



The Convention and Visitors Bureau
of Greater Cleveland, Inc.
dba Destination Cleveland
and Spirit of Cleveland, Inc.

Combined Financial Statements
December 31, 2017 and 2016

Cohen & Co

cohenpa.com



Dave Yost • Auditor of State

Board of Directors
Convention and Visitors Bureau of Greater Cleveland, Inc. DBA Destination Cleveland and
Spirit of Cleveland, Inc.
334 Euclid Avenue
Cleveland, Ohio 44114

We have reviewed the *Independent Auditors' Report* of the Convention and Visitors Bureau of Greater Cleveland, Inc. DBA Destination Cleveland and Spirit of Cleveland, Inc., Cuyahoga County, prepared by Cohen & Company, for the audit period January 1, 2017 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Convention and Visitors Bureau of Greater Cleveland, Inc. DBA Destination Cleveland and Spirit of Cleveland, Inc. is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 10, 2018

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THE CONVENTION AND VISITORS BUREAU OF GREATER CLEVELAND, INC.
DBA DESTINATION CLEVELAND AND SPIRIT OF CLEVELAND, INC.

DECEMBER 31, 2017 AND 2016

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BOARD OF DIRECTORS
THE CONVENTION AND VISITORS BUREAU OF GREATER CLEVELAND, INC.
DBA DESTINATION CLEVELAND AND SPIRIT OF CLEVELAND, INC.

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying combined financial statements of The Convention and Visitors Bureau of Greater Cleveland, Inc. DBA Destination Cleveland and Spirit of Cleveland, Inc. (nonprofit organizations), which comprise the combined statement of financial position as of December 31, 2017 and 2016, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of The Convention and Visitors Bureau of Greater Cleveland, Inc. DBA Destination Cleveland and Spirit of Cleveland, Inc. as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our 2017 audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying information on pages 19 and 20 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2018, on our consideration of The Convention and Visitors Bureau of Greater Cleveland, Inc. DBA Destination Cleveland and Spirit of Cleveland, Inc.'s internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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 and Visitors Bureau of Greater Cleveland, Inc. DBA Destination Cleveland and Spirit of Cleveland, Inc.'s internal control over financial reporting and compliance.

Cohen & Company Ltd.

June 18, 2018
Cleveland, Ohio

COMBINED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</u>
ASSETS			LIABILITIES AND NET ASSETS		
CURRENT ASSETS			CURRENT LIABILITIES		
Cash and cash equivalents	\$ 16,832,932	\$ 13,138,442	Accounts payable and accrued expenses	\$ 1,280,795	\$ 1,850,346
Amounts due from Cuyahoga County	2,148,016	4,386,158	Salaries and payroll taxes payable	463,248	543,490
Accounts receivable	269,219	406,566	Current portion of deferred lease incentive	41,460	41,460
Prepaid expenses and other assets	<u>540,419</u>	<u>140,001</u>	Gateway Economic Development		
	<u>19,790,586</u>	<u>18,071,167</u>	Corporation liability	2,954,095	1,477,095
			Deferred revenue	<u>7,143</u>	<u>375,121</u>
				4,746,741	4,287,512
PROPERTY AND EQUIPMENT - AT COST	6,620,406	5,961,886	DEFERRED RENT	200,381	148,419
Less: Accumulated depreciation					
and amortization	<u>3,593,109</u>	<u>2,799,552</u>	DEFERRED LEASE INCENTIVE	<u>100,144</u>	<u>141,604</u>
	<u>3,027,297</u>	<u>3,162,334</u>		<u>5,047,266</u>	<u>4,577,535</u>
			COMMITMENTS AND CONTINGENCIES		
			UNRESTRICTED NET ASSETS		
OTHER ASSETS	<u>25,000</u>	<u> </u>	Undesignated	5,200,374	4,971,518
	<u>\$ 22,842,883</u>	<u>\$ 21,233,501</u>	Board designated	<u>9,363,469</u>	<u>10,634,358</u>
				14,563,843	15,605,876
			TEMPORARILY RESTRICTED NET ASSETS	<u>3,231,774</u>	<u>1,050,090</u>
				<u>17,795,617</u>	<u>16,655,966</u>
				<u>\$ 22,842,883</u>	<u>\$ 21,233,501</u>

The accompanying notes are an integral part of these combined statements.

