

Washington State Auditor's Office

Financial Statements Audit Report

**Bellevue Convention Center Authority
(Meydenbauer Center)
King County**

Audit Period
January 1, 2013 through December 31, 2013

Report No. 1012234

Issue Date
July 21, 2014



**Washington State Auditor
Troy Kelley**

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

July 21, 2014

Board of Directors
Meydenbauer Center
Bellevue, Washington

Report on Financial Statements

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

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

Sincerely,

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large "X" for the middle initial.

TROY KELLEY
STATE AUDITOR

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**Meydenbauer Center
King County
January 1, 2013 through December 31, 2013**

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

**Meydenbauer Center
King County
January 1, 2013 through December 31, 2013**

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 Meydenbauer Center, King County, Washington, as of and for the years ended December 31, 2013 and 2012, 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 20, 2014. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the Authority implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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.

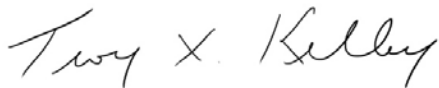
COMPLIANCE AND OTHER MATTERS

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.



TROY KELLEY
STATE AUDITOR

June 20, 2014

Independent Auditor's Report on Financial Statements

**Meydenbauer Center
King County
January 1, 2013 through December 31, 2013**

Board of Directors
Meydenbauer Center
Bellevue, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Meydenbauer Center, King County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 6.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Meydenbauer Center, as of December 31, 2013 and 2012, 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.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2013, the Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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 7 through 12 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 20, 2014 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.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

June 20, 2014

Financial Section

**Meydenbauer Center
King County
January 1, 2013 through December 31, 2013**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013 and 2012
Statement of Revenues, Expenses, and Changes in Net Position – 2013 and 2012
Statement of Cash Flows – 2013 and 2012
Notes to the Financial Statements – 2013 and 2012

Management's Discussion and Analysis For the Year Ending December 31, 2013

The Bellevue Convention Center Authority (the Authority) presents the management's discussion and analysis of financial activities as required by GASB Statement No. 34 and amended by GASB Statements No. 37, No. 54, No. 62, No. 63, and No. 65. The following information should be read in conjunction with the financial statements and notes that follow.

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

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 the 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 information that is necessary to completely portray the Authority's financial condition. The notes present details about the Authority's presentation of the statements, basis for accounting, investments, leases, debt, and other aspects of the financial statements.

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**

	2013	2012 (as restated)	Difference	2011
ASSETS				
Current Assets	\$6,231,572	\$5,198,644	\$1,032,928	\$4,707,782
Restricted Cash and Cash Equivalents	4,495,125	4,104,967	390,157	3,984,657
Deferred Charges	0	0	0	406,199
Capital Assets (Net of depreciation)	27,893,291	28,988,440	(1,095,149)	30,163,845
TOTAL ASSETS	38,619,987	38,292,051	327,936	39,262,483
LIABILITIES AND FUND EQUITY				
Current Liabilities	6,821,996	6,077,462	744,533	5,578,795
Non-current Liabilities	53,182,020	54,546,918	(1,364,898)	55,292,981
TOTAL LIABILITIES	60,004,016	60,624,381	(620,365)	60,871,776
DEFERRED INFLOWS OF RESOURCES				
Deferred gain on refunding	15,517	20,103	(4,587)	
TOTAL DEFERRED INFLOWS	15,517	20,103	(4,587)	
NET POSITION				
Net Investment in Capital Assets	14,283,926	14,224,201	59,725	14,239,047
Restricted	2,910,296	2,515,430	394,866	2,398,424
Unrestricted	(38,593,766)	(39,092,064)	498,298	(38,246,764)
TOTAL NET POSITION	(\$21,399,545)	(\$22,352,434)	\$952,889	(\$21,609,293)

Assets

For 2013, *Current Assets* experienced positive growth in the amount of \$1,032,928 over 2012. *Current Assets* were strengthened when the Authority generated \$2.2 million in *Operating Revenues* and collected \$511,710 in TOT receipts over prior year. The growth in *Current Assets* was partially offset with a net operating loss of \$81,522, less depreciation and amortization.

The increase in the *Restricted Cash and Cash Equivalents* balance by \$390,157 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 8 of the Financial Notes for further information regarding the Authority's long-term debt and debt service requirements.

