CUYAHOGA COUNTY CONVENTION FACILITIES DEVELOPMENT CORPORATION
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2016

Dave Yost • Auditor of State

CUYAHOGA COUNTY CONVENTION FACILITIES DEVELOPMENT CORPORATION
CUYAHOGA COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Cuyahoga County Convention Facilities Development Corporation
Cuyahoga County
1 St. Clair Avenue, NE
Cleveland, Ohio 44114

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Cuyahoga County Convention Facilities Development Corporation, Cuyahoga County, Ohio (the Convention), a component unit of Cuyahoga County, Ohio, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Convention's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Convention's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Convention's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cuyahoga County Convention Facilities Development Corporation, Cuyahoga County as of December 31, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2017, on our consideration of the Convention's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Convention's internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

December 22, 2017

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This discussion and analysis of the Cuyahoga County Convention Facilities Development Corporation's (the Corporation) financial performance provides an overall review of the Corporation's financial activities for the year ended December 31, 2016. Readers should also review the basic financial statements and notes to enhance their understanding of the Corporation's financial performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- The Corporation's revenues exceeded expenses by $2,457,014, thus increasing both the net position and the cash balance of the Corporation.

- The Corporation is cognizant of providing the best public services while staying within projected revenues.

- In accordance with the Corporation's Operating Agreement with Cuyahoga County, a capital improvement plan was conducted during 2016 which established the Corporation's initial and future capital cash reserve amounts. The Corporation funded these cash reserve bank accounts in 2016 and at December 31, 2016 these reserve accounts total $11,424,065.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the readers can understand the Cuyahoga County Convention Facilities Development Corporation as a financial whole.

Overview of the Financial Statements

The Corporation's financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standard Board (GASB). The financial information of the Corporation is accounted for in a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. See the notes to the financial statements for a summary of the Corporation's significant accounting policies.

Following this management's discussion and analysis are the basic financial statements of the Corporation together with the notes, which are essential to a full understanding of the data contained in the financial statements. Included in the financial statements for the Corporation are the following:

- Statement of Net Position – This statement presents information on all of the Corporation's assets and liabilities, with the difference between the two reported as net position.

- Statement of Revenues, Expenses and Changes in Net Position - This statement includes all operating and nonoperating revenues and expenses for the Corporation and shows the change in the Corporation's net position during the most recent year.

- Statement of Cash Flows — This statement reports cash and cash equivalent activities for the year resulting from operating, capital and investing activities. A reconciliation of operating income with cash provided from operations is included.

Financial Analysis

Table 1 reflects the net position for 2016 as compared to net position for 2015.

(Table 1)
Net Position

	2016	2015	Change
Assets			
Current and Other Assets	$313,754,419	$332,985,176	($19,230,757)
Capital Assets, Net	1,232,574	591,022	641,552
Total Assets	314,986,993	333,576,198	(18,589,205)
Liabilities			
Current Liabilities	2,416,879	2,668,661	251,782
Long-term Liabilities			
Due Within One Year	21,830,309	20,794,437	(1,035,872)
Due in More Than One Year	278,971,871	300,802,180	21,830,309
Total Liabilities	303,219,059	324,265,278	21,046,219
Net Position			
Investment in Capital Assets	1,232,574	591,022	641,552
Unrestricted	10,535,360	8,719,898	1,815,462
Total Net Position	$11,767,934	$9,310,920	$2,457,014

The assets of the Corporation exceeded its liabilities at the close of 2016 by $11,767,934 (net position), $10,535,360 of which is unrestricted. Net position increased, as a decrease in liabilities outpaced a decrease in assets. The decrease in assets is due to a decrease in the lease receivable, partially offset by an increase in the Corporation's cash balance. The decrease in liabilities is due to the annual payment of principal on the loan payable. The majority of the Corporation's net position relates to its capital repair reserve bank accounts which totaled $11,424,065 at December 31, 2016.

Table 2 shows the changes in net position for 2016 as compared to the changes in net position for 2015.

