Miller & Miller, P.S.

Washington State Convention Center Public Facilities District

Financial Statements and Independent Auditor's Report

For The Years Ended December 31, 2018 and 2017

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December 31, 2018 and 2017
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying statements of net position of the Washington State Convention Center Public Facilities District (the District) as of December 31, 2018 and 2017, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Miller & Miller, P.S.

Certified Public Accountants

May 16, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ending December 31, 2018 and 2017

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 eighth full year of operations in 2018. 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. RCW 36.100.010 authorized King County to create the District that is coextensive with the boundaries of the county. A public facilities district is a municipal corporation, an independent taxing "authority" within the meaning of Article VII, section I of the State Constitution.

The District is a municipal corporation governed by a nine-member board of directors (the "Board") that establishes and approves policy and budgets. Three members of the Board are appointed by the Governor of the State, three members of the Board are nominated by the County Executive subject to confirmation by the County Council, and three members of the Board are nominated by the mayor of the City of Seattle subject to confirmation by the City Council. One of the Governor's appointments and one of the County's appointments must represent the lodging industry in the District, and one of the City's appointments must represent organized labor. Members of the Board serve four-year terms.

ABOUT OUR BUSINESS

The District operates a world-class convention center that generates significant regional economic activity by attracting conventions, tradeshows, and other events to the State of Washington. The District generates event-related revenue primarily from the sale and use of meeting and exhibition space, the sale of services that support the use of that space, such as electricity, water/drain, audio/video and telecommunications (together such services are referred to herein as "Facility Services"), and sale of food and beverage at the facility. About 70 percent of its convention business comes from association meetings, especially medical and high tech. Attracting hundreds of thousands of people to the Greater Seattle area, results were enriching the local economy in 2018 with hotel nights of 350,172, generating attendee spending of $438,423,792, generated sales tax of $34,027,253 plus, retail spending, and other direct spending on goods and services as reported by Econ Northwest.

The District also operates three separate public parking garages in downtown Seattle totaling 1,598 spaces. The Garages are all top-tier parking facilities in the heart of Seattle, providing easy access to multiple freeway ramps and accessible parking for events, commuters, nearby residents, and tourists alike. The Garages generate revenue as a result of parking fees and electric vehicle charging stations.

FINANCIAL HIGHLIGHTS

A. Net position increased by approximately $43 million from 2017 to 2018. The increase is due to the receipt of lodging tax revenues exceeding the District's interest costs and operating results.

B. Fiscal year 2018 marked a successful year, with strong operating revenues, as the first year that the District's operating revenues exceeded $40 million. Operating revenues surpassed originally adopted budget projections. Food services revenues grossed over $26 million up 26 percent over the previous year. Facility services such as electric, conductivity and audio/visual generated revenue over $4 million up 13 percent.
C. On March 23, 2018 the Governor signed into law Chapter 245, 2018 Laws and the Board of Directors approved Resolution 2018-3 to modify collections of the Lodging Tax. Effective January 1, 2019, Regular and Additional Lodging Tax will be extended to lodgings with 60 units or fewer and to Web-based units (Airbnb, VRBO, HomeAway, etc.). The first funds transfer from the Office of the State Treasurer is March 29, 2019.
D. The City Council in May 2018 unanimously approved the five street and alley vacations required to go forward with the Summit building construction. With the leadership of the Seattle Mayor, the King County Executive and representatives from the Community Package Coalition (CPC) and the District agreed on terms for the District to provide more than $92.1 million towards a suite of benefits for the community. This partnership moves the WSCC Summit building project – and the creation of new convention space –on schedule for completion in 2021.
E. In June 2018, King County Metro and the District consummated the purchase of 4 acres of the Convention Place Station (CPS) in downtown Seattle, in exchange for $161 million. King County will receive $275 million in principal and interest payments over the next 30 years. The District contributed $5 million to the City's housing program and King County Metro received $20 million up front; interest-only payments of $1,410,109 during construction; and, from 2027 to 2048, principal and interest payments at 4.25 percent interest, plus an annual escalation for inflation.
F. The District made its last principal payment on revenue bonds series 2010A in July 2014. The District made its fourth principal payment on its bond series 2010B in July 2018. As of December 31, 2018, the remaining outstanding debt from the bond series 2010B is $271,615,000. Both bond series were issued November 2010, for the purpose of defeasance of state debt, to support capital improvements and to fund a common reserve.
G. In June 2018, the District Board of Directors approved Resolution 2018-06 authorizing issuance and sale of two series of Lodging Tax Bonds in aggregate principal amount not to exceed $1,250,000,000. In addition, the purchase of one or more reserve fund Surety polices were approved. The District closed the transaction on August 9, 2018 for the sale of $1,003,595,000 of Lodging Tax Bonds, 2018 and Subordinate Lodging Tax Bonds plus, net original issue premium of $81,830,398, Consisting of $598,790,000 Lodging Tax Bonds and $404,805,000 Subordinate Lodging Tax Bonds.
H. For the last five years the District invoiced all services provided by subcontractors and/or the District. The subcontractors are reimbursed by the District for their portion of the sales. Aramark, the food service provider, has a management contract with the District whereby all invoices are billed through the District. Aramark is reimbursed for expenses they incurred, plus a management fee. Services provided by subcontractors are reflected both as operating revenues and operating expenses in the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows (on pages 10 through 12) provide information about the activities and finances of the District as a whole.

The Statement of Net Position

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

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

The Statement of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position show the District's income and expenses during the period. All revenues earned, and expenses incurred during the years ended December 31, 2018 and 2017 are reported in the District's financial statements.

The District's operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operation in a given year. Marketing revenues and expenses are reported separately from operating revenues and expenses.

The Statement of Cash Flows

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

FINANCIAL ANALYSIS

CONDENSED COMPARATIVE STATEMENTS OF NET POSITION

	2018	2017	Percentage Change	2016	Percentage Change
ASSETS					
Current and Other assets	$1,147,527,371	$ 181,270,800	533%	171,211,243	6%
Capital Assets	882,724,699	726,085,081	22%	524,825,961	38%
Total Assets	2,030,252,070	907,355,881	124%	696,037,204	30%
LIABILITIES					
Current Liabilities	70,813,311	67,669,213	5%	42,089,675	61%
Noncurrent Liabilities	1,489,429,491	412,625,940	261%	279,135,000	48%
Total Liabilities	1,560,242,802	480,295,153	225%	321,224,675	50%
NET POSITION					
Net invested in capital position	278,318,012	303,604,538	-8%	257,982,529	18%
Restricted	50,811,460	14,994,204	239%	14,394,398	4%
Unrestricted	140,879,796	108,461,987	30%	102,464,138	6%
Total Net Position	$ 470,009,268	$ 427,060,730	10%	$ 374,841,066	14%

Current and other assets increased approximately $966 million from 2017 to 2018 as a result of the 2018 Priority and Subordinate Bond sale, along with King County Metro site purchase and construction work at the Convention Place Station (CPS) site and Expansion (Summit) costs. From 2016 to 2017 current and other assets increased $10 million as a result of Traction Power Supply Station (TPSS) receivable with King County Metro construction work at the Convention Place Station (CPS) site.

