

Washington State Auditor's Office
Financial Statements Audit Report

Bellevue Convention Center Authority
(Meydenbauer Center)
King County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010190

Issue Date
August 5, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

August 5, 2013

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,

TROY KELLEY
STATE AUDITOR

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Clark County
January 1, 2012 through December 31, 2012**

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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, 2012 through December 31, 2012**

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, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 31, 2013. During the year ended December 31, 2012, the Authority implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

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

May 31, 2013

Independent Auditor's Report on Financial Statements

Meydenbauer Center King County January 1, 2012 through December 31, 2012

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, 2012 and 2011, 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 the Meydenbauer Center, as of December 31, 2012 and 2011, 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 2012, the Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. 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 May 31, 2013 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.

Handwritten signature of Troy X. Kelley in cursive script.

TROY KELLEY
STATE AUDITOR

May 31, 2013

Financial Section

**Meydenbauer Center
King County
January 1, 2012 through December 31, 2012**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2012

BASIC FINANCIAL STATEMENTS

Statement of Net Positions – 2012 and 2011

Statement of Revenues, Expenses, and Changes in Net Position – 2012 and 2011

Statement of Cash Flows – 2012 and 2011

Notes to the Financial Statements – 2012 and 2011

Management's Discussion and Analysis For the Year Ending December 31, 2012

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, and No. 63. 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**

	2012	2011	Difference	2010
ASSETS				
Current Assets	\$5,198,644	\$4,707,782	\$490,862	\$4,218,878
Restricted Cash and Cash Equivalents	4,104,967	3,984,657	120,310	3,887,278
Deferred Charges	361,896	406,199	(44,304)	450,678
Capital Assets (Net of depreciation)	28,988,440	30,163,845	(1,175,405)	31,501,577
TOTAL ASSETS	38,653,946	39,262,483	(608,537)	40,058,411
LIABILITIES AND FUND EQUITY				
Current Liabilities	6,077,462	5,578,795	498,667	5,225,192
Non-current Liabilities	54,567,022	55,292,981	(725,959)	55,655,086
TOTAL LIABILITIES	60,644,484	60,871,776	(227,292)	60,880,278
NET POSITION				
Net Investment in Capital Assets	14,224,201	14,239,047	(14,846)	14,409,241
Restricted	2,515,430	2,398,424	117,006	2,304,265
Unrestricted	(38,730,169)	(38,246,764)	(483,405)	(37,535,373)
TOTAL NET POSITION	(\$21,990,538)	(\$21,609,293)	(\$381,245)	(\$20,821,867)

Assets

For 2012, *Current Assets* experienced positive growth in the amount of \$490,862 over 2011 with strong growth in TOT receipts and solid ending balance for net receivables. *Current Assets* were strengthened when the Authority collected \$711,910 in TOT receipts over prior year. Even though the business activity for the convention center finished below 2011, the ending balance for net receivables ended strong with a solid performance during Fourth Quarter. The growth in *Current Assets* was partially offset with a net operating loss of \$826,625, less depreciation and amortization.

The increase in the *Restricted Cash and Cash Equivalents* balance by \$120,310 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 \$1,175,405 includes building improvements offset with deductions for depreciation.

Liabilities

The growth in *Current Liabilities* of \$498,667 was primarily led by a planned \$354,575 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 \$725,959 was the result of the net changes (principle paid minus interest accrued) in the Authority's long-term obligations. *Non-Current Liabilities* include \$40,953,071 of accrued interest due in future years compared to \$40,523,739 at the end of 2011. This situation was expected and arises because the Series 1991B and Series 1994 bonds were issued as deferred interest bonds. As a result, all of the interest will be paid at the time of bond redemption. Cash flows projected in the annual finance plan are expected to meet all debt obligations as they come due.

Total Net Position

As of December 31, 2012, *Total Net Position* reflected a negative balance of \$21,990,538. 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 2012 and 2011, the overall total decrease in net position for the given year is \$48,087. This is based on the adjusted total amounts of \$18,962,533 for 2012 and \$18,914,446 for 2011.