COMBINED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES			
Transient occupancy tax	\$ 12,843,905		\$ 12,843,905
Capital improvement transient occupancy tax		\$ 6,539,473	6,539,473
Less: Gateway liability	1,477,000		1,477,000
Less: Rock and Roll Hall of Fame and Museum	1,260,156		1,260,156
Less: Quicken Loans Arena renovation	1,000,000		1,000,000
Net assets released from restriction	<u>4,357,789</u>	<u>(4,357,789)</u>	
Net transient occupancy tax	13,464,538	2,181,684	15,646,222
Partnership dues	618,757		618,757
Ad and publication	441,848		441,848
Interest	34,417		34,417
Registration	62,727		62,727
Sponsorship	48,298		48,298
Miscellaneous	16,460		16,460
In-kind contributions	<u>51,603</u>		<u>51,603</u>
	<u>14,738,648</u>	<u>2,181,684</u>	<u>16,920,332</u>
DEPARTMENTAL EXPENSES			
Administrative	1,976,138		1,976,138
Destination development and community affairs	1,134,327		1,134,327
Marketing	5,442,688		5,442,688
Partnership	1,032,644		1,032,644
Sales - Convention	5,187,442		5,187,442
Services	<u>744,092</u>		<u>744,092</u>
	<u>15,517,331</u>		<u>15,517,331</u>
OTHER EXPENSES			
Sponsorships	263,010		263,010
Project grant	<u>340</u>		<u>340</u>
	<u>263,350</u>		<u>263,350</u>
	<u>15,780,681</u>		<u>15,780,681</u>
CHANGE IN NET ASSETS	(1,042,033)	2,181,684	1,139,651
NET ASSETS - BEGINNING OF THE YEAR	<u>15,605,876</u>	<u>1,050,090</u>	<u>16,655,966</u>
NET ASSETS - END OF THE YEAR	<u>\$ 14,563,843</u>	<u>\$ 3,231,774</u>	<u>\$ 17,795,617</u>

The accompanying notes are an integral part of these combined statements.

COMBINED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES			
Transient occupancy tax	\$ 12,977,841		\$ 12,977,841
Capital improvement transient occupancy tax		\$ 6,704,147	6,704,147
Less: Gateway liability	1,477,095		1,477,095
Less: Convention Center / Global Ctr for Health Innovation	1,000,000		1,000,000
Less: Rock and Roll Hall of Fame and Museum	1,655,011		1,655,011
Net assets released from restriction	<u>6,128,647</u>	<u>(6,128,647)</u>	
Net transient occupancy tax	14,974,382	575,500	15,549,882
Partnership dues	746,735		746,735
Ad and publication	508,583		508,583
Interest	6,079	14,260	20,339
Registration	15,912		15,912
Sponsorship	31,900		31,900
Miscellaneous	2,729		2,729
In-kind contributions	<u>88,060</u>		<u>88,060</u>
	<u>16,374,380</u>	<u>589,760</u>	<u>16,964,140</u>
DEPARTMENTAL EXPENSES			
Administrative	1,906,052		1,906,052
Destination development and community affairs	752,086		752,086
Marketing	5,425,726		5,425,726
Partnership	944,758		944,758
Sales - Convention	3,097,237		3,097,237
Services	<u>671,755</u>		<u>671,755</u>
	<u>12,797,614</u>		<u>12,797,614</u>
OTHER EXPENSES			
Sponsorships	1,191,968		1,191,968
Project grant	317		317
	<u>1,192,285</u>		<u>1,192,285</u>
	<u>13,989,899</u>		<u>13,989,899</u>
CHANGE IN NET ASSETS	2,384,481	589,760	2,974,241
NET ASSETS - BEGINNING OF THE YEAR	<u>13,221,395</u>	<u>460,330</u>	<u>13,681,725</u>
NET ASSETS - END OF THE YEAR	<u>\$ 15,605,876</u>	<u>\$ 1,050,090</u>	<u>\$ 16,655,966</u>

The accompanying notes are an integral part of these combined statements.

