Miller & Miller, P.S.

Washington State Convention Center Public Facilities District

Financial Statements and Independent Auditors' Report

For The Periods Ended December 31, 2011 and 2010

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December 31, 2011 and 2010
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Miller & Miller, P.S.

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Independent Auditors' Report

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

We have audited the accompanying statement of net assets of the Washington State Convention Center Public Facilities District (the District) as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year ended December 31, 2011 and period from July 19, 2010 (the date of inception) to December 31, 2010. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in financial position and cash flows for the year ended December 31, 2011 and period from July 19, 2010 (the date of inception) to December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

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 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 6, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending December 31, 2011 and the Period Ending December 31, 2010

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 first full year of operations in 2011 and for the start-up period beginning July 19, 2010, and ending December 31, 2010. 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 assets increased by approximately $36.8 million from 2010 to 2011. The increase is due to the receipt of lodging tax revenues exceeding its interest costs and positive operating income before depreciation. Also contributing to the increase in net assets was the recognition of additional assets transferred from the state of Washington.
B. The partial period July 19, 2010, through December 31, 2010, includes a minor amount of operations, subsequent to the transition from an agency of the state of Washington to a public facilities district.
C. The District issued revenue bonds (Series 2010A and 2010B) in the amount of $313,575,000 million in November 2010, for the purpose of defeasance of state debt, to support capital improvements and expansion and to fund a common reserve.
D. The District's net assets increased by $176.8 million during the partial year ending December 31, 2010 mainly due to the transfer of capital and other assets from the state of Washington, including interests in contracts and outstanding liabilities. As a new entity, its beginning net assets as of July 19, 2010 were zero.
E. The District did not recognize operating revenues during 2010, as these revenues were accounted for by the state of Washington. The District had limited operating expenses during its start-up period, as most costs incurred related to bond issuance and start-up costs, which were capitalized.

OVERVIEW OF THE FINANCIAL STATEMENTS

The operations of the District are grouped into one business type for financial reporting purposes. The District 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 Assets, the Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flow (on pages 8 through 10) provide information about the activities and finances of the Authority as a whole.

The Statement of Net Assets

The Statement of Net Assets 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 assets are the difference between assets and liabilities. It is one way to measure the District's financial position. Over time, increases or decreases in the District's net assets 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 Assets

The Statements of Revenues, Expenses and Changes in Net Assets show the District's income and expenses during the period. All operating revenues and expenses during the year ended December 31, 2011 were accounted for by the District. During the period ending December 31, 2010, substantially all operating revenues and expenses were accounted for by the state of Washington. However, there were a minor amount of operations that occurred near the end of 2010 that were accounted for by the District.

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 STATEMENT OF NET ASSETS
(In thousands)

	NET ASSETS 2011	NET ASSETS 2010	Percentage Change
ASSETS			
Current and Other assets	142,240	$ 102,105	39%
Capital Assets	408,867	399,881	2%
Total Assets	551,107	501,986	10%
LIABILITIES			
Current Liabilities	22,737	10,525	116%
Noncurrent Liabilities	314,747	314,653	0%
Total Liabilities	337,484	325,178	4%
NET ASSETS			
Invested in capital assets, net of related debt	131,066	126,158	4%
Restricted	8,274	6,991	18%
Unrestricted	74,283	43,659	70%
Total Net Assets	$ 213,623	$ 176,808	21%

Capital Assets increased due to the completion of the conference center project and other improvement projects net of current year depreciation. Current and other assets increased due mainly to the excess of lodging tax revenues above interest expense.

Current liabilities increased mainly due to interest payable because at 12/31/2011 there is a full six months of interest accrued (approximately $10 million), while at 12/31/2010 there is only one month accrued.

Noncurrent liabilities have remained substantially unchanged because debt service (principal payments) on the 2010 bonds does not begin until 2013.

Restricted net assets reflect the required reserve fund that didn't change between 2010 and 2011.

