Miller & Miller, P.S.

Washington State Convention Center Public Facilities District

Financial Statements and Independent Auditor's Report

For The Years Ended December 31, 2017 and 2016

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December 31, 2017 and 2016
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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, 2017 and 2016, 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, 2017 and 2016, 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.C.

Certified Public Accountants

April 3, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ending December 31, 2017 and 2016

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 seventh full year of operations in 2017. 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.

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 the sale of food and beverages at the facility. About 70 percent of its convention business comes from association meetings, especially medical and high tech. The convention center attracts hundreds of thousands of people to the Greater Seattle area, enriching the local economy in 2017 with sales of 311,136 hotel nights generating attendee spending of approximately $386 million, generated sales tax of nearly $30 million, plus retail spending, and other direct spending on goods and services as provided by Econ Northwest analysis.

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 $52 million from 2016 to 2017. The increase is due to the receipt of lodging tax revenues exceeding the District's interest costs and operating results.
B. While 2016 reflects the historically largest operating revenues for the District, fiscal year 2017 marked a successful year, with strong operating revenues, exceeding the original adopted budget projections. The District's largest annual event consolidated with its other events across the country and moved to Las Vegas. This resulted in reduced revenues in Building rent and Food services that was nearly equaled by a strong sales team booking local replacement events.
C. The City of Seattle Mayor, the King County Executive and representatives from the Community Package Coalition (CPC) and the District announced an agreement on terms for the District to provide $82.8 million towards a suite of benefits for the community. This partnership moves the WSCC Addition project – and the creation of new convention space – closer to reality.

Summary of WSCC Addition Public Benefits and Investments

Item	$ MM
Community Package Projects	
Freeway Park Improvements	$10.0
Lid I-5 Study	$ 1.5
Pike-Pine Bicycle Improvements	$10.0
Olive Way Pedestrian Improvements	$ 0.5
8th Avenue Bicycle Improvements	$ 6.0
Terry Avenue Promenade	$ 4.0
Affordable Housing	$29.0
Subtotal	**$61.0**
Other Public Benefits (current estimate)	
Pike-Pine Renaissance Pedestrian Improvements	$10.0
9th Avenue Pedestrian Improvements	$ 0.6
Public Art	$ 1.9
Historic Building Lighting	$ 1.0
On-Site Features	$ 8.1
Improvements to Olive Way	$ 0.2
Subtotal	**$21.8**
Other Housing Contributions	
King County Requirement	$ 5.0
Incentive Zoning	$ 4.3
Total	**$92.1**

D. King County Executive Dow Constantine and the District Board of Directors chairman Frank Finneran announced on November 18, 2015, an agreement on terms for WSCC to acquire 4 acres of the Convention Place Station (CPS) in downtown Seattle from King County, in exchange for $161 million. The CPS is the linchpin to double the capacity of the convention center. During February 2017, the WSCC Board of Director's approved Resolution number 2017-7 approving the purchase of the CPS site from King County to utilize for its Addition Project. During June 2017, the King County Council voted 8-0 to approve the Purchase and Sale Agreement for the CPS site with the District. King County Metro will receive $275 million in principal and interest payments over the next 30 years. Upon close of the Purchase and Sale Agreement, the District will contribute $5 million to the County's housing program and King County Metro will receive $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.

E. The District made its last principal payment on revenue bonds series 2010A in July 2014. The District made its third principal payment on its bond series 2010B in July 2017. As of December 31, 2017, the remaining bond series 2010B debt balance is $279,135,000. 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.

F. 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, however, such as changes in the District's funding structures and the condition of the District's operating assets to assess the overall financial health of the District.

The Statement of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position show the District's income and expenses during the period. All revenues earned and expenses incurred during the years ended December 31, 2017 and 2016 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

	2017	2016	Percentage Change	2015	Percentage Change
ASSETS					
Current and Other assets	$ 181,270,801	$ 171,211,243	6%	$ 178,311,931	-4%
Capital Assets	726,085,081	524,825,961	38%	474,004,249	11%
Total Assets	907,355,882	696,037,204	30%	652,316,180	7%
LIABILITIES					
Current Liabilities	67,669,212	42,061,139	61%	36,784,271	14%
Noncurrent Liabilities	412,625,940	279,135,000	48%	286,450,000	-3%
Total Liabilities	480,295,152	321,196,139	50%	323,234,271	-1%
NET POSITION					
Net invested in capital position	303,604,538	257,982,529	18%	203,267,729	27%
Restricted	14,994,204	14,394,398	4%	16,663,513	-14%
Unrestricted	108,461,988	102,464,137	6%	109,150,668	-6%
Total Net Position	$ 427,060,730	$ 374,841,065	14%	$ 329,081,910	14%

Current and other assets increased approximately $10 million from 2016 to 2017 as a result of the Traction Power Supply Station (TPSS) receivable with King County Metro regarding construction work at the Convention Place Station (CPS) site. From 2015 to 2016 current and other assets decreased as a result of land, construction in progress purchases, lodging tax revenues that exceeded interest expense and cash operating surplus.

