Austin Convention Enterprises, Inc.

(A Component Unit of the City of Austin, Texas)

Financial Statements and
Supplementary Information
December 31, 2018 and 2017

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Contents

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Independent Auditor's Report

To the Board of Directors
Austin Convention Enterprises, Inc.
(A Component Unit of the City of Austin, Texas)

Report on the Financial Statements
We have audited the accompanying financial statements of Austin Convention Enterprises, Inc. (Company), a component unit of the City of Austin, Texas, as of and for the years ended December 31, 2018, and 2017, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements, as listed in the table of contents.

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

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

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

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

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

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Other Matters

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, 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.

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Summary of Historical Operating Data and the Hotel's Operating Results vs. Approved Budget—2018, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

RSM US LLP

Austin, Texas
May 15, 2019

The following discussion of Austin Convention Enterprises, Inc. (Company) should be read in conjunction with the basic financial statements and notes thereto appearing elsewhere in this report. Historical results and trends, which might appear, should not be taken as indicative of future operations. The results of operations and the financial condition of the Company, as reflected in the accompanying statements and related footnotes, are subject to management's evaluation and interpretation of business conditions, changing capital market conditions and other factors, which could affect the ongoing viability of the Company.

The Company is a Texas nonprofit public facility corporation incorporated in March of 2000 pursuant to Chapter 303 of the Texas Local Government Code. For the year ended December 31, 2018, the Company is presented as a discrete component unit of the City of Austin, Texas, as the City of Austin Council members appoint the Company's board of directors and maintain a contractual ability to remove board members at will. The Company is legally separate from the City of Austin and the debt issued by the Company does not constitute a debt or pledge of the faith and credit of the City of Austin.

The Company was organized for the specific purpose to purchase, own, acquire, construct, equip, encumber, lease, sell and provide for the operation of a hotel, parking garage and related facilities (the Hotel Project) to be located adjacent to the Austin Convention Center. On June 14, 2001, the Company issued tax-exempt revenue bonds totaling $265,113,811 to finance the Hotel Project in three series: the Series 2001A Bonds, the Series 2001B Bonds and the Series 2001C Bonds. Construction was substantially completed, and the Hotel Project opened in December 2003. On December 7, 2006, the Company issued tax-exempt revenue bonds totaling $260,170,000 to refund the outstanding Series 2001A Bonds and the Series 2001B Bonds in two series: the Series 2006A Bonds and the Series 2006B Bonds. In May 2017, the Company issued tax-exempt revenue bonds totaling $194,655,000 to refund the outstanding Series 2006A and the Series 2006B Bonds in two series: the Series 2017A Bonds and the Series 2017B Bonds. During 2017, the Series 2001C Bonds were fully satisfied.

Hilton Management, LLC (Hilton) manages the Hotel Project through a qualified management contract.

The Company offers this narrative overview and analysis of the basic financial activities of the Company for the years ended December 31, 2018 and 2017.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Company's basic financial statements and notes thereto. The basic financial statements of the Company are prepared on a basis similar to an enterprise fund, as defined by the Governmental Accounting Standards Board (GASB). Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

The Statement of Net Position presents information on all the Company's assets, deferred outflows of resources, deferred inflows of resources and liabilities as of year-end, with the difference being reported as net position. With the Hotel Project operational, comparisons in increases or decreases in net position, from one full year of operation to the next, may serve as a useful indicator of whether the financial position of the Company is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information for revenues and expenses regardless of when cash is received or paid. Therefore, revenues and expenses are reported in this statement for some items that will affect cash flow in future fiscal years.

The Statement of Cash Flows represents information related to cash inflows and outflows summarized by operating, investing, noncapital financing and capital and related financing activities.

The notes to the basic financial statements provide additional information that is essential for a complete understanding of the data in the basic financial statements described above.

Financial Highlights
During the year ended December 31, 2018, the following significant events took place in connection with the operation of the Hotel Project.

The Hotel Project generated $83.2 million in operating revenues and experienced $48.2 million in operating expenses (excluding certain owner operating expenses: surety insurance expense, depreciation, professional fees and other expenses), resulting in net revenues of $35.0 million.

The Overhead Walkway project was completed and opened for use in November 2018. The Overhead Walkway spans across 4th Street connecting the Hotel sixth floor ballroom prefunction space to the top floor of the Convention Center, creating a convenient and direct access between the two buildings.

Financial Analysis of the Company's Statements

Statements of Net Position

The following table summarizes the Company's assets, deferred outflows of resources, liabilities and net position as of December 31, 2018, 2017 and 2016:

Table 1
Condensed Statements of Net Position

	2018	2017	2016
Assets:			
Current assets	$ 9,964,000	$ 8,489,856	$ 8,230,172
Capital assets, net	172,538,031	174,325,457	172,498,586
Other noncurrent assets	67,332,480	56,298,386	68,828,326
Total assets	249,834,511	239,113,699	249,557,084
Deferred outflows of resources:			
Deferred loss on bond refunding	14,605,314	15,605,459	16,669,108
Total deferred outflows of resources	14,605,314	15,605,459	16,669,108
Liabilities:			
Current liabilities	21,616,262	15,613,745	22,051,086
Noncurrent liabilities	204,388,478	214,789,935	229,955,353
Total liabilities	226,004,740	230,403,680	252,006,439
Deferred inflows of resources:			
Deferred gain on bond refunding	1,050,737	1,120,399	-
Total deferred inflows of resources	1,050,737	1,120,399	-
Net position:			
Net investment in capital assets	1,541,205	(967,712)	(17,721,657)
Restricted by bond indenture	34,284,494	23,650,304	28,795,119
Unrestricted	1,558,649	512,487	3,146,291
Total net position	$ 37,384,348	$ 23,195,079	$ 14,219,753

Discussion of 2018 Results and Comparison to 2017

As shown in Table 1, total assets increased $10.7 million at December 31, 2018, as compared to December 31, 2017, which is primarily due to an increase in investments and cash of $12.7 million offset by the net decrease in capital assets of $1.8 million, which was primarily the result of the capitalization of $8.8 million and $10.6 million of depreciation expense.

Deferred outflows of resources decreased $1.0 million due to current year amortization expense.

Total liabilities decreased by $4.4 million at December 31, 2018, as compared to December 31, 2017, primarily due to $2.7 million payments made on bonds plus $2.3 million decrease in bond premiums, net of an increase in accounts payable, accrued expenses and unearned revenue of $0.7 million.

Net position represents the difference between the Company's assets and deferred outflows of resources and liabilities and deferred inflows of resources and consists of net investment in capital assets, restricted and unrestricted net position. The increase in the net position at December 31, 2018, as compared to December 31, 2017, of $14.1 million results from the Company's revenues exceeding its expenses. Net investment in capital assets consists of historical cost of capital assets, net of accumulated depreciation, less any debt that remains outstanding that was used to finance those assets. Net position is restricted when constraints placed on the net assets' use are either externally imposed, such as by law through constitutional provisions or enabling legislation, or internally such as debt documents. Unrestricted net position consists of net assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

During the 2017 and 2018 operating years, the Company and Hilton were engaged in a material renovation of the 4th and 6th floor ballrooms, completing the Hotel lobby and all the restaurant venue renovations, and beginning the overhead walkway project, which is a pedestrian bridge over 4th Street connecting the hotel to the Austin Convention Center. During the 2018 operating year, these projects were substantially completed and have been placed into operation as of December 31, 2018.

