Miller & Miller, P.S.

Washington State Convention Center Public Facilities District

Financial Statements and Independent Auditors' Report

For The Period Ended December 31, 2010

Washington State Convention Center Public Facilities District
Financial Statements and Independent Auditor's Report
December 31, 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, 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the 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 audit 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 audit provides 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, 2010, and the changes in financial position and cash flows for the 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 6 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

July 6, 2011

WASHINGTON STATE CONVENTION CENTER PUBLIC FACILITIES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Period Beginning July 19, 2010, and 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 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 significant 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. The Nonprofit Corporation 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. The District issued revenue bonds (Series 2010A and 2010B) in the amount of $313,575,000 million in November 2010, for the purposes of defeasance of state debt, to support capital improvements and expansion and to fund a common reserve.
B. The state of Washington transferred capital and other assets in the amount of $53,287,323 million to the District, including interests in contracts and outstanding liabilities.
C. The District's net assets increased by approximately $176.8 million during the period ending December 31, 2010 due mainly to the transfer of assets and liabilities from the state of Washington to the District. As a new entity, its beginning net assets were zero.
D. The District did not recognize any significant 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 Authority 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 the Statement of Cash Flows (on pages 7 through 9) 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Period Beginning July 19, 2010, and Ending December 31, 2010

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 Statement of Revenues, Expenses and Changes in Net Assets shows the District's income and expenses during the period. Substantially all operating revenues and expenses during the period ended December 31, 2010 were accounted for by the state of Washington. However, there were a minor amount of operations that occurred near the period's end that is accounted for by the District. In addition, this statement reflects the accrual of one month of nonoperating interest expense related to the bonds issued on November 30, 2010. Operating revenues and expenses began January 1, 2011 in fiscal 2011.

The Statement of Cash Flows

The District categorizes cash inflows and outflows into four categories: 1) cash flows from operations, 2) cash flow 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)

ASSETS	December 31, 2010	July 19, 2010 (a)
Current and other assets	$102,105	$0
Capital assets	399,881	0
Total Assets	501,986	0
LIABILITIES		
Current Liabilities	10,525	0
Noncurrent liabilities	314,653	0
Total Liabilities	325,178	0
NET ASSETS		
Invested in capital assets, net of related debt	126,158	0
Restricted	6,991	0
Unrestricted	43,659	0
Total Net Assets	$176,808	$0

(a) The District was created on July 19, 2010. Assets and liabilities previously reported by the state of Washington Nonprofit Corporation were not transferred to the District until near December 31, 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Period Beginning July 19, 2010, and Ending December 31, 2010

CHANGES IN NET ASSETS RESULTING FROM CHANGES IN REVENUES AND EXPENSES

Condensed information regarding revenues and expenses are not provided as there were no significant operating revenues and operating expenses incurred during the start up period. The District Board of Director's authorized a start up budget of $500,000 for fiscal 2010.

CAPITAL ASSETS

The District Board of Director's authorized a fiscal 2011 capital budget of $14,342,713. The following schedule shows the District's investment in capital assets, net of related depreciation, as of December 31, 2010 (presented in thousands):

Asset Class	2010	July 19, 2010
Land	$ 77,355	0
Construction in progress	- 0 -	0
Buildings	320,173	0
Machinery/Equipment/Furniture/Fixtures	215	0
Improvements and art collections	2,138	0
Total capital assets	$399,881	0

Capital assets were transferred to the District from the state of Washington in accordance with transfer agreement with the state of Washington. See Note 5 to the financial statements for further information.

DEBT ADMINISTRATION

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

As of December 31, 2010, the District had $314,652,701 in outstanding debt, including the original issue premium of $1,077,701. As a new entity, its prior outstanding debt was zero.

The debt issued by the District in November 2010, was used for defeasance of the state's debt, to provide for capital funding for improvement and expansion of the Convention Center and to fund a common reserve. See Note 9 to the financial statements for additional information.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Despite the economic downturn, the District moved forward on capital improvement and expansion 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 825 event bookings for the entire facility through 2013. The number of events will increase during 2011. 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 2012 include renovations of the exhibit hall, 6th floor ballroom, 6th floor lobbies and meeting rooms, Galleria meeting rooms and restrooms, and updates of fire/life/safety systems.

The District Board of Director's authorized a fiscal operating budget of $34,915,837 for fiscal 2011.

