



OHIO AUDITOR OF STATE  
**KEITH FABER**





**CUYAHOGA COUNTY CONVENTION FACILITIES DEVELOPMENT CORPORATION  
CUYAHOGA COUNTY  
DECEMBER 31, 2018**

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# OHIO AUDITOR OF STATE KEITH FABER



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## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Cuyahoga County Convention Facilities Development Corporation, Cuyahoga County, Ohio (the Convention), a component unit of Cuyahoga County, as of and for the year ended December 31, 2018, 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 the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit 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, 2018, 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.

**Emphasis of Matter**

As discussed in Note 12 to the financial statements, during 2018, the Convention restated its December 31, 2017 Net Position due to the understatement of Intergovernmental and Loan Payables. We did not modify our opinion regarding this matter.

**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 August 9, 2019, 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.



Keith Faber  
Auditor of State  
Columbus, Ohio

August 9, 2019

# **Cuyahoga County Convention Facilities Development Corporation**

*Management's Discussion and Analysis  
For the Year Ended December 31, 2018  
Unaudited*

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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, 2018. 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 2018 are as follows:

- The Corporation's revenues exceeded expenses by \$3,779,621, 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, 2018 these reserve accounts total \$10,906,049.

## **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, 2018

Unaudited

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### Financial Analysis

Table 1 reflects the net position for 2018 as compared to net position for 2017.

|                              | <i>(Table 1)</i>    |                     |                     |
|------------------------------|---------------------|---------------------|---------------------|
|                              | <i>Net Position</i> |                     |                     |
|                              | <u>2018</u>         | <u>2017</u>         | <u>Change</u>       |
| <b>Assets</b>                |                     |                     |                     |
| Current and Other Assets     | \$273,599,735       | \$294,443,929       | (\$20,844,194)      |
| Capital Assets, Net          | <u>6,658,147</u>    | <u>1,772,353</u>    | <u>4,885,794</u>    |
| <i>Total Assets</i>          | <u>280,257,882</u>  | <u>296,216,282</u>  | <u>(15,958,400)</u> |
| <b>Liabilities</b>           |                     |                     |                     |
| Current Liabilities          | 5,697,980           | 4,656,107           | (1,041,873)         |
| Long-term Liabilities        |                     |                     |                     |
| Due Within One Year          | 24,133,443          | 23,029,899          | (1,103,544)         |
| Due in More Than One Year    | <u>234,244,663</u>  | <u>256,128,101</u>  | <u>21,883,438</u>   |
| <i>Total Liabilities</i>     | <u>264,076,086</u>  | <u>283,814,107</u>  | <u>19,738,021</u>   |
| <b>Net Position</b>          |                     |                     |                     |
| Investment in Capital Assets | 4,408,142           | 1,887,386           | 2,520,756           |
| Unrestricted                 | <u>11,773,654</u>   | <u>10,887,047</u>   | <u>886,607</u>      |
| <i>Total Net Position</i>    | <u>\$16,181,796</u> | <u>\$12,774,433</u> | <u>\$3,407,363</u>  |

The assets of the Corporation exceeded its liabilities at the close of 2018 by \$16,181,796 (net position), \$11,773,654 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 \$10,906,049 at December 31, 2018.



## Cuyahoga County Convention Facilities Development Corporation

Management's Discussion and Analysis

For the Year Ended December 31, 2018

Unaudited

Table 2 shows the changes in net position for 2018 as compared to the changes in net position for 2017.

(Table 2)  
Changes in Net Position

|  | <u>2018</u>         | <u>2017</u>         | <u>Change</u>      |
|--|---------------------|---------------------|--------------------|
| <b>Revenues</b>                            |                     |                     |                    |
| Operating Revenues                         | \$25,989,786        | \$21,637,631        | \$4,352,155        |
| Non-Operating Revenues                     | 13,178,616          | 14,188,229          | (1,009,613)        |
| <i>Total Revenues</i>                      | <u>39,168,402</u>   | <u>35,825,860</u>   | <u>3,342,542</u>   |
| <b>Expenses</b>                            |                     |                     |                    |
| Operating Expenses                         | 22,858,076          | 18,609,285          | (4,248,791)        |
| Non-Operating Expenses                     | 13,082,217          | 14,169,691          | 1,087,474          |
| <i>Total Expenses</i>                      | <u>35,940,293</u>   | <u>32,778,976</u>   | <u>(3,161,317)</u> |
| <i>Income Before Capital Contributions</i> | 3,228,109           | 3,046,884           | 181,225            |
| Capital Contributions                      | 551,512             | 0                   | 551,512            |
| <i>Change in Net Position</i>              | 3,779,621           | 3,046,884           | 732,737            |
| <i>Net Position Beginning of Year</i>      | <u>12,402,175</u>   | <u>9,355,291</u>    | <u>3,046,884</u>   |
| <i>Net Position End of Year</i>            | <u>\$16,181,796</u> | <u>\$12,402,175</u> | <u>\$3,779,621</u> |