Discussion of 2017 Results and Comparison to 2016

As shown in Table 1, total assets decreased $10.4 million at December 31, 2017, as compared to December 31, 2016, which is primarily due to a decrease in investments. The hotel renovation in 2017 lead to a $1.8 million increase in capital assets; however, this was offset by a corresponding $7.4 million decrease in investments (reserve funds) and a decrease in other noncurrent assets of $5.1 million.

Deferred outflows of resources decreased $1.1 million due to current year amortization expense.

Total liabilities decreased by $21.6 million at December 31, 2017, as compared to December 31, 2016, primarily due to refunding of the 2006A and 2006B revenue bonds.

Net position represents the difference between the Company's assets and deferred outflows of resources and liabilities and deferred inflows of resources and consists of net investment in capital assets, restricted and unrestricted net position. The increase in the net position at December 31, 2017, as compared to December 31, 2016, of $9.0 million results from the Company's revenues exceeding its expenses. Net investment in capital assets consists of historical cost of capital assets, net of accumulated depreciation, less any debt that remains outstanding that was used to finance those assets. Net position is restricted when constraints placed on the net assets' use are either externally imposed, such as by law through constitutional provisions or enabling legislation, or internally such as debt documents. Unrestricted net position consists of net assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

Statements of Revenues, Expenses and Changes in Net Position

The following table summarizes the Company's revenues, expenses and changes in net position during the years ended December 31, 2018, 2017 and 2016:

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Position

	2018	2017	2016
Operating revenues	$ 83,179,457	$ 82,285,843	$ 78,900,037
Operating expenses	59,556,086	57,308,860	54,680,464
Operating income	23,623,371	24,976,983	24,219,573
Nonoperating expenses	(9,434,102)	(16,001,657)	(16,102,620)
Change in net position	14,189,269	8,975,326	8,116,953
Net position at beginning of year	23,195,079	14,219,753	6,102,800
Net position at end of year	$ 37,384,348	$ 23,195,079	$ 14,219,753

Hotel Project Net Operating Revenues

During the year ended December 31, 2018, the Hotel Project generated $83.2 million in operating revenue, and operating expenses incurred were $48.2 million. Additional operating costs not related to the Hotel Project, consisting of other expenses, surety insurance, professional fees and depreciation, were approximately $11.3 million. The operating revenue generated during the year ended December 31, 2018 was sufficient to offset the corresponding 12 months of hotel operating expenses, the additional operating costs, and nonoperating expenses. Total net position of the Company increased by $14.1 million for the year ended December 31, 2018, as compared to a net position increase of $9.0 million for the year ended December 31, 2017.

During the year ended December 31, 2017, the Hotel Project generated $82.3 million in operating revenue, and operating expenses incurred were $46.1 million. Additional operating costs not related to the Hotel Project, consisting of other expenses, surety insurance, professional fees and depreciation, were approximately $11.2 million. The operating revenue generated during the year ended December 31, 2017 was sufficient to offset the corresponding 12 months of hotel operating expenses, depreciation expenses, other expenses and nonoperating expenses. Total net position increased by $9.0 million for the year ended December 31, 2017, as compared to a net position increase of $8.1 million for the year ended December 31, 2016.

Hotel Project Occupancy, Average Daily Rate and RevPAR

The Hotel Project achieved an occupancy rate of 80.2 percent during the 2018 operating year. The 2018 occupancy rate was 0.3 percent lower compared to the 2017 occupancy rate of 80.5 percent. The Hotel Project's average daily rate (ADR) during the 2018 operating year was $223, which is $1 higher than the 2017 ADR of $222. These factors yielded revenue per available room (RevPAR) for the 2018 operating year of $179. The 2018 RevPar is $1 higher than the 2017 RevPar of $178. These relatively consistent rates reflect strong operating performance in spite of ongoing renovations at the hotel, as well as new competition in the market.

The Hotel Project achieved an occupancy rate of 80.5 percent during the 2017 operating year. The 2017 occupancy rate was 0.2 percent lower compared to the 2016 occupancy rate of 80.7 percent. The Hotel Project's average daily rate (ADR) during the 2017 operating year was $222, which is $2 higher than the 2016 ADR of $220. These factors yielded revenue per available room (RevPAR) for the 2017 operating year of $178. The 2017 RevPar is $1 higher than the 2016 RevPar of $177. These relatively consistent rates reflect strong operating performance in spite of ongoing renovations at the hotel, as well as new competition in the market.

Table 3
Capital Assets

	2018	2017
Land	$ 7,498,163	$ 7,498,163
Buildings	209,030,555	201,023,891
Furniture, fixtures and equipment	46,614,147	44,084,217
Construction in progress	2,335,898	4,527,205
Subtotal	265,478,763	257,133,476
Less accumulated depreciation	(92,940,732)	(82,808,019)
Total capital assets	$ 172,538,031	$ 174,325,457

Additional information on the Company's capital assets is presented in the Note 4, Capital Assets, of the financial statements.

Table 4
Long-Term Debt

	2018	2017
Revenue bonds, net	$ 212,498,478	$ 217,559,935

2017 Refunding
In May 2017, the Company issued $135,340,000 of Convention Center Hotel First Tier Revenue Refunding Bonds, Series 2017A (Series 2017A Bonds) and $59,315,000 of Convention Center Hotel Second Tier Revenue Refunding Bonds, Series 2017B (Series 2017B Bonds), (collectively, the Series 2017 Bonds). The bond proceeds were used to 1) refund all of the outstanding Series 2006 Bonds, 2) fund separate reserve funds for the Series 2017 Bonds, 3) fund certain reserves for the Hotel and 4) pay certain costs of issuance of the Series 2017 Bonds.

As of December 31, 2017, the Company reported $217,559,935 in outstanding long-term debt, which includes $194,655,000 of principal, $17,167,084 of premiums on the Series 2017A bonds and $5,737,851 of premiums on the Series 2017B bonds. During the year ended December 31, 2017, principal payments of $229,400,000 were made against the revenue bonds, resulting in the full satisfaction of the Series 2006A and 2006B bonds.

As of December 31, 2016, the Company reported $235,775,353 in outstanding long-term debt, which includes $229,400,000 of principal, $4,154,332 of premiums on the Series 2006A bonds and $2,221,021 of premiums on the Series 2006B bonds. During the year ended December 31, 2016, principal payments of $9,205,000 were made against the revenue bonds, including the full satisfaction of the Series 2001C bonds.

Additional information relating to the outstanding bonds can be found in Note 6 of the financial statements.

