



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, 2017, 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.

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, 2017, 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 21, 2018, 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
Auditor of State
Columbus, Ohio

December 21, 2018

Cuyahoga County Convention Facilities Development Corporation

Management's Discussion and Analysis

For the Year Ended December 31, 2017

Unaudited

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, 2017. 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 2017 are as follows:

- The Corporation's revenues exceeded expenses by \$3,046,884, 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 has continued to fund these cash reserve bank accounts and at December 31, 2017 these reserve accounts total \$11,324,861.

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.

Cuyahoga County Convention Facilities Development Corporation

Management's Discussion and Analysis

For the Year Ended December 31, 2017

Unaudited

Financial Analysis

Table 1 reflects the net position for 2017 as compared to net position for 2016.

(Table 1)
Net Position

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Assets			
Current and Other Assets	\$294,328,896	\$313,754,419	(\$19,425,523)
Capital Assets, Net	1,887,386	1,232,574	654,812
<i>Total Assets</i>	<u>296,216,282</u>	<u>314,986,993</u>	<u>(18,770,711)</u>
Liabilities			
Current Liabilities	2,429,593	2,416,879	(12,714)
Long-term Liabilities			
Due Within One Year	22,917,783	21,830,309	(1,087,474)
Due in More Than One Year	256,054,088	278,971,871	22,917,783
<i>Total Liabilities</i>	<u>281,401,464</u>	<u>303,219,059</u>	<u>21,817,595</u>
Net Position			
Investment in Capital Assets	1,887,386	1,232,574	654,812
Unrestricted	12,927,432	10,535,360	2,392,072
<i>Total Net Position</i>	<u>\$14,814,818</u>	<u>\$11,767,934</u>	<u>\$3,046,884</u>

The assets of the Corporation exceeded its liabilities at the close of 2017 by \$14,814,818 (net position), \$12,927,432 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 \$11,324,861 at December 31, 2017.

Cuyahoga County Convention Facilities Development Corporation

Management's Discussion and Analysis

For the Year Ended December 31, 2017

Unaudited

Table 2 shows the changes in net position for 2017 as compared to the changes in net position for 2016.

(Table 2)
Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Revenues			
Operating Revenues	\$21,637,631	\$21,170,872	\$466,759
Non-Operating Revenues	14,188,229	15,212,393	(1,024,164)
<i>Total Revenues</i>	<u>35,825,860</u>	<u>36,383,265</u>	<u>(557,405)</u>
Expenses			
Operating Expenses	18,609,285	18,720,688	111,403
Non-Operating Expenses	14,169,691	15,205,563	1,035,872
<i>Total Expenses</i>	<u>32,778,976</u>	<u>33,926,251</u>	<u>1,147,275</u>
<i>Change in Net Position</i>	3,046,884	2,457,014	589,870
<i>Net Position Beginning of Year</i>	<u>11,767,934</u>	<u>9,310,920</u>	<u>2,457,014</u>
<i>Net Position End of Year</i>	<u>\$14,814,818</u>	<u>\$11,767,934</u>	<u>\$3,046,884</u>

The Corporation's revenues exceeded its expenses by \$3,046,884 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 74.25 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 85.27 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 1.20 percent of total operating expenses incurred during the year.

Cuyahoga County Convention Facilities Development Corporation

Management's Discussion and Analysis

For the Year Ended December 31, 2017

Unaudited

Capital Assets and Debt Administration

Capital Assets

Table 3 shows 2017 values compared to 2016.

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

	<u>2017</u>	<u>2016</u>
Construction in Progress	\$215,916	\$0
Buildings and Improvements	622,231	607,387
Furniture and Fixtures	529,643	431,352
Equipment	<u>519,596</u>	<u>193,835</u>
Total Capital Assets	<u>\$1,887,386</u>	<u>\$1,232,574</u>

Capital assets increased due to additional construction in progress, 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, 2017, the Corporation had an outstanding loan payable in the amount of \$278,971,871 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, 2017

