in Financial Position for the Years Ended
December 31, 2004 and 2003**

	\$ Change		
Revenues:	2004	Increase (decrease)	2003
Beginning Fund Balance	\$ 0	\$ (791,985)	\$ 791,985
Revenues:			
Sales Tax Rebate	\$ 1,437,165	\$ 103,530	\$ 1,333,635
Interest	2,114	(5,411)	7,525
Total Revenues	\$ 1,439,279	\$ 98,119	\$ 1,341,160
Expenditures:			
Administration	\$ 49,962	\$ (2,503)	\$ 52,465
Everett PFD	529,640	0	529,640
County Projects -Garage	64,335	4,393	59,942
Lynnwood Center	388,458	(322,814)	711,272
Edmonds Center	148,715	(124,511)	273,226
NFIC	101,586	(405,014)	506,600
Total Expenditures	\$ 1,282,696	\$ (850,449)	\$ 2,133,145
Change in Fund Balance	\$ 156,583	\$ 948,568	\$ (791,985)
Ending Fund Balance	\$ 156,583	\$ 156,583	\$ 0

The change in fund balance is one way to measure the financial position of the PFD. Increases in fund balance may indicate an improved financial position while a decrease in fund balance may point to either a deteriorating financial position or decrease of assets.

Between fiscal years ended December 31, 2004 and 2003, fund balance increased in the amount of \$156,583. The increase was due to the collection of tax rebate receipts held in trust pending project viability approval.

Capital Asset and Long-Term Debt Activity

There are no capital assets recorded in the PFD Statement of Net Assets. All capital acquisitions are purchased and recorded in the financial statements of the projects. Concurrently, the PFD has no bonded or long term debt commitments.

Contacting the Public Facilities District

If you have questions about this report or need additional financial information, contact the Finance Department at the following address: Snohomish County, 3000 Rockefeller, M/S, 610, Everett, WA 98201 or by calling 425-388-3475.

**Snohomish County Public Facilities District
Government-Wide Statement of Net Assets
As of December 31, 2004**

ASSETS

Current Assets

Restricted Cash and Investments	\$	156,820
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Total Current Assets	<u>\$</u>	<u>156,820</u>
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Total Assets	<u>\$</u>	<u>156,820</u>
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LIABILITIES

Current Liabilities

Accounts Payable	\$	237
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Total Current Liabilities	<u>\$</u>	<u>237</u>
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Total Liabilities	<u>\$</u>	<u>237</u>
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NET ASSETS

Restricted Net Assets	\$	156,583
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Total Net Assets	<u>\$</u>	<u>156,583</u>
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**Snohomish County Public Facilities District
Government-Wide Statement of Activities
For the Year Ended December 31, 2004**

Net Revenue (Expense) and Changes in Net Assets		
	Expenses	Total
Governmental Activities		
Administration	\$ 49,962	\$ 49,962
Payments to Projects	1,232,734	1,232,734
Total Expenses	\$ 1,282,696	\$ 1,282,696
General Revenue		
Sales and Use Tax Rebate		\$ 1,437,165
Interest and Investment Earnings		2,114
Total General Revenue		\$ 1,439,279
Change in Net Assets		\$ 156,583
Beginning Net Assets		\$ -
Ending Net Assets		\$ 156,583

**Snohomish County Public Facilities District
Governmental Fund Balance Sheet
As of December 31, 2004**

	GENERAL FUND
ASSETS	
Current Assets	
Restricted Cash and Investments	\$ 156,820
Total Current Assets	\$ 156,820
Total Assets	\$ 156,820
 LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 237
Total Current Liabilities	\$ 237
Total Liabilities	\$ 237
 FUND BALANCES	
Reserved Fund Balance	\$ 156,583
Total Fund Balance	\$ 156,583
Total Liabilities and Fund Balances	\$ 156,820

Snohomish County Public Facilities District
Governmental Fund Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended December 31, 2004

DETAIL REVENUES	GENERAL FUND
Sales and Use Tax Rebate	\$ 1,437,165
Interest and Investment Earnings	2,114
Total Detail Revenues	<u><u>\$ 1,439,279</u></u>
DETAIL EXPENDITURES	
Administration	\$ 49,962
Everett PFD	529,640
County Projects-Garage	64,335
Lynnwood	388,458
Edmonds	148,715
NFIC	101,586
Total Detail Expenditures	<u><u>\$ 1,282,696</u></u>
Net Change in Fund Equity	<u><u>\$ 156,583</u></u>
Fund Balance Beginning	\$ -
Fund Balance Ending	<u><u>\$ 156,583</u></u>

