



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

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014







# Dave Yost • Auditor of State

Board of Directors  
The 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, 2015 through December 31, 2015. 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

August 4, 2016

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

DECEMBER 31, 2015 AND 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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 2015 audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying information on pages 17 and 18 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 23, 2016, 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.

June 23, 2016  
Cleveland, Ohio

*Cohen & Company Ltd.*

COMBINED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>		<u>2015</u>	<u>2014</u>
ASSETS			LIABILITIES AND NET ASSETS		
CURRENT ASSETS			CURRENT LIABILITIES		
Cash and cash equivalents	\$ 9,962,637	\$ 5,901,647	Accounts payable and accrued expenses	\$ 809,162	\$ 538,982
Amounts due from Cuyahoga County	2,161,199	1,885,193	Salaries and payroll taxes payable	585,625	351,262
Accounts receivable	315,099	907,193	Current portion of deferred lease incentive	41,460	41,460
Prepaid expenses and other assets	<u>1,402,308</u>	<u>566,119</u>	Gateway Economic Development		
	<u>13,841,243</u>	<u>9,260,152</u>	Corporation liability	1,468,832	1,460,953
			Deferred revenue	<u>28,201</u>	<u>79,391</u>
				2,933,280	2,472,048
PROPERTY AND EQUIPMENT - AT COST	5,055,949	3,074,526	DEFERRED RENT	89,690	42,192
Less: Accumulated depreciation					
and amortization	<u>2,009,433</u>	<u>1,417,343</u>	DEFERRED LEASE INCENTIVE	<u>183,064</u>	<u>224,524</u>
	<u>3,046,516</u>	<u>1,657,183</u>		<u>3,206,034</u>	<u>2,738,764</u>
			COMMITMENTS AND CONTINGENCIES		
			UNRESTRICTED NET ASSETS		
OTHER ASSETS		<u>500,000</u>	Unrestricted	4,145,932	5,535,897
			Board restricted	<u>9,075,463</u>	<u>2,967,126</u>
	<u>\$ 16,887,759</u>	<u>\$ 11,417,335</u>		13,221,395	8,503,023
			TEMPORARILY RESTRICTED NET ASSETS	<u>460,330</u>	<u>175,548</u>
				<u>13,681,725</u>	<u>8,678,571</u>
				<u>\$ 16,887,759</u>	<u>\$ 11,417,335</u>

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

COMBINED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUES</b>			
Transient occupancy tax	\$ 11,468,115		\$ 11,468,115
Capital improvement transient occupancy tax		\$ 5,926,656	5,926,656
Less: Gateway liability	1,468,832		1,468,832
Less: Convention Center / Global Ctr for Health Innovation	232,639		232,639
Less: Rock and Roll Hall of Fame and Museum	1,383,230		1,383,230
Net assets released from restriction	<u>5,641,874</u>	<u>(5,641,874)</u>	
Net transient occupancy tax	14,025,288	284,782	14,310,070
Partnership dues	717,783		717,783
Ad and publication	423,145		423,145
Interest	17,531		17,531
Registration	80,317		80,317
Sponsorship	37,000		37,000
Miscellaneous	3,970		3,970
In-kind contributions	<u>18,304</u>		<u>18,304</u>
	<u>15,323,338</u>	<u>284,782</u>	<u>15,608,120</u>
<b>DEPARTMENTAL EXPENSES</b>			
Administrative	1,701,941		1,701,941
Destination development and community affairs	589,772		589,772
Marketing	3,986,647		3,986,647
Partnership	1,000,440		1,000,440
Sales - Convention	2,414,926		2,414,926
Services	<u>619,595</u>		<u>619,595</u>
	<u>10,313,321</u>		<u>10,313,321</u>
<b>OTHER EXPENSES</b>			
Sponsorships	290,320		290,320
Project grant	<u>1,325</u>		<u>1,325</u>
	<u>291,645</u>		<u>291,645</u>
	<u>10,604,966</u>		<u>10,604,966</u>
CHANGE IN NET ASSETS	4,718,372	284,782	5,003,154
NET ASSETS - BEGINNING OF THE YEAR	<u>8,503,023</u>	<u>175,548</u>	<u>8,678,571</u>
NET ASSETS - END OF THE YEAR	<u>\$ 13,221,395</u>	<u>\$ 460,330</u>	<u>\$ 13,681,725</u>

