Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Bellevue Convention Center Authority (Meydenbauer Center)

King County

For the period January 1, 2015 through December 31, 2016

Published June 29, 2017

Report No. 1019427

Office of the Washington State Auditor
Pat McCarthy

June 29, 2017

Board of Directors
Meydenbauer Center
Bellevue, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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Meydenbauer Center
King County
January 1, 2015 through December 31, 2016

Board of Directors
Meydenbauer Center
Bellevue, 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 Meydenbauer Center, King County, Washington, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 22, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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 Authority's financial statements are free from material misstatement, we performed tests of the Authority'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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

State Auditor

Olympia, WA

June 22, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Meydenbauer Center
King County
January 1, 2015 through December 31, 2016

Board of Directors
Meydenbauer Center
Bellevue, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Meydenbauer Center, King County, Washington, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Meydenbauer Center, as of December 31, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2017 on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

June 22, 2017

FINANCIAL SECTION

Meydenbauer Center
King County
January 1, 2015 through December 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

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

This narrative provides an overview and analysis of the Bellevue Convention Center Authority's financial activities for the fiscal year ended December 31, 2016. The purpose is to highlight significant financial issues, major financial activities, and resulting changes in financial position, as well as economic factors affecting the Authority. Readers are encouraged to consider the information presented here in conjunction with the financial statements and accompanying notes following the narrative.

I. OVERVIEW OF THE AUTHORITY

The City of Bellevue (the City) established the Authority in 1989 to construct and operate a convention center and theatre with the purpose of providing economic stimulation to the community. The Authority is governed by a Board of Directors appointed by the City Manager with the concurrence of the City Council. Although the Authority is legally separate from the City, the City reports the Authority as a discrete component unit in their Comprehensive Annual Financial Report.

The Authority derives its revenue from the City's lease and operation payments and from user fees paid by customers. The City's monthly lease and operation payments equal the Transient Occupancy Tax (TOT) receipts collected by the City.

The major expense categories for the Authority include debt service, operations, and capital. The Authority also maintains a series of reserves to protect against fluctuations in the revenue streams.

II. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The financial statements include management's discussion and analysis and basic financial statements with accompanying notes.

Basic Financial Statements - The financial statements consist of the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, the Statement of Cash Flows, and Notes to the Financial Statements. Below are descriptions of the type of information presented to assist the reader in interpreting the statements.

The Statement of Net Position presents information on the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position equals assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources. This statement is similar to a balance sheet in the private sector. Over time, increases or decreases in net position may serve as one indicator on whether an entity's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position illustrates the manner net position changed during the given year. The summation of annual revenues, expenses, debt service, and transfers equals the *Change in Net Position.* The *Change in Net Position* may serve as an indicator of the Authority's financial performance during the year. Adding this number to the *Beginning Net Position* balance equals the *Total Net Position* reflected on the Statement of Net Position.

The Statement of Cash Flows displays the increases and decreases of the Authority's cash by activity. The total cash reflected on the bottom of the statement includes cash on hand, cash reserved by the Authority, and cash restricted by external conditions, such as bond covenants or contracts. The Net Change in the Statement of Cash Flows does not match the Change in Net Position in the Statement of Revenues, Expenses, and Changes in Net Position because the latter statement is calculated on an accrual basis rather than cash basis.

The **Notes to the Financial Statements** provide additional disclosures that are essential to gain a full understanding of what is presented in the financial statements, such as basis for accounting, investments, leases, and long-term debt.

III. FINANCIAL STATEMENT ANALYSIS

A. Statement of Net Position

The Statement of Net Position compares the financial position of the current year with the previous two years' financial positions. The statement is presented on an accrual basis. The Authority's Statement of Net Position is summarized below in Table A followed by a narrative discussing the major variances.

Summary Table A: Statement of Net Position

	2016	2015	Difference	2014
ASSETS				
Current Assets	$11,516,223	$11,348,285	$167,938	$11,039,832
Restricted Assets	5,969,310	5,912,046	57,264	4,648,976
Capital Assets (Net of depreciation)	37,700,324	36,566,406	1,133,918	27,133,579
TOTAL ASSETS	**55,185,857**	**53,826,736**	**1,359,120**	**42,822,387**
LIABILITIES AND FUND EQUITY				
Current Liabilities	8,910,359	8,487,480	422,878	6,116,226
Non-current Liabilities	47,023,598	50,005,166	(2,981,569)	52,332,997
TOTAL LIABILITIES	**55,933,956**	**58,492,647**	**(2,558,691)**	**58,449,223**
DEFERRED INFLOWS OF RESOURCES				
Deferred gain on refunding	4,877	7,931	(3,054)	11,448
TOTAL DEFERRED INFLOWS	**4,877**	**7,931**	**(3,054)**	**11,448**
NET POSITION				
Net Investment in Capital Assets	27,549,543	25,166,278	2,383,265	14,725,429
Restricted	4,394,573	4,303,336	91,237	3,045,388
Unrestricted	(32,697,092)	(34,143,455)	1,446,363	(33,409,100)
TOTAL NET POSITION	**($752,976)**	**($4,673,842)**	**$3,920,866**	**($15,638,284)**

2016 Compared to 2015

Assets – In 2016, current assets increased overall by $167,938 (1.5%). This was primarily attributed to a $159,774 increase from 2015 in Due from Primary Government which is comprised of TOT revenue due from the City. Smallwares inventory was completely eliminated in 2016 as this balance was transferred to capital assets. The $470,011 decrease in the Smallwares Inventory balance was offset with a $420,320 increase in cash and cash equivalents.

Restricted Assets - The Restricted Assets balance increased by $57,265 which was primarily related to the annual debt service schedule for the Series 1991B and Series 1994 bonds. The annual debt service schedule typically increases due to the use of deferred interest financing for the bonds. As the annual debt service schedule increases, the deposit requirements with the trustee increase as well for the Bond Fund and Lease Purchase Rent Reserve

Capital Assets increased overall by $1.1 million (3.1%) from 2015. This was primarily due to the HVAC and Fire Replacement projects that were substantially completed in 2016. There were also various pieces of equipment such as a new steamer and risers, which were purchased and capitalized in 2016.

Liabilities – Current liabilities increased by $0.4 million (5.0%) which is attributed to the current portion of interest payable related to the bonds. Noncurrent liabilities decreased by approximately $3.0 (6.0%) million which is due to a reduction in Special Obligation Bonds Payable and Accrued Interest on Revenue Bonds of $1.2 million and $1.8 million, respectively.

Deferred Inflows of Resources – The Deferred Inflows of Resources are comprised of a deferred gain on refunding bonds. This balance decreased $3,054 (38.5%) as a result of amortization on the gain.

Total Net Position - As of December 31, 2016, total net position increased $3.9 million (83.9%) from the prior year resulting in a negative balance of $752,976. This increase is due to Net Investment in Capital Assets increasing by $2.4 million (9.5%) as a result of capital purchases and renovation projects completed in 2016. Unrestricted net assets had a negative balance of $32.7 million at the end of 2016, which is an increase of $1.4 million (4.1%) from the prior year. This is primarily attributed to an increase in both operating and non-operating revenue from 2015.

2015 Compared to 2014

Assets - For 2015, Current Assets experienced positive growth in the amount of $308,452 over 2014. Current Assets were strengthened when the Authority collected $728,193 in TOT Operating fund receipts and $260,532 in net receivables over the prior year. The growth in Current Assets was offset with a net operating loss of $727,638, less depreciation and amortization.

The increase in the Restricted Assets balance by $1,263,069 was primarily related to the annual debt service schedule for the Series 1991B and Series 1994 bonds. The annual debt service schedule typically increases due to the use of deferred interest financing for the bonds. As the annual debt service schedule increases, the deposit requirements with the trustee increase as well for the Bond Fund and Lease Purchase Rent Reserve. See Note Nos. 1 and 9 of the Notes to the Financial Statements for further information regarding the Authority's long-term debt and debt service requirements.

