Miller & Miller, P.S.

Washington State Convention Center Public Facilities District

Financial Statements and Independent Auditor's Report

For The Years Ended December 31, 2014 and 2013

Washington State Convention Center Public Facilities District
Financial Statements and Independent Auditor's Report
December 31, 2014 and 2013
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Independent Auditor's Report

Washington State Convention Center Public Facilities District
800 Convention Place
Seattle WA 98101-2350

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, 2014 and 2013, 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, 2014 and 2013, 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

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 7 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 24, 2015

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 fourth full year of operations in 2014. 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 $35 million from 2013 to 2014. The increase is due to the receipt of lodging tax revenues exceeding the District's interest costs and operating results.
B. Near year end 2013 the District purchased a property that may be used for potential future expansion of the convention center facilities. The purchase involved both cash payments into an escrow account and issuing approximately $49 million in a note that was repaid on January 15, 2014.
C. The District made its last principal payment on revenue bonds series 2010A in July 2014. The District will make its first principal payment on its bond series 2010B July 2015. As of December 31, 2014, the remaining bond series 2010B is $300,550,000. 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.

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 Flow (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, 2014 and 2013 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 STATEMENTS OF NET POSITION

	2014	2013 (Restated)*	Percentage Change	2012 (Restated)*	Percentage Change
ASSETS					
Current and Other assets	$ 165,980,401	$185,267,894	-10%	$169,559,915	9%
Capital Assets	452,131,144	452,869,843	0%	399,943,705	13%
Total Assets	618,111,545	638,137,737	-3%	569,503,620	12%
LIABILITIES					
Current Liabilities	34,136,861	81,792,405	-58%	28,806,693	184%
Noncurrent Liabilities	293,580,000	300,819,418	-2%	307,728,846	-2%
Total Liabilities	327,716,861	382,611,823	-14%	336,535,539	14%
NET POSITION					
Net invested in capital position	176,416,374	128,943,633	37%	115,447,756	12%
Restricted	17,542,276	16,032,490	9%	10,987,507	46%
Unrestricted	96,436,034	110,549,791	-13%	106,532,819	4%
Total Net Position	$ 290,394,684	$255,525,914	14%	$232,968,082	10%

***** The 2013 and 2012 Condensed Statements of Net Position have been restated to reflect a prior period adjustment related to the acceleration of premium accretion on the series 2010A bonds. See Note 8 to the financial statements for further information.

Current and other assets decreased from 2013 to 2014 from using current assets to pay off the note on the land purchase of approximately $49 million net of lodging tax revenues that exceeded interest expense. From 2012 to 2013 current and other assets increased due mainly to the excess of lodging tax revenues above interest expense.

Capital Assets decreased from 2013 to 2014 due to current year depreciation and the result of capital asset additions and disposals. Capital Assets from 2012 to 2013 increased because of purchase of real estate properties for potential future convention center expansion.

Current liabilities decreased mainly due to payment of a short term note. A short term note of $49,164,973 was used with escrow payments to purchase the Cassieford properties along Olive Street. Current liabilities increased from 2012 to 2013 due mainly to the short term note of $49,164,973 for Cassieford properties. Noncurrent liabilities decreased from 2013 to 2014 due to repayment of 2010A bond series and from 2012 to 2013 due solely to recognizing the current portion of long-term debt due in 2013 and 2012.

Net investment in capital assets increased from 2013 to 2014 from purchasing the Cassieford property with cash and the short-term 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 2012 to 2013 due to the combination of additions to capital assets, depreciation expense and no principal payment on the related bonds. Restricted net position reflects the required reserve funds, net of related debt that changed between 2012 and 2014.