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

COMBINED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2014\*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUES</b>			
Transient occupancy tax	\$ 10,553,934		\$ 10,553,934
Less: Gateway liability	1,460,953		1,460,953
Less: Convention Center / Global Ctr for Health Innovation	674,319		674,319
Capital improvement transient occupancy tax		\$ 338,009	338,009
Less: Rock and Roll Hall of Fame and Museum	66,127		66,127
Net assets released from restriction	<u>162,461</u>	<u>(162,461)</u>	
Net transient occupancy tax	8,514,996	175,548	8,690,544
Partnership dues	758,698		758,698
Ad and publication	242,304		242,304
Interest	18,859		18,859
Registration	51,614		51,614
Miscellaneous	5,407		5,407
In-kind contributions	<u>46,497</u>		<u>46,497</u>
	<u>9,638,375</u>	<u>175,548</u>	<u>9,813,923</u>
<b>DEPARTMENTAL EXPENSES</b>			
Administrative	1,407,768		1,407,768
Destination development and community affairs	653,598		653,598
Marketing	4,295,616		4,295,616
Partnership	937,760		937,760
Sales - Convention	1,912,350		1,912,350
Services	<u>625,506</u>		<u>625,506</u>
	<u>9,832,598</u>		<u>9,832,598</u>
<b>OTHER EXPENSES</b>			
Sponsorships	543,552		543,552
Project grant	<u>1,526</u>		<u>1,526</u>
	<u>545,078</u>		<u>545,078</u>
	<u>10,377,676</u>		<u>10,377,676</u>
CHANGE IN NET ASSETS	(739,301)	175,548	(563,753)
NET ASSETS - BEGINNING OF THE YEAR	<u>9,242,324</u>		<u>9,242,324</u>
NET ASSETS - END OF THE YEAR	<u>\$ 8,503,023</u>	<u>\$ 175,548</u>	<u>\$ 8,678,571</u>

\*Reclassified to conform to current year presentation.

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

COMBINED STATEMENT OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOW PROVIDED FROM (USED IN)		
OPERATING ACTIVITIES		
Change in net assets	\$ 5,003,154	\$ (563,753)
Noncash items included in activities		
Depreciation and amortization of property and equipment	592,090	418,180
Loss on disposal of property and equipment		7,497
Amortization of deferred lease incentive	(41,460)	(41,460)
Deferred rent	47,498	9,462
Increase (decrease) in cash caused by changes in current items:		
Amounts due from Cuyahoga County	(276,006)	(597,767)
Accounts receivable	592,094	(545,049)
Prepaid expenses and other assets	(336,189)	(689,126)
Accounts payable and accrued expenses	270,180	55,592
Salaries and payroll taxes payable	234,363	35,973
Gateway Economic Development Corporation liability	7,879	7,600
Deferred revenue	(51,190)	67,586
Net cash flow provided from (used in) operations	<u>6,042,413</u>	<u>(1,835,265)</u>
CASH FLOW USED IN INVESTING ACTIVITY		
Acquisition of property and equipment	<u>(1,981,423)</u>	<u>(296,921)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,060,990	(2,132,186)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>5,901,647</u>	<u>8,033,833</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 9,962,637</u>	<u>\$ 5,901,647</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.

Contributed Goods and Services

Destination Cleveland has recorded contributed in-kind goods and services for travel, visitor meals and entertainment and other expenses totaling \$18,304 and \$46,497 during 2015 and 2014, respectively. These in-kind goods and services have been included in revenues and expenses in the combined financial statements.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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).