COMBINED STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOW PROVIDED FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,139,651	\$ 2,974,241
Noncash items included in activities:		
Depreciation and amortization of property and equipment	793,557	790,119
Amortization of deferred lease incentive	(41,460)	(41,460)
Deferred rent	51,962	58,729
Increase (decrease) in cash caused by changes in current items:		
Amounts due from Cuyahoga County	2,238,142	(2,224,959)
Accounts receivable	137,347	(91,467)
Prepaid expenses and other assets	(425,418)	1,262,307
Accounts payable and accrued expenses	(569,551)	1,041,184
Salaries and payroll taxes payable	(80,242)	(42,135)
Gateway Economic Development Corporation liability	1,477,000	8,263
Deferred revenue	<u>(367,978)</u>	<u>346,920</u>
Net cash flow provided from operations	4,353,010	4,081,742
CASH FLOW USED IN INVESTING ACTIVITY		
Acquisition of property and equipment	<u>(658,520)</u>	<u>(905,937)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,694,490	3,175,805
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>13,138,442</u>	<u>9,962,637</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 16,832,932</u>	<u>\$ 13,138,442</u>

The accompanying notes are an integral part of these combined statements.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

The accompanying combined financial statements of The Convention and Visitors Bureau of Greater Cleveland, Inc. DBA Destination Cleveland include the accounts of its related entity, Spirit of Cleveland, Inc., combined on the basis of common management and mission. The entities are collectively referred to as Destination Cleveland. All intercompany transactions and balances are eliminated in combination.

The purpose of The Convention and Visitors Bureau of Greater Cleveland, Inc. (CVB), a non-profit organization exempt from federal income tax under Section 501(c)(6) of the Internal Revenue Code, is to drive economic impact and stimulate community vitality for Greater Cleveland through leisure and business travel.

The purpose of Spirit of Cleveland, Inc., a non-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, is to provide training programs to enhance the Cleveland visitor experience and destination development projects to strengthen Cleveland as a visitor destination.

Revenue Recognition

A substantial portion of Destination Cleveland's revenue comes from the Transient Occupancy Tax, which is accounted for on the accrual basis based on reports from Cuyahoga County.

Revenue from partnership (membership) dues is recognized as revenue in the year to which it applies. Dues received in advance are recorded as deferred revenue.

A portion of the Transient Occupancy Tax is required to be used for direct and indirect costs of capital improvements (Capital Improvement Funds), as outlined in the agreement with the City of Cleveland and Cuyahoga County and subject to Destination's Cleveland capital improvement policy. As such, Capital Improvement Funds are recorded as temporarily restricted net assets. When Capital Improvement Funds are spent, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Use of Accounting Estimates

The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between program services and supporting services.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Goods and Services

Destination Cleveland has recorded contributed in-kind goods and services for travel, visitor meals and entertainment and other expenses totaling \$51,603 and \$88,060 during 2017 and 2016, respectively. These in-kind goods and services have been included in revenues and expenses in the combined financial statements.

Contributions Made to Others

Unconditional contributions made to others are recognized as expenses in the period in which the contribution is pledged. If the contribution is conditional, the expense is recognized when the conditions are substantially met. Destination Cleveland made an unconditional contribution of \$2,000,000 in 2017 to the Sports Event Development Fund for use by the Greater Cleveland Sports Commission (GCSC) to procure and host sporting events in Cuyahoga County (the County) during the period from, January 1, 2017, through December 31, 2026. The contribution is included in sales-convention expenses in the combined statement of activities.

Cash and Cash Equivalents

Destination Cleveland considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents. In addition, Destination Cleveland maintains cash at major financial institutions which may, at times, exceed federally insured amounts.