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 financial statements are available for download on the District's web site at http://www.wsctc.com/

Washington State Convention Center Public Facilities District
Statement of Net Assets
As of December 31, 2010

ASSETS	
Current Assets	
Cash and cash equivalents	$ 3,729,633
Restricted cash and cash equivalents	21,435,000
Receivables (net)	616,040
Due from other governments	53,617,327
Prepayments and other current assets	247,892
Total Current Assets	79,645,892
Noncurrent Assets	
Restricted cash and cash equivalents	823
Restricted investments	19,487,853
Deferred charges and other noncurrent assets	2,970,302
Total Noncurrent Assets	22,458,978
Capital Assets	
Land	77,355,416
Buildings and improvements	435,554,006
Machinery/equipment/furniture/fixtures	5,153,857
Other improvements and art collections	2,771,226
Accumulated Depreciation	(120,953,468)
Total Capital Assets	399,881,037
Total Assets	501,985,907
LIABILITIES	
Current Liabilities	
Accounts payable	975,460
Salaries, benefits and taxes payable	884,589
Deferred revenue and deposits payable	2,255,438
Due to other governments	5,436,260
Interest payable	963,226
Other	10,000
Total Current Liabilities	10,524,973
Noncurrent Liabilities	
Bonds, notes and loans payable	314,652,701
Total Noncurrent Liabilities	314,652,701
Total Liabilities	325,177,674
NET ASSETS	
Invested in capital assets, net of related debt	126,158,136
Restricted:	
Restricted for Debt Service	-
Restricted for Capital Improvements	-
Restricted for Operating Reserve	6,990,732
Unrestricted	43,659,365
Total Net Assets	$ 176,808,233

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

Washington State Convention Center Public Facilities District
Statement of Revenues, Expenses and Changes in Net Assets
For the Period from July 19, 2010 (inception) to December 31, 2010

OPERATING REVENUES	
Building rent	$ -
Food service	-
Parking	4,441
Facility services	-
Retail leases	-
Lodging tax for marketing	-
Other	-
Total Operating Revenues	4,441
OPERATING EXPENSES	
Salaries and wages	-
Employee benefits	1,760
Marketing services	-
Professional and other services	6,525
Promotional hosting	-
Supplies	14,957
Utilities	-
Repair and maintenance	14,548
Depreciation and amortization	-
Other administrative and contingency	27,050
Total Operating Expenses	64,840
OPERATING INCOME (LOSS)	(60,399)
NONOPERATING REVENUES (EXPENSES)	
Lodging tax - regular	-
Interest and investment income	(21,217)
Interest expense (net of BABs subsidy)	(633,222)
Other revenue (expense)	35
Total Nonoperating Revenues (Expenses)	(654,404)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(714,803)
Capital Contributions (Net)	177,523,036
Change in net assets	176,808,233
Net assets - Beginning	-
Net assets - Ending	$ 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 Period from July 19, 2010 (inception) to December 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 665,317
Payments to suppliers	(30,352)
Payments to employees	-
Net Cash Provided (Used) By Operating Activities	634,965
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer of Taxes from Office of State Treasurer	2,560,190
Start-up costs	(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 (Used) By Noncapital Financing Activities	2,928,931
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
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	(105,100)
Net Cash Provided (Used) By Capital and Related Financing Activities	21,595,705
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	5,032
Net Cash Provided (Used) By Investing Activities	5,032
Net Increase In Cash and Cash Equivalents	25,164,633
Cash and Cash Equivalents Balances - Beginning	-
Cash and Cash Equivalents Balances - Ending	$ 25,164,633
Cash and Cash Equivalents as Reflected in the Statement of Net Assets:	
Cash and cash equivalents	3,729,633
Restricted cash and cash equivalents	21,435,000
Total Ending Cash and Cash Equivalents in the Statement of Cash Flows	25,164,633
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	$ (60,399)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Changes in operating assets and liabilities:	
Accounts Receivable	658,159
Accounts Payable	61,032
Prepayments	(23,827)
Net Cash Provided By Operating Activities	$ 634,965

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

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	

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. 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.

From July, through December 2010, operations of the Washington State Convention Center were controlled by two Boards of Directors – one governing the nonprofit corporation and one governing the newly-formed District. The members of these two boards were the same.

In November, the District issued bonds in the amount of $314,652,701, including the original issue premium of $1,077,701. 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 $53.3 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. The net effect of the transfer of assets and liabilities from the state and the portion of the bond proceeds remitted to the state is recorded as a capital contribution in the Statement of Revenues, Expenses and Changes in Net Assets.