Capital Assets increased approximately $157 million from 2017 to 2018 due to the Summit building site work included in Construction in progress; net of current year depreciation and the result of other capital asset additions and disposals. Capital Assets increased from 2016 to 2017 because of real estate purchase of CPS real estate for potential future convention center expansion of approximately $161 million, cost for the Addition Project included in construction in progress; net of current year depreciation and the result of other capital asset additions and disposals.

Current liabilities increased for a variety of reasons, including increased payables from Summit project costs. Current liabilities increased from 2016 to 2017 due to the increase payables from CPS and other Addition project costs, along with increased amount due to the state of Washington for certain lodging taxes.

Net Position invested in capital assets decreased from 2017 to 2018 from the growth of the Summit Project and payments of public benefits, less depreciation.. The change in net position- investment in capital assets also reflects the net effects of asset additions and disposals, bond principal payments, and depreciation on capital assets. This balance increased from 2016 to 2017 from purchasing the CPS site from King County Metro and upturn in Summit Project spending.

COMPARATIVE SCHEDULE OF CHANGES IN NET POSITION

	2018	2017	Percentage Change	2016	Percentage Change
OPERATING REVENUES					
Building rent	$ 3,992,177	$ 4,363,947	-9%	$ 4,563,699	-4%
Food service	26,320,728	20,949,997	26%	22,005,777	-5%
Parking	3,783,815	3,723,747	2%	3,588,648	4%
Facility services	4,000,813	3,547,743	13%	3,218,654	10%
Retail leases	716,152	510,214	40%	495,965	3%
Other	1,579,687	1,866,048	-15%	1,683,471	11%
Total Operating Revenues	40,393,372	34,961,697	16%	35,556,214	-2%
MARKETING REVENUES					
Lodging tax for marketing	14,976,875	13,944,123	7%	12,863,089	8%
NONOPERATING REVENUES					
Lodging tax - regular	74,866,406	69,705,450	7%	64,300,007	8%
Build America Bonds subsidy	5,988,725	6,077,141	-1%	6,167,877	-1%
Interest and investment income	13,672,902	1,337,620	922%	1,174,492	14%
Total Revenues	149,898,281	126,026,032	19%	120,061,678	25%
OPERATING EXPENSES					
Salaries and wages	9,023,526	8,505,409	6%	8,183,258	4%
Employee benefits	5,283,711	5,216,785	1%	5,038,470	4%
Professional and other services	2,752,081	2,620,474	5%	2,524,676	4%
Food service	14,063,741	12,253,134	15%	12,967,020	-6%
Supplies	630,204	584,990	8%	597,246	-2%
Utilities	3,150,868	3,102,999	2%	2,790,347	11%
Repair and maintenance	1,692,183	1,703,191	-1%	1,770,592	-4%
Depreciation and amortization	13,791,941	13,448,391	3%	13,218,878	2%
Other administrative and contingency	376,940	327,266	15%	360,115	-9%
Total Operating Expenses	50,765,195	47,762,639	6%	47,450,603	1%
MARKETING EXPENSES					
Visit Seattle, Outside Marketing	12,757,257	11,940,816	7%	10,973,623	9%
In-house Marketing	1,380,462	1,188,809	16%	1,016,655	17%
Total Marketing Expenses	14,137,719	13,129,625	8%	11,990,278	10%
NONOPERATING EXPENSES					
Interest expense	36,617,777	11,569,690	216%	14,153,153	-18%
Other expense	5,429,052	1,344,412	304%	708,490	90%
Total Expenses	106,949,743	73,806,366	45%	74,302,524	-1%
Change in Net Position	42,948,538	52,219,665	-18%	45,759,153	14%
Net Position - Beginning	427,060,730	374,841,065	14%	329,081,910	14%
Net Position - Ending	470,009,268	427,060,730	10%	374,841,063	14%

Operations revenues have increased from 2017 to 2018. Fiscal 2018 Operating revenues were the strongest in the District's thirty-year history. Food Service revenues, with Parking, Facility services and Retail leases all exceed 2017 revenues. Building rent revenues were down slightly due to discounting to incentivize Food service and Facility revenues. Related operating expenses increased six percent. Marketing revenues increased seven percent and marketing expenses increased eight percent.

Other non-operating revenue increased from 2017 to 2018 due to increase in Lodging Tax revenue and investment income. Other non-operating expenses increased from 2017 to 2018 due the 2018 bond issuance costs. Cost of issuance, underwriter discount, and the purchase of Surety bonds of $4,759,235 were expensed in 2018 and not capitalized.

CAPITAL ASSETS

The following schedule is a summary of the District's investment in capital assets as of December 31, 2018, 2017 and 2016:

	12/31/2018	12/31/2017	12/31/2016
Capital assets, not being depreciated			
Land	313,878,484	313,857,947	$152,847,007
Construction in progress	293,814,711	125,373,206	77,190,472
Total capital assets, not being depreciated	607,693,195	439,231,153	230,037,479
Capital assets, being depreciated			
Buildings and improvements	458,463,340	458,142,009	459,460,339
Other improvements and art collection	12,262,373	11,654,366	5,876,163
Machinery/equipment/furniture/fixtures	14,431,124	13,649,344	13,281,648
Total capital assets, being depreciated	485,156,836	483,445,719	478,618,150
Less accumulated depreciation for			
Buildings	(197,246,166)	(185,386,868)	(174,152,026)
Other improvements and art collection	(3,297,904)	(2,736,166)	(2,348,236)
Machinery/equipment/furniture/fixtures	(9,581,263)	(8,468,758)	(7,329,406)
Total accumulated depreciation	(210,125,333)	(196,591,791)	(183,829,668)
Total capital assets, being depreciated, net	275,031,503	286,853,928	294,788,482
Total capital assets	$ 882,724,699	$ 726,085,081	$ 524,825,961

Capital Assets increased from 2017 to 2018 due to increase in Summit Project spending, plus the net of current year depreciation and capital asset additions and disposals. Capital Assets increased from 2016 to 2017 due to purchasing the CPS site from King County Metro and Addition Project spending. 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 for 2010 Bonds and 2018 First Priority Bonds. Ratings for 2018 Subordinate Priority Bonds: Moody's A1 and Standard and Poor's A-.