CHANGES IN NET ASSETS

	CHANGES IN NET ASSETS	
	2011	**2010**
OPERATING REVENUES		
Building rent	$ 4,441,649	$ -
Food service	15,097,453	-
Parking	3,794,496	4,441
Facility services	1,874,392	-
Retail leases	600,766	-
Lodging tax for marketing	8,069,824	-
Other	565,190	-
Total Operating Revenues	34,443,770	4,441
NONOPERATING REVENUES		
Lodging tax - regular	40,339,492	-
Interest and investment income	528,074	(21,217)
Other revenue	-	35
Total Revenues	75,311,336	(16,741)
OPERATING EXPENSES		
Salaries and wages	7,213,930	-
Employee benefits	4,465,262	1,760
Marketing services	6,820,020	-
Professional and other services	1,820,046	6,525
Promotional hosting	-	-
Food service	9,450,160	
Supplies	555,776	14,957
Utilities	2,177,575	-
Repair and maintenance	1,140,926	14,548
Depreciation and amortization	9,688,816	-
Other administrative and contingency	184,473	27,050
Total Operating Expenses	43,516,984	64,840
NONOPERATING EXPENSES		
Interest expense (net of BABs subsidy)	13,135,154	633,222
Other expense	47,957	-
Total Expenses	56,700,095	698,062
Net Income (Loss) Before Contributions	18,611,241	(714,803)
Contributions	18,203,179	177,523,036
Change in Net Assets	36,814,420	176,808,233
Net assets - Beginning	176,808,233	-
Net assets - Ending	213,622,653	176,808,233

Comparing a full year of operations in 2011 to 2010 with almost no operations is not appropriate. As such we have not presented the percentage change as presented under the condensed net asset comparison presented above. However, operations have improved from the prior year (reflected in the state of Washington's CAFR) because of a rebound in the economy and booking of events. While the number of events was lower in 2011 as compared to 2010, the events in 2011 were generally larger and produced more revenue. Related operating expenses also increased but less than operating revenues due to cost control measures enacted by the District.

CAPITAL ASSETS

The following schedule shows the District's investment in capital assets, net of related depreciation, as of December 31, 2011 and 2010:

Description	2011 Balance	Change	2010 Balance
Land	62,130,737.31		62,130,737.31
Land	15,224,679.10		15,224,679.10
	77,355,416.41	-	77,355,416.41
Building A-WSCC-South	396,459,240.43		395,608,380.26
Building C-WSCC-TCC	51,768,125.49		39,937,637.22
	448,227,365.92	12,681,348.44	435,546,017.48
Machinery and Equipment	4,429,938.19		2,252,847.25
Furniture,Fixtures, Office Equip	3,616,233.06		2,897,522.59
	8,046,171.25	2,895,801.41	5,150,369.84
Improvements-Other	6,158,285.88	3,431,299.56	2,726,986.32
Accumulated Depreciation-Buildings	(125,647,141.48)		(115,381,494.11)
Accumulated Depreciation-Equipment, Furniture, Fixtures	(4,359,227.81)		(4,938,260.50)
Accumulated Depreciation-Improvements	(914,310.90)		(633,712.60)
Total Accumulated Depreciation	(130,920,680.19)	(9,967,212.98)	(120,953,467.21)

The capital assets increased mainly due to the close out of the conference center project and some other improvement projects. 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, 2011 and 2010, the District had $313,575,000 in outstanding debt. 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 9 to the financial statements.

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

ECONOMIC FACTORS

Despite the economic downturn, 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 359 event bookings for the entire facility through 2014. There is a market for an even larger facility; however, significant due diligence must be conducted before further expansion occurs.

The more significant planned improvements through 2013 include renovations of the exhibit hall, 6th floor ballroom, 6th floor lobbies and meeting rooms, Galleria meeting and restrooms and updates of fire/life/safety systems.

The District Board of Director's authorized a fiscal operating budget of $36,207,690 for fiscal 2012.

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.

