

**FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
FRANKLIN COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2017



Dave Yost • Auditor of State

**FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
FRANKLIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Franklin County Convention Facilities Authority
Franklin County
400 North High Street, 4th Floor
Columbus, Ohio 43215

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Franklin County Convention Facilities Authority, Franklin County, Ohio (the Authority), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority'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 Authority'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 Authority'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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Franklin County Convention Facilities Authority, Franklin County, Ohio, as of December 31, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and schedules of net pension liabilities and pension contributions, 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 April 11, 2018, on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

April 11, 2018

Franklin County Convention Facilities Authority
Management's Discussion and Analysis
For the Year Ended December 31, 2017

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial performance of the Franklin County Convention Facilities Authority (herein referred to as the Authority) and an introduction to the Authority's basic financial statements for the year ended December 31, 2017. The information contained in this MD&A should be considered in conjunction with information presented in the Authority's basic financial statements and corresponding notes to the basic financial statements.

OVERVIEW OF THE AUTHORITY

The Authority is a public authority responsible for the development and operation of the Greater Columbus Convention Center (herein referred to as Convention Center), the Hilton Columbus Downtown (herein referred to as Hilton Hotel) and Nationwide Arena (herein referred to as Arena) in Columbus, Ohio. As owner/developer of the Convention Center, Hilton Hotel and Arena, the Authority is responsible for the development, construction, improvement, management and successful operation of these facilities and related properties. In addition, the Authority is responsible for ensuring the continued success and growth of the convention market within the Greater Columbus community. These responsibilities are directly linked to the Authority's continued investment in and support of services, resources, facilities and projects that enhance the use of the Convention Center and expand convention activity within the community.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Authority's basic financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). The financial information of the Authority is accounted for in three separate proprietary (enterprise) funds to better reflect limitations and restrictions placed on the use of available resources. The Arena Fund is used to account for financial resources used for the acquisition and capital improvement of the Arena, as well as the accumulations of resources for, and the payment of capital debt principal, interest and related costs. The Hotel Fund is used to account for financial resources used for the development and construction of the Hilton Hotel, as well as the accumulations of resources for, and the payment of capital debt principal, interest and related costs. The Convention Center Fund is used to account for financial resources used for the acquisition, development and construction of the Convention Center, as well as the accumulations of resources for, and the payment of capital debt principal, interest and related costs. The Convention Center Fund is used to account for all financial resources and expenses of the Authority except those required to be accounted for in the Hotel Fund and the Arena Fund.

Following this MD&A, are the basic financial statements of the Authority together with notes, which are essential to a full understanding of the data contained in the basic financial statements. The basic financial statements for the Authority are the following:

- Statement of Net Position – This statement presents information on all Authority assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position.
- Statement of Revenues, Expenses and Changes in Net Position - This statement shows how the Authority's net position has changed during the most recent year. This includes operating and non-operating revenues and expenses of the Authority.

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- Statement of Cash Flows – This statement reports cash and cash equivalent activities for the fiscal year resulting from operating, non-capital financing, capital financing and investing activities. A reconciliation of operating income with net cash provided by (used for) operating activities is provided.

FINANCIAL POSITION OF THE AUTHORITY

The following represents the Authority's financial position within the Convention Center Fund for the years ended December 31:

	Convention Center Fund		
	2016	2017	Increase (Decrease) over/ (under) 2016
Current and other assets	\$ 100,638,420	\$ 49,231,065	\$ (51,407,355)
Capital assets, Net	286,622,304	312,397,317	25,775,013
Total assets	387,260,724	361,628,382	(25,632,342)
Deferred outflows of resources	4,709,342	4,412,782	(296,560)
Current liabilities	27,158,901	14,692,270	(12,466,631)
Noncurrent liabilities	286,660,309	274,010,606	(12,649,703)
Total liabilities	313,819,210	288,702,876	(25,116,334)
Deferred inflows of resources	461,566	469,438	7,872
Net investment in capital assets	55,358,455	60,764,986	5,406,531
Restricted for debt service	5,202,901	6,563,548	1,360,647
Restricted for capital projects	1,080,725	423,212	(657,513)
Unrestricted	16,047,209	9,117,104	(6,930,105)
Total net position	\$ 77,689,290	\$ 76,868,850	\$ (820,440)

In the Convention Center Fund, total assets plus deferred outflows of resources exceeded total liabilities plus deferred inflows of resources by \$76.9 million (net position) at December 31, 2017. A large portion of net position, \$60.8 million at December 31, 2017, represents the Authority's investment in capital assets, less the related debt outstanding used to acquire those capital assets. These capital assets are property, facilities, equipment and related items that support the initial construction, as well as the continual expansion and improvement of the convention center and parking facilities. Although the Authority's investment in capital assets is reported net of debt; it is noted that the resources needed to repay the debt associated with the Convention Center are provided annually from collection of hotel occupancy taxes, since capital assets themselves cannot be used to liquidate liabilities.

An additional component of Convention Center Fund net position, \$6.6 million at December 31, 2017, is subject to restrictions as set forth in the Authority's bond indentures. These assets are not available for new spending, as the majority of these assets are held in reserve to meet debt service requirements should other revenue sources prove inadequate.

Franklin County Convention Facilities Authority
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The Convention Center Fund's remaining unrestricted net position of \$9.1 million may be used to meet any of the Authority's ongoing obligations.

The following represents the Authority's financial position within the Hotel Fund for the years ended December 31:

	Hotel Fund		
	2016	2017	Increase (Decrease) over/ (under) 2016
Current and other assets	\$ 42,228,920	\$ 46,115,830	\$ 3,886,910
Capital assets, Net	125,406,816	122,988,254	(2,418,562)
Total assets	167,635,736	169,104,084	1,468,348
Current liabilities	3,391,389	3,547,903	156,514
Noncurrent liabilities	155,110,000	152,420,000	(2,690,000)
Total liabilities	158,501,389	155,967,903	(2,533,486)
Net investment in capital assets	(25,836,920)	(25,730,482)	106,438
Restricted for debt service	29,049,666	32,897,172	3,847,506
Restricted for capital projects	3,521,601	3,569,491	47,890
Restricted for other	2,400,000	2,400,000	-
Total net position	\$ 9,134,347	\$ 13,136,181	\$ 4,001,834

In the Hotel Fund, total assets exceeded total liabilities by \$13.1 million (net position) at December 31, 2017. A large amount of net position, negative \$25.7 million at December 31, 2017, represents the Authority's investment in capital assets, less the related debt outstanding used to acquire those capital assets. The reported negative net investment in capital assets within the Hotel Fund reflects the difference between the value of bonds issued for the hotel development project and the value of items capitalized as a result of the implementation of the hotel development project. Most of the bond proceeds received from the hotel development project bond issue were used to construct the hotel and all of these costs were capitalized as required. However, bond proceeds were also deposited into a debt service reserve fund and a rental reserve fund established per terms of the bond indenture. Such deposits were not capitalized. Furthermore, bond proceeds were used to purchase items for the Hilton Hotel that were not capitalized per guidelines provided by the Authority's approved capital asset program. These items were planned as part of the hotel development project and included hotel operating supplies, furniture, and minor equipment.

An additional component of Hotel Fund net position, \$32.9 million at December 31, 2017, is subject to restrictions as set forth in the Authority's bond indenture for the hotel development project. These assets are not available for new spending, as all of these assets are held in reserve to meet debt service requirements should other revenue sources prove inadequate.

Franklin County Convention Facilities Authority
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The Hotel Fund net position also includes \$2.4 million in restricted funds (other) held in reserve for hotel operations and \$3.6 million in restricted funds held in reserve for future hotel capital improvement projects and furniture, fixture and equipment (FF&E) purchases.

The following represents the Authority's financial position within the Arena Fund for the years ended December 31, 2016 Current and Noncurrent liabilities have been reclassified to correlate with the 2017 classifications):

	Arena Fund		
	2016	2017	Increase (Decrease) over/ (under) 2016
Current and other assets	\$ 380,624	\$ 400,175	\$ 19,551
Capital assets, Net	42,563,827	41,541,797	(1,022,030)
Total assets	42,944,451	41,941,972	(1,002,479)
Current liabilities	2,342,271	3,085,883	743,612
Noncurrent liabilities	62,350,695	63,900,292	1,549,597
Total liabilities	64,692,966	66,986,175	2,293,209
Net investment in capital assets	(5,671,173)	(6,193,203)	(522,030)
Restricted for capital projects	49,980	31,383	(18,597)
Unrestricted	(16,127,322)	(18,882,383)	(2,755,061)
Total net position	\$ (21,748,515)	\$ (25,044,203)	\$ (3,295,688)

In the Arena Fund, total liabilities exceeded total assets by \$25.0 million (negative net position) at December 31, 2017. The net position of the Arena Fund is negative because intergovernmental revenue from casino taxes was less than expected and, as a result, revenues into the Arena Fund were not available to cover all expenses. All 2017 expenses for which the Authority is responsible for with respect to the Arena, including debt service payments, are funded solely from, and only to the extent of the Authority's receipt of casino tax revenue from the City of Columbus and Franklin County.

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The following represents the changes in revenues, expenses and net position in the Convention Center Fund for the years ended December 31:

	Convention Center Fund		
	2016	2017	Increase (Decrease) over/ (under) 2016
Operating Revenues			
Lease rent	\$ 2,485,194	\$ 2,569,931	\$ 84,737
Gain from operations	2,204,126	3,522,262	1,318,136
Miscellaneous	194,015	96,493	(97,522)
Nonoperating Revenues			
Hotel/motel excise tax	23,317,996	24,441,477	1,123,481
Decrease in fair value of investments	(188,465)	(199,460)	(10,995)
Interest earnings	1,143,165	820,408	(322,757)
Total Revenues	29,156,031	31,251,111	2,095,080
Operating Expenses			
Salary and fringe benefits	1,096,331	1,327,760	231,429
Insurance	422,900	451,678	28,778
Purchased services	1,478,021	1,325,927	(152,094)
Materials and supplies	576,518	2,159,363	1,582,845
Depreciation	8,090,125	16,000,221	7,910,096
Other	178,719	177,439	(1,280)
Nonoperating Expenses			
Interest expense	5,617,941	7,789,745	2,171,804
Loss on Disposal of Capital Assets	-	760,616	760,616
Total Expenses	17,460,555	29,992,749	12,532,194
Change before Transfers	11,695,476	1,258,362	(10,437,114)
Transfers out	(1,721,902)	(2,078,802)	(356,900)
Change in Net Position	9,973,574	(820,440)	(10,794,014)
Beginning Net Position	67,715,716	77,689,290	9,973,574
Ending Net Position	\$ 77,689,290	\$ 76,868,850	\$ (820,440)

Key descriptions of Convention Center revenues, expenses and net position, as listed, are as follows:

- In July 1988, the Authority was established by the Franklin County Commissioners to construct a new Convention Center in downtown Columbus. The Authority was also given the ability to levy excise taxes on lodging transactions to pay for costs associated with the actual construction and operation of the Convention Center. Since completion of the original Convention Center in 1993, the Authority has continued to expand and grow the Convention Center into an active, self-sustaining facility. The

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Convention Center is currently 1.8 million square feet in size and features over 373,000 square feet of contiguous exhibit hall space, three large ballrooms, 75 meeting rooms, show offices, outdoor event space, café, Starbucks, food court, a new north atrium, updated concourse and extensive pre-function space. The Convention Center is connected to and located near several parking facilities owned by the Authority.



- To support the cost of the original construction, expansion and continual improvement of the Convention Center, the Authority issues tax and lease revenue anticipation bonds. Annual hotel tax revenue is used to pay for principal and interest due on these bonds. Both the City of Columbus and Franklin County provide credit support for the bonds and have agreed to cover outstanding debt obligations in equal shares if all indentured lease revenues prove insufficient to cover debt costs.
- The Authority levies a 4.0 percent countywide bed tax on occupied hotel rooms and an additional 0.9 percent bed tax on City of Columbus occupied hotel rooms. Revenue collected from this excise tax as well as earnings from investments of funds held in reserve are first used to pay for annual Convention Center debt service obligations of the Authority. Revenues and earnings in excess of Convention Center debt service obligations are deposited into the Convention Center Fund as available equity. Hotel tax collections during 2017 proved to be 4.8 percent or \$1.1 million above prior year collections. This increase was due to improved occupancy and average daily rates within the local hotel market.
- Lease rent is annual lease payments received for the use of property owned or leased by the Authority. The Authority currently manages two such lease agreements; the first with the Hyatt Regency Hotel connected to the Convention Center and the second with Drury Inn, also connected to the Convention Center. Both lease payments include both a fixed lease payment which is consistent from year to year and a performance based lease payment which varies from year to year pending the financial success of the hotels. In 2017, lease rent payments increased due to the successful performance of the Hyatt Regency Hotel.

The Authority also receives a land lease payment from the Arena per terms of the Arena transaction. This lease payment is fixed and is payable only to the extent casino tax revenues are available to cover the expense.