Cash and cash equivalents includes certain funds restricted by the Board of Directors for Destination Cleveland's Special Initiatives (see Note 8) and by the Cleveland 2016 Host Committee (Host Committee) (see Note 7).

Receivables and Credit Policies

Accounts receivable includes program service fees receivable. These amounts are due under various payment terms.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all receivable balances that exceed 90 days from invoice date and estimates the portion, if any, of the balance that will not be collected. Additionally, management estimates an allowance for the aggregate remaining receivables based on historical collectability. When receivables are determined to be uncollectible, they are written off against the allowance for doubtful accounts.

As of December 31, 2017 and 2016, management believed that all receivables were collectible and therefore no valuation allowance was necessary.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment is stated at cost at the date of acquisition. Minor items of property and equipment are charged to expense as incurred. Depreciation and amortization are computed by the straight-line method over the following estimated useful lives of the assets:

Leasehold improvements	Terms of leases
Furniture and fixtures	5 years
Office equipment	3 years
Software	5 years
Destination development projects	5 years

Advertising

Advertising costs are expensed as incurred and amounted to \$2,488,616 and \$1,965,496 for 2017 and 2016, respectively.

Income Taxes

Destination Cleveland accounts for uncertain tax positions in accordance with GAAP, which requires recognition of and disclosure related to uncertain tax positions. As of and during the years ended December 31, 2017 and 2016, Destination Cleveland did not have a liability for unrecognized tax benefits.

Subsequent Events

Management has evaluated subsequent events through June 18, 2018, the date the combined financial statements were available to be issued.

2. PROPERTY AND EQUIPMENT

At December 31, 2017 and 2016, the cost of property and equipment consisted of the following:

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 2,626,875	\$ 2,596,933
Furniture and fixtures	697,324	655,719
Office equipment	544,587	470,579
Software	668,215	560,882
Destination development projects	2,083,405	1,677,773
	<u>\$ 6,620,406</u>	<u>\$ 5,961,886</u>

NOTES TO THE COMBINED FINANCIAL STATEMENTS

3. AMOUNTS DUE FROM CUYAHOGA COUNTY

The amounts due from the County at December 31 of each year include Destination Cleveland's unremitted share of that year's Transient Occupancy Taxes. The taxes are levied under state legislation enabling the County to impose the tax and enter into an agreement to remit a portion of the amounts collected to Destination Cleveland.

Destination Cleveland is also party to an agreement with the County and the Mayor of the City of Cleveland in which the County and the Mayor of Cleveland agreed to allocate a portion of the revenue they receive from the Capital Improvement portion of the Transient Occupancy Tax to Destination Cleveland to be used for the direct and indirect costs of capital improvements (Capital Improvement Funds), as defined in the agreement. At December 31, 2017 and 2016, the amounts due from Cuyahoga County include Destination Cleveland's unremitted share of the Capital Improvement Funds in the amounts of \$485,992 and \$1,494,112, respectively.

4. GATEWAY ECONOMIC DEVELOPMENT CORPORATION LIABILITY

Destination Cleveland entered into a Cooperative Agreement (the Agreement) with Gateway Economic Development Corporation (Gateway) and the County. In that Cooperative Agreement, Destination Cleveland pledged two sources of revenue to help secure a loan from the County to Gateway to assist in financing the Arena Facility (Arena Bonds). The two sources of pledged revenues are: 1) the annual incremental credit, as defined in the Agreement, for the previous year multiplied by the bed tax percentage increase from the previous year (limited to a 3% annual increase) plus 100% of the annual incremental credit for the previous year (annual incremental credit – approximately \$277,000 in 2017 and 2016) and 2) commencing in the year 2007, \$1,200,000 annually. These pledged amounts may only be called upon in any year if Gateway's net revenues in that year are insufficient to pay its obligation to the County for Arena Bond payments and its obligations higher in priority thereto. Destination Cleveland's obligation is severable, distinct and non-cumulative for each year. According to the Agreement, these amounts are payable in the year following the year in which they are incurred. The Cooperative Agreement will remain in effect until the year 2023 or such earlier time as the Arena Bonds are paid in full.