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**

	2012	2011	Difference	2010
REVENUES				
Operating Revenues	\$6,538,279	\$7,683,243	(\$1,144,964)	\$6,582,911
Non-Operating Revenues	6,212,692	5,482,826	729,866	4,852,832
TOTAL REVENUE	12,750,971	13,166,069	(415,098)	11,435,743
EXPENSES				
Operating Expenses	7,364,904	8,157,476	(792,572)	7,253,952
Depreciation/Amortization	1,402,597	1,449,616	(47,019)	1,479,954
Non-Operating Expenses	4,364,715	4,353,403	11,312	4,329,507
TOTAL EXPENSES	13,132,216	13,960,495	(828,279)	13,063,413
NET INCOME (LOSS)	(381,245)	(794,426)	413,181	(1,627,670)
Capital Contribution	0	7,000	(7,000)	8,000
CHANGE IN NET POSITION	(381,245)	(787,426)	406,181	(1,735,112)
NET POSITION-BEGINNING	(21,609,293)	(20,821,867)	(787,426)	(19,086,755)
NET POSITION-ENDING	(\$21,990,538)	(\$21,609,293)	(\$381,245)	(\$20,821,867)

Following robust business activity in 2011, *Operating Revenues* for 2012 decreased \$1,144,964 due to a slowdown 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 2012, *Non-Operating Revenues* finished greater than 2011 by \$729,866 primarily due to the growth in TOT collections. TOT collections increased by \$711,910 compared to prior year due to the continuation of strong corporate travel.

In response to the decline in operating revenues, *Operating Expenses* decreased by \$792,572 compared to 2011. Bottom line, *Net Income* finished \$413,181 better than 2011 with the growth in TOT collections and reduction in operating expenses.

No capital contributions were received by the Authority in 2012. The 2011 *Capital Contribution* amount reflects a contribution from the Friends of Eastside Arts to assist with the funding of a new dance floor and lighting for the Theatre.

The *Change in Net Position* for 2012 was a decrease of \$381,245. The negative balance was expected. It arises from accruing \$4,333,350 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**

	2012	2011	2010
Net cash provided by (used in) operating activities	(\$983,318)	(\$453,465)	(\$751,384)
Net cash provided by (used in) non-capital financing activities	6,056,157	5,363,987	4,660,642
Net cash provided by (used in) capital & related financing activities	(4,892,763)	(4,449,345)	(4,345,304)
Net cash (used in) provided by investing activities	(111,700)	(86,739)	(115,445)
Net increases (decrease) in cash and cash equivalents	68,376	374,438	(551,491)
Beginning cash and cash equivalents	4,376,968	4,002,530	4,554,021
Ending cash and cash equivalents	\$4,445,344	\$4,376,968	\$4,002,530

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 2012, the Authority invested \$19,240 in capital assets, specifically equipment purchases. During the given year, the Authority also disposed assets with an original value of \$45,558. For 2012, the change in capital assets was a reduction of \$26,318.

The *Construction in Progress* balance of \$772,925 represents the 2012 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**

	2012	2011	2010
Building	\$49,401,966	\$49,401,966	\$49,389,337
Equipment	4,574,671	4,600,989	4,601,994
Less: accumulated depreciation	(25,761,122)	(24,443,384)	(23,094,028)
Construction in Progress	772,925	604,274	604,274
Total Capital Assets	\$28,988,440	\$30,163,845	\$31,501,577

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 2012, the Authority held \$14,764,239 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 an addition to bonds payable 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**

	2012	2011	2010
Series 1991B	\$4,568,206	\$5,302,756	\$6,012,556
Series 1994	10,175,929	10,596,935	11,049,375
Gain on Refunding	20,104	25,106	30,405
Total Outstanding Bonded Debt	\$14,764,239	\$15,924,797	\$17,092,336

V. ECONOMIC FACTORS AND CONDITIONS THAT MAY IMPACT FINANCES

TOT Revenues – The Bellevue lodging market continues to experience strong corporate travel. The 2012 TOT Study performed by Collier PKF Consulting USA forecasts the continuation of a strong demand in 2013 coupled with an increase in room rate growth in excess of inflation. Subject to a downturn in the economy, 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 be stronger in 2013 compared to given year, subject to a downturn in the economy.