CONDENSED CHANGES IN NET POSITION

	2014	2013 (Restated)*	Percentage Change	2012 (Restated)*	Percentage Change
OPERATING REVENUES					
Building rent	$ 4,616,158	$ 4,793,622	-4%	$ 4,778,169	0%
Food service	21,089,242	15,693,512	34%	15,915,988	-1%
Parking	3,926,927	3,775,712	4%	3,901,212	-3%
Facility services	2,882,359	2,311,036	25%	2,061,014	12%
Retail leases	589,322	674,638	-13%	642,568	5%
Lodging tax for marketing	10,923,374	9,497,334	15%	8,788,172	8%
Other	918,672	711,715	29%	681,846	4%
Total Operating Revenues	44,946,054	37,457,569	20%	36,768,969	2%
NONOPERATING REVENUES					
Lodging tax - regular	54,603,587	47,475,270	15%	43,930,310	8%
Build America Bonds subsidy	6,266,637	6,219,312		6,756,483	-8%
Interest and investment income	410,692	451,657	-9%	737,967	-39%
Other revenue	433,019	-		-	
Total Revenues	106,659,989	91,603,808	16%	88,193,729	4%
OPERATING EXPENSES					
Salaries and wages	8,221,062	7,709,052	7%	7,499,885	3%
Employee benefits	4,783,222	4,575,744	5%	4,648,918	-2%
Marketing services	9,284,615	8,058,563	15%	7,038,118	14%
Professional and other services	2,556,227	2,198,826	16%	1,972,975	11%
Food service	11,848,914	9,630,399	23%	9,388,942	3%
Supplies	562,901	504,557	12%	516,256	-2%
Utilities	2,737,809	2,593,396	6%	2,334,856	11%
Repair and maintenance	1,607,773	1,676,335	-4%	1,453,768	15%
Depreciation and amortization	11,798,208	10,738,022	10%	10,706,415	0%
Other administrative and contingency	328,643	323,050	2%	231,765	39%
Total Operating Expenses	53,729,374	48,007,944	12%	45,791,898	5%
NONOPERATING EXPENSES					
Interest expense	16,700,504	19,494,478	-14%	19,631,878	-1%
Other expense	1,361,341	1,543,554	-12%	845,750	83%
Total Expenses	71,791,219	69,045,976	4%	66,269,526	4%
Change in Net Position	34,868,770	22,557,832	55%	21,924,203	3%
Net Position - Beginning*	255,525,914	232,968,082	10%	210,774,452	11%
Efffect of Change in Accounting Principle*				269,427	
Net Position - Ending	290,394,684	255,525,914	14%	232,968,082	10%

***** The 2013 and 2012 Condensed Statements of Changes in Net Position have 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. This presentation is different than the

Statement of Revenues, Expenses and Changed in Net Position because the prior period adjustment was made to beginning 2013 net position as it is the earliest period presented. See Note 8 to the financial statements for further information.

Operations have improved from 2013 because of increased revenues in food services, parking, facility services (subcontractor revenues), Marketing Tax and Other revenues. The number of events in 2014 was up 12.5 percent compared to 2013. An upturn in national events in 2014 and increased attendance produced greater event revenues and delegate spending than in 2013. Related operating expenses increased twelve and half percent and operating revenues increased twenty percent. Other non-operating revenues (expenses) increased from 2013 to 2014 and from 2012 to 2013 due to increase in Lodging tax revenue and recording a loss on disposal of assets in connection with capital improvement projects. Due to the purchase of land near the end of 2013 for potential future convention center expansion and project-related costs incurred in 2014 to accomplish such expansion, the District began capitalizing interest in 2014. Interest expense was reduced by approximately $2.5 million from 2013 to 2014 to recognize capitalized interest. Other nonoperating other revenue increased from rents generated from the land purchased near the end of 2013.