Capital Assets increased approximately $202 million from 2016 to 2017 due to the 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. Capital Assets increased from 2015 to 2016 because of real estate purchases and Pike Street Improvements, 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 CPS and other Addition project costs, increases in the amount due to the state of Washington for certain lodging taxes and for operating expenses. Current liabilities increased from 2015 to 2016 due to the Addition project and amount due to the state of Washington for certain lodging taxes.

Net investment in capital assets increased from 2016 to 2017 from purchasing the CPS site from King County Metro and upturn in Addition Project spending. 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 2015 to 2016 from purchasing the Sound Transit and marshalling yard properties, Addition Project and Pike Street renovations.

COMPARATIVE SCHEDULE OF CHANGES IN NET POSITION

	2017	2016	Percentage Change	2015	Percentage Change
OPERATING REVENUES					
Building rent	$ 4,363,947	$ 4,563,699	-4%	$ 4,398,715	4%
Food service	20,949,997	22,005,777	-5%	19,673,485	12%
Parking	3,723,747	3,588,648	4%	3,618,471	-1%
Facility services	3,547,743	3,218,654	10%	2,986,364	8%
Retail leases	510,214	495,965	3%	521,279	-5%
Other	1,866,048	1,683,471	11%	1,511,486	11%
Total Operating Revenues	34,961,697	35,556,214	-2%	32,709,800	9%
MARKETING REVENUES					
Lodging tax for marketing	13,944,123	12,863,089	8%	12,194,605	5%
NONOPERATING REVENUES					
Lodging tax - regular	69,705,450	64,300,007	8%	60,958,399	5%
Build America Bonds subsidy	6,077,141	6,167,877	-1%	6,263,260	-2%
Interest and investment income	1,337,620	1,174,492	14%	508,520	131%
Total Revenues	126,026,031	120,061,679	5%	112,634,583	7%
OPERATING EXPENSES					
Salaries and wages	8,505,409	8,183,258	4%	7,828,450	5%
Employee benefits	5,216,785	5,038,470	4%	4,773,908	6%
Professional and other services	2,620,474	2,524,676	4%	2,571,813	-2%
Food service	12,253,134	12,967,020	-6%	10,512,122	23%
Supplies	584,990	597,246	-2%	576,759	4%
Utilities	3,102,999	2,790,347	11%	2,711,915	3%
Repair and maintenance	1,703,191	1,770,592	-4%	1,968,144	-10%
Depreciation and amortization	13,448,391	13,218,878	2%	12,571,219	5%
Other administrative and contingency	327,266	360,115	-9%	319,884	13%
Total Operating Expenses	47,762,639	47,450,603	1%	43,834,214	8%
MARKETING EXPENSES					
Visit Seattle, Outside Marketing	11,940,816	10,973,623	9%	10,415,378	5%
In-house Marketing	1,188,809	1,016,655	17%	983,680	3%
Total Marketing Expenses	13,129,625	11,990,278	10%	11,399,058	5%
NONOPERATING EXPENSES					
Interest expense	11,569,690	14,153,153	-18%	16,057,662	-12%
Other expense	1,344,412	708,490	90%	2,656,423	-73%
Total Expenses	73,806,366	74,302,524	-1%	73,947,357	0%
Change in Net Position	52,219,665	45,759,155	14%	38,687,226	18%
Net Position - Beginning	374,841,065	329,081,910	14%	290,394,684	13%
Net Position - Ending	427,060,730	374,841,065	14%	329,081,910	14%

Operations revenues have decreased from 2016 to 2017. The District's largest annual event consolidated with its other events across the country and moved to Las Vegas. This resulted in slightly reduced revenues in Building rent and Food services. Parking, Facility services, Retail leases and Other revenues all exceed 2016 revenues. Related operating expenses increased one percent. Marketing revenues increased eight percent and marketing expenses increased ten percent.

Other non-operating revenue increased from 2016 to 2017 due to increases in Lodging Tax revenue and investment income. Other non-operating expenses decreased from 2016 to 2017 due to an increase of losses on disposal of assets in connection with capital improvement projects and a decrease in interest expense, as more interest costs in 2017 were capitalized as compared to 2016.