Washington State Convention Center Public Facility District
Statement of Net Assets
As of December 31, 2011 and 2010

	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 46,333,805	$ 3,729,633
Restricted cash and cash equivalents	25,487,051	21,435,000
Investments	15,015,601	-
Restricted investments	24,535,788	-
Receivables (net)	577,601	616,040
Due from other governments	6,509,329	53,617,327
Prepayments and other current assets	656,657	247,892
Total Current Assets	119,115,832	79,645,892
Noncurrent Assets		
Restricted cash and cash equivalents	-	823
Investments	15,093,029	-
Restricted investments	5,048,709	19,487,853
Deferred charges and other noncurrent assets	2,982,371	2,970,302
Total Noncurrent Assets	23,124,109	22,458,978
Capital Assets		
Land	77,355,416	77,355,416
Buildings and improvements	448,227,366	435,554,006
Machinery/equipment/furniture/fixtures	8,046,171	5,153,857
Other improvements and art collection	6,158,286	2,771,226
Accumulated Depreciation	(130,920,680)	(120,953,468)
Total Capital Assets	408,866,559	399,881,037
Total Assets	551,106,500	501,985,907
LIABILITIES		
Current Liabilities		
Accounts Payable	3,001,473	975,460
Salaries, benefits and taxes payable	838,283	884,589
Deferred revenue and deposits payable	1,945,851	2,255,438
Due to other governments	7,005,245	5,436,260
Interest payable	9,945,818	963,226
Other	-	10,000
Total Current Liabilities	22,736,670	10,524,973
Noncurrent Liabilities		
Bonds, notes and loans payable	314,652,701	314,652,701
Other	94,476	-
Total Noncurrent Liabilities	314,747,177	314,652,701
Total Liabilities	337,483,847	325,177,674
NET ASSETS		
Invested in capital assets, net of related debt	131,065,755	126,158,136
Restricted:		
Restricted for Debt Service	1,283,100	-
Restricted for Capital Improvements	-	-
Restricted for Operating reserve	6,990,732	6,990,732
Unrestricted	74,283,066	43,659,365
Total Net Assets	$ 213,622,653	$ 176,808,233

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 Assets
For the Year Ending December 31, 2011 and the
Period from July 19, 2010 (inception) to December 31, 2010.

	2011	2010
OPERATING REVENUES		
Building rent	4,441,649	$ -
Food service	15,097,453	-
Parking	3,794,496	4,441
Facility services	1,874,392	-
Retail leases	600,766	-
Lodging tax for marketing	8,069,824	-
Other	565,190	-
Total Operating Revenues	34,443,770	4,441
OPERATING EXPENSES		
Salaries and wages	7,213,930	-
Employee benefits	4,465,262	1,760
Marketing services (SCVB)	6,820,020	-
Professional and other services	1,820,046	6,525
Promotional hosting	-	-
Food service	9,450,160	-
Supplies	555,776	14,957
Utilities	2,177,575	-
Repair and maintenance	1,140,926	14,548
Depreciation and amortization	9,688,816	-
Other administrative and contingency	184,473	27,050
Total Operating Expenses	43,516,984	64,840
OPERATING INCOME (LOSS)	(9,073,214)	(60,399)
NONOPERATING REVENUES (EXPENSES)		
Lodging tax - regular	40,339,492	-
Interest and investment income	528,074	(21,217)
Interest expense (net of BAB's subsidy)	(13,135,154)	(633,222)
Other revenue (expense)	(47,957)	35
Total Nonoperating Revenue (Expense)	27,684,455	(654,404)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	18,611,241	(714,803)
Capital Contributions (Net)	18,203,179	177,523,036
Change in net assets	36,814,420	176,808,233
Net assets - Beginning	176,808,233	-
Net assets - Ending	213,622,653	$ 176,808,233