(Table 2)
Changes in Net Position

	2016	2015	Change
Revenues			
Operating Revenues	$21,170,872	$23,466,984	($2,296,112)
Non-Operating Revenues	15,212,393	16,192,386	(979,993)
Total Revenues	36,383,265	39,659,370	(3,276,105)
Expenses			
Operating Expenses	18,720,688	20,121,206	(1,400,518)
Non-Operating Expenses	15,205,563	16,192,282	(986,719)
Total Expenses	33,926,251	36,313,488	(2,387,237)
Change in Net Position	2,457,014	3,345,882	(888,868)
Net Position Beginning of Year	9,310,920	5,965,038	3,345,882
Net Position End of Year	$11,767,934	$9,310,920	$2,457,014

The Corporation's revenues exceeded its expenses by $2,457,014 as revenues continue to outpace expenses.

The Corporation's primary operating revenues are charges for services for the use of the Cleveland Convention Center and the Global Center for Health Innovation. These receipts represented 74.53 percent of the total operating revenues received during the year.

The Corporation's primary operating expenses are contractual services for running the Cleveland Convention Center and the Global Center for Health Innovation in addition to vendors used for special events held there. These expenses represent 85.36 percent of the total operating expenses incurred during the year. The Corporation also had expenses for personal services related to the management of the Cleveland Convention Center and Global Center for Health Innovation. These expenses represented 1.12 percent of total operating expenses incurred during the year.

The Corporation's operator, SMG, entered into an agreement with an unrelated organization who had the responsibility to entice another organization to host its event at the convention center. One of the provisions of the agreement gave the unrelated organization the authority to offer the facility on a rent-free basis. The final agreement between all parties offered the convention to the event organizers on a rent-free basis for a six-week period. The 2016 operating revenue of $21,170,872 excludes the rent-free value which amounted to $802,590. While the Corporation provided the facility on a rent-free basis, other convention center services, which included food, beverage and technology, were not provided on a rent-free basis.

Capital Assets and Debt Administration

Capital Assets

Table 3 shows 2016 values compared to 2015.

(Table 3)
Capital Assets at December 31
(Net of Accumulated Depreciation)

	2016	2015
Buildings and Improvements	$607,387	$373,322
Furniture and Fixtures	431,352	92,970
Equipment	193,835	124,730
Total Capital Assets	$1,232,574	$591,022

Capital assets increased due to additional equipment, furniture and build out costs incurred. Information relative to capital assets is identified in Note 5 to the basic financial statements.

Debt

At December 31, 2016, the Corporation had an outstanding loan payable in the amount of $300,802,180 payable to Cuyahoga County for the Cleveland Convention Center and the Global Center for Health Innovation building. Information relative to debt is identified in Note 6 to the basic financial statements.

Current Known Facts and Conditions

The Corporation has assumed the responsibility to manage the Cleveland Convention Center (the Center) and Global Center for Health Innovation (GCHI). Both venues are state-of-the art and GCHI is one of a kind because it displays the future of health and health care. The Corporation has contracted with SMG to operate the Center and GCHI. SMG is the nation's largest and most experienced convention center and facility management firm. With this partnership, the Corporation is certain the Center and GCHI will be profitable and maintain their distinctions.

The challenge for all governments is to provide quality services while staying within the restrictions imposed by limited funding. Management is continually reviewing plans to determine the most efficient use of funds and resources.

Contacting the Corporation's Management

This financial report is designed to provide our citizens and creditors with a general overview of the Corporation's finances and to demonstrate accountability for the money it receives. If you have any questions about this report or need additional financial information, contact George Hillow at Cuyahoga County Convention Facilities Development Corporation, 1 St. Clair NE, Cleveland, OH 44114, or by email at ghillow@cccfdc.com.

Cuyahoga County Convention Facilities Development Corporation

Statement of Net Position

December 31, 2016

Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	$762,637
Cash in Segregated Capital Accounts	11,424,065
Accounts Receivable	655,146
Lease Receivable	21,830,309
Prepaid Items	106,531
Materials and Supplies Inventory	3,860
Total Current Assets	34,782,548
Noncurrent Assets:	
Lease Receivable	278,971,871
Depreciable Capital Assets, Net	1,232,574
Total Noncurrent Assets	280,204,445
Total Assets	314,986,993
Liabilities	
Current Liabilities:	
Accounts Payable	1,509,267
Loan Payable	21,830,309
Unearned Revenue	907,612
Total Current Liabilities	24,247,188
Long-Term Liabilities:	
Loan Payable (net of current portion)	278,971,871
Total Liabilities	303,219,059
Net Position	
Investment in Capital Assets	1,232,574
Unrestricted	10,535,360
Total Net Position	$11,767,934