CAPITAL ASSETS

The following schedule is a summary of the District's investment in capital assets as of December 31, 2017, 2016 and 2015:

	12/31/2017	12/31/2016	12/31/2015
Capital assets, not being depreciated			
Land	313,857,947	$152,847,007	$138,285,805
Construction in progress	125,373,206	77,190,472	30,159,037
Total capital assets, not being depreciated	439,231,153	230,037,479	168,444,842
Capital assets, being depreciated			
Buildings and improvements	458,142,009	459,460,339	458,857,005
Other improvements and art collection	11,654,366	5,876,163	4,893,756
Machinery/equipment/furniture/fixtures	13,649,344	13,281,648	12,752,967
Total capital assets, being depreciated	483,445,719	478,618,150	476,503,728
Less accumulated depreciation for			
Buildings	(185,386,868)	(174,152,026)	(162,696,130)
Other improvements and art collection	(2,736,166)	(2,348,236)	(1,985,119)
Machinery/equipment/furniture/fixtures	(8,468,758)	(7,329,406)	(6,263,072)
Total accumulated depreciation	(196,591,791)	(183,829,668)	(170,944,321)
Total capital assets, being depreciated, net	286,853,928	294,788,482	305,559,407
Total capital assets	$ 726,085,081	$ 524,825,961	$ 474,004,249

Capital Assets increased from 2016 to 2017 due to purchasing the CPS site from King County Metro, increase in Addition Project spending and, net of current year depreciation and capital asset additions and disposals. Capital Assets increased from 2015 to 2016 due to purchasing the Sound Transit and marshalling yard properties, Pike Street renovation and Addition Project. Additional information regarding capital assets is provided in Note 5 to the financial statements.

DEBT ADMINISTRATION

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

As of December 31, 2017, the District had $412,625,940 in long term outstanding debt and $29,519,900 in the current portion of long term debt. In 2016, the District's outstanding debt was $286,450,000. The District and King County Metro formalized an agreement to purchase the CPS site. At close of the property the District pays $5 million to a housing program, $20 million to King County of which of which $3,000,100 is in escrow after signing the agreement and a 30 year note of $141,010,940. The debt issued by the District in November 2010, was used to defease the state's debt, to provide for capital funding for improvement of the Convention Center and to fund a common reserve. Additional information regarding long-term debt is provided in Note 8 to the financial statements.

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

ECONOMIC FACTORS

The District moved forward on capital improvement projects in order to ensure that its facility continues to attract profitable events and compete with the many newer and larger buildings in the western United States. The District's newest meeting and event space, The Conference Center, opened in summer 2010. It offers 71,000 square feet of high-end, configurable space, and connects seamlessly to the 344,000 square foot Washington State Convention Center. There are event bookings for the facility through May 2029. There is a market for an even larger facility.

Improvements in 2017 included a new roof on a large section of the south building, audio system replacement, installing battery powered door locks for all the meeting rooms, and sealing Pike Street concrete.

Planned capital improvements in 2018 include a new customer greeting and sales studio in former meeting room 206, along with Galleria First floor improvements. Additional planned 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 and Cooling Tower, re-gasket north chillers, and replace the north roof walk path.

The District Board of Director's authorized an operating budget of $35,358,760 for fiscal 2017.

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, 2017 and 2016

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	$ 72,272,367	$ 37,681,354
Restricted cash and cash equivalents	24,763,381	23,812,175
Investments	40,966,290	68,945,720
Restricted investments	19,665,388	19,606,568
Restricted investments interest receivable	26,357	19,442
Receivables (net)	1,030,765	1,792,729
Due from other governments	21,342,903	9,344,033
Prepayments and other current assets	807,134	666,476
Total Current Assets	180,874,585	161,868,497
Noncurrent Assets		
Investments	-	8,988,690
Other noncurrent assets	396,216	354,056
Total Noncurrent Assets	396,216	9,342,746
Capital Assets		
Land	313,857,947	152,847,007
Buildings and improvements	458,142,009	459,460,339
Machinery/equipment/furniture/fixtures	13,649,344	13,281,648
Other improvements and art collection	11,654,366	5,876,163
Accumulated depreciation	(196,591,791)	(183,829,668)
Construction in progress	125,373,206	77,190,472
Total Capital Assets	726,085,081	524,825,961
Total Assets	907,355,882	696,037,204
LIABILITIES		
Current Liabilities		
Accounts payable	9,376,607	7,469,304
Retainage-payable from restricted assets	538,048	28,536
Salaries, benefits and taxes payable	1,147,454	1,173,334
Unearned revenue and deposits payable	3,738,137	2,657,003
Due to other governments	13,153,400	11,966,634
Interest payable	9,231,129	9,389,242
Current portion of long term debt	29,519,900	7,315,000
Other	964,537	2,062,086
Total Current Liabilities	67,669,212	42,061,139
Noncurrent Liabilities		
Bonds and Notes payable	412,625,940	279,135,000
Total Noncurrent Liabilities	412,625,940	279,135,000
Total Liabilities	480,295,152	321,196,139
NET POSITION		
Net investment in capital assets	303,604,628	257,982,529
Restricted:		
Restricted for debt service	5,368,230	5,043,993
Restricted for capital improvements	-	-
Restricted for operating reserve	9,625,974	9,350,405
Unrestricted	108,461,898	102,464,138
Total Net Position	$ 427,060,730	$ 374,841,065