The Corporation's revenues exceeded its expenses by \$3,779,621 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 78.26 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 83.42 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 1.03 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, 2018*

*Unaudited*

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## **Capital Assets and Debt Administration**

### **Capital Assets**

Total capital assets increased from the prior year 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, 2018, the Corporation had outstanding loans payable in the amounts of \$256,054,088 and \$2,324,018 payable to Cuyahoga County for the Cleveland Convention Center and the Global Center for Health Innovation building and Levy for the Starbucks and Au Bon Pain build out, respectively. Information relative to debt is identified in Note 6 to the basic financial statements.

### **Currently 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](mailto:ghillow@cccfdc.com).

## **Basic Financial Statements**

**Cuyahoga County Convention Facilities Development Corporation**

*Statement of Net Position*

*December 31, 2018*

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**Assets**

*Current Assets:*

|  |             |
|--|-------------|
| Equity in Pooled Cash and Cash Equivalents | \$4,398,041 |
| Cash in Segregated Accounts                | 791,687     |
| Cash in Segregated Capital Accounts        | 10,906,049  |
| Accounts Receivable                        | 1,314,481   |
| Lease Receivable                           | 24,059,430  |
| Prepaid Items                              | 135,389     |

*Total Current Assets* 41,605,077

*Noncurrent Assets:*

|                                 |             |
|---------------------------------|-------------|
| Lease Receivable                | 231,994,658 |
| Capital Assets:                 |             |
| Construction in Progress        | 13,094      |
| Depreciable Capital Assets, Net | 6,645,053   |

*Total Noncurrent Assets* 238,652,805

*Total Assets* 280,257,882

**Liabilities**

*Current Liabilities:*

|                           |            |
|---------------------------|------------|
| Accounts Payable          | 2,557,704  |
| Intergovernmental Payable | 1,675,002  |
| Loans Payable             | 24,133,443 |
| Unearned Revenue          | 1,465,274  |

*Total Current Liabilities* 29,831,423

*Long-Term Liabilities:*

|  |             |
|--|-------------|
| Loans Payable (net of current portion) | 234,244,663 |
|--|-------------|

*Total Liabilities* 264,076,086

**Net Position**

|                              |            |
|------------------------------|------------|
| Investment in Capital Assets | 4,408,142  |
| Unrestricted                 | 11,773,654 |

*Total Net Position* \$16,181,796

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, 2018*

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|  |                     |
|--|---------------------|
| <b>Operating Revenues</b>                                      |                     |
| Charges for Services   | \$20,339,084        |
| Other  | 5,650,702           |
|  | <hr/>               |
| <i>Total Operating Revenues</i>                                | <i>25,989,786</i>   |
|  | <hr/>               |
| <b>Operating Expenses</b>                                      |                     |
| Personal Services  | 234,963             |
| Contractual Services   | 19,067,634          |
| Materials and Supplies   | 3,084,891           |
| Depreciation   | 464,763             |
| Other  | 5,825               |
|  | <hr/>               |
| <i>Total Operating Expenses</i>                                | <i>22,858,076</i>   |
|  | <hr/>               |
| <i>Operating Income</i>  | <i>3,131,710</i>    |
|  | <hr/>               |
| <b>Non-Operating Revenue (Expenses)</b>                        |                     |
| Interest and Fiscal Charges                                    | (13,082,217)        |
| Interest   | 13,178,616          |
|  | <hr/>               |
| <i>Total Non-Operating Revenues (Expenses)</i>                 | <i>96,399</i>       |
|  | <hr/>               |
| <i>Income Before Capital Contributions</i>                     | <i>3,228,109</i>    |
|  | <hr/>               |
| Capital Contributions  | 551,512             |
|  | <hr/>               |
| <i>Change in Net Position</i>                                  | <i>3,779,621</i>    |
|  | <hr/>               |
| <i>Net Position Beginning of Year - Restated (See Note 12)</i> | <i>12,402,175</i>   |
|  | <hr/>               |
| <i>Net Position End of Year</i>                                | <i>\$16,181,796</i> |
|  | <hr/> <hr/>         |