The increase in Capital Assets of $9,432,827 includes building improvements, equipment purchases, and construction in progress offset with deductions for depreciation. The growth in Capital Assets was primarily due to $10,430,024 in construction in progress related to Meydenbauer Center's $12,500,000 capital renovation project that took place in 2015.

Liabilities - The increase in Current Liabilities of $2,504,151 was primarily led by a planned $241,788 increase for current bonds payable and a $1,309,921 increase for the current accrued interest related to the bonds. Other increases in Current Liabilities include Retainage payable in the amount of $433,008 from the construction contractor on the capital renovation project, Accounts payable in the amount of $300,264 due to a construction invoice in December, and Deposits payable in the amount of $212,193 due to the increased amount of business activity for 2016.

The decrease in Non-Current Liabilities of $2,460,727 was the result of the net changes (principle paid minus interest accrued) in the Authority's long-term obligations. *Non-Current Liabilities* include $10,145,903 in principal and $39,726,367 of accrued interest due in future years compared to $11,392,196 in principal and $40,940,801 of accrued interest at the end of 2014. Cash flows projected in the annual finance plan are expected to meet all debt obligations as they come due.

Deferred Inflows of Resources - With the implementation of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, one new section, Deferred Inflows of Resources, has been added as a result of the reclassification of deferred gain on refunding bonds from Non-Current Liabilities.

Total Net Position - As of December 31, 2015, Total Net Position reflected a negative balance of $4,673,842. This was a $10,964,442 improvement over the 2014 Total Net Position balance due to the increase in Capital Assets from the construction in progress related to Meydenbauer Center's $12,500,000 capital renovation project that took place in 2015. The negative balance, however, is caused by the accrual of interest on deferred interest bonds. While the interest due in future years continues to accrue as a non-current obligation, the negative Total Net Position balance is anticipated to grow over the foreseeable future. As referenced previously, it is important to note that the Authority's 20-year cash flows are planned to meet all obligations as they come due.

After adjusting for non-current interest accrued in both 2015 and 2014, the overall total improvement in net position for the given year is $10,964,442. This is based on the adjusted total amounts of $35,052,525 for 2015 and $25,302,517 for 2014.

B. Statement of Revenues, Expenses, and Changes in Net Position

The following table is a summary version of the Statement of Revenues, Expenses, and Changes in Net Position and reflects the transactions that occurred to change the Net Position in the given year. It should be noted that the full Statement of Revenues, Expenses, and Changes in Net Position provides more detail than the following table.

Summary Table B: Statement of Revenues, Expenses, & Changes in Net Position

	2016	2015	Difference	2014
REVENUES				
Operating Revenues	$9,836,226	$7,908,327	$1,927,900	$8,657,746
Non-Operating Revenues	9,446,931	8,796,129	650,803	7,483,490
TOTAL REVENUE	**19,283,157**	**16,704,455**	**2,578,702**	**16,141,236**
EXPENSES				
Operating Expenses	9,539,699	8,635,964	903,735	8,874,138
Depreciation/Amortization	1,832,730	1,294,485	538,245	1,297,384
Non-Operating Expenses	3,989,863	4,212,488	(222,625)	4,305,530
TOTAL EXPENSES	**15,362,292**	**14,142,937**	**1,219,355**	**14,477,051**
NET INCOME (LOSS)	**3,920,865**	**2,561,518**	**1,359,347**	**1,664,185**
Capital Contribution	-	8,402,924	(8,402,924)	4,097,076
CHANGE IN NET POSITION	**3,920,865**	**10,964,442**	**(7,043,577)**	**5,761,261**
NET POSITION - BEGINNING	(4,673,842)	(15,638,284)	10,964,442	(21,399,545)
NET POSITION - ENDING	**($752,976)**	**($4,673,842)**	**$3,920,866**	**($15,638,284)**

2016 Compared to 2015

Operating Revenues increased $1.9 million (24.4%) from 2015 due to a fully renovated and functional building for the entire year. Business activity was very strong for the year, which produced record revenues. *Non-operating revenues* also increased $0.7 (7.4%) million as a result of higher TOT revenue which is attributed to a continuation of strong corporate travel.

In 2016, *Operating Expenses* increased $0.9 million (10.5%) which is correlated with the increased number of events booked during the year. Personnel expense and cost of goods sold realized the biggest increases of $0.6 million and $0.2 million, respectively. *Depreciation/Amortization* increased by $0.5 million (41.6%) from 2015 which is a result of several assets being placed into service during the year.

There were no *Capital Contributions* received by the Authority in 2016 resulting in a $7.1 (64.6%) million decrease in the change in net position from 2015. Overall, *Net Position* increased $3.9 million (83%) resulting in a negative ending balance of $752,976 in 2016. The increase from the prior year is a result of realized growth in revenue.

2015 Compared to 2014

Following steady business activity in 2014, *Operating Revenues* for 2015 decreased by $749,420 primarily due to a $12,481,563 capital renovation project, which closed major areas of the facility from June 15th through September 10th.

Non-Operating Revenues consist of TOT receipts and interest earnings. In 2015, *Non-Operating Revenues* finished greater than 2014 by $1,312,639 primarily due to the growth in TOT collections. TOT collections increased by $1,315,880 compared to prior year due to the continuation of strong corporate travel. Interest income decreased by $3,241 compared to prior year due to a lower amount of investment in the Reserve Renovation fund.

Operating Expenses decreased by $238,174 compared to 2014. The decrease was primarily driven from variable expenses due to the decrease in business activity. *Net Income* finished $897,333 better than 2014 with the growth in TOT collections.

$8,402,924 in capital contributions were received by the Authority in 2015 from the City of Bellevue towards a $12,500,000 renovation project. The project was funded by two sources: $8,402,924 from bonds issued by the City of Bellevue and $4,097,076 in land sale proceeds from the old convention center site. $4,097,076 in capital contributions were received in 2014 from the land sale proceeds from the old convention center site.

The *Change in Net Position* for 2015 was an improvement of $10,964,442. The overall negative *Net Position* ending balance was expected. It arises from accruing $4,115,983 in interest on the 1991 and 1994 deferred revenue bonds in *Non-Operating Expenses* (explained above in *Liabilities* and *Total Net Assets* and Note No. 9 in the Notes to the Financial Statements). The Authority's 10-year cash flows are structured to meet these obligations as they come due.

C. Statement of Cash Flows

The Statement of Cash Flows presents the use of cash in the control of the Authority. It should be clarified that the Statement does not include cash held on behalf of the Authority by the trustee. The Statement does include reserves and restricted cash. The investment of cash can be found in Note 4 (Deposits and Investments) in the Financial Notes. The difference between the cash invested directly by the Authority in Note 4 (Deposits and Investments) and the Statement of Cash Flows is primarily the cash in a non-interest bearing checking account.

Summary Table C: Statement of Cash Flows

	2016	2015	2014
Net cash provided by (used in) operating activities	$829,529	($3,889)	($237,854)
Net cash provided by (used in) non-capital financing activities	9,198,026	8,492,250	7,291,882
Net cash provided by (used in) capital & related financing activities	(9,564,270)	(7,343,654)	(2,124,668)
Net cash (used in) provided by investing activities	(35,680)	(1,235,097)	(123,679)
Net increases (decrease) in cash and cash equivalents	427,606	(90,391)	4,805,681
Beginning cash and cash equivalents	10,551,836	10,642,227	5,836,546
Ending cash and cash equivalents	**$10,979,441**	**$10,551,836**	**$10,642,227**

IV. CAPITAL ASSET AND DEBT ADMINISTRATION

A. Capital Assets

The Authority's capital assets consist of the building and the equipment needed to operate Meydenbauer Center. Building, furniture, fixtures, and equipment are recorded at cost. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income. Depreciation is calculated using the straight-line method over the estimated useful life of the capital assets.

