Miller & Miller, P.S.

Washington State Convention Center Public Facilities District

Financial Statements and Independent Auditor's Report

For The Years Ended December 31, 2015 and 2014

Washington State Convention Center Public Facilities District
Financial Statements and Independent Auditor's Report
December 31, 2015 and 2014
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Independent Auditor's Report

Washington State Convention Center Public Facilities District
705 Pike Street
Seattle WA 98101-2310

Report on the Financial Statements

We have audited the accompanying statements of net position of the Washington State Convention Center Public Facilities District (the District) as of December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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. 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 District'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 District'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 District as of December 31, 2015 and 2014, and the changes in its financial position and its cash flows 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 management's discussion and analysis on pages 3 through 8 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.

Miller & Miller, P.S.

Certified Public Accountants

April 26, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ending December 31, 2015 and 2014

OVERVIEW

The Washington State Convention Center Public Facilities District (District) presents the Management's Discussion and Analysis (MD&A) of its financial activities for the fifth full year of operations in 2015. The MD&A focuses on significant financial issues, provides an overview of the District's financial activity and highlights operation changes in the District's financial position.

The accompanying financial statements present the activities of the District. The District was created on July 19, 2010, by King County (Ordinance 16883), pursuant to Substitute Senate Bill 6889, which authorized the creation of the public facilities district by King County and the transfer of assets and liabilities from the nonprofit corporation, established by the Washington State Legislature in 1982, to design, construct, promote and operate the Washington State Convention Center. Prior to its formation, the District was an agency of the state of Washington, and its activities were reported in the Comprehensive Annual Financial Report (CAFR) of Washington State.

FINANCIAL HIGHLIGHTS

A. Net position increased by approximately $39 million from 2014 to 2015. The increase is due to the receipt of lodging tax revenues exceeding the District's interest costs and operating results.
B. Mid-year 2015 the District took possession and use of the Kollias property through King County condemnation. The property may be used for future expansion of the convention center facilities. The purchase involved two cash payments to Superior Court, one in July for $3,401,475 and $998,525 for full judgment in November 2015.
C. The District made its last principal payment on revenue bonds series 2010A in July 2014. The District made its first principal payment on its bond series 2010B in July 2015. As December 31, 2015, the remaining bond series 2010B is $293,580,000. Both bond series were issued November 2010, for the purpose of defeasance of state debt, to support capital improvements and to fund a common reserve.
D. For the last three years the District invoiced all services provided by subcontractors and/or the District. The subcontractors are reimbursed by the District for their portion of the sales. Aramark, the food service provider, has a management contract with the District whereby all invoices are billed through the District. Aramark is reimbursed for expenses they incurred, plus a management fee. Services provided by subcontractors are reflected both as operating revenues and operating expenses in the financial statements.
E. On January 8th, 2016, the District entered into a purchase and sale agreement with the Central Puget Sound Regional Transit Authority to purchase 9,470 square feet of land between Howell and Olive Street in downtown Seattle for $6,246,000. On January 20, 2016 the property closed; the District paid cash for the property and no liabilities were incurred.
F. King County Executive Dow Constantine and the District Board of Directors chairman Frank Finneran announced on November 18, 2015, an agreement on terms for WSCC to acquire 4 acres of the Convention Place Station (CPS) in downtown Seattle from King County, in exchange for $147 million. The CPS is the linchpin to double the capacity of the convention center. King County Metro will receive $283 million in principal and interest payments over the next 30 years. King County Metro will receive $15 million up front; interest-only payments during construction; and, from 2023 to 2045, principal and interest payments at 5 percent interest, plus an annual escalation for inflation.

OVERVIEW OF THE FINANCIAL STATEMENTS

The operations of the District are grouped into one business type fund for financial reporting purposes. The District's accounting demonstrates legal compliance and financial management over transactions related to certain functions or activities.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows (on pages 8 through 10) provide information about the activities and finances of the District as a whole.

The Statement of Net Position

The Statement of Net Position reports information about the District as a whole and about its activities in a way that helps communicate the financial condition of the District. This statement includes assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year revenues and expenses are taken into account regardless of when cash is received or paid.

The District's net position is the difference between assets and liabilities. The District does not report deferred inflows or outflows in the Statement of Net Position, because it has no items that qualify for such classification. Net position is one way to measure the District's financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial condition is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's funding structures and the condition of the District's operating assets to assess the overall financial health of the District.

The Statement of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position show the District's income and expenses during the period. All revenues earned and expenses incurred during the years ended December 31, 2015 and 2014 are reported in the District's financial statements.

The Statement of Cash Flows

The District categorizes cash inflows and outflows into four categories: 1) cash flows from operations, 2) cash flows from non-capital financing activities, 3) cash flows from capital and related financing activities and 4) cash flows from investments.

FINANCIAL ANALYSIS

CONDENSED COMPARATIVE STATEMENTS OF NET POSITION

	2015	2014	Percentage Change	2013 (Restated)*	Percentage Change
ASSETS					
Current and Other assets	$ 178,311,932	$165,980,401	7%	$185,267,894	-10%
Capital Assets	474,004,249	452,131,144	5%	452,869,843	0%
Total Assets	652,316,181	618,111,545	6%	638,137,737	-3%
LIABILITIES					
Current Liabilities	36,784,271	34,136,861	8%	81,792,405	-58%
Noncurrent Liabilities	286,450,000	293,580,000	-2%	300,819,418	-2%
Total Liabilities	323,234,271	327,716,861	-1%	382,611,823	-14%
NET POSITION					
Net invested in capital position	203,267,729	176,416,374	15%	128,943,633	37%
Restricted	16,663,513	17,542,276	-5%	16,032,490	9%
Unrestricted	109,150,668	96,436,034	13%	110,549,791	-13%
Total Net Position	$ 329,081,910	$290,394,684	13%	$255,525,914	14%

*****The 2013 Condensed Statements for Net Position have been restated to reflect a prior period adjustment related to the acceleration of premium accretion on the series 2010A bonds.

Current and other assets increased from 2014 to 2015 from lodging tax revenues that exceeded interest expense and a cash operating surplus. From 2013 to 2014 current and other assets decreased from using current assets to pay off the note on the land purchase of approximately $49 million net of lodging tax revenue that exceeded interest expense.

Capital Assets increased from 2014 to 2015 due to the purchase of real estate for potential future convention center expansion of approximately $4.4 million, cost for the Addition Project included in Construction in progress and the completion of the office space renovation; net of current year depreciation and the result of other capital asset additions and disposals. Capital Assets decreased from 2013 to 2014 because capital asset deletions and depreciation expense exceed capital asset additions.

Current liabilities increased for a variety of reasons, including increased payables from the expansion project, increases in the amount due to the state of Washington for certain lodging taxes and increases from amounts due to subcontractors for operating expenses. Current liabilities decreased from 2013 to 2014 as a short term note of $49,164,973 to purchase the Cassieford properties along Olive Street was paid off during 2014.