The decrease in *Capital Assets* of \$1,095,149 includes building improvements and equipment purchases offset with deductions for depreciation.

Liabilities

The growth in *Current Liabilities* of \$744,533 was primarily led by a planned \$548,844 increase for the current accrued interest related to the bonds coupled with an increase in deposits payable for future events to be held at the convention center and/or theatre.

The decrease in *Non-Current Liabilities* of \$1,364,898 was the result of the net changes (principle paid minus interest accrued) in the Authority's long-term obligations. *Non-Current Liabilities* include \$12,396,701 in principal and \$40,785,319 of accrued interest due in future years compared to \$13,593,848 in principal and \$40,953,071 of accrued interest at the end of 2012. 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, 2013, *Total Net Position* reflected a negative balance of \$21,399,545. This balance 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 2013 and 2012, the overall total improvement in net position for the given year is \$785,137. This is based on the adjusted total amounts of \$19,385,774 for 2013 and \$18,600,637 for 2012.

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, Expenditures, & Changes in Net Position**

	2013	2012 (as restated)	Difference	2011
REVENUES				
Operating Revenues	\$8,728,828	\$6,538,279	\$2,190,549	\$7,683,243
Non-Operating Revenues	6,701,434	6,212,692	488,742	5,482,826
TOTAL REVENUE	15,430,262	12,750,971	2,679,291	13,166,069
EXPENSES				
Operating Expenses	8,810,350	7,364,904	1,445,446	8,157,476
Depreciation/Amortization	1,361,948	1,402,598	(40,650)	1,449,616
Non-Operating Expenses	4,305,074	4,364,715	(59,641)	4,353,403
TOTAL EXPENSES	14,477,372	13,132,216	1,345,156	13,960,495
NET INCOME (LOSS)	952,889	(381,245)	1,334,134	(794,426)
Capital Contribution	0	0	0	7,000
CHANGE IN NET POSITION	952,889	(381,245)	1,334,134	(787,426)
NET POSITION BEGINNING	(22,352,434)	(21,609,293)	(743,141)	(20,821,867)
Effect of Restatement	0	(361,896)	361,896	
NET POSITION BEGINNING (as restated)	(22,352,434)	(21,971,189)	(381,245)	(21,609,293)
NET POSITION-ENDING	(\$21,399,545)	(\$22,352,434)	\$952,889	(\$21,609,293)

Following a decrease in business activity in 2012, *Operating Revenues* for 2013 increased \$2,190,549 due to strong spending in the corporate and association market segments that is most likely related to the gradual recovery from the Great Recession of 2008-2009.

Non-Operating Revenues consist of TOT receipts, leasehold income, and interest earnings. In 2013, *Non-Operating Revenues* finished greater than 2012 by \$488,742 primarily due to the growth in TOT collections. TOT collections increased by \$511,710 compared to prior year due to the continuation of strong corporate travel.

With the increase in operating revenues, *Operating Expenses* increased by \$1,445,446 compared to 2012. The increase was primarily driven from variable expenses due to the increase in business activity. *Net Income* finished \$1,334,134 better than 2012 with the growth in TOT collections and increase in operating revenues.

No capital contributions were received by the Authority in 2013 or 2012.

The *Effect of Restatement* is the result of the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. See note 10 for detailed explanation regarding this line item.

The *Change in Net Position* for 2013 was an improvement of \$952,889. The overall negative *Net Position* ending balance was expected. It arises from accruing \$4,300,805 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. 8 in the Financial Notes). The Authority's 20-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 No. 3 in the Financial Notes. The difference between the cash invested directly by the Authority in Note No. 3 and the Statement of Cash Flows is primarily the cash in a non-interest bearing checking account.

Summary Table C: **Statement of Cash Flows**

	2013	2012	2011
Net cash provided by (used in) operating activities	\$347,641	(\$983,318)	(\$453,465)
Net cash provided by (used in) non-capital financing activities	6,769,072	6,056,157	5,363,987
Net cash provided by (used in) capital & related financing activities	(5,340,562)	(4,892,763)	(4,449,345)
Net cash (used in) provided by investing activities	(384,949)	(111,700)	(86,739)
Net increases (decrease) in cash and cash equivalents	1,391,202	68,377	374,438
Beginning cash and cash equivalents	4,445,344	4,376,968	4,002,530
Ending cash and cash equivalents	\$5,836,546	\$4,445,344	\$4,376,968

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. See Note No. 4 in the Financial Notes for further information.

