

MANAGEMENT DISCUSSIONS AND ANALYSIS
DECEMBER 31, 2005

The discussion and analysis of Washington State Major League Baseball Stadium Public Facilities District's (the District) financial performance provides an overall review of the District's financial activities for the year ended December 31, 2005. The information should be read in conjunction with the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's financial statements consist of the management's discussion and analysis (this section), and financial statements required by Governmental Accounting Standards Board (GASB). The financial statements include the District's financial statements and notes to the financial statements.

- The financial statements provide information about the District's overall financial position and results of operations. These statements, which are presented on the accrual basis, consist of the Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows.
- The financial statements also include a "Notes to Financial Statements" section that provides additional information that is essential to a full understanding of the data provided in the District's statements.

The District's statements report information about the organization as a whole using accounting methods substantially similar to those used by private sector companies and private, non-profit corporations. The Balance Sheet includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets regardless of when cash is received or paid.

FINANCIAL HIGHLIGHTS

- The District's net assets decreased by \$11,712,413 as a result of current year operations. The decrease is primarily attributed to the normal annual depreciation of the District's capital assets.
- The District's total fixed assets decreased by \$9,783,801, which included capital improvements of the Ball Park facilities of \$2,849,020, as well as minor additions of office equipment of \$7,215, offset by depreciation expense totaling \$12,640,036.

FINANCIAL ANALYSIS

Overall Analysis – The District's overall financial position did not change significantly from the previous year. Net Assets decreased by \$11,712,413. This decline can be primarily attributed to the annual depreciation of the District's fixed assets.

Total Assets – Total assets decreased by \$10,466,087 from \$493,071,672 at December 31, 2004 to \$482,605,585 at December 31, 2005. The most significant component of this decrease was depreciation of the fixed assets, which was partially offset by the current year capital improvements. Increases and decreases in assets are as follows:

- **Cash and Cash Equivalents** – The District invests most of its cash and cash equivalents in the King County Investment Pool. Total cash and cash equivalents at December 31, 2005 decreased by \$703,950 from the prior year.
- **Interest Receivable** – Interest receivable increased by \$21,664 from the prior year.
- **Fixed Assets** – Fixed assets of the District consist of the baseball stadium, parking garage, land, and office furniture and equipment. The Baseball Club of Seattle, LP (the Mariners) incurred \$2,849,020 in

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unanticipated major maintenance and capital improvement expense (unanticipated capital costs) of the ballpark, for which the Mariners will seek reimbursement from the District from the Excess Revenue Fund. Additionally, the District invested \$7,215 in office equipment.

Total Liabilities – Total liabilities increased by \$1,246,326 from \$46,756,495 to \$48,002,821 at December 31, 2005. The most significant component of this increase was additional liabilities incurred in Obligation Under Excess Revenue Fund; however, this increase was partially offset by the decrease in deferred sales taxes due to the first payment made. Increases and decreases in liabilities are as follows:

- **Accounts and Wages Payable** – Accounts and wages payable increased by \$42,184 primarily due to timing differences of year-end accruals.
- **Deferred Sales Tax Payable** – Overall payable balance decreased by \$3,271,098 from \$32,710,983 to \$29,439,885 at December 31, 2005. The District made the first of ten installment payments in 2005.
- **Obligation Under Reverse Repurchase Agreement** – This liability represents the District’s share of its reverse repurchase agreements in the King County investment pool. The liability increased by \$1,626,220 from the prior year.
- **Obligation Under Excess Revenue Fund** – The District and the Mariners mutually approved the unanticipated capital costs incurred in 2005 totaling \$2,849,020 that will be reimbursed to the Mariners from the Excess Revenue Fund.

Net Assets – At December 31, 2005, net assets of the District were \$434,602,764, compared to \$446,315,177 at December 31, 2004. Increase and Decrease in net asset categories are as follows:

- **Invested in Capital Assets Net of Related Debt** – Balance decreased by \$9,361,723 at December 31, 2005 from December 31, 2004. The decrease is due to depreciation of capital assets totaling \$12,640,036, as well as an increase in liabilities related to Obligations under Excess Revenue Fund totaling \$2,849,020.
- **Unrestricted** – Net assets in unrestricted net assets decreased by \$2,350,690 at December 31, 2005 from December 31, 2004.

Operating Revenues - During 2005, the District recorded rent revenues from the Mariners totaling \$777,249, compared to \$761,262 in 2004. The increase in rent revenue was in accordance with increases set forth in the lease agreement with the Mariners. The District also recognized investment income totaling \$554,616 in 2005, compared to \$262,799 in 2004.