Receivables and Credit Policies

Accounts receivable includes program service fees receivable. These amounts are due under various payment terms. Payments of receivables are allocated to the specific invoices identified on the remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

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, 2015 and 2014, management believed that all receivables were collectible and therefore no valuation allowance was necessary.

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 \$1,432,723 and \$1,765,139 for 2015 and 2014, 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, 2015 and 2014, Destination Cleveland did not have a liability for unrecognized tax benefits.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Management has evaluated subsequent events through June 23, 2016, the date the combined financial statements were available to be issued.

2. PROPERTY AND EQUIPMENT

At December 31, 2015 and 2014, the cost of property and equipment consisted of the following:

	<u>2015</u>	<u>2014</u>
Leasehold improvements	\$ 2,587,238	\$ 1,722,339
Furniture and fixtures	655,719	453,412
Office equipment	405,005	254,730
Software	512,310	512,310
Destination development projects	895,677	131,735
	<u>\$ 5,055,949</u>	<u>\$ 3,074,526</u>

3. AMOUNTS DUE FROM CUYAHOGA COUNTY

The amounts due from Cuyahoga County (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.

In August 2014, Destination Cleveland entered into 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, 2015 and 2014, the amounts due from Cuyahoga County include Destination Cleveland's unremitted share of the Capital Improvement Funds in the amounts of \$736,541 and \$338,009, respectively.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

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 - \$268,832 in 2015 and \$260,953 in 2014) 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 2015 and 2014 related to this agreement is due and has been included in the combined financial statements as of December 31, 2015 and 2014.

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.

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 paid \$674,319 (\$1,000,000 net the 2014 credit) and \$1,000,000 to the CC/GC project in 2015 and 2014, respectively, in accordance with this agreement. This agreement remains in effect until January 1, 2027. The maximum amounts of Transient Occupancy Tax allocable to the CC/GC project each year are as follows:

2016	\$	1,000,000
2017		1,000,000
2018		1,000,000
2019		1,000,000
2020		1,000,000
Thereafter		7,750,000
		<u>\$ 12,750,000</u>

Destination Cleveland's allocation of revenue under this agreement is subject to a "contribution credit" in years 2014 through 2027. The "contribution credit" allows for a reduction of Destination Cleveland's annual allocation of revenue based on the annual dollar amount of the 1% tax increase. In years 2014 through 2027, the "contribution credit" shall be calculated as follows:

NOTES TO THE COMBINED FINANCIAL STATEMENTS

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

- If the 1% tax increase generates greater than \$3,000,000 but less than or equal to \$3,500,000 of revenue for the County, the contribution credit shall be calculated as 50% of revenue in excess of \$3,000,000, capped at \$250,000.
- If the 1% tax increase generates greater than \$3,500,000 but less than or equal to \$4,000,000 of revenue for the County, the contribution credit shall be calculated as \$250,000 plus 75% of revenue in excess of \$3,500,000, capped at \$625,000.
- If the 1% tax increase generates greater than \$4,000,000 of revenue for the County, the contribution credit shall be calculated as 100% of revenues in excess of \$4,000,000, plus \$625,000.

For the year ended December 31, 2015, the contribution credit amounted to \$767,361 and will be used to reduce the amount to be paid to the CC/GC in 2016. For the year ended December 31, 2014, the contribution credit amounted to \$325,681 and was used to reduce the amount to be paid to the CC/GC in 2015. The contribution credit is included in prepaid expenses and other assets on the combined statement of financial position.

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. 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 \$24,000 and \$20,000 (including matching contributions) for 2015 and 2014, 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.

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

2016	\$	369,554
2017		375,780
2018		378,405
2019		379,820
2020		372,253
Thereafter		1,596,194
		<u>\$ 3,472,006</u>

NOTES TO THE COMBINED FINANCIAL STATEMENTS

7. COMMITMENTS AND CONTINGENCIES (Continued)

Leases (continued)

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

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

2016	\$	89,373
2017		92,282
2018		93,069
2019		93,857
2020		94,644
Thereafter		39,572
	\$	<u>502,797</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 2016 and therefore is included as a long-term liability.