Snohomish County Public Facilities District
Notes to the Financial Statements
For the Year Ended
December 31, 2004

General

Snohomish County Council passed Ordinance 01-41 on June 28, 2001, creating a Public Facilities District pursuant to RCW 36.100, known as the Snohomish County Public Facilities District (PFD). Under the laws of the State of Washington, once created, the District was authorized to acquire, construct, own, remodel, maintain, equip, re-equip, repair, and finance and operate one or more regional centers within the meaning of such terms contained in RCW 82.14.390. Regional center means a convention, conference, or special events center or any combination of facilities and related parking facilities, serving a regional population, constructed, improved or rehabilitated, after the effective date of Chapter 165, Laws of 1999, at a cost of at least ten million dollars, including debt service and subject to certain restrictions. A public facilities district may impose a .033 percent sales and use tax that is deducted from the amount of tax otherwise required to be collected and paid over to the Washington State Department of Revenue under Chapter 82.08 or 82.12 of the RCW, and the Board of Directors determines it appropriate to establish the sales and use tax at this time.

The Snohomish County Public Facilities District Board has, as of the effective date, subject to meeting specified conditions and/or working out acceptable inter-local agreements, allocated funding to four projects: (1) the City of Everett Public Facilities District's Arena and Parking Garage, (2) the South Snohomish County Public Facilities District's Regional Convention Center in Lynnwood, (3) the City of Edmond's Public Facilities District's remodel of the Puget Sound Christian College for use as a regional performing arts and convention center, and (4) the National Flight Interpretative Center project in conjunction with the Snohomish County Paine Field Airport. The Boeing tour operation will be co-located at the Interpretive Center's site.

Note 1 - Significant Accounting Policies

The Snohomish County Public Facilities District's (from herein referred to as the PFD) financial statements are prepared in accordance with generally accepted accounting principles (GAAP).

Reporting Entity

As required by GAAP, the financial statements of the reporting entity include those of the Snohomish County Public Facilities District. The PFD was formed as a component unit of Snohomish County.

The PFD reports on both the economic resources measurement focus and the current financial resources measurement focus. The *Statement of Nets Assets* and the *Statement of Activities* are reported on the accrual basis. Revenues are recorded when earned, and expenses are recorded when a measurable liability has been incurred. The fund financial statements are reported on the modified accrual basis.

Basis of Accounting

Government-Wide Financial Statements

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The *Statement of Net Assets* and the *Statement of Activities* present financial information on a full accrual basis. Revenues are recognized only when earned and expenses are recognized when expenses are incurred. The *Statement of Activities* at year-end includes administrative operating expenses as well as non-operating payments to the PFD projects.

Snohomish County Public Facilities District
Notes to the Financial Statements
For the Year Ended
December 31, 2004

Fund Financial Statements

The fund financial statements presented are the *Fund Balance Sheet* and the *Statement of Revenues, Expenditures and Changes in Fund Balance*. The fund financial statements are prepared using the modified accrual accounting basis with a current financial resources measurement focus. For purposes of this report, the modified accrual basis differs from full accrual in the following ways:

1. Revenues are recognized only when they become both measurable and available to finance expenditures of the current period. Revenues that are measurable but not available are recorded as receivable and offset by deferred revenues. Interest and investment earnings are recorded when earned only if recorded within 60 days.
2. Purchases of capital assets are considered expenditures.
3. Debt proceeds received in the current year is considered a current resource.

The fund financial statements are presented as one major fund. A fund is considered major if it is the primary operating fund of the entity.

Reconciliation of the Fund Financial Statements to the Entity-Wide Statements

Government accounting standards, under GASB 34, require a reconciliation of the fund statements (modified accrual) to the entity-wide statements (full accrual). Reconciling items occurring are due to the change in basis of accounting. The PFD had no reconciling items for 2004; therefore, no reconciling statements are presented.

Duties of Snohomish County Treasurer

As required by statute, Snohomish County serves as the District's Treasurer. Thereby, the Snohomish County Treasurer issues PFD warrants, and prepares cash receipt and disbursement reports of the PFD financial activity.

Cash and Investments

The Snohomish County Treasurer administers cash and investments of the PFD pursuant to the requirements of Washington State Law in Chapter 39.58 RCW. Allowable investment vehicles include securities issued by the federal government, certificates of deposit and municipal bonds. The PFD funds are invested with the Washington State Treasurer's Local Government Investment Pool. This pool is FDIC-insured and also subject to the collateralization requirements of the Public Deposit Protection Commission.