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- The management, operation and marketing of the Convention Center is facilitated through the Authority's management agreement with SMG. As part of this management agreement, SMG is responsible for the financial activity of the Convention Center. SMG financially manages all revenues collected through the operation of the Convention Center and utilizes these revenues to pay for all expenses associated with operating the facility. Net operating income from the Convention Center is recorded as "gain from operations" in the Convention Center Fund.
- 2017 interest earnings are mainly acquired through investment of resources in U.S. Agency Securities and Treasuries consistent with an investment policy approved by the Authority. While investments will be held until maturity, there is a reported decrease in investment income for 2017 due to the valuation of such investments at current market. The current decrease in fair value of investments is temporary as reported gains and losses will fluctuate throughout the investment period.
- The Authority has an office that is responsible for implementing policies and programs of the board. Most operating expenses as listed are used to support this office.
- Insurance is a major expense for the Convention Center Fund. Included in this line item are costs associated with purchasing property, general liability, umbrella and public official's liability insurance.
- Beginning in October 2016, the Authority entered into an agreement with Levy Premium Foodservice Limited Partnership to provide food and beverage services for the Convention Center. Included within this agreement is the requirement that a capital reserve fund equal to 3.5 percent of gross sales be established to fund the repair, maintenance and replacement of food/beverage service equipment. Expenses made using resources from the capital reserve fund are recorded as an operating expense unless such purchases are capitalized. Any funds within the capital reserve that are not used during the year remain in the fund and are reserved for future purchases of food/beverage service equipment.
- In December 2011, the Authority issued \$16.0 million in parking garage improvement revenue bonds to finance the expansion of the Vine Street parking facility. In July 2014, the Authority issued \$18.0 million in parking garage improvement revenue bonds for the development of the new Goodale Street parking garage (opened January 2016). Both bond issues were thirty year, taxable bonds purchased by the Franklin County Treasurer. Debt service associated with these bonds are paid through revenue received from the operation of all parking facilities owned by the Authority. The Authority has signed a long term agreement with Nationwide Reality Investors for a license to use parking spaces within the Authority's Vine Street Garage. Revenue from this agreement was approximately \$814,295 in 2017 and was included within the revenue reported as a "gain from operations".
- In 2017, the Authority completed a comprehensive improvement project that updated and expanded the Convention Center. The project renovated all aspects of both the interior and exterior of the convention center. As a result, the Convention Center is now a state of the art facility with a new fresh, modern look designed to enhance a visitor's use and experience in the facility. In addition to renovating the entire facility, the project also expanded the north end of the facility by adding exhibit hall space, meeting rooms and a new grand two-story entrance in the Convention Center. The renovation and expansion project was financed through tax and lease revenue anticipation and refunding bonds issued December, 2014 and through the use of the Authority's equity reserves.

Franklin County Convention Facilities Authority
Management's Discussion and Analysis
For the Year Ended December 31, 2017

The following represents the changes in revenues, expenses and net position in the Hotel Fund for the years ended December 31:

	Hotel Fund		
	2016	2017	Increase (Decrease) over/ (under) 2016
Operating Revenues			
Gain from operations	\$ 13,012,834	\$ 12,098,127	\$ (914,707)
Nonoperating Revenues			
Decrease in fair value of investments	(118,503)	(130,168)	(11,665)
Interest earnings	374,839	428,011	53,172
Intergovernmental revenue	1,163,677	1,161,816	(1,861)
Interest subsidy revenue	3,287,109	3,256,135	(30,974)
Total Revenues	17,719,956	16,813,921	(906,035)
Operating Expenses			
Purchased services	7,579	99,625	92,046
Materials and supplies	164,937	420,544	255,607
Depreciation	3,773,080	3,975,504	202,424
Other	35,000	35,000	-
Nonoperating Expenses			
Interest expense	10,073,574	9,966,757	(106,817)
Total Expenses	14,054,170	14,497,430	443,260
Change before Transfers	3,665,786	2,316,491	(1,349,295)
Transfers in	1,604,369	1,685,343	80,974
Change in Net Position	5,270,155	4,001,834	(1,268,321)
Beginning Net Position	3,864,192	9,134,347	5,270,155
Ending Net Position	\$ 9,134,347	\$ 13,136,181	\$ 4,001,834

Key descriptions of Hotel Fund revenues, expenses and net position, as listed, are as follows:

- In answer to increasing demand for hotel rooms near and connected to the Convention Center, the Authority in partnership with the City of Columbus and Franklin County, constructed a new hotel on property near the Convention Center. Opened in October 2012, the Hilton Hotel, branded and managed by Hilton Management LLC, includes 532 guest rooms of which 48 are suites, a ballroom, meeting/banquet rooms, lobby, a three meal restaurant, bar/lounge area, coffee shop, pool, fitness center and walkway to the Convention Center. Parking for the Hilton Hotel is provided by the Vine Street

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Parking Facility located next to the Hilton Hotel site. The Hilton Hotel is 14 floors with over 429,600 square feet of usable space.



- To finance the development and construction of the new Hilton Hotel, the Authority issued lease revenue anticipation bonds backed by Franklin County. Bonds were issued in February 2010 as Build America Bonds. Interest payments began in 2013. Principal payments began in 2016; with net debt service escalating one percent annually after that point in time through 2042 when the last debt service payment is due. Income from the Hilton Hotel as well as revenue equivalent to the Hilton Hotel's occupancy (hotel) tax and revenue received from the U.S. Treasury is used to pay for debt service.
- The management, operation, marketing and branding of the Hilton Hotel is facilitated through the Authority's management agreement with Hilton Management LLC. As part of this management agreement, Hilton is responsible for the financial activity of the Hilton Hotel. Hilton financially manages all revenues collected through the operation of the Hilton Hotel and utilizes these revenues to pay for all expenses associated with operating the facility. Bottom line performance of the Hilton Hotel is recorded as "gain from operations" in the Hotel Fund. Income from hotel operations is used to pay debt service associated with the hotel project
- U.S. Treasury interest subsidy payments of \$3.3 million were made to the Authority in 2017 for debt service pursuant to bond requirements. These payments are impacted by mandatory budget reductions made to the Build America Bond program at the federal level (sequestration).
- Hotel tax revenue generated from the operation of the Hilton Hotel equaled approximately \$2.3 million in 2017. Hotel occupancy taxes generated through the Hilton Hotel (both the City of Columbus' and the Authority's tax) are used to pay debt service associated with the Hilton Hotel project. The city's occupancy tax from the Hilton Hotel equaled \$1.2 million in 2017 and is recorded as intergovernmental revenue. The Authority's occupancy tax received from the operation of the Hilton Hotel equaled approximately \$1.1 million and is recorded as a transfer from the Convention Center Fund. The transfer from the Convention Center Fund occurs only if the Authority is able to meet all Convention Center related debt service obligations for the year.

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- Capital improvement projects and FF&E purchases for the Hilton Hotel are funded through a capital reserve fund that was established with the opening of the Hilton Hotel. Every year, a percent of gross revenues from hotel operations is deposited into this fund. In 2017, this deposit equaled 6.0 percent of gross revenues. Capital improvement projects and FF&E purchases completed during the year using resources from the capital reserve fund are recorded as either an operating expense or a capital asset. Any funds within the capital reserve that are not used during the year remain in the fund and are reserved for future improvements and FF& E purchases.
- During 2017, \$17.6 million in revenues were deposited into the Hotel Fund to pay debt service. This amount exceeded the 2017 debt service payment (which now includes interest and principal) by approximately \$5.1 million. Revenues that exceed debt service remain in the Hotel Fund and are reserved for future debt service payments.

The following represents the changes in revenues, expenses and net position in the Arena Fund for the years ended December 31:

	Arena Fund		
	2016	2017	Increase (Decrease) over/ (under) 2016
Nonoperating Revenues			
Interest earnings	\$ 1,099	\$ 1,854	\$ 755
Capital contributions	1,393,406	906,075	(487,331)
Intergovernmental revenue	5,255,766	5,446,333	190,567
Total Revenues	6,650,271	6,354,262	(296,009)
Operating Expenses			
Purchased services	4,495,330	4,551,720	56,390
Depreciation	1,848,557	1,928,106	79,549
Other	751,000	751,000	-
Nonoperating Expenses			
Interest expense	2,688,889	2,812,583	123,694
Total Expenses	9,783,776	10,043,409	259,633
Change before Transfers	(3,133,505)	(3,689,147)	(555,642)
Transfers in	117,533	393,459	275,926
Change in Net Position	(3,015,972)	(3,295,688)	(279,716)
Beginning Net Position	(18,732,543)	(21,748,515)	(3,015,972)
Ending Net Position	\$ (21,748,515)	\$ (25,044,203)	\$ (3,295,688)

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Management's Discussion and Analysis
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Key descriptions of Arena Fund revenues, expenses and net position, as listed, are as follows:

- In March 2012, the City of Columbus, Franklin County, Nationwide Realty Investors (Nationwide), Columbus Blue Jackets, The Ohio State University (OSU) and the Authority agreed to a plan for Nationwide Arena that transitioned the Arena from private to public ownership. This transition was designed to strengthen the facility's financial position thus ensuring that the Arena remained a valuable asset within the community for years to come. Terms of this agreement are as follows:
 - Since the Authority already owned the land under Nationwide Arena, the Authority purchased the physical facilities of the Arena including the Ice Haus, parking garage, restaurant space and offices for \$42.5 million. To do so, the Authority borrowed \$32.5 million from Nationwide Realty Investors and \$10 million from the State of Ohio. (The Authority also borrowed \$11.7 million from Nationwide to support an initial capital improvement program for the facility as well as to pay for Arena operating expenses in 2012.)
 - The Columbus Blue Jackets agreed to make Nationwide Arena their home until September 15, 2039. Should the Columbus Blue Jackets breach this home ice covenant, they are liable for liquidated damages. When not in use by the Columbus Blue Jackets, the Arena is available for concerts, family shows, conventions and other events.
 - The Arena is managed by a new entity called Columbus Arena Management LLC or CAM. CAM consists of representatives from the Authority, Columbus Blue Jackets, OSU and Nationwide. CAM approves the operating and capital budgets for the facility. The Authority administers the capital improvements program. OSU provides day to day management services for the Arena.
 - Beginning in 2013, the city and county began paying the Authority a percentage of casino tax collections as lease/sublease payment for the Arena. These payments cover operating, capital and debt service expenses associated with the Arena. The financial statements classify this as intergovernmental revenue.
 - Casino tax revenue is first used to pay for operating, land lease, real estate taxes and capital expenses associated with the Arena (such payments were pre-determined as part of the transaction process). Only if casino revenues exceed operating, land lease, real estate tax and capital expenses will revenues be used to cover debt service obligations in any given year. If revenue from casino lease/sublease payments is not sufficient to cover debt service obligations, Nationwide has agreed to defer payments until revenues are available to cover debt service. Such payments and related interest will accrue. There is no obligation on the part of the Authority to cover outstanding debt obligations for the Arena if casino tax revenues prove inadequate.
 - If casino lease/sublease payments are not sufficient to cover the operating and capital programs for the Arena; Nationwide, the Columbus Blue Jackets and OSU have agreed to cover operating and capital shortfalls. OSU has a \$7.0 million cap on this obligation. Should OSU reach this cap, the Authority will begin to help fund the Arena.
- 2017 was the fifth year the Authority received casino tax revenues from the City of Columbus and Franklin County to pay for costs associated with the Arena. Total revenue received by the Authority from the city and county was \$4.9 million. Of this revenue, \$4.5 million was transferred to CAM for Arena operations, \$165,000 was used to make the land lease payment and \$257,716 was set aside to help pay for real estate tax obligations. Actual distribution of revenues was consistent with distribution requirements outlined in the arena transaction documents.

Franklin County Convention Facilities Authority
Management's Discussion and Analysis
For the Year Ended December 31, 2017



- At year-end 2016, the State of Ohio General Assembly authorized a permanent real estate tax exemption for the Arena such that the Arena now enjoys the same tax treatment under state law as the fourteen other publicly-owned entertainment and sports venues in Ohio. As part of the process to acquire authorization for real estate tax exemption, the Authority agreed to make an annual payment in-lieu-of-taxes to the Columbus Board of Education as long as the Arena remains publicly-owned. This payment equals \$586,000 a year and payment began with tax year 2016.

Beginning in 2016, the Arena transaction documents allow for casino tax revenues to be set aside in a reserve for real estate tax payments. This reserve is only funded after payment is made to CAM for Arena operations and to the Authority for the land lease payment. Transaction documents stipulate the maximum amount that is to be reserved for real estate payments. The reserve for real estate obligations is only funded to the extent casino tax revenues are available to do so. The reserve for real estate tax obligations is used to partially fund payment due to the Columbus Board of Education. Remaining amount due to the Columbus Board of Education is an obligation of the Authority and is paid for with available equity.

- Because casino tax revenues in 2017 were not sufficient enough to provide funding for capital improvements within the Arena, CAM decided to use operating reserve money to purchase needed furniture, fixture and equipment for the Arena. The operating reserve for the Arena is held by CAM. Operating reserve monies used to support Arena capital improvements is recorded as a capital contribution. Contributed capital received from CAM during 2017 was mostly used to replace seating in the lower and upper bowls of the Arena, replace parking equipment within the garage and renovate cooling towers.
- 2017 casino tax revenues received by the Authority were below revenue levels needed to meet debt service obligations due on the State of Ohio loan. Because revenues were below expectations, the State of Ohio was asked to defer interest due on the State of Ohio loan. The State of Ohio did reduce the principal amount due on the loan by \$500,000 as a result of the Arena meeting job commitment and payroll requirements as outlined in the loan agreement.