Credit Rating Relating to Series 2017A and 2017B Bonds
As of the date of this report, the Series 2017A and 2017B Bonds are rated BBB+ and BBB-, respectively, by Standard & Poor's.

Currently Known Facts
The Company approved the 2019 operating budget for the Hotel Project, with projected gross revenues for the Hotel Project at $83.4 million. Projected net revenues for the Hotel Project for the 2019 operating year will be sufficient to cover debt service on the Series 2017 Bonds and meet the debt service requirements of the bond financing documents.

On April 2, 2019, S&P Global Ratings issued a ratings update for the Series 2017 A Bonds affirming the rating of BBB+ with a stable outlook. The Series 2017 B Bonds rating of BBB- was also reaffirmed with a stable outlook.

Requests for Additional Information
This financial report is designed to provide investors, creditors and customers with a general overview of the Company's finances and to demonstrate the Company's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mark Tester, President, Austin Convention Enterprises, Inc. at 500 East Cesar Chavez Street, Austin Texas 78701 or at (512) 404-4040.

Austin Convention Enterprises, Inc.
(A Component Unit of the City of Austin, Texas)

Statements of Net Position
December 31, 2018 and 2017

	2018	2017
Assets:		
Current assets:		
Cash and cash equivalents	**$ 6,580,967**	$ 4,637,369
Accounts receivable, net of allowances of $1,147 and $1,230 in 2018 and 2017, respectively	**2,436,576**	3,044,615
Inventories	**143,213**	147,149
Prepaid expenses and other assets	**803,244**	660,723
Total current assets	**9,964,000**	8,489,856
Noncurrent assets:		
Investments—restricted	**67,028,694**	56,298,386
Capital assets, net	**172,538,031**	174,325,457
Other	**303,786**	-
Total noncurrent assets	**239,870,511**	230,623,843
Total assets	**249,834,511**	239,113,699
Deferred outflows of resources:		
Deferred loss on bond refunding	**14,605,314**	15,605,459
Total deferred outflows of resources	**14,605,314**	15,605,459
Liabilities:		
Current liabilities:		
Accounts payable	**792,271**	697,130
Accrued expenses	**5,065,063**	4,562,364
Unearned revenue	**2,851,803**	2,717,876
Current liabilities payable from restricted investments:		
Revenue bonds accrued interest	**4,797,125**	4,866,375
Revenue bonds payable	**8,110,000**	2,770,000
Total current liabilities	**21,616,262**	15,613,745
Noncurrent liabilities:		
Revenue bonds payable, net	**204,388,478**	214,789,935
Total noncurrent liabilities	**204,388,478**	214,789,935
Total liabilities	**226,004,740**	230,403,680
Deferred inflows of resources:		
Deferred gain on bond refunding	**1,050,737**	1,120,399
Total deferred inflows of resources	**1,050,737**	1,120,399
Net position:		
Net investment in capital assets	**1,541,205**	(967,712)
Restricted by bond indenture	**34,284,494**	23,650,304
Unrestricted	**1,558,649**	512,487
Total net position	**$ 37,384,348**	$ 23,195,079

See notes to financial statements.

Austin Convention Enterprises, Inc.
(A Component Unit of the City of Austin, Texas)

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2018 and 2017

	2018	2017
Operating revenues:		
Rooms	$ 52,375,055	$ 52,112,365
Food and beverage	27,151,208	25,944,305
Other	3,653,194	4,229,173
Total operating revenues	83,179,457	82,285,843
Operating expenses:		
Cost of revenue:		
Rooms	10,159,486	9,550,248
Food and beverage	13,754,303	13,365,592
Other	7,014,059	7,000,141
General and administrative	5,577,686	5,148,460
Sales and marketing	6,768,809	6,479,643
Information and technology	851,791	833,880
Taxes and insurance	465,012	455,744
Management fees	3,696,401	3,647,694
Other expenses	240,703	255,429
Surety insurance	-	100,213
Professional fees	407,638	384,142
Depreciation	10,620,198	10,087,674
Total operating expenses	59,556,086	57,308,860
Operating income	23,623,371	24,976,983
Nonoperating revenues (expenses):		
Interest income	836,765	215,564
Interest expense	(10,524,734)	(12,414,630)
Amortization expense	2,291,458	530,940
City of Austin project expense	(2,000,000)	(1,669,062)
Loss on sale of asset	(37,591)	-
Debt issuance cost	-	(2,664,469)
Total nonoperating revenues (expenses)	(9,434,102)	(16,001,657)
Change in net position	14,189,269	8,975,326
Net position at beginning of year	23,195,079	14,219,753
Net position at end of year	$ 37,384,348	$ 23,195,079

See notes to financial statements.

Austin Convention Enterprises, Inc.
(A Component Unit of the City of Austin, Texas)

Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash received from customers	**$ 83,787,496**	$ 82,922,843
Cash payments to employees for services	**(18,430,790)**	(17,582,561)
Cash payments to suppliers for goods and services	**(30,215,702)**	(27,757,998)
Net cash provided by operating activities	**35,141,004**	37,582,284
Cash flows from investing activities:		
Interest received	**836,765**	215,564
Investment (purchases) and sales, net	**(10,730,308)**	7,419,079
Net cash (used in) provided by investing activities	**(9,893,543)**	7,634,643
Cash flows from noncapital financing activities:		
Payments for City of Austin projects	**(2,000,000)**	(1,669,062)
Net cash used in noncapital financing activities	**(2,000,000)**	(1,669,062)
Cash flows from capital and related financing activities:		
Purchase of capital assets	**(8,870,363)**	(11,096,219)
Payments of bond principal	**(2,770,000)**	(5,820,000)
Payments of 2006 bond refunding	**-**	(229,757,732)
Bond proceeds	**-**	217,893,254
Bond issuance cost	**-**	(2,664,469)
Interest paid	**(9,663,500)**	(11,400,551)
Net cash used in capital and related financing activities	**(21,303,863)**	(42,845,717)
Net increase in cash and cash equivalents	**1,943,598**	702,148
Cash and cash equivalents at beginning of year	**4,637,369**	3,935,221
Cash and cash equivalents at end of year	**$ 6,580,967**	$ 4,637,369
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	**$ 23,623,371**	$ 24,976,983
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	**10,620,198**	10,087,674
Surety insurance	**-**	100,213
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, net	**608,039**	637,000
Inventories	**3,936**	(877,203)
Prepaid expenses and other assets	**(446,307)**	4,874,989
Increase (decrease) in:		
Accounts payable	**95,141**	(1,075,081)
Accrued expenses	**502,699**	(746,028)
Unearned revenue	**133,927**	(396,263)
Net cash provided by operating activities	**$ 35,141,004**	$ 37,582,284
Noncash investing, capital and financing activities:		
Amortization of bond premiums	**$ (2,291,458)**	$ (530,940)
Amortization of deferred loss on refunding	**$ 1,000,145**	$ 1,063,649
Amortization of deferred gain on refunding	**$ (69,662)**	$ (46,685)

See notes to financial statements.