See accompanying notes to the basic financial statements

## Cuyahoga County Convention Facilities Development Corporation

*Statement of Cash Flows  
For the Year Ended December 31, 2018*

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### *Increase (Decrease) in Cash and Cash Equivalents*

#### **Cash Flows from Operating Activities**

|  |              |
|--|--------------|
| Cash Received from Customers                           | \$20,605,801 |
| Cash Received from Cuyahoga County on Lease Receivable | 22,917,783   |
| Other Cash Receipts                                    | 5,446,893    |
| Cash Payments to Employees for Services                | (234,963)    |
| Cash Payments for Goods and Services                   | (21,309,817) |
| Other Cash Payments                                    | (5,825)      |

*Net Cash Provided by Operating Activities* 27,419,872

#### **Cash Flows from Capital and Related Financing Activities**

|                                    |              |
|------------------------------------|--------------|
| Principal Payments - Loans Payable | (23,029,899) |
| Interest Payments - Loans Payable  | (13,082,217) |
| Payments for Capital Acquisitions  | (5,350,557)  |
| Loan Proceeds                      | 2,250,005    |

*Net Cash Used in Capital and Related Financing Activities* (39,212,668)

#### **Cash Flows from Investing Activities**

|                                |            |
|--------------------------------|------------|
| Interest on Investments        | 96,399     |
| Interest from Lease Receivable | 13,082,217 |

*Net Cash Provided by Investing Activities* 13,178,616

*Net Increase in Cash and Cash Equivalents* 1,385,820

*Cash and Cash Equivalents Beginning of Year* 14,709,957

*Cash and Cash Equivalents End of Year* \$16,095,777

#### **Reconciliation of Operating Income to Net Cash Provided by Operating Activities**

|                                     |             |
|-------------------------------------|-------------|
| Operating Income                    | \$3,131,710 |
| Adjustments:                        |             |
| Depreciation                        | 464,763     |
| (Increase) Decrease in Assets:      |             |
| Accounts Receivable                 | (626,999)   |
| Lease Receivable                    | 22,917,783  |
| Prepaid Items                       | (60,770)    |
| Increase (Decrease) in Liabilities: |             |
| Accounts Payable                    | 903,478     |
| Unearned Revenue                    | 689,907     |

*Net Cash Provided by Operating Activities* \$27,419,872

#### **Noncash Capital and Related Financing Activities**

During 2018, the Corporation reduced the intergovernmental payable to Cuyahoga County by \$551,512. This amount was placed in the capital reserve accounts. This transaction was recorded as a capital contribution.

See accompanying notes to the basic financial statements

## **Cuyahoga County Convention Facilities Development Corporation**

*Notes to the Basic Financial Statements  
For The Year Ended December 31, 2018*

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### **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 Chapter 1702 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, 2018

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## ***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, 2018, for 2019 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 BioEnterprise working capital and various capital reserves. These accounts are presented as "cash in segregated accounts" and "cash in segregated capital accounts", respectively.

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                |

## ***Accrued Liabilities and Long-Term Obligations***

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



## Cuyahoga County Convention Facilities Development Corporation

*Notes to the Basic Financial Statements  
For The Year Ended December 31, 2018*

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### ***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.

### ***Contributions of Capital***

Contributions of capital in the financial statements arise from outside contributions of resources restricted to capital acquisition and construction.

### **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, 2018, \$15,620,862 of the Corporation's bank balance of \$16,120,862 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, 2018, 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.

**Cuyahoga County Convention Facilities Development Corporation**

*Notes to the Basic Financial Statements*

*For The Year Ended December 31, 2018*

|                                 | <u>Accounts<br/>Receivable</u> | <u>Estimated<br/>Uncollectible</u> | <u>Net<br/>Receivable</u> |
|---------------------------------|--------------------------------|------------------------------------|---------------------------|
| Allowance for Doubtful Accounts | <u>\$1,342,556</u>             | <u>\$28,075</u>                    | <u>\$1,314,481</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, 2018, the lease receivable is \$256,054,088.