The next table shows the capital assets of the Authority. During 2013, the Authority invested \$257,843 in capital assets, primarily equipment purchases. During the given year, the Authority also disposed of assets with an original value of \$73,609. During 2013, accumulated depreciation increased by \$1,292,927 from 2012. The change in total capital assets for 2013 was a decrease of \$1,095,149.

The *Construction in Progress* balance of \$786,469 represents the 2013 capital projects that remain in progress and the capitalization of expenditures from past years for the preliminary architectural work that was performed for the pursuit of expanding Meydenbauer Center. While the expansion project has been temporarily halted due to the effects of the Great Recession of 2008-2009 and other factors, it has been determined by management that the architectural design holds value and can be used when the project restarts at a later date.

Summary Table D: **Capital Assets**

	2013	2012	2011
Building	\$49,477,814	\$49,401,966	\$49,401,966
Equipment	4,683,056	4,574,670	4,600,989
Less: accumulated depreciation	(27,054,048)	(25,761,122)	(24,443,384)
Construction in Progress	786,469	772,925	604,274
Total Capital Assets	\$27,893,291	\$28,988,440	\$30,163,845

B. Long-Term Debt

The construction of the convention center and theatre was financed through 1991 (Series A & 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 2013, the Authority held \$13,609,365 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. See Note No. 8 in the Financial Notes for details on the Authority's long-term debt.

Summary Table E: **Outstanding Bonded Debt**

	2013	2012	2011
Series 1991B	\$3,809,282	\$4,568,206	\$5,302,756
Series 1994	9,784,566	10,175,929	10,596,935
Gain on Refunding	15,517	20,104	25,106
Total Outstanding Bonded Debt	\$13,609,365	\$14,764,239	\$15,924,797

V. ECONOMIC FACTORS AND CONDITIONS THAT MAY IMPACT FINANCES

TOT Revenues – The Bellevue lodging market continues to experience strong corporate travel. The 2013 TOT Study performed by Collier PKF Consulting USA forecasts the continuation of a strong demand in 2014 coupled with an increase in room rate growth in excess of inflation for the next five year time period, 2014-2018. 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 cautiously optimistic that business activity will remain strong in 2014, but with a small decrease from 2013.

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, 2013 and 2012

	2013	2012 (as restated)
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents		
Cash on hand and in bank	\$2,018,783	\$771,415
Leasehold reserve	947,508	946,199
Repair, replacement, and enhancement reserve	1,306,936	1,166,570
Total cash and cash equivalents	<u>4,273,227</u>	<u>2,884,184</u>
Receivables, net	445,221	715,514
Due from Primary Government	877,398	953,179
Other Receivables	5,179	18,181
Total receivables, net	<u>1,327,798</u>	<u>1,686,874</u>
Inventories	74,712	76,681
Smallwares inventories	391,667	367,583
Prepaid expenses	164,168	183,322
Total current assets	<u>6,231,572</u>	<u>5,198,644</u>
Noncurrent assets:		
Restricted cash and cash equivalents		
Debt service reserve fund	1,269,099	1,267,346
Operating reserve	294,220	293,814
Funds on deposit with trustee:		
Bond fund	2,420,542	2,044,034
Lease purchase rent reserve	489,754	471,396
Accrued interest receivable:		
Bond fund	9,239	15,735
Lease purchase rent reserve	12,271	12,642
Total restricted cash & cash equivalents	<u>4,495,125</u>	<u>4,104,967</u>
Capital Assets		
Building	49,477,814	49,401,966
Equipment	4,683,056	4,574,671
Less: accumulated depreciation	(27,054,048)	(25,761,122)
Construction in progress	786,469	772,925
Capital assets, net of depreciation	<u>27,893,291</u>	<u>28,988,440</u>
Total noncurrent assets	<u>32,388,415</u>	<u>33,093,407</u>
TOTAL ASSETS	<u>\$38,619,987</u>	<u>38,292,051</u>

