2021/2020

Washington State Convention Center Public Facilities District: Independent Auditor's Report and Financial Report

For the fiscal years ended December 31, 2021 and 2020

Vision: By doing ordinary things in an extraordinary manner, we will earn the privilege of serving our guests again.

705 Pike Street, Seattle WA 98101-2310

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Report of Independent Auditors

Board of Directors
Washington State Convention Center Public Facilities District

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Washington State Convention Center Public Facilities District (the "District"), which comprise the statement of net position as of December 31, 2021, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Washington State Convention Center Public Facilities District as of December 31, 2021, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Matters

Prior Period Financial Statements

The financial statements of the District as of December 31, 2020, were audited by other auditors whose report dated May 28, 2021, expressed an unmodified opinion on those financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Moss Adams llp

Seattle, Washington
June 28, 2022

OVERVIEW

The Washington State Convention Center Public Facilities District (the "District") presents the Management's Discussion and Analysis (MD&A) of its financial activities for 2021. The MD&A focuses on significant financial issues, provides an overview of the District's financial activity and highlights operational 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 Annual Comprehensive Financial Report (ACFR) 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") which 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 and its nearly completed new $1.9 billion addition called Summit. The combined one of kind urban convention center complex will be uniquely positioned and rank in the top 40 convention centers in the nation. Each building can operate independently or simultaneously. The combined complex will generate significant regional economic activity by attracting international, national, and regional 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 sales of food and beverage at the facility.

The District also operates three separate public parking garages in downtown Seattle totaling 1,598 spaces. The Summit Addition will add approximately 700 spaces when complete. The garages are all top-tier parking facilities in the heart of Seattle, providing access to multiple freeway ramps and accessible parking for events, commuters, nearby residents, and tourists alike. The garages generate revenue resulting from parking fees and electric vehicle charging stations.

The District's business continued to be materially affected by COVID-19 in 2021. Impacts began on March 18, 2020, when the Governor issued a proclamation suspending interest on tax payments including lodging taxes, and hit deeper on March 23, 2020, when the Governor issued a statewide stay-at-home order, requiring individuals to remain at home except for essential activities, banning social and other gatherings, and closing all businesses with certain exceptions for essential businesses. Since May 31, 2020, the state has slowly and cautiously moved toward re-opening with strict and ever-changing health mandates, while navigating through the approval and administration of vaccines and boosters, and the onset of Delta and Omicron variants. It wasn't until March 2022 that the Center could hold events without a vaccine, mask, or social distancing requirement in place.

To put the financial impact of COVID into context, the Center hosted 212 events in the fiscal year ended on December 31, 2019, drawing 369,204 attendees and generating more than 317,743 hotel room nights. In 2018 and 2017, 350,172 room nights and 329,039 room nights were generated, respectively. Prior to public health mandates shutting down operations in 2020, the Center had booked 73 events with an estimated 279,945 attendees for the year but ended with only 30 events and 94,885 attendees. In 2021, the lingering uncertainty around the pandemic and associated health mandates resulted in just 28 events and a total of 65,166 attendees. Regional events materialized faster than national events given the ease of travel within a localized area. National event bookings are gaining momentum going forward as travel restrictions return to normal and attendee confidence builds.

TABLE: CONVENTION CENTER EVENTS

Year	Number of Events	Number of Attendees
2016	335	397,856
2017	285	382,725
2018	245	410,780
2019	212	369,204
2020	30	94,885
2021	28	65,166

Source: The District.

FINANCIAL HIGHLIGHTS

The District's 2021 operating and nonoperating revenues continued to be affected by COVID-19. Operating revenue declined 20% from the prior year. Nonoperating revenue increased 17% from the prior year but are 70% below 2019 or before COVID-19 impacts. Management continued to adjust to the pandemic by reducing operating expenses by furloughing staff, staff attrition, and less food service expenses due to cancelled events. Management balanced maintenance, preservation, and security of the facility while adjusting an ever-changing re-opening environment. At the same time, the Summit Building construction project continued. Several significant financing activities happened to (1) secure final funding for the Summit Building, (2) a refunding of the 2018 Parity and Subordinate Lodging Tax Bonds to generated economic savings and reduced cashflow burden until lodging tax recovered, (3) a direct placement general obligation note secured by net parking operation was issued to purchase the furnishing, fixture and equipment (FF&E) for the Summit Building, (4) a second State Deficiency Loan was generated, and (5) a Payroll Protection Program loan was granted and later forgiven.

A. Net position decreased by approximately $52.5 million from 2020 to 2021. The decrease in net position is the result of COVID-19 restriction impacts on both operating and nonoperating revenue. The loss of revenue forced the use of unrestricted funds to meet debt service payments, support operating losses along with marketing efforts.

B. Total operating revenues declined 20% but was a mix of increases and decreases. Building rent increased 127% as pandemic restrictions eased. Food service revenues grossed just $1.7 million from $5.0 million in the prior year or a 67% decline. Facility services such as electric, conductivity and audio/visual generated revenue also fell to $576,972 from $738,069 in the prior year or a 22% decline. Parking revenue increased 31% due to management's continued focus on capturing nonevent relating parking business from local hospitals and construction projects from nearby construction sites including the Summit Building.

C. Nonoperating revenue increased 17% from $48.0 million to $56.3 million. Lodging Tax – Regular increased 118% to $40.1 million and Lodging Tax Extended increased 145% to $2.2 million. Lodging tax revenues were materially impacted by COVID-19 and the Governor's "Stay Home, Stay Healthy" proclamation which closed the facility for half of 2021 and limited large social gatherings. As a result, the recovery in lodging tax revenue to pre-pandemic levels will likely take several years.

D. Nonoperating revenue also includes Marketing Tax revenue. Marketing Tax revenue is derived from lodging tax revenue and is used to support internal and external marketing for the District. This revenue source fell to zero because there was insufficient lodging tax revenue to meet debt service. Marketing tax revenue will remain at zero until a recovery in lodging tax revenue is able to cover debt service.

E. Nonoperating interest and investment income decreased 92% from 2020 to 2021. COVID-19 reduced the District's risk tolerance. Subsequently, the District investment portfolio rolled down to under one year and reinvested proceeds into the State of Washington Local Government Investment Pool (LGIP).

F. The District maintained a disciplined approach into hiring by implementing an organizational wide furlough schedule and workforce reduction through attrition. As a result, between 2020 and 2021 salary expenses decreased 9%, employee benefits decreased 20%, In-house marketing salaries decreased 38%, and In-house benefits were down 18%. Staffing levels were held at 2020 levels with the support of Paycheck Protection Program Loan. In 2020, staff levels shrunk to about 58 full-time equivalents from 224 in 2019.

G. Non-operating Expenses increased 8% from 2020 to 2021 due to a sharp increase in Bond Issuance cost.

H. For the July 1, 2021 debt service payment the District made a $20.3 million cash contribution to cover the gap between principal and interest due and lodging tax collected.

I. Total assets and deferred outflows increased 21% driven by construction in progress and deferred outflow of resources associated with the partial refunding of the 2018 Parity and Subordinate Lodging Tax bonds.

J. Pandemic associated uncertainty, financing needs of the Summit Addition, and building inflation risk in the second half of 2021 reduced the District's risk tolerance which resulted in Investment (non-current) moving to zero, increased unrestricted cash and cash equivalents by 63%, and reduced investments 84%.

K. Total liabilities increased 30% or $470.7 million mostly due to a $438.6 million increase in bonds and notes payable. 2021 was a busy year of new debt issuance and refunding. To complete financing for the Summit Addition the District issued $341.5 million in unrated Junior Lodging Tax Bond (Green Bonds). In addition, a $20 million note was placed to finance the purchase of furnishing, fixtures, and equipment (FF&E) for the Summit Addition. A second Additional Lodging Tax Deficiency Loan of $4.3 million was initiated with the State to support lodging tax revenue related debt. The 2018 Parity and Subordinate offering was partially refunded at a significant economic savings. Finally, the District secured a $3.0 million Payroll Protection Program (PPP) loan. The PPP loan was forgiven in March of 2022.

L. In March 2021, S&P Global Ratings downgraded its rating to BBB- from BBB+ on Washington State Convention Center Public Facilities District's previously issued series 2010B and 2018 lodging-tax bonds. S&P Global Ratings also downgraded its rating to BB+ from BBB long-term and underlying ratings on the District's series 2018 subordinate lodging-tax bonds. In May 2021, Moody's Investor Service rated the 2010B, 2018, and 2021 lodging tax bonds Baa1 and the 2018 and 2021 subordinate lodging tax bonds Baa3. The 2021 Junior Lodging Tax Notes (Green Bonds) are unrated.

M. In 2020, the District continued its cashless payment strategy by implementing an automatic parking access and management solution to run the three garages with limited staff.