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, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Building rent	$ 4,363,947	$ 4,563,699
Food service	20,949,997	22,005,777
Parking	3,723,747	3,588,648
Facility services	3,547,743	3,218,654
Retail leases	510,214	495,965
Other	1,866,049	1,683,471
Total Operating Revenues	34,961,697	35,556,214
OPERATING EXPENSES		
Salaries and wages	8,505,409	8,183,258
Employee benefits	5,216,785	5,038,470
Professional and other services	2,620,474	2,524,676
Food service	12,253,134	12,967,020
Supplies	584,990	597,246
Utilities	3,102,999	2,790,347
Repair and maintenance	1,703,191	1,770,592
Depreciation and amortization	13,448,391	13,218,878
Other administrative and contingency	327,266	360,115
Total Operating Expenses	47,762,639	47,450,603
OPERATING INCOME (LOSS)	(12,800,942)	(11,894,389)
MARKETING REVENUES		
Marketing Tax	13,944,123	12,863,089
MARKETING EXPENSES		
Visit Seattle, Outside Marketing	11,940,816	10,973,623
In-house Marketing	1,188,809	1,016,655
Total Marketing Expenses	13,129,625	11,990,278
INCOME FROM MARKETING	814,498	872,811
TOTAL NET OPERATING AND MARKETING LOSS	(11,986,444)	(11,021,578)
NONOPERATING REVENUES (EXPENSES)		
Lodging tax - regular	69,705,450	64,300,007
Interest and investment income	1,337,620	1,174,492
Interest expense	(11,569,690)	(14,153,153)
Build America Bonds subsidy	6,077,141	6,167,877
Loss on disposal of assets	(1,294,965)	(691,614)
Non-Operating Interest Expense	(45,496)	(14,378)
Other revenue (expenses)	(3,951)	(2,498)
Total Nonoperating Revenue	64,206,109	56,780,733
CHANGE IN NET POSITION	52,219,665	45,759,155
Net Position - Beginning	374,841,065	329,081,910
Net Position - Ending	$ 427,060,730	$374,841,065

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, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 36,804,796	$ 34,882,284
Receipts from governments	13,872,508	12,739,412
Payments to suppliers	(33,998,443)	(32,608,971)
Payments to employees	(13,748,074)	(13,145,614)
Payments to or receipt from others, net	(117,207)	292,715
Net Cash Provided By Operating Activities	2,813,579	2,159,826
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating Portion of Lodging Taxes received	69,418,860	64,473,934
Lodging Tax received to be paid to state	20,860,955	18,883,572
Portion of Lodging Tax paid to state	(19,738,049)	(17,638,663)
Nonoperating revenues and expenses	(49,447)	(16,875)
Purchase of other noncurrent assets	(42,159)	(89,116)
Net Cash Provided By Noncapital Financing Activities	70,450,160	65,612,852
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(49,714,868)	(57,715,471)
Interest and principal paid on capital debt	(26,184,222)	(26,188,196)
Payment on note to acquire land	(3,000,100)	
BABs subsidy received	3,059,485	6,167,877
Net Cash Used By Capital and Related Financing Activities	(75,839,705)	(77,735,790)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	1,144,136	918,274
Investment fees	(3,951)	(2,498)
Investment purchases	(71,494,000)	(53,572,958)
Investment maturities	108,472,000	74,559,609
Net Cash Provided (Used) By Investing Activities	38,118,185	21,902,426
Net Increase (Decrease) In Cash and Cash Equivalents	35,542,219	11,939,314
Cash and Cash Equivalents Balances - Beginning	61,493,529	49,554,215
Cash and Cash Equivalents Balances - Ending	$ 97,035,748	$ 61,493,529
Cash and Cash Equivalents as Reflected in the Statement of Net Position:		
Cash and cash equivalents	$ 72,272,367	$ 37,681,354
Restricted cash and cash equivalents	$ 24,763,381	23,812,175
Total Ending Cash and Cash Equivalents in the Statement of Net Position	$ 97,035,748	$ 61,493,529
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$ (11,986,444)	$ (11,021,578)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation and amortization	13,448,391	13,218,878
Changes in operating assets and liabilities:		
Accounts Receivable	761,964	(1,157,125)
Due from Other Governments-Operating Portion	(71,615)	(123,677)
Operating Accounts Payable	680,127	(192,204)
Prepayments	(140,658)	146,358
Salaries, benefits and taxes payable	(25,880)	76,114
Unearned revenue and deposits payable	1,081,135	483,195
Other operating liabilities	(933,441)	729,865
Net Cash Provided (Used) By Operating Activities	$ 2,813,579	$ 2,159,826
SCHEDULE OF NON-CASH INVESTING, CAPITAL, NON CAPITAL AND RELATED FINANCING ACTIVITY		
Capital Assets acquired by increases in accounts payable	$ 1,227,086	$ 3,343,874
Land purchase acquired by a note payable	161,010,940	
Reimbursement of capital is included in receivables	8,559,337	
Change in fair value of investments	193,484	256,218