CAPITAL ASSETS

The following schedule is a summary of the District's investment in capital assets as of December 31, 2014, 2013 and 2012:

	12/31/2014	12/31/2013	12/31/2012
Capital assets, not being depreciated			
Land	$ 133,885,805	$ 133,885,805	$ 77,355,416
Construction in progress	14,057,556	5,627,409	4,820,609
Total capital assets, not being depreciated	147,943,361	139,513,214	82,176,025
Capital assets, being depreciated			
Buildings and improvements	448,811,904	447,597,008	446,471,185
Other improvements and art collection	4,809,651	4,796,511	3,510,564
Machinery/equipment/furniture/fixtures	11,548,566	11,691,935	8,893,547
Total capital assets, being depreciated	465,170,121	464,085,454	458,875,296
Less accumulated depreciation for			
Buildings	(154,044,975)	(144,392,727)	(135,416,847)
Other improvements and art collection	(1,574,607)	(1,325,438)	(1,049,066)
Machinery/equipment/furniture/fixtures	(5,362,756)	(5,010,660)	(4,641,703)
Total accumulated depreciation	(160,982,338)	(150,728,825)	(141,107,616)
Total capital assets, being depreciated, net	304,187,783	313,356,629	317,767,680
Total capital assets	$ 452,131,144	$ 452,869,843	$ 399,943,705

Capital Assets decreased from 2013 to 2014 due to net of current year depreciation and capital asset additions and disposals. Capital Assets increased from 2012 to 2013 because capital asset additions and the purchase of the Cassieford properties less 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, 2014 the District had $293,580,000 in long term outstanding debt and $6,974,000 in the current portion of long term debt. In 2013 District's outstanding long-term debt was $300,819,418 and in 2012 District's outstanding long-term debt was $307,728,846. The changes from 2012 to 2014 reflect normal recurring debt service payments. 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 FM Global 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; however, significant due diligence is being conducted before an addition can occur.

The more significant improvements in 2014 include renovations of the fabric on the folding walls, exhibit floor deli's, Galleria retail restrooms and updates of fire/life/safety systems; as well as the new office space with show rooms to promote services. Improvements in 2015 will include a face-lift to the exterior of the building and the move into the new office space and street scape improvements on 8th Avenue and Pine Street.

The District Board of Director's authorized an operating budget of $42,668,378 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, 2014 and 2013

	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents	$ 29,579,073	$ 72,271,510
Restricted cash and cash equivalents	22,708,869	17,666,736
Investments	25,119,300	10,052,900
Restricted investments	19,563,716	21,379,879
Restricted investments interest receivable	77,844	30,975
Receivables (net)	760,750	918,938
Due from other governments	8,219,506	7,195,997
Prepayments and other current assets	883,870	714,242
Total Current Assets	106,912,928	130,231,177
Noncurrent Assets		
Investments	48,831,100	35,267,000
Restricted investments	10,002,700	19,571,612
Other noncurrent assets	233,673	198,105
Total Noncurrent Assets	59,067,473	55,036,717
Capital Assets		
Land	133,885,805	133,885,805
Buildings and improvements	448,811,904	447,597,008
Machinery/equipment/furniture/fixtures	11,548,566	11,691,935
Other improvements and art collection	4,809,651	4,796,511
Accumulated depreciation	(160,982,338)	(150,728,825)
Construction in progress	14,057,556	5,627,409
Total Capital Assets	452,131,144	452,869,843
Total Assets	618,111,545	638,137,737
LIABILITIES		
Current Liabilities		
Accounts payable	3,854,286	4,208,152
Salaries, benefits and taxes payable	1,141,744	1,108,179
Unearned revenue and deposits payable	1,941,448	1,737,720
Due to other governments	9,631,335	8,311,276
Interest payable	9,652,118	9,818,176
Notes payable	-	49,234,352
Current portion of long-term debt	6,970,000	6,640,000
Other	945,930	734,550
Total Current Liabilities	34,136,861	81,792,405
Noncurrent Liabilities		
Bonds payable	293,580,000	300,819,418
Total Noncurrent Liabilities	293,580,000	300,819,418
Total Liabilities	327,716,861	382,611,823
NET POSITION		
Net investment in capital assets	176,416,374	128,943,633
Restricted:		
Restricted for debt service	6,697,209	5,974,516
Restricted for capital improvements	-	-
Restricted for operating reserve	10,845,067	10,057,974
Unrestricted	96,436,034	110,549,791
Total Net Position	$ 290,394,684	$ 255,525,914