N. For the last nine 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 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 like the accounting used by most private sector companies. All the current year revenues and expenses are considered regardless of when cash is received or paid.

The District's net position is the difference between assets and liabilities. The District now reports net position as the difference between assets plus deferred outflows of resources, less liabilities plus deferred inflows of resources. The change between 2020 and 2021 is due to the partial refunding of the 2018 Parity and Subordinate series bonds.

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, 2021 and 2020 are reported in the District's financial statements.

The District's operating revenues and expenses result from providing a variety of services associated with convention and event business (Building Rent, Food Services, and Facility Services). The District also operates approximately 1,650 parking stalls in three facilities and manages approximately 19,425 square feet of retail leases. Finally, nonoperating revenue and expenses represents the major source of tax revenue and debt administration.

The Statement of Cash Flows

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

FINANCIAL ANALYSIS

Washington State Convention Center Public Facilities District
Condensed Comparative Statements of Net Position
December 31, 2021 and 2020

	2021	2020	Percentage Change	2019	Percentage Change
ASSETS					
Current & other assets	$ 479,316,923	$ 552,310,725	-13%	$ 954,829,027	-42%
Capital assets	1,912,957,973	1,465,212,167	31%	1,134,900,811	29%
Total assets	2,392,274,896	2,017,522,892	19%	2,089,729,838	-3%
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows	43,418,273	-	0%	-	0%
Total assets & deferred outflows	2,435,693,169	2,017,522,892	21%	-	0%
LIABILITIES					
Current liabilities	122,825,570	89,708,222	37%	111,232,040	-19%
Noncurrent liabilities	1,918,317,060	1,480,765,444	30%	1,478,838,241	0%
Total liabilities	2,041,142,630	1,570,473,666	30%	1,590,070,281	-1%
NET POSITION					
Net investment in capital assets	156,436,662	294,956,126	-47%	324,154,168	-9%
Restricted	32,735,300	2,604,366	1157%	16,411,367	-84%
Unrestricted	205,378,577	149,488,734	37%	159,094,022	-6%
Total net position	$ 394,550,539	$ 447,049,226	-12%	$ 499,659,557	-11%

Current and other assets decreased approximately $73.0 million from 2020 to 2021 due to the use of bond proceeds on Summit Addition construction costs, the use of cash to meet debt service, and offsetting operating losses attributable to the insufficient lodging tax revenues used for in-house marketing, and cancellation of events. From 2019 to 2020, current and other assets decreased approximately $402.5 million due to Summit Addition construction costs and falling interest rate environment reducing investment income.

Capital Assets increased approximately $447.7 million from 2020 to 2021 due to the Summit building site work including construction in progress, net of current year depreciation and other capital asset additions and disposals. Capital Assets increased by $330.3 million from 2019 to 2020 due to the Summit building site work including construction in progress, net of current year depreciation and the result of other capital asset additions and disposals.

Deferred Outflow increased $43.4 million from 2020 to 2021 due to a partial refunding of the 2018 Parity and Subordinate bonds.

Current liabilities increased $32.9 million from 2020 to 2021 million due to sharp increases in accounts payable activity as operations emerged from COVID-19 induced shutdowns and more lodging taxes collected and due to the State of Washington, King County, and the City of Seattle. Current liabilities decreased $21.5 million from 2020 to 2021 due to the impacts of COVID-19 and the Governors "Stay Home and Stay Healthy" proclamation. The pandemic and proclamation slowed progress on the expansion project, decreased payroll liabilities due to smaller number of staff, and greatly reduced the collections due to other jurisdictions.

Noncurrent liabilities increased $437.8 million due to the additional debt burden to finish the Summit Addition and State Deficiency Loan to support existing debt service.

Net investment in capital assets decreased from 2020 to 2021 due to additional debt taken on related to Summit Addition construction and a drawdown in bond proceeds for the project. Restricted assets increased 514% due to debt service reserve and capitalized interest fund associated with 2021 Jr "Green" bonds and the debt service reserve fund for 2021 General Obligation Net Parking Revenue note. The change in net position - investment in capital assets also reflects the net effects of other capital asset additions and disposals, bond principal payments, and depreciation on capital assets. Finally, there was insufficient Lodging Tax revenues and Additional Sales Tax revenue to meet July 2021 debt service. The gap in debt service and tax revenue was filled with the use of unrestricted funds were used to offset the gap in tax revenue decreased from 2020 to 2021.

Comparative Schedule of Changes in Net Position

Washington State Convention Center Public Facilities District
Comparative Schedule of Changes in Net Position
Years Ending December 31, 2021 and 2020

	2021	2020	Percentage Change	2019	Percentage Change
OPERATING REVENUES					
Building rent	$ 1,730,108	$ 760,840	127%	$ 4,263,280	-82%
Food service	1,657,343	4,950,410	-67%	23,085,555	-79%
Parking	2,808,495	2,147,140	31%	3,897,330	-45%
Facility services	576,972	738,069	-22%	3,535,662	-79%
Retail leases	343,318	370,107	-7%	823,020	-55%
Other operating	316,649	312,671	1%	1,493,929	-79%
Total operating revenues	7,432,885	9,279,237	-20%	37,098,776	-75%
NONOPERATING REVENUES					
Lodging tax - regular	40,123,263	18,384,474	118%	76,997,207	-76%
Lodging tax - extended	2,219,006	906,446	145%	1,917,849	-53%
Marketing tax	-	2,920,579	-100%	15,403,241	-81%
Build America Bonds subsidy	5,627,805	5,779,726	-3%	5,887,519	-2%
Interest and investment income	887,015	10,771,244	-92%	22,872,370	-53%
Total revenues	56,289,974	48,041,706	17%	160,176,962	-70%
OPERATING EXPENSES					
Salaries and wages	4,748,077	5,203,787	-9%	9,183,908	-43%
Employee benefits	2,676,021	3,344,588	-20%	5,336,639	-37%
Professional and other services	1,637,282	1,692,993	-3%	2,882,570	-41%
Food service expense	1,385,070	2,343,728	-41%	13,761,125	-83%
Supplies	201,412	342,985	-41%	585,662	-41%
Utilities	2,239,950	1,912,187	17%	3,272,140	-42%
Repair and maintenance	1,339,742	1,500,428	-11%	1,840,827	-18%
Depreciation and amortization	14,277,258	14,079,938	1%	13,995,164	1%
Other administrative	81,399	118,868	-32%	376,795	-68%
Visit Seattle, outside marketing	5,000,000	4,393,251	14%	13,119,423	-67%
In-house Marketing expense	161,413	83,463	93%	141,613	-41%
In-house Marketing salaries	368,603	597,752	-38%	680,222	-12%
In-house Marketing benefits	199,177	243,902	-18%	305,334	-20%
Total operating expenses	34,315,404	35,857,870	-4%	65,481,422	-45%
NONOPERATING EXPENSES					
Interest expense	66,573,617	63,983,868	4%	64,469,549	-1%
Loss on disposal of assets	472,455	371,664	27%	-	0%
Bond issuance costs	6,895,291	-	0%	-	0%
Other expenses	531,894	438,635	21%	575,701	-24%
Total expenses	108,788,661	100,652,037	8%	130,526,672	-23%
CHANGE IN NET POSITION	(52,498,687)	(52,610,331)	0%	29,650,290	-277%
NET POSITION					
Beginning of year	447,049,226	499,659,557	-11%	470,009,267	6%
End of year	$ 394,550,539	$ 447,049,226	-12%	$ 499,659,557	-11%

Total operating revenues declined 20% 2020 to 2021 and was a mix of increases and decreases. Building rent increased 127% as pandemic restrictions eased. Food service revenues grossed just $1.6 million from $4.9 million in the prior year or a 67% decline due to the facility be open for only half the year and restricted by social distancing requirements. Facility services such as electric, conductivity and audio/visual revenue also fell to $576,972 from

$738,069 in the prior year or a 22% decline. Parking revenue increased 31% due to management's continued focus on capturing non-event related parking business from local hospitals and construction projects including the Summit Building. Overall, operating revenues decreased from 2020 to 2021 due to the impacts of the COVID-19 pandemic on lodging activity and the Governor's subsequent statewide "Stay Home, Stay Healthy" proclamation which required individuals to stay home except for essential activities.

Total revenue increased 17% from $48.0 million to $56.2 million. Lodging Tax – Regular increased 118% to $40.1 million and Lodging Tax Extended increased 145% to $2.2 million. The recovery in lodging tax revenue to pre-pandemic levels will likely take several years. Marketing Tax revenue fell to zero because there were insufficient lodging tax revenues to meet debt service. Interest income decreased 92% because of the near zero interest environment, spend down of bond proceeds, and conservative investment posture.

