Washington State Auditor's Office

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Financial Statements Audit Report

Bellevue Convention Center Authority (Meydenbauer Center)

King County

For the period January 1, 2014 through December 31, 2014

Published June 22, 2015

Report No. 1014509

Washington State Auditor's Office

June 22, 2015

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,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

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Meydenbauer Center
King County
January 1, 2014 through December 31, 2014

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, 2014 and 2013, 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 15, 2015.

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.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 15, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Meydenbauer Center
King County
January 1, 2014 through December 31, 2014

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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 16 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 15, 2015 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.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 15, 2015

FINANCIAL SECTION

Meydenbauer Center
King County
January 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

Management's Discussion and Analysis
For the Year Ending December 31, 2014

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**

	2014	2013	Difference	2012 (as restated)
ASSETS				
Current Assets	$11,039,832	$6,231,572	$4,808,260	$5,198,644
Restricted Cash and Cash Equivalents	4,648,976	4,495,125	153,851	4,104,967
Capital Assets (Net of depreciation)	27,133,579	27,893,291	(759,712)	28,988,440
TOTAL ASSETS	**42,822,387**	**38,619,987**	**4,202,399**	**38,292,051**
LIABILITIES AND FUND EQUITY				
Current Liabilities	6,116,226	6,821,996	(705,770)	6,077,462
Non-current Liabilities	52,332,997	53,182,020	(849,023)	54,546,918
TOTAL LIABILITIES	**58,449,223**	**60,004,016**	**(1,554,793)**	**60,624,381**
DEFERRED INFLOWS OF RESOURCES				
Deferred gain on refunding	11,448	15,517	(4,068)	20,103
TOTAL DEFERRED INFLOWS	**11,448**	**15,517**	**(4,068)**	**20,103**
NET POSITION				
Net Investment in Capital Assets	14,725,429	14,283,926	441,503	14,224,201
Restricted	3,045,388	2,910,296	135,092	2,515,430
Unrestricted	(33,409,100)	(38,593,766)	5,184,666	(39,092,064)
TOTAL NET POSITION	**($15,638,284)**	**($21,399,545)**	**$5,761,261**	**($22,352,434)**

Assets

For 2014, *Current Assets* experienced positive growth in the amount of $4,202,399 over 2013. *Current Assets* were strengthened when the Authority received $4,097,076 in capital contributions from the City of Bellevue and collected $756,480 in TOT receipts over the prior year. The growth in *Current Assets* was partially offset with a net operating loss of $216,392, less depreciation and amortization.

The increase in the *Restricted Cash and Cash Equivalents* balance by $153,852 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 $759,712 includes building improvements and equipment purchases offset with deductions for depreciation.

Liabilities

The decrease in *Current Liabilities* of $705,770 was primarily led by a planned $192,642 decrease for current bonds payable and a $419,082 decrease for the current accrued interest related to the bonds. Accounts payable decreased by $90,240 from the prior year.

The decrease in *Non-Current Liabilities* of $849,023 was the result of the net changes (principle paid minus interest accrued) in the Authority's long-term obligations. *Non-Current Liabilities* include $11,392,196 in principal and $40,940,801 of accrued interest due in future years compared to $12,396,701 in principal and $40,785,319 of accrued interest at the end of 2013. 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, 2014, *Total Net Position* reflected a negative balance of $15,638,284. 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 2014 and 2013, the overall total improvement in net position for the given year is $5,916,743. This is based on the adjusted total amounts of $25,302,517 for 2014 and $19,385,774 for 2013.

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**

	2014	2013	Difference	2012 (as restated)
REVENUES				
Operating Revenues	$8,657,746	$8,728,828	($71,082)	$6,538,279
Non-Operating Revenues	7,483,490	6,701,434	782,056	6,212,692
TOTAL REVENUE	**16,141,236**	**15,430,262**	**710,974**	**12,750,971**
EXPENSES				
Operating Expenses	8,874,138	8,810,350	63,788	7,364,904
Depreciation/Amortization	1,297,383	1,361,949	(64,566)	1,402,598
Non-Operating Expenses	4,305,530	4,305,074	456	4,364,715
TOTAL EXPENSES	**14,477,051**	**14,477,373**	**(322)**	**13,132,216**
NET INCOME (LOSS)	**1,664,185**	**952,889**	**711,296**	**(381,245)**
Capital Contribution	4,097,076	0	4,097,076	0
CHANGE IN NET POSITION	**5,761,261**	**952,889**	**4,808,372**	**(381,245)**
NET POSITION BEGINNING	(21,399,545)	(22,352,434)	952,889	(21,609,293)
Effect of Restatement	0	0	0	(361,896)
NET POSITION BEGINNING	(21,399,545)	(22,352,434)	952,889	(21,971,189)
NET POSITION-ENDING	**($15,638,284)**	**($21,399,545)**	**$5,761,261**	**($22,352,434)**