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

B. Component Units

The Washington State Convention Center Art Foundation, a 501(c) (3) tax exempt organization, was formed to support the public art program of the WSCC. The Art Foundation's Board of Directors is appointed by the Chair of the WSCC Board of Directors Art Committee and approved by the WSCC Board of Directors. While the WSCC Board of Directors has the ability to control which art is displayed at any point in time, it does not direct the operation of the Art Foundation. The WSCC is entitled to the assets of the Art Foundation only upon its dissolution. The Art Foundation has no employees. As such, WSCC staff provides insignificant administrative services to the Art Foundation. The total assets ($554,581), total revenues $1,766 and total expenses ($187) as of December 31, 2017 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, 2017 and 2016. 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. Presentation Services Audio Visual (PSAV) was the preferred audio-visual provider through September for the District. LMG became the preferred audio-visual provider in October of 2017. Generally, PSAV and LMG pay the District 23 to 40 percent commission depending on the service or rented equipment provided.

For fiscal 2017 and all comparable years the District reports marketing revenues and expenses separately from the operating category. Marketing revenues and expense 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. The District reports its interest expense net of capitalized interest on the expansion project and separately reports its subsidy from the U.S. Federal government on its Build America Bonds in non-operating revenues.

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

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

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

3. Policy for defining cash equivalents

Cash includes the following:

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

Cash equivalents include highly liquid investments with the following characteristics:

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

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

4. Policy for application of restricted versus unrestricted resources

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

E. Budgetary Information

1. Scope of Budget

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

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

The Board of Directors approved Resolution number 2012-6, a Capital Improvement Project Funding Program. Annually $4 million adjusted by the prior year's consumer price index will be dedicated to 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 2017 Operating Reserve was funded in January 2017 to $9,203,400. In December 2017 the budget was amended by Resolution number 2017-23, and the Operating Reserve was increased to $9,625,974.

2. Amending the Budget

The District prepares a monthly comparison of budgeted amounts to actual amounts. It can amend its operating budget only by board resolution. Capital budgets are monitored throughout the length of the specific projects, and budgets are modified by board resolution.

F. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

It is the District's policy to invest all temporary cash surpluses. At December 31, 2017 and 2016, the District had $72,272,367 and $37,681,354, respectively in short-term residual investments of surplus cash reported as unrestricted cash and cash equivalents. The increase in unrestricted cash and cash equivalents from 2016 to 2017 was principally to keep funds short-term and liquid. The Convention Place Station (CPS) site Purchase and Sale Agreement requires a $21,999,900 cash payment at the sale's closing, and ongoing Addition construction payments are needed before the District goes to market around mid-2018.

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 the investment policy 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.

Additionally, the District maintained current and non-current restricted investments with external fiscal agents, which are presented on the Statement of Net Position as restricted investments in the amount of $19,665,388 for 2017 and $19,606,568 for 2016, which is the 2010B bond Common Reserve. Current and non-current unrestricted investments are $40,966,290 as of December 31, 2017 and $77,934,410 as of December 31, 2016. All investments are reported at fair value as reported by the external fiscal agent.