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 prepaid expenses. Amounts owed but for which the District has not yet been invoiced are accrued.

C. 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 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 receives non-operating revenues from hotel/motel taxes, investment interest earnings and capital contributions. Its non-operating expense is mainly interest expense.

   All hotel/motel taxes, whether recognized as operating or non-operating revenues are pledged as security for the bonds. In addition, to the extent that such tax revenues are insufficient for debt service requirements, the District is required to make a supplemental deposit to the bond trustee from general operating sources.

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

   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. 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 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.

   Appropriations for operations lapse at year-end. Capital appropriations carry forward until projects are completed.

   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.

D. 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, 2010, the District had $25,164,633 in short-term residual investments of surplus cash. This amount is classified on the Statement of Net Assets as cash and cash equivalents.

   Cash that is restricted for debt service is not considered a cash equivalent.

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 $19,487,853. 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, 2010, the due from other government account is mainly composed of the one-time cash transfer discussed in Note 1 A in the amount of $53,287,323, but also includes other amounts such as the accrued interest subsidy on the Build America Bonds (BAB). The District collects the 2 percent additional lodging tax on behalf of Washington State, remitting this amount, plus interest, to the state annually. As of December 2010 the District received $5,393,672 in its account on behalf of the state, which is payable to the state on June 30, 2011 and is recorded in the due to other governments account.

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
2% Tax Credit 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.

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. 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 include capital assets, net of related debt, and other assets on which there are externally imposed legal restrictions. Unrestricted assets include all other net assets.

E. Prior-Year Comparative Data

For the current period, July 19, 2010 through December 31, 2010, which is the first reporting period of the District, comparative data are not reported in the financial statements, since there are no comparative data.

The first audited 12-month comparative periods will be the periods ending December 31, 2011, and December 31, 2012, at which time comparative data will be presented in the audited financial statements of the District.

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, 2010, they include:

Financial Institution	Amount
US Bank	$3,225,507
The Commerce Bank	194,477
Local Government Investment Pool	21,698,549
Petty Cash/Change Funds	46,100
TOTAL	$25,164,633

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

NOTE 4 – INVESTMENTS

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

Investments	Maturities	Cost	Beginning Fair Value	Purchases	Sales	Ending Fair Value	Change in Fair Value
US Agency FHLMC MTN (1)	11-30-12	$19,512	$19,512	$ - 0 -	$ - 0 -	$19,484	$ (28)

(1) This investment is held by the bond trustee and is 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 Federal Home Loan Mortgage Corporation's (FHLMC) medium term note listed above is rated AAA by Standard and Poors and AAA by Moodys.

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.

Issuer	Fair Value	Percent of total Investments
US Agency (FHLMC)	$19,484,203	100%

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 in the District's name at a qualified financial institution as defined in its investment policy.

NOTE 5 – CAPITAL ASSETS

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.

Asset Class	Beginning Balance July 19, 2010	Increases	Decreases	Ending Balance December 31, 2010
Capital assets, not being depreciated				
Land	$ 77,355,416	$ -	$ -	$ 77,355,416
Construction in progress	50,033,885		(50,033,885)	-
Total capital assets, not being depreciated	127,389,301		(50,033,885)	77,355,416
Capital assets, being depreciated				
Buildings and Improvements	395,586,303	39,967,703		435,554,006
Improvements, other than building	2,726,986	44,240		2,771,226
Equipment and collections	5,150,370	3,487		5,153,857
Total capital assets, being depreciated	403,463,659	40,015,430		443,479,089
Less accumulated depreciation for				
Buildings	(111,485,405)	(3,896,089)		(115,381,494)
Improvements other than buildings	(617,045)	(16,668)		(633,713)
Equipment and collections	(4,880,109)	(58,152)		(4,938,261)
Total accumulated depreciation	(116,982,559)	(3,970,909)		(120,953,468)
Total capital assets, being depreciated, net	286,481,100	36,044,521		322,525,621
Total capital assets	$ 413,870,401	$ 36,044,521	$(50,033,885)	$ 399,881,037

(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.

NOTE 6 – RETIREMENT PLANS

Upon transition to a public facilities district, the District initiated participation in a defined contribution retirement plan for its employees and its 401(k) Compensation Deferral Plan under the authority of Internal Revenue Code 457. It continued its Profit Sharing Plan. Previously, under the nonprofit corporation that operated the Washington State Convention Center (Center), the retirement plan offered to employees was a 401(k) defined contribution plan, which, under ERISA 404(c), transferred the responsibility for selecting among investment options from the plan fiduciaries to the plan participants. Prior employee contributions to the 401(k) were eligible for rollover to the 457 plan.