As of December 31, 2018, the District had $1,489,429,491 in long term outstanding debt and $7,755,000 in the current portion of long-term debt. In 2017, the District's outstanding debt was $442,145,840. The District debt was issued August 9, 2018 for the construction of the Summit building in the amount of $648,151,581 2018 First Priority Bonds and $434,431,503 2018 Subordinate Priority Bonds generating aggregate issuance of $1,082,583,084 plus premium on both issuances. 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. The new 2018 Bond issue replaced all common reserve funds with surety bonds. Additional information regarding long-term debt is provided in Note 8 to the financial statements.

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

ECONOMIC FACTORS

The District moved forward on capital improvement projects in order to ensure that its facility continues to attract profitable events and compete with the many newer and larger buildings in the western United States. The District's new sales studio opened in 2018 which offers a space to greet new customers, while revealing high-end finishes and top of the line technology. This comfortable space offers clients an opportunity to see and choose all the amenities and services the District offers. The District made major behind-the-scene upgrades to its chillers and other equipment. There are event bookings for the facility through May 2029. Late in 2018 the District started marketing and signing contracts for the new under construction Summit building.

The District is in escrow to sell its existing marshalling yard located on Horton Street in the SODO district and purchase a more efficient marshalling yard located on Martin Luther King Way near the I-5 exit 158. Besides accommodating more trucks, the property comes with all the essential security features, and additional funds from the sale will be added to the Summit project's source of funds.

Improvements in 2018 included new roof paths on the south building, digital sign replacement, lighting retrofit under I-5 lid, and concrete panel replacement.

Planned capital improvements in 2019 include Galleria First floor improvements. Improvements involve a flex space that can be used for pop-up retail, coat check, etc., and updating while adding flexible expandable space to the Moby space. The District plans to refurbish the Freeway Park Parking Garage elevator, Freeway Park Parking Garage lighting, and new parking equipment and technology replacement.

The District's Board of Directors authorized an operating budget of $36,580,922 for fiscal 2019.

Financial Contact

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

Washington State Convention Center Public Facility District
Statement of Net Position
As of December 31, 2018 and 2017

	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 62,183,311	$ 72,272,367
Restricted cash and cash equivalents	125,755,400	24,763,381
Investments	49,772,500	40,966,290
Restricted investments	582,448,881	19,665,388
Restricted investments interest receivable	4,579,359	26,357
Receivables (net)	2,761,254	1,030,765
Due from other governments	13,682,774	21,342,903
Prepayments and other current assets	652,544	807,134
Total Current Assets	841,836,023	180,874,585
Noncurrent Assets		
Investments	69,899,300	-
Restricted investments	235,384,982	
Other noncurrent assets	407,066	396,216
Total Noncurrent Assets	305,691,348	396,216
Capital Assets		
Land	313,878,484	313,857,947
Buildings and improvements	458,463,340	458,142,009
Machinery/equipment/furniture/fixtures	14,431,124	13,649,344
Other improvements and art collection	12,262,373	11,654,366
Accumulated depreciation	(210,125,333)	(196,591,791)
Construction in progress	293,814,711	125,373,206
Total Capital Assets	882,724,699	726,085,081
Total Assets	2,030,252,070	907,355,882
LIABILITIES		
Current Liabilities		
Accounts payable	13,283,624	9,376,607
Retainage-payable from restricted assets	3,478,128	538,048
Salaries, benefits and taxes payable	1,176,247	1,147,454
Unearned revenue and deposits payable	2,085,806	3,738,137
Due to other governments	12,465,676	13,153,400
Interest payable	28,297,060	9,231,129
Current portion of long term debt	7,755,000	29,519,900
Other	2,271,770	964,537
Total Current Liabilities	70,813,311	67,669,212
Noncurrent Liabilities		
Bonds and Notes payable	1,489,429,491	412,625,940
Total Noncurrent Liabilities	1,489,429,491	412,625,940
Total Liabilities	1,560,242,802	480,295,152
NET POSITION		
Net investment in capital assets	278,318,012	303,604,628
Restricted:		
Restricted for debt service	561,908	5,368,230
Restricted for Expansion	39,777,031	-
Restricted for operating reserve	10,472,521	9,625,974
Unrestricted	140,879,796	108,461,898
Total Net Position	$ 470,009,268	$ 427,060,730

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

Washington State Convention Center Public Facilities District
Statement of Revenue, Expenses and Changes in Net Position
For the Years Ending December 31, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Building rent	$ 3,992,177	$ 4,363,947
Food service	26,320,728	20,949,997
Parking	3,783,815	3,723,747
Facility services	4,000,813	3,547,743
Retail leases	716,152	510,214
Other	1,579,687	1,866,049
Total Operating Revenues	40,393,372	34,961,697
OPERATING EXPENSES		
Salaries and wages	9,023,526	8,505,409
Employee benefits	5,283,711	5,216,785
Professional and other services	2,752,081	2,620,474
Food service	14,063,741	12,253,134
Supplies	630,204	584,990
Utilities	3,150,868	3,102,999
Repair and maintenance	1,692,183	1,703,191
Depreciation and amortization	13,791,941	13,448,391
Other administrative and contingency	376,940	327,266
Total Operating Expenses	50,765,195	47,762,639
OPERATING INCOME (LOSS)	(10,371,822)	(12,800,942)
MARKETING REVENUES		
Marketing Tax	14,976,875	13,944,123
MARKETING EXPENSES		
Visit Seattle, Outside Marketing	12,757,257	11,940,816
In-house Marketing	1,380,462	1,188,809
Total Marketing Expenses	14,137,719	13,129,625
INCOME FROM MARKETING	839,156	814,498
TOTAL NET OPERATING AND MARKETING LOSS	(9,532,666)	(11,986,444)
NONOPERATING REVENUES (EXPENSES)		
Lodging tax - regular	74,866,406	69,705,450
Interest and investment income	13,672,902	1,337,620
Interest expense	(36,617,777)	(11,569,690)
Build America Bonds subsidy	5,988,725	6,077,141
Loss on disposal of assets	(562,668)	(1,294,965)
Bond issuance costs	(4,759,235)	-
Other revenue (expenses)	(107,149)	(49,447)
Total Nonoperating Revenue	52,481,204	64,206,109
CHANGE IN NET POSITION	42,948,538	52,219,665
Net Position - Beginning	427,060,730	374,841,065
Net Position - Ending	$ 470,009,268	$ 427,060,730