Following an increase in business activity in 2013, *Operating Revenues* for 2014 slightly decreased by $71,082 primarily due to implementing a change in the reporting of audio-visual contracted sales. Starting in April 2014, the contractor directly invoiced the clients, which eliminated the audio-visual contractor revenue. The audio-visual revenue is reported by commission earned where previously revenue was reported by gross revenue.

Non-Operating Revenues consist of TOT receipts and interest earnings. In 2014, *Non-Operating Revenues* finished greater than 2013 by $782,056 primarily due to the growth in TOT collections. TOT collections increased by $756,480 compared to prior year due to the continuation of strong corporate travel.

Operating Expenses increased by $63,788 compared to 2013. The increase was primarily driven from variable expenses due to the increase in business activity. This increase, however, was offset due to implementing the change in reporting contracted audio-visual reimbursable expenses starting in April 2014. *Net Income* finished $711,296 better than 2013 with the growth in TOT collections.

$4,097,076 in capital contributions were received by the Authority in 2014 from the City of Bellevue towards a $12,481,563 renovation project. The project will be funded by two sources: $4,097,076 in land sale proceeds from the old convention center site, and $8,384,487 from future bonds issued by the City of Bellevue in 2015. No capital contributions were received in 2013.

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 the detailed explanation regarding this line item.

The *Change in Net Position* for 2014 was an improvement of $5,761,261. The overall negative *Net Position* ending balance was expected. It arises from accruing $4,219,254 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**

	2014	**2013**	**2012**
Net cash provided by (used in) operating activities	($237,854)	$347,641	($983,318)
Net cash provided by (used in) non-capital financing activities	7,291,882	6,769,072	6,056,157
Net cash provided by (used in) capital & related financing activities	(2,124,668)	(5,340,562)	(4,892,763)
Net cash (used in) provided by investing activities	(123,679)	(384,949)	(111,700)
Net increases (decrease) in cash and cash equivalents	4,805,681	1,391,202	68,377
Beginning cash and cash equivalents	5,836,546	4,445,344	4,376,968
Ending cash and cash equivalents	$10,642,227	$5,836,546	$4,445,344

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 2014, the Authority invested $208,948 in capital assets, primarily equipment purchases. During the given year, the Authority also disposed of assets with an original value of $82,330. During 2014, accumulated depreciation increased by $1,219,127 from 2013. The change in total capital assets for 2014 was a decrease of $759,712.

The *Construction in Progress* balance of $1,036,936 represents the 2014 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 2007-2009 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**

	2014	2013	2012
Building	$49,490,971	$49,477,814	$49,401,966
Equipment	4,878,847	4,683,056	4,574,671
Less: accumulated depreciation	(28,273,175)	(27,054,048)	(25,761,122)
Construction in Progress	1,036,936	786,469	772,925
Total Capital Assets	**$27,133,579**	**$27,893,291**	**$28,988,440**

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 2014, the Authority held $12,408,150 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**

	2014	2013	2012
Series 1991B	$3,055,786	$3,809,282	$4,568,206
Series 1994	9,340,915	9,784,566	10,175,929
Gain on Refunding	11,448	15,517	20,104
Total Outstanding Bonded Debt	**$12,408,150**	**$13,609,365**	**$14,764,239**

V. ECONOMIC FACTORS AND CONDITIONS THAT MAY IMPACT FINANCES

TOT Revenues – The Bellevue lodging market continues to experience strong corporate travel. The 2014 TOT Study performed by Collier PKF Consulting USA forecasts the continuation of a strong demand in 2015 with increases in room supply and room rate growth in excess of inflation for the next five year time period, 2015-2019. The TOT revenue stream is forecasted to provide funding during the five year period for the Authority's debt service requirements and net operations.