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

Washington State Convention Center Public Facilities District
Statement of Cash Flows
For the Year Ended December 31, 2011 and the Period from July 19, 2010 (inception) to December 31, 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 26,102,799	$ 665,317
Receipts from Governments	8,069,824	
Payments to suppliers	(22,151,649)	(30,352)
Payments to employees	(11,632,886)	-
Net Cash Provided By Operating Activities	388,088	634,965
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer from Office of State Treasurer	53,287,323	2,560,190
Nonoperating Portion of Lodging Taxes received	50,324,056	
Portion of Lodging Tax paid to state	(9,401,103)	
Purchase of other noncurrent assets	(89,931)	
Start-up costs	(13,107)	(177,359)
Transfer of imprest funds from non-profit corporation (agency of state)		46,100
Proceeds from start up funding		500,000
Net Cash Provided By Noncapital Financing Activities	94,107,238	2,928,931
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(4,199,125)	
Interest paid on capital debt, net of BABs subsidy	(3,822,557)	
Proceeds from issuance of debt (1)	-	21,435,000
Additional unspent bond proceeds transferred to cash and investments	-	265,805
Other receipts (payments) - bond issue costs	(424,574)	(105,100)
Net Cash Provided (Used) By Capital and Related Financing Activities	(8,446,256)	21,595,705
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	528,074	5,032
Investment fees	(49,067)	
Investment purchases	(39,871,854)	
Net Cash Provided (Used) By Investing Activities	(39,392,847)	5,032
Net Increase In Cash and Cash Equivalents	46,656,223	25,164,633
Cash and Cash Equivalents Balances - Beginning	25,164,633	-
Cash and Cash Equivalents Balances - Ending	$ 71,820,856	$ 25,164,633
Cash and Cash Equivalents as Reflected in the Statement of Net Assets:		
Cash and cash equivalents	$ 46,333,805	$ 3,729,633
Restricted cash and cash equivalents	25,487,051	21,435,000
Total Ending Cash and Cash Equivalents in the Statement of Net Assets	$ 71,820,856	$ 25,164,633
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$ (9,073,214)	$ (60,399)
Depreciation and amortization	9,688,816	
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Changes in operating assets and liabilities:		
Accounts Receivable	38,439	658,159
Accounts Payable	414,228	61,032
Prepayments	(408,764)	(23,827)
Salaries, benefits and taxes payable	(46,306)	
Deferred revenue and deposits payable	(309,587)	
Other	84,476	
Net Cash Provided By Operating Activities	$ 388,088	$ 634,965

SCHEDULE OF NON-CASH INVESTING, CAPITAL, NON CAPTIAL AND RELATED FINANCING ACTIVITY

2011

Approximately $13 million of capitial asset additions were due to the close out of the conference center project that were paid prior to the transfer from the state of Washington and are reflected as Capital Contributions.
Approximately $1.6 million of capital asset additions are included in Accounts Payable as of December 31, 2011 and are excluded from the change in Accounts Payable from operations reflected in the Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities.

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

SCHEDULE OF NON-CASH INVESTING, CAPITAL, NON CAPTIAL AND RELATED FINANCING ACTIVITY (CONTINUED)

2010

The following amounts relate to the debt issue. The only cash that flowed into the District was the $21,435,000 in restricted cash and cash equivalents. The remainder of the bond proceeds flowed directly to external fiscal agents and to the State of Washington and, therefore, is not reflected as cash inflows and outflows in the District's Statement of Cash Flows

(1)	Restricted cash and cash equivalents	21,435,000	
	Restricted Investments-External Fiscal Agent-2010A-Common Reserve	874,930	
	Restricted Investments-External Fiscal Agent-2010B-Common Reserve	18,646,086	
	Unamortized Debt Issuance Costs	2,748,557	
	Non-current Principal Payable-2010A		13,025,000
	Revenue Bonds Payable-Unamortized Premium		1,077,701
	Non-current Principal Payable-2010B		300,550,000
	Payment to the State of Washington	270,948,128	

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. Heretofore, 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. The District began start-up activities subsequent to July 19, 2010, upon authorization by the Board of Directors of a $500,000 loan from the nonprofit corporation to the District, which allowed the District to incur certain start-up and organizational costs. The nonprofit corporation continued to earn the revenues from hotel/motel taxes, event rentals and tenant leases and to incur the associated operating expenses through December 31, 2010.

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 nonprofit corporation (including all capital assets) and a receivable from the state in the amount of $53.2 million, which represents a cash transfer to the District on January 4, 2011. The District also recorded all of the liabilities of the nonprofit corporation, with the exception of the long-term debt, which was defeased with the bond issue discussed in the above paragraph.