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, 2012 and 2011

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents		
Cash on hand and in bank	\$771,415	\$1,227,714
Leasehold reserve	946,199	924,631
Repair, replacement, and enhancement reserve	1,166,570	666,057
Total cash and cash equivalents	<u>2,884,184</u>	<u>2,818,402</u>
Receivables, net		
Due from Primary Government	715,514	475,342
Other Receivables	953,179	834,153
Total receivables, net	<u>1,686,874</u>	<u>1,326,082</u>
Inventories		
Smallwares inventories	76,681	64,016
Prepaid expenses	367,583	345,778
Total current assets	<u>5,198,644</u>	<u>4,707,782</u>
Noncurrent assets:		
Restricted cash and cash equivalents		
Debt service reserve fund	1,267,346	1,265,240
Operating reserve	293,814	293,326
Funds on deposit with trustee:		
Bond fund	2,044,034	1,975,880
Lease purchase rent reserve	471,396	422,544
Accrued interest receivable:		
Bond fund	15,735	13,530
Lease purchase rent reserve	12,642	14,137
Total restricted cash & cash equivalents	<u>4,104,967</u>	<u>3,984,657</u>
Deferred Charges		
Bond issue costs 1991 (net of amortization)	73,312	91,561
Bond issue costs 1994 (net of amortization)	288,584	314,638
Total deferred charges	<u>361,896</u>	<u>406,199</u>
Capital Assets		
Building	49,401,966	49,401,966
Equipment	4,574,671	4,600,989
Less: accumulated depreciation	(25,761,122)	(24,443,384)
Construction in progress	772,925	604,274
Capital assets, net of depreciation	<u>28,988,440</u>	<u>30,163,845</u>
Total noncurrent assets	<u>33,455,303</u>	<u>34,554,701</u>
Total assets	<u>38,653,946</u>	<u>39,262,483</u>

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

	2012	2011
LIABILITIES		
Current liabilities:		
Accounts payable	160,972	218,730
Current portion of long term debts:		
Bonds payable-current	1,150,288	1,155,555
Accrued bond interest-current	3,736,883	3,382,308
Deposits payable	704,874	501,360
Accrued payroll	151,027	139,309
Compensated absences	64,806	66,534
Sales tax payable	41,414	49,614
Other accrued liabilities	67,199	65,385
Total current liabilities	<u>6,077,462</u>	<u>5,578,795</u>
Noncurrent liabilities:		
Special obligation revenue bonds payable	13,613,951	14,769,242
Accrued interest on revenue bonds	40,953,071	40,523,739
Total noncurrent liabilities	<u>54,567,022</u>	<u>55,292,981</u>
Total liabilities	<u>60,644,484</u>	<u>60,871,776</u>
NET POSITION		
Net investment in capital assets	14,224,201	14,239,047
Restricted for:		
Bond trust fund	2,044,034	1,975,880
Lease purchase fund	471,396	422,544
Total restricted	<u>2,515,430</u>	<u>2,398,424</u>
Unrestricted	<u>(38,730,169)</u>	<u>(38,246,764)</u>
Total net position	<u>(\$21,990,538)</u>	<u>(\$21,609,293)</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, 2012 and 2011