Operating Expenses – Operating expenses of the District consisted primarily of insurance, professional fees, and personnel costs, which are summarized as follows:

	2005	2004
Insurance	\$ 98,796	\$ 140,401
Professional Fees	227,695	167,523
Personnel	60,331	48,853
Other	<u>17,430</u>	<u>16,595</u>
Total Operating Expenses	<u>\$ 404,252</u>	<u>\$ 373,372</u>

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BUDGET

The District's operating results are consistent with its operating budgets.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

The District's capital assets include the baseball stadium, parking garage, related land, and furniture, fixtures and equipment. The baseball stadium and parking garage are under long-term lease with the Mariners. In 2005, the District's total capital assets balance decreased by \$9,783,801 from the prior year due to depreciation totaling \$12,640,036, offset by capital improvements and additions total \$2,856,235.

The District's long-term debts include Deferred Sales Tax Payable and Obligation under Excess Revenue Fund – In 2005 the deferred sales tax payable balance decreased by \$3,271,098 due to the first installment payment made. In 2005, the District and the Mariners mutually approved the unanticipated capital costs incurred in 2005 totaling \$2,849,020, which will be reimbursed to the Mariners from the Excess Revenue Fund. See Note 9 of the financial statements for further discussion of the Obligation Under Excess Revenue Fund.

OTHER POTENTIALLY SIGNIFICANT FACTORS IMPACTING NEXT YEAR

The District was granted a sales and use tax deferral certificate by State of Washington Department of Revenue on qualifying acquisitions made for five years after the completion of the ballpark. The first of ten installment payments was made December 31, 2005.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances and to show the District's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the District, at P.O. Box 94445, Seattle, WA 98124.

**WASHINGTON STATE MAJOR LEAGUE BASEBALL STADIUM PUBLIC FACILITIES DISTRICT
BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2005**

ASSETS

Current Assets

Cash and Cash Equivalents	19,214,258
Interest Receivable	59,412

Total Current Assets 19,273,670

Fixed Assets

Baseball Stadium	480,508,103
Parking Garage	24,873,877
Land	38,498,454
Furniture, Fixtures and Equipment	64,981
Accumulated Depreciation	(80,613,500)

Total Fixed Assets 463,331,915

TOTAL ASSETS 482,605,585

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	53,201
Wages and Vacation Payable	5,040

Total Current Liabilities 58,241

Deferred Sales Tax Payable	29,439,885
Obligation Under Reverse Repurchase Agreement	2,214,067
Obligation Under Excess Revenue Fund	16,290,628

Total Liabilities 48,002,821

Net Assets

Invested in Capital Assets Net of Related Debt	417,601,402
Unrestricted	17,001,362

Total Net Assets 434,602,764

TOTAL LIABILITIES AND NET ASSETS 482,605,585

**WASHINGTON STATE MAJOR LEAGUE BASEBALL STADIUM PUBLIC FACILITIES DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005**

OPERATING REVENUES	
Ballpark Rent	<u>777,249</u>
TOTAL OPERATING REVENUES	777,249
OPERATING EXPENSES	<u>404,252</u>
INCREASE IN NET ASSETS FROM OPERATING ACTIVITIES	<u>372,997</u>
NON-OPERATING REVENUES	
Interest Earnings	593,877
Unrealized Investment Losses	<u>(39,251)</u>
TOTAL NON-OPERATING REVENUES	<u>554,626</u>
NON-OPERATING EXPENSES	
Depreciation	<u>(12,640,036)</u>
TOTAL NON-OPERATING EXPENSES	<u>(12,640,036)</u>
DECREASE IN NET ASSETS FROM NON-OPERATING ACTIVITIES	<u>(12,085,410)</u>
TOTAL DECREASE IN NET ASSETS	(11,712,413)
NET ASSETS - January 1, 2005	<u>446,315,177</u>
NET ASSETS - December 31, 2005	<u><u>434,602,764</u></u>

WASHINGTON STATE MAJOR LEAGUE BASEBALL STADIUM PUBLIC FACILITIES DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

Payment on Operating Expenses	(362,068)
Payment on Deferred Sales Tax Payable	(3,271,098)
Rent	777,249
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CASH USED BY OPERATING ACTIVITIES (2,855,917)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Earnings	572,213
Investment Earnings on Cash Equivalents	(39,251)
Obligations under Reverse Repurchase Agreements	1,626,220
Payment for Fixed Assets	(7,215)
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CASH PROVIDED BY INVESTING ACTIVITIES 2,151,967

NET CASH USED

(703,950)