See accompanying notes to the basic financial statements

Cuyahoga County Convention Facilities Development Corporation

Statement of Revenues,
Expenses and Changes in Net Position
For the Years Ended December 31, 2016

Operating Revenues	
Charges for Services	$15,779,607
Other	5,391,265
Total Operating Revenues	21,170,872
Operating Expenses	
Personal Services	209,064
Contractual Services	15,980,273
Materials and Supplies	2,370,168
Depreciation	129,306
Other	31,877
Total Operating Expenses	18,720,688
Operating Income	2,450,184
Non-Operating Revenue (Expenses)	
Interest and Fiscal Charges	(15,205,563)
Interest	15,212,393
Total Non-Operating Revenues (Expenses)	6,830
Change in Net Position	2,457,014
Net Position Beginning of Year	9,310,920
Net Position End of Year	$11,767,934

See accompanying notes to the basic financial statements

Cuyahoga County Convention Facilities Development Corporation

Statement of Cash Flows

For the Years Ended December 31, 2016

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	$15,024,730
Cash Received from Cuyahoga County	20,794,437
Other Cash Receipts	5,391,265
Cash Payments to Employees for Services	(209,064)
Cash Payments for Goods and Services	(18,324,099)
Other Cash Payments	(31,877)
Net Cash Provided by Operating Activities	22,645,392
Cash Flows from Capital and Related Financing Activities	
Principal Payments - Loan Payable	(20,794,437)
Interest Payments - Loan Payable	(15,205,563)
Payments for Capital Acquisitions	(770,858)
Net Cash Used in Capital and Related Financing Activities	(36,770,858)
Cash Flows from Investing Activities	
Interest on Investments	6,830
Interest from Lease Receivable	15,205,563
Net Cash Provided by Investing Activities	15,212,393
Net Increase in Cash and Cash Equivalents	1,086,927
Cash and Cash Equivalents Beginning of Year	11,099,775
Cash and Cash Equivalents End of Year	$12,186,702
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	$2,450,184
Adjustments:	
Depreciation	129,306
(Increase) Decrease in Assets:	
Accounts Receivable	(476,257)
Lease Receivable	20,794,437
Prepaid Items	3,364
Materials and Supplies Inventory	(3,860)
Increase (Decrease) in Liabilities:	
Accounts Payable	38,941
Intergovernmental Payable	(12,103)
Unearned Revenue	(278,620)
Net Cash Provided by Operating Activities	$22,645,392

See accompanying notes to the basic financial statements

Note 1 - Description of the Entity

The Cuyahoga County Convention Facilities Development Corporation, (the Corporation) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Corporation was formed on December 12, 2013 pursuant to Chapters 343 and 3734 of the Ohio Revised Code. The Corporation is directed by a seven-member Board of Directors comprised of two individuals appointed by the Cuyahoga County Executive, two individuals appointed by the President of the Cuyahoga County Council, two individuals appointed by the joint selection of the Cuyahoga County Executive and the President of Cuyahoga County Council, and an individual appointed by the joint selection of Destination Cleveland and the Greater Cleveland Partnership. The Corporation promotes the common good and general welfare of residents of Cuyahoga County by enhancing the creation of new employment opportunities and supporting economic growth by overseeing the management of the Cleveland Convention Center and Global Center for Health Innovation.

The Corporation is a discretely presented component unit of Cuyahoga County's Comprehensive Annual Financial Report, in accordance with the provisions of Governmental Accounting Standards Board Statement No. 14. The Corporation's management believes the accompanying financial statements include all activities over which the Corporation is financially accountable.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Corporation have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Corporation's more significant accounting policies are described below.

Basis of Presentation

The Corporation's basic financial statements consist of a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows.