	2012	2011
OPERATING REVENUES:		
Food & beverage	\$3,458,449	\$4,210,862
Event services	1,365,488	1,649,570
Rent	1,348,272	1,514,716
Rent credit	(499,301)	(613,816)
Parking	537,927	580,571
Theatre	272,188	284,685
Other	55,256	56,655
TOTAL OPERATING REVENUES	<u>6,538,279</u>	<u>7,683,243</u>
OPERATING EXPENSES:		
Personnel	3,680,153	3,842,094
Contract labor	40,877	70,212
Other administrative and general	527,757	548,525
Cost of goods and services	1,554,344	1,945,539
Marketing	386,530	499,412
Utilities and maintenance	660,935	722,594
Parking	133,185	129,162
Theatre operating expenses	381,121	399,938
Depreciation	1,363,296	1,410,437
Amortization	39,301	39,179
TOTAL OPERATING EXPENSES	<u>8,767,501</u>	<u>9,607,092</u>
OPERATING INCOME (LOSS)	<u>(2,229,222)</u>	<u>(1,923,849)</u>
NONOPERATING REVENUES (EXPENSES):		
From transient occupancy tax	6,186,675	5,474,765
Leasehold income	20,000	0
Interest income	6,017	8,061
Interest expense	(4,333,350)	(4,333,133)
Other nonoperating expense	(31,365)	(20,270)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>1,847,977</u>	<u>1,129,423</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>(381,245)</u>	<u>(794,426)</u>
Capital contribution	0	7,000
CHANGE IN NET POSITION	(381,245)	(787,426)
TOTAL NET POSITION-BEGINNING	<u>(21,609,293)</u>	<u>(20,821,867)</u>
TOTAL NET POSITION-ENDING	<u>(\$21,990,538)</u>	<u>(\$21,609,293)</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, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Receipts from customers	\$6,500,028	\$7,714,773
Payment to suppliers	(3,813,183)	(4,339,261)
Payment to employees	(3,670,163)	(3,828,977)
Net cash (used) by operating activities	<u>(983,318)</u>	<u>(453,465)</u>
Cash flows from noncapital financing activities		
Contributions by municipalities and others:		
Lease purchase rent payments	4,774,170	4,434,166
TOT operating payments	1,293,480	936,446
Transfer (to)/from the City of Bellevue	0	0
Leasehold income	20,000	0
Site lease and related costs	(12)	(12)
RREF expense	(31,481)	(6,613)
Net cash provided by noncapital financing activities	<u>6,056,157</u>	<u>5,363,987</u>
Cash flows from capital and related financing activities		
Interest paid to bondholders	(3,549,444)	(3,207,761)
Principle paid to bondholders	(1,155,556)	(1,162,240)
Contributed capital	0	7,000
Capital expenditures	(187,891)	(86,917)
Proceeds from sales of fixed assets	128	573
Net cash (used) by capital and related financing activities	<u>(4,892,763)</u>	<u>(4,449,345)</u>
Cash flows from investing activities		
Sale/maturity (purchase) of investment securities and funding of reserves:		
Bond fund	(68,154)	(63,829)
Lease purchase rent reserve	(48,853)	(30,329)
Interest received on investments	5,307	7,419
Net cash (used) provided by investing activities	<u>(111,700)</u>	<u>(86,739)</u>
Net increase (decrease) in cash and cash equivalents	68,376	374,438
Balance - beginning of the year	4,376,968	4,002,530
Balance - end of the year	<u>\$4,445,344</u>	<u>\$4,376,968</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	(\$2,229,222)	(\$1,923,849)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	1,402,598	1,449,616
Change in assets and liabilities:		
Receivables	(238,835)	54,085
Allowance for doubtful accounts	(2,932)	(14,504)
Inventories	(12,665)	25
Smallwares inventories	(21,805)	(45,733)
Prepaid expenses	(29,818)	(6,764)
Deposit payable	203,514	(8,054)
Accrued payroll	11,718	4,685
Compensated absences payable	(1,728)	7,314
Accounts payable	(57,758)	24,467
Sales tax payable	(8,200)	8,593
Other accrued liabilities	1,815	8,572
Retainage payable	0	(11,919)
Total change in assets and liabilities	<u>1,245,904</u>	<u>1,470,384</u>
Net cash (used) by operating activities	<u>(\$983,318)</u>	<u>(\$453,465)</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, 2012 and 2011