<u>Convention Center Operational Revenues</u> – Meydenbauer Center will be going through a major renovation in the summer of 2015. The convention center's 4th floor rooms and lobbies will be remodeled along with the Theatre. The renovation will close areas of the building down from approximately June 15th through September 10th. This will significantly affect Meydenbauer Center's revenues in 2015. However, construction will take place during the slowest time of the year with the least amount of financial impact.

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, 2014 and 2013

	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents		
Cash on hand and in bank	$2,673,297	$2,018,783
Leasehold reserve	948,444	947,508
Reserve renovation	3,819,225	0
Repair, replacement, and enhancement reserve	1,636,396	1,306,936
Total cash and cash equivalents	9,077,362	4,273,227
Receivables, net	325,899	445,221
Due from Primary Government	954,108	877,398
Other Receivables	37,186	5,179
Total receivables, net	1,317,193	1,327,798
Inventories	68,107	74,712
Smallwares inventories	429,845	391,667
Prepaid expenses	147,325	164,168
Total current assets	11,039,832	6,231,572
Noncurrent assets:		
Restricted assets		
Debt service reserve fund	1,270,353	1,269,099
Operating reserve	294,511	294,220
Funds on deposit with trustee:		
Bond fund	2,495,697	2,420,542
Lease purchase rent reserve	549,690	489,754
Accrued interest receivable:		
Bond fund	22,545	9,239
Lease purchase rent reserve	16,180	12,271
Total restricted assets	4,648,976	4,495,125
Capital Assets		
Building	49,490,971	49,477,814
Equipment	4,878,847	4,683,056
Less: accumulated depreciation	(28,273,175)	(27,054,048)
Construction in progress	1,036,936	786,469
Capital assets, net of depreciation	27,133,579	27,893,291
Total noncurrent assets	31,782,555	32,388,415
TOTAL ASSETS	$42,822,387	38,619,987

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

	2014	2013
LIABILITIES		
Current liabilities:		
Accounts payable	$104,660	$194,900
Current portion of long term debts:		
Bonds payable-current	1,004,505	1,197,147
Accrued bond interest-current	3,866,645	4,285,727
Deposits payable	735,029	770,569
Accrued payroll	181,570	157,583
Compensated absences	92,965	81,130
Sales tax payable	46,726	45,965
Other accrued liabilities	84,125	88,974
Total current liabilities	6,116,226	6,821,996
Noncurrent liabilities:		
Special obligation revenue bonds payable	11,392,196	12,396,701
Accrued interest on revenue bonds	40,940,801	40,785,319
Total noncurrent liabilities	52,332,997	53,182,020
TOTAL LIABILITIES	$58,449,223	$60,004,016
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on refunding bonds	11,448	15,517
TOTAL DEFERRED INFLOWS	$11,448	$15,517
NET POSITION		
Net investment in capital assets	14,725,429	14,283,926
Restricted for:		
Bond trust fund	2,495,697	2,420,542
Lease purchase fund	549,690	489,754
Total restricted	3,045,388	2,910,296
Unrestricted	(33,409,100)	(38,593,766)
TOTAL NET POSITION	($15,638,284)	($21,399,545)

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, 2014 and 2013

	2014	2013
OPERATING REVENUES:		
Food & beverage	$4,970,272	$4,530,056
Event services	1,501,786	2,146,050
Rent	1,812,813	1,646,686
Rent credit	(698,748)	(651,061)
Parking	607,209	604,267
Theatre	363,228	298,982
Other	101,185	153,847
TOTAL OPERATING REVENUES	8,657,746	8,728,828
OPERATING EXPENSES:		
Personnel	4,604,663	4,137,255
Contract labor	107,779	68,330
Other administrative and general	727,980	638,036
Cost of goods and services	1,626,104	2,212,560
Marketing	452,372	520,971
Utilities and maintenance	766,421	684,281
Parking	121,234	143,862
Theatre operating expenses	467,585	405,055
Depreciation	1,301,452	1,366,536
Amortization	(4,068)	(4,587)
TOTAL OPERATING EXPENSES	10,171,521	10,172,299
OPERATING INCOME (LOSS)	(1,513,775)	(1,443,471)
NONOPERATING REVENUES (EXPENSES):		
From transient occupancy tax	7,454,865	6,698,385
Interest income	28,625	3,049
Interest expense	(4,219,254)	(4,300,805)
Other nonoperating expense	(86,276)	(4,269)
TOTAL NONOPERATING REVENUES (EXPENSES)	3,177,960	2,396,360
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	1,664,185	952,889
Capital contribution	4,097,076	0
CHANGE IN NET POSITION	5,761,261	952,889
TOTAL NET POSITION-BEGINNING	(21,399,545)	(22,352,434)
TOTAL NET POSITION-ENDING	($15,638,284)	($21,399,545)