B. 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 deferred 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.

C. Summary of Significant Accounting Policies

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

   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 that portion of the hotel/motel taxes transferred to the Seattle Convention Visitors Bureau for advertising/marketing. The operating expenses relate directly or indirectly to the generation of the operating revenues and include salaries and benefits, professional services, depreciation, supplies, utilities, 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. As a state of Washington agency, food service revenues were reported net of revenues and expenses. For comparison purposes to prior WSCTC state financial statements, subtract the District's food expense from food revenues. 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 & internet services. Generally the District receives 30 percent of the gross revenues, and CCPI retains the remaining revenue and covers all expenses. Audio Visual Factory, Inc. is the preferred audio visual provider for the District. Generally Audio Visual Factory pays the District a 22 percent commission on their rented equipment.

The District receives non-operating revenues from hotel/motel taxes, investment interest earnings, insurance recoveries and capital contributions. Its non-operating expenses are mainly debt service interest payments.

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

   The District adheres to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The District applies all GASB pronouncements as well as all FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

3. <u>Policy for defining cash equivalents</u>

   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 of 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 the District applies these restricted resources to debt service. Were there to be insufficient restricted resources for debt service, the District would first apply the restricted resources and compensate for any insufficiency with unrestricted resources.

D. 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 budgets carry forward until projects are completed or for three years.

The Board 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.

E. Assets, Liabilities and Net Assets

1. Cash and Cash Equivalents

It is the District's policy to invest all temporary cash surpluses. At December 31, 2011 and 2010, the District had $46,333,805 and $24,706,607, respectively in short-term residual investments of surplus cash. This amount is classified on the Statement of Net Assets as cash and cash equivalents.

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 Assets as restricted investments in the amount of $29,584,497 for 2011 and $19,487,853 for 2010. Unrestricted investments are $30,108,630 as of December 31, 2011. All investments are reported at fair value as reported by the external fiscal agent.

3. Receivables

Receivables consist of the following components:

Taxes receivable consist of the Public Facilities Sales and Use Tax, the Hotel/Motel Taxes and Leasehold Excise Taxes.

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, 2011, the due from other government account is composed of Lodging tax collected by the hotels and earned in November and December 2011, but paid to District in January and February 2012.

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 Account
Bond Principal Account
Common 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 to capital assets 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 2011, net interest was not capitalized as most costs were incurred near year end. As such, all interest costs and interest income are reflected in the statement of Revenues, Expenses and Changes in Net Assets.

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

Assets	Useful Lives (Years)
Buildings	50
Building Improvements	50
Equipment – Heating/Air Conditioning	13
Vehicular Equipment	13
Equipment – Furniture	10
Equipment – Communications	7
Equipment – Data Processing	6
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 a maximum of 80 hours (1-8 years) and 120 hours (9 years and above). 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. Deferred Revenue and Deposits Payable

The District collects certain money in advance, primarily customer deposits for future events. Until earned, these collections are presented as deferred revenues or deposits payable.

10. Restricted and Unrestricted Net Assets

The District's net assets are presented as restricted and unrestricted. Restricted assets exclude capital assets, net of related debt, but include other assets on which there are externally imposed legal restrictions. Unrestricted net assets include all other net assets.

E. Prior-Year Comparative Data

The current period, January 1, 2011 through December 31, 2011, is the first period of operating revenues and expenses reported by the District. Comparative data for the start-up period of July 19, 2010 through December 31, 2010 are reported in the financial statements, since there is no other audited comparative data.

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).