The liability for 2017 and 2016 related to this agreement is due, and has been included in the combined financial statements, as of December 31, 2017 and 2016.

5. CONVENTION CENTER / GLOBAL CENTER FOR HEALTH INNOVATION (CC/GC) LIABILITY

Effective January 1, 2011, Cuyahoga County implemented a 1% increase to the Transient Occupancy Tax to support the CC/GC project.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

5. CONVENTION CENTER / GLOBAL CENTER FOR HEALTH INNOVATION (CC/GC)
LIABILITY (Continued)

Destination Cleveland entered into an agreement with the County in which Destination Cleveland agreed to allocate a portion of the revenue it receives from the existing Transient Occupancy Tax to further support the repayment of the County's bonds related to the CC/GC project. Destination Cleveland's allocation of revenue under this agreement was subject to a "contribution credit" in years 2014 through 2027. The contribution credit allowed for a reduction of Destination Cleveland's annual allocation of revenue to the CC/GC project. Destination Cleveland paid \$238,328 (\$1,000,000 net of the 2015 credit of \$761,672) in 2016 in accordance with this agreement.

In 2017, Destination Cleveland entered into a new agreement with the County related to the Quicken Loans Arena renovation (see Note 7) and the future obligations under the CC/GC agreement were terminated as part of the new agreement. For the year ended December 31, 2016, the contribution credit amounted to \$1,000,000. As the amounts due to the CC/GC project were terminated as a part of the new agreement, the credit was not able to be used to reduce any future payments to the County and therefore the contribution credit was written off in 2016 and is presented as a reduction of revenue in the combined statement of activities.

6. RETIREMENT PLAN

Destination Cleveland has a defined contribution pension plan, with a 401(k) provision, which covers all employees who meet certain criteria as to age and years of service. Destination Cleveland provides matching contributions of 25% of employee deferrals up to 4% of compensation (amended to matching contributions of 50% of employee deferrals up to 6% of compensation effective January 1, 2018). Destination Cleveland may also make discretionary contributions to the plan. Destination Cleveland's policy is to fund the plan annually. The provisions for pension costs are included in benefits and amounted to approximately \$34,000 and \$32,000 (including matching contributions) for 2017 and 2016, respectively.

7. COMMITMENTS AND CONTINGENCIES

Leases

Destination Cleveland has an office lease agreement, set to expire in 2025, which includes certain cancellable provisions, rent escalation clauses, and three five year renewal options.

Destination Cleveland leases certain equipment under operating leases that expire through December 2019.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

7. COMMITMENTS AND CONTINGENCIES (Continued)

Leases (continued)

The future minimum rental commitments for these operating leases are as follows:

2018	\$	396,875
2019		399,500
2020		402,755
2021		406,077
2022		403,534
Thereafter		845,044
	\$	<u>2,853,785</u>

Destination Cleveland is recognizing rental expense ratably over the term of the lease and, accordingly, a deferred rent liability has been recorded to recognize the escalation of rent. No portion of this liability is expected to be paid during 2018, and therefore is included as a long-term liability.

Destination Cleveland subleases a portion of its office space through 2021 to GCSC, which includes two five-year renewal options. As part of the sublease agreement, GCSC pays for a portion of information technology and office maintenance services and equipment.

The future minimum rental commitments due from GCSC are as follows:

2018	\$	93,069
2019		93,857
2020		94,644
2021		39,572
	\$	<u>321,142</u>

Total rental expense, net of the sublease, amounted to approximately \$279,000 during 2017 and 2016.

Lease Incentive Obligation

Destination Cleveland has recorded a lease incentive obligation in connection with the construction of its office facilities. The original amount provided by the landlord of approximately \$440,000 is being amortized on a straight-line basis over the term of the lease. Amortization of this lease incentive obligation utilized to reduce rent expense totaled \$41,460 in 2017 and 2016.