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

	2013	2012 (as restated)
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	\$194,900	\$160,972
Current portion of long term debts:		
Bonds payable-current	1,197,147	1,150,288
Accrued bond interest-current	4,285,727	3,736,883
Deposits payable	770,569	704,874
Accrued payroll	157,583	151,027
Compensated absences	81,130	64,806
Sales tax payable	45,965	41,414
Other accrued liabilities	88,974	67,199
Total current liabilities	<u>6,821,996</u>	<u>6,077,462</u>
Noncurrent liabilities:		
Special obligation revenue bonds payable	12,396,701	13,593,848
Accrued interest on revenue bonds	40,785,319	40,953,070
Total noncurrent liabilities	<u>53,182,020</u>	<u>54,546,918</u>
TOTAL LIABILITIES	<u>\$60,004,016</u>	<u>\$60,624,381</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred gain on refunding bonds	<u>15,517</u>	<u>20,103</u>
TOTAL DEFERRED INFLOWS	<u>\$15,517</u>	<u>\$20,103</u>
<u>NET POSITION</u>		
Net investment in capital assets	14,283,926	14,224,201
Restricted for:		
Bond trust fund	2,420,542	2,044,034
Lease purchase fund	489,754	471,396
Total restricted	2,910,296	2,515,430
Unrestricted	<u>(38,593,766)</u>	<u>(39,092,064)</u>
TOTAL NET POSITION	<u>(\$21,399,545)</u>	<u>(\$22,352,434)</u>

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, 2013 and 2012

	2013	2012 (as restated)
OPERATING REVENUES:		
Food & beverage	\$4,530,056	\$3,458,449
Event services	2,146,050	1,365,488
Rent	1,646,686	1,348,272
Rent credit	(651,061)	(499,301)
Parking	604,267	537,927
Theatre	298,982	272,188
Other	153,847	55,256
TOTAL OPERATING REVENUES	<u>8,728,828</u>	<u>6,538,279</u>
OPERATING EXPENSES:		
Personnel	4,137,255	3,680,153
Contract labor	68,330	40,877
Other administrative and general	638,036	527,757
Cost of goods and services	2,212,560	1,554,344
Marketing	520,971	386,530
Utilities and maintenance	684,281	660,935
Parking	143,862	133,185
Theatre operating expenses	405,055	381,121
Depreciation	1,366,536	1,363,296
Amortization	(4,587)	39,301
TOTAL OPERATING EXPENSES	<u>10,172,299</u>	<u>8,767,501</u>
OPERATING INCOME (LOSS)	<u>(1,443,471)</u>	<u>(2,229,222)</u>
NONOPERATING REVENUES (EXPENSES):		
From transient occupancy tax	6,698,385	6,186,675
Leasehold income	0	20,000
Interest income	3,049	6,017
Interest expense	(4,300,805)	(4,333,350)
Other nonoperating expense	(4,269)	(31,365)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>2,396,360</u>	<u>1,847,977</u>
INCOME (LOSS)	<u>952,889</u>	<u>(381,245)</u>
CHANGE IN NET POSITION	952,889	(381,245)
TOTAL NET POSITION-BEGINNING	(22,352,434)	(21,609,293)
Effect of restatement	0	(361,896)
TOTAL NET POSITION-BEGINNING (as restated)	<u>(22,352,434)</u>	<u>(21,971,189)</u>
TOTAL NET POSITION-ENDING	<u>(\$21,399,545)</u>	<u>(\$22,352,434)</u>