As of December 31, 2011 and 2010, they include:

Financial Institution	2011	2010
US Bank	$5,908,096	$3,225,507
The Commerce Bank		194,477
Local Government Investment Pool	54,637,731	21,698,549
Petty Cash/Change Funds	46,100	46,100
TOTAL	$60,591,927	$25,164,633

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

NOTE 4 – INVESTMENTS

As of December 31, 2011 and 2010, the District had the following investments (in thousands):

Investments	Maturities	Moody, S&P Rating	Cost	Beginning Fair Value 12/31/2010	Purchases	Sales	Subtotal	Ending Fair Value 12/31/2011
FHLMC MTN (1)	11/30/2012	AAA, AA+	$ 19,560	$ 19,484	$ -	$ -	$ 19,484	$ 19,638
FNMA MTN	9/19/2014	AAA, AA+	5,000		5,000	-	5,000	4,990
Fed Home LN BK	12/27/2013	AAA, AA+	4,961		4,961	-	4,961	5,043
Fed Home LN BK	6/21/2013	AAA, AA+	5,061		5,061	-	5,061	5,112
US Treas. Note	8/31/2012	AAA, NA	4,994		4,994	-	4,994	5,009
US Treas. Note	11/15/2012	AAA, NA	5,042		5,042	-	5,107	5,053
US Treas. Note	10/31/2012	AAA, NA	4,991		4,991	-	4,991	5,010
Fed Home LN BK	3/27/2013	AAA, AA+	5,025		5,025	-	5,025	5,042
FNMA MTN	12/28/2012	AAA, AA+	4,979		4,979	-	4,979	5,011
Total			$ 59,613	$ 19,484	$ 40,053	$ -	$ 59,602	$ 59,908

(1) These investments are restricted for debt service.

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.

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 as defined in its investment policy.

NOTE 5 – CAPITAL ASSETS

The capital assets and related changes during the periods ended December 31, 2011 and 2010 are reflected in the following chart (In Thousands).

Asset Class	Beginning Balance July 19, 2010 (1)	Fiscal 2010 Increases/ Decreases	Ending Balance December 31, 2010	Fiscal 2011 Increases/ Decreases	Ending Balance December 31, 2011
Capital assets, not being depreciated					
Land	$77,355		$77,355		$ 77,355
Construction in progress	55,034	(55,034)	-0-		- 0 -
Total capital assets, not being depreciated	127,389	(55,034)	77,355		77,355
Capital assets, being depreciated					
Buildings and Improvements	395,586	39,968	435,554	12,674	448,228
Improvements, other than building	2,727	44	2,771	3,387	6,158
Machinery and Equipment	5,151	3	5,154	2,892	8,046
Total capital assets, being depreciated	403,464	40,015	443,479	18,953	462,432
Less accumulated depreciation for					
Buildings	(111,485)	(3,896)	(115,381)	(10,267)	(125,648)
Improvements other than buildings	(617)	(17)	(634)	(280)	(914)
Equipment and collections	(4,881)	(57)	(4,938)	579	(4,359)
Total accumulated depreciation	(116,983)	(3,970)	(120,953)	(9,968)	(130,921)
Total capital assets, being depreciated, net	286,481	36,045	322,526	8,985	331,511
Total capital assets	413,870	(18,989)	$399,881	8,985	$408,866

(1) The balance as of July 19, 2010, reflects the capital assets held by the Center as an enterprise fund of the state of Washington. The increases and decreases during 2010 were activity of the Center as an enterprise fund of the state. The ending balances were transferred to the District directly from the state.

As of December 31, 2010, in accordance with the Transfer Agreement executed on or about November 30, 2010, the capital assets that were held by the Washington State Convention Center (Center) as a state agency had been transferred to the District.

NOTE 6 – RETIREMENT PLANS

Before transition to a public facilities district, the 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) be transferred into the District's 401(a) and the 457 Plan rollover to the District's 457(b) Plan. All of the plans as 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.

401(a) –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 employee directs how contributions are to be invested and receives an individual monthly statement of activity.

The District in fiscal 2011 contributed $217,373 to the employee 401(a) Plan. The District contributes five percent of an 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, at which time 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 2011 employees contributed $215,821 to their (457b) plan.

The employee and employer contribution plan funds are held in trust by TD Ameritrade. The District receives a monthly accounting of all activity from Milliman, the District's plan administrator. The 401(a) Retirement Contribution Plan and Employee Retirement Contribution Plan contributions are not considered either assets or liabilities of the District.