Summary Table D: Capital Assets

	2016	2015	Difference	2014
Building	$61,938,060	$49,488,696	$12,449,364	$49,490,971
Equipment	$6,092,895	4,855,102	$1,237,793	4,878,847
Less: accumulated depreciation	(31,025,445)	(29,244,351)	(1,781,094)	(28,273,175)
Construction in Progress	$694,814	11,466,960	(10,772,146)	1,036,936
Total Capital Assets	**$37,700,324**	**$36,566,406**	**$1,133,918**	**$27,133,579**

2016 to 2015

In 2016, several of the assets that were sitting in Construction in Progress were placed into service resulting in the $12.4 million (25.2%) and $1.2 million (25.5%) to the building and equipment categories, respectively.

Highlights of the assets placed into service include the following:

- $7.9 million related to the interior construction and design of the building,
- $2.6 million related to the exterior construction and design of the building,
- $0.2 million for new lobby furniture, and
- $0.5 million for the addition of Smallwares inventory which is comprised of china, silver and glass.

2015 to 2014

During 2015, the Authority invested $301,039 in capital assets, primarily equipment purchases. During the given year, the Authority also disposed of assets with an original value of $327,059, primarily in equipment. During 2015, accumulated depreciation increased by $971,176 from 2014. The change in total capital assets for 2015 was an increase of $9,432,827.

The *Construction in Progress* balance of $11,466,960 represents the 2015 capital projects, which includes a majority of the $12,500,000 renovation project, that remain in progress and the capitalization of expenditures for the preliminary architectural work that was performed related to the pursuit of expanding Meydenbauer Center. The expansion project is currently under review and a feasibility study should be completed by the end of 2016. It has been determined by management that the design work holds value and can be used when the project resumes.

B. Long-Term Debt

The construction of the convention center and theatre was financed through 1991 (Series B) and 1994 Special Obligation Revenue and Refunding Bonds. The bonds mature serially beginning in 1995 and continue through 2025. The bonds are secured by the City's monthly Lease Purchase Rent and Operating payments to the Authority. At the end of 2016, the Authority held $10.2 million in outstanding debt.

A portion of the 1994 Bonds were used by the Authority for the advance refunding of all the Series 1991A and a portion of Series 1991B bonds. The refunded bonds are considered to be defeased and the related liability has been removed from the balance sheet of the Authority.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $130,000. This difference, net of accumulated amortization, is reported as *Deferred Inflows of Resources* through the year 2019. As of December 31, 2016, the remaining amount of Gain on Refunding to be amortized was $4,877.00.

Summary Table E: Outstanding Bonded Debt

	2016	2015	2014
Series 1991B	$1,932,029	$2,510,852	$3,055,786
Series 1994	8,213,875	8,881,344	9,340,915
Gain on Refunding	4,877	7,931	11,448
Total Outstanding Bonded Debt	**$10,150,781**	**$11,400,127**	**$12,408,150**

V. ECONOMIC FACTORS AND CONDITIONS THAT MAY IMPACT FINANCES

TOT Revenues – The Bellevue lodging market continues to experience strong corporate travel. The 2016 Transient Occupancy Tax Analysis performed by CBRE Hotels, Inc. forecasts the continuation of a strong demand in 2017with increases in room supply and room rate growth in excess of inflation for the next five year time period, 2017-2021. The TOT revenue stream is forecasted to provide funding during the five year period for the Authority's debt service requirements and net operations.

Convention Center Operational Revenues – The Authority is optimistic that business activity will continue to grow in 2017. Current booking data indicates that the 2017 event booking pace and revenue projections will be similar to our record revenue year in 2016.

VI. REQUESTS FOR INFORMATION

The purpose of this report is to provide a general overview of the Authority's finances. Questions concerning this report or requests for additional information should be addressed to Meydenbauer Center, Finance Department, 11100 NE 6th Street, Bellevue, WA 98004, or to finance@meydenbauer.com.

Bellevue Convention Center Authority
Statement of Net Position
As of December 31, 2016 and 2015

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents		
Cash on hand and in bank	$6,440,598	$4,284,766
Leasehold reserve	954,428	950,012
Reserve renovation	357,497	1,770,018
Repair, replacement, and enhancement reserve	1,652,181	1,979,587
Total cash and cash equivalents	9,404,704	8,984,384
Receivables, net	410,825	416,870
Due from Primary Government	1,286,619	1,126,845
Other Receivables	40,050	34,010
Total receivables, net	1,737,494	1,577,725
Restricted assets		
Debt service reserve fund	1,278,368	1,272,454
Operating reserve	296,369	294,998
Funds on deposit with trustee:		
Bond fund	3,767,596	3,716,807
Lease purchase rent reserve	626,977	586,529
Accrued interest receivable:		
Bond fund	-	24,369
Lease purchase rent reserve	-	16,890
Total restricted assets	5,969,310	5,912,046
Inventories	78,636	104,357
Smallwares inventories	-	470,011
Prepaid expenses	295,389	211,807
Total current assets	17,485,533	17,260,330
Noncurrent assets:		
Capital Assets		
Building	61,938,060	49,488,696
Equipment	6,092,895	4,855,102
Less: accumulated depreciation	(31,025,445)	(29,244,351)
Construction in progress	694,814	11,466,960
Capital assets, net of depreciation	37,700,324	36,566,406
Total noncurrent assets	37,700,324	36,566,406
TOTAL ASSETS	$ 55,185,857	$ 53,826,737

The notes to the financial statements are an integral part of this statement.

	2016	2015
LIABILITIES		
Current liabilities:		
Accounts payable	$424,959	$404,924
Liabilities payable from restricted assets:		
Bonds payable - current	1,227,783	1,246,294
Interest payable - current	5,619,195	5,176,566
Retainage payable	463,914	433,008
Deposits payable	742,942	902,411
Accrued payroll	236,304	172,521
Compensated absences	11,826	9,787
Sales tax payable	35,513	49,319
Other accrued liabilities	147,923	92,650
Total current liabilities	8,910,359	8,487,480
Noncurrent liabilities:		
Special obligation revenue bonds payable	8,918,120	10,145,903
Accrued interest on revenue bonds	37,891,030	39,726,367
Deposits Payable	108,014	44,810
Compensated absences	106,434	88,086
Total noncurrent liabilities	47,023,598	50,005,166
TOTAL LIABILITIES	$55,933,957	$58,492,646
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on refunding bonds	4,877	7,931
TOTAL DEFERRED INFLOWS	$4,877	$7,931
NET POSITION		
Net investment in capital assets	27,549,543	25,166,278
Restricted for:		
Bond trust fund	3,767,596	3,716,807
Lease purchase fund	626,977	586,529
Total restricted	4,394,573	4,303,336
Unrestricted	(32,697,092)	(34,143,455)
TOTAL NET POSITION	($752,976)	($4,673,842)

The notes to the financial statements are an integral part of this statement.

Bellevue Convention Center Authority
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2016 and 2015

	2016	2015
OPERATING REVENUES:		
Food & beverage	$5,954,899	$4,645,832
Event services	1,488,894	1,100,138
Rent	1,958,197	1,694,399
Rent credit	(866,791)	(635,366)
Parking	700,203	629,999
Theatre	481,236	360,645
Other	119,588	112,681
TOTAL OPERATING REVENUES	9,836,226	7,908,327
OPERATING EXPENSES:		
Personnel	5,138,445	4,571,739
Contract labor	106,367	125,784
Other administrative and general	831,860	755,231
Cost of goods and services	1,568,359	1,379,327
Marketing	556,902	473,600
Utilities and maintenance	727,490	694,825
Parking	153,056	152,142
Theatre operating expenses	457,221	483,315
Depreciation	1,835,783	1,298,003
Amortization	(3,054)	(3,518)
TOTAL OPERATING EXPENSES	11,372,429	9,930,449
OPERATING INCOME (LOSS)	(1,536,203)	(2,022,123)
NONOPERATING REVENUES (EXPENSES):		
From transient occupancy tax	9,432,632	8,770,745
Interest income	14,300	25,384
Interest expense	(3,960,998)	(4,115,983)
Other nonoperating expense	(28,865)	(96,505)
TOTAL NONOPERATING REVENUES (EXPENSES)	5,457,068	4,583,641
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	3,920,865	2,561,518
Capital contribution	-	8,402,924
CHANGE IN NET POSITION	3,920,865	10,964,442
TOTAL NET POSITION-BEGINNING	(4,673,842)	(15,638,284)
TOTAL NET POSITION-ENDING	($752,976)	($4,673,842)

The notes to the financial statements are an integral part of this statement.