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, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Receipts from customers	\$9,077,817	\$6,500,028
Payment to suppliers	(4,615,801)	(3,813,183)
Payment to employees	(4,114,374)	(3,670,163)
Net cash (used) by operating activities	<u>347,641</u>	<u>(983,318)</u>
Cash flows from noncapital financing activities		
Contributions by municipalities and others:		
Lease purchase rent payments	5,446,666	4,774,170
TOT operating payments	1,327,500	1,293,480
Leasehold income	0	20,000
Site lease and related costs	(64)	(12)
RREF expense	(5,030)	(31,481)
Net cash provided by noncapital financing activities	<u>6,769,072</u>	<u>6,056,157</u>
Cash flows from capital and related financing activities		
Interest paid to bondholders	(3,919,713)	(3,549,444)
Principle paid to bondholders	(1,150,287)	(1,155,556)
Capital expenditures	(271,387)	(187,891)
Proceeds from sales of fixed assets	825	128
Net cash (used) by capital and related financing activities	<u>(5,340,562)</u>	<u>(4,892,763)</u>
Cash flows from investing activities		
Sale/maturity (purchase) of investment securities and funding of reserves:		
Bond fund	(376,508)	(68,154)
Lease purchase rent reserve	(18,357)	(48,853)
Interest received on investments	9,916	5,307
Net cash (used) provided by investing activities	<u>(384,949)</u>	<u>(111,700)</u>
Net increase (decrease) in cash and cash equivalents	1,391,202	68,376
Balance - beginning of the year	4,445,344	4,376,968
Balance - end of the year	<u><u>\$5,836,546</u></u>	<u><u>\$4,445,344</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	(\$1,443,471)	(\$2,229,222)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	1,361,949	1,402,598
Change in assets and liabilities:		
Receivables	282,436	(238,835)
Allowance for doubtful accounts	858	(2,932)
Inventories	1,969	(12,665)
Smallwares inventories	(24,085)	(21,805)
Prepaid expenses	19,155	(29,818)
Deposits payable	65,695	203,514
Wages and benefits payable	6,556	11,718
Compensated absences payable	16,325	(1,728)
Accounts payable	33,928	(57,758)
Sales tax payable	4,551	(8,200)
Other accrued liabilities	21,775	1,815
Total change in assets and liabilities	<u>1,791,112</u>	<u>1,245,904</u>
Net cash (used) by operating activities	<u><u>\$347,641</u></u>	<u><u>(\$983,318)</u></u>

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, 2013 and 2012

	2013	2012
Cash and cash equivalents		
Current assets		
Cash on hand and in bank	\$2,018,783	\$771,415
Reserved assets		
Leasehold fund	947,508	946,199
Repair, replacement, and enhancement fund	1,306,936	1,166,570
CASH AND CASH EQUIVALENTS	<u>4,273,227</u>	<u>2,884,184</u>
 Restricted cash		
Debt service reserve fund	1,269,099	1,267,346
Operating fund	294,220	293,814
RESTRICTED CASH	<u>1,563,319</u>	<u>1,561,160</u>
 TOTAL RESTRICTED AND UNRESTRICTED CASH	<u><u>\$5,836,546</u></u>	<u><u>\$4,445,344</u></u>

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

BELLEVUE CONVENTION CENTER AUTHORITY

Notes to the Financial Statements

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

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 (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.

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.

Note 1 - Continued:

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.

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.

Note 1 - Continued:

Beginning with the 2012 Financial Statements, the Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Beginning with the 2013 Financial Statements, the Authority implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement was adopted retroactively by restating the financial statements for all periods presented. See Note 10 for detail on amounts restated for the 2012 fiscal year.

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.

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 consist of a 60-day accrual for payments due from the City or other governmental entities. (See Note 9 - 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.

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

Note 1 - Continued:

Finance Plan and the remaining balance is transferred to the Maintenance and Operations Fund, if applicable. (See Note 3 for details).

Capital Assets and Depreciation - Capital expenditures are recorded at cost. The Authority capitalizes expenditures over \$5,000 that materially increases the asset life. Capital Assets are defined as those assets over \$5,000 with a minimum useful life of three years. Per the following table of estimated useful lives, depreciation is computed using the straight-line method (See Note 4).

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

Construction In Progress - This account includes the expenditures of 2013 capital projects that remain in progress and the capitalization of expenditures from past years for the preliminary architectural work that was performed for the pursuit of expanding Meydenbauer Center. The expansion project is considered temporarily halted due to the effects of the Great Recession of 2008-2009 and other factors. It has been determined by management that the design work holds value and can be used when the project resumes at a later date.

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 following table below provides the itemization of the unrestricted net position.