Total rental expense, net of the sublease, amounted to approximately \$246,000 and \$166,000 during 2015 and 2014, respectively.

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 2015 and 2014.

Employee Leasing Agreement

Destination Cleveland has an employee leasing agreement with the GCSC that expired in December 2013 and continues on a month to month basis. The GCSC's CEO and President provide executive services as required by Destination Cleveland consistent with the terms provided in the agreement. Either party may terminate this agreement with 30 days written notice, with or without cause.

Back End Guarantee

As a condition precedent to a national convention entering into an agreement with the Cleveland 2016 Host Committee ("Host Committee"), the national convention is requiring 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 obligates 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 is to occur in July 2016.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

7. COMMITMENTS AND CONTINGENCIES (Continued)

Back End Guarantee (continued)

In 2014, Destination Cleveland also paid a \$500,000 sponsorship to the Host Committee to be used in 2016 for this national convention. This payment is included in other assets on the combined statement of financial position at December 31, 2015 and 2014.

The Rock and Roll Hall of Fame

In November 2014, Destination Cleveland entered into 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. Under this agreement, Destination Cleveland also committed to allocating a portion of the Capital Improvement Funds to pay an expense (up to a maximum of \$500,000) to plan, fabricate and install the Museum's Rock Walk plaques honoring inductees to date and to spending a minimum of \$100,000 annually to market the Museum during the time period the Capital Improvement Funds are in effect. The agreement expires at the same time as the Capital Improvement Funds, in 2054.

All amounts recorded in 2015 and 2014, of approximately \$1,383,000 and \$66,000, respectively, under this agreement with the Museum were recorded in net transient occupancy tax revenue. At December 31, 2015 and 2014, approximately \$144,000 and \$66,000, respectively, were due to the Museum and included in accounts payable and accrued expenses.

8. NET ASSETS

At December 31, 2015 and 2014, net assets consisted of the following:

	<u>2015</u>	<u>2014</u>
Destination Cleveland		
Unrestricted	\$ 4,037,110	\$ 3,197,099
Board restricted	9,075,463	5,197,172
Temporarily restricted	460,330	175,548
Spirit of Cleveland, Inc.	<u>108,822</u>	<u>108,752</u>
	<u>\$13,681,725</u>	<u>\$ 8,678,571</u>

Board Restricted Net Assets

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

Temporarily Restricted Net Assets

At December 31, 2015 and 2014, 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.

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, 2015, 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 23, 2016.