Note 1. Reporting Entity

Organization: Austin Convention Enterprises, Inc. (Company) was incorporated on March 24, 2000, as a Texas nonprofit public facility corporation. The Company has no members and is a nonstock corporation. It is organized under the Texas Local Government Code, Chapter 303, as amended, for public purposes. The sponsor of the Company is the City of Austin, Texas (City of Austin) which reports the Company as a discretely presented component unit, as defined by the Governmental Accounting Standards Board (GASB). The City of Austin's Council members appoint the Company's Board of Directors (Board) and maintain a contractual ability to remove Board members at will. The Company is legally separate from the City of Austin, and the debt issued by the Company does not constitute a debt or pledge of the faith and credit of the City of Austin.

The specific purposes of the Company are:

- To render financial or other assistance to the City of Austin, Texas, by constructing and financing public facilities
- To borrow the necessary funds to pay the cost of constructing and financing public facilities
- To receive limited or conditional grants or gifts in order to carry out the purposes of the Company

Under the provisions as set forth above, the Company has financed the acquisition, construction and equipping of a hotel (Hotel) located adjacent to the Austin Convention Center. Substantial completion of the construction of the Hotel and the commencement of operations occurred on December 27, 2003. Final completion of the construction of the Hotel occurred on June 1, 2004. The Company owns a condominium interest in the real property on which the Hotel is situated and the portion of the building constructed that comprises the Hotel.

The Company is not financially accountable for any other operations and, accordingly, is accounted for as a special-purpose government entity engaged in a single business-type activity with no component units.

Note 2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying basic financial statements is as follows.

Measurement focus, basis of accounting and financial statement presentation: The Company meets the definition of a governmental entity, as set forth in the American Institute of Certified Public Accountants Audit and Accounting Guide, *State and Local Governments*. The Company is considered a special-purpose government engaged solely in business-type activities. The financial statements of the Company are prepared on the basis of an enterprise fund, as defined by the GASB. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Note 2. Summary of Significant Accounting Policies (Continued)

Net position: Net position represents the difference between assets and deferred outflows of resources, less liabilities and deferred inflows of resources, and is classified into the following components:

- Net investment in capital assets—This component of net position consists of the historical cost of capital assets, net of accumulated depreciation, less any debt that remains outstanding that was used to finance those assets.

- Restricted net position—This component of net position consists of constraints placed on assets use through external constraints imposed by creditors (such as through debt covenants), contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Restricted net position at December 31, 2018 and 2017 includes those assets held by the trustee, offset by related liabilities.

- Unrestricted net position—This component of net position consists of assets that do not meet the definition of restricted or net investment in capital assets.

When the Company incurs an expense for which both restricted and unrestricted resources may be used, it is the Company's policy to use restricted resources first, then unrestricted resources.

Cash and cash equivalents: For purposes of the statements of cash flows, the Company considers currency on hand, unrestricted demand deposits in banks, unrestricted money market funds and unrestricted certificates of deposit with original maturities of three months or less at the date of purchase to be cash and cash equivalents.

Investments: The Company invests funds in accordance with its bond indenture. Investments are carried at fair value. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Money market mutual funds held by the trustee of the bond indenture are classified as investments since their use and availability are subject to the terms of the bond indenture, and transfers of funds are subject to approval of the bond trustee. Investments in money market mutual funds are measured using the fund's current share price (net asset value), which is based on amortized cost, and are invested primarily in short-term U.S. Treasury and government agency securities and repurchase agreements secured by U.S. government securities. The redemption frequency is one day, and there are no unfunded commitments at December 31, 2018 or 2017.

Accounts receivable and allowance for doubtful accounts: Accounts receivable are recorded at the billed amount and do not bear interest. The Company provides for uncollectible accounts receivable using an allowance for bad debts. Under this method of accounting, a provision for uncollectible accounts is charged to earnings. The allowance account is increased or decreased based on past collection history and management's evaluation of accounts receivable. All amounts considered uncollectible are charged against the allowance account, and recoveries of previously charged-off accounts are added to the allowance. Bad-debt expense was $19,158 and $26,132 for the years ended December 31, 2018 and 2017, respectively.

Inventories: Inventories consist primarily of beverage, china, glass, silver and linens used in the operations of the Hotel and are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Note 2. Summary of Significant Accounting Policies (Continued)

Capital assets: Buildings, and furniture, fixtures and equipment are stated at cost and depreciated on the straight-line method over the estimated useful lives of the assets. The Company has estimated the useful life of the building as forty years, and furniture, fixtures and equipment as eight years. Ordinary maintenance and repairs are charged to expense when incurred. The Company capitalized the interest cost incurred on qualifying assets acquired with the proceeds of tax-exempt borrowings, less any interest earned on related investments acquired with the proceeds of tax-exempt borrowings, from the date of the borrowing until the assets are ready for their intended use. The Company did not record any capitalized interest on costs associated with construction projects during the year ended December 31, 2017. As of January 1, 2018, the Company adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period.* After adoption of this standard, the Company is no longer required to, and did not, record any capitalized interest on costs associated with construction projects during the year ended December 31, 2018.

Revenue recognition: Rooms, food and beverage and other sales revenues are recognized when services are rendered to its customers. Amounts charged in advance of a customer's hotel stay are recorded as unearned revenue, and are recognized when the service is rendered.

Sales tax: The Company collects sales tax from customers. The Company's accounting policy is to exclude the tax collected from revenues and to record a liability until remitted to the taxing authority.

Income taxes: The Company has been organized as a public nonprofit facility corporation sponsored by the City of Austin and, as such, its income generated in the exercise of its essential government functions is excluded from federal income tax under Internal Revenue Code Section 115. Furthermore, the Company has received a ruling from the Texas Comptroller of Public Accountants that it is also exempt from Texas franchise tax. Accordingly, no provision for federal or state income or franchise taxes has been provided in the accompanying financial statements.

Premium on bonds: Bond premiums are recorded as an adjustment to bonds payable. The bond premiums are amortized over the life of the related bonds using the effective-interest method. Amortization of bond premiums totaled $2,291,458 and $530,940 for the years ended December 31, 2018 and 2017, respectively.

Deferred outflows/inflows of resources: In addition to assets and liabilities, the statement of net position includes separate sections for deferred outflows/inflows of resources. These separate financial statement elements represent a consumption/acquisition of net position that applies to a future period(s) and will not be recognized as an outflow/inflow of resources (expense/revenue) until then. Governments are only permitted to report deferred outflows/inflows of resources in circumstances specifically authorized by the GASB. The deferred outflow/inflow (loss/gain) on bond refunding results from the difference in the carrying value of refunded debt and its re-acquisition price. These amounts are deferred and amortized over the shorter of the life of the refunded or refunding debt. At December 31, 2018 and 2017, the Company had deferred outflows of resources of $14,605,314 and $15,605,459, respectively, and deferred inflows of resources of $1,050,737 and $1,120,399, respectively.