Assets	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$3,385,096
Cash in Segregated Capital Accounts	11,324,861
Accounts Receivable	572,449
Lease Receivable	22,917,783
Prepaid Items	<u>74,619</u>
<i>Total Current Assets</i>	<u>38,274,808</u>
<i>Noncurrent Assets:</i>	
Lease Receivable	256,054,088
<i>Capital Assets:</i>	
Construction in Progress	215,916
Depreciable Capital Assets, Net	<u>1,671,470</u>
<i>Total Noncurrent Assets</i>	<u>257,941,474</u>
<i>Total Assets</i>	<u>296,216,282</u>
Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	1,654,226
Loan Payable	22,917,783
Unearned Revenue	<u>775,367</u>
<i>Total Current Liabilities</i>	25,347,376
<i>Long-Term Liabilities:</i>	
Loan Payable (net of current portion)	<u>256,054,088</u>
<i>Total Liabilities</i>	<u>281,401,464</u>
Net Position	
Investment in Capital Assets	1,887,386
Unrestricted	<u>12,927,432</u>
<i>Total Net Position</i>	<u><u>\$14,814,818</u></u>

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 Year Ended December 31, 2017*

Operating Revenues	
Charges for Services	\$16,066,986
Other	5,570,645
	<hr/>
<i>Total Operating Revenues</i>	<i>21,637,631</i>
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Operating Expenses	
Personal Services	224,185
Contractual Services	15,867,478
Materials and Supplies	2,341,330
Depreciation	175,237
Other	1,055
	<hr/>
<i>Total Operating Expenses</i>	<i>18,609,285</i>
	<hr/>
<i>Operating Income</i>	<i>3,028,346</i>
	<hr/>
Non-Operating Revenue (Expenses)	
Interest and Fiscal Charges	(14,169,691)
Interest	14,188,229
	<hr/>
<i>Total Non-Operating Revenues (Expenses)</i>	<i>18,538</i>
	<hr/>
<i>Change in Net Position</i>	<i>3,046,884</i>
	<hr/>
<i>Net Position Beginning of Year</i>	<i>11,767,934</i>
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<i>Net Position End of Year</i>	<i>\$14,814,818</i>
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See accompanying notes to the basic financial statements

Cuyahoga County Convention Facilities Development Corporation

Statement of Cash Flows

For the Year Ended December 31, 2017

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Customers	\$16,017,438
Cash Received from Cuyahoga County on Lease Receivable	21,830,309
Other Cash Receipts	5,570,645
Cash Payments to Employees for Services	(224,185)
Cash Payments for Goods and Services	(18,028,077)
Other Cash Payments	<u>(1,055)</u>

Net Cash Provided by Operating Activities 25,165,075

Cash Flows from Capital and Related Financing Activities

Principal Payments - Loan Payable	(21,830,309)
Interest Payments - Loan Payable	(14,169,691)
Payments for Capital Acquisitions	<u>(830,049)</u>

Net Cash Used in Capital and Related Financing Activities (36,830,049)

Cash Flows from Investing Activities

Interest on Investments	18,538
Interest from Lease Receivable	<u>14,169,691</u>

Net Cash Provided by Investing Activities 14,188,229

Net Increase in Cash and Cash Equivalents 2,523,255

Cash and Cash Equivalents Beginning of Year 12,186,702

Cash and Cash Equivalents End of Year \$14,709,957

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating Income \$3,028,346

Adjustments:

Depreciation 175,237

(Increase) Decrease in Assets:

Accounts Receivable 82,697

Lease Receivable 21,830,309

Prepaid Items 31,912

Materials and Supplies Inventory 3,860

Increase (Decrease) in Liabilities:

Accounts Payable 144,959

Unearned Revenue (132,245)

Net Cash Provided by Operating Activities \$25,165,075

See accompanying notes to the basic financial statements

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Cuyahoga County Convention Facilities Development Corporation

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

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.

Cuyahoga County Convention Facilities Development Corporation

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

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, 2017, for 2018 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.

Prepays

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.

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 except for construction in progress. 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:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	15 years
Furniture and Fixtures	10 years
Equipment	5 years

Cuyahoga County Convention Facilities Development Corporation

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2017*

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, 2017, \$14,449,319 of the Corporation's bank balance of \$14,949,319 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.

Cuyahoga County Convention Facilities Development Corporation

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

Note 4 – Receivables

Receivables at December 31, 2017, 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.

	<u>Accounts Receivable</u>	<u>Estimated Uncollectible</u>	<u>Net Receivable</u>
Allowance for Doubtful Accounts	<u>\$604,977</u>	<u>\$32,528</u>	<u>\$572,449</u>

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, 2017, the lease receivable is \$278,971,871.