### 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.

June 23, 2016  
Cleveland, Ohio

*Cohen & Company Ltd.*

COMBINING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2015

	Destination Cleveland	Spirit of Cleveland, Inc.	Eliminations	Total		Destination Cleveland	Spirit of Cleveland, Inc.	Eliminations	Total
ASSETS					LIABILITIES AND NET ASSETS				
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents	\$ 9,772,888	\$ 189,749		\$ 9,962,637	Accounts payable and accrued expenses	\$ 808,159	\$ 80,927	\$ (79,924)	\$ 809,162
Amounts due from Cuyahoga County	2,161,199			2,161,199	Salaries and payroll taxes payable	585,625			585,625
Accounts receivable	393,823		\$ (78,724)	315,099	Current portion of deferred lease incentive Gateway Economic Development	41,460			41,460
Prepaid expenses and other assets	<u>1,403,508</u>		<u>(1,200)</u>	<u>1,402,308</u>	Corporation liability	1,468,832			1,468,832
	<u>13,731,418</u>	<u>189,749</u>	<u>(79,924)</u>	<u>13,841,243</u>	Deferred revenue	<u>28,201</u>			<u>28,201</u>
						2,932,277	80,927	(79,924)	2,933,280
					DEFERRED RENT	89,690			89,690
					DEFERRED LEASE INCENTIVE	<u>183,064</u>			<u>183,064</u>
						<u>3,205,031</u>	<u>80,927</u>	<u>(79,924)</u>	<u>3,206,034</u>
					UNRESTRICTED NET ASSETS				
PROPERTY AND EQUIPMENT - AT COST	5,055,949			5,055,949	Undesignated	4,037,110	108,822		4,145,932
Less: Accumulated depreciation and amortization	<u>2,009,433</u>			<u>2,009,433</u>	Board designated	<u>9,075,463</u>			<u>9,075,463</u>
	<u>3,046,516</u>			<u>3,046,516</u>		13,112,573	108,822		13,221,395
					TEMPORARILY RESTRICTED NET ASSETS	460,330			460,330
						<u>13,572,903</u>	<u>108,822</u>		<u>13,681,725</u>
						<u>\$ 16,777,934</u>	<u>\$ 189,749</u>	<u>\$ (79,924)</u>	<u>\$ 16,887,759</u>

COMBINING STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015

	Destination Cleveland			Spirit of Cleveland, Inc.		Total
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Total	
<b>REVENUES</b>						
Transient occupancy tax	\$ 11,468,115		\$ 11,468,115			\$ 11,468,115
Capital improvement transient occupancy tax		\$ 5,926,656	5,926,656			5,926,656
Less: Gateway liability	1,468,832		1,468,832			1,468,832
Less: Convention Center / Global Ctr for Health Innovation	232,639		232,639			232,639
Less: Rock and Roll Hall of Fame and Museum	1,383,230		1,383,230			1,383,230
Net assets released from restriction	5,641,874	(5,641,874)				
Net transient occupancy tax	14,025,288	284,782	14,310,070			14,310,070
Partnership dues	717,783		717,783			717,783
Ad and publication	423,145		423,145			423,145
Interest	17,166		17,166	\$ 365	\$ 365	17,531
Registration	80,317		80,317			80,317
Sponsorship	37,000		37,000			37,000
Miscellaneous	2,940		2,940	1,030	1,030	3,970
In-kind contributions	18,304		18,304			18,304
	<u>15,321,943</u>	<u>284,782</u>	<u>15,606,725</u>	<u>1,395</u>	<u>1,395</u>	<u>15,608,120</u>
<b>DEPARTMENTAL EXPENSES</b>						
Administrative	1,701,941		1,701,941			1,701,941
Destination development and community affairs	589,772		589,772			589,772
Marketing	3,986,647		3,986,647			3,986,647
Partnerships	1,000,440		1,000,440			1,000,440
Sales - Convention	2,414,926		2,414,926			2,414,926
Services	619,595		619,595			619,595
	<u>10,313,321</u>		<u>10,313,321</u>			<u>10,313,321</u>
<b>OTHER EXPENSES</b>						
Sponsorships	290,320		290,320			290,320
Project grant				1,325	1,325	1,325
	<u>290,320</u>		<u>290,320</u>	<u>1,325</u>	<u>1,325</u>	<u>291,645</u>
	<u>10,603,641</u>		<u>10,603,641</u>	<u>1,325</u>	<u>1,325</u>	<u>10,604,966</u>
CHANGE IN NET ASSETS	4,718,302	284,782	5,003,084	70	70	5,003,154
NET ASSETS - BEGINNING OF THE YEAR	<u>8,394,271</u>	<u>175,548</u>	<u>8,569,819</u>	<u>108,752</u>	<u>108,752</u>	<u>8,678,571</u>
NET ASSETS - END OF THE YEAR	<u>\$ 13,112,573</u>	<u>\$ 460,330</u>	<u>\$ 13,572,903</u>	<u>\$ 108,822</u>	<u>\$ 108,822</u>	<u>\$ 13,681,725</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  
AUGUST 16, 2016**