Bellevue Convention Center Authority
Statement of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Receipts from customers	$9,739,965	$8,033,399
Payment to suppliers	(3,896,695)	(3,461,408)
Payment to employees	(5,054,275)	(4,575,880)
Net cash (used) by operating activities	788,994	(3,889)
Cash flows from noncapital financing activities		
Contributions by municipalities and others:		
Lease purchase rent payments	6,649,166	6,245,830
TOT operating payments	2,623,692	2,352,178
Site lease and related costs	(17)	(25)
RREF expense	(34,280)	(105,733)
Net cash provided by noncapital financing activities	9,238,561	8,492,250
Cash flows from capital and related financing activities		
Interest paid to bondholders	(5,353,707)	(4,020,495)
Principal paid to bondholders	(1,246,293)	(1,004,505)
Contributed capital	0	8,402,924
Capital expenditures	(2,969,702)	(10,731,063)
Proceeds from sales of fixed assets	5,432	9,485
Net cash (used) by capital and related financing activities	(9,564,270)	(7,343,654)
Cash flows from investing activities		
Sale/maturity (purchase) of investment securities and funding of reserves:		
Bond fund	(50,789)	(1,221,110)
Lease purchase rent reserve	(40,448)	(36,838)
Interest received on investments	55,557	22,851
Net cash (used) provided by investing activities	(35,680)	(1,235,097)
Net increase (decrease) in cash and cash equivalents	427,606	(90,391)
Balance - beginning of the year	10,551,836	10,642,227
Balance - end of the year	$10,979,442	$10,551,836
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	($1,536,203)	($2,022,123)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	1,832,730	1,294,486
Change in assets and liabilities:		
Receivables	5	(101,317)
Allowance for doubtful accounts	0	13,522
Inventories	25,721	(36,250)
Smallwares inventories	470,011	(40,165)
Prepaid expenses	(83,582)	(64,482)
Deposits payable	(96,267)	212,866
Wages and benefits payable	63,782	(9,049)
Compensated absences payable	20,387	4,908
Accounts payable	20,035	300,264
Sales tax payable	(13,806)	2,593
Other accrued liabilities	55,273	7,852
Retainage payable	30,906	433,007
Total change in assets and liabilities	2,325,197	2,018,234
Net cash (used) by operating activities	$788,994	($3,889)

The notes to the financial statements are an integral part of this statement.

Bellevue Convention Center Authority
Statement of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash and cash equivalents		
Current assets		
Cash on hand and in bank	$6,440,598	$4,284,766
Reserved assets	954,428	
Leasehold fund	357,497	950,012
Renovation reserve	1,652,181	1,770,018
Repair, replacement, and enhancement fund		1,979,587
CASH AND CASH EQUIVALENTS	9,404,704	8,984,384
Restricted cash		
Debt service reserve fund	1,278,368	1,272,454
Operating fund	296,369	294,998
RESTRICTED CASH	1,574,738	1,567,452
TOTAL RESTRICTED AND UNRESTRICTED CASH	$10,979,442	$10,551,836

The notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements

Note 1 - Formation, Activities, and Summary of Significant Accounting Policies

A. Reporting Entity

The Bellevue Convention Center Authority (the Authority) was established by Ordinance No. 4092 of the City Council of the City of Bellevue (the City), Washington, on December 4, 1989. The purpose of the Authority, as stated in its charter, is "to undertake, assist with or otherwise facilitate or provide for the development, promotion, and operation of a convention center to provide economic stimulation to the community through the creation of jobs, tax revenues, and commercial activity." Upon issuance of Special Obligation Revenue Bonds in 1991 (see Note 8), the Authority constructed the Convention Center known as Meydenbauer Center and opened for business on September 13, 1993.

The accounting and reporting policies of the Authority, which conform to generally accepted accounting principles, are regulated by the Washington State Auditor's Office. The significant accounting principles of the Authority are described below.

The Authority is governed by a Board of Directors whose members are appointed by the City Manager with the concurrence of the City Council. Although the Authority is legally separate from the City, it qualifies as a “component unit” of the City because the Authority’s revenue bonds are secured by and financed with City revenues and because the Authority’s Board serves at the pleasure of the City Manager and the City Council.

B. Basis of Presentation

Fund Accounting - The financial statements of the Authority are presented following the proprietary fund principles of governmental accounting standards. Under those principles, the accounts of the Authority are grouped within a single fund for reporting purposes. The Authority's agreement with the City, known as the "First Amended Design, Development, Construction, Financing, and Operating Agreement" (the Operating Agreement), and the trust indenture related to the Special Obligation Revenue Bonds provide for several "funds" which receive, hold, and use monies according to their purpose.

The "funds", which are not separate accounting entities with self-balancing accounts, are described as follows:

Bond Fund - The Bond Fund was established to provide for the payment of principal and interest on the bonds, which were issued in 1991 and 1994. The funds are on deposit with a Trustee.

Lease Purchase Rent Reserve Fund - The Lease Purchase Rent Reserve Fund was established to hold monies representing the Lease Purchase Rent Reserve Requirement for the Bond Fund while the bonds are outstanding. The funds are on deposit with a Trustee.

Maintenance and Operations Fund - The Maintenance and Operations Fund was established to receive revenues from fees for use of the Convention Center, monies transferred from other funds, and other miscellaneous revenues as provided in the Operating Agreement.

Monies in the Maintenance and Operations Fund are required to fund any deficiencies in the Lease Purchase Rent Revenue Fund or Debt Service Reserve Fund. Monies in the Maintenance and Operations Fund may be used to meet principal, interest, and debt reserve obligations and to pay maintenance and operations expenses of the Authority. The Authority may also use these funds to support the Operating or Repair, Replacement, and Enhancement Reserves as provided in the Operating Agreement.

Operating Reserve Fund - The Operating Reserve Fund was established to receive designated funds from the Maintenance and Operations Fund to be used for shortfalls in debt service and operational expenses not otherwise funded.

Debt Service Reserve Fund - The Debt Service Reserve Fund was established to pay any deficiency in the Lease Purchase Rent Reserve Fund and has been funded in accordance with the Finance Plan of the Authority.

Repair, Replacement, and Enhancement Fund - The Repair, Replacement, and Enhancement Fund (RREF) was established in 1995 to receive designated transfers from the Maintenance and Operations Fund. Monies in the fund may be used for capital additions, repairs, improvements, and replacements and for certain operational expenses not otherwise met. The fund may also be used to meet any shortfalls in the payment of debt service on the bonds, lease purchase rent reserve, and debt service reserve.

Theatre Fund - The Theatre Fund was established in 1996 to receive funds from the Maintenance and Operations Fund. The Maintenance and Operations Fund transfers only the amount needed to balance the fund. The ending fund balance is always zero and is not shown as a line item in the statement of net position.

Leasehold Rent Reserve - In May 2006, Bellevue Convention Center Authority entered into an agreement with The Bravern I, LLC to sublease the land parcel adjacent and to the north of the Convention Center to Schnitzer Northwest LLC (Schnitzer) for construction staging. The Board of Directors directed that the monies received from the lease payments be held in a separate reserve fund. In addition to lease payments, the Authority received other payments from Schnitzer related to building modifications and other items that are held in this reserve. The lease expired June 2010.