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

Washington State Convention Center Public Facilities District
Statement of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 37,010,552	$ 36,804,796
Receipts from governments	14,805,399	13,872,508
Payments to suppliers	(35,748,770)	(33,998,443)
Payments to employees	(14,278,444)	(13,748,074)
Payments to or receipt from others, net	260,375	(117,207)
Net Cash Provided By Operating Activities	2,049,112	2,813,579
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating Portion of Lodging Taxes received	74,180,925	69,418,860
Lodging Tax received to be paid to state	19,877,370	20,860,955
Portion of Lodging Tax paid to state	(20,516,289)	(19,738,049)
Nonoperating revenues and expenses	(107,149)	(49,447)
Purchase of other noncurrent assets	(10,850)	(42,159)
Net Cash Provided By Noncapital Financing Activities	73,424,006	70,450,161
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond Proceeds	1,085,425,398	
Purchases of Capital Assets	(175,042,365)	(49,714,868)
Interest and principal paid on capital debt	(25,071,847)	(26,184,222)
Payment on note to acquire land	(21,999,990)	(3,000,100)
Bond Issue Costs	(4,759,235)	-
BABs subsidy received	5,988,725	3,059,485
Net Cash Used By Capital and Related Financing Activities	864,540,686	(75,839,705)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	4,788,446	1,144,136
Investment fees	(6,341)	(3,951)
Investment purchases	(1,115,341,736)	(71,494,000)
Investment maturities	261,448,788	108,472,000
Net Cash Provided (Used) By Investing Activities	(849,110,843)	38,118,186
Net Increase (Decrease) In Cash and Cash Equivalents	90,902,963	35,542,220
Cash and Cash Equivalents Balances - Beginning	97,035,748	61,493,529
Cash and Cash Equivalents Balances - Ending	$ 187,938,711	$ 97,035,748
Cash and Cash Equivalents as Reflected in the Statement of Net Position:		
Cash and cash equivalents	$ 62,183,311	$ 72,272,367
Restricted cash and cash equivalents	$ 125,755,400	$ 24,763,381
Total Ending Cash and Cash Equivalents in the Statement of Net Position	$ 187,938,711	$ 97,035,748
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$ (9,532,666)	$ (11,986,444)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation and amortization	13,791,941	13,448,391
Changes in operating assets and liabilities:		
Accounts Receivable	(1,730,489)	761,964
Due from Other Governments-Operating Portion	(171,476)	(71,615)
Operating Accounts Payable	(97,676)	680,127
Prepayments	154,590	(140,658)
Salaries, benefits and taxes payable	28,793	(25,880)
Unearned revenue and deposits payable	(1,652,331)	1,081,135
Other operating liabilities	1,258,428	(933,441)
Net Cash Provided (Used) By Operating Activities	$ 2,049,112	$ 2,813,579
SCHEDULE OF NON-CASH INVESTING, CAPITAL, NON CAPITAL AND RELATED FINANCING ACTIVITY		
Capital Assets acquired by increases in accounts payable	$ 4,004,694	$ 1,227,086
Land purchase acquired by a note payable		161,010,940
Reimbursement of capital is included in receivables	152,509	8,559,337
Change in fair value of investments	4,331,454	193,484

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

August 2018, the District sold Bonds at the purchase price of $1,082,583,084. The purchase price for the 2018 First Priority Bonds was $648,151,581 (representing the aggregate principal amount of the 2018 First Priority Bonds, plus the original issue premium of $51,057,434 and less the Underwriters' Discount of $1,695,853). The purchase price for the 2018 Subordinate Priority Bonds was $434,431,503 (representing the aggregate principal amount of the 2018 Subordinate Priority Bonds, plus the original issue premium of $30,772,965 and less the Underwriters' Discount of $1,146,461). Proceeds are to finance a portion of the costs to construct the Summit facility. The Summit will add nearly 1.5 million square feet of gross floor area to the Convention Center, more than doubling the existing Convention Center exhibit, meeting, and banquet space. The Summit will include a 155,000 square foot exhibition hall, 100,000 square foot flex hall,125,000 square feet of meeting rooms and a 60,000 square feet ballroom.

B. Component Units

The Washington State Convention Center Art Foundation, a 501(c) (3) tax exempt organization, was formed to support the public art program of the WSCC. The Art Foundation's Board of Directors is appointed by the Chair of the WSCC Board of Directors Art Committee and approved by the WSCC Board of Directors. While the WSCC Board of Directors has the ability to control which art is displayed at any point in time, it does not direct the operation of the Art Foundation. The WSCC is entitled to the assets of the Art Foundation only upon its dissolution. The Art Foundation has no employees. As such, WSCC staff provides insignificant administrative services to the Art Foundation. The total assets $567,016, total revenues $1,754 and total expenses **(**$177) as of December 31, 2018 for the Art Foundation are considered insignificant to the WSCC. In addition, there are no transactions between the two entities for the years ended December 31, 2018 and 2017. As such, the Art Foundation is not included in the WSCC's financial statements as either a blended or a discretely-presented component unit.

C. Basis of Accounting and Presentation

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

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

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

D. Summary of Significant Accounting Policies

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

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

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

For fiscal 2018 and all comparable years the District reports marketing revenues and expenses separately from the operating category. Marketing revenues and expenses are located on the Statement of Revenues, Expenses and Changes in Net Position between operating and non-operating. Marketing revenue is a dedicated portion of the lodging tax that supports national and international marketing by Visit Seattle on the District's behalf. In-house marketing supports advertising and marketing for events in the building and local/regional marketing.

The District receives non-operating revenues from lodging taxes and interest and investment income. Its non-operating expenses are mainly debt service interest payments and loss on disposal of assets. Prior to 2018, the District reported its interest expense net of capitalized interest on the Summit building project. The District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement number 89 *Accounting for Interest Cost Incurred before the End of a Construction Period* for its 2018 financial statements. This GASB statement requires that interest costs during construction be expensed. As such, the District no longer capitalizes interest costs as an addition to capital assets. The District separately reports its subsidy from the U.S. Federal government on its Build America Bonds in non-operating revenues.