Employee Leasing Agreement

Destination Cleveland has an employee leasing agreement with GCSC that expires on December 31, 2019. GCSC's CEO and President provides executive services as required by Destination Cleveland consistent with the terms provided in the agreement. Either party may terminate the leasing agreement with 30 days written notice, with or without cause.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

7. COMMITMENTS AND CONTINGENCIES (Continued)

Back End Guarantee

As a condition precedent to a national convention entering into an agreement with the Host Committee, the national convention required Destination Cleveland and other entities to jointly guarantee a certain amount of funds necessary to satisfy the Net Transferable Cash Funds Requirement. The Net Transferable Funds Requirement obligated the Host Committee to raise a minimum amount in monetary donations or have sufficient uncommitted funds on hand to pay for transferable expenses for the national convention, which occurred in July 2016.

As of December 31, 2016, the Host Committee raised monetary donations and/or had sufficient uncommitted funds on hand to pay for transferable expenses, and therefore Destination Cleveland was not financially obligated under the joint guarantee and the agreement has been terminated.

After the national convention in 2016, the Host Committee bank accounts were closed and cash was transferred to Destination Cleveland to pay the remaining obligations related to the convention. At December 31, 2017 and 2016, \$288,802 and \$566,743 of cash and cash equivalents on the combined statement of financial position was restricted for such Host Committee payments, respectively. Total obligations in the same amount were included in accounts payable and accrued expenses at December 31, 2017 and 2016, respectively.

The Rock and Roll Hall of Fame

Destination Cleveland is party to an agreement with The Rock and Roll Hall of Fame and Museum, Inc. (Museum), in which Destination Cleveland agreed to pay to the Museum on a quarterly basis, an amount equal to 20% of the total proceeds received by Destination Cleveland from the Capital Improvement Funds for the first 12 months of the agreement; and thereafter, 25% of the total proceeds received by Destination Cleveland from the Capital Improvement Funds. In 2017 and 2016, these allocations amounted to approximately \$1,260,000 and \$1,655,000, respectively, and were recorded as a reduction to net transient occupancy tax revenue. At December 31, 2017 and 2016, approximately \$164,000 and \$365,000, respectively, were due to the Museum and included in accounts payable and accrued expenses.

Under this agreement, Destination Cleveland also committed to pay an expense to plan, fabricate and install the Museum's Rock Walk honoring inductees to date and to spend a minimum of \$100,000 annually to market the Museum during the time period the Capital Improvement Funds are in effect. The agreement with the Museum expires at the same time as the Capital Improvement Funds in 2054. In 2016, amounts paid for the Rock Walk amounted to approximately \$301,000. During 2017, no additional amounts were paid for the Rock Walk and at December 31, 2017, no further amounts are expected to be paid in the future for the Rock Walk.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

7. COMMITMENTS AND CONTINGENCIES (Continued)

Laws and Regulations

The Ohio Revised Code (the Code) relating to the Transient Occupancy Tax is subject to interpretation. Potential noncompliance with the Code can be subject to future government review and interpretation as well as regulatory action. During 2016, the County withheld Transient Occupancy Tax generated from the Hilton Cleveland Downtown Hotel, which opened in 2016, from Destination Cleveland. Management therefore believes additional Transient Occupancy Tax could be owed to Destination Cleveland at December 31, 2017 and 2016. However, no amounts have been recorded in these combined financial statements related to the County's potential noncompliance with state legislation.

Quicken Loans Arena Renovation

In 2017, Destination Cleveland entered into a new agreement with Cuyahoga County to financially support a portion of the costs to renovate Quicken Loans Arena, a multi-purpose arena located in downtown Cleveland. Under the agreement, Destination Cleveland will allocate a portion of the gross Capital Improvement Transient Occupancy Tax receipts generated in any calendar year to renovate Quicken Loans Arena, according to a schedule of annual payments during the period January 1, 2017, through December 31, 2034. The sum of all annual payments during the term of the new agreement shall amount to \$44,000,000. The terms of this agreement include a termination of the CC/GC Agreement (see Note 5).