3. Receivables

Receivables consist of the following components:

Customer accounts receivable consist of amounts owed by private organizations for goods and services and leased retail space.

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

4. Due to/from Other Governments

As of December 31, 2017 and 2016, the due from other governments is mainly composed of Lodging Tax collected by the hotels and earned in November and December 2017 and 2016 but paid to the District by the state of Washington in January and February 2018 and 2017, respectively. Also, for 2017, the due from other governments include $3,017,656 for the US Government's Build America Bonds subsidy that was not received until January 2018. A King County Metro CPS site agreement requires it to pay the District for the Traction Power Supply Station (TPSS) work done by the District. As of December 31, 2017, King County Metro owes the District $8,559,337 for the TPSS work.

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.

Costs for capital assets under construction are capitalized, as is the net interest expense related to the debt issue supporting the project. Capitalized interest on the Addition project was $7,052,683 for 2017 and $4,765,187 for 2016. As such, a portion of interest costs were capitalized to construction in progress, and the remainder is reflected as interest expense in the statement of Revenues, Expenses and Changes in Net Position.

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

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

8. Compensated Absences

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

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

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

9. Unearned Revenue and Deposits Payable

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

10. Restricted and Unrestricted Net Position

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

G. Prior-Year Comparative Data

The current period, January 1, 2017 through December 31, 2017, is the eighth year of operating revenues and expenses reported by the District. Comparative data for the period of January 1, 2016 through December 31, 2016 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, 2017, and 2016, cash and cash equivalents include:

Financial Institution		2017	2016
US Bank		19,122,883	18,764,804
Local Government Investment Pool		77,866,740	42,682,599
Petty Cash/Change Funds		46,125	46,125
TOTAL		97,035,748	61,493,528

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, 2017:

U.S. Government Treasury Notes of $48,645,477 are valued using quoted prices in an active market for identical assets (Level 1 inputs). Corporate Commercial Paper of $11,986,200 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, 2017 and 2016, the District had the following investments (in thousands):

Investments	Maturities	Moody, S & P Rating	Cost	Ending Fair Value 12/31/2016	Purchases	Sales	Ending Fair Value 12/31/2017
Coca-Cola CP	7/13/2017	AAA,AA	$ 3,974	$3,971		$3,974	
Coca-Cola CP	1/8/2018		$ 3,974		3,974		3,999
Pfizer Inc CP	1/22/2018		$ 3,975		3,975		3,997
Disney Walt Co CP	4/26/2017		$ 2,994		2,994	2,994	
Ge Capital CP	7/31/2017		$ 4,477		4,477	4,477	
Toyota Motors CP	8/31/2017		$ 4,469		4,469	4,469	
Toyota Motors CP	2/22/2018		$ 3,974		3,974		3,991
Toyota Motors CP	1/31/2017	AAA,AA	9,953	9,995		9,953	
US Treas. Note	7/31/2017	AAA, NA	4,954	4,995		5,000	
US Treas. Note	5/31/2017	AAA, NA	5,002	5,000		5,000	
US Treas. Note	7/31/2017	AAA, NA	9,998	9,996		10,000	
US Treas. Note	8/31/2017	AAA, NA	4,995	4,996		5,000	
US Treas. Note	2/28/2018	AAA, NA	3,936	3,991			3,996
US Treas. Note	11/30/2017	AAA, NA	19,606	19,607		19,605	
US Treas. Note (1)	3/31/2018		19,659		19,659		19,665
US Treas. Note	1/15/2017	AAA, NA	5,006	5,000		5,000	
US Treas. Note	4/30/2017	AAA, NA	5,018	5,006		5,000	
US Treas. Note	6/30/2017	AAA, NA	4,986	5,003		5,000	
US Treas. Note	10/31/2017	AAA, NA	4,973	4,996		5,000	
US Treas. Note	9/30/2017	AAA, NA	4,993		4,993	5,000	
US Treas. Note	9/30/2017	AAA, NA	2,996		2,996	3,000	
US Treas. Note	1/15/2018		4,993		4,993		4,999
US Treas. Note	2/15/2018		14,990		14,990		14,995
US Treas. Note	5/31/2018	AAA, NA	4,995	4,998			4,990
US Treas. Note	3/31/2017	AAA, NA	4,993	5,000		5,000	
US Treas. Note	11/30/2017	AAA, NA	4,927	4,988		5,000	
			$ 168,810	$ 97,542	$ 71,494	$ 108,472	$ 60,632

(1) This investment is restricted for debt service.