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

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

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

3. Policy for defining cash equivalents

It is the District's policy to invest temporary cash surpluses. Cash includes the following:

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

Cash equivalents include highly liquid investments with the following characteristics:

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

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

4. Policy for application of restricted versus unrestricted resources

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

E. Budgetary Information

1. Scope of Budget

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

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

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

The Board of Directors approved Resolution number 2010-16 that requires the establishment of an annual operating reserve based on 100 days of operating budgeted expenses. The 2018 Operating Reserve was funded in January 2018 to $9,755,123. In December 2018, the budget was amended by Resolution number 2018-16 and the Operating Reserve was increased to $10,472,521.

In May 2018, the Board of Directors approved a motion to update the Summit Project Financial Plan to $1,738,312,000.

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 action. Capital budgets are monitored throughout the length of the specific projects, and budgets are modified by board action.

F. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

It is the District's policy to invest all temporary cash surpluses. At December 31, 2018 and 2017, the District had $62,183,311 and $72,272,367, respectively, in short-term residual investments of surplus cash reported as unrestricted cash and cash equivalents. The decrease in unrestricted cash and cash equivalents from 2017 to 2018 was principally due to the strategy to invest a portion of unrestricted funds long-term once the new restricted Project Bond funds could be used for Summit construction payments.

2. Investments (See 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 updated its investment policy in 2016 to incorporate the new State of Washington regulations. The certification of excellence for investment policies was awarded by the Washington Public Treasurers' Association to the District. 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.

The District maintained current and non-current restricted investments with external fiscal agents, which are presented on the Statement of Net Position as current restricted investments in the amount of $582,448,881 for 2018 and $19,665,388 for 2017, and noncurrent restricted investments of $235,384,982 for 2018. Current restricted investments arise from the 2018 financing of First Priority and Subordinate Bonds reserved for construction expenditures that are due within one year. Current restricted investments for 2017 was the 2010B bond Common

Reserve. The 2010B bond Common Reserve was replaced with a Surety bond in August 2018. Current and non-current unrestricted investments are $119,671,800 as of December 31, 2018 and $40,966,290 as of December 31, 2017. All investments are reported at fair value as reported by the external fiscal agent.

3. Receivables

Receivables consist of the following components:

Customer accounts receivable consist of amounts owed by private organizations for goods and services and leased retail space and are presented net of an estimate of uncollectible accounts. Receivables in 2018 also include $936,022 of amounts due from the bond trustee.

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

4. Due to/from Other Governments

As of December 31, 2018, and 2017, the due from other governments is mainly composed of Lodging Tax collected by the hotels and earned in November and December 2018 and 2017 but paid to District by the state of Washington in January and February 2019 and 2018 respectively. The due from other governments include $2,971,069 for 2018 and $3,017,656 for 2017 for the US Government's Build America Bonds subsidy that was not received until January 2019 and 2018, respectively.

5. Inventories

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

6. Restricted Assets and Liabilities

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

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

7. Capital Assets (See 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. Groups of capital assets may be capitalized even if their individual costs are less than $5,000 and subsequent additions to the group are likewise capitalized. Capital assets are recorded at cost. Costs of additions or improvements are capitalized if they increase the useful life of the asset. Routine repair and maintenance costs are expensed when incurred.

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

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

GASB Statement number 89, *Accounting for Interest Cost Incurred before the end of a Construction Period* suspends paragraphs 5-22 of GASB 62, which the District followed from 2014 through 2017. As such, a portion of interest costs was capitalized to construction in progress and the remainder is reflected as interest expense in the statement of Revenues, Expenses and Changes in Net Position in years prior to 2018 as follows:

Year	Interest Expense	Capitalized Interest	Total Interest
2014	16,711,504	2,504,617	19,216,121
2015	16,057,662	3,146,793	19,204,455
2016	14,153,153	4,876,479	19,029,632
2017	11,660,426	7,050,683	18,711,109

In 2018 following GASB Statement number 89, the District did not capitalize interest. The District interest expense included 2010 Bonds, 1st Priority 2018 Bonds, Subordinate 2018 Bonds and King County Note totaling $36,617,777.

8. Compensated Absences

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

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

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

9. Unearned Revenue and Deposits Payable

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

10. Restricted and Unrestricted Net Position

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

G. Prior-Year Comparative Data

The current period, January 1, 2018 through December 31, 2018, is the ninth year of operating revenues and expenses reported by the District. Comparative data for the period of January 1, 2017 through December 31, 2017 are reported in the financial statements.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 3 - CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

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

As of December 31, 2018, and 2017, cash and cash equivalents include:

Financial Institution		**2018**	**2017**
US Bank		59,337,237	19,122,883
Local Government Investment Pool		128,555,349	77,866,740
Petty Cash/Change Funds		46,125	46,125
TOTAL		187,938,711	97,035,748

NOTE 4 – INVESTMENTS

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

Fair Value Measurement

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset:

- Level 1 inputs are quoted prices in active markets for identical assets. These valuation inputs are considered most reliable.
- Level 2 inputs are quoted prices for similar assets, quoted prices for identical or similar assets in markets that are not active, or other observables. These valuation inputs are considered to be reliable.
- Level 3 inputs are significant unobservable inputs and are considered to be the least reliable.

The District has the following recurring fair value measurements as of December 31, 2018:

U.S. Government Treasury Notes of $872,941,000 and Federal Government Agencies of $44,661,000 are valued using quoted prices in an active market for identical assets (Level 1 inputs). Corporate Commercial Paper of $19,904,000 are valued using quoted prices in an active market for identical assets (Level 1 inputs) The District holds no investments that require valuation using levels 2 or 3 inputs.

As of December 31, 2018, the District had the following investments measured at fair value (in thousands). The following table identifies the types of investments, concentration of investments in any one issuer, and maturities of the District's investment portfolio as of December 31, 2018:

		Maturities			Ratings	
Investment Type	Fair Value	Less Than 1 Year	1 to 5 Years	% of Total Portfolio	S&P	Moody's
Federal Home Loan Bank	$ 25,075		$ 25,075	2.67%	AA+	AAA
Treasury Notes	872,941	592,731	280,210	93.11%	AA+	AAA
Resolution Funding Corporation	19,586	19,586		2.09%	AA+	AAA
Commerical Paper	19,904	19,904		2.12%	AA	AAA
Total	$937,506	$632,221	$ 305,285	100.00%		
Percentage of Total Portfolio		67.44%	32.56%	100.00%		

As of December 31, 2017, the District had the following investments measured at fair value (in thousands).