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, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Building rent	4,616,158	$ 4,793,622
Food service	21,089,242	15,693,512
Parking	3,926,927	3,775,712
Facility services	2,882,359	2,311,036
Retail leases	589,322	674,638
Lodging tax for marketing	10,923,374	9,497,334
Other	918,672	711,715
Total Operating Revenues	44,946,054	37,457,569
OPERATING EXPENSES		
Salaries and wages	8,221,062	7,709,052
Employee benefits	4,783,222	4,575,744
Marketing services (SCVB)	9,284,615	8,058,563
Professional and other services	2,556,227	2,198,826
Food service	11,848,914	9,630,399
Supplies	562,901	504,557
Utilities	2,737,809	2,593,396
Repair and maintenance	1,607,773	1,676,335
Depreciation and amortization	11,798,208	10,738,022
Other administrative and contingency	328,643	323,050
Total Operating Expenses	53,729,374	48,007,944
OPERATING INCOME (LOSS)	(8,783,320)	(10,550,375)
NONOPERATING REVENUES (EXPENSES)		
Lodging tax - regular	54,603,587	47,475,270
Interest and investment income	410,692	451,657
Interest expense	(16,700,504)	(19,494,478)
Build America Bonds subsidy	6,266,637	6,219,312
Loss on disposal of assets	(1,351,731)	(1,530,384)
Non-Operating Interest Expense	(9,610)	(9,061)
Other revenue (expense)	433,019	(4,109)
Total Nonoperating Revenue	43,652,090	33,108,207
CHANGE IN NET POSITION	34,868,770	22,557,832
Net Position - Beginning, As Previously Reported		232,429,227
Effect of Change in Accounting Principle		538,855
Net Position - Beginning, As Restated	255,525,914	232,968,082
Net Position - Ending	290,394,684	255,525,914

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, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 34,384,596	$ 27,586,926
Receipts from governments	10,718,618	9,868,985
Payments to suppliers	(28,882,376)	(24,618,717)
Payments to employees	(12,970,719)	(12,252,609)
Payments to or receipt from others, net	238,261	72,683
Net Cash Provided By Operating Activities	3,488,380	657,268
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating Portion of Lodging Taxes received	53,785,013	47,436,431
Lodging Tax received to be paid to state	14,969,447	13,056,786
Portion of Lodging Tax paid to state	(13,630,860)	(12,162,876)
Nonoperating revenues and expenses	423,409	-
Purchase of other noncurrent assets	(51,655)	(21,056)
Net Cash Provided By Noncapital Financing Activities	55,495,354	48,309,285
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(8,545,200)	(13,437,802)
Interest and principal paid on capital debt	(27,431,810)	(26,236,633)
Payment on note to acquire land	(49,234,352)	-
BABs subsidy received	6,266,637	6,219,312
Other receipts (payments)	-	100,250
Net Cash Used By Capital and Related Financing Activities	(78,944,725)	(33,354,873)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	749,081	607,679
Investment fees	(2,392)	(4,108)
Investment purchases	(59,745,000)	(16,243,711)
Investment maturities	41,309,000	45,000,000
Net Cash Provided (Used) By Investing Activities	(17,689,311)	29,359,860
Net Increase (Decrease) In Cash and Cash Equivalents	(37,650,305)	44,971,540
Cash and Cash Equivalents Balances - Beginning	89,938,247	44,966,707
Cash and Cash Equivalents Balances - Ending	$ 52,287,942	$ 89,938,247
Cash and Cash Equivalents as Reflected in the Statement of Net Position:		
Cash and cash equivalents	$ 29,579,073	$ 72,271,510
Restricted cash and cash equivalents	22,708,869	17,666,736
Total Ending Cash and Cash Equivalents in the Statement of Net Position	$ 52,287,942	$ 89,938,246
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$ (8,783,320)	$ (10,550,374)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation and amortization	11,798,208	10,738,022
Changes in operating assets and liabilities:		
Accounts Receivable	111,319	68,800
Due from Other Governments-Operating Portion	(204,756)	381,363
Operating Accounts Payable	287,884	(283,826)
Prepayments	(169,628)	(37,314)
Salaries, benefits and taxes payable	33,565	32,187
Unearned revenue and deposits payable	203,728	(304,510)
Other operating liabilities	211,380	612,921
Net Cash Provided (Used) By Operating Activities	$ 3,488,380	$ 657,268
SCHEDULE OF NON-CASH INVESTING, CAPITAL, NON CAPITAL AND RELATED FINANCING ACTIVITY		
Capital Assets acquired by increases in accounts payable		2,579,929
Land purchase acquired by a note payable		49,234,352
Change in fair value of investments	220,895	355,059