	2013	2012 (as restated)
Unrestricted net position		
Reserved for:		
Debt service reserve fund	\$1,269,099	\$1,267,346
Operations	294,220	293,814
Debt service	9,240	15,734
Repair, replacement, and enhancement	1,306,936	1,166,570
Leasehold	947,508	946,199
Bonds payable current	1,197,147	1,150,288
Construction in Progress	(786,469)	(772,925)
Unreserved	(43,784,335)	(42,415,950)
Current Year Income (Loss)	952,889	(743,141)
Total unrestricted net position	(\$38,593,766)	(\$39,092,064)

Note 1 – Continued:

As of December 31, 2013, total net position reflects a negative balance of \$21,399,545. This situation was expected and primarily arises because the Series 1991B and Series 1994 bonds are deferred interest bonds, where all of the interest is paid at the time of bond redemption. Generally accepted accounting principles require that the interest due is accrued in the financial statements to reflect the future obligation. However, it is important to note that the cash flows projected in the annual finance plan are expected to meet all obligations as they come due. Until a majority of the bonds are paid, the negative unrestricted net asset balance is anticipated to grow over the foreseeable future.

Revenues and Expenses

Operating Revenues - This is primarily revenues received from customers for both Convention Center and Theatre usage and 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 1991A, Series 1991B, and 1994 bonds (see Note 7). Both the Lease Purchase Rent and Operating payments are paid to the Authority from the Transient Occupancy Tax (TOT) receipts of the City (Note 9).

The Operating payment amount is equal to the TOT receipts of the City less the payment for lease purchase rent and other amounts (Note 9).

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.

In May 2006, the Authority entered into an agreement with The Bravern I, LLC to sublease the adjacent land parcel to the north of the Convention Center to Schnitzer for construction staging. The lease expired June 2010 but in 2012 the Authority did receive a final settlement payment in the amount of \$20,000.

Note 1 - Continued:

Non-Operating Revenues also include interest earnings from investments as discussed in Note 3.

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 8 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.

Effect of Restatement – This line represents the effect of the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. See note 10 for detailed explanation regarding this line item.

Note 2 - Stewardship, Compliance, and Accountability

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

Reserves - For 2013, all of the BCCA's reserves were funded in accordance with the Finance Plan.

Note 3 - Deposits and Investments

As of December 31, 2013 and 2012, 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 \$3,049 in 2013 and \$6,017 in 2012. Interest earnings are down compared to past years due to the slow recovery from the Great Recession of 2008-2009.

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. 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.

Note 3 - Continued:

Investments held on December 31, 2013 and 2012 are summarized in the following table.

	Risk Category	2013		2012		Fund
		Carrying Amount	Market Value	Carrying Amount	Market Value	
Securities held by Trustee Bank for less than one year						
Treasury Bills	1	\$489,754	\$489,754	\$471,396	\$471,396	Lease Purchase Rent Reserve
Total Trustee Securities		489,754	489,754	471,396	471,396	
Securities held directly by Authority						
U.S. Bank Municipal Investor Account	NA	14,029	14,029	14,028	14,028	Various Funds [1]
Local Government Investment Pool	NA	5,056,810	5,056,810	3,900,226	3,900,226	Various Funds
Total Directly Held Securities		5,070,839	5,070,839	3,914,255	3,914,255	
TOTAL INVESTMENTS		\$5,560,593	\$5,560,593	\$4,385,651	\$4,385,651	
Allocation of Directly Held Securities						
		\$1,239,048	\$1,239,048	\$226,298	\$226,298	Maintenance and Operations [1]
		294,220	294,220	293,814	293,814	Operating Reserve Fund
		947,508	947,508	946,199	946,199	Leasehold Rent Reserve Fund
		1,306,936	1,306,936	1,166,570	1,166,570	Repair, Replacement, & Enhancement Fund
		1,269,099	1,269,099	1,267,346	1,267,346	Debt Service Reserve Fund
Total Securities Directly Held in Local Government Investment Pool		\$5,056,810	\$5,056,810	\$3,900,226	\$3,900,226	

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 \$765,706 out of 2013 total \$2,018,783 *Cash on hand* and *in bank* are operating funds held in U.S. Bank checking account and on hand.

Note 4 - 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 2013 capital projects 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. Although the expansion project has been temporarily halted due to the Great Recession of 2008-2009 and other factors, it has been deemed by management that the architectural designs retain value and can be utilized when the project is restarted at a later date.