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, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Receipts from customers	$8,708,848	$9,077,817
Payment to suppliers	(4,377,859)	(4,615,801)
Payment to employees	(4,568,842)	(4,114,374)
Net cash (used) by operating activities	(237,854)	347,641
Cash flows from noncapital financing activities		
Contributions by municipalities and others:		
Lease purchase rent payments	5,754,168	5,446,666
TOT operating payments	1,623,985	1,327,500
Site lease and related costs	(14)	(64)
RREF expense	(86,257)	(5,030)
Net cash provided by noncapital financing activities	7,291,882	6,769,072
Cash flows from capital and related financing activities		
Interest paid to bondholders	(4,482,853)	(3,919,713)
Principle paid to bondholders	(1,197,147)	(1,150,287)
Contributed capital	4,097,076	0
Capital expenditures	(541,744)	(271,387)
Proceeds from sales of fixed assets	0	825
Net cash (used) by capital and related financing activities	(2,124,668)	(5,340,562)
Cash flows from investing activities		
Sale/maturity (purchase) of investment securities and funding of reserves:		
Bond fund	(75,155)	(376,508)
Lease purchase rent reserve	(59,937)	(18,357)
Interest received on investments	11,413	9,916
Net cash (used) provided by investing activities	(123,679)	(384,949)
Net increase (decrease) in cash and cash equivalents	4,805,681	1,391,202
Balance - beginning of the year	5,836,546	4,445,344
Balance - end of the year	$10,642,227	$5,836,546
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	($1,513,775)	($1,443,471)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	1,297,384	1,361,949
Change in assets and liabilities:		
Receivables	87,315	282,436
Allowance for doubtful accounts	0	858
Inventories	6,605	1,969
Smallwares inventories	(38,178)	(24,085)
Prepaid expenses	16,843	19,155
Deposits payable	(36,214)	65,695
Wages and benefits payable	23,987	6,556
Compensated absences payable	11,835	16,325
Accounts payable	(90,240)	33,928
Sales tax payable	761	4,551
Other accrued liabilities	(4,176)	21,775
Total change in assets and liabilities	1,275,922	1,791,112
Net cash (used) by operating activities	($237,854)	$347,641

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, 2014 and 2013

	2014	2013
Cash and cash equivalents		
Current assets		
Cash on hand and in bank	$2,673,297	$2,018,783
Reserved assets		
Leasehold fund	948,444	947,508
Renovation reserve	3,819,225	0
Repair, replacement, and enhancement fund	1,636,396	1,306,936
CASH AND CASH EQUIVALENTS	9,077,362	4,273,227
Restricted cash		
Debt service reserve fund	1,270,353	1,269,099
Operating fund	294,511	294,220
RESTRICTED CASH	1,564,864	1,563,319
TOTAL RESTRICTED AND UNRESTRICTED CASH	$10,642,227	$5,836,546

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.

Reserve Renovation Fund – The Reserve Renovation Fund was established in October 2014 to receive a $4,097,076 capital contribution from the City of Bellevue. Meydenbauer Center has developed a major reinvestment plan that will significantly improve the 20-year-old facility. The Capital Renovation Project totals $12,481,563. The project will be funded by two sources: $4,097,076 in land sale proceeds from the old convention center site, and $8,384,487 from future bonds issued by the City of Bellevue in 2015. Monies in the fund will be used towards the capital project for the interior spaces, exterior envelope, and technology upgrades.

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

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.

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).

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 2014 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 2007-2009 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.

	2014	2013
Unrestricted net position		
Reserved for:		
Debt service reserve fund	$1,270,353	$1,269,099
Operations	294,511	294,220
Debt service	22,545	9,239
Renovation fund	3,819,225	0
Repair, replacement, and enhancement	1,636,396	1,306,936
Leasehold	948,444	947,508
Bonds payable current	1,004,505	1,197,147
Construction in Progress	(1,036,936)	(786,469)
Unreserved	(43,032,329)	(43,784,335)
Current Year Income (Loss)	$1,664,185	$952,889
Total unrestricted net position	**(33,409,100)**	**(38,593,766)**

As of December 31, 2014, total net position reflects a negative balance of $15,633,157. 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.