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 ($264,194), total revenues ($850) and total expenses ($7,750) as of December 31, 2014 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, 2014 and 2013. 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.

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. During 2014, the District also recognized incidental non-operating rental revenue on the land acquired for potential expansion. 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 fund annually 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, 2014 and 2013, the District had $29,579,073 and $72,271,510 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 note paid in January 2014.

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 $29,566,416 for 2014 and $40,951,491 for 2013. Unrestricted investments are $73,950,400 as of December 31, 2014 and $45,319,900 as of December 31, 2013. 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, 2014 and 2013, the due from other government accounts is mainly composed of Lodging tax collected by the hotels and earned in November and December 2014 and 2013, but paid to District by the state of Washington in January and February 2015 and 2014, 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
Additional Lodging Account
Lodging 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 2014, 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 13.

G. Prior-Year Comparative Data

The current period, January 1, 2014 through December 31, 2014, is the fifth year of operating revenues and expenses reported by the District. Comparative data for the period of January 1, 2013 through December 31, 2013 are reported in the financial statements. Certain amounts have been reclassified in the comparative 2013 financial statements to conform to the presentation used in 2014. In addition, certain 2013 amounts have been restated due to a prior period adjustment discussed in Note 8.

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, 2014 and 2013, cash and cash equivalents include:

Financial Institution	2014	2013
US Bank	$22,014,010	$26,872,377
Local Government Investment Pool	$30,227,807	63,019,744
Petty Cash/Change Funds	46,125	46,125
TOTAL	$52,287,942	$89,938,246

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, 2014 and 2013, the District had the following investments (in thousands):

Investments	Maturities	Moody, S & P Rating	Cost	Ending Fair Value 12/31/2013	Purchases	Sales	Ending Fair Value 12/31/2014
Fed Home LN BK	5/30/2014	AAA, AA+	9,992	10,010		10,000	
Fed Home LN BK (1)	11/20/2015	AAA, AA+	$ 19,590	$19,571			$19,564
FFCB Bond	10/9/2015	AAA, AA+	4,994	5,000		5,000	
FHLMC	11/25/2014	AAA, AA+	15,137	10,053		10,000	
FHLMC	9/10/2015	AAA, AA+	10,386	10,233			10,103
FHLMC	5/13/2016	AAA, AA+	4,992	4,994			5,002
FNMA MTN	12/19/2014	AAA, AA+	3,019	3,016		3,000	
FNMA MTN	5/27/2015	AAA, AA+	14,896	15,040			15,017
T-Bill	6/26/2014	NA, NA	2,246	2,245		2,246	
T-Bill	6/26/2014	NA, NA	1,107	1,107	5,957	6,063	
US Treas. Note	3/31/2014	AAA, NA	5,001	5,002		5,000	
US Treas. Note	3/31/2016	AAA, NA	5,002		5,002		4,999
US Treas. Note	4/30/2016	AAA, NA	5,003		5,003		4,999
US Treas. Note	11/30/2016	AAA, NA	5,057		5,057		5,037
US Treas. Note	11/30/2016	AAA, NA	4,927		4,927		5,022
US Treas. Note	1/15/2017	AAA, NA	5,006		5,006		5,004
US Treas. Note	4/30/2017	AAA, NA	5,018		5,018		5,006
US Treas. Note	6/30/2017	AAA, NA	4,986		4,986		4,981
US Treas. Note	7/31/2017	AAA, NA	4,954		4,954		4,943
US Treas. Note	10/31/2017	AAA, NA	4,972		4,972		4,960
US Treas. Note	11/30/2017	AAA, NA	4,927		4,927		4,936
US Treas. Note	2/28/2018	AAA, NA	3,936		3,936		3,945
			$ 145,148	$ 86,271	$ 59,745	$ 41,309	$ 103,518