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For the Year Ended December 31, 2017

- Revenues were also not available in 2017 to meet debt service obligations due on the Arena Lease Revenue Bonds as purchased by Nationwide. While Nationwide agreed, as part of the transaction process, to defer interest and principal payments on these bonds if casino tax revenue is not available to meet obligations; interest on the bonds continues to accrue during the deferral period.
- Under the terms of the Arena transaction, the Authority is not required to cover costs associated with the Arena; including principal and interest due on outstanding debt service obligations. Such obligations are payable solely from, and only to the extent of, the Authority receiving casino tax revenue payments from the city and county.

CAPITAL ASSETS

At the end of fiscal year 2017, the Authority had \$476.9 million (net of accumulated depreciation) invested in capital assets. This investment in capital assets includes land; a 1,800 car parking facility, a 800 car parking facility, and a 500 car underground parking garage; a convention center with over 373,000 square feet of contiguous exhibit hall space, three large ballrooms, and related meeting and back of house space; a 532 room full service hotel with supporting meeting room, ballroom, restaurant, and lobby space; and a 20,000 seat Arena with related concourses, suites, practice facility and parking garage.

The Authority's net capital assets increased by \$22.3 million in fiscal year 2017. This increase is the result of current year depreciation expense of \$21.9 million; disposals of \$760,615, building and improvements, works of art, and equipment and furnishings additions of \$4.4 million.; and construction in progress of \$40.6 million.

DEBT ADMINISTRATION

At December 31, 2017, the Authority had \$503.6 million in bonds and related long term liabilities outstanding; of which \$253.3 million are bonds associated with the Convention Center, \$155.1 million are bonds issued for development of the Hilton Hotel, \$12.7 million are bonds related to the expansion of the Vine Street parking facility, \$18.0 million are bonds related to the development of the Goodale Street parking facility, and \$64.5 million are bonds from the Arena transaction.

Annual debt service obligations for the Convention Center are paid with revenues received by Authority from collection of a county-wide hotel occupancy tax. The bond indenture requires that proceeds from the hotel excise tax as well as from earnings received through investment of reserve funds must first be used to meet annual debt service obligations. Only after these obligations are met can tax proceeds and investment earnings be used to offset on-going improvement and operation of the Convention Center and other related expenses.

Annual debt service for the Hilton Hotel is met through income received from the operation of the Hilton Hotel as well as from hotel/motel taxes generated through the operation of the Hilton Hotel, interest earnings and a subsidy payment from the U.S. Treasury. Revenue from these sources that exceed the annual debt service payment for the Hilton Hotel is reserved for future debt service obligations.

Annual debt service for the parking garage improvement revenue bonds (Series 2011 and Series 2014) is covered through parking revenue generated from parking facilities owned by the Authority.

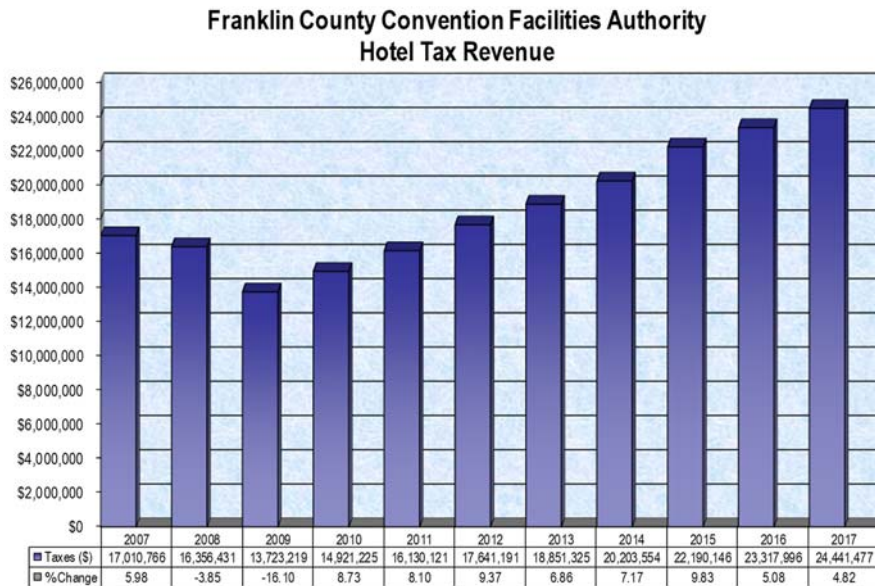
Franklin County Convention Facilities Authority
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Annual debt service obligations for the lease revenue bonds associated with the acquisition of Nationwide Arena is paid with casino tax revenue received by the Authority from the city and county. Debt service payments are made only to the extent such revenues are available. The Authority has no obligation to cover debt service if casino tax revenues prove to be insufficient.

In accordance with all bond indentures, debt service reserve funds and rental reserve funds have been established as special trust funds to provide for the payment of bond principal and interest in the event the amount in the debt service fund is insufficient. The bond indenture prescribes the amount to be placed into each of these special trust funds as well as the minimum reserve balances. Per bond indenture requirements, reserve balances are valued on a cash basis. These reserves totaled \$79.8 million at December 31, 2017.

Total debt for the Convention Center Fund decreased during 2017 due to the payment of principal due on series 2007, 2012 and 2015. Total debt for the Hotel Fund decreased due to the payment of principal. Total debt for the Arena Fund increased by \$2.1 million due to a \$500,000 loan forgiveness on the State loan and \$2.6 million of interest on the Nationwide Loan. Interest was added because casino tax collections were insufficient during 2017 to meet the interest payment due, as outlined in the bond agreement.

ECONOMIC FACTORS



The success of the Convention Center, Hilton Hotel and Nationwide Arena relies on the economic health of the convention and travel industry not only within the Columbus market but within the national market as well. An excellent indicator of how this industry is performing, especially locally, is the year over year change in revenue the Authority receives from hotel occupancy tax collections. As illustrated in the graph above, the industry has been performing well, especially during the more recent years. The industry did experience a significant decline during 2008 and 2009 due to pressures and challenges imposed by the economy. However, the industry rebounded with strength as revenues began to grow in 2010 and have continued to do so ever since. In fact, average annual growth in hotel tax revenue the Authority has received since 2010 is 7.5 percent. This growth is due to continual improvement in occupancy rates, average daily

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rates and supply of hotels within the Columbus community. Current projections, based upon actual bookings within the local hotel industry as well as within the Convention Center, suggest that this growth trend will continue into 2018.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances and to show accountability for money received by the Authority. For questions or for additional information regarding this report, please contact Maria Mercurio, Finance Director, at 614.827.2805 or mmercurio@fccfa.org.

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FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
STATEMENT OF NET POSITION
DECEMBER 31, 2017

	Business-type Activities - Enterprise Funds			
	Convention Center	Hotel	Arena	Total
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 524,959	\$ -	\$ -	\$ 524,959
Investments	8,297,144	-	-	8,297,144
Restricted assets:				
Investments	4,208,637	857,903	-	5,066,540
Hotel/motel excise tax receivable	3,155,963	-	-	3,155,963
Lease receivable	1,995,679	-	-	1,995,679
Interest receivable	96,198	81,297	-	177,495
Operations receivable	1,744,245	214,785	-	1,959,030
Prepaid items	107,341	-	110,000	217,341
Total current assets	<u>20,130,166</u>	<u>1,153,985</u>	<u>110,000</u>	<u>21,394,151</u>
Noncurrent Assets:				
Restricted cash	423,212	7,984,797	-	8,408,009
Restricted investments	28,676,324	36,977,048	290,175	65,943,547
Capital Assets:				
Nondepreciable capital assets	33,118,983	578,913	-	33,697,896
Construction in progress	19,500	69,419	-	88,919
Depreciable capital assets, net	279,258,834	122,339,922	41,541,797	443,140,553
Total capital assets	<u>312,397,317</u>	<u>122,988,254</u>	<u>41,541,797</u>	<u>476,927,368</u>
Net pension asset	1,363	-	-	1,363
Total noncurrent assets	<u>341,498,216</u>	<u>167,950,099</u>	<u>41,831,972</u>	<u>551,280,287</u>
Total assets	<u>361,628,382</u>	<u>169,104,084</u>	<u>41,941,972</u>	<u>572,674,438</u>
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized deferred amount on refunding	3,867,459	-	-	3,867,459
Pension	545,323	-	-	545,323
Total deferred outflows of resources	<u>4,412,782</u>	<u>-</u>	<u>-</u>	<u>4,412,782</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	1,776,269	1,425	-	1,777,694
Retainage payable	184,095	-	-	184,095
Accrued liabilities and other	344,259	35,000	586,000	965,259
Interest payable	932,647	821,478	1,899,883	3,654,008
Bonds payable	11,455,000	2,690,000	600,000	14,745,000
Total current liabilities	<u>14,692,270</u>	<u>3,547,903</u>	<u>3,085,883</u>	<u>21,326,056</u>
Noncurrent liabilities				
Compensated absences payable	181,939	-	-	181,939
Bonds payable, net	272,545,421	152,420,000	63,900,292	488,865,713
Net pension liability	1,283,246	-	-	1,283,246
Total noncurrent liabilities	<u>274,010,606</u>	<u>152,420,000</u>	<u>63,900,292</u>	<u>490,330,898</u>
Total liabilities	<u>288,702,876</u>	<u>155,967,903</u>	<u>66,986,175</u>	<u>511,656,954</u>
DEFERRED INFLOWS OF RESOURCES				
Unamortized up-front service concession payment	300,000	-	-	300,000
Unamortized deferred amount on refunding	125,564	-	-	125,564
Pension	43,874	-	-	43,874
Total deferred inflows of resources	<u>469,438</u>	<u>-</u>	<u>-</u>	<u>469,438</u>
NET POSITION				
Net investment in capital assets	60,764,986	(25,730,482)	(6,193,203)	28,841,301
Restricted for debt service	6,563,548	32,897,172	-	39,460,720
Restricted for capital projects	423,212	3,569,491	31,383	4,024,086
Restricted for other	-	2,400,000	-	2,400,000
Unrestricted	9,117,104	-	(18,882,383)	(9,765,279)
Total net position	<u>\$ 76,868,850</u>	<u>\$ 13,136,181</u>	<u>\$ (25,044,203)</u>	<u>\$ 64,960,828</u>

See accompanying notes to the basic financial statements.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

	Business-type Activities - Enterprise Funds			
	Convention Center	Hotel	Arena	Total
OPERATING REVENUES:				
Lease rent	\$ 2,569,931	\$ -	\$ -	\$ 2,569,931
Gain from operations	3,522,262	12,098,127	-	15,620,389
Miscellaneous	96,493	-	-	96,493
Total operating revenues	<u>6,188,686</u>	<u>12,098,127</u>	<u>-</u>	<u>18,286,813</u>
OPERATING EXPENSES				
Salaries and fringe benefits	1,327,760	-	-	1,327,760
Insurances	451,678	-	-	451,678
Purchased services	1,325,927	99,625	4,551,720	5,977,272
Materials and supplies	2,159,363	420,544	-	2,579,907
Other	177,439	35,000	751,000	963,439
Total operating expenses	<u>5,442,167</u>	<u>555,169</u>	<u>5,302,720</u>	<u>11,300,056</u>
Operating income/(loss) before depreciation	<u>746,519</u>	<u>11,542,958</u>	<u>(5,302,720)</u>	<u>6,986,757</u>
Depreciation	16,000,221	3,975,504	1,928,106	21,903,831
Operating income/(loss) before nonoperating revenues and expenses	<u>(15,253,702)</u>	<u>7,567,454</u>	<u>(7,230,826)</u>	<u>(14,917,074)</u>
NONOPERATING REVENUES (EXPENSES)				
Hotel/motel excise tax	24,441,477	-	-	24,441,477
Decrease in fair value of investments	(199,460)	(130,168)	-	(329,628)
Interest earnings	820,408	428,011	1,854	1,250,273
Interest expense	(7,789,745)	(9,966,757)	(2,812,583)	(20,569,085)
Loss on Disposal of Capital Assets	(760,616)	-	-	(760,616)
Intergovernmental revenue	-	1,161,816	5,446,333	6,608,149
Capital contributions	-	-	906,075	906,075
Interest subsidy revenue	-	3,256,135	-	3,256,135
Total nonoperating revenues (expenses)	<u>16,512,064</u>	<u>(5,250,963)</u>	<u>3,541,679</u>	<u>14,802,780</u>
Income/(Loss) before transfers	<u>1,258,362</u>	<u>2,316,491</u>	<u>(3,689,147)</u>	<u>(114,294)</u>
Transfers in	-	1,685,343	393,459	2,078,802
Transfers out	(2,078,802)	-	-	(2,078,802)
Change in net position	<u>(820,440)</u>	<u>4,001,834</u>	<u>(3,295,688)</u>	<u>(114,294)</u>
Total net position - beginning	77,689,290	9,134,347	(21,748,515)	65,075,122
Total net position - ending	<u>\$ 76,868,850</u>	<u>\$ 13,136,181</u>	<u>\$ (25,044,203)</u>	<u>\$ 64,960,828</u>