Operating expenses decreased 4% from 2020 to 2021 due to less food service expenses which is driven by the number and size of events – fewer events equal less food service expenses. Salaries and employee benefits also decreased, 9% and 20% respectively, because management made the difficult decision to furlough and rightsized the staff to match the needs during the pandemic. Full-time equivalents fell to 58 from 224. Visit Seattle – Outside Marking expenses increased 14% from 2020 to 2021 due to the need to increase in Visit Seattle funding to market the Summit Building. Visit Seattle - Outside Marketing expenses were funded with undesignated reserves because lodging tax revenues were insufficient to meet debt service. The District will likely continue to supply baseline support for Visit Seattle until lodging taxes are able to meet both debt service and marketing expenses.

Nonoperating expenses increased 8% due to a busy year of bond issuance which included the 2021 Junior Green bonds, the refunding of the 2018 Parity and Subordinate bonds, and issuance of the 2021 General Obligation Parking Note. Interest expense increased with the issuance of a state deficiency note to help meet lodging tax debt service.

Capital Assets

The following schedule is a summary of the District's investment in capital assets as of December 31, 2021, 2020, and 2019:

	2021	2020	2019
Capital assets, not being depreciated			
Land / land development	$ 321,485,455	$ 321,485,455	$ 321,485,455
Construction in progress	1,350,565,961	891,317,217	550,286,174
Total capital assets, not being depreciated	1,672,051,416	1,212,802,672	871,771,629
Capital assets, being depreciated			
Buildings and improvements	463,682,061	462,261,396	459,397,129
Other improvements and art collection	12,331,594	12,331,594	12,331,594
Machinery/equipment/furniture/fixtures	15,716,885	14,677,192	14,436,365
Total capital assets, being depreciated	491,730,540	489,270,182	486,165,088
Less accumulated depreciation for:			
Buildings	(232,972,481)	(220,813,780)	(208,900,624)
Other improvements and art collection	(5,473,086)	(4,718,071)	(3,949,467)
Machinery/equipment/furniture/fixtures	(12,378,416)	(11,328,836)	(10,185,815)
Total accumulated depreciation	(250,823,983)	(236,860,687)	(223,035,906)
Total capital assets, being depreciated, net	240,906,557	252,409,495	263,129,182
Total capital assets	$ 1,912,957,973	$ 1,465,212,167	$ 1,134,900,811

Capital Assets increased from 2020 to 2021 due to Summit Building construction project spending plus other capital asset additions, offset by current year depreciation and disposals. Additional information regarding capital assets is provided in Note 5 to the financial statements.

DEBT ADMINISTRATION

In March 2021, S&P Global Ratings downgraded its rating to BBB- from BBB+ on Washington State Convention Center Public Facilities District's previously issued series 2010B and 2018 lodging-tax bonds. S&P Global Ratings also downgraded its rating to BB+ from BBB long-term and underlying ratings on the District's series 2018 subordinate lodging-tax bonds. In May 2021, Moody's Investor Service rated the 2010B, 2018, and 2021 lodging tax bonds Baa1 and the 2018 and 2021 subordinate lodging tax bonds Baa3.

In February 2021, the District applied, qualified for, and received $3.0 million in Payroll Protection Program funds through the U.S. Small Business Administration. The funds were used as intended to keep the District's workforce employed while the facility was under mandatory pandemic closure and restricted use. The loan was fully forgiven on March 7, 2022.

In April 2021, the District issued $341.5 million in unrated Junior Lodging Tax Notes (Green Notes) to complete most of the financing of the Summit building. Bond proceeds included a capitalized interest fund and bullet structure with a final maturity in 2031.

In July 2021 pursuant to terms of the Transfer Agreement with the State of Washington, the District took a second deficiency loan of $4.3 million against accumulated Additional Tax receipts to maintain timely payment of monthly principal and interest deposits as required by bond covenants on the parity 2010B and 2018 lodging tax bond and 2018 subordinate lodging tax bonds. The deficiency loan rate is 3.2% and is amortized over a 10-year period. In July of 2020, the District took the first deficiency loan of $14.25 million at a rate 3.6%. To ease the cashflow burden, the District renegotiated the payback period of the first Deficiency loan extending the term to ten years from five years.

At the same time as negotiating a longer deficiency loan repayment term, the District utilized a reverse inquiry and refunded $215.5 million of 2018 first priority lodging bonds and $251.7 of 2018 subordinate lodging bonds. The refunding significantly reduces near term debt service with significant savings.

Finally, in December of 2021 the District entered a direct placement loan with JP Morgan for $20.0 million secured by net parking revenues to complete the financing for furnishing, fixtures and equipment for the Summit building.

At the end of 2021, the District had approximately $1.9 billion in long term outstanding debt with a $11.2 million current portion of long-term debt due.

RISK AND INSURANCE

The District has property and casualty insurance through Liberty Mutual Holding Company Inc. of Massachusetts as follows through January 1, 2023: in excess of $500 million of total coverage for its facilities and operations which includes earthquake, fire, and flood, among other events, subject to the limitations and terms of the policies. The total combined maximum deductible is $200,000.

In addition to the District's property coverage, a difference of conditions policy with Lloyd's of London is in place through January 1, 2022. This policy covered claims in excess of $25,000,000, up to $15,000,000, under the same terms and conditions as the District's property coverage. Following the expiration of the difference in conditions coverage, the District attained a replacement policy for 2022 with the same coverage limits.

The District's property insurance specifically excludes claims arising from certified acts of terrorism, and as such, the District holds separate coverage through Lloyd's of London for occurrences related to terrorism and sabotage through January 1, 2023. Claims for up to $100,000,000 per occurrence, and in the aggregate, are covered by the policy, with a deductible of $25,000 per occurrence. Similarly, the District has a separate policy for deadly weapon response, with coverage limits in the amount of $500,000 both annually and in aggregate.

Liability coverage is provided by Great American E & S Insurance Company, with the current term valid through September 29, 2022. Coverages for commercial general liability are provided in the amount of $10,000,000 per occurrence, and automobile liability in the amount of $10,000,000 per accident for District-owned vehicles, and $3,000,000 for non-owned vehicles. Additionally, $3,000,000 in coverage is provided for public officials' errors and omissions, and employment practices claims. In addition to the standard liability coverage, the District has a policy for excess liability coverage with limits of $5,000,000 both per occurrence and in the aggregate. As a supplement to the vehicular coverages noted, the District has a policy covering unscheduled vehicles and/or equipment that are not owned by the District, but are in the District's care, custody, or control. These coverages have limits of $1,000,000, not exceeding $500,000 for any one item.

Cyber coverage through HSB Specialty Insurance Company insures the District for claims up to $250,000 for financial fraud events, and up to $5,000,000 for the remaining covered occurrences – including, but not limited to – network security, business interruption, and cyber extortion. Current coverage is set to expire on July 1, 2022, with the application process for replacement coverage currently underway.

Fiduciary liability coverage from Hudson Insurance Company is in place for $1,000,000 in aggregate, with a $10,000 deductible per claim. Current coverage is set to expire on September 29, 2022.

Finally, the District has an Employment Retirement Income Security Act (ERISA) bond through Travelers Casualty and Surety Company of America, effective February 13, 2021, through February 13, 2024. The ERISA bond limits payment for single losses at $500,000, with no deductible.

ECONOMIC FACTORS

Economic forecasts for the U.S. economy are favorable heading into 2022 but tempered with concerns around higher inflation, supply chain issues, the path of monetary policy, and conflict in Ukraine. A larger factor affecting tourism, hospitality, and convention business is the path of the COVID-19 virus. Fortunately, development and adoption of multiple vaccines appears to be increasing willingness to treat COVID-19 more as an endemic problem. It is unlikely there will be repeat of a total economic shut down going forward unless a new virulent strain of COVID arises or a new pandemic is identified.

Local economic fundamentals in King County, Washington continue to recover from pandemic measures and has settled back into positive long-term secular trends of sustained population, employment, and personal income growth. As of May 8, 2022, Seattle-Tacoma International Airport continues to see TSA screened volume, aircraft operation, and roadway traffic 16%, 13%, and 9% below 2019 year to date level, respectively. These underlying factors would portend a continued recovery over the next 12 months.

Annual Growth	2019	2020	2021	2022	2023	2024	2025	2026
Population	1.6%	1.4%	1.2%	1.4%	1.4%	1.0%	0.9%	0.9%
Employment	2.4%	-5.8%	1.8%	4.8%	2.2%	0.9%	0.9%	0.9%
Personal Income	5.3%	5.4%	7.1%	2.0%	4.6%	5.3%	5.3%	5.0%
Inflation	2.6%	1.7%	4.6%	6.4%	3.6%	2.4%	2.3%	2.2%
Taxable Retail Sales	5.2%	-7.5%	16.5%	7.1%	5.4%	5.7%	5.0%	5.2%

Source: King County, WA Office of Economic and Financial Analysis

With the exceptions of the downturns during the Great Recession and the COVID-19 pandemic, Lodging Tax Revenues grew year to year, from a low annual increase of 2.85% to a high annual increase of 16.80%. Regular Lodging Tax Revenues grew at a 9.3% compound annual growth rate from 2010 to 2019. The likelihood is Lodging Tax Revenue growth will revert after a sustained period of recovery from the pandemic induced shutdown. This outcome is further supported by the opening of Summit Building addition which will draw larger and more frequent meeting and convention audiences. Regular Lodging Tax Revenue started to recover in 2021 and increased 118% from 2020 (on an accrual basis). Yet, 2021 Regular Lodging Tax revenue is still $36.9 million below 2019.