(1)This investment is restricted for debt service.

For the year ended December 31, 2013 the changes in investments is summarized as follows (in thousands):

Ending Fair Value 12/31/2012	Purchases	Sales	Ending Fair Value 12/31/2013
$ 115,276	$ 16,365	$ 45,000	$ 86,271

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 2015 to 2018 as follows: $44,684,000 in 2015, $25,059,000 in 2016, $29,830,000 in 2017 and $3,945,000 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, 2014 and 2013 are reflected in the following charts.

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 (1)	4,809,651	-	-	4,809,651
Machinery/equipment/furniture/fixtures (1)	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)	776	(1,572,608)
Machinery/equipment/furniture/fixtures	(5,050,028)	(897,355)	582,645	(5,364,738)
Total accumulated depreciation	(150,728,825)	(11,798,458)	1,544,946	(160,982,338)
Total capital assets, being depreciated, net	313,356,629	(7,813,582)	(1,355,263)	304,187,783
Total capital assets	$ 452,869,843	$ 4,601,441	$ (5,340,139)	$ 452,131,144

(1)- $13,140 of art collection w as reclassified betw een these tw o categories for 12/31/2014. As such beginning values are different than the folllow ing chart.

Asset Class	Beginning Balance January 1, 2013	Increases	Decreases	Ending Balance December 31, 2013
Capital assets, not being depreciated				
Land	$ 77,355,416	$ 56,510,350	$ -	$ 133,865,766
Land development costs	-	20,039	-	20,039
Construction in progress	4,820,609	8,681,488	(7,874,688)	5,627,409
Total capital assets, not being depreciated	82,176,025	65,211,877	(7,874,688)	139,513,214
Capital assets, being depreciated				
Buildings and improvements	446,471,185	3,618,865	(2,493,042)	447,597,008
Other improvements and art collection	3,510,564	1,310,380	(24,433)	4,796,511
Machinery/equipment/furniture/fixtures	8,893,547	2,945,443	(147,055)	11,691,935
Total capital assets, being depreciated	458,875,296	7,874,688	(2,664,531)	464,085,454
Less accumulated depreciation for				
Buildings	(135,416,847)	(9,928,206)	952,328	(144,392,726)
Other improvements and art collection	(1,049,066)	(241,296)	4,291	(1,286,071)
Machinery/equipment/furniture/fixtures	(4,641,703)	(568,520)	160,195	(5,050,028)
Total accumulated depreciation	(141,107,616)	(10,738,022)	1,116,814	(150,728,825)
Total capital assets, being depreciated, net	317,767,680	(2,863,334)	(1,547,716)	313,356,629
Total capital assets	$ 399,943,705	$ 62,348,543	$ (9,422,404)	$ 452,869,843

NOTE 6 – RETIREMENT PLANS

Before transition to a public facilities district, WSCC as an agency of the state of Washington participated in a 401(k) retirement plan for its employees under the authority of Internal Revenue Code 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 to the state of Washington and the District under ERISA 404(c) transferred the responsibility for selecting among investment options from the plan fiduciaries to the plan participants. The defined contribution plans are administered by TD Ameritrade 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 in fiscal 2014 contributed $228,672 to the employee 401 (a) plan. The District contributes five percent based on 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%

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 contributions 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. In fiscal 2014 employees contributed $201,524 to their 457(b) plan.