CASH AND CASH EQUIVALENTS - JANUARY 1, 2005 19,918,208

CASH AND CASH EQUIVALENTS - DECEMBER 31, 2005

19,214,258

RECONCILIATION TO OPERATING INCOME

NET OPERATING INCOME	372,997
CHANGES IN ASSETS/LIABILITIES	
Accounts Payable	38,654
Wages Payable	3,530
Deferred Sales Tax Payable	(3,271,098)
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CASH USED BY OPERATIONS

(2,855,917)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The Washington State Major League Baseball Stadium Public Facilities District (PFD or the District) was created through the passage of EHB 2115 and King County Ordinance 12000, which was approved by the Metropolitan King County Council on October 24, 1995. The District operates as a municipal corporation of the State of Washington and was formed to site, design, build and operate a major league baseball park.

Basis of Accounting

The PFD uses the accrual basis of accounting. Expenses are recorded at the time liabilities are incurred and revenues are recorded when earned.

Accounting Standards

The PFD is not applying the Statements and Interpretations issued by the Financial Accounting Standards Board after November 30, 1989.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and pooled investments managed by the King County Treasury Division. The King County Treasury Division Manager pools and invests all short-term cash surpluses not otherwise invested by individual funds of the County. Earnings from these pooled investments are allocated to the PFD based upon the PFD's proportionate share in the pooled investments.

Fixed Assets

Fixed assets include the Baseball Stadium and Furniture, Fixtures & Equipment. Baseball Stadium includes all costs associated with the development and construction of the Ballpark Project. Furniture, Fixtures and Equipment include items with a cost greater than or equal to \$500.

Fixed assets are valued at historical costs, and depreciated on a straight-line basis based over their estimated useful lives. Furniture, Fixtures and Equipment are depreciated over 3 or 5 years. The Baseball Stadium is depreciated over 40 years from the date it was placed in service.

Compensated Absences Payable

District employees earn 12 days of sick leave and 10 to 15 days of vacation per year, depending on the employee's length of service. An unlimited amount of sick leave and two times the annual vacation allotment may be accrued. An employee leaving the employment of the PFD is entitled to be paid for all unused vacation. Unused sick leave is forfeited upon termination of employment. The accrual for unused vacation is included in wages and vacation payable in the accompanying balance sheet.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 2 - FIXED ASSETS

The following is a summary of changes in fixed assets:

	<u>BALANCE</u> <u>1/1/2005</u>	<u>INCREASES</u>	<u>NON-CASH</u> <u>INCREASES</u>	<u>DECREASES</u>	<u>BALANCE</u> <u>12/31/2005</u>
Furniture, Fixtures and Equipment	\$ 57,766	7,215			\$ 64,981
Baseball Stadium	477,659,083		2,849,020		480,508,103
Parking Garage	24,873,877				24,873,877
Land	<u>38,498,454</u>				<u>38,498,454</u>
TOTAL FIXED ASSET	541,089,180	7,215	2,849,020		543,945,415
ACCUMULATED DEPRECIATION	<u>(67,973,464)</u>	<u>(12,640,036)</u>	-	-	<u>(80,613,500)</u>
TOTAL NET FIXED ASSETS	\$ 473,115,716	\$ (12,632,821)	\$ 2,849,020		\$ 463,331,915
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The following is a summary of the major components of Baseball Stadium and Parking Garage:

General construction	\$ 383,422,362
Other project costs	64,019,774
Architectural and engineering	26,491,166
Environmental	11,508,482
Indirect district costs	12,764,403
Permits	2,347,824
Mitigation	2,857,314
Project management	1,028,881
Legal fees	591,468
Special project costs	<u>350,306</u>
Total Project	<u>\$ 505,381,980</u>

NOTE 3 - EMPLOYEE BENEFIT PLANS

All employees of the District can participate in either the Public Employees' Retirement System (PERS) or the Stadium PFD Retirement Plan. Employer contributions are paid by the District in accordance with rates specified by the individual plans. Total payroll covered by all systems for the year ended December 31, 2005 was \$35,366.

Public Employees' Retirement System

The State Legislature established PERS in 1947 under RCW chapter 41.40. PERS is a cost-sharing multiple-employer system. The PFD Board of Directors adopted participation in the PERS Plan in 1996. PFD did not have any employee participating in PERS during 2005.

Stadium PFD Retirement Plan

NOTES TO FINANCIAL STATEMENTS
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Employees are able to select the Stadium PFD Retirement Plan (the Plan) as an alternative benefit plan to PERS. The Plan is designated as a profit sharing plan in accordance with section 401(a)(27)(B) of the Internal Revenue Code.