Note 5 – Capital Assets

Capital asset activity for the fiscal year ended December 31, 2017, was as follows:

	<u>Balance 12/31/2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/2017</u>
Capital Assets not being depreciated:				
Construction in Progress	<u>\$0</u>	<u>\$215,916</u>	<u>\$0</u>	<u>\$215,916</u>
Capital Assets being depreciated:				
Building and Improvements	648,623	59,097	0	707,720
Furniture and Fixtures	476,359	169,855	0	646,214
Equipment	<u>236,898</u>	<u>385,181</u>	<u>0</u>	<u>622,079</u>
Total Capital Assets being depreciated	<u>1,361,880</u>	<u>614,133</u>	<u>0</u>	<u>1,976,013</u>
Less Accumulated Depreciation				
Building and Improvements	(41,236)	(44,253)	0	(85,489)
Furniture and Fixtures	(45,007)	(71,564)	0	(116,571)
Equipment	<u>(43,063)</u>	<u>(59,420)</u>	<u>0</u>	<u>(102,483)</u>
Total Accumulated Depreciation	<u>(129,306)</u>	<u>(175,237)</u>	<u>0</u>	<u>(304,543)</u>
Total Capital Assets being Depreciated, net	<u>1,232,574</u>	<u>438,896</u>	<u>0</u>	<u>1,671,470</u>
Total Capital Assets, net	<u>\$1,232,574</u>	<u>\$654,812</u>	<u>\$0</u>	<u>\$1,887,386</u>

Note 6 – Long-term Obligations

	<u>Outstanding 12/31/2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding 12/31/2017</u>	<u>Amount Due in One Year</u>
Loan Payable	<u>\$300,802,180</u>	<u>\$0</u>	<u>\$21,830,309</u>	<u>\$278,971,871</u>	<u>\$22,917,783</u>

Cuyahoga County Convention Facilities Development Corporation

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
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	27,837,068	8,162,932
2023-2027	152,383,475	18,616,525
Total	<u>\$278,971,871</u>	<u>\$72,028,129</u>

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:

<u>Year Ending December 31,</u>	<u>Office Equipment</u>
2018	<u>\$3,010</u>

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.

Cuyahoga County Convention Facilities Development Corporation

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

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

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
Berkshire Hathaway Speciality Insurance Company	General Liability:		
	Each Occurrence	\$1,000,000	\$0
	Personal Injury	1,000,000	0
	General Aggregate	3,000,000	0
	Liquor Liability	1,000,000	0
National Union Fire Insurance Company	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
Berkshire Hathaway Homestate Insurance Company	Umbrella Liability	25,000,000	0
	Employer Liability	1,000,000	0
Federal Insurance Company	Crime	5,000,000	0

Note 10 – Related Party Transactions

During 2017, the Corporation received \$36,000,000 in capital lease payment and \$5,400,000 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 \$5,400,000 base rental payment is reflected as other operating revenue on the Statement of Revenues, Expenses and Changes in Net Position.

During 2017, the Corporation paid \$36,000,000 in loan repayments to Cuyahoga County as required by the loan agreements. The Corporation paid \$21,830,390 towards loan principal reduction during 2017 leaving a remaining balance of \$278,971,871 as of December 31, 2017.

Note 11 – Capital Funding and Reserves

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

<u>Capital Project Descriptions</u>	<u>Amount</u>
Capital Repair/Replacement	\$6,989,598
Capital Improvements	3,398,750
Food Service Equipment	751,069
Capital Equipment	185,444
Total	<u>\$11,324,861</u>



Dave Yost • Auditor of State

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, 2017, 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 21, 2018.

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. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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*.

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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

December 21, 2018

**CUYAHOGA COUNTY CONVENTION
FACILITIES DEVELOPMENT CORPORATION**

1 ST. CLAIR AVENUE, NE
CLEVELAND, OH 44114

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

DECEMBER 31, 2017

Finding Number	Finding Summary	Status	Additional Information
2016-001	Financial reporting comment due to errors in the posting of rental income as well as revenues and expenditures related to contractual service contracts.	Corrective Action Taken and Finding is Fully Corrected	

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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 8, 2019**