Note 2. Summary of Significant Accounting Policies (Continued)

Classification of operating and nonoperating revenue and expenses: The Company defines operating revenues and expenses as those revenues and expenses generated by a specified program offering either a good or service. This definition is consistent with governmental accounting standards which define operating receipts as cash receipts from customers and other cash receipts that do not result from transactions defined as capital and related financing, noncapital financing or investing activities. Operating expenses include personnel services, contractual services, commodities, other expenses (such as insurance) and depreciation. Revenues and expenses not fitting the above definitions are considered nonoperating.

Compensated absences: Employees of Hilton earn paid time off on a weekly basis. Upon termination, each employee is entitled to any unused paid time off that has been earned. During 2018 and 2017, full-time employees earned hours and were allowed to accumulate maximum hours based on the following:

Years of	Full-Time Status			Part-Time Status		
Service	Days Earned	Hours Earned	Maximum	Days Earned	Hours Earned	Maximum
0-3	22	176	176	11	88	176
4-6	26	208	208	13	104	208
7-8	28	224	224	14	112	224
9-14	32	256	256	16	128	256
15+	33	264	264	17	132	264

Full-time employees are defined as those that work a minimum of 40 hours per week. Part-time employees are defined as those that work a minimum of 20 hours per week.

The amount of unpaid vacation is charged to expense during the period earned, and a corresponding liability is established. At December 31, 2018 and 2017, total accrued compensated absences for time earned were $887,128 and $741,527, respectively, and are recorded in accrued expenses. All compensated absences are considered due within one year. A summary of changes in compensated absences is as follows:

	December 31	
	2018	2017
Beginning balance	$ 741,527	$ 769,827
Increases	1,531,712	1,316,687
Decreases	(1,386,111)	(1,344,987)
Ending balance	$ 887,128	$ 741,527
Amounts due within one year	$ 887,128	$ 741,527

Use of estimates: In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred outflow of resources and deferred inflows of resources and disclosure of contingent assets and liabilities as of the date of the statements of net position and reported revenues and expenses for the period. Actual results could differ significantly from those estimates.

Note 2. Summary of Significant Accounting Policies (Continued)

Subsequent events: The Company has evaluated subsequent events through May 15, 2019, the date the financial statements were available to be issued, and management has concluded that no additional events have occurred through this date that would impact the financial statements.

Note 3. Deposits and Investments

Custodial credit risk—deposits: Custodial credit risk is the risk that in the event of a bank failure, the Company's deposits may not be returned to it. The Company does not have a deposit policy for custodial credit risk.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At December 31, 2018 and 2017, the Company's demand deposits exceeded FDIC insured limited by approximately $6,527,000 and $4,051,000, respectively.

Investments: Chapter 2256 of the Texas Government Code (Public Funds Investment Act) authorizes the Company to invest its funds under a written investment policy (Investment Policy) that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield and maturity and addresses the quality and capability of investment personnel. The Investment Policy defines what constitutes the legal list of investments allowed under the policy, which excludes certain investment instruments allowed under Chapter 2256 of the Texas Government Code.

The Company's deposits and investments are invested pursuant to the Investment Policy, which is approved annually by the Company's Board. The Investment Policy includes a list of authorized investment instruments and a maximum allowable stated maturity of any individual investment. In addition, it includes an Investment Strategy Statement that specifically addresses each fund's investment options and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions in which the Company will deposit funds is addressed.

The Company is authorized to invest in the following investment instruments in accordance with the Investment Policy:

a. direct obligations, including letters of credit, of the United States of America;
b. direct obligations of the State of Texas;
c. other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States of America;
d. obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent;
e. banker's acceptance with a stated maturity of 270 days or less and are rated A-1, P-1, or the equivalent by a nationally recognized credit rating agency;
f. commercial papers with a stated maturity of 270 days or less and are rated not less than A-1, P-1, or the equivalent by at least two nationally recognized credit rating agencies or is rated at least A-1, P-1, or the equivalent by at least one nationally recognized credit rating agency and are fully secured by an irrevocable letter of credit;
g. fully collateralized repurchase agreements having a defined termination date;
h. certificates of deposit issued by depository institutions that have a main office or branch office in Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or secured by obligations noted in a through d above;

Note 3. Deposits and Investments (Continued)

i. certain certificates of deposit issued by depository institutions that have a main office or branch office in Texas;
j. certain SEC-regulated and registered, no-load money market mutual funds with a dollar-weighted average stated portfolio maturity of 90 days or less;
k. certain local government investment pools with authorization of investment in such local government investment pool by separate resolution of the Board;
l. certain guaranteed investment contracts if the guaranteed investment contract has a defined termination date, secured by obligations from a above;
m. securities lending programs with any agreement to lend securities with a term of one year or less;
n. bonds, issued, assumed, or guaranteed by the State of Israel; and
o. notwithstanding the foregoing, all investments permitted under the Indenture of Trust (Indenture) between the Company and the trustee.

In the event of any conflict between the provisions of the Investment Policy and the Indenture for deposits and investments subject to the Indenture, the provisions of the Indenture, to the extent permitted by law, shall control.

The Company's investments as of December 31, 2018 and 2017, are as follows:

	2018	2017
Investments:		
First American Government Obligation Fund	$ 66,921,604	$ 56,260,787
Investments before accrued interest	66,921,604	56,260,787
Accrued interest	107,090	37,599
Total investments	$ 67,028,694	$ 56,298,386

Custodial credit risk—investments: For an investment, custodial credit risk is the risk that, in the event of a failure of the counterparty, the Company would not be able to recover the loss of its investments or collateral securities that are in possession of an outside entity. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not held in the name of the Company and are held by the counterparty, its trust or agent but not in the name of the Company. The Company's investments consist of money market mutual funds which are not evidenced by securities that exist in physical or book entry form. Therefore, the Company's investments are not exposed to custodial credit risk.

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Company's bond indenture does not limit credit risk. As of December 31, 2018 and 2017, the First American Government Obligation money market fund was rated AAAm by Standard & Poor's and Aaa-mf by Moody's.

Concentration of credit risk: Concentration of credit risk is the risk that loss attributable to the magnitude of the investment in a single issuer. It is the policy of the Company to diversify its investment portfolio so that reliance on any one issuer or broker will not place an undue financial burden on the Company. Money held by the trustee shall be invested in accordance with a Letter of Instructions of the Company. Absent direction from the Company, at least one business day before the day on which amounts are to be invested, the trustee shall invest such amounts in the First American Government Obligation Fund so long as such fund qualifies as investment securities as described in clause (d) of the definition thereof in the Indenture.

Note 3. Deposits and Investments (Continued)

At December 31, 2018 and 2017, the Company held investments with more than 5 percent of the total investment portfolio balances in First American Government Obligation Money Market Fund (approximately $67 million or 100 percent at December 31, 2018, and approximately $56 million or 100 percent at December 31, 2017) that exclusively invest in government obligation funds, which are primarily short-term U.S. Treasury and government agency securities and repurchase agreements secured by United States government securities.