The Corporation uses single enterprise fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Enterprise accounting focuses on the determination of operating income, change in net position, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

Measurement Focus

The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Corporation are included on the statement of net position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the Corporation finances and meets the cash flow needs of its enterprise activity.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Corporation's financial statements are prepared using the accrual basis of accounting. On the accrual basis, revenue is recorded on exchange transactions when the exchange takes place. Nonexchange transactions, in which the Corporation receives value without directly giving equal value in return, include capital contributions. Expenses are recognized at the time they are incurred.

Unearned Revenue Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned. For the Corporation, revenue received as of December 31, 2016, for 2017 services, has been recorded as unearned.

Cash and Cash Equivalents

To improve cash management, cash received by the Corporation is pooled. Individual fund integrity is maintained through the Corporation's records. The Corporation had no investments during the year or at the end of the year.

The Corporation has segregated bank accounts for monies held for various capital reserves. These accounts are presented as "cash in segregated capital accounts."

Investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents.

Prepaids

Payments made to vendors for services that will benefit periods beyond the current year, are recorded as prepaid items using the consumption method by recording a current asset for the period amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

Capital Assets

Capitalized assets utilized by the Corporation are reported on the statement of net position. All capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The Corporation maintains a capitalization threshold of two thousand five hundred dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Buildings and Improvements	15 years
Furniture and Fixtures	10 years
Equipment	5 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the financial statements.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Corporation, these revenues are for event income and certain payments from Cuyahoga County. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Corporation. All revenues and expenses not meeting these definitions are reported as non-operating.

Estimates

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

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Corporation applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Note 3 – Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the Corporation will not be able to recover deposits or collateral securities that are in the possession of an outside party. At December 31, 2016, $12,047,063 of the Corporation's bank balance of $12,297,063 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions' trust departments and all statutory requirements for the deposit of money had been followed, noncompliance with the Federal requirements could potentially subject the Corporation to a successful claim by the FDIC.

The Corporation has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Corporation or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Note 4 – Receivables

Receivables at December 31, 2016, consisted of accounts (special event rental space) and intergovernmental and a lease receivable from Cuyahoga County. Most receivables, except the lease receivable, are expected to be collected within one year. A portion of the accounts receivable includes an amount the Corporation will not collect within one year. During 2014, the Corporation assumed the loans payable and lease receivable from Merchandise Mart Properties, Inc.

	Accounts Receivable	Estimated Uncollectible	Net Receivable
Allowance for Doubtful Accounts	$688,892	$33,746	$655,146

The County entered into a lease agreement with the Corporation for the Facility. During 2014, the Corporation assumed the lease receivable in the amount $360,272,155 from Merchandise Mart Properties, Inc. This lease meets the definition of a capital lease under GASB 62. The County will make monthly lease payments through 2027. As of December 31, 2016, the lease receivable is $300,802,180.

Note 5 – Capital Assets

Capital asset activity for the fiscal year ended December 31, 2016, was as follows:

	Balance 12/31/2015	Additions	Deductions	Balance 12/31/2016
Capital Assets being depreciated:				
Building and Improvements	$373,322	$275,301	$0	$648,623
Furniture and Fixtures	92,970	383,389	0	476,359
Equipment	124,730	112,168	0	236,898
Total Capital Assets being depreciated	591,022	770,858	0	1,361,880
Less Accumulated Depreciation				
Building and Improvements	0	(41,236)	0	(41,236)
Furniture and Fixtures	0	(45,007)	0	(45,007)
Equipment	0	(43,063)	0	(43,063)
Total Accumulated Depreciation	0	(129,306)	0	(129,306)
Total Capital Assets, net	$591,022	$641,552	$0	$1,232,574

Note 6 – Long-term Obligations

	Outstanding 12/31/2015	Addtions	Reductions	Outstanding 12/31/2016	Amount Due in One Year
Loan Payable	$321,596,617	$0	$20,794,437	$300,802,180	$21,830,309

The annual requirements to retire the loan payable are as follows:

Year	Principal	Interest
2017	$21,830,309	$14,169,691
2018	22,917,783	13,082,217
2019	24,059,430	11,940,570
2020	25,257,947	10,742,053
2021	26,516,168	9,483,832
2022-2026	153,760,499	26,239,501
2027	26,460,044	539,956
Total	$300,802,180	$86,197,820

During 2014, the Corporation assumed a loan payable in the amount $360,272,155 from Merchandise Mart Properties, Inc. The loan has an interest rate of 4.87 percent.