Changes or fluctuations in the attractiveness of Seattle as a tourist and convention destination may also adversely affect the level of Lodging Tax Revenues and Convention Center bookings. Such factors that may affect tourism and convention activity include public safety, the walkability of downtown Seattle, homelessness in downtown Seattle, and other factors that may affect Seattle's national and international reputation as a place to visit. Any future slowdown or decrease in the level of tourist activity (including convention activity) in the District is likely to result in slowed growth or a reduction in Lodging Tax Revenues. Web-based units represent a new entrant into the lodging market with a short history of tax collections and may have unanticipated effects on the lodging industry and Lodging Tax Revenues. There can be no assurance a future recession, pandemic or other significant local or national events will not again have a materially negative impact on Lodging Tax Revenues. Therefore, the timing of recovery from the COVID-19 pandemic is uncertain, complicated by the path of monetary policy to decelerate inflation, and muddied by overseas conflict in Ukraine. The District expects Lodging Tax revenues may not recover to 2019 levels until late 2024 or 2025. In which case the District will continue to access the Additional Lodging Revenue Tax deficiency loan mechanism to cover debt service.

Public Health

The impact the COVID-19 pandemic is having and will have on commerce, financial markets, the District and the Puget Sound region has been significant, and the nature of the impact is likely to evolve over the next several years.

The District cannot predict the duration and extent of the COVID-19 public health emergency, the occurrence of future public health emergencies, or quantify the magnitude of the impact on the District and regional economy or on the other revenues and expenses of the District. The COVID-19 pandemic is ongoing, and its dynamic nature leads to uncertainties, including (i) the geographic spread of the virus and its variants and the emergence of new variants; (ii) the severity of the disease; (iii) the duration of the outbreak; (iv) actions which governmental authorities may take to contain or mitigate the outbreak; (v) the development, efficacy and distribution of medical therapeutics and vaccinations and the efficacy of therapeutics and vaccines to emerged and new variants; (vi) additional or changed travel restrictions; (vii) the impact of the outbreak on the local or global economy, or on the tourism and convention sector generally; (viii) whether and to what extent the Governor may order additional public health measures; (ix) restoration of public perception of the safety and necessity of travel for personal and business needs, and (x) the impact of the outbreak and actions taken in response to the outbreak on District revenues, expenses and financial condition. Additional pandemics, and other public health emergencies, may occur and may occur with greater frequency and intensity given trends in globalization.

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.seattleconventioncenter.com.

Washington State Convention Center Public Facilities District
Statements of Net Position
December 31, 2021 and 2020

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	$ 124,264,746	$ 76,404,002
Restricted cash and cash equivalents	230,672,018	266,295,077
Investments	11,080,257	69,693,070
Restricted investments	103,951,931	104,748,526
Restricted investments interest receivable	-	654,990
Receivables (net)	1,599,980	10,856,262
Due from other governments	7,467,503	2,359,167
Prepayments and other current assets	267,453	673,754
Total current assets	479,303,888	531,684,848
Noncurrent assets		
Investments (noncurrent)	-	20,595,900
Other noncurrent assets	13,035	29,977
	13,035	20,625,877
Capital assets		
Land	321,485,455	321,485,455
Buildings and improvements	463,682,061	462,261,396
Machinery/equipment/furniture/fixtures	15,716,885	14,677,192
Buildings and improvements/art collection	12,331,594	12,331,594
Accumulated depreciation	(250,823,983)	(236,860,687)
Construction in progress	1,350,565,961	891,317,217
Total capital assets	1,912,957,973	1,465,212,167
Total assets	2,392,274,896	2,017,522,892
Deferred outflows of resources	43,418,273	-
Total assets and deferred outflows	2,435,693,169	2,017,522,892
LIABILITIES		
Current liabilities		
Accounts payable	40,326,224	28,173,745
Retainage payable from restricted assets	14,964,494	11,964,091
Salaries, benefits and taxes payable	700,040	469,931
Unearned revenue and deposits payable	2,193,539	1,849,353
Due to other governments	9,698,878	3,515,662
Paycheck protection program	2,964,114	-
Interest payable	38,498,889	33,169,020
Current portion of long-term debt	11,211,985	10,203,577
Other current liabilities	2,267,407	362,843
Total current liabilities	122,825,570	89,708,222
Noncurrent liabilities		
Long-term debt, net, unamortized premiums	1,918,224,631	1,480,630,884
Other liabilities (non-current)	92,429	134,560
Total noncurrent liabilities	1,918,317,060	1,480,765,444
Total liabilities	2,041,142,630	1,570,473,666
NET POSITION		
Net investment in capital assets	156,436,662	294,956,126
Restricted for debt service	32,735,300	2,604,366
Unrestricted	205,378,577	149,488,734
Total net position	$ 394,550,539	$ 447,049,226

See accompanying notes to financial statements

Washington State Convention Center Public Facilities District
Statements of Revenues, Expenses, and Changes in Net Position
Years Ending December 31, 2021 and 2020

	2021	2020
OPERATING REVENUES		
Building rent	$ 1,730,108	$ 760,840
Food service	1,657,343	4,950,410
Parking	2,808,495	2,147,140
Facility services	576,972	738,069
Retail leases	343,318	370,107
Other operating	316,649	312,671
Total operating revenues	7,432,885	9,279,237
OPERATING EXPENSES		
Salaries and wages	4,748,077	5,203,787
Employee benefits	2,676,021	3,344,588
Professional and other services	1,637,282	1,692,993
Food service expense	1,385,070	2,343,728
Supplies	201,412	342,985
Utilities	2,239,950	1,912,187
Repair and maintenance	1,339,742	1,500,428
Depreciation and amortization	14,277,258	14,079,938
Other administrative	81,399	118,868
Visit Seattle, outside marketing	5,000,000	4,393,251
In-house marketing expense	161,413	83,463
In-house marketing salaries	368,603	597,752
In-house marketing benefits	199,177	243,902
Total operating expenses	34,315,404	35,857,870
OPERATING LOSS	(26,882,519)	(26,578,633)
NONOPERATING REVENUES (EXPENSES)		
Lodging tax - regular	40,123,263	18,384,474
Lodging tax - extended	2,219,006	906,446
Marketing tax	-	2,920,579
Interest and investment Income	887,015	10,771,244
Interest expense	(66,573,617)	(63,983,868)
Build America bonds subsidy	5,627,805	5,779,726
Loss on disposal of assets	(472,455)	(371,664)
Bond issuance costs	(6,895,291)	-
Other expenses	(531,894)	(438,635)
Total nonoperating expenses	(25,616,168)	(26,031,698)
CHANGE IN NET POSITION	(52,498,687)	(52,610,331)
NET POSITION		
Beginning of year	447,049,226	499,659,557
End of year	$ 394,550,539	$ 447,049,226

See accompanying notes to financial statemets

Washington State Convention Center Public Facilities District
Statements of Cash Flows
Years Ending December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	17,033,353	$ 14,339,207
Payments to suppliers	(37,029,700)	(51,816,284)
Payments to employees	(7,923,183)	(10,166,612)
Net cash used in operating activities	(27,919,530)	(47,643,689)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating portion of lodging taxes received	42,342,269	19,290,920
Taxes received to be paid to other governments	6,183,216	24,748,866
Portion of taxes paid to other governments	(5,108,336)	(12,475,015)
Payment protection program funds received	2,964,114	-
Nonoperating revenues and (expenses)	(531,894)	(438,635)
Net cash provided by noncapital financing activities	45,849,369	31,126,136
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of debt	403,542,330	-
Purchases of capital assets	(419,912,116)	(312,419,321)
Bond issuance costs	(1,256,394)	-
Principal paid on capital debt	(9,000,000)	(10,742,014)
Interest paid on capital debt	(66,241,092)	(63,983,868)
Build America Bonds subsidy received	5,627,805	5,779,726
Net cash used in capital and related financing activities	(87,239,467)	(381,365,477)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,542,005	11,785,902
Net change in fair value of investments	(664,215)	425,843
Purchases of investments	(130,334,944)	(139,633,239)
Proceeds from sales and maturities of investments	211,004,467	664,219,544
Net cash provided by investing activities	81,547,313	536,798,050
NET CHANGE IN CASH AND CASH EQUIVALENTS	12,237,685	138,915,020
CASH AND CASH EQUIVALENTS		
Beginning of year	342,699,079	203,784,059
End of year	354,936,764	$ 342,699,079
CASH AND CASH EQUIVALENTS AS REFLECTED IN THE STATEMENT OF NET POSITION		
Cash and cash equivalents	124,264,746	$ 76,404,002
Restricted cash and cash equivalents	230,672,018	266,295,077
Total cash and cash equivalents in the statement of net position	$ 354,936,764	$ 342,699,079