NOTE 7 – RISK MANAGEMENT

A. General Liability Insurance

The District has property and casualty insurance through Factory Mutual Insurance Company of Rhode Island through July 1, 2011, as follows: $426 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 no deductible. There were no claims against this policy in 2011.

NOTE 8 – LONG-TERM DEBT

A. Long-Term Debt

The District issued revenue bonds in November 2010. The debt service will be 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 future expansion of the convention center.
3. Provide funds for a Common Reserve.

Revenue bonds currently outstanding are as follows:

Description	Maturity	Interest Rates	Beginning Balance 7/19/2010	Additions	Reductions	Ending Balance 12/31/2010	Amount Due Within One Year
Bonds 2010A	2013-2014	4.0%-5.0%	$ - 0 -	$ 13,025,000	$ - 0 -	$13,025,000	$0
Bonds 2010B	2015-2040	3.53%-6.79%	$ - 0 -	$300,550,000	$ - 0 -	$300,550,000	$0

There were no changes in the bonds payable accounts during 2011.

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

	2010A		2010B		Less BABs	Total
Year	Principal	Interest	Principal	Interest	Subsidy	
2012		587,400	- 0 -	19,304,237	(6,756,483)	13,135,154
2013	6,385,000	587,400	- 0 -	19,304,237	(6,756,483)	19,520,154
2014	6,640,000	332,000	- 0 -	19,304,237	(6,756,483)	19,519,754
2015	-0-	-0-	6,970,000	19,304,237	(6,756,483)	19,517,754
2016	-0-	-0-	7,130,000	19,058,196	(6,670,369)	19,517,827
2017 - 2021	- 0 -	- 0 -	38,875,000	90,343,204	(31,620,121)	97,598,083
2022 - 2026	- 0 -	- 0 -	46,915,000	77,955,652	(27,284,478)	97,586,174
2027 - 2031	-0-	-0-	58,230,000	60,557,974	(21,195,291)	97,592,683
2032 - 2036	-0-	-0-	72,265,000	38,965,774	(13,638,021)	97,592,753
2037 - 2040	-0-	-0-	70,165,000	12,168,021	(4,258,807)	78,074,214
Total	$13,025,000	$1,506,800	$300,550,000	$376,265,769	$(131,693,019)	$559,654,550

NOTE 9 – LEASES

The District leases office equipment under non-cancellable operating leases. The annual commitments under these leases are approximately $70,000 until the end of the leases in 2016.

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. However, as of December 31, 2010 and 2011 there are no 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, 2011 $4,127,603 was spent on capital improvements.

B. Freeway Park

In February 1997, the nonprofit corporation entered into a 30-year lease agreement with the city of Seattle for the 665-stall Freeway Park garage. Under this agreement, the nonprofit corporation 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. The Center is responsible for all repairs and maintenance. The city of Seattle has assigned the remainder of the lease from the nonprofit corporation to the District.

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

2012	20,000
2013	20,000
2014	20,000
2015	20,000
2016	20,000
Total	$100,000

NOTE 12 – INFREQUENT EVENTS

The Washington State Convention Center (Center) has been an agency of the state of Washington since 1982. For financial reporting purposes, it was presented in the state's Comprehensive Annual Financial Report (CAFR) as an enterprise fund. In 2009, the Tourism Alliance, a Washington nonprofit corporation, brought suit against the state of Washington, arguing that the taxes collected by the state on behalf of the Washington State Convention Center – a 7 percent tax on hotel rooms in Seattle and a 2.8 percent tax in the rest of King County – were supposed to be dedicated to the convention center and marketing the designation. The lawsuit contended that during the 2007-09 biennium $57 million was transferred from the Center to the state's General Fund. In exchange for not having to repay the $57 million to the

Center, the state introduced legislation (SB 6889) to authorize transfer of the assets and liabilities of the Center to a newly created public facilities district.

With passage of SB 6889, the lawsuit was dismissed. On July 19, 2010, King County passed Ordinance 16889, which created the Washington State Convention Center Public Facilities District. During the ensuing months, the nonprofit corporation, which managed the Washington State Convention Center and the District, began the process of transitioning ownership of the assets and liabilities from the Center to the District.