The annual lease requirements are as follows:

| <u>Year</u> | <u>Principal</u>     | <u>Interest</u>     |
|-------------|----------------------|---------------------|
| 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        | 29,223,768           | 6,776,232           |
| 2024-2027   | <u>123,159,707</u>   | <u>11,840,293</u>   |
| Total       | <u>\$256,054,088</u> | <u>\$58,945,912</u> |

**Note 5 – Capital Assets**

Capital asset activity for the fiscal year ended December 31, 2018, was as follows:

|   | <u>Balance<br/>12/31/2017</u> | <u>Additions</u>   | <u>Deductions</u> | <u>Balance<br/>12/31/2018</u> |
|---|-------------------------------|--------------------|-------------------|-------------------------------|
| Capital Assets not being depreciated:       |                               |                    |                   |                               |
| Construction in Progress                    | <u>\$100,883</u>              | <u>\$412,692</u>   | <u>\$500,481</u>  | <u>\$13,094</u>               |
| Capital Assets being depreciated:           |                               |                    |                   |                               |
| Building and Improvements                   | 707,720                       | 5,000,926          | 0                 | 5,708,646                     |
| Furniture and Fixtures                      | 646,214                       | 175,313            | 0                 | 821,527                       |
| Equipment                                   | <u>622,079</u>                | <u>262,107</u>     | <u>0</u>          | <u>884,186</u>                |
| Total Capital Assets being depreciated      | <u>1,976,013</u>              | <u>5,438,346</u>   | <u>0</u>          | <u>7,414,359</u>              |
| Less Accumulated Depreciation               |                               |                    |                   |                               |
| Building and Improvements                   | (85,489)                      | (215,034)          | 0                 | (300,523)                     |
| Furniture and Fixtures                      | (116,571)                     | (100,037)          | 0                 | (216,608)                     |
| Equipment                                   | <u>(102,483)</u>              | <u>(149,692)</u>   | <u>0</u>          | <u>(252,175)</u>              |
| Total Accumulated Depreciation              | <u>(304,543)</u>              | <u>(464,763)</u>   | <u>0</u>          | <u>(769,306)</u>              |
| Total Capital Assets being Depreciated, net | <u>1,671,470</u>              | <u>4,973,583</u>   | <u>0</u>          | <u>6,645,053</u>              |
| Total Capital Assets, net                   | <u>\$1,772,353</u>            | <u>\$5,386,275</u> | <u>\$500,481</u>  | <u>\$6,658,147</u>            |

**Cuyahoga County Convention Facilities Development Corporation**

*Notes to the Basic Financial Statements*

*For The Year Ended December 31, 2018*

**Note 6 – Long-term Obligations**

|                            | Outstanding<br>12/31/2017 | Additions          | Reductions          | Outstanding<br>12/31/2018 | Amount Due in<br>One Year |
|----------------------------|---------------------------|--------------------|---------------------|---------------------------|---------------------------|
| Loans Payable              |                           |                    |                     |                           |                           |
| 2014 County                | \$278,971,871             | \$0                | \$22,917,783        | \$256,054,088             | \$24,059,430              |
| 2013 Levy                  | 186,129                   | 0                  | 112,116             | 74,013                    | 74,013                    |
| 2018 Levy                  | 0                         | 2,250,005          | 0                   | 2,250,005                 | 0                         |
| <b>Total Loans Payable</b> | <b>\$279,158,000</b>      | <b>\$2,250,005</b> | <b>\$23,029,899</b> | <b>\$258,378,106</b>      | <b>\$24,133,443</b>       |

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

| Year         | County               |                     | Levy               |
|--------------|----------------------|---------------------|--------------------|
|              | Principal            | Interest            | Principal          |
| 2019         | \$24,059,430         | \$11,940,570        | \$74,013           |
| 2020         | 25,257,947           | 10,742,053          | 321,429            |
| 2021         | 26,516,168           | 9,483,832           | 321,430            |
| 2022         | 27,837,068           | 8,162,932           | 321,429            |
| 2023         | 29,223,768           | 6,776,232           | 321,429            |
| 2024-2027    | 123,159,707          | 11,840,293          | 964,288            |
| <b>Total</b> | <b>\$256,054,088</b> | <b>\$58,945,912</b> | <b>\$2,324,018</b> |

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.