Note 7 – Benefit and Postemployment Plan

The employees of the Corporation are eligible to participate in a simplified employee pension plan, under which employees can make elective deferrals as provided for under Internal Revenue Code section 401k. The management company may make a discretionary matching contribution for each employee participating in the plan.

Note 8 – Operating Lease Obligations

The Corporation has a non-cancellable operating lease for office equipment. The future minimum required lease payments are as follows:

Year Ending December 31,	Office Equipment
2017	$6,020
2018	3,010
Total	$9,030

On December 27, 2013, the County entered into a sublease and operation agreement with the Cuyahoga County Convention Facilities and Development Corporation (the Corporation). The Corporation is to operate the Facility solely as a convention center and medical or health industry showroom/office/educational facility and any legally permitted activities that are reasonably associated therewith, including without limitation trade and consumer shows, including setting the rates. This operating lease expires in 2027.

Note 9 – Risk Management

Workers' compensation coverage is provided by the State of Ohio. The Corporation pays the State Workers' Compensation System a premium based on a rate per $100 of salaries. This rate is calculated based on accident history and administrative costs.

During the year, the Corporation contracted with various vendors for the following types of insurance:

Company	Type of Coverage	Coverage	Deductible
Berkshire Hathaway Speciality Insurance Company	General Liability:		
	Each Occurrence	$1,000,000	$0
	Personal Injury	2,000,000	0
	General Aggregate	3,000,000	0
	Liquor Liability	1,000,000	0
National Union Fire Insurance Company	Employer Liability	1,000,000	0
	Employment Practices	3,000,000	0
	Professional Liability	2,000,000	150,000
United States Fire Insurance Company	Automobile Liability	1,000,000	1,000
Lexington Insurance Company	Umbrella Liability	25,000,000	0
Federal Insurance Company	Crime	5,000,000	0

Note 10 – Related Party Transactions

During 2016, the Corporation received $36,000,000 in capital lease payment and $5,350,000 as required by various lease agreements from Cuyahoga County. For legal purposes, all payments made by the County to the Corporation are called monthly base rental payments in the lease agreements. The $5,350,000 base rental payment is reflected as other operating revenue on the Statement of Revenues, Expenses and Changes in Net Position.

During 2016, the Corporation paid $36,000,000 in loan repayments to Cuyahoga County as required by the loan agreements. The Corporation paid $20,794,437 towards loan principal reduction during 2016 leaving a remaining balance of $300,802,180 as of December 31, 2016.

Note 11 – Capital Funding and Reserves

During 2016, the Corporation adopted a capital funding and reserve requirement policy earmarking certain Corporation cash balances for capital repairs, improvements and equipment as follows:

Capital Project Descriptions	Amount
Capital Repair/Replacement	$7,650,000
Capital Improvements	3,199,512
Food Service Equipment	444,553
Capital Equipment	130,000
Total	$11,424,065

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Cuyahoga County Convention Facilities Development Corporation
Cuyahoga County
1 St. Clair Avenue, NE
Cleveland, Ohio 44114

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Cuyahoga County Convention Facilities Development Corporation, Cuyahoga County, Ohio (the Convention) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Convention's basic financial statements and have issued our report thereon dated December 22, 2017.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Convention's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Convention's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Convention's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2016-001 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Convention's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under Government Auditing Standards.

Convention*'s Response to Findings*

The Convention's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Convention's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Convention's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Convention's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dave Yost
Auditor of State
Columbus, Ohio

December 22, 2017

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2016-001

Material Weakness – Financial Reporting

The Convention has an agreement with SMG to provide management, operation, maintenance, repair, and promotion services for the facility. SMG receives a fixed fee and is eligible for an incentive fee of twenty percent (20%) of Operating Revenues in excess of the "Operating Revenues Benchmark" as defined in the agreement. SMG records the facility events they oversee in their accounting system in accordance with generally accepted accounting principles and recognized on a full accrual basis. SMG's transactions are then merged with the Convention's statements for financial reporting purposes. The Convention is a governmental not-for-profit that reports under Governmental Accounting Standards Board (GASB). The Convention's management is responsible for ensuring the accuracy of SMG's accounting of transactions and the financial statements.