		Maturities			Ratings	
Investment Type	Fair Value	Less Than 1 Year	1 to 5 Years	% of Total Portfolio	S&P	Moody's
Treasury Notes	48,645	48,645		80.23%	AA+	AAA
Commerical Paper	11,987	11,987		19.77%	AA	AAA
Total	$ 60,632	$ 60,632	$ -	100.00%		
Percentage of Total Portfolio		100.00%	0.00%	100.00%		

Interest Rate Risk is the risk that changes in interest rates, will adversely affect the fair value of an investment. To mitigate this risk, the District limits the maturity of any single security to five years, in accordance with its investment policy. To achieve its financial objective of ensuring liquidity most investments have shorter maturities. As detailed in the chart above, 68 percent of the investments mature in 2019 and remaining 32 percent of the investments mature in one to five years.

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's and S&P rating (if available) are provided in the charts above.

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

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

NOTE 5 – CAPITAL ASSETS

The capital assets and related changes during the years ended December 31, 2018 and 2017 are reflected in the following charts.

Asset Class	January 1, 2018	Increases	Decreases	December 31, 2018
Capital assets, not being depreciated				
Land	$313,837,908			$313,837,908
Land development costs	20,039	20,537		40,576
Construction in progress	125,373,206	182,389,837	(13,948,332)	293,814,711
Total capital assets, not being depreciated	$439,231,153	$182,410,374	($13,948,332)	$607,693,195
Capital assets, being depreciated				
Buildings and improvements	458,142,009	1,142,753	(821,422)	458,463,340
Other improvements and art collection	11,654,366	608,007		12,262,373
Machinery/equipment/furniture/fixtures	13,649,344	781,780		14,431,124
Total capital assets, being depreciated	$483,445,719	$2,532,540	($821,422)	$485,156,837
Less accumulated depreciation for				
Buildings	(185,386,868)	(11,891,306)	258,399	(197,019,775)
Other improvements and art collection	(2,736,166)	(781,654)		(3,517,820)
Machinery/equipment/furniture/fixtures	(8,468,758)	(1,118,981)		(9,587,739)
Total accumulated depreciation	($196,591,791)	($13,791,941)	$258,399	($210,125,333)
Total capital assets, being depreciated, net	286,853,928	(11,259,401)	(563,023)	275,031,504
Total capital assets	$ 726,085,081	$ 171,150,973	$ (14,511,355)	$ 882,724,699

Asset Class	Beginning Balance January 1, 2017	Increases	Decreases	Ending Balance December 31, 2017
Capital assets, not being depreciated				
Land	$152,826,968	161,010,940		$313,837,908
Land development costs	20,039			20,039
Construction in progress	77,190,472	54,991,536	(6,808,802)	125,373,206
Total capital assets, not being depreciated	$230,037,479	$216,002,476	($6,808,802)	$439,231,153
Capital assets, being depreciated				
Buildings and improvements	459,460,339	641,809	(1,960,139)	458,142,009
Other improvements and art collection	5,876,163	5,778,203		11,654,366
Machinery/equipment/furniture/fixtures	13,281,648	388,790	(21,094)	13,649,344
Total capital assets, being depreciated	$478,618,150	$6,808,802	($1,981,233)	$483,445,719
Less accumulated depreciation for				
Buildings	(174,152,026)	(11,907,689)	672,847	(185,386,868)
Other improvements and art collection	(2,348,236)	(387,979)	49	(2,736,166)
Machinery/equipment/furniture/fixtures	(7,329,406)	(1,152,723)	13,371	(8,468,758)
Total accumulated depreciation	($183,829,668)	($13,448,391)	$686,268	($196,591,791)
Total capital assets, being depreciated, net	294,788,481	(6,639,589)	(1,294,966)	286,853,928
Total capital assets	$ 524,825,961	$ 209,362,887	$ (8,103,768)	$ 726,085,081

NOTE 6 – EMPLOYEE BENEFITS

A. Defined Contribution Retirement Plans

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

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

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

The District contributed $296,246 and $283,622 for 2018 and 2017, respectively, to the employee 401(a) plan. The District contributes five percent based on the employee's compensation; and may match $0.50 for each dollar an employee contributes to the employee retirement contribution plan up to 6 percent of the employee's wages. Vesting in the employer contributions occurs in accordance with the following schedule:

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

Forfeitures from non-eligible employees are netted against plan expenses. There were no forfeitures for fiscal year 2018.

457 (b) Employee Retirement Contribution Plan

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

Employees vest in the program from inception, and they may receive benefits upon retirement, termination or death. The employee may make a pre-tax contribution to the contribution plan. All full-time non-represented employees are eligible, and 100 percent vested. Employees contributed $322,288 and $298,938 in 2018 and 2017, respectively, to their 457(b) plan.

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

B. Health & Welfare

The District is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2018, 257 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental, life and vision insurance through the following carriers: Kaiser Permanente, Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, The Standard, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2018, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of $1.5 million through Life Map, and Kaiser ISL at $1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

NOTE 7 – RISK MANAGEMENT

A. General Liability Insurance

The District has property and casualty insurance through Factory Mutual Insurance Company of Rhode Island through November 30, 2019, as follows: $527 million in total coverage for its facilities and operations including earthquake, flood and terrorism coverage. The total combined maximum deductible is $250,000.

B. Employee Dishonesty Insurance

The District maintains a blanket bond for employee dishonesty, with a current coverage limit of $1,000,000, with a $10,000 deductible. There were no claims against this policy in 2018.

C. Liability Insurance

The District maintains insurance through Associated Industries Insurance Company (Alliant "SLIP" program) for the following liability categories (aggregate limit): General ($10,000,000), Stop Gap ($10,000,000), Auto ($10,000,000); Umbrella ($5,000,000), Management ($3,000,000). A $10,000 deductible generally applies to these coverages.

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

NOTE 8 – LONG-TERM DEBT

A. Long-Term Debt

The District, in August 2018, issued bonds for the purchase price of $1,082,583,084, net of underwriter discount issuing revenue bonds. The par amount for the aggregate issuance of the 2018 First Priority Bonds and 2018 Subordinate Priority Bonds was $1,003,595,000.

	2018 First Priority Bonds	2018 Subordinate Priority Bonds	Aggregate Issuance
Par Amount	$ 598,790,000.00	$ 404,805,000.00	$ 1,003,595,000.00
Plus: Net Original Issue Premium	51,057,433.75	30,772,964.65	81,830,398.40
Less: Underwriters' Discount	(1,695,852.77)	(1,146,461.47)	(2,842,314.24)
Total Purchase Price	**$ 648,151,580.98**	**$ 434,431,503.18**	**$ 1,082,583,084.16**

The District issued revenue bonds to finance a portion of the Summit facility costs, an addition adjacent to the Convention Center located on an approximately 7.7-acre site bordered by Pine and Howell Streets and Ninth and Boren Avenues.