	2012	2011
Cash and cash equivalents		
Current assets		
Cash on hand and in bank	\$771,415	\$1,227,714
Reserved assets		
Leasehold fund	946,199	924,631
Repair, replacement, and enhancement fund	1,166,570	666,057
CASH AND CASH EQUIVALENTS	2,884,184	2,818,402
Restricted cash		
Debt service reserve fund	1,267,346	1,265,240
Operating fund	293,814	293,326
RESTRICTED CASH	1,561,160	1,558,566
TOTAL RESTRICTED AND UNRESTRICTED CASH	\$4,445,344	\$4,376,968

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.

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's accounting and reporting policies conform to generally accepted accounting principles and are regulated by the Washington State Auditor's Office. As a proprietary fund, the financial statements of the Authority are presented under the accrual basis of accounting. With this method, revenues are recognized when earned and expenses are recognized when incurred.

The Authority complies with all applicable Governmental Accounting Standards Board (GASB) pronouncements. The Authority also complies with all applicable private-sector standards of accounting and financial reporting issued prior to November 30, 1989, to the extent that those standards do not conflict or contradict GASB pronouncements.

Beginning with the 2002 Financial Statements, the Authority implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

Beginning with the 2009 Financial Statements, the Authority implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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*.

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

Bond Issue Costs - Bond issue costs are amortized using the effective interest method over the life of the related bond issue.

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 2012 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.

	2012	2011
Unrestricted net position		
Reserved for:		
Debt service reserve fund	\$1,267,346	\$1,265,240
Operations	293,814	293,326
Debt service	15,735	13,530
Repair, replacement, and enhancement	1,166,570	666,057
Leasehold	946,199	924,631
Bonds payable current	1,150,288	1,155,555
Construction in Progress	(772,925)	(604,274)
Deferred charges	361,896	406,199
Unreserved	(42,777,846)	(41,572,602)
Current Year Income (Loss)	(381,245)	(794,426)
Total unrestricted net position	(\$38,730,169)	(\$38,246,764)

As of December 31, 2012, total net position reflects a negative balance of \$21,990,538. 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.

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.

Transfers Out - This line item accounts for transfers from the Authority to the City. The Authority did not make any transfers to the City in 2012.

Note 2 - Stewardship, Compliance, and Accountability

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

Reserves - For 2012, all of the BCCA's reserves were funded in accordance with the Finance Plan.

Note 3 - Deposits and Investments

As of December 31, 2012 and 2011, 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 \$6,017 in 2012 and \$8,061 in 2011. 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.

Investments held on December 31, 2012 and 2011 are summarized in the following table.

Risk Category	2012		2011		Fund
	Carrying Amount	Market Value	Carrying Amount	Market Value	
Securities held by Trustee Bank for less than one year					
Treasury Bills	\$471,396	\$471,396	\$422,544	\$422,544	Lease Purchase Rent Reserve
Total Trustee Securities	471,396	471,396	422,544	422,544	
Securities held directly by Authority					
U.S. Bank Municipal Investor Account	14,028	14,028	14,028	14,028	Various Funds
Local Government Investment Pool	3,900,226	3,900,226	4,043,166	4,043,166	Various Funds
Total Directly Held Securities	3,914,255	3,914,255	4,057,193	4,057,193	
TOTAL INVESTMENTS	\$4,385,651	\$4,385,651	\$4,479,737	\$4,479,737	
Allocation of Directly Held Securities					
	\$226,298	\$226,298	\$893,911	\$893,911	Maintenance and Operations
	293,814	293,814	293,326	293,326	Operating Reserve Fund
	946,199	946,199	924,631	924,631	Leasehold Rent Reserve Fund
	1,166,570	1,166,570	666,057	666,057	Repair, Replacement, & Enhancement Fund
	1,267,346	1,267,346	1,265,240	1,265,240	Debt Service Reserve Fund
Total Securities Directly Held in Local Government Investment Pool	\$3,900,226	\$3,900,226	\$4,043,166	\$4,043,166	

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 2012 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 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, 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 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 10).