Net investment in capital assets increased from 2014 to 2015 from purchasing the Kollias property, Addition Project and office space renovation note discussed above. The change in net position-investment in capital assets also reflects the net effects of asset additions and disposals, bond principal payments and depreciation on capital assets. This balance increased from 2013 to 2014 due to the combination of depreciation expense, Addition Project and office space renovations. Restricted net position reflects the required reserve funds that changed between 2013, 2014 and 2015.

COMPARATIVE SCHEDULE OF CHANGES IN NET POSITION

	2015	2014	Percentage Change	2013 (Restated)*	Percentage Change
OPERATING REVENUES					
Building rent	$ 4,398,715	$ 4,616,158	-5%	$ 4,793,622	-4%
Food service	19,673,485	21,089,242	-7%	15,693,512	34%
Parking	3,618,471	3,926,927	-8%	3,775,712	4%
Facility services	2,986,364	2,882,359	4%	2,311,036	25%
Retail leases	521,279	589,322	-12%	674,638	-13%
Lodging tax for marketing	12,194,605	10,923,374	12%	9,497,334	15%
Other	1,511,486	1,354,524	12%	711,715	90%
Total Operating Revenues	44,904,405	45,381,906	-1%	37,457,569	21%
NONOPERATING REVENUES					
Lodging tax - regular	60,958,399	54,603,587	12%	47,475,270	15%
Build America Bonds subsidy	6,263,260	6,266,637		6,219,312	1%
Interest and investment income	508,520	410,692	24%	451,657	-9%
Total Revenues	112,634,584	106,662,822	6%	91,603,808	16%
OPERATING EXPENSES					
Salaries and wages	8,371,036	8,221,062	2%	7,709,052	7%
Employee benefits	5,024,720	4,783,222	5%	4,575,744	5%
Marketing services	10,415,378	9,284,615	12%	8,058,563	15%
Professional and other services	2,758,793	2,556,227	8%	2,198,826	16%
Food service	10,512,122	11,848,914	-11%	9,630,399	23%
Supplies	580,013	562,901	3%	504,557	12%
Utilities	2,711,915	2,737,809	-1%	2,593,396	6%
Repair and maintenance	1,968,191	1,607,773	22%	1,676,335	-4%
Depreciation and amortization	12,571,219	11,798,208	7%	10,738,022	10%
Other administrative and contingency	319,884	328,643	-3%	323,050	2%
Total Operating Expenses	55,233,272	53,729,374	3%	48,007,944	12%
NONOPERATING EXPENSES					
Interest expense	16,057,662	16,700,504	-4%	19,494,478	-14%
Other expense	2,656,423	1,364,174	95%	1,543,554	-12%
Total Expenses	73,947,357	71,794,052	3%	69,045,976	4%
Change in Net Position	38,687,226	34,868,770	11%	22,557,832	55%
Net Position - Beginning*	290,394,684	255,525,914	14%	232,968,082	10%
Net Position - Ending	329,081,910	290,394,684	13%	255,525,914	14%

*The 2013 Comparative Schedule of Changes in Net Position has been restated to reflect a prior period adjustment related to the acceleration of premium accretion on the series 2010A bonds. Beginning net position as of January 1, 2012 was increased by approximately $270,000 and interest expense for all years was decreased by approximately $270,000.

Operations have declined slightly from 2015 because of decreased revenues in Building rent, Food services, Parking and Retail leases. The number of events in 2015 was down 2 percent compared to 2014. Related operating expenses increased three percent. Other non-operating revenue increased from 2013 to 2015 due to increase in Lodging Tax revenue. Other non-operating expenses increased from 2014 to 2015 due to recording a loss on disposal of assets in connection with capital improvement projects. Due to the purchase of land for potential future convention center expansion in 2014 and project-related costs incurred the past four years to accomplish such expansion, the District began capitalizing interest in 2014, which explains the decrease in interest expense from 2013 to 2014.

CAPITAL ASSETS

The following schedule is a summary of the District's investment in capital assets as of December 31, 2015, 2014 and 2013:

	12/31/2015	12/31/2014	12/31/2013
Capital assets, not being depreciated			
Land	138,285,805	$133,885,805	$ 133,885,805
Construction in progress	30,159,037	14,057,556	5,627,409
Total capital assets, not being depreciated	168,444,842	147,943,361	139,513,214
Capital assets, being depreciated			
Buildings and improvements	458,857,005	448,811,904	447,597,008
Other improvements and art collection	4,893,756	4,809,651	4,796,511
Machinery/equipment/furniture/fixtures	12,752,967	11,548,566	11,691,935
Total capital assets, being depreciated	476,503,728	465,170,121	464,085,454
Less accumulated depreciation for			
Buildings	(162,696,130)	(154,044,993)	(144,392,727)
Other improvements and art collection	(1,985,119)	(1,572,607)	(1,325,438)
Machinery/equipment/furniture/fixtures	(6,263,072)	(5,364,738)	(5,010,660)
Total accumulated depreciation	(170,944,321)	(160,982,338)	(150,728,825)
Total capital assets, being depreciated, net	305,559,407	304,187,783	313,356,629
Total capital assets	$ 474,004,249	$ 452,131,144	$ 452,869,843

Capital Assets increased from 2014 to 2015 due to purchase of the Kollias property, office renovation, Addition Project and, net of current year depreciation and capital asset additions and disposals. Capital Assets decreased from 2013 to 2014 because capital asset additions were less than the depreciation expense. Additional information regarding capital assets is provided in Note 5 to the financial statements.

DEBT ADMINISTRATION

The District's bond rating is Aa3 by Moody's and A+ by Standard and Poor's.

As of December 31, 2015 the District had $286,450,000 in long term outstanding debt and $7,130,000 in the current portion of long term debt. In 2014, the District's outstanding debt was $300,554,000. The debt issued by the District in November 2010, was used to defease the state's debt, to provide for capital funding for improvement of the Convention Center and to fund a common reserve. Additional information regarding long-term debt is provided in Note 8 to the financial statements.

The District carries property insurance through Factory Mutual Insurance Company and casualty, employee dishonesty, and errors and omissions insurance through Philadelphia Insurance Companies. It participates in the state's Worker's Compensation Program.

ECONOMIC FACTORS

The District moved forward on capital improvement projects in order to ensure that its facility continues to attract profitable events and compete with the many newer and larger buildings in the western United States. The District's newest meeting and event space, The Conference Center, opened in summer 2010. It offers 71,000 square feet of high-end, configurable space, and connects seamlessly to the 344,000 square foot Washington State Convention Center. There are event bookings for the facility through 2022. There is a market for an even larger facility.

The more significant improvements in 2015 include update of fire/life/safety systems and completion of new office space with plenty of meeting rooms.

Improvements in 2016 include a building face-lift or street scape improvements on 8th Avenue and Pine Street, a new roof on a large section of the south building and with time and funds available possibly retail tenant improvements.

The District Board of Director's authorized an operating budget of $45,932,617 for fiscal 2015.

Financial Contact

The District's financial statements are designed to provide users with a general overview of the District's finances and to demonstrate accountability to the taxpayers, investors, creditors and customers of the District. If you have questions about the report, please contact the District's administrative offices at 206-694-5000. The District's financial statements can be accessed at its website: www.wscc.com .