For the year ended December 31, 2016, the change in investments is summarized as follows (in thousands):

Beginning Fair Value 12/31/2015	Purchases	Sales	Ending Fair Value 12/31/2016
$ 118,313	$ 53,573	$ 74,560	$ 97,542

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, all investments mature in 2018.

Credit Risk is the risk that an issuer or other counterparty of an investment will not fulfill its obligations. To mitigate this risk, the District ensures that it adheres to the credit standards as defined in its investment policy. The Moody and S&P rating (if available) are provided in the chart above.

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

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

NOTE 5 – CAPITAL ASSETS

The capital assets and related changes during the years ended December 31, 2017 and 2016 are reflected in the following charts.

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)	50	(2,736,165)
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)	($1,294,965)	286,853,928
Total capital assets	$ 524,825,961	$ 209,362,887	$ (8,103,767)	$ 726,085,081

Asset Class	Beginning Balance January 1, 2016	Increases	Decreases	Ending Balance December 31, 2016
Capital assets, not being depreciated				
Land	$138,265,766	$14,561,202		$152,826,968
Land development costs	20,039			20,039
Construction in progress	30,159,037	50,170,874	(3,139,439)	77,190,472
Total capital assets, not being depreciated	$168,444,842	$64,732,077	($3,139,439)	$230,037,479
Capital assets, being depreciated				
Buildings and improvements	458,857,005	1,577,225	(973,892)	459,460,339
Other improvements and art collection	4,893,756	994,163	(11,755)	5,876,163
Machinery/equipment/furniture/fixtures	12,752,967	568,051	(39,370)	13,281,648
Total capital assets, being depreciated	$476,503,728	$3,139,439	($1,025,017)	$478,618,150
Less accumulated depreciation for				
Buildings	(162,696,130)	(11,747,380)	291,484	(174,152,026)
Other improvements and art collection	(1,985,119)	(369,289)	6,173	(2,348,236)
Machinery/equipment/furniture/fixtures	(6,263,072)	(1,103,761)	37,427	(7,329,406)
Total accumulated depreciation	($170,944,321)	($13,220,431)	$335,083	($183,829,668)
Total capital assets, being depreciated, net	305,559,407	(10,080,991)	(689,934)	294,788,481
Total capital assets	$ 474,004,249	$ 54,651,085	$ (3,829,373)	$ 524,825,961

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 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.

401(a) – Compensation Deferral Plan

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

The District contributed $283,622 and $260,564 for 2017 and 2016, 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 2017.

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 $298,938 and $258,417 in 2017 and 2016, 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, 2017, 258 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 2017, 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 Permanente ISL at $750,000 through Sun Life. 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"). 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, 2018, 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 2017.

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 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 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	4.32%-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			$ 442,145,840	$ 29,519,900

Revenue bonds outstanding as of December 31, 2016 and changes from 2015 are as follows:

Description	Maturity	Interest Rates	Balance 12/31/2015	Additions	Reduction	Balance 12/31/2016	Amount Due Within One Year
Bonds 2010B	2017-2040	3.92%-6.79%	$ 293,580,000	-	$ (7,130,000)	$ 286,450,000	$ 7,315,000
Less Current Portion			(7,130,000)			(7,315,000)	
Long Term Portion			$ 286,450,000			$ 279,135,000	

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 should be paid as follows:

- $20 million cash at closing.
- The balance of the Purchase Price shall be 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 shall pay, 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, 2016 are as follows:

	2010B		Less BABs		CPS Note		
Year	Principal	Interest	Subsidy	Total	Principal	Interest	Total
2018	7,520,000	18,462,258	(6,035,310)	19,946,948	20,000,000	1,410,109	41,357,057
2019	7,755,000	18,099,719	(5,916,796)	19,937,923		1,410,109	21,348,032
2020	8,005,000	17,710,342	(5,789,509)	19,925,833		1,410,109	21,335,942
2021	8,280,000	17,292,400	(5,652,884)	19,919,516		1,410,109	21,329,625
2022	8,590,000	16,810,343	(5,495,299)	19,905,043		1,410,109	21,315,152
2023 - 2027	48,985,000	74,770,123	(24,442,346)	99,312,777	1,790,983	13,362,999	114,466,759
2028 - 2032	60,800,000	56,604,157	(18,503,893)	98,900,264	9,205,948	28,927,966	137,034,178
2033 - 2037	75,455,000	34,058,981	(11,133,877)	98,380,104	17,931,892	26,275,765	142,587,761
2038 - 2040	53,745,000	7,403,817	(2,420,307)	58,728,510	29,727,153	21,521,638	109,977,301
2041 - 2045					45,469,143	13,942,253	59,411,396
2046 - 2048					36,885,821	3,211,651	40,097,472
Total	$ 279,135,000	$ 261,212,139	$ (85,390,222)	$ 454,956,917	$ 161,010,940	$ 114,292,817	$ 730,260,674

The current portion of debt reflected in the Statement of Net Position includes $1,999,900 due upon closing of the CPS Purchase and Sale agreement that is not reflected in the chart above.