All defined contribution pension plans were establish 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, 2015, as follows: $479 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 $10,000 deductible. There were no claims against this policy in 2014.

C. Liability Insurance

The District maintains insurance through Philadelphia Indemnity Insurance Company for the following liability categories (aggregate limit): General ($10,000,000), Employee Liability ($1,000,000), Stop Gap ($1,000,000), Auto ($2,000,000); 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 AND NOTES PAYABLE

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 currently outstanding as of 12/31/2014 and changes from 2013 are as follows:

Description	Maturity	Interest Rates	Balance 12/31/2013 (1)	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 (1)			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	

(1) Bond Premium has been restated due to the change in accounting.

Revenue bond changes as of 12/31/2013 are as follows:

Description	Maturity	Interest Rates	Balance 12/31/2012 (1)	Additions	Reduction	Balance 12/31/2013	Amount Due Within One Year
Bonds 2010A	2013-2014	4.0%-5.0%	$ 13,025,000	$ -	$(6,385,000)	$ 6,640,000	$6,640,000
Bonds 2010B	2015-2040	3.53%-6.79%	300,550,000	-	-	300,550,000	-
Bond Premium (1)			538,846		(269,428)	269,418	
Total Long Term Debt			314,113,846	-	(6,654,428)	307,459,418	
Less Current Portion			(6,385,000)			(6,640,000)	
Long Term Portion			$ 307,728,846			$ 300,819,418	

(1) Bond Premium has been restated due to the change in accounting.

Change in accounting principle/change in accounting estimate.

The District applied the premium on its 2010 bond financing to the overall debt financing package and was accreting the premium over the life of the entire financing. During 2014 the District determined that the benefit of the premium related to the Series A bonds which were paid off during 2013 and 2014. As such, the benefit of the premium could be applied specifically to the series A bonds. In the District’s judgment, using an accounting method that allocates the premium to the series A bonds and not to the series B bonds is preferable because the premium relates to the series A bonds and the interest expense of the Series B bonds should not be impacted by future reductions due to accretion of the premium. This change in accounting principle with its related change in accounting estimate results in a restatement of beginning net position as of 1/1/2013 of $539,000 reflecting an increase in net position to reflect the shorter accretion period than was previously adopted. The difference between the accretion recognized in 2013 and the change in the accounting principle/estimate has been recognized in the restated 2013 financial statements. The remainder of the premium accretion has been included as a reduction of interest expense reported for 2014.

Revenue bond debt service requirements to maturity for the year ending December 31, 2014 are as follows:

	2010B		Less BABs	
Year	Principal	Interest	Subsidy	Total
2015	6,970,000	19,304,237	(6,263,260)	20,010,977
2016	7,130,000	19,058,196	(6,156,388)	20,031,808
2017	7,315,000	18,778,486	(6,066,033)	20,027,453
2018	7,520,000	18,462,258	(5,963,882)	20,018,377
2019	7,755,000	18,099,719	(5,846,770)	20,007,949
2020 - 2024	43,210,000	83,658,183	(27,445,389)	99,422,794
2025 - 2029	53,410,000	67,970,956	(23,789,834)	97,591,121
2030 - 2034	66,280,000	43,055,544	(15,069,440)	94,266,104
2035 - 2039	82,265,000	23,586,084	(8,255,129)	97,595,954
2040	18,695,000	1,269,391	(444,287)	19,520,104
Total	$ 300,550,000	$ 313,243,052	$ (105,300,412)	$ 508,492,640

As discussed in NOTE 12, 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 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. No interest was capitalized during 2013.

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 $125,695 until the end of the leases in 2018.

Year	Operating Leases
2015	$53,768
2016	$38,830
2017	$25,978
2018	$7,119
Total	$125,695

Tenant Leasing Agreements

The District leases building space to various retail tenants. A total of 16 retail leases provided revenue of $589,322 in fiscal 2014. 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, 2014, future minimum rental payments required for five succeeding years are:

Year	Lease Revenue
2015	$512,023
2016	$443,084
2017	$351,821
2018	$242,588
2019	$105,215
Total	$1,654,731

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.