Washington State Convention Center Public Facility District
Statement of Net Position
As of December 31, 2015 and 2014

	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	$ 24,540,128	$ 29,579,073
Restricted cash and cash equivalents	25,014,087	22,708,869
Investments	55,015,650	25,119,300
Restricted investments	19,507,970	19,563,716
Restricted investments interest receivable	5,550	77,844
Receivables (net)	635,603	760,750
Due from other governments	8,725,799	8,219,506
Prepayments and other current assets	812,834	883,870
Total Current Assets	134,257,621	106,912,928
Noncurrent Assets		
Investments	38,793,870	48,831,100
Restricted investments	4,995,500	10,002,700
Other noncurrent assets	264,941	233,673
Total Noncurrent Assets	44,054,311	59,067,473
Capital Assets		
Land	138,285,805	133,885,805
Buildings and improvements	458,857,005	448,811,904
Machinery/equipment/furniture/fixtures	12,752,967	11,548,566
Other improvements and art collection	4,893,756	4,809,651
Accumulated depreciation	(170,944,321)	(160,982,338)
Construction in progress	30,159,037	14,057,556
Total Capital Assets	474,004,249	452,131,144
Total Assets	652,316,181	618,111,545
LIABILITIES		
Current Liabilities		
Accounts payable	4,799,280	3,854,286
Salaries, benefits and taxes payable	1,097,220	1,141,744
Unearned revenue and deposits payable	2,173,808	1,941,448
Due to other governments	10,722,644	9,631,335
Interest payable	9,529,098	9,652,118
Current portion of long term debt	7,130,000	6,970,000
Other	1,332,221	945,930
Total Current Liabilities	36,784,271	34,136,861
Noncurrent Liabilities		
Bonds payable	286,450,000	293,580,000
Total Noncurrent Liabilities	286,450,000	293,580,000
Total Liabilities	323,234,271	327,716,861
NET POSITION		
Net investment in capital assets	203,267,729	176,416,374
Restricted:		
Restricted for debt service	4,973,546	6,697,209
Restricted for capital improvements	-	-
Restricted for operating reserve	11,689,967	10,845,067
Unrestricted	109,150,668	96,436,034
Total Net Position	$ 329,081,910	$ 290,394,684

The accompanying notes are an integral part of these financial statements.

Washington State Convention Center Public Facilities District
Statement of Revenue, Expenses and Changes in Net Position
For the Years Ending December 31, 2015 and 2014

	2015	2014
OPERATING REVENUES		
Building rent	$ 4,398,715	$ 4,616,158
Food service	19,673,485	21,089,242
Parking	3,618,471	3,926,927
Facility services	2,986,364	2,882,359
Retail leases	521,279	589,322
Lodging tax for marketing	12,194,605	10,923,374
Other	1,511,486	1,354,524
Total Operating Revenues	44,904,405	45,381,906
OPERATING EXPENSES		
Salaries and wages	8,371,036	8,221,062
Employee benefits	5,024,720	4,783,222
Marketing services (SCVB)	10,415,378	9,284,615
Professional and other services	2,758,794	2,556,227
Food service	10,512,122	11,848,914
Supplies	580,013	562,901
Utilities	2,711,915	2,737,809
Repair and maintenance	1,968,191	1,607,773
Depreciation and amortization	12,571,219	11,798,208
Other administrative and contingency	319,884	328,643
Total Operating Expenses	55,233,272	53,729,374
OPERATING INCOME (LOSS)	(10,328,867)	(8,347,468)
NONOPERATING REVENUES (EXPENSES)		
Lodging tax - regular	60,958,399	54,603,587
Interest and investment income	508,520	410,692
Interest expense	(16,057,662)	(16,700,504)
Build America Bonds subsidy	6,263,260	6,266,637
Loss on disposal of assets	(2,645,802)	(1,351,731)
Non-Operating Interest Expense	(7,903)	(9,610)
Other revenue (expenses)	(2,719)	(2,833)
Total Nonoperating Revenue	49,016,093	43,216,238
CHANGE IN NET POSITION	38,687,226	34,868,770
Net Position - Beginning	290,394,684	255,525,914
Net Position - Ending	329,081,910	290,394,684

The accompanying notes are an integral part of these financial statements.

Washington State Convention Center Public Facilities District
Statement of Cash Flows
For the Years Ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	32,817,013	34,384,596
Receipts from governments	12,093,328	10,718,618
Payments to suppliers	(29,061,808)	(28,882,376)
Payments to employees	(13,351,232)	(12,970,719)
Payments to or receipt from others, net	770,158	674,113
Net Cash Provided By Operating Activities	3,267,459	3,924,232
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating Portion of Lodging Taxes received	61,824,617	53,785,013
Lodging Tax received to be paid to state	16,897,590	14,969,447
Portion of Lodging Tax paid to state	(15,805,728)	(13,630,860)
Nonoperating revenues and expenses	(10,622)	(12,443)
Purchase of other noncurrent assets	(31,268)	(51,655)
Net Cash Provided By Noncapital Financing Activities	62,874,589	55,059,502
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(33,950,700)	(8,545,200)
Interest and principal paid on capital debt	(26,297,476)	(27,431,810)
Payment on note to acquire land	-	(49,234,352)
BABs subsidy received	6,263,260	6,266,637
Other receipts (payments)	-	-
Net Cash Provided (Used) By Capital and Related Financing Activities	(53,984,916)	(78,944,725)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	818,019	749,081
Investment fees	(2,568)	(2,392)
Investment purchases	(59,622,312)	(59,745,000)
Investment maturities	43,916,002	41,309,000
Net Cash Provided (Used) By Investing Activities	(14,890,859)	(17,689,311)
Net Decrease In Cash and Cash Equivalents	(2,733,727)	(37,650,302)
Cash and Cash Equivalents Balances - Beginning	$ 52,287,942	89,938,244
Cash and Cash Equivalents Balances - Ending	$ 49,554,215	$ 52,287,942
Cash and Cash Equivalents as Reflected in the Statement of Net Position:		
Cash and cash equivalents	$ 24,540,128	$ 29,579,073
Restricted cash and cash equivalents	25,014,087	22,708,869
Total Ending Cash and Cash Equivalents in the Statement of Net Position	$ 49,554,215	$ 52,287,942
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	(10,328,867)	(8,347,468)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation and amortization	12,571,219	11,798,208
Changes in operating assets and liabilities:		
Accounts Receivable	197,441	111,319
Due from Other Governments-Operating Portion	(101,277)	(204,756)
Operating Accounts Payable	283,780	287,884
Prepayments	71,036	(169,628)
Salaries, benefits and taxes payable	(44,525)	33,565
Unearned revenue and deposits payable	232,360	203,728
Other operating liabilities	386,292	211,380
Net Cash Provided (Used) By Operating Activities	$ 3,267,459	$ 3,924,232
SCHEDULE OF NON-CASH INVESTING, CAPITAL, NON CAPTIAL AND RELATED FINANCING ACTIVITY		
Capital Assets acquired by increases in accounts payable	$ 425,249	
Change in fair value of investments	$ 309,499	$ 220,895

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accompanying financial statements present the activities of the Washington State Convention Center Public Facilities District (District). The District was created on July 19, 2010, by King County Ordinance 16883, pursuant to Substitute Senate Bill 6889, which authorized the creation of the public facilities district by King County and the transfer of assets and liabilities from the nonprofit corporation, established by the Washington State Legislature in 1982, to design, construct, promote and operate the Washington State Convention Center. Prior to July 19, 2010, the District was an enterprise fund of the state of Washington, and its activities were reported in the Comprehensive Annual Financial Report (CAFR) of Washington State.