Reserve Renovation Fund – The Reserve Renovation Fund was established in October 2014 to receive a $4,097,076 capital contribution from the City of Bellevue. Meydenbauer Center has developed a major reinvestment plan that will significantly improve the 20-year-old facility. The Capital Renovation Project totals $12,500,000. The project is funded by two sources: $4,097,076 in land sale proceeds from the old convention center site, and $8,402,924 from bonds issued by the City of Bellevue in 2015. Monies in the fund were used towards the capital project for the interior spaces, exterior envelope, and technology upgrades.

Basis of Accounting - The Authority is accounted for on a flow of economic resources measurement focus. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Budget - The Authority develops annual revenue and expense budgets for all funds. The budgets are approved by the Board of the Authority and are subject to financial oversight by the City. The Authority is also required to submit an annual Finance Plan to the City Manager for review and approval.

C. Assets, Liabilities, and Net Position

Cash and Cash Equivalents - For purposes of the statement of cash flow, the Authority considers all cash in banks and invested in instruments that mature within 90 days when acquired as cash and cash equivalents.

Receivables

Accounts receivables, net consist of amounts owed from private individuals or organizations for goods and services less allowance for doubtful accounts.

Due from Primary Government consists of a 60-day accrual for payments due from the City or other governmental entities. (See Note 10 - Related Party Transactions).

Inventories - Inventory of food and beverages is valued by the First In, First Out (FIFO) method (which approximates the market value). Smallwares are also valued by the FIFO method. Effective in 2016, Smallwares inventory was recognized as a capital asset rather than inventory.

Investments - The investments of the Authority, including restricted funds held by the Trustee, are stated at fair market value per GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The types of investments authorized under legal and contractual provisions include investments permitted under Washington State law for investments of city funds, obligations of the United States, its agencies and instrumentalities, time or demand deposits in qualified banks, and certain obligations of states, banks, and other similar investments.

The Trustee or its agent must hold all investments and related collateral.

In general, all investment earnings are retained within the respective funds of the Authority. Typically, the investment earnings in the Bond Fund are transferred to the Lease Purchase Rent Reserve Fund up to the amount needed to comply with the Finance Plan and the remaining balance is transferred to the Maintenance and Operations Fund, if applicable. (See Note 4 for details).

Restricted Assets and Liabilities – These accounts contain resources for debt service. The current portion of related liabilities is shown as *Liabilities Payable from Restricted Assets*. Specific debt service reserve requirements are described in Note 9, *Long-Term Debt*.

The restricted assets are composed of the following:

Debt Service Reserve Fund	$1,278,368
Operating Reserve	$ 296,369
Bond Fund	$3,767,596
Lease Purchase Rent Reserve	$ 626,977

Capital Assets and Depreciation - Capital expenditures are recorded at cost. Capital Assets are defined as those assets over $5,000 with a minimum useful life of three years. The Authority capitalizes expenditures over $5,000 that materially increases the asset life. Per the following table of estimated useful lives, depreciation is computed using the straight-line method (See Note 5).

Building - shell	50 years
Building - mechanical systems and roof	25-35 years
Building other	5-20 years
Office furniture and equipment	5-10 years
Communications equipment	7 years
Computer equipment	5 years
Software	3 years

Compensated Absences – Compensated absence are absences for which employees will be paid, such as vacation leave. All vacation pay is accrued when incurred in the financial statements.

Vacation pay, which may be accumulated up to 30 days, is payable upon resignation, retirement or death. Upon resignation or retirement, any outstanding sick leave is lost.

Construction In Progress - This account includes the expenditures of the 2016 capital projects, which includes the remaining amount of the $12,500,000 renovation project, that remain in progress and the capitalization of expenditures for the preliminary architectural work that was performed related to the pursuit of expanding Meydenbauer Center. The expansion project is currently under review and a feasibility study should be completed by the middle of 2017. It has been determined by management that the design work holds value and can be used when the project resumes.

Net Position - Net Position is divided between net investment in capital assets, restricted, and unrestricted amounts. Certain amounts within the net position are restricted to match the assets reserved for specified purposes. Unrestricted net position includes but is not limited to funds reserved for debt service, operations, repair and replacement, and leasehold. The table below provides the itemization of the unrestricted net position.

	2016	2015
Unrestricted net position		
Reserved for:		
Debt service reserve fund	$1,278,368	$1,272,454
Operations	296,369	294,998
Debt service	31,935	24,369
Renovation fund	357,497	1,770,018
Repair, replacement, and enhancement	1,652,181	1,979,587
Leasehold	954,428	950,012
Bonds payable current	1,227,783	1,246,294
Construction in Progress	(694,814)	(11,466,960)
Unreserved	(41,721,706)	(32,775,746)
Current Year Income (Loss)	$3,920,866	$2,561,518
Total unrestricted net position	**(32,697,092)**	**(34,143,455)**

D. Revenues and Expenses

Operating Revenues - This is primarily revenues received from customers for both Convention Center and Theatre usage as well as related services.

Non-Operating Revenues - The City makes a monthly Lease Purchase Rent and Operating payment to the Authority. These payments are made in consideration of the continuing performance by the Authority of the obligations to develop, design, construct, lease, and operate the Convention Center facility.

As specified in the Operating Agreement, the City made monthly Lease Purchase and Operating payments to the Authority from the date the 1991 bonds were issued to the date the Certificate of Occupancy was issued on October 28, 1993. Subsequent to this date, the City leases the building from the Authority for monthly lease purchase rent payments equal to the Authority's debt service requirements for the Series 1991B, and 1994 bonds (see Note 9). Both the Lease Purchase Rent and Operating payments are paid to the Authority from the Transient Occupancy Tax (TOT) receipts of the City (Note 10).

The Operating payment amount is equal to the TOT receipts of the City less the payment for lease purchase rent and other amounts (Note 10).

The Authority conforms with the City's application of GASB Statement No. 22, *Taxpayer-Assessed Tax Revenues in Governmental Funds*, in regard to recognizing the Authority's non-operating revenue from TOT. This pronouncement requires revenue from taxpayer-assessed taxes to be recognized in the accounting period in which the revenue becomes susceptible to accrual, both measurable and available (modified accrual), to finance expenses of the fiscal period. GASB Statement No. 22 does not provide a standardized "availability" period to recognize taxpayer-assessed tax revenues. The Authority considers 60 days as a reasonable period for accruing collections from TOT.

Operating Expenses - These are expenses for the administration and operation of the Convention Center and Theatre for services provided to clients.

Non-Operating Expenses - Includes interest expense on debt and other non-operating expenses. The interest expense recognizes the current and accrued interest related to the interest deferred bonds. Please see Note 9 for debt information. Other non-operating expenses are expenses made in the RREF fund that are not capitalized and the gain or loss on sale of surplus items.

E. Accounting Changes

GASB has issued Statement No. 72, *Fair Value Measurement and Application*, which became effective for periods beginning after June 15, 2015. The statement involves applying fair value to certain investments and ensuring disclosures are made for all related investments. The Authority has reviewed this statement and has determined it has an immaterial effect on the financial statements.

F. Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year financial statement presentation. Net assets and changes in net assets remain unchanged as a result of these reclassifications.

Note 2 - Stewardship, Compliance, and Accountability

There have been no material violations of finance-related or contractual provisions.

Reserves - For 2016, all of the BCCA's reserves were funded in accordance with the Finance Plan.

Note 3 – Implementation of Accounting Standard

During 2013, the Authority implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement provides guidance on reclassifying certain items as deferred outflows of resources or deferred inflows of resources. The statement further requires reclassification of certain items previously recorded as assets and liabilities as expenses or revenues. The specific account impacting the Authority was bond issuance costs. Previous standards required that certain costs associated with the issuance of bonds, including underwriter's discounts, be recognized as an asset and amortized over the life of the bond. Statement No. 65 requires that bond issuance costs be fully expensed at issuance. Accordingly, the Authority has applied the effects of the accounting change retroactively, beginning January 1, 2012.