See accompanying notes to the basic financial statements.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Business-Type Activities - Enterprise Funds			
	Convention Center	Hotel	Arena	Total
Cash Flows from Operating Activities				
Receipts from leases	\$ 2,502,298	\$ -	\$ -	\$ 2,502,298
Receipts from services	2,746,604	13,016,287	-	15,762,891
Payments for professional services and operations	(4,423,763)	(553,744)	(5,302,720)	(10,280,227)
Payments to employees for services	(800,947)	-	-	(800,947)
Payments for retirement	(207,302)	-	-	(207,302)
Receipts from other	95,184	-	-	95,184
Net cash provided by (used in) operating activities	<u>(87,926)</u>	<u>12,462,543</u>	<u>(5,302,720)</u>	<u>7,071,897</u>
Cash Flows from NonCapital Financing Activities				
Hotel/motel excise taxes received	22,685,324	-	-	22,685,324
Intergovernmental	-	1,161,816	4,946,333	6,108,149
Transfers in (out)	(2,078,802)	1,685,343	393,459	-
Net cash provided by noncapital financing activities	<u>20,606,522</u>	<u>2,847,159</u>	<u>5,339,792</u>	<u>28,793,473</u>
Cash Flows from Capital and related Financing Activities				
Purchases of capital assets	(55,361,328)	(1,556,942)	-	(56,918,270)
Proceeds from the sale of refunding bonds	4,705,000	-	-	4,705,000
Cash paid on bond interest and fiscal charges	(11,319,472)	(9,976,668)	(19,375)	(21,315,515)
Cash paid on bond principal	(13,090,000)	(2,525,000)	-	(15,615,000)
Cash received from federal interest subsidy	-	3,256,135	-	3,256,135
Net cash used in capital and related financing activities	<u>(75,065,800)</u>	<u>(10,802,475)</u>	<u>(19,375)</u>	<u>(85,887,650)</u>
Cash Flows from Investing Activities				
Interest received from investments	835,112	481,260	1,854	1,318,226
Investment sales	140,477,424	25,162,832	6,914,360	172,554,616
Investment purchases	(86,427,528)	(30,089,526)	(6,933,911)	(123,450,965)
Net cash provided by (used in) investing activities	<u>54,885,008</u>	<u>(4,445,434)</u>	<u>(17,697)</u>	<u>50,421,877</u>
Net increase in cash and cash equivalents	337,804	61,793	-	399,597
Cash- January 1	610,367	7,923,004	-	8,533,371
Cash- December 31	<u>\$ 948,171</u>	<u>\$ 7,984,797</u>	<u>\$ -</u>	<u>\$ 8,932,968</u>

See accompanying notes to the basic financial statements.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Business-Type Activities - Enterprise Funds			
	Convention Center	Hotel	Arena	Total
Reconciliation of operating income/(loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (15,253,702)	\$ 7,567,454	\$ (7,230,826)	\$ (14,917,074)
Adjustments to reconcile operating income/(loss) to net cash provided by (used in) operating activities:				
Depreciation	16,000,221	3,975,504	1,928,106	21,903,831
Increase in lease receivable	(82,217)	-	-	(82,217)
(Increase)/Decrease in operations receivable	(700,658)	918,160	-	217,502
Decrease in prepaid items and other	1,174	-	-	1,174
Increase in net pension asset and related deferred outflows	(143,354)	-	-	(143,354)
Increase/(Decrease) in accounts payable	(173,238)	1,425	-	(171,813)
Decrease in accrued liabilities and other related items	(34,083)	-	-	(34,083)
Increase in net pension liability and related deferred inflows	297,931	-	-	297,931
Total adjustments	<u>15,165,776</u>	<u>4,895,089</u>	<u>1,928,106</u>	<u>21,988,971</u>
Net cash provided by (used in) operating activities	<u>\$ (87,926)</u>	<u>\$ 12,462,543</u>	<u>\$ (5,302,720)</u>	<u>\$ 7,071,897</u>
Noncash financing activities:				
Net amortization related to the capital debt	\$ (1,103,789)	\$ -	\$ -	\$ (1,103,789)

Schedule of noncash transactions:

During the year, the Authority met the annual incentive target for the State Loan. In accordance with the State Loan Agreement, the Authority's principal balance was reduced by \$500,000.

During the year, the Authority's Arena lease payments were insufficient to pay the interest payment due the bondholder. In accordance with the bond agreement, \$2,649,596 of unpaid interest was added to the Authority's principal balance outstanding.

During the year, the Authority capitalized interest related to the convention center renovation and expansion construction project in the amount of \$2,544,026.

During the year, the arena operator contributed capital assets to the Authority totaling \$906,075.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

1. DESCRIPTION OF ENTITY

Organization – The Franklin County Convention Facilities Authority (the “Authority”) was established by the Board of County Commissioners of Franklin County, Ohio on July 12, 1988. The Authority is exempt from Federal corporate income taxes. The Authority was formed to acquire, construct, equip, and operate a Convention Center and entertainment and sports facilities in Columbus, Ohio.

The Authority levies an excise tax on hotels and motels in the amount of 4% of each transaction occurring within the boundaries of Franklin County, Ohio and an additional excise tax in the amount of .9% of each transaction occurring within the municipal limits of Columbus located within the boundaries of Franklin County. The Columbus City Auditor administers and collects these excise taxes on behalf of the Authority. The Columbus City Auditor remits taxes collected to the Authority’s trustee on a monthly basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant Accounting Policies – The significant accounting policies followed in preparation of these basic financial statements are summarized below. These policies conform to accounting principles generally accepted in the United States of America (GAAP) for governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources.

The Authority follows the business-type activities reporting requirements of GASB Statement No. 34. In accordance with GASB Statement No. 34, the accompanying basic financial statements are reported on an Authority-wide basis.

GASB Statement No. 34 requires the following, which collectively make up the Authority’s basic financial statements:

- Management’s Discussion and Analysis
- Basic financial statements
 - Statement of Net Position
 - Statement of Revenues, Expenses, and Changes in Net Position
 - Statement of Cash Flows
- Notes to the basic financial statements
- Required Pension Schedules

Measurement Focus and Basis of Accounting – The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the types of resources being measured and the basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The Authority’s financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, or for derived tax revenue, when the exchange transaction on which the tax is imposed occurs, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Proprietary Funds – The Authority operates using enterprise fund reporting. Enterprise funds are used to account for the costs of providing goods or services to the general public on a continuing basis which are financed or recovered primarily through user charges or to report any activity for which a fee is charged to external users for goods or services, regardless of whether the Authority intends to fully recover the cost of the goods or services provided.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations.

The Authority’s principal operating revenues consist of land lease rent and gain/loss from day-to-day operations of the facilities. Operating expenses for the Authority include administrative expenses, routine repairs and maintenance, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Accounting – The accounts of the Authority are maintained in accordance with the principles of “Fund Accounting” in order to reflect limitations and restrictions placed on the use of available resources. The following proprietary funds are used by the Authority:

Convention Center Fund – The Convention Center Fund accounts for the operation of the Convention Center, parking facilities, and related expenses, including construction of and improvements to these facilities, as well as the accumulation of financial resources for, and the payment of, debt principal, interest, and related costs.

Hotel Fund – The Hotel Fund accounts for the operation of the Hilton Hotel and related expenses, including construction of and improvements to the facility, as well as the accumulation of financial resources for, and the payment of, debt principal, interest, and related costs.

Arena Fund – The Arena Fund accounts for the operation of the Arena and related expenses, including improvements to the facility, as well as the accumulation of financial resources for, and the payment of, debt principal, interest, and related costs.

Cash and Cash Equivalents – Cash and cash equivalents includes demand deposits and short-term investments with original maturities of less than three months from the date of acquisition, excluding STAR Ohio and trust funds, which are reported as investments.

Investments – During fiscal year 2017, the Authority invested in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the Securities Exchange Commission as an investment company, but has adopted Governmental Accounting Standards Board (GASB) Statement No. 79, “*Certain External Investment Pools and Pool Participants.*” The Authority measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

For fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Restricted Assets – Certain resources set aside for the construction of facilities and repayment of bonds are classified as restricted on the Statement of Net Position because their use is limited by applicable revenue bond indentures.

Prepaid Items – Payments made to vendors for services that will benefit periods beyond year end are recorded as prepaid items under the consumption method.

Capital Assets and Depreciation – Office equipment, construction costs (including capitalized interest), and improvements are capitalized at cost. Generally, items purchased with individual costs ranging from \$5,000 to \$25,000 or more are capitalized based on the nature of the asset. Completed facilities are transferred from construction in progress to the appropriate category. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets, which range from 13 to 40 years for Buildings and Improvements, 20 to 30 years for Improvements other than Buildings, 3 to 60 years for Furnishings and Equipment, 40 years for Parking lots, and 7 years for major building equipment.

Deferred outflows/inflows of resources – In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the Authority, deferred outflows of resources are reported on the Statement of Net Position for deferred charges on refundings and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 10.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Authority, deferred inflows of resources are reported on the Statement of Net Position for the up-front service concession payment received from the Convention Center operator, deferred charges on refundings, and for pension. The up-front service concession payment received from the Convention Center operator is deferred and amortized using the straight-line method over one hundred twenty months, commencing January 1, 2012, with the Authority responsible for repayment of the unamortized portion if the Convention Center operator is not retained for the full duration of such amortization period. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred inflow of resources related to pension is explained in Note 10.

Bond Discounts and Premiums – Bond discounts and premiums are netted against the outstanding bonds, as a liability valuation account, and are being accreted or amortized using the straight-line method over the life of the applicable bond issues.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Position – Net position represents assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources. Net position is displayed in three components – net investment in capital assets; restricted; and unrestricted. The net investment in capital assets component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction or improvement of those assets. The restricted component consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The unrestricted component is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Estimates – The preparation of basic financial statements, in conformity with accounting principles generally accepted in the United States of America, 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.

Interfund Activity – Exchange transactions between funds are reported as revenues in the seller funds and as expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as nonoperating revenues/expenses. Transfers during the calendar year are considered allowable based upon the Authority's policies and the purpose of intended transfers.

Extraordinary and Special Items – Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Authority and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the calendar year.

Budgetary Accounting - Although not required under the Ohio Revised Code, an annual Operating Budget, which lapses at the end of the year, is adopted for management purposes. The budget is adopted on a budgetary accounting basis in which purchase orders, contracts, and other commitments for the expense of monies are recorded as the equivalent of expenses. The defined legal level of control established by the Authority to monitor expenses is at the fund/function level.

Pensions – For purposes of measuring the net pension asset, net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

3. DEPOSITS AND INVESTMENTS

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the Authority places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation, or other legally constituted authority of any other state or any instrumentality of such county, municipal corporation or other authority.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Authority will not be able to recover deposits or collateral securities that are in the possession of an outside party. At December 31, 2017, the carrying amount of the Authority's deposits was \$2,791,703, and the bank balance was \$2,840,486. Of the bank balance, \$2,493,687 was covered by Federal Deposit Insurance and \$346,799 was uninsured and collateralized with securities held by the financial institution or by its trust department or agent but not in the Authority's name.

The carrying amount of the Authority's deposits includes \$2,015,306 in STAR Ohio Plus and \$251,436 in cash held in escrow, both of which are reported as Restricted Cash on the Statement of Net Position.

In addition, the Authority had \$2,400,000 and \$3,569,491 on deposit with the Hilton Hotel operator for operating reserves and furniture, fixtures and equipment reserves, respectively, and \$171,776 on deposit with the Convention Center food and beverage operator for furniture, fixtures and equipment reserves, in accordance with the operating agreements. These amounts are also reported as Restricted Cash on the Statement of Net Position.

The Authority has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to the Authority and deposited either with the Authority 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 105% of the deposits being secured.

Investments

The Authority has adopted a formal investment policy. The objectives of the policy are the preservation of capital and protection of principal while earning investment interest. Safety of principal is the primary objective of the investment program. Funds are invested in accordance with Section 135 "Uniform Depository Act" of the Ohio Revised Code, as well as Section 351.20 of the Ohio Revised Code.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

3. DEPOSITS AND INVESTMENTS - CONTINUED

The types of obligations eligible for investment and deposits include:

1. U.S. Treasury Bills, Notes, and Bonds; various federal agency securities, including issues of Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corp. (FHLMC), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), and other agencies or instrumentalities of the United States. Eligible investments include securities that may be “called” (by the issuer) prior to the final maturity date. All eligible investments may be purchased at a premium or a discount. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
2. Commercial paper notes issued by companies incorporated under the laws of the United States; specific limitations apply as defined under Ohio Revised Code Section 135.14(B) (7).
3. Bankers acceptances issued by banks insured by the FDIC; specific limitations apply as defined under Ohio Revised Code Section 135.14(B)(7).
4. Certificates of deposit from any eligible institution mentioned in Ohio Revised Code Section 135.32 and Certificate of Deposit Account Registry Services (CDARS) programs, including STAR Plus.
5. No-load money market mutual funds rated in the highest category by at least one nationally recognized rating agency, investing exclusively in the same types of eligible securities as defined in Ohio Revised Code Sections 135.14(B)(1) and 135.14(B)(2) and repurchase agreements secured by such obligations. Eligible money market funds shall comply with ORC Section 135.01 regarding limitations and restrictions.
6. Repurchase agreements with any eligible institutions mentioned in Ohio Revised Code Section 135.32, or any eligible securities dealer pursuant to Ohio Revised Code Section 135.32(J), except that such eligible securities dealers shall be restricted to primary government securities dealers. Repurchase agreements will settle on a delivery versus payment basis with collateral held in the safekeeping by a third party custodian. The market value of securities subject to a repurchase agreement must exceed the principal value of the repurchase agreement by at least two percent as defined under the Ohio Revised Code.
7. The State Treasurer’s investment pool (STAR Ohio), pursuant to Ohio Revised Code Section 135.45.