The District is an independent, governmental entity, and all of its activities are accounted for in the records of the District. All liabilities incurred by the District are required to be satisfied exclusively from the assets, credit and property of the District. The District's reporting cycle is the 12-month calendar period from January 1 through December 31.

In November 2010, the District issued bonds in the amount of $314,652,701. The proceeds were distributed on November 30, in accordance with the Official Statement for the bonds and the Transfer Agreement between the state and the District as follows: to the District for capital improvements ($21.4 million), to the state to defease Convention Center debt ($270.9 million), to an external fiscal agent to establish the common reserve ($19.5 million) and to fund bond issue costs ($2.7 million).

As of December 31, 2010, the District recorded the assets of the enterprise fund of the state of Washington, including all capital assets and a receivable from the state, in the amount of $53.2 million, which was transferred to the District on January 4, 2011. The District also recorded all of the liabilities of the state's corporation, with the exception of the long-term debt, which was defeased with the bond issue discussed in the above paragraph.

B. Component Units

The Washington State Convention Center Art Foundation, a 501(c) (3) tax exempt organization, was formed to support the public art program of the WSCC. The Art Foundation's Board of Directors is appointed by the Chair of the WSCC Board of Directors Art Committee and approved by the WSCC Board of Directors. While the WSCC Board of Directors has the ability to control which art is displayed at any point in time, it does not direct the operation of the Art Foundation. The WSCC is entitled to the assets of the Art Foundation only upon its dissolution. The Art Foundation has no employees. As such, WSCC staff provides insignificant administrative services to the Art Foundation. The total assets ($544,369), total revenues ($276,689) and total expenses ($3,126) as of December 31, 2015 for the Art Foundation are considered insignificant to the WSCC. In addition, there are no transactions between the two entities for the years ended December 31, 2015 and 2014. As such, the Art Foundation is not included in the WSCC's financial statements as either a blended or a discretely-presented component unit.

C. Basis of Accounting and Presentation

The District uses the accrual basis of accounting and the economic resources measurement focus. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of when the related cash is received or disbursed.

Amounts received but not earned at year-end are reported as unearned revenues. Earned but unbilled revenues are accrued. Amounts disbursed but not owed at year-end are reported as pre-paid expenses. Amounts owed, but for which the District has not yet been invoiced, are accrued.

The preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

D. Summary of Significant Accounting Policies

1. Policy for defining operating and non-operating revenues/expenses

   Operating revenues/expenses are distinguished from non-operating revenues/expenses based on their relationship to the primary purpose of the District, which is operating a convention center. The operating revenues of the District result from event rentals, related event fees, food service, parking and retail leases and a portion of the lodging taxes transferred to Visit Seattle for advertising and marketing. The operating expenses relate directly or indirectly to the generation of the operating revenues and include salaries and benefits, professional services, food service, depreciation, supplies, utilities, maintenance, advertising, marketing and other administrative expenses.

   The District relies on four contractors to provide specific event services for clients. Rates charged for all contractor services are approved by the District. ARAMARK has a management contract with the District and is the exclusive food and beverage provider within the center. The District recognizes in its financial statements gross food revenues and food expense. Revenues from the other three contractors are recorded as Facility Services under Operating Revenues. Edlen is the exclusive electrical and air/water/drain provider for the District. The District receives in the range of 28 to 35 percent of the revenue generated by Edlen. Edlen retains the remaining revenues and all expenses. Convention Communication Provisioners, Inc (CCPI) provides exclusive telecommunication, data and internet services. Generally the District receives 30 percent of the gross revenues and CCPI retains the remaining revenue and covers all expenses. Presentation Services Audio Visual (PSAV) is the preferred audio visual provider for the District. Generally PSAV pays the District 23 to 40 percent commission depending on the service or rented equipment provided.

   The District receives non-operating revenues from lodging taxes, investment interest earnings, insurance recoveries and capital contributions. Its non-operating expenses are mainly debt service interest payments. The District reports its interest expense net of capitalized interest on the expansion project and separately reports its subsidy from the U.S. Federal government on its Build America Bonds in non-operating revenues.

2. Policy for applying Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989

   GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* provides a codification of private-sector standards of accounting and financial reporting issued prior to December 1, 1989, to be followed in the financial statements of proprietary fund types. The District has adopted provisions of GASB Statement No. 62.

   As required by the Governmental Accounting Standards Board (GASB) the District adopted GASB Statement number 63 *Deferred Outflows and Inflows of Resources and Net Position* and implemented GASB Statement number 65 *Items Previously Reported as Assets and Liabilities* in 2012. The District has no items required to be reported as deferred outflows or deferred inflows.

3. Policy for defining cash equivalents

Cash includes the following:

a. Cash on hand.
b. Cash on demand deposit with financial institutions that can be withdrawn without prior notice or penalty.
c. Cash in management pools (e.g., the Local Government Investment Pool) that are similar to demand deposits.

Cash equivalents include highly liquid investments with the following characteristics:

a. Readily convertible to known amounts of cash.
b. Mature in such a short period of time that their values are effectively immune from changes in interest rates.

The District considers all investments, originally purchased with a three-month term or less, to be cash equivalents.

4. Policy for application of restricted versus unrestricted resources

The District applies all restricted resources to eligible expenses prior to applying unrestricted resources. For example, the District's debt covenants restrict certain resources for debt service and capital improvements, and the District applies these restricted resources to debt service and capital improvements first, before using unrestricted assets. Were there to be insufficient restricted resources for debt service and capital improvements, the District would first apply the restricted resources and compensate for any insufficiency with unrestricted resources.

E. Budgetary Information

1. Scope of Budget

The District adopts an annual operating budget by resolution no later than December 31. It adopts budgets for the debt service requirements of individual debt issues. It adopts capital projects' budgets for specific projects for a three-year period. Each year's annual operating budget is developed based on economic projections. The Board adopts a contingency amount, within which management can control spending variances.

Capital Bond budget funding carries forward until projects are completed and/or funding is exhausted.

The Board of Directors approved Resolution number 2012-6 a Capital Improvement Project Funding Program. Annually $4 million adjusted by the prior year's consumer price index will be dedicated to annually fund approved capital improvement projects. Unspent funds will carry forward but capital improvement projects must be approved annually.

The Board of Directors approved Resolution number 2010-16 that requires the establishment of an annual operating reserve based on 100 days of the budgeted expenses.

2. Amending the Budget

The District prepares a monthly comparison of budgeted amounts to actual amounts. It can amend its operating budget only by board resolution. Capital budgets are monitored throughout the length of the specific projects, and budgets are modified by board resolution.

F. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

It is the District's policy to invest all temporary cash surpluses. At December 31, 2015 and 2014, the District had $24,540,128 and $29,579,073 respectively in short-term residual investments of surplus cash reported as unrestricted cash and cash equivalents. The decrease in unrestricted cash and cash equivalents was principally due to the payment of the Addition cash payments in 2015.

2. Investments (Note 4)

It is the policy of the District to invest all public funds in accordance with governing federal, state and local statutes. The District's objectives are to ensure safety of the principal, to maintain an investment portfolio that is sufficiently liquid to meet all operating requirements, debt payments and capital purchases and to achieve a market rate of return taking into account risk constraints.

Additionally, the District maintained restricted investments with external fiscal agents, which are presented on the Statement of Net Position as restricted investments in the amount of $24,503,470 for 2015 and $29,566,416 for 2014. Unrestricted investments are $93,809,520 as of December 31, 2015 and $73,950,400 as of December 31, 2014. All investments are reported at fair value as reported by the external fiscal agent.

3. Receivables

Receivables consist of the following components:

Customer accounts receivable consist of amounts owed by private organizations for goods and services and leased retail space.

Interest receivable consists of amounts owed by financial institutions on the District's investments.

4. Due to/from Other Governments

As of December 31, 2015 and 2014, the due from other government accounts is mainly composed of Lodging Tax collected by the hotels and earned in November and December 2015 and 2014, but paid to District by the state of Washington in January and February 2016 and 2015, respectively.

5. Inventories

The District does not carry any significant inventories. It expenses operating supplies and small tools when purchased.

6. Restricted Assets and Liabilities

The District restricts certain resources based on bond covenants, board requirements and contractual arrangements. The following restrictions pertain:

Operating Reserve Account
Bond Interest and Principal Accounts
Common (debt service) Reserve Account
Retainage Accounts

7. Capital Assets (Note 5)

Capital assets include land, buildings, building improvements, machinery and equipment, furniture and fixtures, art collections and construction in progress. Assets are capitalized if the initial investment is $5,000 or greater and have an estimated useful life of more than one year. Capital assets are recorded at cost. Costs of additions or improvements are capitalized if they increase the useful life of the asset. Routine repair and maintenance costs are expensed when incurred.

Costs for capital assets under construction are capitalized, as is the net interest expense related to the debt issue supporting the project. During 2015, net interest was capitalized on the expansion project. As such, a portion of interest costs were capitalized to construction in progress and the remainder is reflected as interest expense in the statement of Revenues, Expenses and Changes in Net Position.

Capital assets in service are depreciated over their useful lives using the straight-line method. The following useful lives are used in recording depreciation expense:

Assets	Useful Lives (Years)
Buildings	50
Building Improvements	4 - 15
Equipment – Heating/Air Conditioning	13
Vehicular Equipment	13
Equipment – Furniture	2 - 10
Equipment – Communications	10
Equipment – Data Processing	4 - 10
Vehicles and All Other Equipment	5
Art Collections	Not depreciated

8. Compensated Absences

The District compensates employees for vacation and sick leave. All such leave is accrued when earned and reduced when used. Vacation leave for administrative staff may be accumulated to a maximum of 240 hours on the employee's anniversary date. Vacation leave for union staff may be accumulated to:

Years of Hours Worked	Maximum Accumulated Hours
1 - 4	96
5 – 8	120
9 – 10	128
11 – 13	136
Max	160

Sick leave for all staff may be accumulated to a maximum of 720 hours, with excess up to 96 hours payable at 25 percent annually. Part-time staff may accumulate vacation and sick leave, using a pro-rata formula based on 2080 hours annually. Upon retirement, termination or death, unused vacation leave is payable in full and unused sick leave is forfeited.

9. Unearned Revenue and Deposits Payable

The District collects certain money in advance, primarily customer deposits for future events. Until earned, these collections are presented as unearned revenue and deposits payable.

10. Restricted and Unrestricted Net Position

The District's net position is presented as net investment in capital assets, restricted and unrestricted. Restricted net position excludes capital assets, net of related debt, but includes other assets on which there are externally imposed legal restrictions. Unrestricted net assets include all other net assets. Additional details regarding the classification of net position is provided in Note 12.

G. Prior-Year Comparative Data

The current period, January 1, 2015 through December 31, 2015, is the sixth year of operating revenues and expenses reported by the District. Comparative data for the period of January 1, 2014 through December 31, 2014 are reported in the financial statements. Certain amounts have been reclassified in the comparative 2014 financial statements to conform to the presentation used in 2015.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 3 - CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

The District's cash and cash equivalents are held in multiple financial institutions and are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a pool administered by the Washington State Public Deposit Protection Commission (PDPC).

The Local Government Investment Pool (LGIP) is an unrated 2a-7 like pool, as defined by GASB 31. Accordingly, participants' balances in the LGIP are not subject to interest rate risk. In accordance with GASB 40 guidelines, the balances are also not subject to custodial 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 the LGIP are either insured or held by a third-party custody provider in the LGIP's name. The fair value of the District's pool investments is determined by the pool's share price. The District has no regulatory oversight responsibility for the LGIP which is governed by the Washington State Finance Committee and is administered by the State Treasurer. The LGIP is audited annually by the Office of the State Auditor, an independently elected public official. The LGIP is not rated and is disclosed in the financial statements as a cash equivalent.

As of December 31, 2015 and 2014, cash and cash equivalents include:

Financial Institution	2015	2014
US Bank	18,335,796	22,014,010
Local Government Investment Pool	31,172,293	30,227,807
Petty Cash/Change Funds	46,125	46,125
TOTAL	49,554,214	52,287,942

The District maintains a minimum compensating balance at US Bank of $1,600,000.

NOTE 4 – INVESTMENTS

In accordance with the District's investment policy and Washington State law, authorized investment purchases include Certificates of Deposit with financial institutions qualified by the Washington Public Deposit Protection Commission, US Treasury and Agency Securities, Bankers' Acceptances, Bonds of Washington State and any local government in Washington State which have, at the time of purchase, one of the three highest credit ratings of a nationally recognized rating agency and the State Investment Pool (which is a 2a7-like pool).