Note 4 Continued:

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

Activities	2013				2012				Change
	Beginning Balance 01/01/2013	Increases	Decreases	Ending Balance 12/31/2013	Beginning Balance 01/01/2012	Increases	Decreases	Ending Balance 12/31/2012	
Capital assets, not being depreciated:									
Construction in progress	\$772,925	\$130,858	(\$117,314)	\$786,469	\$604,274	\$168,651	\$0	\$772,925	\$13,544
Total capital assets, not being depreciated:	<u>772,925</u>	<u>130,858</u>	<u>(117,314)</u>	<u>786,469</u>	<u>604,274</u>	<u>168,651</u>	<u>0</u>	<u>772,925</u>	<u>13,544</u>
Capital assets, being depreciated:									
Building	49,401,966	75,849	0	49,477,814	49,401,966	0	0	49,401,966	75,849
Equipment	4,574,670	181,994	(73,609)	4,683,056	4,600,989	19,240	(45,559)	4,574,670	108,386
Total capital assets, being depreciated:	<u>53,976,636</u>	<u>257,843</u>	<u>(73,609)</u>	<u>54,160,870</u>	<u>54,002,955</u>	<u>19,240</u>	<u>(45,559)</u>	<u>53,976,636</u>	<u>184,234</u>
Less accumulated depreciation for:									
Building	(21,539,538)	(1,162,213)	0	(22,701,751)	(20,373,817)	(1,165,721)	0	(21,539,538)	(1,162,213)
Equipment	(4,221,584)	(204,322)	73,609	(4,352,297)	(4,069,567)	(197,575)	45,559	(4,221,584)	(130,713)
Total accumulated depreciation:	<u>(25,761,122)</u>	<u>(1,366,536)</u>	<u>73,609</u>	<u>(27,054,048)</u>	<u>(24,443,384)</u>	<u>(1,363,296)</u>	<u>45,559</u>	<u>(25,761,122)</u>	<u>(1,292,927)</u>
Total capital assets being depreciated, net	<u>28,215,515</u>	<u>(1,108,693)</u>	<u>\$0</u>	<u>27,106,822</u>	<u>29,559,571</u>	<u>(1,344,056)</u>	<u>0</u>	<u>28,215,515</u>	<u>(1,108,693)</u>
Capital assets, net:	<u>\$28,988,440</u>	<u>(\$977,834)</u>	<u>(\$117,314)</u>	<u>\$27,893,291</u>	<u>\$30,163,845</u>	<u>(\$1,175,405)</u>	<u>\$0</u>	<u>\$28,988,440</u>	<u>(\$1,095,149)</u>

Note 5 - 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, 2013, there were 82 participants in the Plan. Covered payroll for the year was \$ 3,094,485 out of a total annual payroll of \$3,548,122. Actual contributions by Meydenbauer Center were \$130,110; actual employee contributions were \$180,480. For 2012, there were 79 participants in the Plan. Covered payroll for the year was \$2,732,754 out of a total annual payroll of \$3,137,264. Actual contributions by Meydenbauer Center were \$113,842; actual employee contributions were \$156,317. For 2011, there were 89 participants in the Plan. Covered payroll for the year was \$2,750,230 out of a total annual payroll of \$3,296,947. Actual contributions by Meydenbauer Center were \$119,019; actual employee contributions were \$160,327.

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

Note 6 - 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 acts of God. 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 \$25,000 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 7 - 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:

2014	21,202
2015	17,662
2016	17,662
2017	16,986
2018	9,970
Total	\$83,482

Note 8 - 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

Note 8 - Continued:

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 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, 2013 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 2013 and 2012 as discussed above.

For 2013	Original Balance	Balance 12/31/12	Additions	Reductions	Balance 12/31/13
Series 1991A Bonds	\$7,165,000	\$0	\$0	\$0	\$0
Series 1991B Bonds	22,231,350	4,568,206	0	(758,924)	3,809,282
Series 1994 Bonds	13,749,073	10,175,929	0	(391,363)	9,784,566
Gain on Refunding		20,104	0	(4,587)	15,517
Total Long-Term Debt		\$14,764,239	\$0	(\$1,154,875)	\$13,609,365
Interest Payable					
1991 Bonds	NA	\$16,394,113	\$1,468,702	(\$2,871,076)	\$14,991,739
1994 Bonds	NA	28,295,841	2,832,104	(\$1,048,637)	30,079,308
Total Interest Payable		\$44,689,954	\$4,300,806	(\$3,919,713)	\$45,071,047