Note 4 - Deposits and Investments

As of December 31, 2016 and 2015, all monies and investments of the Authority were held in an approved commercial bank or the Washington State Local Government Investment Pool (LGIP). Interest earned on these funds totaled $14,300 in 2016 and $25,384 in 2015.

The LGIP is an unrated 2a-7 like pool, as defined by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Accordingly, 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. Per guidelines of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, the balances are also not subject to custodian credit risk. The credit risk of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. Investments or deposits held by LGIP are all classified as Category 1 risk level investments.

Note 4 - Continued:

The funds are either insured or held by a third-party custody provider in the LGIP's name. All monies held by the Bond Trustee must be invested in accordance with the Trust Indenture.

Investments held on December 31, 2016 and 2015 are summarized in the following table.

		2016		2015		
	Risk Category	Carrying Amount	Market Value	Carrying Amount	Market Value	Fund
Securities held by Trustee Bank for less than one year						
Treasury Bills	1	$626,977	$626,977	$586,529	$586,529	Lease Purchase Rent Reserve
Total Trustee Securities		626,977	626,977	586,529	586,529	
Securities held directly by Authority						
U.S. Bank Municipal Investor Account	NA	14,031	14,031	14,030	14,030	Various Funds [1]
Local Government Investment Pool	NA	9,126,208	9,126,208	9,283,290	9,283,290	Various Funds
Total Directly Held Securities		9,140,238	9,140,238	9,297,320	9,297,320	
TOTAL INVESTMENTS		**$9,767,215**	**$9,767,215**	**$9,883,849**	**$9,883,849**	
Allocation of Directly Held Securities		$4,587,364	$4,587,364	$3,016,220	$3,016,220	Maintenance and Operations [1]
		296,369	296,369	294,998	294,998	Operating Reserve Fund
		954,428	954,428	950,012	950,012	Leasehold Rent Reserve Fund
		357,497	357,497	1,770,018	1,770,018	Renovation Reserve Fund
		1,652,181	1,652,181	1,979,587	1,979,587	Repair, Replacement, & Enhancement Fund
		1,278,368	1,278,368	1,272,454	1,272,454	Debt Service Reserve Fund
Total Securities Directly Held in Local Government Investment Pool		$9,126,208	$9,126,208	$9,283,290	$9,283,290	

Notes:
[1] U.S. Bank Municipal Investor Account Fund and LGIP Maintenance and Operations Fund are part of *Cash on hand and in bank* line item reported on the Statement of Net Position. The remaining $1,839,203 out of 2016 total $6,440,598 *Cash on hand and in bank* are operating funds held in U.S. Bank checking account and on hand.

Note 5 - Capital Assets and Depreciation

Building, furniture, fixtures, and equipment are recorded at cost. The Authority capitalizes expenditures over $5,000 that materially increase the asset life, expense asset purchases of less than $5,000 in the capital fund, and typically charge ordinary maintenance and repairs to operations as incurred. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income.

Construction In Progress - This account includes the expenditures of the 2016 capital projects, which includes the remaining amount of the $12,500,000 renovation project, that remain in progress and the capitalization of expenditures for the preliminary architectural work that was performed related to the pursuit of expanding Meydenbauer Center. The expansion project is currently under review and a feasibility study should be completed by the middle of 2017. It has been determined by management that the design work holds value and can be used when the project resumes.

Note 5 Continued:

The following table shows the changes in the Authority's capital assets, including accumulated depreciation.

	2016				2015				
Activities	Beginning Balance 01/01/2016	Increases	Decreases	Ending Balance 12/31/2016	Beginning Balance 01/01/2015	Increases	Decreases	Ending Balance 12/31/2015	Change
Capital assets, not being depreciated:									
Construction in progress	$11,466,960	$2,398,988	($13,171,134)	$694,814	$1,036,936	$10,708,595	($278,571)	$11,466,960	($10,772,146)
Total capital assets, not being depreciated:	11,466,960	2,398,988	(13,171,134)	694,814	1,036,936	10,708,595	(278,571)	11,466,960	(10,772,146)
Capital assets, being depreciated:									
Building	49,488,696	12,449,364	0	61,938,060	49,490,971	68,377	(70,652)	49,488,696	12,449,364
Equipment	4,855,102	1,292,483	(54,689)	6,092,896	4,878,847	232,662	(256,407)	4,855,102	1,237,794
Total capital assets, being depreciated:	54,343,798	13,741,847	(54,689)	68,030,956	54,369,818	301,039	(327,059)	54,343,798	13,687,158
Less accumulated depreciation for:									
Building	(24,825,573)	(1,479,806)	0	(26,305,379)	(23,800,026)	(1,096,199)	70,652	(24,825,573)	(1,479,806)
Equipment	(4,418,778)	(355,977)	54,689	(4,720,066)	(4,473,149)	(201,804)	256,175	(4,418,778)	(301,288)
Total accumulated depreciation:	(29,244,351)	(1,835,783)	54,689	(31,025,445)	(28,273,175)	(1,298,003)	326,827	(29,244,351)	(1,781,094)
Total capital assets being depreciated, net	25,099,447	11,906,064	$0	37,005,510	26,096,643	(996,964)	(233)	25,099,447	11,906,063
Capital assets, net:	$36,566,407	$14,305,052	($13,171,134)	$37,700,324	$27,133,579	$9,711,632	($278,804)	$36,566,407	$1,133,916

Note 6 - Pension Plans

The Meydenbauer Center Retirement Plan and Trust (“Plan”) is a defined contribution pension plan qualified for public employers under Internal Revenue Code (IRC) Section 401(a). The Plan, approved by resolution of the Board on June 14, 1995, became effective July 1, 1995. Wells Fargo Bank serves as the Plan Administrator, Plan Trustee, and Investment Manager. The Plan Committee is composed of the Executive Director, the Director of Finance and Human Resources, the Director of Operations, one Board member, and one employee elected at large. It is the responsibility of this Committee to oversee the performance of the Plan Administrator, the Plan Trustee, and the Investment Administrator. The Authority’s Board of Directors retains the power to amend the contribution requirements.

In accordance with the Plan document, Meydenbauer Center and employees both contribute 5% of compensation to the Plan. Employee and employer contributions are tax deferred per IRC Section 414(h). Each participant may contribute on his own behalf an additional amount of the participant’s gross compensation on a post tax basis. Each regular employee becomes eligible to participate in the plan upon completion of one year of employment and 1,000 hours of service. All current regular employees who meet the criteria are eligible to join the Plan. Participation in the Plan is mandatory for all regular employees.

Each participant’s vest in the company’s contributions is based on the number of the participant’s years of service. A participant is fully vested (100%) after six years of service.

The Plan is established as a retirement plan and contains no provision for withdrawing money prior to the termination of employment. Upon termination of employment or retirement, employees receive the account balance of employee contributions and the vested portion of the employer account credited with investment earnings. In the event of employee death or disability, the employee account becomes immediately vested and the full value of the account may be paid out. The Plan document defines disability according to specific Federal guidelines.

As of December 31, 2016, there were 92 participants in the Plan. Covered payroll for the year was $3,764,277 out of a total annual payroll of $4,432,358. Actual contributions by Meydenbauer Center were $166,907; actual employee contributions were $221,610. In 2015, there were 82 participants in the Plan. Covered payroll for the year was $3,412,481 out of a total annual payroll of $3,977,739. Actual contributions by Meydenbauer Center and employees were $148,689 and $199,733, respectively.

Plan assets are not the property of the Authority and are not subject to the claims of the Authority’s creditors.

Other Employee Benefits

The Authority offers its employees the ability to join a voluntary 457 deferred compensation plan, which is administered by the Washington State Department of Retirement Systems. The monies deposited into this plan are strictly voluntary by an employee and not considered to be resources available to the Authority. Employees may contribute up to $18,000 per year to this plan.