As of December 31, 2015 and 2014, the District had the following investments (in thousands):

Investments	Maturities	Moody, S & P Rating	Cost	Ending Fair Value 12/31/2014	Purchases	Sales	Ending Fair Value 12/31/2015
Fed Home LN BK	11/20/2015	AAA, AA+	$ 19,590	$19,564		$19,535	
FHLMC	9/10/2015	AAA, AA+	10,386	10,103		10,000	
FHLMC	5/13/2016	AAA, AA+	4,992	5,002			5,001
FNMA MTN	5/27/2015	AAA, AA+	14,896	15,017		15,000	
US Treas. Note	3/31/2016	AAA, NA	5,002	4,999			5,000
US Treas. Note	4/30/2016	AAA, NA	5,003	4,999			4,999
US Treas. Note	11/30/2016	AAA, NA	5,057	5,037			5,010
US Treas. Note	11/30/2016	AAA, NA	4,927	5,022			5,003
US Treas. Note	1/15/2017	AAA, NA	5,006	5,004			4,996
US Treas. Note	4/30/2017	AAA, NA	5,018	5,006			4,998
US Treas. Note	6/30/2017	AAA, NA	4,986	4,981			4,985
US Treas. Note	7/31/2017	AAA, NA	4,954	4,943			4,962
US Treas. Note	10/31/2017	AAA, NA	4,972	4,960			4,973
US Treas. Note	7/31/2016	AAA, NA	10,097		10,097		10,050
US Treas. Note	12/31/2016	AAA, NA	10,104		10,014		9,983
US Treas. Note	5/31/2018	AAA, NA	4,995		4,995		4,974
US Treas. Note	3/31/2017	AAA, NA	4,993		4,993		4,977
US Treas. Note	11/30/2017	AAA, NA	4,927	4,936			4,959
US Treas. Note	10/31/2016	AAA, NA	9,987		9,987		9,969
US Treas. Note	2/28/2018	AAA, NA	3,936	3,945			3,966
US Treas. Note (1)	11/30/2016	AAA, NA	19,536				19,508
			$ 163,364	$ 103,518	$ 40,086	$ 44,535	$ 118,313

(1)This investment is restricted for debt service.

For the year ended December 31, 2014, the change in investments is summarized as follows (in thousands):

Beginning Fair Value 12/31/2013	Purchases	Sales	Ending Fair Value 12/31/2014
$ 86,271	$ 59,745	$ 41,309	$ 103,518

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. To mitigate this risk, the District limits the maturity of any single security to five years, in accordance with its investment policy. To achieve its financial objective of ensuring liquidity most investments have shorter maturities. As detailed in the chart above investments mature from 2016 to 2018 as follows: $74,523,000 in 2016, $34,850,000 in 2017 and $8,940,000 in 2018.

Credit Risk is the risk that an issuer or other counterparty of an investment will not fulfill its obligations. To mitigate this risk, the District ensures that it adheres to the credit standards as defined in its investment policy. The Moody and S&P rating (if available) are provided in the chart above.

Concentration of Credit Risk is the risk of loss attributed to the percentage of a government's investment in a single issuer. To mitigate this risk, the District ensures that it maintains portfolio diversification as defined in its investment policy.

Custodial Credit Risk is the risk that, in the event of failure of the counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside counterparty. To mitigate this risk, the District ensures that investments are held in safekeeping at a qualified financial institution in the District's name as defined in its investment policy.

NOTE 5 – CAPITAL ASSETS

The capital assets and related changes during the years ended December 31, 2015 and 2014 are reflected in the following charts.

Asset Class	Beginning Balance January 1, 2015	Increases	Decreases	Ending Balance December 31, 2015
Capital assets, not being depreciated				
Land	$133,865,766	$4,400,000		$138,265,766
Land development costs	20,039			20,039
Construction in progress	14,057,556	32,691,565	(16,590,084)	30,159,037
Total capital assets, not being depreciated	$147,943,361	$37,091,565	($16,590,084)	$168,444,842
Capital assets, being depreciated				
Buildings and improvements	448,811,904	15,301,578	(5,256,477)	458,857,005
Other improvements and art collection	4,809,651	84,105		4,893,756
Machinery/equipment/furniture/fixtures	11,548,566	1,204,401		12,752,967
Total capital assets, being depreciated	465,170,121	$16,590,084	($5,256,477)	$476,503,728
Less accumulated depreciation for				
Buildings	(154,044,993)	(11,218,724)	2,567,587	(162,696,130)
Other improvements and art collection	(1,572,607)	(425,974)	13,462	(1,985,119)
Machinery/equipment/furniture/fixtures	(5,364,738)	(903,860)	5,526	(6,263,072)
Total accumulated depreciation	(160,982,338)	($12,548,558)	$2,586,575	($170,944,321)
Total capital assets, being depreciated, net	304,187,783	4,041,526	(2,669,902)	305,559,407
Total Capital assets	$ 452,131,144	$ 41,133,091	$ (19,259,986)	$ 474,004,249

Asset Class	Beginning Balance January 1, 2014	Increases	Decreases	Ending Balance December 31, 2014
Capital assets, not being depreciated				
Land	$ 133,865,766	$ -	$ -	$ 133,865,766
Land development costs	20,039	-	-	20,039
Construction in progress	5,627,409	12,415,023	(3,984,876)	14,057,556
Total capital assets, not being depreciated	139,513,214	12,415,023	(3,984,876)	147,943,361
Capital assets, being depreciated				
Buildings and improvements	447,597,008	3,763,361	(2,548,465)	448,811,904
Other improvements and art collection	4,809,651	-	-	4,809,651
Machinery/equipment/furniture/fixtures	11,678,795	221,515	(351,744)	11,548,566
Total capital assets, being depreciated	464,085,454	3,984,876	(2,900,209)	465,170,121
Less accumulated depreciation for				
Buildings	(144,392,726)	(10,613,791)	961,524	(154,044,993)
Other improvements and art collection	(1,286,071)	(287,313)	777	(1,572,607)
Machinery/equipment/furniture/fixtures	(5,050,028)	(897,355)	582,645	(5,364,738)
Total accumulated depreciation	(150,728,825)	(11,798,459)	1,544,946	(160,982,338)
Total capital assets, being depreciated, net	313,356,629	(7,813,583)	(1,355,263)	304,187,783
Total capital assets	$ 452,869,843	$ 4,601,440	$(5,340,139)	$ 452,131,144

NOTE 6 – DEFINED CONTRIBUTION RETIREMENT PLANS

Before transition to a public facilities district, WSCC as an agency of the state of Washington participated in a 401(k) defined contribution retirement plan for its employees under the authority of Internal Revenue Code Section 457. It continued its Retirement Contribution Plan. In the transition to a public facilities district, Internal Revenue rules required the funds in 401(k) plans be transferred into the District's 401(a) plan and the 457 plan to rollover to the District's 457(b) Plan. All of the plans when WSCC was an agency of the state of Washington and becoming a District transferred the responsibility for selecting among investment options from the plan fiduciaries to the plan participants as permitted under ERISA 404(c). The defined contribution plans are administered by RBC Wealth Management and are not considered either assets or liabilities of the District.

<u>401(a) – Compensation Deferral Plan</u>

All full-time employees are eligible for this plan upon hire, with the exception of 1) leased employees, 2) union employees, 3) non-resident aliens with no US source income and 4) individuals not eligible based on written agreement. The entry date is the first day of any month. Each employee directs how contributions are to be invested and receives an individual monthly statement of activity.

The District contributed $237,923 and $228,672 for 2015 and 2014, respectively, to the employee 401 (a) plan. The District contributes five percent based on the employee's compensation; and may match $0.50 for each dollar an employee contributes to the employee retirement contribution plan up to 6 percent of the employee's wages. Vesting in the employer contributions occurs in accordance with the following schedule:

Years of Service	Vested Percentage
Less than 2	0%
2	20%
3	40%
4	60%
5	80%
6 or more	100%

Forfeitures from non-eligible employees are netted against plan expenses. There were no forfeitures for fiscal year 2015.