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.

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.

Note 2 - Stewardship, Compliance, and Accountability

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

Reserves - For 2014, all of the BCCA's reserves were funded in accordance with the Finance Plan.

Note 3 - Deposits and Investments

As of December 31, 2014 and 2013, 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 $28,625 in 2014 and $3,049 in 2013.

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, 2014 and 2013 are summarized in the following table.

		2014		2013		
	Risk Category	Carrying Amount	Market Value	Carrying Amount	Market Value	Fund
Securities held by Trustee Bank for less than one year						
Treasury Bills	1	$549,690	$549,690	$489,754	$489,754	Lease Purchase Rent Reserve
Total Trustee Securities		549,690	549,690	489,754	489,754	
Securities held directly by Authority						
U.S. Bank Municipal Investor Account	NA	14,029	14,029	14,029	14,029	Various Funds [1]
Local Government Investment Pool	NA	9,559,701	9,559,701	5,056,810	5,056,810	Various Funds
Total Directly Held Securities		9,573,730	9,573,730	5,070,839	5,070,839	
TOTAL INVESTMENTS		**$10,123,420**	**$10,123,420**	**$5,560,593**	**$5,560,593**	
Allocation of Directly Held Securities		$1,590,770	$1,590,770	$1,239,048	$1,239,048	Maintenance and Operations [1]
		294,511	294,511	294,220	294,220	Operating Reserve Fund
		948,444	948,444	947,508	947,508	Leasehold Rent Reserve Fund
		3,819,225	3,819,225	0	0	Renovation Reserve Fund
		1,636,396	1,636,396	1,306,936	1,306,936	Repair, Replacement, & Enhancement Fund
		1,270,353	1,270,353	1,269,099	1,269,099	Debt Service Reserve Fund
Total Securities Directly Held in Local Government Investment Pool		$9,559,701	$9,559,701	$5,056,810	$5,056,810	

Notes:

[1] U.S. Bank Municipal Investor Account Fund and LGIP Maintenance and Operations Fund are part of *Cash on hand and in bank* line item reported on the Statement of Net Position. The remaining $1,068,498 out of 2014 total $2,673,297 *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 2014 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 2007-2009 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.

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

	2014				2013				
	Beginning Balance 01/01/2014	Increases	Decreases	Ending Balance 12/31/2014	Beginning Balance 01/01/2013	Increases	Decreases	Ending Balance 12/31/2013	Change
Activities									
Capital assets, not being depreciated:									
Construction in progress	$786,469	$434,206	($183,739)	$1,036,936	$772,925	$130,858	($117,314)	$786,469	$250,467
Total capital assets, not being depreciated:	786,469	434,206	(183,739)	1,036,936	772,925	130,858	(117,314)	786,469	250,467
Capital assets, being depreciated:									
Building	49,477,814	13,156	0	49,490,971	49,401,966	75,849	0	49,477,814	13,156
Equipment	4,683,056	278,121	(82,330)	4,878,847	4,574,671	181,994	(73,609)	4,683,056	195,791
Total capital assets, being depreciated:	54,160,870	291,277	(82,330)	54,369,818	53,976,636	257,843	(73,609)	54,160,870	208,948
Less accumulated depreciation for:									
Building	(22,701,751)	(1,098,274)	0	(23,800,026)	(21,539,538)	(1,162,213)	0	(22,701,751)	(1,098,274)
Equipment	(4,352,297)	(203,178)	82,325	(4,473,149)	(4,221,584)	(204,322)	73,609	(4,352,297)	(120,852)
Total accumulated depreciation:	(27,054,048)	(1,301,452)	82,325	(28,273,175)	(25,761,122)	(1,366,536)	73,609	(27,054,048)	(1,219,127)
Total capital assets being depreciated, net	27,106,822	(1,010,175)	($4)	26,096,643	28,215,515	(1,108,693)	0	27,106,822	(1,010,179)
Capital assets, net:	$27,893,291	($575,968)	($183,744)	$27,133,579	$28,988,440	($977,834)	($117,314)	$27,893,291	($759,713)

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, 2014, there were 84 participants in the Plan. Covered payroll for the year was $ 3,380,896 out of a total annual payroll of $3,944,603. Actual contributions by Meydenbauer Center were $145,074; actual employee contributions were $191,854. For 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.