In accordance with GASB Statement No. 79, the Authority’s investment in STAR Ohio is reported on an amortized cost basis, which approximates fair value. All other investments are reported at fair value. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the Authority’s investments reported at fair value are valued using quoted market prices (Level 1 inputs).

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
 FOR THE YEAR ENDED DECEMBER 31, 2017

3. DEPOSITS AND INVESTMENTS – CONTINUED

The following chart illustrates the Authority’s investments as of December 31:

	<u>Amount</u>	<u>Credit Rating</u>	<u>Maturity in Years</u>		
			<u><1</u>	<u>1-3</u>	<u>≥3</u>
<u>Convention Center Fund:</u>					
STAR Ohio	\$ 10,469,458	AAAm	\$ 10,469,458	\$ -	\$ -
Money Market Funds	42,099	NR	42,099	-	-
U.S. Treasuries	888,187	AA+ ¹	715,648	-	172,539
Commercial Paper	375,000	A-1 ¹	375,000	-	-
Federal Agency Securities	29,407,359	AA+ ¹	7,300,398	11,117,343	10,989,618
	<u>41,182,103</u>		<u>18,902,603</u>	<u>11,117,343</u>	<u>11,162,157</u>
<u>Hotel Fund:</u>					
STAR Ohio	9,589,651	AAAm	9,589,651	-	-
Money Market Funds	2,026,452	NR	2,026,452	-	-
U.S. Treasuries	1,770,966	AA+ ¹	-	1,770,966	-
Federal Agency Securities	24,447,882	AA+ ¹	4,693,511	13,865,978	5,888,393
	<u>37,834,951</u>		<u>16,309,614</u>	<u>15,636,944</u>	<u>5,888,393</u>
<u>Arena Fund:</u>					
STAR Ohio	290,175	AAAm	290,175	-	-
	<u>290,175</u>		<u>290,175</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 79,307,229</u>		<u>\$ 35,502,392</u>	<u>\$ 26,754,287</u>	<u>\$ 17,050,550</u>

¹ Standard & Poors

Reconciliation of the Authority’s deposits and investments to the Statements of Net Position is as follows:

	<u>Convention Center</u>	<u>Hotel</u>	<u>Arena</u>
Per Deposits and Investments Note:			
Deposits	\$ 776,397	\$ 2,015,306	\$ -
On Deposit with Operators	171,776	5,969,491	-
Investments	41,182,103	37,834,951	290,175
Totals	<u>\$ 42,130,276</u>	<u>\$ 45,819,748</u>	<u>\$ 290,175</u>
Per Statement of Net Position:			
Cash and Cash Equivalents	\$ 524,959	\$ -	\$ -
Investments	8,297,144	-	-
Restricted Cash	423,212	7,984,797	-
Restricted Investments	32,884,961	37,834,951	290,175
Totals	<u>\$ 42,130,276</u>	<u>\$ 45,819,748</u>	<u>\$ 290,175</u>

Concentration of Credit Risk - The Authority’s investment policy does not limit the amounts that may be invested in any one issuer.

As further discussed in Note 6, a portion of cash and investments is restricted for debt service and capital outlays.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

4. CAPITAL ASSETS

Capital Asset activity for the year ended December 31, 2017 is as follows:

	Beginning Balance	Additions	Disposals/ Transfers	Ending Balance
Convention Center Fund				
Capital assets, not being depreciated:				
Land	\$ 32,556,992	\$ -	\$ -	\$ 32,556,992
Works of Art	417,548	144,443	-	561,991
Construction in progress	109,154,750	39,532,119	(148,667,369)	19,500
Total capital assets, not being depreciated	<u>142,129,290</u>	<u>39,676,562</u>	<u>(148,667,369)</u>	<u>33,138,483</u>
Capital assets, being depreciated				
Buildings & improvements	281,721,121	-	131,039,655	412,760,776
Improvements other than buildings	1,592,229	-	11,162,237	12,754,466
Major building equipment	8,449,743	-	(1,302,528)	7,147,215
Parking lot	1,144,557	-	-	1,144,557
Equipment & Furnishings	5,183,028	2,859,287	(627,432)	7,414,883
Total capital assets, being depreciated	<u>298,090,678</u>	<u>2,859,287</u>	<u>140,271,932</u>	<u>441,221,897</u>
Less accumulated depreciation for:				
Buildings & improvements	(139,606,605)	(14,720,169)	5,684,122	(148,642,652)
Improvements other than buildings	(1,127,859)	(621,019)	20,740	(1,728,138)
Major building equipment	(8,449,743)	-	1,302,528	(7,147,215)
Parking lot	(772,575)	(28,614)	-	(801,189)
Equipment & Furnishings	(3,640,882)	(630,419)	627,432	(3,643,869)
Total accumulated depreciation	<u>(153,597,664)</u>	<u>(16,000,221)</u>	<u>7,634,822</u>	<u>(161,963,063)</u>
Total capital assets, being depreciated, net	<u>144,493,014</u>	<u>(13,140,934)</u>	<u>147,906,754</u>	<u>279,258,834</u>
Total capital assets, net	<u>\$ 286,622,304</u>	<u>\$ 26,535,628</u>	<u>\$ (760,615)</u>	<u>\$ 312,397,317</u>
Hotel Fund				
Capital assets, not being depreciated:				
Land	\$ 300,513	\$ -	\$ -	\$ 300,513
Works of Art	278,400	-	-	278,400
Construction in progress	123,922	1,114,448	(1,168,951)	69,419
Total capital assets, not being depreciated	<u>702,835</u>	<u>1,114,448</u>	<u>(1,168,951)</u>	<u>648,332</u>
Capital assets, being depreciated				
Buildings & improvements	141,812,962	-	1,168,951	142,981,913
Equipment & Furnishings	1,577,800	442,494	-	2,020,294
Total capital assets, being depreciated	<u>143,390,762</u>	<u>442,494</u>	<u>1,168,951</u>	<u>145,002,207</u>
Less accumulated depreciation for:				
Buildings & improvements	(17,548,140)	(3,656,911)	-	(21,205,051)
Equipment & Furnishings	(1,138,641)	(318,593)	-	(1,457,234)
Total accumulated depreciation	<u>(18,686,781)</u>	<u>(3,975,504)</u>	<u>-</u>	<u>(22,662,285)</u>
Total capital assets, being depreciated, net	<u>124,703,981</u>	<u>(3,533,010)</u>	<u>1,168,951</u>	<u>122,339,922</u>
Total capital assets, net	<u>\$ 125,406,816</u>	<u>\$ (2,418,562)</u>	<u>\$ -</u>	<u>\$ 122,988,254</u>

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

4. CAPITAL ASSETS – CONTINUED

Arena Fund	Beginning Balance	Additions	Disposals/ Transfers	Ending Balance
Capital assets, being depreciated				
Buildings & improvements	\$ 45,586,494	\$ 547,146	\$ -	\$ 46,133,640
Equipment & Furnishings	5,551,845	358,930	-	5,910,775
Total capital assets, being depreciated	<u>51,138,339</u>	<u>906,076</u>	<u>-</u>	<u>52,044,415</u>
Less accumulated depreciation for:				
Buildings & improvements	(5,857,779)	(1,326,057)	-	(7,183,836)
Equipment & Furnishings	(2,716,733)	(602,049)	-	(3,318,782)
Total accumulated depreciation	<u>(8,574,512)</u>	<u>(1,928,106)</u>	<u>-</u>	<u>(10,502,618)</u>
Total capital assets, net	<u>\$ 42,563,827</u>	<u>\$ (1,022,030)</u>	<u>\$ -</u>	<u>\$ 41,541,797</u>

In December 2014, the Authority issued \$160,140,000 in Tax and Lease Revenue Anticipation and Refunding Bonds, Series 2014, for the purpose of providing funds to (i) pay costs of the renovation and expansion project presently contemplated for the Authority’s convention center, including, but not limited to, an expansion of exhibit space as well as ceilings, carpeting, paint, wall coverings and signage, (ii) advance refund a portion of the outstanding principal of the Authority’s Tax and Lease Revenue Anticipation and Refunding Bonds, Series 2007, (iii) fund certain required deposits into the Debt Service Reserve Fund and the Rental Reserve Fund; (iv) fund capitalized interest; and (v) pay certain expenses incurred in connection with the issuance of the Series 2014 Bonds.

In accordance with Governmental Accounting Standards Board Statement No. 62, from the date the debt was issued, the Authority capitalizes the net effect of interest expense and related interest revenue on the portion of the debt issued to fund the construction projects. Interest costs related to the convention center renovation and expansion during 2017 were \$3,110,625, of which \$2,544,026 has been capitalized. Interest costs not capitalized are expensed.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

5. LONG TERM OBLIGATIONS

Convention Center Fund bonds outstanding at December 31, 2017 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Convention Center Fund					
Series 2007 Renovation and Refunding	\$ 5,465,000	\$ -	\$ (5,465,000)	\$ -	\$ -
Series 2011 Parking Garage	14,633,000	-	-	14,633,000	-
Series 2012 Refunding	18,890,000	-	(6,200,000)	12,690,000	6,320,000
Series 2014 Parking Garage	18,000,000	-	-	18,000,000	3,000,000
Series 2014 Renovation and Refunding	160,140,000	-	-	160,140,000	245,000
Series 2015 Refunding	54,940,000	-	(1,425,000)	53,515,000	1,450,000
Series 2017 Refunding	-	4,705,000	-	4,705,000	440,000
Total	<u>272,068,000</u>	<u>4,705,000</u>	<u>(13,090,000)</u>	<u>263,683,000</u>	<u>11,455,000</u>
Plus: Unamortized premiums	21,876,910	-	(1,559,489)	20,317,421	-
Total Convention Center Fund	<u>\$ 293,944,910</u>	<u>\$ 4,705,000</u>	<u>\$ (14,649,489)</u>	<u>\$ 284,000,421</u>	<u>\$ 11,455,000</u>

Series 2007 Renovation and Refunding Bonds

On October 16, 2007, the Authority issued \$47,465,000 of tax and lease revenue anticipation and refunding bonds of which \$38,535,000 represented new money for renovations to Battelle Hall and \$8,930,000 represented refunding bonds. The Series 2007 serial bonds mature December 1, 2008 through December 1, 2027. All Series 2007 serial bonds maturing on or after December 1, 2018 are callable at par beginning December 1, 2017. The stated interest rate on the Series 2007 serial bonds ranges from 4% to 5%.

The Authority issued \$8,930,000 of refunding bonds with a true interest cost of 4.39% to refund \$8,680,000 of outstanding Series 1997 serial and term bonds. The proceeds of \$8,986,376 (including a net bond premium of \$114,388 less \$58,012 in underwriting fees and other issuance costs) provided for a deposit of \$8,982,675 into an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 1997 serial and term bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Statement of Net Position. The reacquisition price exceeded the net carrying amount of the old debt by \$274,350. This amount, reported in the accompanying basic financial statements as a deferred outflow of resources, is being amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This refunding was undertaken to reduce total debt service payments over the next 14 years by \$348,419 and resulted in an economic gain (difference between the present values of the old and new bond payments) of \$336,046.

In 2014, a portion of the outstanding Series 2007 refunding bonds, totaling \$36,385,000, was refunded. In 2017, the remaining outstanding Series 2007 refunding bonds, totaling \$4,705,000, were refunded.

Series 2011 Parking Garage

On December 6, 2011, the Authority issued \$16 million in parking garage improvement revenue bonds to finance the expansion of the Vine Street parking facility. The Series 2011 term bonds mature December 1, 2016, 2021, 2026, 2031, 2036 and 2041. The stated interest rate on the Series 2011 term bonds ranges from 2.92% to 5.02%.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

5. LONG TERM OBLIGATIONS – CONTINUED

Series 2012 Refunding Bonds

On September 4, 2012, the Authority issued \$42,455,000 of tax and lease revenue anticipation refunding bonds with a true cost of 1.65%, to advance refund \$42,370,000 of outstanding 2002 bonds with a true interest cost of 4.18%. The proceeds of \$42,455,000 (net of \$85,000 in issuance costs) provided for a deposit of \$42,370,000 into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2002 bonds. As a result, the 2002 bonds are considered to be defeased and the liability for those bonds was removed from the bonds payable balance.

The 2012 refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$481,375. This difference, reported in the accompanying basic financial statements as a deferred outflow of resources, is being charged to operations through calendar year 2019 using the straight-line method. The Authority completed the advance refunding to reduce its total bond payments through calendar year 2019 by \$6,240,778 and to obtain an economic gain (difference between the present values of the old and new bond payments) of \$5,836,980.

Series 2014 Parking Garage

On July 28, 2014, the Authority issued \$18 million in parking garage improvement revenue bonds to finance the expansion of the Goodale Street parking facility. The Series 2014 term bonds mature December 1, 2018, 2023, 2028, 2033, 2038 and 2043. The stated interest rate on the Series 2014 term bonds ranges from 3.68% to 5.26%.