Washington State Convention Center Public Facilities District
Statements of Cash Flows
Years Ending December 31, 2021 and 2020

	2021	2020
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (26,882,519)	$ (26,578,633)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation and amortization	14,277,258	14,079,938
Bad debt (recovery)/expense	(6,077)	35,515
Changes in operating assets and liabilities:		
Accounts receivable	9,262,359	5,733,513
Operating accounts payable	(27,430,521)	(38,695,856)
Prepayments	423,243	202,769
Salaries, benefits, and taxes payable	230,108	(693,120)
Unearned revenue and deposits payable	344,186	(709,058)
Other operating liabilities	1,862,433	(1,018,757)
Net cash used by operating activities	$ (27,919,530)	$ (47,643,689)
SCHEDULE OF NONCASH INVESTING, CAPITAL, NONCAPITAL, AND RELATED FINANCING ACTIVITIES		
Capital assets in accounts payable and retainage payable	$ 42,583,403	$ 32,343,637
Gain (loss) on fair value of investments	$ (664,215)	$ 425,843
Bond refunding transactions:		
Proceeds from bond issuance	$ 543,900,000	$ -
Debt refunded and related costs paid through escrow	$ (543,900,000)	$ -
Net loss on disposal of capital assets	$ 472,455	$ 371,664

See accompanying notes to financial statemets

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying financial statements present the activities of the Washington State Convention Center (WSCC) Public Facilities District (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 July 19, 2010, the District was an enterprise fund of the State of Washington, and its activities were reported in the Annual Comprehensive Financial Report (ACFR) 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.

The District sold Bonds at the purchase price of $1,082,583,084 during August 2018. 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 Building. The Summit Building 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 Building 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 administrative services to the Art Foundation. As of December 31, 2021, the Art Foundation had total assets of $717,485, as well as total revenues of $1,633 and total expenses of $175 for the year ended. There are no transactions between the two entities for the years ended December 31, 2021 and 2020. As such, the Art Foundation is not included in the WSCC's financial statements as either a blended or a discretely presented component unit.

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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) in the United States requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates particularly susceptible to significant change in the near term relate to the depreciable lives of capital assets.

Summary of Significant Accounting Policies

Policy for Defining Operating and Nonoperating Revenues/Expenses

Operating revenues/expenses are distinguished from nonoperating 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, other administrative expenses and marketing expenses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of Significant Accounting Policies (Continued)

Policy for Defining Operating and Nonoperating Revenues/Expenses (Continued)

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 service revenues and food service 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 30% to 36% of the revenue generated by Edlen and retains the remaining revenues and all expenses. Smart City provides exclusive telecommunication, data and internet services. Generally, the District receives 34% 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 20% to 25% commission depending on the service or rented equipment provided.

For fiscal 2021 and all comparable years the District consolidated marketing expenses into the operating category and marketing revenues into nonoperating. 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.

Summary of Significant Accounting Policies

Policy for Defining Cash Equivalents

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

- Cash on hand.
- Cash on demand deposit with financial institutions.
- Cash in management pools (e.g., the Local Government Investment Pool) that are like demand deposits.

Cash equivalents include highly liquid investments with the following characteristics:

- Readily convertible to known amounts of cash.
- 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Information

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. During 2020, the District expended much of the reserve on operations to make up for lost revenues as a result of the COVID-19 pandemic. The balance of the Operating Reserve was $2,727,706 as of December 31, 2020. The balance of the Operating Reserve was fully depleted in 2021.

The pandemic and subsequent Governor's "Stay Home, Stay Healthy" proclamation suspended Operating and Capital Budget Reserve Requirements until normal operations and recovery of lodging tax revenue could support debt service and operations.

In December 2021, the Board of Directors approved by motion to update the Summit Project Financial Plan to $1,990,776,000.

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. In July 2020, the Board of Directors approved a revised budget for 2021 to reflect circumstances related to the COVID-19 pandemic.

Assets, Liabilities, and Net Position

Cash and Cash Equivalents (see Note 3)

It is the District's policy is to invest all temporary cash surpluses. At December 31, 2021 and 2020, the District had $124,264,746 and $76,404,002, respectively, in unrestricted cash and cash equivalents.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Position (Continued)

Investments (see Note 4) (Continued)

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 $103,951,931 and $104,748,526 as of December 31, 2021 and 2020, respectively. Current restricted investments were spent down on the Summit addition and were offset by additional funding from the 2021 Jr "Green" Bonds and the 2021 General Obligation FF&E Note. 2018 First Priority and Subordinate Bonds proceeds were totally consumed in 2021. Current and non-current unrestricted investments are $11,080,257 and $90,288,970 as of December 31, 2021 and 2020, respectively. All investments are reported at fair value as reported by the external fiscal agent.

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.

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

Due to/from Other Governments

Due from other governments is mainly composed of Lodging Tax collected by the hotels and earned in last two months of the fiscal year but paid to the District by the State of Washington in the first two months of the following year. Due to other governments consists primarily of the portion of additional lodging tax revenues payable to the State of Washington, City of Seattle, and King County.

Inventories

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

Restricted Assets and Liabilities

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

- Operating Reserve Account
- Bond Interest and Principal Accounts
- Retainage Accounts

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Position (Continued)

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

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	Maximum Carry-over Accumulation Allowed (in hours)
1 – 4	80	96
5 – 8	120	120
9 – 10	128	128
11 – 13	144	136
14 – 15	168	160
Max	176	160

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Position (Continued)

Compensated Absences (Continued)

Sick leave for all staff may be accumulated to a maximum of 720 hours, with excess up to 96 hours payable at 25% 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.

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.

Bond Premiums

Bond premiums and discounts are deferred and amortized over the life of the bonds. At the time of a bond refunding, the unamortized premiums or discounts are amortized over the life of the refunded bonds or the life of the refunding bonds, whichever is shorter. Bonds payable is reported net of the applicable premium or discount. The District amortizes bond premiums or discounts using the effective interest method. The effective interest method allocates bond interest expense over the life of bonds in such a way that it yields a constant rate of interest, which in turn is the market rate of interest at the date of issuance. With the effective interest method, the amortization of bond premiums or discounts is calculated using the effective market interest rate at the time of issuance versus the coupon rated use in a straight-line method.

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 are provided in Note 7.

Reclassification

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on previously reported net position.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Management asserts 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).

NOTE 3 – CASH DEPOSITS WITH FINANCIAL INSTITUTIONS (CONTINUED)

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 U.S. 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, 2021 and 2020, cash and cash equivalents include:

Financial Institution	2021	2020
US Bank	$ 59,434,971	$ 47,632,988
Local Government Investment Pool (LGIP)	295,491,793	295,056,091
Petty cash/change funds	10,000	10,000
Total	$ 354,936,764	$ 342,699,079

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, U.S. 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.

NOTE 4 – INVESTMENTS (CONTINUED)

Fair Value Measurement (Continued)

The District has the following recurring fair value measurements as of December 31, 2021 (in thousands):

U.S. Government Treasury of $99,500,269 are valued using quoted process in an active market for identical assets (Level 1 inputs). Foreign issues, supranational, commercial paper, and corporate securities of $15,531,908 are valued using quoted prices for similar assets, quoted process for identical or similar assets in a market that are not active, or other observable (Level 2 inputs). The District holds no investments that require valuation using Level 3 inputs.

The following table identifies the types of investments, concentration of investments in any one issuer, and maturities of the District's investment portfolio:

Investment Type	Fair Value	Maturities Year	Maturities 1 to 5 Years	Portfolio	Ratings S&P	Ratings Moody's
Level 1						
Treasury notes	$ 99,500	$ 85,861	$ 13,639	86.50%	AA+	Aaa
Level 2						
Foreign issues	4,450	4,450	-	3.87%	A-	A2
Supranational	4,061	4,061	-	3.53%	AAA	Aaa
Commercial paper	5,000	5,000	-	4.35%	A-1/A-1+	P-1
Corporate	2,022	2,022	-	1.76%	A-	A2
Total	$ 115,033	$ 101,394	$ 13,639	100.00%		
Percentage of total portfolio		88.14%	11.86%	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 table above, 88.1% of the investments mature in 2022 and the remaining 11.9% of investments mature in one to five years.