Proceeds of a single bond issue may be invested in a single security or investment if the Company's Board determines that such an investment is necessary to comply with federal arbitrage restrictions or to facilitate arbitrage recordkeeping and calculation.

Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar-weighted average maturity of 365 days or the anticipated cash flow requirements of the funds.

At December 31, 2018 and 2017, the Company held an investment in a money market fund with a weighted average maturity of 20 days which is anticipated to meet cash flow requirements.

Restricted assets (by bond indenture funds) at December 31, 2018 and 2017, are as follows:

	2018	2017
2017 Available revenue	$ 561	$ 172
2017 Tax and insurance fund	189,025	231,941
2017 Administrative fee fund	15,627	16,301
2017 Renewal and replacement fund	1,506,190	402,523
2017 1st Tier debt service fund	8,185,400	5,012,155
2017 1st Tier debt service reserve fund	13,586,842	13,506,447
2017 2nd Tier debt service fund	4,786,209	2,643,634
2017 2nd Tier debt service reserve fund	6,283,044	6,245,866
2017 Supplemental renewal and replacement fund	12,499,743	11,903,836
2017 Subordinate management fee fund	544,101	532,389
2017 Operating reserve fund	8,077,189	8,029,395
2017 Excess revenue corporate account	2,021,099	2,004,030
2017 Excess revenue prepayment account	9,333,664	5,705,017
2017 2006 Redemption fund	-	10
2017 Cost of issuance fund	-	64,670
Total investments	$ 67,028,694	$ 56,298,386

Note 4. Capital Assets

Major classifications of capital assets for the year ended December 31, 2018, are as follows:

	December 31, 2017	Additions	Disposals	December 31, 2018
Capital assets not being depreciated:				
Land	$ 7,498,163	$ -	$ -	$ 7,498,163
Construction in progress	4,527,205	8,337,164	(10,528,471)	2,335,898
Total capital assets not being depreciated	12,025,368	8,337,164	(10,528,471)	9,834,061
Capital assets being depreciated:				
Buildings	201,023,891	8,006,664	-	209,030,555
Furniture, fixtures and equipment	44,084,217	3,069,050	(539,120)	46,614,147
	245,108,108	11,075,714	(539,120)	255,644,702
Less accumulated depreciation for:				
Buildings	(66,078,999)	(5,107,088)	-	(71,186,087)
Furniture, fixtures and equipment	(16,729,020)	(5,513,110)	487,485	(21,754,645)
Total accumulated depreciation	(82,808,019)	(10,620,198)	487,485	(92,940,732)
Total capital assets being depreciated	162,300,089	455,516	(51,635)	162,703,970
Net capital assets	$ 174,325,457	$ 8,792,680	$ (10,580,106)	$ 172,538,031

Depreciation expense for the year ended December 31, 2018 was $10,620,198.

Major classifications of capital assets for the year ended December 31, 2017, are as follows:

	December 31, 2016	Additions	Disposals	December 31, 2017
Capital assets not being depreciated:				
Land	$ 7,498,163	$ -	$ -	$ 7,498,163
Construction in progress	7,291,096	11,939,863	(14,703,754)	4,527,205
Total capital assets not being depreciated	14,789,259	11,939,863	(14,703,754)	12,025,368
Capital assets being depreciated:				
Buildings	190,966,916	10,056,975	-	201,023,891
Furniture, fixtures and equipment	41,439,920	4,621,461	(1,977,164)	44,084,217
	232,406,836	14,678,436	(1,977,164)	245,108,108
Less accumulated depreciation for:				
Buildings	(61,559,460)	(4,865,232)	345,693	(66,078,999)
Furniture, fixtures and equipment	(13,138,049)	(5,222,442)	1,631,471	(16,729,020)
Total accumulated depreciation	(74,697,509)	(10,087,674)	1,977,164	(82,808,019)
Total capital assets being depreciated	157,709,327	4,590,762	-	162,300,089
Net capital assets	$ 172,498,586	$ 16,530,625	$ (14,703,754)	$ 174,325,457

Depreciation expense for the year ended December 31, 2017, was $10,087,674.

Note 5. Operating Leases

The Company leases two vehicles under noncancelable operating leases, each with an original term of three years. The following is a schedule by year of future minimum lease payments under noncancelable operating leases with initial or remaining terms greater than one year as of December 31, 2018:

Year ending December 31:	
2019	1,605
Total minimum payments	$ 1,605

Rental expense for each of the years ended December 31, 2018 and 2017, totaled $19,263.

Note 6. Bonds Payable

Bonds payable consists of the following at December 31, 2018 and 2017:

	2018	2017
$135,340,000 Convention Center Hotel First Tier Revenue Refunding Bonds, Series 2017A; 5.00% interest due semi-annually on January 1 and July 1, beginning July 1, 2017; secured by total net revenues of the Company, amount held by the trustee	$ 133,725,000	$ 135,340,000
$59,315,000 Convention Center Hotel Second Tier Revenue Refunding Bonds, Series 2017B; 5.00% interest due semi-annually on January 1 and July 1, beginning July 1, 2017; secured by total net revenues of the Company except for deposits to the First Tier Debt Service account and certain other amounts held by the trustee	58,160,000	59,315,000
	191,885,000	194,655,000
Premiums on Series 2017A bonds payable, net	15,496,798	17,167,084
Premiums on Series 2017B bonds payable, net	5,116,680	5,737,851
Bonds payable, net	212,498,478	217,559,935
Less amounts due in one year	(8,110,000)	(2,770,000)
Bonds payable, noncurrent, net	$ 204,388,478	$ 214,789,935

First and Second Tier Revenue Refunding Bonds, Series 2017A and 2017B: On May 9, 2017, the Company issued $135,340,000 of Convention Center Hotel First Tier Revenue Refunding Bonds, Series 2017A (Series 2017A Bonds) and $59,315,000 of Convention Center Hotel Second Tier Revenue Refunding Bonds, Series 2017B (Series 2017B Bonds), (collectively, the Series 2017 Bonds). The bond proceeds were used to 1) refund all of the previously outstanding Series 2006 Bonds, 2) fund separate reserve funds for the Series 2017 Bonds, 3) fund certain reserves for the Hotel, and 4) pay certain costs of issuance of the Series 2017 Bonds. This refunding accomplished a net present value savings to the Company of more than $28 million.

U.S. Bank National Association is the trustee. The bonds were issued pursuant to an indenture of trust between the Company and U.S. Bank National Association, Trustee.