401(k) – Compensation Deferral 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.

The Center may match $0.50 for each dollar an employee contributes 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%

Defined Contribution (457) 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.

The District may elect to make an employer contribution, which is applied against the maximum employee contribution. Employees vest in the program from inception, at which time they may receive both their contributions and the District's contributions upon retirement, termination or death.

Profit Sharing Plan

The District may make a contribution to the profit sharing plan. All full-time employees are eligible after 12 months of service, 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. Employees vest according to the following schedule:

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

Employees may earn credit toward vesting for all plan years in which they work at least 1,000 hours with the District. Individuals employed on the plan's effective date qualify for vesting credit based on prior service with the Washington State Convention Center.

The employee, employer and profit sharing contributions are held in trust by Standard Retirement Services. The District receives a monthly accounting of all activity. The employee/employer and profit sharing 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 2010.

There were no settlements exceeding insurance coverage during the period from July 10, 2010 to December 31, 2010.

NOTE 8 – SHORT-TERM DEBT

The District had access to a $500,000 line of credit with the non-profit corporation that oversaw the Convention Center. The activity is listed below.

Debt	Beginning Balance	Issued	Redeemed	Ending Balance
Convention Center	$ - 0 -	$ 300,000	$300,000	$- 0 -

The purpose of this line of credit was to support the start-up costs, bond issue costs and operating costs of the District from July 19, through December 31, 2010. This short-term financing arrangement was redeemed with the assets and liabilities transferred from the state of Washington.

NOTE 9 – 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	Additions	Reductions	Ending Balance	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

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	
2011		344,282	- 0 -	11,314,428	(3,960,050)	7,698,660
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 - 2020	- 0 -	- 0 -	37,725,000	92,109,000	(32,238,150)	97,595,850
2021 - 2025	- 0 -	- 0 -	44,985,000	80,929,977	(28,325,492)	97,589,485
2026 - 2030	-0-	-0-	55,765,000	64,344,417	(22,520,546)	97,588,871
2031 - 2035	-0-	-0-	69,210,000	43,665,130	(15,282,794)	97,592,334
2036 - 2040	-0-	-0-	85,895,000	18,000,290	(6,300,102)	97,595,188
Total	$13,025,000	$1,851,082	$300,550,000	$387,580,190	$(135,653,066)	$567,353,206

NOTE 10 – LEASES

Operating Leases

The District leases office equipment under non-cancellable operating leases. The annual commitments under these leases are approximately $71,000 until the end of the leases in 2014.

The District leases retail space for a portion of its facility. The cost and accumulated depreciation for this space is not distinguishable from the remainder of the convention center facility. The minimum future lease payments under these non-cancellable leases are as follows:

2011	$588,000
2012	524,000
2013	373,000
2014	205,000
2015	140,000
Thereafter	674,000
Total	$2,504,000

NOTE 11 – CHANGES IN OTHER LIABILITIES

	Beginning Balance July 19	Additions	Reductions	Ending Balance December 31	Due Within One Year
Compensated absences	- 0 -	396,822		396,822	396,822

NOTE 12– 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 13 – 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 comply with arbitrage requirements.

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 District has assumed this lease from the nonprofit corporation. Future expected capital reserve account payments required for four succeeding fiscal years are:

2011	$20,000
2012	20,000
2013	20,000
2014	20,000
Total	$80,000

NOTE 14 – 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 tourism promotion. 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 16883, 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 15 – 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 16 – 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	$399,881,037		
Less Bonds Payable		$(314,652,701)	
Plus unspent proceeds reflected as restricted below		40,929,800	
Net Assets invested in capital assets, net of related debt			$126,158,136
Restricted assets			
Restricted for debt service under bond covenants	19,494,800	(19,494,800)	-
Restricted for capital improvements	21,435,000	(21,435,000)	-
Restricted for operating reserve	6,990,732		6,990,732
Restricted net assets			6,990,732
Unrestricted			43,659,365
Total Net Assets			$176,808,233

NOTE 17 – 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 on 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 18 – SUBSEQUENT EVENTS

On January 4, 2011, the state of Washington transferred cash in the amount of $53,287,322, to the District. This amount was recognized in the District accounting records as of December 31, 2010, as an accrued amount due from other governments and recorded as a capital contribution to the District.