NOTE 10– CONTINGENCIES AND LITIGATION

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.

NOTE 11 – COMMITMENTS

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. As of December 31, 2014, $16,120,786 was spent on capital improvements, with the remainder of $5,314,214 of bond proceeds not yet spent reflected as restricted for capital improvements. The applicability of arbitrage requirements is more fully discussed on Note 14.

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:

2015	20,000
2016	20,000
2017	20,000
2018	20,000
2019	20,000
Total	$100,000

C Airspace Lease WSDOT

In February 4, 1986, WSCC entered into a 66-year lease agreement with the Washington State Department of Transportation (WSDOT). The WSDOT has assigned the remainder of the lease from WSCC to the District. Under this agreement, the WSCC lease 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 come 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.

NOTE 12 – 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, at which time the sequestration rate is subject to change.

BAB subsidy request form is Form 8038-CP. The District BAB reduction from Congress sequestration measures for 2014 was $486,467. The original 2014 annual BAB subsidy was $6,756,483, less actual BAB subsidy received of $6,270,016. Congress sequestration measure to reduce BAB subsidies by 7.2 percent continues through 2021. It is forecasted that the 7.2 percent reduction in the 2015 BAB subsidy will be $486,467.

NOTE 13 – RESTRICTED 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 assets
Unrestricted assets

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, 2014:

Category	Assets	Related Liability	Net Position
Capital assets, net of accumulated depreciation	$452,131,144		
Less Bonds Payable		(300,550,000)	
Plus unspent proceeds reflected as restricted below		24,835,230	
Net position invested in capital assets			$176,416,374
Restricted assets and liabilities:			
Restricted for debt service under bond covenants	36,116,004	(19,521,016)	
Interest payable to be paid from restricted assets		(9,652,118)	
Retainage payable to be paid from restricted assets		(245,660)	6,697,209
Restricted for capital improvements	5,314,214	(5,314,214)	-
Restricted for operating reserve	10,845,067		10,845,067
Restricted net position			17,542,276
Unrestricted			96,436,034
Total Net Position			$290,394,684

NOTE 14 – ARBITRAGE

Arbitrage is the ability to obtain tax-exempt bond proceeds and invest the funds in higher yielding taxable securities, resulting in a profit. Generally, tax-exempt bond issues, which were issued on or after September 1, 1986, are subject to the arbitrage rebate requirements. The arbitrage rebate requirements require that any profit (i.e., arbitrage) be rebated to the federal government.

The rebate amount due to the federal government is equal to the excess of the amount earned on all non-purpose investments purchased with gross proceeds of the bonds over the amount which would have been earned if such non-purpose investments were invested at a rate equal to the yield on the bonds.

A rebate computation and payment to the federal government, if applicable, is required to be made at least every five years or each "Rebate Installment Computation Date" and upon final redemption or maturity of the bonds, the "Final Rebate Computation Date." The payment is due to the federal government within 60 days from either each Rebate Installment Computation Date or Final Rebate Computation Date.

Failure to comply with these rebate requirements could lead to substantial late filing penalties and interest and or, potentially, the loss of tax-exempt status for the bonds.

The portion of the bonds held for capital projects are exempt from arbitrage rules, if expended within three years. The unexpended balance of the bond proceeds dedicated to a capital project can be invested at unrestricted yield during this three-year period.

The District has designated the 2010A Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code. The District monitors arbitrage rebate liability on its outstanding 2010A bonds. The 2010A bonds were paid as of December 31, 2014. At December 31, 2014, the District had no arbitrage rebate liability, and does not anticipate that it will incur an arbitrage rebate liability on this bond issue.

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, interest earned on funds not spent within the 36-month period, are significantly less than the original bond interest rates. Therefore, an arbitrage calculation for the Internal Revenue Service is not necessary.