The County's bank deposits are insured by the Federal Deposit Insurance Corporation (FDIC) to a maximum of \$100,000 per bank. Deposited funds are also subject to additional protection by the Washington State Public Deposit Protection Commission. The Commission requires banking institutions, qualified as public depositories, to pledge collateral in the amount of at least 10% of their total public deposits. Losses of public funds at a single banking institution may be assessed proportionally against the collateral of all qualified public depositories.

Governmental Accounting Standards Board (GASB) Statement No. 3 requires disclosure of investment balances categorized by level of credit risk. Category 1 investments are those that are insured, registered or held by the County or by its agent in the name of the County. Category 2 investments are those that are uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the County's name. Category 3 investments are uninsured and uncollateralized,

Snohomish County Public Facilities District
Notes to the Financial Statements
For the Year Ended
December 31, 2004

or collateralized with securities not in the County's name, or collateralized with no written or approved collateral agreement. All County investments are Category 1 investments. Investments are reported at cost, which is materially equivalent to fair value. As of December 31, 2004 the PFD held no related party investments.

PFD Cash and Investments As of December 31, 2004	
Cash – Bank of America	\$ 156,820
Investments –	
Local Government Investment Pool	<u>0</u>
Total Cash and Investments held by Snohomish County Treasurer	\$ 156,820

Receivables

The PFD collects sales and use tax rebates from the State of Washington Department of Revenue. Any amount representing receivables represents resources not yet received for the current year. All rebated amounts have been collected for the year ended 2004.

Liabilities

The PFD shows accrued liabilities in the amount of \$237 at the end of fiscal year 2004. These liabilities represent amounts payable for administrative operating expenses and payables to projects at year end.

Capital Asset and Long-Term Debt Activity

No capital asset purchases were reported in the PFD statement of net assets. Under RCW 36.100.010 all tax rebate monies collected by the District are held in trust and disbursed only to viable projects as authorized by the Board of Directors. Capital assets are reported in the financial statements of the projects. Concurrently, the PFD has no bonded or long or short term debt commitments.

Net Assets/Fund Equity Classifications

The *Statement of Net Assets* presents equity as net assets. All net assets are restricted assets for the 2004 year presented. Restricted net assets consist of net assets with constraints placed on use, either by: (1) external groups such as creditors, grantors, and contributors; or (2) legal restrictions resulting from constitutional provisions or enabling legislation. All rebated sales and use tax is governed by constitutional provisions of State Law and County Code as stated above. Unrestricted net assets include all other net assets that do not meet the definition of "restricted" or "invested in capital assets net of related debt."

Effective January 1, 2002, the County implemented GASB Statement No. 33, Accounting and Financial Reporting for Non-exchange Transactions. That statement defines non-exchange transactions as transactions involving financial or capital resources when no goods or services are received or given. The statement addresses the timing of recognition of revenue resulting from these transactions. In accordance with the statement, the PFD has recognized non-exchange transaction sales and use tax rebates as non-operating revenue.

Snohomish County Public Facilities District
Notes to the Financial Statements
For the Year Ended
December 31, 2004

Note 2 – Component Unit

The Snohomish County Public Facilities District is a component unit of Snohomish County. The PFD is a legally separate, tax exempt organization. Pursuant to RCW 36.100, the PFD was created as a municipal corporation and is an independent taxing authority codified in Chapter 2.19 of the Snohomish County Code. The District was created for the sole purpose of pursuing joint ownership, financing or operational relationships, with any other public facility district or nonprofit entity, with Board approval, within the County.

In addition, the entity meets these tests which establish the PFD's accountability to the County:

1. The County Council shall select and appoint all board members.
2. The Council may, by motion, remove board member(s) from office.
3. In addition, the PFD may not enter into an inter-local agreement to expend revenues in excess of \$50,000 unless the County is party to the agreement.
4. The PFD must seek County Council's approval to impose tax other than that set forth by the County PFD Act or pursuant to RCW 98.14.390.

Note 3 – Risk Management

The PFD maintains commercial insurance coverage for public officials and employees. The insurance pays on behalf of the PFD any loss for any civil claims made for wrongful acts against them. The policy allows payment of \$3,000,000 per wrongful act, to a total aggregate loss of \$3,000,000. The policy covers all persons who are, or shall be, lawfully elected or appointed officials, members or employees of the PFD responsible to the PFD or its Board.

Note 4 – Related Parties

The PFD entered into an inter-local agreement with Snohomish County to provide administrative, financial and information system services. The PFD compensates Snohomish County \$2,000 per month or a pro-rata portion thereof. Each year the PFD Board approves a new inter-local agreement with Snohomish County.