In November 2010, the District issued bonds, which defeased the state's Convention Center debt, provided funding for future improvement and expansion of the Convention Center and provided for a common reserve. As of December 31, 2010, the District assumed all remaining capital and other assets and liabilities of the nonprofit corporation.

NOTE 13 – RELATED PARTY TRANSACTIONS

The Board members, managers and staff of the nonprofit corporation and the District are the same individuals, charged with governance and daily operations of the transition of the Washington State Convention Center (Center) from an enterprise fund of the state of Washington to an independent governmental public facilities district. The transition began in July 2010. All transactions between July and December 2010 were controlled by the common board, managers and staff of the Center, with oversight by the Office of State Treasurer and the Office of Financial Management.

NOTE 14 – RESTRICTED NET ASSETS

In accordance with GASB 34, net assets are presented on the Statement of Net Assets in three categories:

Capital assets, net of related debt
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. *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. *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 further detail:

Category	Assets	Related Liability	Net Assets
Capital assets, net of accumulated depreciation	$408,866,559		
Less Bonds Payable		($314,652,701)	
Plus unspent proceeds reflected as restricted below		36,851,897	
Net Assets invested in capital assets, net of related debt			$131,065,755
Restricted assets			
Restricted for debt service under bond covenants	30,773,418	(19,544,500)	
Interest payable to be paid from restricted assets		(9,945,818)	1,283,100
Restricted for capital improvements	17,307,397	(17,307,397)	-
Restricted for operating reserve	6,990,732		6,990,732
Restricted net assets			8,273,832
Unrestricted			74,283,066
Total Net Assets			$213,622,653

NOTE 15 – ARBITRAGE

Arbitrage is the ability to obtain tax-exempt bond proceeds and invest the funds in higher yielding taxable securities, resulting in a profit.

Abuses associated with tax-exempt financings led the federal government to issue regulations to restrict the use of tax-exempt bond proceeds. The two primary purposes for establishing the arbitrage laws were: 1) to minimize the benefits of investing tax-exempt bond proceeds and 2) to remove the incentive to issue more bonds, issue bonds earlier or to leave bonds outstanding longer than necessary to carry out the governmental purpose of the issue.

The arbitrage laws are issued by either the United States Congress or the United States Treasury Department. The hierarchy of these laws is:

- Internal Revenue Code (Section 148(f)(2) of 1986 as amended)
- Treasury Regulations
- Revenue Procedures
- Private Letter Rulings.

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.

The general steps to calculate the rebate liability are: 1) calculate the yield on the bonds, 2) calculate the actual earnings on all non-purpose investment activity purchased with gross proceeds of the bonds, 3) calculate the allowable earnings on the non-purpose investment activity assuming the investments were earning at a rate equal to the bond yield and 4) future value the difference from the actual payment or receipt date to the computation date at a rate equal to the yield on the bond issue.

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.

Unrestricted investments also are allowed for bond proceeds held in a reasonably required reserve account, up to 10 percent of the proceeds, to ensure repayment of principal and interest should revenue sources not be sufficient at some future period.

In addition, a *de minimis* portion of the proceeds may be invested at unrestricted yield, defined as the lesser of $100,000 or 5 percent of the proceeds.

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. At December 31, 2010, 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 Building 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.

NOTE 16 – CAPITAL CONTRIBUTIONS

The district has recognized approximately $18.2 million and $177.5 million in Capital Contributions during 2011 and 2010, respectively. The amount recognized during 2011 is from two main sources: 1) the settlement of asset and liability accounts subsequent to the asset transfer recorded in 2010 and 2) lodging tax revenues received in cash but not reflected as revenue in conformity with the accrual basis of accounting. The following summarizes the sources of the Capital Contributions during 2011.

Additional capital assets transferred from the state, settled after 12/31/2010	$ 12,982,025
Lodging Tax accrued as revenue by the state but received by the District	5,672,494
All other adjustments of assets and liabilities, net	(451,340)
Total Capital Contributions	18,203,179