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

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

Revenue bonds and King County Note outstanding as of December 31, 2018 and changes from 2017 are as follows:

Description	Maturity	Interest Rates	Balance 12/31/2017	Additions	Reduction	Balance 12/31/2018	Amount Due Within One Year
Bonds 2010B	2018-2040	5.02%-6.79%	279,135,000	$ -	$ (7,520,000)	$ 271,615,000	$ 7,755,000
Less Current Portion			(7,520,000)		(235,000)	$ (7,755,000)	
Long Term Portion			271,615,000			263,860,000	
King County CPS Note	2025-2056	4.25%	163,010,840		(21,999,900)	141,010,940	
Less Current Portion			(21,999,900)		21,999,900	-	
Long Term Portion			141,010,940			141,010,940	
						-	
2018 First Priority	2019-2058	5.00%		598,790,000		598,790,000	
Net Original Issue Premium				51,057,434	(540,863)	50,516,571	
Long Term Portion						649,306,571	
2018 Subordinate Priority	2019-2058	5.00%		404,805,000		404,805,000	
Net Original Issue Premium				30,772,964	(325,985)	30,446,979	
Long Term Portion						435,251,979	
Total Long Term Debt			$ 412,625,940	$ 1,085,425,398	$ (8,621,847)	$ 1,489,429,491	$ 7,755,000

Revenue bond and King County Note outstanding as of December 31, 2017 and changes from 2016 are as follows:

Description	Maturity	Interest Rates	Balance 12/31/2016	Additions	Reduction	Balance 12/31/2017	Amount Due Within One Year
Bonds 2010B	2018-2040	3.92%-6.79%	286,450,000	$ -	$ (7,315,000)	$ 279,135,000	$ 7,520,000
Less Current Portion			(7,315,000)			(7,520,000)	
Long Term Portion			279,135,000			271,615,000	
King County CPS Note	2025-2056	4.25%	-	166,010,940	(3,000,100)	163,010,840	21,999,900
Less Current Portion						(21,999,900)	
Long Term Portion			-			141,010,940	
Total Long Term Debt			$ 279,135,000			$ 412,625,940	$ 29,519,900

The District and King County Purchase and Sales Agreement for CPS property was finalized July 25, 2017. The purchase price was $161,010,940 and was paid as follows:

- $20 million cash at closing.
- The balance of the Purchase Price was paid by the District at closing with a promissory note.
  - Thereafter closing for a period of 5 years interest only payments shall be due to King County in the amount of $1,410,109 for a total of six payments.
  - Year 7 begin payment on 25-year promissory note with a beginning balance of $141,010,940.
  - District paid separate from the purchase price, $5,000,000 in cash at closing to satisfy the District's affordable housing obligation.

Revenue bond and note debt service requirements to maturity as of December 31, 2018 are as follows:

	2010B		Less BABs		CPS Note		2018 First Priority		2018 Subordinate Priority		
Year	Principal	Interest	Subsidy	Total	Principal	Interest	Principal	Interest	Principal	Interest	Total
2019	7,755,000	18,099,719	(5,916,796)	19,937,923		1,410,109		25,205,892		16,985,724	63,539,647
2020	8,005,000	17,710,342	(5,789,509)	19,925,833		1,410,109	305,000	28,485,500	375,000	19,365,250	69,866,692
2021	8,280,000	17,292,400	(5,652,884)	19,919,516		1,410,109	325,000	28,490,250	395,000	19,366,500	69,906,375
2022	8,590,000	16,810,343	(5,495,299)	19,905,043		1,410,109	355,000	28,504,000	415,000	19,366,750	69,955,902
2023	8,970,000	16,227,082	(5,304,631)	19,892,450		1,410,109	385,000	28,516,250	435,000	19,366,000	70,004,809
2024 - 2025	19,145,000	30,600,154	(10,003,187)	39,741,966	1,790,983	13,362,999	875,000	57,078,000	930,000	38,725,750	152,504,698
2026 - 2030	55,765,000	64,344,417	(21,034,183)	99,075,233	9,205,948	28,927,966	2,900,000	142,973,500	8,665,000	102,715,750	394,463,397
2031 - 2035	69,210,000	43,665,132	(14,274,127)	98,601,005	17,931,892	26,275,765	4,220,000	143,445,250	37,735,000	126,292,750	454,501,662
2036 - 2040	85,895,000	18,000,290	(5,884,293)	98,010,997	29,727,153	21,521,638	6,040,000	144,039,500	48,160,000	126,292,750	473,792,038
2041 - 2045					45,469,143	13,942,253	116,035,000	242,048,250	61,465,000	126,291,500	605,251,146
2046 - 2050					36,885,821	3,211,651	148,090,000	242,045,250	78,455,000	126,299,250	634,986,972
2051 - 2055							186,200,000	242,048,150	98,120,000	126,285,850	652,654,000
2056 - 2058							133,060,000	145,231,100	69,655,000	75,773,700	423,719,800
Total	$ 271,615,000	$ 242,749,876	$ (79,354,910)	$ 435,009,966	$ 141,010,940	$ 114,292,817	$ 598,790,000	$ 1,498,110,892	$ 404,805,000	$ 943,127,524	$ 4,135,147,138

As discussed in NOTE 11, Congress' BABs subsidies were originally 35 percent, sequestration measures have reduced the subsidy to 32.69 percent. Effects of future subsidy reductions through 2040 have been reflected in the debt service to maturity in the above maturity chart. This chart assumes that the BABs subsidy will remain 32.69 percent through maturity.

The District began capitalizing interest costs on the Addition project in 2014 per FASB Statement Number 34. Statement Number 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* was approved and implemented in 2018. Statement Number 89 starting in 2018 discontinued the practice of capitalization of interest costs on construction projects. In addition, it does not allow restating prior period statements to change prior capitalized interest costs. Total interest cost, during 2018 with approximately half year of the King County note, and 2018 Priority and Subordinate bonds was $31,597,393. Total Capitalized Interest beginning in 2014 through 2017 is $17,578,572.

	Interest	Capitalized	Total
Year	Expense	Interest	Interest
2014	16,711,504	2,504,617	19,216,121
2015	16,057,662	3,146,793	19,204,455
2016	14,153,153	4,876,479	19,029,632
2017	11,660,426	7,050,683	18,711,109
Total	58,582,745	17,578,572	76,161,317

NOTE 9 – LEASES

Operating Leases

The District leases office equipment under non-cancellable operating leases. The total commitments under these leases are $142,359 until the end of the leases in 2023.