Series 2014 Renovation and Refunding Bonds

On December 1, 2014, the Authority issued \$160,140,000 of tax and lease revenue anticipation and refunding bonds of which \$125,105,000 represented new money for convention center renovations and expansion and \$35,035,000 represented refunding bonds. The Series 2014 serial bonds mature December 1, 2018 through December 1, 2033. The Series 2014 term bond matures December 1, 2035. All Series 2014 bonds except one maturing on or after December 1, 2024 are callable at par beginning December 1, 2024. The stated interest rate on the Series 2014 serial bonds ranges from 3% to 5%.

The Authority issued \$35,035,000 of refunding bonds with a true interest cost of 2.63% to refund \$36,385,000 of outstanding Series 2007 serial bonds. The net proceeds of \$40,575,557 (including a net bond premium of \$5,801,367 less \$260,810 in underwriting fees and other issuance costs) provided for a deposit of \$40,572,448 into an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded Series 2007 serial bonds, which were called on December 1, 2017. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Statement of Net Position. The reacquisition price exceeded the net carrying amount of the old debt by \$3,344,539. This amount, reported in the accompanying basic financial statements as a deferred outflow of resources, is being amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This refunding was undertaken to reduce total debt service payments over the next 21 years by \$2,785,050 and resulted in an economic gain (difference between the present values of the old and new bond payments) of \$2,223,931.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
 FOR THE YEAR ENDED DECEMBER 31, 2017

5. LONG TERM OBLIGATIONS – CONTINUED

Series 2015 Refunding Bonds

On October 15, 2015, the Authority issued \$56,150,000 of tax and lease revenue anticipation refunding bonds with a true cost of 2.95%, to refund \$56,150,000 of outstanding 2005 bonds with a true interest cost of 3.65%. The proceeds of \$56,150,000 provided for a deposit of \$56,150,000 into an irrevocable trust with an escrow agent to provide for payment on the 2005 bonds, which were called on December 1, 2015. As a result, the liability for those bonds was removed from the bonds payable balance.

The 2015 refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$713,281. This difference, reported in the accompanying basic financial statements as a deferred outflow of resources, is being charged to operations through calendar year 2027 using the straight-line method. The Authority completed the current refunding to reduce its total bond payments through calendar year 2027 by \$9,484,969 and to obtain an economic gain (difference between the present values of the old and new bond payments) of \$7,827,874.

Series 2017 Refunding Bonds

On October 16, 2017, the Authority issued \$4,705,000 of tax and lease revenue anticipation refunding bonds with a true cost of 2.05%, to refund \$4,705,000 of outstanding 2007 bonds with a true interest cost of 4.92%. The proceeds of \$4,705,000 provided for a deposit of \$4,705,000 into an irrevocable trust with an escrow agent to provide for payment on the 2007 bonds, which were called on December 1, 2017. As a result, the liability for those bonds was removed from the bonds payable balance.

The 2017 refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$128,729. This difference, reported in the accompanying basic financial statements as a deferred outflow of resources, is being charged to operations through calendar year 2027 using the straight-line method. The Authority completed the current refunding to reduce its total bond payments through calendar year 2027 by \$776,979 and to obtain an economic gain (difference between the present values of the old and new bond payments) of \$624,866.

Hotel Fund bonds outstanding at December 31, 2017 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Hotel Fund					
Series 2010	157,635,000	-	(2,525,000)	155,110,000	2,690,000

Series 2010

On February 10, 2010, the Authority issued \$160 million in Series 2010 lease revenue anticipation bonds for the purpose of providing funds to (i) pay costs of constructing, equipping, and furnishing a full-service convention center hotel and auxiliary facilities, (ii) fund a bond reserve fund, (iii) pay capitalized interest through August 31, 2012, and (iv) pay costs incurred in connection with the issuance of the Series 2010 Bonds. The Series 2010 serial and term bonds mature December 1, 2016 through December 1, 2042. The stated interest rate on the Series 2010 serial and term bonds ranges from 4.47% to 6.64%.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

5. LONG TERM OBLIGATIONS – CONTINUED

Arena Fund bonds outstanding at December 31, 2017 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Arena Fund					
First Lien Lease Revenue Bonds	\$ 8,000,000	\$ -	\$ (500,000)	\$ 7,500,000	\$ 600,000
Second Lien Lease Revenue Bonds	54,350,695	2,649,597	-	57,000,292	-
Total Arena Fund	<u>\$ 62,350,695</u>	<u>\$ 2,649,597</u>	<u>\$ (500,000)</u>	<u>\$ 64,500,292</u>	<u>\$ 600,000</u>

2012 First Lien Arena Lease Revenue Bonds

On March 28, 2012, the Authority issued \$10 million first lien arena lease revenue bonds to finance a portion of the purchase of Nationwide Arena. The first lien arena lease revenue bonds were acquired by the Director of Development on behalf of the State of Ohio. The arena lease revenue bonds mature on December 30, 2017, 2018, 2019, 2020 and 2021, with the final maturity subject to limited extension to accommodate principal forgiveness. The principal amount due at the final maturity may be reduced by up to \$500,000 for each year in which certain economic development incentive targets are met to the satisfaction of the State of Ohio in the manner described in the Bond Legislation. During the year, the Authority met the annual incentive target. In accordance with the State Loan Agreement, the Authority’s principal balance was reduced by \$500,000.

The stated interest rate on the arena lease revenue bonds is 1.00%. In addition, during any time that principal amounts remain outstanding under the bonds, the Authority shall pay a servicing fee equal to one half of one quarter of one percent of the remaining principal amount then outstanding on the bonds, payable in arrears on a semi-annual basis as of June 30th and December 31st of each year.

On January 30, 2018, the Authority amended the first lien arena lease revenue bonds agreement, dated March 28, 2012, with the Ohio Development Services Agency. In accordance with the amendment, \$5,000,000 in principal of the bonds, together with all servicing fees and all interest accruing on the bonds, originally having \$1,000,000 annual payments due December 31, 2017-2021, will be satisfied and replaced by: (1) \$1,000,000 payable in five annual cash payments; and (2) at least \$4,000,000 in payments in cash or in-kind in the form of advertising. The annual cash payment of \$200,000 per year for five years shall be due on or before December 31 of each year beginning in calendar year 2017, except for calendar year 2017, for which payment shall be due 30 days after receipt of a written invoice from the Ohio Development Services Agency. The additional \$4,000,000 in payments in cash or in-kind in the form of advertising shall be due on or before December 31 of each year in calendar years 2018 through 2025 in amounts ranging from \$200,000 to \$650,000 per year.

2012 Second Lien Arena Lease Revenue Bonds

On March 28, 2012, the Authority issued \$44,208,764 in second lien arena lease revenue bonds to finance a portion of the purchase of Nationwide Arena and to finance other capital and operating activities. The second lien arena lease revenue bonds were acquired by Nationwide Arena LLC. The second lien arena lease revenue bonds mature on December 30, 2039 and are callable for redemption at the option of the Authority, in whole or in part in such series as the Authority shall determine at any time at the redemption price of 100% of the principal amount to be redeemed plus accrued interest to the redemption date. The stated interest rate on the arena lease revenue bonds is 4.875%.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

5. LONG TERM OBLIGATIONS – CONTINUED

Beginning in calendar year 2013, the Authority began receiving a percentage of casino tax collections from the City and County. These collections are used fund operations, land lease payments, real estate taxes, and capital improvements of the arena. Once these obligations have been satisfied, any remaining collections will be applied to debt service. If casino tax collections are insufficient to pay debt service, Nationwide has agreed to defer payments until revenues are available. There is no obligation on the part of the Authority to cover outstanding debt for the arena if casino tax collections prove inadequate. During the year, casino tax collections from the City and County were insufficient to pay the interest payment due to the bondholder. In accordance with the bond agreement, \$2,649,597 was added to the Authority’s principal balance.

Defeased Debt Outstanding

As noted above, the Authority has defeased various bond issues by creating separate irrevocable trust funds. When such debt has been issued, the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Authority’s financial statements. As of December 31, 2017, the amount of defeased debt outstanding was \$0.

Bond Principal and Interest Payments

Bonds mature on December 1. Interest on the term and serial bonds is payable semiannually on June 1 and December 1. Interest has been accrued on all bonds through December 31, 2017. Excise taxes and rents collected after the issuance date of the bonds, to the extent these taxes and rents are necessary to satisfy debt service requirements, are appropriated for principal and interest payments due and payable until the bonds are fully retired on December 1, 2043. Principal and interest requirements to retire the Authority’s bonds are as follows:

	<u>Convention Center Fund</u>		<u>Hotel Fund</u>		<u>Arena Fund</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 11,455,000	\$ 11,028,925	\$ 2,690,000	\$ 9,857,740	\$ 600,000	\$ 2,778,764
2019	8,630,000	10,861,461	2,870,000	9,720,550	600,000	2,778,764
2020	9,695,000	10,693,664	3,055,000	9,572,746	750,000	2,778,764
2021	11,880,000	10,234,267	3,250,000	9,413,885	3,350,000	2,778,764
2022	10,515,000	9,866,947	3,455,000	9,240,011	650,000	2,778,764
2023-2027	63,690,000	42,964,958	20,735,000	43,060,206	1,550,000	13,893,821
2028-2032	78,181,000	29,151,848	27,940,000	35,753,136	-	13,893,821
2033-2037	59,201,000	8,816,317	37,175,000	25,513,644	-	13,893,821
2038-2042	7,436,000	1,830,348	53,940,000	11,771,392	57,000,292	8,336,293
2043	3,000,000	157,800	-	-	-	-
	<u>\$ 263,683,000</u>	<u>\$ 135,606,535</u>	<u>\$ 155,110,000</u>	<u>\$ 163,903,310</u>	<u>\$ 64,500,292</u>	<u>\$ 63,911,576</u>

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

6. RESTRICTED CASH AND INVESTMENTS

In accordance with the Convention Center Fund bond indentures, the Authority created the project construction and bond payment funds to provide for the payment of construction costs and bond principal and interest, as well as the debt service and rental reserve funds to provide for the payment of bond principal and interest in the event the amount in the bond payment fund is insufficient. The debt service reserve requirement is an amount equal to the maximum bond service charges payable with respect to the outstanding bonds during any bond year, without regard to any optional redemption. The rental reserve requirement is an amount equal to one-half of the maximum bond service charges payable with respect to the outstanding bonds during any bond year, without regard to optional redemption.

In accordance with the Hotel Fund bond indenture, the Authority created the project construction and bond payment funds to provide for the payment of construction costs and bond principal and interest, as well as the debt service and rental reserve funds to provide for the payment of bond principal and interest in the event the amount in the bond payment fund is insufficient. The debt service reserve and rental reserve requirements are both an amount equal to one-half of the maximum bond service charges payable with respect to the outstanding bonds during any bond year (excluding the final bond year), without regard to any optional redemption.

Additionally, for the Convention Center Fund, in accordance with lease and sublease agreements between the Authority and the City of Columbus and Franklin County, the City and County will provide necessary funds for the payment of bond principal and interest if the rental reserve and debt service funds are depleted. These amounts are subject to annual appropriation by the City and County. As an additional precaution, the lease with the City and County provides for the application of Convention and Visitors Bureau Taxes levied and collected by the City to deficiencies in debt service payments after the rental reserve fund has been depleted. If after the application of foregoing amounts, additional amounts are required to meet the City's and the County's obligations under the lease, such amounts will be paid by the City and the County, in equal shares, from their general resources, provided that their respective legislative bodies have appropriated funds for such purpose.

Additionally, for the Hotel Fund, in accordance with the Cooperative Agreement among the Authority, Franklin County, and the City of Columbus, the County will provide necessary funds for the payment of bond principal and interest if the rental reserve and debt service funds are depleted. These amounts are subject to annual appropriation by the County. As an additional precaution, the Cooperative Agreement provides for the City to establish by January 1, 2012, a Parking Meter Contribution Fund with a balance of \$1.4 million to assist with debt service payments if the rental reserve fund has been depleted.

The Hotel Cooperative Agreement also provides for the Authority to establish a Ground Lease Rents Fund with a balance equal to the value of ground lease rents received by the Authority during the previous year to assist with debt service payments if the rental reserve fund has been depleted. Both the Parking Meter Contribution Fund and the Ground Lease Fund will be used prior to use of the debt service reserve fund. Both funds are replenished annually to required balances if such funds are used for debt service.