457 (b) Employee Retirement Contribution Plan

All full-time employees are eligible for this plan upon hire, with the exception of 1) leased employees, 2) union employees, 3) non-resident aliens with no US source income and 4) individuals not eligible based on written agreement. The entry date is the first day of any month. Each eligible employee determines the pre-tax contribution to be withheld from gross wages, with a minimum participation of 1 percent of compensation and a maximum of $16,500 or 100 percent of includible compensation, whichever is less. Employees age 50 or older, or those within three years of retirement, may contribute an additional $5,500. Each employee directs how contributions are to be invested and receives an individual monthly statement of activity.

Employees vest in the program from inception, and they may receive benefits upon retirement, termination or death. The employee may make a pre-tax contribution to the contribution plan. All full-time non-represented employees are eligible and 100 percent vested. Employees contributed $218,986 and $201,524 in 2015 and 2014, respectively, to their 457(b) plan.

All defined contribution pension plans were established by, and can be amended by, the District's Board of Directors.

NOTE 7 – RISK MANAGEMENT

A. General Liability Insurance

The District has property and casualty insurance through Factory Mutual Insurance Company of Rhode Island through November 30, 2016, as follows: $507 million in total coverage for its facilities and operations including earthquake, flood and terrorism coverage. The total combined maximum deductible is $250,000.

B. Employee Dishonesty Insurance

The District maintains a blanket bond for employee dishonesty, with a current coverage limit of $1,000,000, with a $10,000 deductible. There were no claims against this policy in 2015.

C. Liability Insurance

The District maintains insurance through Philadelphia Indemnity Insurance Company for the following liability categories (aggregate limit): General ($3,000,000), Employee Liability ($1,000,000), Stop Gap ($1,000,000), Auto ($1,000,000); Umbrella ($10,000,000), Management ($2,000,000). No deductibles apply to these coverages, with the exception of a retention amount of $10,000 which is applicable to the Directors & Officers and Employment Practices portions of the Management Liability coverage.

There have been no settlements exceeding insurance coverage for the past three years.

NOTE 8 – LONG-TERM DEBT

A. Long-Term Debt

The District issued revenue bonds in November 2010 in the original amount of $314,652,701. The debt service is supported by the Lodging Tax, pursuant to RCW 36.100.040(4). This debt issue had three purposes:

1. Finance the transfer of the Washington State Convention Center from the state to the District.
2. Provide capital funds for renovations of the convention center.
3. Provide funds for a Common Reserve.

Revenue bonds outstanding as of December 31, 2015 and changes from 2014 are as follows:

Description	Maturity	Interest Rates	Balance 12/31/2014	Additions	Reduction	Balance 12/31/2015	Amount Due Within One Year
Bonds 2010B	2016-2040	3.92%-6.79%	$300,550,000	$ -	$(6,970,000)	$293,580,000	$7,130,000
Less Current Portion			(6,970,000)			(7,130,000)	
Long Term Portion			$ 293,580,000			$ 286,450,000	

Revenue bond outstanding as of December 31, 2014 and changes from 2013 are as follows:

Description	Maturity	Interest Rates	Balance 12/31/2013	Additions	Reduction	Balance 12/31/2014	Amount Due Within One Year
Bonds 2010A	2013-2014	5.00%	$ 6,640,000	$ -	$(6,640,000)	$ -	
Bonds 2010B	2015-2040	3.53%-6.79%	300,550,000	-	-	300,550,000	$ 6,970,000
Bond Premium			269,418		(269,418)	-	
Total Long Term Debt			307,459,418	-	(6,909,418)	300,550,000	
Less Current Portion			(6,640,000)			(6,970,000)	
Long Term Portion			$ 300,819,418			$ 293,580,000	

Revenue bond debt service requirements to maturity as of December 31, 2015 are as follows:

	2010B		Less BABs	
Year	Principal	Interest	Subsidy	Total
2016	7,130,000	19,058,196	(6,216,783)	19,971,413
2017	7,315,000	18,778,486	(6,118,970)	19,974,516
2018	7,520,000	18,462,258	(6,015,927)	19,966,331
2019	7,755,000	18,099,719	(5,897,793)	19,956,926
2020	8,005,000	17,710,342	(5,770,915)	19,944,427
2021 - 2025	44,985,000	80,929,977	(26,371,033)	99,543,944
2026 - 2030	55,765,000	64,344,417	(20,966,628)	99,142,789
2031 - 2035	69,210,000	43,665,132	(14,228,283)	98,646,849
2036 - 2040	85,895,000	18,000,290	(5,865,395)	98,029,895
Total	$ 293,580,000	$ 299,048,817	$ (97,451,727)	$ 495,177,090

As discussed in NOTE 11, Congress' sequestration measures have reduced BABs subsidies by 7.2% through 2021. The effect will increase yearly interest expense through 2021. Effects of future subsidy reductions through 2021 have been reflected in the debt service to maturity in the above maturity chart. This chart assumes that the BABs subsidy will return to 35% after 2021.

The District began capitalizing interest costs on the expansion project in 2014. Total interest cost during 2015 was $19,204,455, of which $3,146,793 was recognized as capitalized interest, resulting in recognized interest expense of $16,057,662. Total interest cost during 2014 net of the premium accretion was $19,205,121, of which $2,504,617 was recognized as capitalized interest, resulting in recognized interest expense of $16,700,504.

B. Short-Term Debt

The District issued a short-term note in 2013 for the purpose of acquiring real estate for potential future expansion. The note was issued for $49,194,146, but is reflected in the 2013 financial statements as $49,234,352 to include certain closing adjustments. This note was repaid on January 15, 2014.

NOTE 9 – LEASES

Operating Leases

The District leases office equipment under non-cancellable operating leases. The total commitments under these leases are $123,025 until the end of the leases in 2019.

Year	Operating Leases
2016	$51,604
2017	$38,753
2018	$19,893
2019	$12,775
Total	$123,025

Tenant Leasing Agreements

The District leases building space to various retail tenants. A total of 15 retail leases provided revenue of $521,279 in fiscal 2015. Lease contract terms will expire within one to four years for many of the retail tenants. It is not known if options to extend terms will be exercised, but negotiations are ongoing at this time with some retail tenants. Based on enforceable contracts on December 31, 2015, future minimum rental payments required for five succeeding years are:

Year	Lease Revenue
2016	$487,155
2017	$426,825
2018	$319,107
2019	$182,948
2020	$105,778
Total	$1,521,813

Retail spaces, separate and apart from the convention center facilities have never been recorded separately from the convention center facilities. As such, the original cost, accumulated depreciation and net carrying value of the leased assets are not available to be reported.

Other Leasing Agreements

The District earns lease revenue from real property acquired for the expansion project. These lease terms are month to month except for Republic Parking, which reverts to a month to month lease as of April 30, 2017. Leases end when pre-construction work begins on designated property. Estimated rent from these leases for 2016 is $719,693 and for 2017 is $192,800 Revenue from these leases is included in other operating revenues and was $697,590 in 2015 and $435,852 in 2014.