As of December 31, 2020, 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:

Investment Type	Fair Value	Maturities Year	Maturities 1 to 5 Years	Portfolio	Ratings S&P	Ratings Moody's
Level 1						
Treasury notes	$ 73,815	$ 73,815		37.85%	AA+	Aaa
Level 2						
Federal home loan bank	80,819	60,084	20,735	41.44%	AA+	Aaa
Foreign issues	6,081	6,081	-	3.12%	AA+	Aaa
Federal national mortgage association	5,058	5,058	-	2.59%	AA+	Aaa
Commercial paper	29,264	29,264	-	15.00%		
Total	$ 195,037	$ 174,302	$ 20,735	100.00%		
Percentage of Total Portfolio		89.37%	10.63%	100.00%		

NOTE 4 – INVESTMENTS (CONTINUED)

Fair Value Measurement (Continued)

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 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, 2021 and 2020 are reflected in the following charts:

	January 1, 2021	Increases	Decreases	December 31, 2021
Capital assets, not being depreciated				
Land / land development	$ 321,485,455	$ -	$ -	$ 321,485,455
Construction in progress	891,317,217	462,468,841	(3,220,097)	1,350,565,961
Total capital assets, not being depreciated	1,212,802,672	462,468,841	(3,220,097)	1,672,051,416
Capital assets, being depreciated				
Buildings and improvements	462,261,396	2,180,404	(759,740)	463,682,061
Other improvements and art collection	12,331,594	-	-	12,331,594
Machinery/equipment/furniture/fixtures	14,677,192	1,039,693	-	15,716,885
Total capital assets, being depreciated	489,270,182	3,220,097	(759,740)	491,730,540
Less accumulated depreciation for:				
Buildings	(220,813,780)	(12,445,986)	287,285	(232,972,481)
Other improvements and art collection	(4,718,071)	(755,015)	-	(5,473,086)
Machinery/equipment/furniture/fixtures	(11,328,836)	(1,049,580)	-	(12,378,416)
Total accumulated depreciation	(236,860,687)	(14,250,581)	287,285	(250,823,983)
Total capital assets, being depreciated, net	252,409,495	(11,030,484)	(472,455)	240,906,557
Total capital assets	$ 1,465,212,167	$ 451,438,357	$ (3,692,552)	$ 1,912,957,973

The Summit Building addition increased construction in progress by $462,468,841 in 2021 and by $344,709,398 in 2020.

NOTE 5 – CAPITAL ASSETS (CONTINUED)

	January 1, 2020	Increases	Decreases	December 31, 2020
Capital assets, not being depreciated				
Land / land development	$ 321,485,455	$ -	$ -	$ 321,485,455
Construction in progress	550,286,174	344,709,398	(3,678,355)	891,317,217
Total capital assets, not being depreciated	871,771,629	344,709,398	(3,678,355)	1,212,802,672
Capital assets, being depreciated				
Buildings and improvements	459,397,129	3,437,528	(573,261)	462,261,396
Other improvements and art collection	12,331,594	-	-	12,331,594
Machinery/equipment/furniture/fixtures	14,436,365	240,827	-	14,677,192
Total capital assets, being depreciated	486,165,088	3,678,355	(573,261)	489,270,182
Less accumulated depreciation for:				
Buildings	(208,900,624)	(12,114,753)	201,597	(220,813,780)
Other improvements and art collection	(3,949,467)	(768,604)	-	(4,718,071)
Machinery/equipment/furniture/fixtures	(10,185,815)	(1,143,021)	-	(11,328,836)
Total accumulated depreciation	(223,035,906)	(14,026,378)	201,597	(236,860,687)
Total capital assets, being depreciated, net	263,129,182	(10,348,023)	(371,664)	252,409,495
Total capital assets	$ 1,134,900,811	$ 334,361,375	$ (4,050,019)	$ 1,465,212,167

NOTE 6 – NOTES AND BONDS PAYABLE

Activity for notes and bonds payable are as follows during the years ended December 31, 2021 and 2020.

Description	Maturity	Interest Rates	Balance December 31, 2020	Additions	Reductions & Amortization	Balance December 31, 2021	Amount Due Within One Year
Series 2010B bonds	July 1, 2040	3.92% - 6.79%	$ 255,855,000	$ -	$ (8,280,000)	$ 247,575,000	$ 8,590,000
King County CPS note	June 30, 2049	4.25%	141,010,940	-	-	141,010,940	-
Series 2018 First Priority bonds	July 1, 2058	5.00%	598,485,000	-	(215,495,000)	382,990,000	355,000
Series 2018 Subordinate Priority bonds	June 30, 2058	1.00% - 4.25%	404,430,000	-	(251,700,000)	152,730,000	415,000
Washington State deficiency note #1	June 30, 2030	3.70%	14,250,838	-	-	14,250,838	1,425,084
Washington State deficiency note #2	June 30, 2031	3.20%	-	4,269,013	-	4,269,013	426,901
Series 2021A First Priority bonds	July 1, 2058	3.0% - 5.0%	-	12,455,000	-	12,455,000	-
Series 2021B First Priority bonds	July 1, 2058	3.0% - 5.0%	-	243,815,000	-	243,815,000	-
Series 2021A Subordinate Priority bonds	July 1, 2035	3.0% - 5.0%	-	9,785,000	-	9,785,000	-
Series 2021B Subordinate Priority bonds	July 1, 2058	3.0% - 5.0%	-	277,845,000	-	277,845,000	-
Series 2021 Jr "Green" bonds	July 1, 2031	4.00%	-	341,500,000	-	341,500,000	-
2021 G.O. net parking revenue	December 1, 2031	2.16% - 2.87%	-	20,000,000	-	20,000,000	-
			1,414,031,778	909,669,013	(475,475,000)	1,848,225,791	11,211,985
Unamortized bond premiums			76,802,683	43,412,214	(39,004,073)	81,210,824	-
Total bonds & notes payable			$ 1,490,834,461	$ 953,081,227	$ (514,479,073)	$ 1,929,436,615	$ 11,211,985

Description	Maturity	Interest Rates	Balance December 31, 2019	Additions	Reductions & Amortization	Balance December 31, 2020	Amount Due Within One Year
Series 2010B bonds	July 1, 2040	3.92% - 6.79%	$ 263,860,000	$ -	$ (8,005,000)	$ 255,855,000	$ 8,280,000
King County CPS note	July 1, 2058	4.25%	141,010,940	-	-	141,010,940	-
Series 2018 First Priority bonds	July 1, 2058	5.00%	598,790,000	-	(305,000)	598,485,000	325,000
Series 2018 Subordinate Priority bonds	June 30, 2058	1.00% - 4.25%	404,805,000	-	(375,000)	404,430,000	395,000
Washington State deficiency note #1	June 30, 2030	3.70%	-	14,250,838	-	14,250,838	1,425,084
			1,408,465,940	14,250,838	(8,685,000)	1,414,031,778	10,425,084
Unamortized bond premiums			78,883,117	-	(2,080,434)	76,802,683	-
Total bonds & notes payable			$ 1,487,349,057	$ 14,250,838	$ (10,765,434)	$ 1,490,834,461	$ 10,425,084

NOTE 6 – NOTES AND BONDS PAYABLE (CONTINUED)

Revenue bonds and notes payable debt service requirements to maturity are as follows as of December 31, 2021.

	Notes Payable		Bonds Payable		Less BABs	
Year	Principal	Interest	Principal	Interest	Subsidy	Total
2022	$ 1,851,985	$ 2,322,228	$ 9,360,000	$ 73,645,375	$ (5,548,254)	$ 81,631,334
2023	2,851,985	2,331,192	9,790,000	72,850,732	(5,355,748)	82,468,161
2024	3,313,523	2,309,592	10,240,000	72,200,669	(5,154,727)	82,909,057
2025	4,090,428	6,855,234	10,710,000	71,521,035	(4,944,854)	88,231,843
2026	4,326,424	6,786,262	11,205,000	70,810,473	(4,725,680)	88,402,479
2027 - 2031	31,650,123	32,180,405	421,950,000	341,871,823	(20,197,265)	807,455,086
2032 - 2036	17,920,101	26,258,488	134,130,000	243,257,823	(13,638,021)	407,928,391
2037 - 2041	29,707,606	21,507,487	155,805,000	203,560,170	(4,258,807)	406,321,456
2042 - 2046	45,439,244	13,933,086	134,845,000	168,587,150	-	362,804,480
2047 - 2051	38,379,372	3,209,539	248,670,000	129,780,950	-	420,039,861
2052 - 2056	-	-	125,215,000	96,555,850	-	221,770,850
2057 -2058	-	-	396,775,000	32,647,450	-	429,422,450
Total	179,530,791	117,693,513	1,668,695,000	1,577,289,500	(63,823,356)	3,479,385,448

Bonds Payable

2010 Build America Bonds

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 of financing the transfer of the Washington State Convention Center from the state to the District, provide capital funds for renovations of the convention center, and provide funds for a Common Reserve. 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. However, 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. BAB subsidy request form is Form 8038-CP. The District BAB reduction from Congress sequestration measures for 2019 was $392,763. The original 2019 annual BAB subsidy was $6,334,901 less actual BAB subsidy received of $5,942,138. For 2020, the BAB subsidy received was $5,779,726. For 2021, the BAB subsidy was $5,627,805.