Note 6. Bonds Payable (Continued)

Interest on the Series 2017A Bonds is payable semiannually in January and July. The bonds' maturity dates and interest rates are as follows:

Maturity Date	Principal Amount	Interest Rate
January 1, 2019	$ 4,795,000	5.00%
January 1, 2020	5,175,000	5.00%
January 1, 2021	5,560,000	5.00%
January 1, 2022	5,975,000	5.00%
January 1, 2023	6,405,000	5.00%
January 1, 2024	6,860,000	5.00%
January 1, 2025	7,340,000	5.00%
January 1, 2026	7,850,000	5.00%
January 1, 2027	8,380,000	5.00%
January 1, 2028	8,945,000	5.00%
January 1, 2029	9,535,000	5.00%
January 1, 2030	10,155,000	5.00%
January 1, 2031	10,805,000	5.00%
January 1, 2032	11,505,000	5.00%
January 1, 2033	12,235,000	5.00%
January 1, 2034	12,205,000	5.00%
Total	$ 133,725,000	

Note 6. Bonds Payable (Continued)

Interest on the Series 2017B Bonds is payable semiannually in January and July. The bonds' maturity dates and interest rates are as follows:

Maturity Date	Principal Amount	Interest Rate
January 1, 2019	$ 3,315,000	5.00%
January 1, 2020	3,345,000	5.00%
January 1, 2021	3,380,000	5.00%
January 1, 2022	3,415,000	5.00%
January 1, 2023	3,455,000	5.00%
January 1, 2024	3,490,000	5.00%
January 1, 2025	3,530,000	5.00%
January 1, 2026	3,565,000	5.00%
January 1, 2027	3,600,000	5.00%
January 1, 2028	3,640,000	5.00%
January 1, 2029	3,675,000	5.00%
January 1, 2030	3,720,000	5.00%
January 1, 2032	7,550,000	5.00%
January 1, 2034	8,480,000	5.00%
Total	$ 58,160,000	

The Series 2017B Bonds maturing January 1, 2032, are subject to mandatory redemption at a price of 100 percent, plus accrued interest in January in each year as set forth below:

	Redemption Amount
Years ending January 1:	
2031	$ 3,760,000
2032	3,790,000
Total	$ 7,550,000

The Series 2017B Bonds maturing January 1, 2034, are subject to mandatory redemption at a price of 100 percent, plus accrued interest in January in each year as set forth below:

	Redemption Amount
Years ending January 1:	
2033	$ 3,825,000
2034	4,655,000
Total	$ 8,480,000

Note 6. Bonds Payable (Continued)

A summary of changes in bonds payable relating to the Company's activities for the years ended December 31, 2018 and 2017, are as follows:

Description	Amounts Original Issue	Amounts Outstanding 12/31/17	Increases	Decreases	Amounts Outstanding 12/31/18	Amounts Due Within One Year
Series 2017A Bonds	$ 135,340,000	$ 135,340,000	$ -	$ (1,615,000)	$ 133,725,000	$ 4,795,000
Series 2017B Bonds	59,315,000	59,315,000	-	(1,155,000)	58,160,000	3,315,000
	$ 194,655,000	$ 194,655,000	$ -	$ (2,770,000)	$ 191,885,000	$ 8,110,000

Description	Amounts Original Issue	Amounts Outstanding 12/31/16	Increases	Decreases	Amounts Outstanding 12/31/17	Amounts Due Within One Year
Series 2017A Bonds	$ 135,340,000	$ -	$ 135,340,000	$ -	$ 135,340,000	$ 1,615,000
Series 2017B Bonds	59,315,000	-	59,315,000	-	59,315,000	1,155,000
Series 2006A Bonds	165,000,000	143,835,000		(143,835,000)	-	-
Series 2006B Bonds	95,170,000	85,565,000		(85,565,000)	-	-
	$ 454,825,000	$ 229,400,000	$ 194,655,000	$ (229,400,000)	$ 194,655,000	$ 2,770,000

Future debt service payments under all bonds payable as of December 31, 2018, are as follow:

	Interest	Principal
Years ending December 31:		
2019	$ 9,391,500	$ 8,110,000
2020	8,975,750	8,520,000
2021	8,539,250	8,940,000
2022	8,081,000	9,390,000
2023	7,599,750	9,860,000
2024-2028	29,895,250	57,200,000
2029-2033	13,696,625	73,005,000
2034	421,500	16,860,000
Total	$ 86,600,625	$ 191,885,000

Interest expense for the years ended December 31, 2018 and 2017 were $10,524,734 and $12,414,630, respectively.

There are a number of limitations and restrictions contained in the Company's bond indenture. The Company's management believes it is in compliance with all significant limitations and restrictions at December 31, 2018 and 2017.

The bond ratings at December 31, 2018 are as follows:

Debt	Standard and Poor's Ratings Services
First Tier Refunding Bonds, 2017A	BBB+
Second Tier Refunding Bonds, 2017B	BBB-

Note 7. Management Fees and Operating Expenses per Operating Agreement

In June 2001, the Company and Hilton entered into an agreement naming Hilton as the hotel manager. The first amendment to the hotel operating agreement was made in December 2006 and became effective on December 6, 2006. The Company's agreement with Hilton expires on December 6, 2021. The agreement is intended to constitute a qualified management agreement under Section 141 of the Internal Revenue Code and IRS Revenue Procedure 9713.

In accordance with the hotel operating agreement, Hilton is paid the following: a management fee, group services fees and charges and reimbursable expenses. The Company and Hilton agree that, except for the management fee, additional management fees, group services fees and charges and reimbursable expenses, Hilton shall not be entitled directly or indirectly to any other fees or compensation in connection with the delivery of services which Hilton is required to provide to the Hotel pursuant to this agreement. All such fees shall be treated as operating expenses except the subordinate management fee which, so long as any bonds remain outstanding under the Indenture, shall be subordinate to payment of debt service on all outstanding bonds and payable solely from amounts rightfully on deposit in the subordinate management fee fund held by the trustee under the Indenture.

Commencing with the first full calendar year ending December 31, 2007, and continuing for each operating year thereafter, the Company shall pay a management fee, to be divided between a base management fee equal to 66.67 percent of such amount and a subordinate management fee equal to 33.33 percent of such amount, of $2,666,300, provided that the management fee payable for the second twelve month period and each succeeding twelve month period shall be increased or decreased, as applicable, by a percentage equal to the percentage change in the consumer price index (index) from the last month of the preceding twelve month period as compared to the last month of the twelve month period immediately preceding such preceding twelve month period; provided that any such decrease shall not exceed 3 percent per annum regardless of the percentage decrease in the index for such period. The base management fee and subordinate management fee paid to Hilton for the year ended December 31, 2018, was $2,171,588 and $1,085,631, respectively. The base management fee and subordinate management fee paid to Hilton for the year ended December 31, 2017 was $2,126,734 and $1,063,207, respectively.

In addition to the management fee, commencing with the year ending December 31, 2007, and continuing for each operating year thereafter during the operating term, Hilton shall be paid an additional annual management fee of $227,000, provided that such additional management fee for each operating year after the operating year ending December 31, 2007, shall be increased by a percentage equal to the percentage change in the consumer price index for the last month of the operating year for which such additional management fee is payable as compared to the last month of the operating year immediately preceding the operating year for which such additional management fee is payable.

In the event Hilton awards bonuses to eligible employees during an operating year and the bonuses exceed the additional management fee for such operating year, then the additional management fee for such operating year will be increased by the amount by which the awarded bonuses exceed the additional management fee for such operating year, but in no event will such increase exceed an amount equal to 5 percent of the total management fee payable for the twelve month period that immediately preceded the date on which Hilton delivers to the Company the applicable Schedule of Bonuses.