NOTE 10 – COMMITMENTS AND CONTIGENCIES

The District has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved, but where based on available information, management believes it is probable that the District will be assessed a liability. In the opinion of management, the District's insurance policies are adequate to pay all known or pending claims. The District terminated a contractor for its expansion project in March 2016 and on March 18, 2016 the contractor commenced litigation for wrongful termination and damages in excess of $20 million. The District intends to vigorously defend this action if a prompt settlement cannot be reached. The parties have been in settlement discussions and it is probable that the matter will settle in a range of $3 million to $4 million above the amounts currently owed for work performed under the contract prior to termination.

A. Capital Projects

The proceeds of $21,435,000 from the November 2010 debt issue are restricted for capital improvements and must be expended within a 36-month period to avoid arbitrage requirements. However, interest earned on funds not spent within the 36-month period is significantly under the original bond rates. Therefore, an arbitrage calculation for the Internal Revenue Service is not necessary.

B. Freeway Park

In February 1997, WSCC entered into a 30-year lease agreement with the city of Seattle for the 665-stall Freeway Park garage. Under this agreement, WSCC paid debt service on the $1.3 million of city bonds outstanding at the time, and the final debt service payment was made in June 2002. In accordance with the lease agreement, a capital reserve account, not to exceed $500,000, with annual maximum payments of $20,000, was set up. WSCC is responsible for all repairs and maintenance. The City of Seattle has assigned the remainder of the lease from the WSCC to the District.

Future expected capital reserve account payments required for five succeeding fiscal years are:

2016	20,000
2017	20,000
2018	20,000
2019	20,000
2020	20,000
Total	$100,000

C Airspace Lease WSDOT

On February 4, 1986, WSCC entered into a 66-year lease agreement with the Washington State Department of Transportation (WSDOT). WSDOT has assigned the remainder of the lease from WSCC to the District. Under this agreement, the WSCC leases airspace and other real property. In 1984, Shorett & Riely appraised the leased airspace and determined that its value was $12,869,000. Additionally, it was determined that qualifying site penalties were valued at $10,722,983 and qualifying rent credits were valued at $5,631,358. The payment of rent by the District may be satisfied by payments in cash or by rental credits. After the first 15 years of the lease and every 10 years thereafter, the lease shall be reviewed. In fiscal 2013, the lease payments came up for review, and with an updated appraisal in fiscal 2014, the Department of Transportation and the District agreed that the value of the rent credits more than offset annual rent. The rent cannot increase by more than 30% for any review period. For the first 25 years, the qualifying site penalties and the qualifying rent credits have offset annual rent.

D. Convention Place Station

The District and King County announced on November 18, 2015, an agreement on terms for WSCC to acquire 4 acres of the Convention Place Station (CPS) in downtown Seattle from King County, in exchange for $147 million. King County Metro will receive $283 million in principal and interest payments over the next 30 years. King County Metro will receive $15 million up front; interest-only payments during construction; and, from 2023 to 2045, principal and interest payments at 5 percent interest, plus an annual escalation for inflation. This agreement on terms is subject to the approval of the District and the King County Council. As such, recognition of this event has not been made in the 2015 financial statements.

E. Expansion-Related Commitments

In connection with the proposed convention center expansion, the District has entered into various contracts for property development, project management, architectural, engineering and construction activities. Total commitments under these agreements total $63 million as of December 31, 2015.

NOTE 11 – INFREQUENT EVENTS

BUILD AMERICA BONDS

The District made an irrevocable election to have Section 54AA of the Internal Revenue Code of 1986, apply to 2010B Bonds so that the 2010B Bonds are treated as “Build America Bonds” (BAB). Under this treatment the District has received an interest subsidy of 35% from the US Treasury. The District believed this subsidy would be intact for the life of the bonds outstanding.

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended in 2012 certain automatic reductions took place as of March 1, 2013. These required reductions of 8.9% to refundable credits under section 6431 of the Internal Revenue Code applicable to certain qualified bonds. The sequester reduction is applied to section 6431 amounts claimed by an issuer on any Form 8038-CP filed with the Service which results in a payment to such issuer on or after March 1, 2013. The sequestration reduction rate will be applied until the end of the fiscal year 2021 as a reduction to the refundable credits of 7.2%, subject to intervening Congressional action. The President's fiscal year 2017 budget proposal was released in February 2016. The current percentage reduction for fiscal year 2016 remains at 6.8 percent. The Office of Management and Budget released the sequester percentage for fiscal year 2017 through fiscal year 2025 which will be 6.9 percent.

BAB subsidy request form is Form 8038-CP. The District BAB reduction from Congress sequestration measures for 2015 was $493,223. The original 2015 annual BAB subsidy was $6,756,483, less actual BAB subsidy received of $6,263,260. It is forecasted that the 6.8 percent reduction in the 2016 BAB subsidy will be $453,585.

NOTE 12 – COMPONENTS OF NET POSITION

In accordance with GASB 34, net position is presented on the Statement of Net Position in three categories:

Net investment in capital assets
Restricted net position
Unrestricted net position

Capital assets consist of land, buildings, machinery and equipment, furniture and fixtures, art collections and construction in progress. The related debt is the debt issued to support acquisition and construction of capital assets, reduced for any unspent proceeds. *Restricted assets* are defined as assets that have been restricted by contractual agreement with external parties (e.g., debt covenants) or by law through enabling legislation. Restricted assets are reduced by related liabilities to determine restricted net position. *Unrestricted assets* include assets that have no restrictions placed on them, as well as assets that have been internally restricted (e.g., imposed by the District's Board of Directors).

The following provides detail of the components of net position as of December 31, 2015:

Category	Assets	Related Liability	Net Position
Capital assets, net of accumulated depreciation	$ 474,004,249		
Less Bonds Payable		(293,580,000)	
Plus unspent proceeds reflected as restricted below		22,843,480	
Net position invested in capital assets			$ 203,267,729
Restricted assets			
Restricted for debt service under bond covenants	34,492,080	(19,507,970)	
Interest payable to be paid from restricted assets		(9,529,098)	
Retainage payable to be paid from restricted assets		(481,466)	4,973,546
Restricted for capital improvements	3,335,510	(3,335,510)	-
Restricted for operating reserve	11,689,967		11,689,967
Restricted net position			16,663,513
Unrestricted			109,150,667
Total Net Position			$ 329,081,910

NOTE 13 – SUBSEQUENT EVENTS

On January 22, 2016, the District acquired land and related property rights from the Central Puget Sound Regional Transit Authority (Sound Transit) for $6,246,000. The District has evaluated subsequent events through April 26, 2016, the date which the financial statements were available to be issued.

As discussed in Note 10, certain legal actions occurred in March 2016.

NOTE 14 – ARBITRAGE

The 2010B Bonds are not "qualified tax-exempt obligations" due to the Build America Bonds subsidy, which the District receives to offset interest expense. The proceeds of this bond issue must be expended within 36 months to avoid arbitrage requirements. However, interests earned on funds not spent within the 36-month period are significantly under the original bond rates.

The remaining Project Fund Deposit for building improvements of $21,435,000 was expensed by the end of July 2015. BLX Group LLC prepared an arbitrage analysis and rebate calculation for the District. BLX Group LLC concluded that no payment to the Internal Revenue Service was necessary nor was filing of the Form 8038-T needed.