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:

2013	\$22,971
2014	16,216
2015	2,707
2016	2,707
2017	2,030
<u>Total</u>	<u>\$46,631</u>

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

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, 2012 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 is reported in the accompanying financial statements as an addition to bonds payable, is being recognized as an amortization expense through the year 2019 using the effective interest method. 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 2012 and 2011 as discussed above.

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

For 2011	Original Balance	Balance 12/31/10	Additions	Reductions	Balance 12/31/11
Series 1991A Bonds	\$7,165,000	\$0	\$0	\$0	\$0
Series 1991B Bonds	22,231,350	6,012,556	0	(709,800)	5,302,756
Series 1994 Bonds	13,749,073	11,049,375	0	(452,440)	10,596,935
Gain on Refunding		30,405	0	(5,298)	25,106
Total Long-Term Debt		\$17,092,336	\$0	(\$1,167,538)	\$15,924,797
Interest Payable					
1991 Bonds	NA	\$17,875,969	\$1,696,722	(\$2,240,200)	\$17,332,490
1994 Bonds	NA	24,904,705	2,636,411	(967,560)	26,573,557
Total Interest Payable		\$42,780,674	\$4,333,133	(\$3,207,760)	\$43,906,047

The principal amount of bonds outstanding at the end of 2012 and 2011 is as follows:

	2012	2011
Current liabilities:		
Series 1991B	\$758,924	\$734,550
Series 1994	391,363	421,006
Sub-total	<u>1,150,288</u>	<u>1,155,556</u>
Non-current liabilities:		
Series 1991B	3,809,282	4,568,207
Series 1994	9,784,566	10,175,929
Gain on refunding (net of acc. amort.)	20,103	25,106
Sub-total	<u>13,613,951</u>	<u>14,769,242</u>
Total long term debts:		
Series 1991B	4,568,207	5,302,756
Series 1994	10,175,929	10,596,935
Gain on refunding (net of acc. amort.)	20,103	25,106
Total	<u>\$14,764,239</u>	<u>\$15,924,798</u>
Accrued interest on revenue bond:		
Beginning Balance	\$43,906,047	\$42,780,674
Addition	783,907	1,125,373
Ending Balance	<u>\$44,689,954</u>	<u>\$43,906,047</u>

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:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	1,150,288	3,919,713	5,070,000
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
2018-2022	5,385,078	31,104,922	36,490,000
2023-2025	3,533,042	26,666,958	30,200,000

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 2012 and 2011.

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.

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 2012 and 2011 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 2012 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 2012 Payments (1991/1994 Bond and Operating funds)	\$6,186,675
Total 2011 Payments (1991/1994 Bond and Operating funds)	\$5,474,765

Total Accounts Receivable from the City as of December 31, 2012 includes:

	2012	2011
TOT Payments	<u>\$953,179</u>	<u>\$834,153</u>

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

	2012	2011
City Oversight	<u>\$18,494</u>	<u>\$19,824</u>

Operating Transfers from/to the City:

In 2012, 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.

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 2012 and 2011. In 2012, less the deduction for the 1995 and 2010 Debt Service, TOT revenues increased by \$711,911 or 13% over 2011. The variance is a positive indication that corporate travel remains strong within the local lodging industry.

	2012	2011
TOT Revenues	\$7,608,833	\$6,916,816
Deduction for 1995 & 2010 Debt Service	(1,422,158)	(1,442,051)
Non-Operating Revenues/TOT Reported	\$6,186,675	\$5,474,765

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 2012, the Authority did not receive contributions from the FOEA but in 2011 the FOEA did contribute \$7,000 to the Authority for the partial funding of a new marley dance floor and stage lighting.

Note 10 - 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.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. 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.

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