NOTE 6 – NOTES AND BONDS PAYABLE (CONTINUED)

Bonds Payable (Continued)

2018 Priority and Subordinate Lodging Tax Bonds

In August 2018, the District 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. The District issued revenue bonds to finance a portion of the Summit Building, 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 has obtained a debt service reserve insurance policy in connection with its 2018 bond issuance that covers both the 2010 bonds and the 2018 bonds. To the extent that the District is not able to make debt service payment to bond holders from Lodging taxes, the insurance policy will pay for the debt service and will convert the amount of the debt service payment, not paid by the District, but paid by the insurance policy to a liability owed to the insurance company. As such, bond holders are protected for payment of their amount due under this insurance policy.

2021 Jr "Green" Bonds

The district issued lodging tax pledge revenue Jr "Green" Bonds subordinate to Priority and Subordinate lodging tax revenue bonds and payments required to the State of Washington. The issuance funded the final project cost for the Summit Building addition, capitalized ~18 months of debt service, and created a debt service reserve fund. Bond holders are in a similar position as the King County Purchase and Sale (CPS) note. This series of bonds are not rated and July 1, 2031 with a coupon of 4.0%. Debt covenants require the maintenance of a debt service reserve fund equal one interest payment.

	Total Issuance
Par amount	$ 341,500,000
Plus: net original issue premium	37,773,315
Less: underwriters discount	(1,654,982)
Total purchase price	$ 377,618,333

2021 Jr Green Bonds - Application of Proceeds

Deposit To	Purpose	Amount
Addition project fund	Project cost	$ 347,376,611
Jr bonds interest fund	Capitalized interest	23,411,722
Jr bonds common reserve fund	Debt service reserve	6,830,000
	Total	$ 377,618,333

2021A|B First Priority Bonds and A|B Subordinate Priority Bonds

In July 2021, the District issued $12,455,000 of 2021A First Priority bonds with a premium of $3,306,026, $243,815,000 of 2021B first priority bonds, $9,785,000 of 2021A Subordinate bonds with a premium of $2,332,873, and $277,845,000 of 2021B Subordinate priority bonds. The bonds were issued to refund and defease a portion of the 2018 Priority and Subordinate Lodging Tax Bonds. The transaction resulted in cash flow savings of $51.4 million, economic gain of $45.1 million, and a net loss for accounting purposes of $43.4 million, which is included in deferred outflows of resources and is being amortized over the remaining life of the bonds through July 2058.

NOTE 6 – NOTES AND BONDS PAYABLE (CONTINUED)

2021 A|B Refunding

	Priority Bonds		Aggregate
Par amount	2021A Priority	2021A Subordinate	Issuance
Plus: net original issue premium	$ 12,455,000	$ 9,785,000	$ 22,240,000
Less: underwriters discount	3,306,026	2,332,873	5,638,899
Total purchase price	$ 15,761,026	$ 12,117,873	$ 27,878,899

2021 A|B Refunding - Application of Proceeds

Use of funds		2021A Priority	2021A Subordinate	Amount
Redemption of bonds		$ 12,798,234	$ 10,343,306	$ 23,141,540
Issuance costs		1,599,354	1,709,767	3,309,121
	Total	$ 14,397,588	$ 12,053,073	$ 26,450,661

Notes Payable

The District and King County Purchase and Sales Agreement for the Convention Place Station (CPS) property was finalized on 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; after 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 begins payment on a 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. The note matures June 30, 2046, and has an interest rate of 4.25%

Additional Lodging Deficiency Loan

District has the authority to use Additional Lodging Tax Revenue to meet monthly accrued principal and interest net of BABs subsidy on Priority and Subordinate 2010 BABs, 2018 Priority and Subordinate, and 2021 Priority and Subordinate (refunding) bonds. In the event Regular and Extended lodging tax are insufficient to pay outstanding debt service the District will incur a deficiency loan to the State of Washington under RCW 36.100.040(5) and (6). The rate of interest on each deficiency loan shall be determined annually for each state fiscal year during which any Deficiency Loan is outstanding. The interest rate on any repayment deficiency loan applicable during a State of Washington fiscal year (which ends on June 30) shall be the average weekly 20 bond general obligation bond buyer index during the immediately preceding state fiscal year plus one percentage point, as determined by the Office of State Treasury Under the terms of the District's Transfer Agreement with the State of Washington, equal payments are due on June 30 over a ten-year term to repay the loan and are included in the debt service requirements to maturity schedule earlier in this note.

Deficiency Loan Note #1 2020

In June 2020, the District used Additional Lodging Tax Revenue to meet its debt service obligation. The deficiency loan was in the amount of $14,250,838 at a rate of 3.7%.

Deficiency Loan Note #2 2021

In June 2021, the District used Additional Lodging Tax Revenue to meet its debt service obligation. The deficiency loan was in the amount of $4,269,013 at a rate of 3.2%.

NOTE 6 – NOTES AND BONDS PAYABLE (CONTINUED)

2021 General Obligation Net Parking Revenues

In December 2021, the District issued $20,000,000 general obligation net parking revenues note in a direct placement with JP Morgan. The funds will be used to purchase furnishing, fixtures, and equipment for the Summit Building additions. The term of the note is 10 years with interest between 2.16% to 2.87%.

2021General Obligation Note (Payable from Net Parking Revenue)

Use of funds		Amount
Deposit to project funds		$ 17,902,500
Deposit to debt service		2,000,000
Cost of issuance		97,500
	Total	$ 20,000,000

NOTE 7 – COMPONENTS OF NET POSITION

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

1. Net investment in capital assets
2. Restricted net position
3. 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).

NOTE 7 – COMPONENTS OF NET POSITION (CONTINUED)

The following provides detail of the components of net position as of December 31, 2021:

Category	Assets	Related Liability	Net Position
Capital assets, net of accumulated depreciation	$ 1,912,957,973	$ -	
Less: bonds & notes payable	-	(1,929,436,616)	
Plus: deferred outflow on refunding	37,827,939	-	
Less: unamortized bond premiums	-	(70,754,497)	
Less: capital assets in AP and retainage payable	-	(42,583,403)	
Plus: unspent proceeds reflected as restricted below	-	248,425,266	
Net position invested in capital assets			156,436,662
Restricted assets			
Restricted for expansion	248,425,266	(248,425,266)	
Restricted for debt service under bond covenants	71,234,189	-	
Interest payable to be paid from restricted assets	-	(38,498,889)	
Retainage payable to be paid from restricted assets	14,964,494	(14,964,494)	
Restricted for debt service			32,735,300
Restricted net position			32,735,300
Unrestricted			205,378,577
Total net position			$ 394,550,539

The following provides detail of the components of net position as of December 31, 2020:

Category	Assets	Related Liability	Net Position
Capital assets, net of accumulated depreciation	$ 1,465,212,167	$ -	
Less: bonds & notes payable	-	(1,490,834,461)	
Plus: unspent proceeds reflected as restricted below	-	320,578,420	
Net position invested in capital assets			294,956,126
Restricted assets			
Restricted for expansion	320,578,420	(320,578,420)	
Restricted for debt service under bond covenants	35,773,386	-	
Interest payable to be paid from restricted assets	-	(33,169,020)	
Retainage payable to be paid from restricted assets	11,964,091	(11,964,091)	
Restricted for debt service			2,604,366
Restricted net position			2,604,366
Unrestricted			149,488,734
Total net position			$ 447,049,226

NOTE 8 – EMPLOYEE BENEFITS

Defined Contribution Retirement Plans

The WSCC Retirement Plan was originally established on July 1, 1985, as a compensation deferral profit-sharing plan under the Internal Revenue Code 401. (See Resolution No. 151).

On October 1, 2005, the plan was amended to allow participant direction of the Employer Discretionary and Matching funds. (See Resolution No. 533).

On October 19, 2010, during the transition of the Washington State Convention Center nonprofit corporation to a public facilities district, the Board authorized the creation and operation of a 401(k) and 457 retirement savings plan for the benefit of employees. This created the successor plans: 1) the Washington State Convention Center Profit Sharing Plan ("the 401(a) Plan"), and 2) Washington State Convention Center 457 Government Deferred Compensation Plan (the "457 Plan"). These plans eventually became to be known as the WSCC Retirement Savings Plan and the WSCC Employee Retirement Contribution Plan. (See Resolution No. 2010-9).