For the Arena Fund, in accordance with the Arena Management Agreement, the Authority is required to maintain an Arena capital improvements fund. Each year, the Authority is required to make deposits to the fund to the extent casino tax revenues are available. In 2017, no deposits were made to the fund. At year-end, the balance in this fund was \$31,383. The entire balance is reported as Restricted Investments in the Statement of Net Position.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

6. RESTRICTED CASH AND INVESTMENTS - CONTINUED

The balances in the Convention Center and Hotel funds at year-end, which are also reported as Restricted Cash and Restricted Investments in the Statement of Net Position, as well as the required balances, were as follows:

	Convention Center Fund		Hotel Fund	
	Required Balance	Restricted Balance	Required Balance	Restricted Balance
Bond Payment Fund	\$ 4,216,272	\$ 4,216,272	\$ 23,032,927	\$ 23,032,927
Debt Service Reserve Fund	19,354,000	19,354,244	6,391,264	6,391,416
Rental Reserve Fund	9,677,000	9,678,195	8,000,000	8,251,169
Operating Reserve Fund	-	-	2,400,000	2,400,000
FF&E Reserve Fund	171,776	171,776	3,569,491	3,569,491
Ground Lease Rents Fund	-	-	2,438,676	2,438,676
Parking Garage Escrow	251,436	251,436	-	-
Total	\$ 33,670,484	\$ 33,671,923	\$ 45,832,358	\$ 46,083,679

7. FACILITY OPERATOR AGREEMENTS

A. Convention Center

The management, operations and marketing of the Greater Columbus Convention Center (herein referred to as Convention Center) is facilitated through a Consulting, Marketing and Management Agreement with SMG. The main term of the current agreement commenced on January 1, 2012 and ended at midnight on December 31, 2014. In accordance with the terms of the agreement, the Authority extended the term of the agreement on the same terms and conditions for an additional two-year period commencing January 1, 2015 and ending December 31, 2016 by giving written notice of such extension to SMG. At the end of the renewal term, the Authority extended the agreement under the same conditions for an additional one-year period commencing January 1, 2017 and ending December 31, 2017. On August 16, 2017, the Authority extended the agreement for an additional two-year period ending December 31, 2019.

As part of this agreement SMG is responsible for the financial activity of the Convention Center. SMG financially manages all revenues collected by the Convention Center from rental income; income from food and beverage sales; retail mall and food court lease income and revenue received from the operation of parking lots. In turn, SMG utilizes these revenues to pay for expenses associated with operating the facility (i.e., salaries of permanent and temporary staff who orchestrate events and handle administrative functions; utility expenses; the promotion and advertising of the Convention Center; and general facility maintenance and repair expenses). Financial activity of the Convention Center is audited annually and reviewed by management.

Bottom line performance of the Convention Center is incorporated annually into the Authority's basic financial statements as a reported change to gain/loss from center operations. During the fiscal year, SMG paid the Authority \$1,541,904 and the receivable amount at fiscal year-end was \$1,670,420.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
 FOR THE YEAR ENDED DECEMBER 31, 2017

7. FACILITY OPERATOR AGREEMENTS – CONTINUED

As base compensation to SMG for providing services, the Authority shall pay SMG during each fiscal year of the main term and the renewal term, if any, an annual fixed fee as follows:

Year	Fixed Fee
2012	2010 Base Fee under the 2006 Management Agreement as adjusted by change in CPI-U from January 1, 2011 through December 31, 2011.
2013-2019	Based upon prior year, as adjusted below by change in CPI-U

For each of the calendar years during the main term (commencing with the 2013 calendar year), the fixed fee shall be equal to the fixed fee for the immediately preceding calendar year, increased or decreased by the lesser of (i) the percentage change in the CPI-U, during the one year period ending in November 30 immediately preceding such calendar year, or (ii) three percent (3%). The foregoing annual fixed compensation shall be payable in equal monthly installments due on or before the last day of each month during such calendar year.

SMG is also entitled to annual quantitative and qualitative incentive fees, as defined, with respect to each calendar year. The quantitative incentive fee is based on the greater of 15% of the expense reduction, as defined, or 30% of any revenue increase, as defined. However, the quantitative incentive fee may not exceed 70% of the fixed fee payable as discussed above. The qualitative incentive fee cannot exceed 30% of the fixed fee payable as discussed above and is based on various defined criteria including but not limited to client satisfaction exit surveys, community involvement of operator personnel, quality maintenance and operation of the facilities and compliance with the terms of the management agreement. SMG’s incentive fees during the calendar year were \$285,627.

In accordance with the terms of the Management Agreement, the Authority is required to provide the operator certain operating funds sufficient to meet operating expenses. During the calendar year, the Authority provided SMG with \$0 to meet operating expenses.

SMG is required to provide \$90,000 annually to the facility for FF&E purchases and minor capital improvements. The ownership and title to the purchases and improvements will be transferred to the Authority upon termination of this Agreement. At termination of the Agreement the Authority is required to pay SMG for any unamortized balance on these improvements.

In 1998, Hyatt, a lessor, acquired a 50% ownership of SMG.

In addition to the Authority’s agreement with SMG, food and beverage operations are facilitated through a contract with Levy Premium Foodservice Limited Partnership (Levy). The five-year contract commenced on November 10, 2016 terminates on the last day of the last month of the fifth anniversary of the commencement date. The Authority has an option to extend for an additional three year terms by providing written notice at least 60 days prior to the end of the then-current term. The Authority also has the option to terminate the contract agreement at any time if Levy breaches any term of the agreement and the breach is not cured within 15 days or cannot be cured.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
 FOR THE YEAR ENDED DECEMBER 31, 2017

7. FACILITY OPERATOR AGREEMENTS – CONTINUED

As base compensation for providing services, the Authority shall pay Levy a Base Management Fee equal to the lesser of (a) \$200,000 per contract year, or (b) 2.25% of gross receipts. The Base Management Fee will remain fixed during the initial term and will be reset, based on the consumer price index, at the beginning of any renewal term. In addition, Levy has an opportunity to earn an Annual Incentive Fee, up to 2% of gross receipts each calendar year, not to exceed \$100,000, if certain minimum operating criteria are met, as set forth in the agreement.

B. Hotel

On July 16, 2010, the Authority executed a hotel operating agreement with Hilton Management, LLC (Manager) to manage and operate the Hotel, consisting of approximately 532 hotel guest rooms, approximately 22,750 square feet of net usable meeting space, a ballroom of at least 12,000 square feet, a pedestrian skybridge connecting directly to the Convention Center and other supporting facilities associated therewith. The term of the hotel operating agreement commenced on the opening date and continues for a period of 15 years from the date from and after the opening date.

Executive Bonus Fee – Commencing with the first full calendar year following the year in which the opening date occurs and continuing for each operating year thereafter during the operating term, the Manager shall be paid the amount of \$322,000, as the then applicable fixed executive bonus fee, provided that such amount for each operating year after the first calendar year shall be increased by a percentage equal to the percentage change in the REVPAR (revenue per available room) index from the prior operating year and as established at the annual budget meeting. Bonuses to executive staff shall be payable from the fixed executive bonus fee. However, to the extent the amount of bonuses earned by executive staff members is greater than the fixed executive bonus fee, the Manager shall be paid an additional variable executive bonus fee equal to the amount that actual bonuses to executive staff members is greater than the available fixed executive bonus fee, up to an amount that does not exceed five percent of the total amount of the management fees plus the fixed executive bonus fee paid to Manager for the respective operating year.

Base Management Fee – The base management fee shall mean that portion of the management fee set forth opposite the applicable period of time as set forth in the table below:

Opening Date through the immediately succeeding December 31	\$502,000 multiplied by the number of days occurring from the opening date through the immediately succeeding December 31, divided by 365.
First Full Operating Year	\$502,000
Second Full Operating Year	\$691,000
Third Full Operating Year	\$898,000
Fourth Full Operating Year and thereafter	\$937,000, provided that the base management fee payable for each succeeding operating year shall be increased or decreased by the percentage increase or decrease in the REVPAR of the competitive set from the prior operating year.

One twelfth of the annual base management fee for the applicable operating year shall be paid on the first business day of each month in each operating year in arrears.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
 FOR THE YEAR ENDED DECEMBER 31, 2017

7. FACILITY OPERATOR AGREEMENTS - CONTINUED

Subordinate Management Fee – The subordinate management fee shall mean that portion of the management fee set forth opposite the applicable period of time as set forth in the table below:

Fourth Full Operating Year	\$234,000
Fifth Full Operating Year	\$270,000
Sixth Full Operating Year and thereafter	\$324,000, provided that the subordinate management fee payable for each succeeding operating year shall be increased or decreased by the REVPAR change.

The Subordinate Management Fee will be subordinated to certain other payments as provided for in the hotel operating agreement.

C. Arena

On March 28, 2012, the Authority entered into an Arena Management Agreement with Columbus Arena Management LLC (CAM) to manage and operate Nationwide Arena. The agreement provided that CAM be responsible for the financial results of the Arena operations effective January 1, 2012.

The Arena Management Agreement requires the Authority to provide a pre-determined annual funding amount to be used for Arena operational expenses to the extent casino tax revenues are available. For calendar year 2017, the Authority contributed \$4,523,617.

8. VACATION, SICK AND PERSONAL LEAVE

Authority employees are granted vacation, sick, and personal leave at amounts which vary by length of service. In the event of termination, employees are reimbursed for accumulated vacation and personal leave, along with a percentage of their sick leave balance based on years of service at the employee’s current wage.

Vacation, sick, and personal leave earned by the Authority’s employees has been recorded in the Convention Center Fund. The Authority calculates sick leave based on the termination method. Payment of vacation, sick, and personal leave is dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes the payment of vacation and sick leave will not have a material adverse impact on the availability of the Authority’s cash balances.

Changes in compensated absences balances for the fiscal year are as follows:

	Beginning Balance	Earned	Used	Ending Balance	Due Within One Year
Calendar Year 2017	\$ 157,776	\$ 96,659	\$ (72,496)	\$ 181,939	\$ -

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
 FOR THE YEAR ENDED DECEMBER 31, 2017

9. OPERATING LEASES

On November 27, 1996 the Authority entered into a Master Lease Agreement with the City of Columbus (the “City”) which created leasehold estate interests for certain property, plant, and equipment (the “South Facility”), the site of the Convention Center, and the Columbus Hotel Community Urban Redevelopment Corporation lease.

In addition to the lease agreements noted below, the Authority owns all rights, title and interest in, to and under any and all leases, tenancy or occupancy agreements affecting the South Facility premises, as well as all security deposits and guaranties. These leases are retail leases with various retail terms. The retail lease revenue is recognized by the operators of the facility in accordance with the operating method.

Columbus Hotel Community Urban Redevelopment Corporation

The Authority leases land to the Columbus Hotel Community Urban Redevelopment Corporation (the Hyatt) for a term that commenced on December 23, 1978 and ends on July 19, 2051, unless sooner terminated in accordance with the lease agreement. The Hyatt pays the Authority lease rent at the annual rate of \$125,000. The Authority receives additional compensation from the Hyatt if the Hyatt meets certain targets for cash flow. Additional compensation for the calendar year was \$1,944,318. SMG, the Authority’s facility operator, also recorded revenues of \$976,082 during the calendar year from Ohio Center Hotel Company, LTD. (an affiliate of Hyatt) for providing services consisting primarily of utilities, parking and meeting space rentals.

Drury Inns, Inc.

On February 20, 2001, the Authority entered into a ground lease agreement with Drury Inns, Inc. (the Tenant) under which the Tenant leased land from the Authority and developed the land with a hotel and related improvements. The term of the lease commenced on February 20, 2001 and expires on the last day of the 25th lease year, unless the term is extended or the lease is validly canceled before then.

The Tenant has the option to extend the term for a period of ten lease years by giving notice of the exercise of the option any time prior to the 365th day before the last day of the 25th lease year. If the Tenant exercises the option to extend the term for a period of ten lease years, the Tenant shall have an additional option to extend the term for another period of ten lease years by giving notice of the exercise of the option any time prior to the 365th day before the extended expiration date. If the Tenant exercises the second option granted, the Tenant shall have the additional option to extend the term through July 19, 2051 by giving notice of the exercise of the option any time prior to the 365th day before the extended expiration date.

The Tenant pays the Authority basic rent, as well as percentage rent, which is the amount by which a certain percentage of revenue exceeds basic rent. Applicable amounts are as follows:

Lease Years	Basic Rent	Percentage Rent
Years 1 through 5, per annum	\$125,000	4%
Years 6 through 10, per annum	\$150,000	4.75%
Years 11 and after, per annum	\$175,000	4.75% of the first \$6,000,000 and 5.5% of any excess of \$6,000,000

For the year 2017, the Tenant paid the Authority \$175,000 in base rent. Additional compensation for calendar year 2017 was \$143,113, of which \$20,111 was receivable at year-end.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

10. DEFINED BENEFIT PENSION PLANS

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Authority's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Authority's obligation for this liability to annually required payments. The Authority cannot control benefit terms or the manner in which pensions are financed; however, the Authority does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the net pension liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *accrued liabilities and other* on the accrual basis of accounting.

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

Plan Description

Plan Description - Authority employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Authority employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
 FOR THE YEAR ENDED DECEMBER 31, 2017

10. DEFINED BENEFIT PENSION PLANS - CONTINUED

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
 FOR THE YEAR ENDED DECEMBER 31, 2017

10. DEFINED BENEFIT PENSION PLANS - CONTINUED

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

2016 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2016 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
Total Employer	14.0 %
Employee	10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Authority's contractually required contribution was \$113,914 for 2017. Of this amount, \$15,046 is reported as *accrued liabilities and other*.