Note 7 - Risk Management

The Authority uses the services of Parker, Smith & Feek, Inc. for marketing and placement of commercial policies. The Authority maintains insurance against most normal hazards. The most common risks faced by the Authority include damage to the building, illnesses or injuries to clients, guests, and employees, theft, and natural disasters. To decrease the exposure to risk, the Authority maintains insurance for property damage (including coverage for terrorism, flood, and earthquakes), general liability (including liquor liability), crime, public officials, cyber, and employment practices. In addition, the Authority carries umbrella coverage over and above the coverage for general, automobile, liquor, employee benefits, and stop gap liabilities. Injuries to employees that occur on the job are covered under the Washington State Department of Labor and Industries insurance program.

There have been no significant reductions from the prior year in the amount of coverage the Authority carries. The Authority carries a $10,000 deductible on its property coverage. There have been no claims in the last three years where the amount of the settlement exceeded the insurance coverage (See Note 11).

Note 8 - Leases and Other Contractual Commitments

Operating Leases

The Authority has rented office equipment under operating leases for various periods. Minimum annual rental payments for all operating leases having noncancellable terms exceeding one year are as follows:

2017	24,095
2018	22,065
2019	7,355
2020	-
2021	-
Total	$53,516

Note 9 - Long-Term Debt

Special Obligation Revenue Bonds - In August 1991, the Authority issued Series 1991A and Series 1991B Special Obligation Revenue Bonds of $29,396,350 to finance the costs of constructing the Convention Center facility.

The Series 1991A bonds of $7,165,000 are dated August 1, 1991, and accrue interest from that date until maturity or earlier redemption. Interest is payable semiannually on each June 1 and December 1. All Series 1991A bonds were refunded in 1994 as described below. The bonds bear interest at 7.10% and all are to be redeemed between December 1, 2015, and December 1, 2019, from a refunding escrow account.

The Series 1991B bonds of $22,231,350 accrue interest at rates ranging from 5.90% to 7.20%, depending on maturity date. Interest is compounded semiannually on December 1 and June 1 of each year and is payable at maturity. The 1991B bonds are not subject to optional redemption. The bonds mature serially each December 1, beginning 1995 through 2019. A partial refunding of the Series 1991B bonds occurred in 1994 and was completed in 1998.

Refunded Debt - On November 30, 1994, the Authority issued $13,749,073 of special obligation revenue and refunding bonds. The advance refunding bond portion of the issue was $8,411,275. The refunding bond proceeds of $8,411,275 were used to purchase U.S. government securities to advance refund all of the Series 1991A and $1,200,000 of Series 1991B bonds. These securities were deposited

Note 9 - Continued:

in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded revenue bonds. Accordingly, these refunded bonds are considered to be defeased and the related liability has been removed from the balance sheet of the Authority. Defeased bonds outstanding as of December 31, 2016 amount to $7,430,000 of Series A bonds.

The Series 1994 bonds accrue interest at rates ranging from 6.25% to 7.50%, depending on maturity date. Interest is compounded semiannually on February 1 and August 1 of each year, commencing November 30, 1994, and is payable at maturity. The 1994 bonds are not subject to optional redemption. The bonds mature serially each February 1, beginning 2001 through 2025.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of $130,000. This difference, net of accumulated amortization was previously reported in the accompanying financial statements as an addition to bonds payable, being recognized as an amortization expense through the year 2019 using the effective interest method. Subsequent the implementation of GASB Statement No. 65 this line item is reported as Deferred Inflow of Resources. Due to this transaction, the Authority increased its aggregate debt service payments of $15,380,000 over 27 years (1992-2019) and realized an economic loss (difference between the present values of the old and new debt service payments at the effective interest rate) of $62,000.

Long-Term Debt Detail - The tables below provide the details of the Authority's long-term debt for 2016 and 2015 as discussed above.

For 2016	Original Balance	Balance 12/31/15	Additions	Reductions	Balance 12/31/16
Series 1991B Bonds	21,120,037	2,510,852	0	(578,823)	1,932,028
Series 1994 Bonds	13,749,073	8,881,345	0	(667,470)	8,213,874
Gain on Refunding		7,931	0	(3,054)	4,877
Total Long-Term Debt		$11,400,128	$0	($1,249,347)	$10,150,779
Interest Payable					
1991 Bonds	NA	$11,774,308	$977,857	($2,881,177)	$9,870,989
1994 Bonds	NA	33,128,626	2,983,141	($2,472,530)	33,639,236
Total Interest Payable		$44,902,934	$3,960,998	($5,353,707)	$43,510,225

For 2015	Original Balance	Balance 12/31/14	Additions	Reductions	Balance 12/31/15
Series 1991B Bonds	21,120,037	3,055,786	0	(544,934)	2,510,852
Series 1994 Bonds	13,749,073	9,340,915	0	(459,571)	8,881,345
Gain on Refunding		11,448	0	(3,517)	7,931
Total Long-Term Debt		$12,408,150	$0	($1,008,022)	$11,400,128
Interest Payable					
1991 Bonds	NA	$13,137,966	$1,126,407	($2,490,066)	$11,774,308
1994 Bonds	NA	31,669,480	2,989,575	(1,530,429)	33,128,626
Total Interest Payable		$44,807,446	$4,115,983	($4,020,495)	$44,902,934

The principal amount of bonds outstanding at the end of 2016 and 2015 is as follows:

	2016	2015
Current portion of long term debts:		
Series 1991B	$613,309	$578,823
Series 1994	614,474	667,470
Sub-total	1,227,783	1,246,293
Non-current portion of long term debts		
Series 1991B	1,318,719	1,932,028
Series 1994	7,599,401	8,213,875
Gain on refunding (net of acc. amort.)	4,877	7,931
Sub-total	8,922,997	10,153,834
Total long term debts:		
Series 1991B	1,932,028	2,510,852
Series 1994	8,213,875	8,881,345
Gain on refunding (net of acc. amort.)	4,877	7,931
Total	$10,150,780	$11,400,127
Accrued interest on revenue bond:		
Beginning Balance	$44,902,933	$44,807,446
Addition (Reduction)	(1,392,708)	95,487
Ending Balance	$43,510,225	$44,902,933

The debt service requirements under the Trust Indenture for each of the next five years and for the subsequent four years through maturity are as follows:

	Principal	Interest	Total
2017	1,227,783	5,817,217	7,045,000
2018	1,204,467	6,320,533	7,525,000
2019	1,179,582	6,795,418	7,975,000
2020	539,151	2,900,849	3,440,000
2021	1,237,685	7,262,315	8,500,000
2022-2025	4,757,236	34,492,765	39,250,000

Accrued Interest on Revenue Bonds - The Series 1991B and Series 1994 bonds accrue interest from the date of delivery until maturity. Interest is compounded semiannually and is payable at maturity. The line item for Accrued Interest on Revenue Bonds represents the interest accrued on these bonds that are payable in future years. The recording of accrued interest lowers the Total Net Position for a period of time. However, it is important to note that the Authority’s 10-year cash flows are planned to meet all obligations as they come due.

Short-Term Debt - Other than revolving credit cards, the Authority obtained no short-term debt in 2016 and 2015.

Note 10 - Related Party Transactions

Lease Purchase Agreement - In connection with the construction, financing, and operation of the Convention Center, the City and the Authority have entered into a Lease Purchase Agreement. As the Lease Purchase Agreement stipulates, the Authority began leasing the Convention Center to the City beginning on October 28, 1993, the date that the City issued a Certificate of Occupancy to the Authority for the Premises. As amended, the lease will terminate on December 31, 2024, or when all debt payments have been made, whichever is earlier.