401(a) – Compensation Deferral Plan

All full-time employees are eligible for this plan after a year of service, with the exception of 1) leased employees, 2) union employees, 3) non-resident aliens with no U.S. 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 $186,628 and $223,065 to the employee 401(a) plan during the years ended December 31, 2021 and 2020, respectively. The District contributes 5% 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% 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 years 2021 or 2020.

457 (b) Employee Retirement Contribution Plan

All full-time employees are eligible for this plan upon hire, except for 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% of compensation and a maximum of $20,500 or 100% of includible compensation, whichever is less. Employees ages 50 or older, or those within three years of retirement, may contribute an additional $6,500. Each employee directs how contributions are to be invested in either a pre-tax or post-tax (Roth) account and receives an individual monthly statement of activity.

NOTE 8 – EMPLOYEE BENEFITS (CONTINUED)

<u>Defined Contribution Retirement Plans</u> (Continued)

457 (b) Employee Retirement Contribution Plan (Continued)

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% vested. Employees contributed $227,391 and $266,030 to their 457(b) plan during the years ended December 31, 2021 and 2020, respectively.

<u>Health and Welfare</u>

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.

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 Foundation Health Plan of Washington, Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, 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.

NOTE 8 – EMPLOYEE BENEFITS (CONTINUED)

Health and Welfare (Continued)

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 9 – LEASES

Operating Leases

The District leases office equipment under non-cancellable operating leases. The total commitments under these leases are immaterial.

Tenant Leasing Agreements

The District leases building space to various retail tenants. A total of 15 retail leases provided revenue of $343,318 and $370,107 in fiscal years ending 2021 and 2020, respectively. Lease contract terms will expire within one to five years for many of these tenants. It is not known whether options to extend terms will be exercised, but negotiations are ongoing with some retail tenants.

During 2021 and 2020, the District agreed to forgive certain rental amounts under tenant leasing agreements in response to the COVID-19 pandemic and Governor's "Stay Home, Stay Healthy" proclamation. This forgiveness continued through the end of FY 2021. Due to the forgiveness of rent, the actual retail revenue reported for 2021 and 2020 was less than the revenue required by the tenant lease agreements. This difference is summarized below. Tenant rent forgiveness ended in early 2022.

NOTE 9 – LEASES (CONTINUED)

Year	Revenue per Lease	Actual Tenant Revenue	Difference
2020	$ 570,571	$ 370,107	$ (200,463)
2021	458,251	343,318	(114,933)
Total	$ 1,028,821	$ 713,425	$ (315,396)

Based on enforceable contracts on December 31, 2021, future minimum rental payments required for the next five succeeding years are:

Year	Lease Revenue
2022	$ 429,519
2023	348,394
2024	173,650
2025	68,915
2026	40,311
Total	$ 1,060,789

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.

Capital Leases

The District entered into a capital lease for radio equipment valued at $252,706 during the year ended December 31, 2019. The future minimum payments under the lease are as follows.

Year Ending December 31	Principal	Interest	Total
2022	$ 42,131	$ 8,515	$ 50,646
2023	44,797	5,849	50,646
2024	47,632	3,014	50,646
Total	134,560	17,378	151,938
Less current portion	(42,131)	(8,515)	(50,646)
Long term portion	$ 92,429	$ 8,863	$ 101,292

The long-term portion of this lease agreement is reflected as "other" noncurrent liabilities and the current portion is included in the "other" noncurrent liability classification.

NOTE 9 – LEASES (CONTINUED)

Other Leasing Agreements

Real Property Lease (billboard signage) - The District earns lease revenue from real property acquired for the Summit Building construction project. These lease terms are month to month. Revenue from these leases is included in other nonoperating revenues and was $13,832 in 2021 and $13,494 in 2020.

Construction Office and WSDOT Lease - The District has entered into lease agreements to support the Summit Building Construction Project. In addition, the District has a long term lease with WSDOT for airspace rights which began July 2018 and terminates June 2084. Annual rental payments begin in 2024. The lease includes annual increases based on CPI and an adjustment to market at 15 years. These amounts are not included in the summary table. These lease payments are capitalized as part of the Summit project during the construction period. Future lease commitments are as follows:

Year	Prime Property Fund (Construction Office)	WSDOT	Total
2022	$ 146,211	$ -	$ 146,211
2023	-	-	-
2024	-	397,055	397,055
2025	-	475,000	475,000
2026	-	475,000	475,000
Thereafter	-	27,312,500	27,312,500
Total	$ 146,211	$ 28,659,555	$ 28,805,766

NOTE 10 – RISK MANAGEMENT

General Liability Insurance

The District has property and casualty insurance through Liberty Mutual Insurance Company of Kentucky through November 30, 2021, as follows: $500 million in total coverage for its facilities and operations including earthquake, flood and terrorism coverage. The total combined maximum deductible is $200,000.

Employee Dishonesty Insurance

District terminated the blanket bond for employee dishonesty in 2020 when the building went cashless.

Liability Insurance

Liability coverage is provided by Great American E & S Insurance Company, with the current term valid through September 29, 2022. Coverages for commercial general liability are provided in the amount of $10,000,000 per occurrence, and automobile liability in the amount of $10,000,000 per accident for District-owned vehicles, and $3,000,000 for non-owned vehicles.

There were no settlements exceeding insurance coverage in 2021 or 2020.

NOTE 10 – RISK MANAGEMENT (CONTINUED)

Builder's Risk Insurance

The District maintains insurance and an Owner's Controlled Insurance Program (OCIP) in connection with the Summit Expansion project. The OCIP primary liability coverage is provided by Lloyd's of London. Excess liability coverage is provided by 13 insurance companies, layered to provide the coverage comprising the program. All of the insurance carriers are rated "A" or better by the A.M. Best & Company.

The OCIP is effective from May 22, 2018, through November 22, 2021, which the District will extend to the Summit Building construction project's completion (plus six years under the Washington statute of repose), with a program limit of $150 million. The primary OCIP liability limits include $2 million occurrence, $4 million general aggregate, and $4 million products-completed operations aggregate. The general aggregate limit on the primary liability reinstates once at eighteen months. Deductibles are $750,000 per occurrence and $100,000 for the first water damage occurrence increasing to $350,000 thereafter.

The Builder's Risk policy is provided by Lloyd's of London, for a four-year construction period expiring July 1, 2022 which the District will extend to the Summit Building construction project's completion. The policy insures risk of direct physical loss or damage unless excluded, with a physical damage limit of $1,296,961,157. Earth movement (including earthquake and volcanic action) coverage is included with a limit of $200 million. Flood, named storm, and windstorm coverage is included with limits of $1,296,961,157. The policy addresses the soft costs of $88,848,915.

There were no settlements exceeding insurance coverage in 2021 or 2020.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The District has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved, but were 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.

Capital Projects

The District suspended Board policy to fund $4.0 million annual capital program until lodging tax revenue is sufficient to cover debt service.

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. Final capital reserve payment to bring the capital reserve account to $500,000 was made in 2018. Going forward the District is responsible for all repairs and maintenance.

WSDOT Leases

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 its value was $12,869,000. Additionally, it was determined qualifying site penalties were valued at

NOTE 11 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

$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.

In July 2018, the District entered into a 66-year lease agreement with the WSDOT which expires June 30, 2084. Agreement allows the District to build the southeast corner of the Summit Building adjacent to Boren Avenue and Pike Street over the I-5 freeway express lane ramp. It is anticipated WSDOT rent credits will off-set lease payments through 2024. Annual lease payments are $475,000. Annual increases are based on CPI. Every fifteen years the payments are adjusted to reflect the current market rate.

Expansion Related Commitments

In connection with the Summit Building addition, the District has entered into various contracts for the property development, project management, architectural, engineering, and construction activities. The total commitments under these agreements total approximately $302 million as of December 31, 2021.

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 are shared with the City of Seattle and King County. The District remits to the City of Seattle all short-term rental funds collected in the City boundaries. After the City of Seattle receives their funds, the District remits to King County 50% of the 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 collections in 2021 are as follows; the District $1,920,236, King County $1,920,236, and City of Seattle $6,048,504. Total short-term rental funds collected for 2021 for all three governments totaled $9,888,977. The Department of Revenue collections in 2020 are as follows; the District $939,602, King County $939,602 and City of Seattle $3,762,700. Total short-term rental funds collected for 2020 for all three governments totaled $5,641,904.

NOTE 12 – SUBSEQUENT EVENTS

In June 2022, the Office of State Treasurer revisited the Deficiency Loan process and reinterpreted the RCW 36.100.040(5) and (6) and "Transfer Agreement" administering the Additional Lodging Sales Tax to mean the interest rate on each Deficiency Loan reset annually creating variable rate debt. The rate is the average weekly twenty bond general obligation bond buyer index during the immediately preceding state fiscal year plus one percentage point.

In March 2022, the District Paycheck Protection Program loan of $3.0 million was forgiven under the rules and guidelines of the Small Business Administration.