Pension Assets, Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension asset and net pension liability for OPERS were measured as of December 31, 2016, and the total pension liability used to calculate the net pension asset/liability was determined by an actuarial valuation as of that date. OPERS total pension liability was measured as of December 31, 2016 and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The Authority's proportion of the net pension asset/liability was based on the Authority's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS Traditional Plan	OPERS Combined Plan	Total
Proportionate Share of the Net Pension (Asset)/Liability	\$ 1,283,246	\$ (1,363)	\$ 1,281,883
Proportion of the Net Pension	0.005651%	0.002450%	
Pension Expense			\$ 268,491

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

10. DEFINED BENEFIT PENSION PLANS - CONTINUED

At December 31, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS Traditional Plan	OPERS Combined Plan	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 1,739	\$ -	\$ 1,739
Changes of assumptions	203,539	332	203,871
Net difference between projected and actual earnings on pension plan investments	191,104	333	191,437
Changes in proportionate share	17,750	16,612	34,362
Authority contributions subsequent to the measurement date	113,914	-	113,914
Total Deferred Outflows of Resources	528,046	17,277	545,323
Deferred Inflows of Resources			
Differences between expected and actual experience	7,637	697	8,334
Changes in proportionate share	25,973	9,567	35,540
Total Deferred Inflows of Resources	\$ 33,610	\$ 10,264	\$ 43,874

\$113,914 reported as deferred outflows of resources related to pension resulting from Authority contributions subsequent to the measurement date will be recognized as pension expense in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS Traditional Plan	OPERS Combined Plan	Total
Year Ending December 31:			
2018	\$ 146,609	\$ 816	\$ 147,425
2019	170,851	818	171,669
2020	68,662	801	69,463
2021	(5,600)	682	(4,918)
2022	-	696	696
Thereafter	-	3,200	3,200
Total	\$ 380,522	\$ 7,013	\$ 387,535

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
 FOR THE YEAR ENDED DECEMBER 31, 2017

10. DEFINED BENEFIT PENSION PLANS - CONTINUED

Actuarial Assumptions

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. In 2016, the OPERS Board's actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporated both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8 percent down to 7.5 percent for the defined benefit investments. Key methods and assumptions used in the December 31, 2016 actuarial valuation, reflecting experience study results, are presented below.

Wage Inflation	3.25 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.25 to 10.75 percent including wage inflation Pre-1/7/13 Retirees: 3 percent, simple Post-1/7/13 Retirees: 3 percent simple through 2018, then 2.15 percent simple
Investment Rate of Return	7.5 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2014 Healthy Annuitant mortality table. For males, the tables were adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, the tables were adjusted for mortality improvement back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year, for both healthy and disabled retiree mortality tables, were determined by applying the MP-2015 mortality improvement scale to the above described tables.

The allocation of investment assets with the Defined Benefit portfolio is approved by the OPERS Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
 FOR THE YEAR ENDED DECEMBER 31, 2017

10. DEFINED BENEFIT PENSION PLANS - CONTINUED

The following table displays the OPERS Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other investments	18.00	4.92
Total	<u>100.00 %</u>	<u>5.66 %</u>

The long-term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance for the Defined Benefit portfolio is 8.3 percent for 2016.

Discount Rate The discount rate used to measure the total pension liability was 7.5 percent, post-experience study results, for all plans. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
 FOR THE YEAR ENDED DECEMBER 31, 2017

10. DEFINED BENEFIT PENSION PLANS - CONTINUED

Sensitivity of the Authority's Proportionate Share of the Net Pension Asset/Liability to Changes in the Discount Rate The following table presents the Authority's proportionate share of the net pension asset/liability calculated using a discount rate of 7.5 percent, and the expected net pension asset/liability if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
The Authority's proportionate share of the net pension (asset)/liability			
Traditional Plan	\$ 1,960,445	\$ 1,283,246	\$ 718,920
Combined Plan	\$ 98	\$ (1,363)	\$ (2,499)

11. OTHER POST-EMPLOYMENT BENEFITS

A. Plan Description - OPERS administers three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, OPERS maintains a cost-sharing multiple-employer defined benefit post-employment healthcare trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2016 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees (OPERS Board) in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

11. OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

B. Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, the Authority contributed at a rate of 14.0% of earnable salary. This is the maximum employer contribution rate permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2016 was 4.0%.

The Authority's contributions to OPERS for post-employment benefits for the years ending December 31, 2017, 2016, and 2015 were \$8,763, \$16,195, and \$18,003, respectively. The full amount has been contributed for 2016 and 2015; 87 percent has been contributed for 2017 with the remainder being reported as a liability.

12. JOINT VENTURE

On March 28, 2012, the Authority, COLHOC Limited Partnership (COLHOC), Nationwide Arena, LLC (Nationwide), and The Ohio State University (Ohio State) formed Columbus Arena Management, LLC (CAM), a limited liability company, to operate, manage, maintain, repair and improve Nationwide Arena (Arena), and to serve as a joint undertaking to share expenses in connection therewith.

The Authority has entered into a long-term Arena Management Agreement with CAM. The agreement requires the Authority to provide pre-determined annual funding amount to be used for Arena operational expenses and capital improvements. These funding amounts are scheduled to increase 3.5% per year for the term of the agreement, which expires September 15, 2039.

The Authority's obligation to provide these annual funding amounts are contingent upon receiving sufficient proceeds from the City of Columbus and Franklin County based a percentage of casino receipts. Such amounts are currently and projected to continue to be insufficient to provide the necessary funding to the Authority and thus resulting in the Authority's inability to adequately fund capital improvements and debt service.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
 FOR THE YEAR ENDED DECEMBER 31, 2017

12. JOINT VENTURE - CONTINUED

For calendar year 2017, the Authority's required and actual annual funding amounts were as follows:

<u>Description</u>	<u>Required Funding Amount</u>	<u>Actual Funding Amount</u>
Operational Expenses	\$ 4,523,617	\$ 4,523,617
Land Lease Expense	165,000	165,000
Real Estate Tax Reserve	310,500	257,716
Capital Improvements	5,333,235	-
Debt Service	4,055,108	-
Total Receipts from City and County:		<u>\$ 4,946,333</u>

COLHOC, Nationwide, and Ohio State are required to contribute towards any operating deficit exceeding the Authority's annual funding amount plus any available operating reserves established from prior years' operating surpluses. These priority and extraordinary contributions would be made on an annual basis and COLHOC, Nationwide, and Ohio State each would contribute a proportionate share, except that Ohio State is not obliged to make aggregate contributions exceeding \$7 million. This commitment extends until September 15, 2039.

Operating surpluses in any fiscal year will be allocated (1) to reimburse extraordinary contributions from prior fiscal years; (2) to fund an operating reserve account to the target amount, currently \$6 million; (3) to reimburse priority contributions from prior fiscal years; and (4) to the Authority for the purpose of the advancement and promotion of arena, convention facilities, and sports purposes in the Franklin County, Ohio area. At June 30, 2017 (most recent audited information available), CAM's operating reserve account balance was \$2,270,789. CAM financial statements were audited independently and are available upon request.

13. DISAGGREGATED PAYABLE BALANCES

The details of accrued liabilities and other, as reported in the Statement of Net Position, are as follows:

	<u>Convention Center Fund</u>	<u>Hotel Fund</u>	<u>Arena Fund</u>
Accrued Salaries Payable	\$ 15,814	\$ -	\$ -
Accrued Pension and Taxes Payable	26,423	-	-
Accrued Property Taxes Payable	177,438	35,000	586,000
Unearned Revenue - Leases	124,584	-	-
Accrued liabilities and other	<u>\$ 344,259</u>	<u>\$ 35,000</u>	<u>\$ 586,000</u>

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

14. INTERFUND ACTIVITY

The Authority committed hotel/motel tax related to the Hilton and an amount equal to annual ground lease rents to debt service in the Hotel Fund. Interfund transfers in the amount of \$1,685,343 from the Convention Center Fund to the Hotel Fund during the calendar year are the result of these commitments. In addition, the Authority transferred funds in the amount of \$393,460 from the Convention Center Fund to the Arena Fund. This amount represents expenses related to the Arena Fund that the Convention Center Fund does not expect to receive reimbursement.

15. RISK MANAGEMENT

The Authority is subjected to certain types of risks in the performance of its normal functions. They include risks the Authority might be subjected to by its employees in the performance of their normal duties. The Authority manages these types of risks through commercial insurance. The amount of settlements has not exceeded insurance coverage for any of the past three calendar years. There has not been a significant reduction of coverage since the prior year in any of the major categories of risk.

16. CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2017, the Authority implemented GASB Statement No. 73 *“Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68”* which improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The implementation of this statement did not have a significant effect on the financial statements of the Authority.

For fiscal year 2017, the Authority implemented GASB Statement No. 74 *“Financial Reporting for Postemployment Benefit Plans other than Pension Plans”* which improves the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The implementation of this statement did not have an effect on the financial statements of the Authority.

For fiscal year 2017, the Authority implemented GASB Statement No. 80 *“Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14”* which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The implementation of this statement did not have an effect on the financial statements of the Authority.

For fiscal year 2017, the Authority implemented GASB Statement No. 81 *“Irrevocable Split-Interest Agreements”*, which improves financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of this statement did not have an effect on the financial statements of the Authority.

FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

16. CHANGES IN ACCOUNTING PRINCIPLES - CONTINUED

For fiscal year 2017, the Authority implemented GASB Statement No. 82 "*Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*" which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of this statement did not have a significant effect on the financial statements of the Authority.

17. SUBSEQUENT EVENTS

On January 30, 2018, the Authority amended the first lien arena lease revenue bonds agreement, dated March 28, 2012, with the Ohio Development Services Agency. In accordance with the amendment, \$5,000,000 in principal of the bonds, together with all servicing fees and all interest accruing on the bonds, originally having \$1,000,000 annual payments due December 31, 2017-2021, will be satisfied and replaced by: (1) \$1,000,000 payable in five annual cash payments; and (2) at least \$4,000,000 in payments in cash or in-kind in the form of advertising. The annual cash payment of \$200,000 per year for five years shall be due on or before December 31 of each year beginning in calendar year 2017, except for calendar year 2017, for which payment shall be due 30 days after receipt of a written invoice from the Ohio Development Services Agency. The additional \$4,000,000 in payments in cash or in-kind in the form of advertising shall be due on or before December 31 of each year in calendar years 2018 through 2025 in amounts ranging from \$200,000 to \$650,000 per year.

In March of 2018, the Authority and Franklin County Commissioners executed a Memorandum of Understanding in order to describe current plans and proposals of the parties for financing the construction of a new parking garage facility to be owned and financed by the Authority. The current proposal is for the new garage to be financed by a new issue of parking garage improvement revenue bonds issued by the Authority and purchased as an investment by Franklin County. Franklin County has agreed to purchase up to \$18 million of parking garage improvement revenue bonds with an expected 20-year final maturity with interim sinking fund payments in amounts calculated to be such that the annual principal and interest are substantially equal on dates to be negotiated. Interest on the bonds will be "stepped" and it is expected that the interest rate on the bonds for each five-year maturity interval will be priced prior to the settlement date at a yield spread of two hundred (200) basis points over the comparable U.S. Treasury maturity obligation closest to the negotiated maturity date.

Franklin County Convention Facilities Authority
Required Supplementary Information
Schedule of Authority's Proportionate Share of the Net Pension (Asset)/Liability
Ohio Public Employees Retirement System

Last Four Years (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's Proportion of the Net Pension (Asset)/Liability				
Traditional Plan	0.005651%	0.005442%	0.006048%	0.006048%
Combined Plan	0.002450%	0.041750%	N/A	N/A
Authority's Proportionate Share of the Net Pension (Asset)/Liability				
Traditional Plan	\$ 1,283,246	\$ 942,623	\$ 729,456	\$ 712,980
Combined Plan	\$ (1,363)	\$ (20,316)	N/A	N/A
Authority's Covered-Employee Payroll	\$ 809,767	\$ 900,158	\$ 743,942	\$ 603,300
Authority's Proportionate Share of the Net Pension (Asset)/Liability as a Percentage of its Covered-Employee Payroll	158.30%	102.46%	98.05%	118.18%
Plan Fiduciary Net Position as a Percentage of the Total Pension (Asset)/Liability				
Traditional Plan	77.25%	81.08%	86.45%	86.36%
Combined Plan	116.55%	116.90%	N/A	N/A

(1) Information prior to 2014 is not available.

Amounts presented as of the Authority's measurement date, which is the prior year-end.

**Franklin County Convention Facilities Authority
Required Supplementary Information
Schedule of Authority Contributions
Ohio Public Employees Retirement System**

Last Five Years (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$ 113,914	\$ 97,172	\$ 108,019	\$ 89,273	\$ 78,429
Contributions in relation to the contractually required contribution	<u>\$ 98,868</u>	<u>\$ 97,172</u>	<u>\$ 108,019</u>	<u>\$ 89,273</u>	<u>\$ 78,429</u>
Contribution deficiency (excess)	<u>\$ 15,046</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 876,262	\$ 809,767	\$ 900,158	\$ 743,942	\$ 603,300
Contributions as a percentage of covered-employee payroll	13.00%	12.00%	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available.

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Dave Yost • Auditor of State

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

Franklin County Convention Facilities Authority
Franklin County
400 North High Street, 4th Floor
Columbus, OH 43215

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 business-type activities and each major fund of the Franklin County Convention Facilities Authority, Franklin County, Ohio, (the Authority) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated April 11, 2018.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Authority'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 Authority'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 Authority'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 Authority's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Dave Yost
Auditor of State
Columbus, Ohio

April 11, 2018



Dave Yost • Auditor of State

FRANKLIN CONVENTION FACILITIES AUTHORITY

FRANKLIN 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
MAY 10, 2018**