The Lease Purchase Rent is equal to the debt service on the bonds, plus a certain nominal amount. The lease purchase agreement contains a pledge by the City to secure the lease payments with Transient Occupancy Tax (TOT) receipts and other revenues of the City available without a vote of the City's electors. The City pays the Lease Purchase Rent each month directly to the Trustee. The City has the option under the lease to purchase the Convention Center for an amount based on the remaining principal payments due on bonds issued by the Authority for the construction of the Convention Center, plus accrued interest and call premiums, if any, plus the Authority's transaction costs in accomplishing prepayment.

It should be noted that in January 2000, the City and the Authority amended the Lease Purchase Agreement to reflect the land acquisition and the City's new role as owner of the site.

On June 23, 2015, The Authority entered into a two and a half year sublease agreement of the Expansion Parcel with the City to accommodate City staff parking during the construction of the City's east garage. The City has the option for one six month extension. In consideration of the agreement, the City will turn over the improved parking lot to the Authority to use for future overflow parking.

Transactions

Transactions between the Authority and the City in 2016 and 2015 include remittance of Operating payments by the City to the Authority from the City's TOT receipts and payments by the Authority to the City for oversight activities. The City's TOT receipts remitted to the Authority during 2016 reflect a continuation of strong corporate travel to the Bellevue area.

These transactions are summarized below:

City's TOT Receipts remitted to the Authority:

Total 2016 Payments (1991/1994 Bond and Operating funds) $ 9,432,632

Total 2015 Payments (1991/1994 Bond and Operating funds) $ 8,770,745

Total Accounts Receivable from the City as of December 31, 2016 includes:

	2016	2015
TOT Payments	$1,286,619	$1,126,845

Costs paid by the Authority to the City for support and assistance related to oversight activities:

	2016	2015
City Oversight	$4,000	$10,000

Operating Transfers from/to the City:

In 2016, the Authority did not receive Transfers In from the City and did not make Transfers Out to the City. In 2015, the Authority received $8,402,924 *Transfers In* from the City of Bellevue for capital contributions towards a $12,500,000 renovation project. The project is funded by two sources: $4,097,076 in land sale proceeds from the old convention center site in 2014, and $8,402,924 from bonds issued by the City of Bellevue in 2015. The Authority did not make any *Transfers Out* to the City in 2015.

First Amendment to Operating Agreement - On December 12, 1995, the Authority entered into an Amendment to the Operating Agreement (the "Amendment") with the City. The City issued its Limited Tax Obligation Bonds, 1995 (the "1995 bonds") in the aggregate principal amount of $5.1 million in December 1995. The City agreed to make the proceeds of the bond issue available to Meydenbauer Center to exclusively pay for capital improvements and related costs, subject to certain terms and conditions outlined in the amendment including the City's intent to continue to levy TOT which will be used to pay the principal of and interest on the 1995 bonds.

The original Operating Agreement between the Authority and the City and each subsequent Finance Plan of the Authority did not contemplate the receipt of any 2% TOT collections levied pursuant to RCW 67.28.180 after 2005.The Amendment includes the agreement reached by the City and the Authority on the procedures by which proceeds of the 1995 bonds will be disbursed by the City for the benefit of the Authority and that TOT will be used by the City to pay debt service on the 1995 bonds commencing in 2006.

Second Amendment to Operating Agreement - On July 26, 1999, the City Council adopted Bellevue City Ordinance No. 5156, authorizing staff to negotiate a purchase and sale agreement to acquire the site of the Convention Center and an option on the adjacent option parcel. In January 2000, the City and the Authority amended the Operating Agreement to reflect the land acquisition, recognize the City as owner of the site, and to provide for ground lease payments to be made by the Authority to the City so long as notes or bonds issued by the City to pay for or refinance the acquisition of the premises are outstanding. On January 26, 2000, these amendments were executed and on January 28, 2000, the land purchase was closed.

Third Amendment to Operating Agreement - On June 10, 2002, the City Council adopted Bellevue City Ordinance No. 5373, authorizing the issuance of $10,450,000 in Limited Tax General Obligation bonds (the "2002 bonds") to refinance the Bond Anticipation Note (BAN) to purchase the land under Meydenbauer Center. This ordinance also amended the Operating Agreement to terminate the ground lease between the City and the Authority and to provide for the debt service payments on the 2002 bonds. To make the initial debt service payments through April 2005, the City made withdrawals upon the $1.7 million collected between January 2000 and May 2002 from the Authority for ground lease payments. Following April 2005, the City uses the TOT revenue stream to make debt service payments on the bonds.

The City and the Authority agreed that the 2% TOT revenues collected after April 2005 will be used in the following priority and for the following purposes: (a) payment by the City of principal and interest on the City's 1995 bonds; (b) payment by the City of principal and interest on the City's 2002 bonds; (c) to assure the financial health of the existing Meydenbauer Center; (d) to fully fund expansion of Meydenbauer Center and its associated costs; and (e) to any City purpose permitted under law for the use of such 2% TOT revenues.

Fourth Amendment to Operating Agreement – On May 24, 2006, there was a minor change to the Operating Agreement that changed the definition of Premises to match the newly expanded definitions under the Sublease and the Operating Agreement.

Fifth Amendment to Operating Agreement – On November 14, 2007, there was a minor change to the Operating Agreement that allowed the transfer of the Sliver Parcel from the Premises
leased to the Authority under the Sublease, operated by the Authority under the Operating Agreement, and leased back to the City under the Lease Purchase Agreement.

Sixth Amendment to Operating Agreement - On August 4, 2014, the City Council adopted Bellevue City Ordinance No. 6173 and 6174, authorizing the issuance of Limited Tax Obligation Bonds, 2015 (the "2015 bonds") in the aggregate principal amount not to exceed $10 million for the purpose of providing funds to finance improvements to the Meydenbauer Center; and providing for the release of funds, approximately $4.1M, from the proceeds of the sale of the Old Convention Center Site to the Authority to finance costs of improvements to Meydenbauer Center. The City agreed to make the proceeds of the bond issue and proceeds of the sale from the Old Convention Center Site available to Meydenbauer Center to finance costs of improvements and related costs, subject to certain terms and conditions outlined in the amendment including the City's intent to continue to levy TOT which will be used to pay the principal of and interest on the 2015 bonds.

The Amendment includes the agreement reached by the City and the Authority on the procedures by which proceeds of the 2015 bonds and Old Convention Center Site will be disbursed by the City for the benefit of the Authority and that TOT will be used by the City to pay debt service on the 2015 bonds commencing in 2016.

Impact from the Amendments on Transient Occupancy Tax - Beginning in April 2005, the 2% TOT revenues began to pay principal and interest on the City's 1995 and 2002 bonds. One-twelfth of the next debt service payment is deducted from the monthly TOT receipts before any collections are transferred to the Authority. It should be noted that the 2002 bonds were refunded by the City in September 2010. The City used a standard refunding approach which resulted in average annual savings of approximately $74,700 beginning in 2011.

The chart below provides the detail regarding total TOT revenues and the amounts listed on the Statement of Revenues, Expenses, and Changes in Net Position comparing 2016 and 2015. In 2016, less the deduction for the 1995 and 2010 Debt Service, TOT revenues increased by $661,887 or 8% over 2015. The variance is a positive indication that corporate travel remains strong within the local lodging industry.

	2016	**2015**
TOT Revenues	$11,374,649	$10,191,321
Deduction for 1995 & 2010 Debt Service	(1,942,018)	(1,420,576)
Non-Operating Revenues/TOT Reported	$9,432,632	$8,770,745

Friends of Eastside Arts - In April 1993, two members of the Authority's Board founded Friends of Eastside Arts (FOEA), a nonprofit fundraising organization that promotes art on the Eastside. The Authority is a beneficiary of funds raised by the FOEA. In 2016, the Authority received no contributions.

Note 11 - Contingencies and Litigation

There are no claims or pending claims against the Authority at this time. In the opinion of management, the Authority's insurance coverage is sufficient to cover the potential liability from any single claim pending against the Authority, or the aggregate potential liability from all pending claims or lawsuits.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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