In the event the bonuses are less than the additional management fee for such operating year, then the additional management fee for such operating year will be decreased by the amount by which the additional management fee exceeds the awarded bonuses, but in no event will such decrease exceed an amount equal to 5 percent of the total management fee payable for the twelve month period that immediately preceded the date on which Hilton delivers to the Company the applicable Schedule of Bonuses.

Note 7. Management Fees and Operating Expenses per Operating Agreement (Continued)

Bonuses to eligible employees will be payable solely from the additional management fee and, to the extent the additional management fee is insufficient, such insufficiency will be an obligation of Hilton payable solely from its own funds and not directly or indirectly from any gross revenues of the Hotel. The additional management fee paid to Hilton for the years ended December 31, 2018 and 2017 was $439,181 and $457,753, respectively.

Note 8. Risk Management

The Company is exposed to employee-related risks for health benefits and workers' compensation, as well as various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters and job related injuries or illnesses to employees for which the Company carries insurance. The Company does not participate in a risk pool, but purchases commercial insurance coverage for these risks of loss. There have been no significant reductions in insurance coverage for these risks of loss since the prior year, and there have been no settlements in excess of the insurance coverage for any of the past three years.

Note 9. Related-Party Transactions

During the years ended December 31, 2018 and 2017, the Company paid $2,000,000 and $1,669,062 to the City of Austin, Texas, in accordance with the flow of funds included in the indenture of trust.

The Company is a member of the Austin Convention Condominium Association, Inc. (Association). For the years ended December 31, 2018 and 2017, the Company paid assessments of $660,266 and $603,267, respectively.

The Association relies on the Company for efficiencies in negotiating vendor contracts. The Company maintains a significant portion of the Association's contracts and pays balances in full, on behalf of the Association, when they come due. Such expenses paid for by the Company on behalf of the Association include, but are not limited to, trash removal, exterior maintenance costs, plumbing, roof repairs and window washing. The Association reimbursed the Company $261,573 and $223,671 for expenses paid on its behalf for the years ended December 31, 2018 and 2017, respectively, for the amounts paid by the Company in excess of its member share of the Association.

Supplementary Information

Austin Convention Enterprises, Inc.
(A Component Unit of the City of Austin, Texas)

Summary of Historical Operating Data

	2018		2017	2016	2015	2014
Operating History						
Occupancy Rate	**80%**		81%	81%	81%	75%
Average Daily Rate	**$ 223**		$ 222	$ 220	$ 224	$ 223
Revenue Per Available Room	**$ 179**		$ 178	$ 177	$ 181	$ 167
Computation of Total Net Revenue *						
Gross Operating Revenue	**$ 83,188,785**	1	$ 82,286,139	$ 78,592,225	$ 80,845,398	$ 74,756,936
Operating Expenses	**46,664,399**	1	44,542,045	42,159,851	40,849,097	37,914,052
Gross Operating Profit	**36,524,386**	1	37,744,094	36,432,374	39,996,301	36,842,884
Net Operating Income	**N/A**	2	N/A	32,832,960	36,297,862	32,750,171
Administrative Expenses	**N/A**	2	N/A	1,036,250	774,161	878,222
Renewal and Replacement Additions	**3,327,178**		3,291,434	N/A	N/A	N/A
Total Net Revenue	**$ 33,197,208**		$ 34,452,660	$ 31,796,710	$ 35,523,701	$ 31,871,949
Debt Service Coverage Ratios						
First Tier Bonds Debt Service	**$ 8,122,283**		$ 11,211,803	$ 10,705,000	$ 10,597,658	$ 10,489,858
First Tier Bonds Debt Service Coverage Ratio	**4.09x**		3.08x	2.97x	3.35x	3.04x
First and Second Tier Bonds Debt Service	**$ 12,102,522**		$ 17,134,829	$ 17,396,810	$ 17,224,418	$ 17,051,418
Total Debt Service Coverage Ratio	**2.74x**		2.01x	1.83x	2.06x	1.87x
Principal Balance						
First Tier Bonds	**$ 133,725,000**		$ 135,340,000	$ 143,835,000	$ 147,410,000	$ 150,690,000
Second Tier Bonds	**$ 58,160,000**		$ 59,315,000	$ 85,565,000	$ 87,315,000	$ 88,895,000
Fund Balances						
First Tier Debt Service Reserve Fund	**$ 13,565,062**		$ 13,497,378	$ 5,886,002	$ 5,886,032	$ 5,886,032
Second Tier Debt Service Reserve Fund	**6,272,972**		6,241,672	10,000,001	10,000,051	10,000,051
Operating Reserve Fund	**8,064,241**		8,024,004	8,000,001	8,000,041	8,000,041
Cash Trap Fund	**-**		-	5,000,000	5,000,026	5,000,026
Total Fund Balance	**$ 27,902,275**		$ 27,763,054	$ 28,886,004	$ 28,886,150	$ 28,886,150

* The Continuing Disclosure Agreement included in the Series 2017 Bonds indenture of trust requires the Company to include in its annual report, a summary of historical operating data. The computation of total net revenue above is calculated as defined by the indenture of trust.

[1] The Series 2006 bonds were fully refunded by the Series 2017 bonds and a new indenture of trust was executed. These amounts include a full year of hotel activity and a full year of debt service (Series 2006 bonds plus Series 2017 bonds).

[2] This amount is no longer included in the definition of total net revenues under the 2017 indenture of trust.

Austin Convention Enterprises, Inc.
(A Component Unit of the City of Austin, Texas)

Hotel’s Operating Results vs. Approved Budget—2018

	Actual	Budget
Operating revenues:		
Rooms	$ 52,375,055	$ 50,988,426
Food and beverage	27,151,208	25,927,814
Other	3,653,194	4,204,310
Total operating revenues	83,179,457	81,120,550
Operating expenses:		
Cost of revenue:		
Rooms	10,159,486	9,774,921
Food and beverage	13,754,303	13,361,351
Other	7,014,059	7,121,060
General and administrative	5,505,181	5,102,519
Sales and marketing	6,768,809	6,915,723
Information and technology	851,791	880,094
Taxes and insurance	465,012	503,031
Management fees	3,696,401	3,697,390
Total operating expenses	48,215,042	47,356,089
Operating income	$ 34,964,415	$ 33,764,461
Hotel revenue criteria:		
Occupancy	80%	78%
Average Daily Rate	$ 223	$ 223
RevPar	$ 179	$ 174

The Continuing Disclosure Agreement included in the Series 2017 Bonds indenture of trust requires the Company to include in its annual report, a comparison of the Hotel's actual operating results compared to its approved budget. The budget is prepared on the accrual basis and the accounting practices specified in Section 2.20.1, Books and Records, and Section 2.20.3, Annual Certified Financial Statements, of the hotel operating agreement. The information above includes only the operations of the Hotel.