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:

2015	24,772
2016	24,772
2017	24,095
2018	22,065
2019	7,355
Total	$103,060

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, 2014 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 2014 and 2013 as discussed above.

For 2014	Original Balance	Balance 12/31/13	Additions	Reductions	Balance 12/31/14
Series 1991A Bonds	$7,165,000	$0	$0	$0	$0
Series 1991B Bonds	22,231,350	3,809,282	0	(753,496)	3,055,786
Series 1994 Bonds	13,749,073	9,784,566	0	(443,651)	9,340,915
Gain on Refunding		15,517	0	(4,069)	11,448
Total Long-Term Debt		$13,609,365	$0	($1,201,215)	$12,408,150
Interest Payable					
1991 Bonds	NA	$14,991,739	$1,302,731	($3,156,504)	$13,137,966
1994 Bonds	NA	30,079,308	2,916,521	($1,326,350)	31,669,480
Total Interest Payable		$45,071,047	$4,219,252	($4,482,854)	$44,807,446

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

The principal amount of bonds outstanding at the end of 2014 and 2013 is as follows:

	2014	2013
Current portion of long term debts:		
Series 1991B	$544,934	$753,496
Series 1994	459,571	443,651
Sub-total	1,004,505	1,197,147
Non-current portion of long term debts		
Series 1991B	2,510,852	3,055,786
Series 1994	8,881,345	9,340,915
Gain on refunding (net of acc. amort.)	11,448	15,517
Sub-total	11,403,645	12,412,218
Total 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.)	11,448	15,517
Total	$12,408,150	$13,609,365
Accrued interest on revenue bond:		
Beginning Balance	$45,071,046	$44,689,954
Addition (Reduction)	(263,600)	381,092
Ending Balance	$44,807,446	$45,071,046

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
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	1,179,582	6,795,418	7,975,000
2020	539,151	2,900,849	3,440,000
2021-2025	5,994,921	41,755,080	47,750,000

Accrued Interest on Revenue Bonds - The Series 1991B and Series 1994 bonds accrue interest from the date of delivery until maturity. Interest is compounded semiannually and is payable at maturity. The line item for Accrued Interest on Revenue Bonds represents the interest accrued on these bonds that are payable in future years. The recording of accrued interest lowers the Total Net Position for a period of time. However, it is important to note that the Authority's 20-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 2014 and 2013.

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 2014 and 2013 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 2014 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 2014 Payments (1991/1994 Bond and Operating funds)	$7,454,865
Total 2013 Payments (1991/1994 Bond and Operating funds)	$6,698,385

Total Accounts Receivable from the City as of December 31, 2014 includes:

	2014	**2013**
TOT Payments	$954,108	$877,398

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

	2014	**2013**
City Oversight	$9,998	$8,750

Operating Transfers from/to the City:

In 2014, the Authority received $4,097,076 *Transfers In* from the City of Bellevue for capital contributions towards a $12,481,563 renovation project. The project will be funded by two sources: $4,097,076 in land sale proceeds from the old convention center site, and $8,384,487 from bonds issued by the City of Bellevue in 2015. The Authority did not make any *Transfers Out* to the City in 2014.

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

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

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

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

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

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

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

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

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

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

The chart below provides the detail regarding total TOT revenues and the amounts listed on the Statement of Revenues, Expenses, and Changes in Net Position comparing 2014 and 2013. In 2014, less the deduction for the 1995 and 2010 Debt Service, TOT revenues increased by $756,480 or 11% over 2013. The variance is a positive indication that corporate travel remains strong within the local lodging industry.

	2014	**2013**
TOT Revenues	$8,861,080	$8,101,790
Deduction for 1995 & 2010 Debt Service	(1,406,215)	(1,403,404)
Non-Operating Revenues/TOT Reported	$7,454,866	$6,698,385

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 2014, the FOEA contributed $3,000 to the Authority for the partial funding of a new Panasonic Projector and Lens for the Theatre, Capital Project No. 2014-20. The Authority did not receive contributions in 2013.

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 was bond issuance costs. Previous standards required that certain costs associated with the issuance of bonds, including underwriter's discounts, be recognized as an asset and amortized over the life of the bond. Statement No. 65 requires that bond issuance costs be fully expensed at issuance. Accordingly, the Authority has applied the effects of the accounting change retroactively, beginning January 1, 2012 .

Note 11 - Contingencies and Litigation

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

ABOUT THE STATE AUDITOR'S OFFICE

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