The District makes all contributions to the Plan. No contributions by Participants are required or permitted other than rollover contributions authorized by the Plan. The contributions are discretionary but shall be no less than the greater of seven and one-half percent of employee wages or the amount that would be required by PERS. All contributions to the Plan vest immediately. Actual contributions made to the Plan in 2005 were \$2,389.

NOTE 4 – DEFERRED SALES TAX PAYABLE

PFD was granted a Sales and Use Tax Deferral Certificate by the State of Washington Department of Revenue. State and local retail sales tax and use tax due on qualifying acquisitions made from July 25, 1996 to July 31, 1999 were deferred until five years after the completion of the Baseball Park. Qualifying acquisitions include material, labor, services utilized in the construction of the stadium, and machinery and equipment integral and necessary for the operation of the ballpark. Payments on the deferred taxes are due in ten annual installments, which started on December 31, 2004. At December 31, 2005, total sales taxes deferred were \$29,439,885.

NOTE 5 – CONTRIBUTED CAPITAL

Under King County Ordinance 12000, the County issued five series of general obligation bonds for the purpose of funding the construction of the Baseball Park and related parking facilities. Total par value of \$336,000,000 less any costs related to bond issuing were contributed to PFD. Additionally, the Mariners have contributed \$123,728,493 for the construction. The contributed capital is included in the net assets invested in capital assets net of related debt balance.

NOTE 6 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

The King County Treasurer is the ex-officio treasurer for the District. In this capacity, the county treasurer receives deposits and transacts investments on the District's behalf. The District's deposits are covered entirely by federal depository insurance or uninsured but collateralized under the Public Deposit Protection Commission of the State of Washington (PDPC) collateral pool. The PDPC's agent in the name of the pool holds pledged securities under the PDPC pool.

Statutes authorize the District to 1) deposit in any state bank or trust company, national banking association, stock savings bank, mutual savings bank, savings and loan association, and any branch bank engaged in banking in this state, if the institution has been approved by the PDPC to hold public deposits; and 2) invest in obligations of the United States Treasury and instrumentalities, banker's acceptances issued in the secondary market, commercial paper, primary certificates of deposits issued by PDPC qualified public depositories, and the State Treasurer's Investment Pool. The District is also authorized to enter into repurchase and reverse repurchase agreements.

All of the District's investments during the year and at year-end were insured or registered, or were held by the District or its agent in the District's name.

NOTES TO FINANCIAL STATEMENTS
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Investment Type	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Market Value</u>
Investments with King County Pool	\$ 16,300,757			\$ 16,300,757
Key Bank of Washington - Petty Cash	4,345			4,345
Key Bank of Washington - Payroll	4,644			4,644
Key Bank of Washington – Paver Account	798,891			798,891
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Total	<u>\$ 17,108,637</u>			<u>\$ 17,108,637</u>

NOTE 7 – FINAL PROJECT BUDGET

The final Ballpark project budget is \$514 million. This includes land acquisition, construction and development costs for both the ballpark and parking garage. This exceeds the original project budget by approximately \$100,000,000. In the Development Agreement, the Lease Agreement, and the Agreement to Proceed to Construction between the District and The Baseball Club of Seattle, LP (The Mariners, or The Club), the Club agreed to make an initial contribution to the project of \$45,000,000 plus pay all additional costs overruns. The Club made payments of \$123,069,546 through December 31, 2005.

NOTE 8 – BALLPARK RENT

The lease between the District and the Club runs through 2018, and calls for base rent of \$700,000 per year, with an annual CPI index adjustment. Rent for the 2005 season was \$777,249. The lease has two 5-year extension options.

NOTE 9 – OBLIGATION UNDER EXCESS REVENUE FUND

Under the lease, the Excess Revenue Fund may be used to fund certain unanticipated Major Maintenance and Capital Improvement Expenses (collectively, “Unanticipated Capital Costs”). The Club has the right to obtain reimbursement from the excess revenue fund for costs of repairs or maintenance that fall under the definition of “Unanticipated Capital Costs” it incurs, prior to funds being available in the fund. Obligations under the fund require mutual approval of the PFD and the Club, and are limited to amounts available in the Fund and Fund revenues. The source of funding for the Excess Revenue is the 5% admission tax. This tax will fund the Excess Revenue Fund only after the taxable bond issue (the parking garage bonds) has been retired. The obligation to be paid under the Excess Revenue Fund is limited to amounts available in the Fund and cannot exceed the Fund revenues. Amounts accrued to the Fund totaled \$16,291,608 at December 31, 2005. Maximum liability is estimated to be \$18,000,000, based on projected future capital improvement and repairs and maintenance costs.