Rental Income

In November 2015, the Convention's operator, SMG, entered into an agreement with a third party organization for a July 2016 event. The agreement states the facility is being provided on a "Rent-Free basis" and defines this is follows:

> "Rent-Free" means free of any charges payable for usage of the facility or property whatsoever, including but not limited to: (i) any licensing or sublicensing fees or costs, (ii) service fees or costs for any and all Customary Services, and (iij) any pro rata fees, flat fees, common charges, taxes, surcharges or other standard fees or costs for the following: water, electricity or other power source, fuel, heating, cooling or HVAC systems, trash removal, or wired or wireless internet connectivity; provided, however, "Rent·Free" shall not :include or apply to any charges for catering and concession services, food, beverages (alcoholic or other), additional security beyond basic security, equipment rental or related or similar charges of any third party ·directly incurred by the Host Committee or the COA."

Despite the contractual agreement specifying the use of the facility was "Rent-Free", SMG recorded $2,226,540 in space rental revenues, less a $1,423,950 discount, that resulted in a net $802,590 in revenues and corresponding contractual service expenses, in the accounting system. The revenues were estimated based on SMG's assumption the facility would have been fully booked for six weeks had the event's usage not been "Rent-Free". This calculation included a period of a month before and approximately eight days after the event. The accounting of these transactions inflated revenues and expenses, from hosting the event and the overall operation of the facility. The Convention's monitoring of SMG's operations did not identify or detect the recording of these transactions.

Currently, there is no guidance in GASB for foregone revenues / fees but there is some guidance for contributed services. The AICPA State and Local Government Guide 6.45 specifically speaks to these contributed services and says…"GASB has not established standards that require a government to recognize revenue (or expenses or expenditures) in its financial statements for contributed services (GASB Statement No. 33, as amended, specifically excludes contributed services from its scope)."

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2016-001

(Continued)

Practioners Publishing Company, 401.6, Transactions Involving Nonfinancial/Noncapital Resources Excluded, states "GASBS No. 33 also excludes from its scope transactions that do not provide financial or capital resources" and "There are no current GAAP for the types of nonfinancial/noncapital transactions excluded from GASBS No. 33. In practice, the value of services received or used generally is not reported in the financial statements." Therefore, these contributed services revenues / expenses would not be recognized on the financial statements.

Based on these facts, $2,226,540 in space rental revenues, less a $1,423,950 discount, that resulted in a net $802,590 in revenues and corresponding contractual service expenses were reversed in the accounting system and accompanying financial statements.

Contractual Services

Monies initially collected by SMG, on behalf of Edlen Electric, and subsequently reimbursed to Edlen were recorded as service revenues in the accounting system and included as part of gross charges for services revenues on the GAAP financial statements. In addition, the offsetting reimbursement expenses were recorded in the accounting system and included as part of expenses on the financial statements.

From the monthly commission reports, gross revenues related to electrical services provided by Edlen are recorded in the accounting system along with offsetting debit entries to "Cost of Sales – Electrical Services" and "Concessionaire Share", leaving the net commission amount for the Convention. However, both the gross revenues and the expense offsets are included in the GAAP financial statement compilation.

Therefore, we agree the posting of the initial collection of monies and subsequent reimbursement to Edlen doesn't have an impact on net income. However, based upon how these transactions were initially posted to the accounting system and subsequently grossed up on the GAAP financial statement compilation, there is an overstatement (double counting) of a portion of the charges for services revenues and associated expenses. This resulted in an overstatement of $477,291.

Based on these facts, $477,291 in revenues and expenses were reversed in the accounting system and accompanying financial statements.

We recommend the Convention ensure all transactions are properly reported in the accounting system and financial statements in accordance with GASB.

Convention's Response

While we agree with the findings, we feel it's important to note that the Convention's Change in Net Position was not adjusted, and did not change, because of the findings. The Convention believes that its accounting of the July 2016 rent-free event properly presented the economics of the transaction. While the Convention wasn't paid for the facility during the six-week period, we feel recording the rent-free revenue and related expense best presented the Convention's operations.

Dave Yost • Auditor of State

CUYAHOGA COUNTY CONVENTION FACILITIES DEVELOPMENT CORPORATION

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 18, 2018