Note 8 - Continued:

For 2012	Original Balance	Balance 12/31/11	Additions	Reductions	Balance 12/31/12
Series 1991A Bonds	\$7,165,000	\$0	\$0	\$0	\$0
Series 1991B Bonds	22,231,350	5,302,756	0	(734,550)	4,568,206
Series 1994 Bonds	13,749,073	10,596,935	0	(421,006)	10,175,929
Gain on Refunding		25,106	0	(5,002)	20,104
Total Long-Term Debt		\$15,924,797	\$0	(\$1,160,559)	\$14,764,239
Interest Payable					
1991 Bonds	NA	\$17,332,490	\$1,602,073	(\$2,540,450)	\$16,394,113
1994 Bonds	NA	26,573,557	2,731,278	(1,008,994)	28,295,841
Total Interest Payable		\$43,906,047	\$4,333,351	(\$3,549,444)	\$44,689,954

The principal amount of bonds outstanding at the end of 2013 and 2012 is as follows:

	2013	2012
Current portion of long term debts:		
Series 1991B	\$753,496	\$758,924
Series 1994	443,651	391,363
Sub-total	1,197,147	1,150,288
Non-current portion of long term debts		
Series 1991B	3,055,786	3,809,282
Series 1994	9,340,915	9,784,566
Gain on refunding (net of acc. amort.)	15,517	20,103
Sub-total	12,412,218	13,613,951
Total long term debts:		
Series 1991B	3,809,282	4,568,207
Series 1994	9,784,566	10,175,929
Gain on refunding (net of acc. amort.)	15,517	20,103
Total	\$13,609,365	\$14,764,239
Accrued interest on revenue bond:		
Beginning Balance	\$44,689,954	\$43,906,047
Addition	381,092	783,907
Ending Balance	\$45,071,046	\$44,689,954

Note 8 - Continued:

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

	Principal	Interest	Total
2014	1,197,147	4,482,853	5,680,000
2015	1,004,505	4,020,495	5,025,000
2016	1,246,293	5,353,707	6,600,000
2017	1,227,783	5,817,217	7,045,000
2018	1,204,467	6,320,533	7,525,000
2019-2023	5,449,878	33,615,122	39,065,000
2024-2025	2,263,775	17,836,225	20,100,000

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. Because interest due continues to accrue as a non-current obligation, the negative Total Net Position balance is anticipated to grow over the foreseeable future. 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 30-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 2013 and 2012.

Note 9 - 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.

Note 9 - Continued:

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.

Transactions

Transactions between the Authority and the City in 2013 and 2012 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 2013 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 2013 Payments (1991/1994 Bond and Operating funds) \$6,698,385

Total 2012 Payments (1991/1994 Bond and Operating funds) \$6,186,675

Total Accounts Receivable from the City as of December 31, 2013 includes:

	2013	2012
TOT Payments	\$877,398	\$953,179

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

	2013	2012
City Oversight	\$8,750	\$18,494

Operating Transfers from/to the City:

In 2013, the Authority did not receive *Transfers In* from the City and did not make *Transfers Out* to the City.

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.

Note 9 - Continued:

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.

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 2013 and 2012. In 2013, less the deduction for the 1995 and 2010 Debt Service, TOT revenues increased by \$511,710 or 8% over 2012. The variance is a positive indication that corporate travel remains strong within the local lodging industry.

Note 9 - Continued:

	2013	2012
TOT Revenues	\$8,101,790	\$7,608,833
Deduction for 1995 & 2010 Debt Service	(1,403,404)	(1,422,158)
Non-Operating Revenues/TOT Reported	\$6,698,385	\$6,186,675

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 2013 and 2012, the Authority did not receive contributions from the FOEA.

Note 10 – 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 is 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, for all periods presented.

The following table shows restated amounts of effected balances within the financial statements:

	2012 As Previously Reported	Effect of Restatement	2012 As Restated
Deferred debt issue costs	\$361,896	(\$361,896)	\$0
Special obligation revenue bonds payable	13,613,951	(20,103)	13,593,848
Total liabilities	60,644,484	(20,103)	60,624,381
Unrestricted net position	38,730,169	361,896	39,092,064
Total net position - ending	21,990,538	361,896	22,352,434

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.



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