Year	Operating Leases
2019	$57,683
2020	$37,408
2021	$27,004
2022	$11,606
2023	$8,658
Total	$142,359

Tenant Leasing Agreements

The District leases building space to various retail tenants. A total of 16 retail leases provided revenue of $716,152 in fiscal 2018. Lease contract terms will expire within one to four years for many of the retail tenants. It is not known if options to extend terms will be exercised, but negotiations are ongoing at this time with some retail tenants. Based on enforceable contracts on December 31, 2018, future minimum rental payments required for five succeeding years are:

Year	Lease Revenue
2019	$779,090
2020	$571,120
2021	$377,081
2022	$210,310
2023	$112,307
Total	$2,049,908

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

Other Leasing Agreements

The District earns lease revenue from real property acquired for the expansion project. These lease terms are month to month. Leases end when pre-construction work begins on designated property. Revenue from these leases is included in other non-operating revenues and was $169,119 in 2018 and $308,679 in 2017.

NOTE 10 – COMMITMENTS AND CONTIGENCIES

The District has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved, but where based on available information, management believes it is probable that the District will be assessed a liability. In the opinion of management, the District's insurance policies are adequate to pay all known or pending claims.

A. Capital Projects

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

Common Reserve Fund of $19,521,016 was funded from the 2010AB Bond sale to be held by the Trustee. The Common Reserve requirement was to cover the maximum annual debt service on the bonds. In August a Surety bond replaced the Common Reserve and the funds were spent by the District in October. As confirmed by BLX an Arbitrage firm there is no arbitrage liability.

B. Freeway Park

In February 1997, The District entered into a 30-year lease agreement with the city of Seattle for the 665-stall Freeway Park garage. Under this agreement, The District 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 final capital reserve payment to bring the capital reserve account to $500,000 was made in 2018. The District is responsible for all repairs and maintenance.

C Airspace Lease WSDOT

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

D. Expansion-Related Commitments

In connection with the convention center Summit Building project (Addition), the District has entered into various contracts for property development, project management, architectural, engineering and construction activities. Total commitments under these agreements total $876 million as of December 31, 2018.

E. Pending Lodging Excise Tax Removal of Exemption for Premises with Fewer Than Sixty Lodging Units

House bill 2015 and companion Senate bill 5850 passed the 2018 legislative session. The lodging excise tax bill modifies the lodging excise tax to remove the exemption for premises with fewer than sixty lodging units and to tax certain vacation rental, short-term home sharing arrangements and other compensated use or occupancy of dwellings. Revenues from this bill is shared with the City of Seattle and King County. The District will remit to the City of Seattle all short-term rental funds collected in the City of Seattle. After the City of Seattle receives their funds, the District remits to King County fifty percent of the new funds received from this bill. The funds received from this legislation by the City of Seattle are earmarked for communityinitiated equitable development and affordable housing programs. King County funds must be used to support affordable housing programs. The Department of Revenue 2018 fiscal note forecasts total collections of Bill 2015 to be shared by the District, City of Seattle and King County as follows.

District Revenue Impact For Removal of 60 Unit Exemption and Short-term Rentals (in $000)	
Fiscal Year	Additional Revenue
2019	5,828
2020	18,358
2021	19,276
2022	20,240
2023	21,252

Fiscal year is the State of Washington's fiscal year July 1 through June 30. District's fiscal year is calendar, (January 1 through December 31).

F. Issuing Debt for the Addition Project

In August, the District's net proceeds from the bond sale was $1,080,493,874, for the Summit building project. The budget for the project is $1.8 billion, and another First Priority bond issue for approximately $79 million is expected in 2021. The remaining project funds will come from cash, investment earnings and other sources.

NOTE 11 – INFREQUENT EVENTS

BUILD AMERICA BONDS

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

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended in 2012 certain automatic reductions took place as of March 1, 2013. These required reductions of 8.9% to refundable credits under section 6431 of the Internal Revenue Code applicable to certain qualified bonds. The sequester reduction is applied to section 6431 amounts claimed by an issuer on any Form 8038-CP filed with the Service which results in a payment to such issuer on or after March 1, 2013. The sequestration current subsidy rate is 32.69%. This sequestration rate is expected through 2040.

The BAB subsidy request form is Form 8038-CP. The District BAB reduction from Congress sequestration measures for 2018 was $426,658. The original 2018 annual BAB subsidy was $6,461,970, less actual BAB subsidy received of $6,035,312. It is forecasted that the reduction in the 2019 BAB subsidy will be $432,642.

NOTE 12 – COMPONENTS OF NET POSITION

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

Net investment in capital assets
Restricted net position
Unrestricted net position

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

The following provides detail of the components of net position as of December 31, 2018:

Category	Assets	Related Liability	Net Position
Capital assets, net of accumulated depreciation	$ 882,724,699		
Less Bonds and Notes Payable		(1,497,184,491)	
Plus unspent proceeds reflected as restricted below		892,777,804	
Net position invested in capital assets			278,318,012
Restricted assets			
Restricted for Expansion	932,554,835	(892,777,804)	39,777,031
Restricted for debt service under bond covenants	32,337,096		
Interest payable to be paid from restricted assets		(28,297,060)	
Retainage payable to be paid from restricted assets		(3,478,128)	561,908
Restricted for capital improvements	-	-	-
Restricted for operating reserve	10,472,521		10,472,521
Restricted net position			50,811,460
Unrestricted			140,879,796
Total Net Position			$ 470,009,268

The following provides detail of the components of net position as of December 31, 2017:

Category	Assets	Related Liability	Net Position
Capital assets, net of accumulated depreciation	$ 726,085,081		
Less Bonds Payable		(442,145,930)	
Plus unspent proceeds reflected as restricted below		19,665,388	
Net position invested in capital assets			303,604,538
Restricted assets			
Restricted for debt service under bond covenants	34,802,795	(19,665,388)	
Interest payable to be paid from restricted assets		(9,231,129)	
Retainage payable to be paid from restricted assets		(538,048)	5,368,230
Restricted for capital improvements	-	-	-
Restricted for operating reserve	9,625,974		9,625,974
Restricted net position			14,994,204
Unrestricted			108,461,988
Total Net Position			$ 427,060,730

NOTE 13 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through May 16, 2019, the date which the financial statements were available to be issued.

NOTE 14 – ARBITRAGE

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

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