During 2013, the Corporation signed a services agreement with Levy Premium Food Service Limited Partnership (Levy) in the amount of \$700,000 to be used towards the 2013 Au Bon Pain build-out costs. The repayment is on a straight-line basis, without interest, over seven years with a final maturity in 2019.

During 2018, the Corporation signed a services agreement with Levy in the amount of \$2,250,005 to be used towards the 2017 relocation of the current Au Bon Pain and build-out of a Starbucks. The repayment is on a straight-line basis, without interest, over seven years starting in 2020 with a final maturity in 2026.

**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**

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.

## Cuyahoga County Convention Facilities Development Corporation

Notes to the Basic Financial Statements  
For The Year Ended December 31, 2018

### 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:

| <u>Company</u>                                     | <u>Type of Coverage</u> | <u>Coverage</u> | <u>Deductible</u> |
|--|-------------------------|-----------------|-------------------|
| Berkshire Hathaway Speciality<br>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    | 1,000,000       | 0                 |
|  | Professional Liability  | 1,000,000       | 0                 |
| North River Insurance Company                      | Automobile Liability    | 1,000,000       | 1,000             |
| Berkshire Hathaway Homestate<br>Insurance Company  | Umbrella Liability      | 25,000,000      | 0                 |
|  | Employer Liability      | 1,000,000       | 0                 |
| Federal Insurance Company                          | Crime                   | 5,000,000       | 0                 |

Settled claims have not exceeded this commercial coverage in any of the past three years and there was no significant reduction in coverage from the prior year.

### Note 10 – Related Party Transactions

During 2018, 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 2018, the Corporation paid \$36,000,000 in loan repayments to Cuyahoga County as required by the loan agreements. The Corporation paid \$22,917,783 towards loan principal reduction during 2018 leaving a remaining balance of \$256,054,088 as of December 31, 2018. In accordance with the Corporation's Amended and Restated Sublease and Operating Agreement with the County, the Corporation is required to calculate an annual surplus and remit that surplus to the County. At December 31, 2018, the calculated surplus was \$1,675,002 and is shown on the Statement of Net Position as intergovernmental payable.

## Cuyahoga County Convention Facilities Development Corporation

Notes to the Basic Financial Statements  
For The Year Ended December 31, 2018

### 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          | \$8,522,478         |
| Capital Improvements                | 1,731,657           |
| Food Service Equipment              | 475,546             |
| Capital Equipment                   | 176,368             |
| Total                               | <u>\$10,906,049</u> |

### Note 12 – Change in Accounting Principles and Restatement of Net Position

#### *Change in Accounting Principles*

For 2018, the Corporation implemented Governmental Accounting Standards Board (GASB) Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. These changes were incorporated in the Corporation's 2018 financial statements; however, there was no effect on beginning net position.

For 2018, the Corporation also implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2017-1*. These changes were incorporated in the Corporation's 2018 financial statements; however, there was no effect on beginning net position.

#### *Restatement of Net Position*

During 2018, it was determined that intergovernmental payable and loans payable were understated in the prior year. These restatements had the following effect on net position as reported on December 31, 2017.

|   |                     |
|---|---------------------|
| Net Position December 31, 2017          | \$14,814,818        |
| Adjustments:                            |                     |
| Intergovernmental Payable               | (2,226,514)         |
| Loans Payable                           | <u>(186,129)</u>    |
| Restated Net Position December 31, 2017 | <u>\$12,402,175</u> |

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# OHIO AUDITOR OF STATE KEITH FABER



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Cleveland, Ohio 44113-1801  
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NortheastRegion@ohioauditor.gov

## 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, N.E.  
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, (the Convention) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Convention's basic financial statements and have issued our report thereon dated August 9, 2019, wherein we noted the Convention restated its December 31, 2017 Net Position due to the understatement of Intergovernmental and Loan Payables.

### ***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 opinion 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 report is not suitable for any other purpose.



Keith Faber  
Auditor of State  
Columbus, Ohio

August 9, 2019



OHIO AUDITOR OF STATE  
**KEITH FABER**



**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  
SEPTEMBER 3, 2019**