The annual payments to be made each year, as defined, are as follows:

2018	\$ 1,750,000
2019	1,750,000
2020	1,500,000
2021	1,500,000
2022	2,000,000
Thereafter	<u>34,500,000</u>
	<u>\$ 43,000,000</u>

During 2017, \$1,373,068 of the gross Capital Improvement Transient Occupancy Tax receipts were applied to the annual payment requirements, \$1,000,000 of which related to the required 2017 payment and an advance of \$373,068 related to the required 2018 payment. The \$373,068 related to 2018 has been included in prepaid expenses and other assets on the combined statement of financial position.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

8. NET ASSETS

At December 31, 2017 and 2016, net assets consisted of the following:

	<u>2017</u>	<u>2016</u>
Destination Cleveland		
Undesignated	\$ 5,084,039	\$ 4,862,671
Board designated	9,363,469	10,634,358
Temporarily restricted	3,231,774	1,050,090
Spirit of Cleveland, Inc.	<u>116,335</u>	<u>108,847</u>
	<u>\$ 17,795,617</u>	<u>\$ 16,655,966</u>

Board Designated Net Assets

The Board of Directors has designated assets for Destination Cleveland's Special Initiatives. These initiatives, including destination development, certain marketing campaigns and convention attraction, are anticipated to result in a significant impact on the economic vitality of the region.

Temporarily Restricted Net Assets

At December 31, 2017 and 2016, temporarily restricted net assets were restricted for direct and indirect costs of capital improvements relating to Destination Cleveland's share of the Capital Improvement Funds.

9. SUBSEQUENT EVENT

On February 22, 2018, Destination Cleveland formed and became the sole member of DC CCC Investments, LLC. Destination Cleveland contributed \$100,000 to DC CCC Investments, LLC for the purpose of investing in a local concert company.

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BOARD OF DIRECTORS
THE CONVENTION AND VISITORS BUREAU OF GREATER CLEVELAND, INC.
DBA DESTINATION CLEVELAND AND SPIRIT OF CLEVELAND, INC.

Independent Auditors' Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on
an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of The Convention and Visitors Bureau of Greater Cleveland, Inc. DBA Destination Cleveland and Spirit of Cleveland, Inc. (nonprofit organizations) (collectively referred to as Destination Cleveland), which comprise the combined statement of financial position as of December 31, 2017, and the related combined statements of activities, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated June 18, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered Destination Cleveland's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of Destination Cleveland's internal control. Accordingly, we do not express an opinion on the effectiveness of Destination Cleveland's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's combined financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Destination Cleveland's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Destination Cleveland's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Destination Cleveland's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cohen & Company Ltd.

June 18, 2018
Cleveland, Ohio

COMBINING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

	<u>Destination Cleveland</u>	<u>Spirit of Cleveland, Inc.</u>	<u>Eliminations</u>	<u>Total</u>		<u>Destination Cleveland</u>	<u>Spirit of Cleveland, Inc.</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS					LIABILITIES AND NET ASSETS				
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents	\$16,717,797	\$ 115,135		\$ 16,832,932	Accounts payable and accrued expenses	\$ 1,281,995	\$ 100	\$ (1,300)	\$ 1,280,795
Amounts due from Cuyahoga County	2,148,016			2,148,016	Salaries and payroll taxes payable	463,248			463,248
Accounts receivable	269,219	1,300	\$ (1,300)	269,219	Current portion of deferred lease incentive	41,460			41,460
Prepaid expenses and other assets	<u>540,419</u>			<u>540,419</u>	Gateway Economic Development Corporation liability	2,954,095			2,954,095
	<u>19,675,451</u>	<u>116,435</u>	<u>(1,300)</u>	<u>19,790,586</u>	Deferred revenue	<u>7,143</u>			<u>7,143</u>
						<u>4,747,941</u>	<u>100</u>	<u>(1,300)</u>	<u>4,746,741</u>
PROPERTY AND EQUIPMENT - AT COST	6,620,406			6,620,406	DEFERRED RENT	200,381			200,381
Less: Accumulated depreciation and amortization	<u>3,593,109</u>			<u>3,593,109</u>	DEFERRED LEASE INCENTIVE	<u>100,144</u>			<u>100,144</u>
	<u>3,027,297</u>			<u>3,027,297</u>		<u>5,048,466</u>	<u>100</u>	<u>(1,300)</u>	<u>5,047,266</u>
					UNRESTRICTED NET ASSETS				
					Undesignated	5,084,039	116,335		5,200,374
					Board designated	<u>9,363,469</u>			<u>9,363,469</u>
						14,447,508	116,335		14,563,843
OTHER ASSETS	<u>25,000</u>			<u>25,000</u>	TEMPORARILY RESTRICTED NET ASSETS				
						<u>3,231,774</u>			<u>3,231,774</u>
						<u>17,679,282</u>	<u>116,335</u>		<u>17,795,617</u>
	<u>\$22,727,748</u>	<u>\$ 116,435</u>	<u>\$ (1,300)</u>	<u>\$ 22,842,883</u>		<u>\$ 22,727,748</u>	<u>\$ 116,435</u>	<u>\$ (1,300)</u>	<u>\$ 22,842,883</u>