As discussed in NOTE 11, Congress' BABs subsidies were originally 35 percent, however, sequestration measures have reduced this to 32.69 percent. Effects of future subsidy reductions through 2040 have been reflected 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. Total interest cost, during 2017 was $18,620,373, of which $7,050,683 was recognized as capitalized interest, resulting in recognized interest expense of $11,569,690. Total interest cost during 2016 was $19,029,632, of which $4,876,479 was recognized as capitalized interest, resulting in recognized interest expense of $14,153,153.

NOTE 9 – LEASES

Operating Leases

The District leases office equipment under non-cancellable operating leases. The total commitments under these leases are $56,065 until the end of the leases in 2021.

Year	Operating Leases
2018	$25,234
2019	$22,290
2020	$7,411
2021	$1,130
Total	$56,065

Tenant Leasing Agreements

The District leases building space to various retail tenants. A total of 15 retail leases provided revenue of $510,214 in fiscal 2017. 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, 2017, future minimum rental payments required for five succeeding years are:

Year	Lease Revenue
2018	$518,481
2019	$313,588
2020	$204,301
2021	$125,439
2022	$82,938
Total	$1,244,747

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 operating revenues and was $308,679 in 2017 and $706,797 in 2016.

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.

B. Freeway Park

In February 1997, WSCC entered into a 30-year lease agreement with the city of Seattle for the 665-stall Freeway Park garage. Under this agreement, WSCC paid debt service on the $1.3 million of city bonds outstanding at the time, and the final debt service payment was made in June 2002. In accordance with the lease agreement, a capital reserve account, not to exceed $500,000, with annual maximum payments of $20,000, was set up. WSCC is responsible for all repairs and maintenance. The City of Seattle has assigned the remainder of the lease from the WSCC to the District.

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

2018	20,000
2019	20,000
2020	20,000
2021	20,000
2022	20,000
Total	$100,000

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 proposed convention center Addition, the District has entered into various contracts for property development, project management, architectural, engineering and construction activities. Total commitments under these agreements total $285 million as of December 31, 2017.

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

House bill 2015 and companion Senate bill 5850 have 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. Revenue 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 will remit 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 community-initiated 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 [1]	Additional Revenue
2018	0
2019	5,828
2020	18,358
2021	19,276
2022	20,240
2023	21,252

[1] Fiscal year is the State of Washington 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

The District is anticipating issuing an initial phase of debt for the Addition Project in mid-2018. The budget for the project is $1.7 billion, and the District expects to issue debt of $1.2 billion, with the remaining funds for the Addition Project coming 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 current subsidy rate is 32.69%. This sequestration rate is expected through 2040.

BAB subsidy request form is Form 8038-CP. The District BAB reduction from Congress’ sequestration measures for 2017 was $440,079. The original 2017 annual BAB subsidy was $6,517,220, less actual BAB subsidy received of $6,077,141. It is forecasted that the reduction in the 2018 BAB subsidy will be $456,478.

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, 2017 and 2016:

Category	Assets	Related Liability	Net Position
Capital assets, net of accumulated depreciation	$ 726,085,081		
Less Bonds Payable		(442,145,840)	
Plus unspent proceeds reflected as restricted below		19,665,388	
Net position invested in capital assets			303,604,628
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			108,461,898
Total Net Position			$ 427,060,730

Category	Assets	Related Liability	Net Position
Capital assets, net of accumulated depreciation	$ 524,825,961		
Less Bonds Payable		(286,450,000)	
Plus unspent proceeds reflected as restricted below		19,606,568	
Net position invested in capital assets			$ 257,982,529
Restricted assets			
Restricted for debt service under bond covenants	34,068,339	(19,606,568)	
Interest payable to be paid from restricted assets		(9,389,242)	
Retainage payable to be paid from restricted assets		(28,536)	5,043,993
Restricted for capital improvements	-	-	-
Restricted for operating reserve	9,350,405		9,350,405
Restricted net position			14,394,398
Unrestricted			102,464,138
Total Net Position			$ 374,841,065

NOTE 13 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through April 3, 2018, 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, interests 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.