COMBINING STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	Destination Cleveland			Spirit of Cleveland, Inc.		Total
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Total	
REVENUES						
Transient occupancy tax	\$ 12,843,905		\$ 12,843,905			\$ 12,843,905
Capital improvement transient occupancy tax		\$ 6,539,473	6,539,473			6,539,473
Less: Gateway liability	1,477,000		1,477,000			1,477,000
Less: Rock and Roll Hall of Fame and Museum	1,260,156		1,260,156			1,260,156
Less: Quicken Loans Arena renovation	1,000,000		1,000,000			1,000,000
Net assets released from restriction	4,357,789	(4,357,789)				
Net transient occupancy tax	13,464,538	2,181,684	15,646,222			15,646,222
Partnership dues	618,757		618,757			618,757
Ad and publication	441,848		441,848			441,848
Interest	34,189		34,189	\$ 228	\$ 228	34,417
Registration	62,727		62,727			62,727
Sponsorship	48,298		48,298			48,298
Miscellaneous	8,860		8,860	7,600	7,600	16,460
In-kind contributions	51,603		51,603			51,603
	<u>14,730,820</u>	<u>2,181,684</u>	<u>16,912,504</u>	<u>7,828</u>	<u>7,828</u>	<u>16,920,332</u>
DEPARTMENTAL EXPENSES						
Administrative	1,976,138		1,976,138			1,976,138
Destination development and community affairs	1,134,327		1,134,327			1,134,327
Marketing	5,442,688		5,442,688			5,442,688
Partnerships	1,032,644		1,032,644			1,032,644
Sales - Convention	5,187,442		5,187,442			5,187,442
Services	744,092		744,092			744,092
	<u>15,517,331</u>		<u>15,517,331</u>			<u>15,517,331</u>
OTHER EXPENSES						
Sponsorships	263,010		263,010			263,010
Project grant				340	340	340
	<u>263,010</u>		<u>263,010</u>	<u>340</u>	<u>340</u>	<u>263,350</u>
	<u>15,780,341</u>		<u>15,780,341</u>	<u>340</u>	<u>340</u>	<u>15,780,681</u>
CHANGE IN NET ASSETS	(1,049,521)	2,181,684	1,132,163	7,488	7,488	1,139,651
NET ASSETS - BEGINNING OF THE YEAR	<u>15,497,029</u>	<u>1,050,090</u>	<u>16,547,119</u>	<u>108,847</u>	<u>108,847</u>	<u>16,655,966</u>
NET ASSETS - END OF THE YEAR	<u>\$ 14,447,508</u>	<u>\$ 3,231,774</u>	<u>\$ 17,679,282</u>	<u>\$ 116,335</u>	<u>\$ 116,335</u>	<u>\$ 17,795,617</u>



Dave Yost • Auditor of State

CONVENTION AND VISITORS BUREAU OF GREATER CLEVELAND
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
JULY 24, 2018