Deloitte & Touche

# The Franklin County Convention Facilities Authority

*Financial Statements for the Years Ended December 31, 1999 and 1998 and Independent Auditors' Report*

Deloitte Touche Tohmatsu

**STATE OF OHIO**
**OFFICE OF THE AUDITOR**
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The Franklin County Convention Facilities Authority
Columbus, Ohio

We have reviewed the independent auditor's report of The Franklin County Convention Facilities Authority, prepared by Deloitte & Touche LLP, for the audit period January 1, 1999 through December 31, 1999. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Franklin County Convention Facilities Authority is responsible for compliance with these laws and regulations.

Jim Petro

JIM PETRO
Auditor of State

June 14, 2000

Deloitte & Touche

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## INDEPENDENT AUDITORS' REPORT

To The Franklin County Convention Facilities Authority
Columbus, Ohio:

We have audited the accompanying combining balance sheets of The Franklin County Convention Facilities Authority (the Authority) as of December 31, 1999 and 1998, and the related combining statements of revenues, expenses and changes in retained earnings, and combining cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Authority at December 31, 1999 and 1998, and the results of its combining operations and its combining cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2000, 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 grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

May 3, 2000

# THE FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY

## COMBINING BALANCE SHEETS, DECEMBER 31, 1999 AND 1998

| | 1999 | | | 1998 | | |
|---|---|---|---|---|---|---|
| **ASSETS** | Operating Fund | Capital Fund | Total | Operating Fund | Capital Fund | Total |
| CASH | $ 113,588 | $ 79,747 | $ 193,335 | $ 66,766 | $ 1,434,237 | $ 1,501,003 |
| INVESTMENTS, INCLUDING $21,492,863 AND $21,856,596 IN 1999 AND 1998, RESPECTIVELY, OF RESTRICTED ASSETS IN THE CAPITAL FUND | 5,321,599 | 70,568,468 | 75,890,067 | 5,481,661 | 81,166,540 | 86,648,201 |
| RECEIVABLES: | | | | | | |
| Hotel/motel excise taxes | | 1,773,300 | 1,773,300 | | 1,663,360 | 1,663,360 |
| Lease receivable | | 1,253,997 | 1,253,997 | | 1,245,193 | 1,245,193 |
| Interest | | 340,249 | 340,249 | | 635,240 | 635,240 |
| SMG | 698,157 | | 698,157 | 613,551 | | 613,551 |
| Other | | | | 1,330 | | 1,330 |
| Total receivables | 698,157 | 3,367,546 | 4,065,703 | 614,881 | 3,543,793 | 4,158,674 |
| PREPAID EXPENSES AND OTHER | 62,594 | 1,127,647 | 1,190,241 | 54,625 | 1,178,341 | 1,232,966 |
| FUNDS HELD IN ESCROW | | 653,831 | 653,831 | | | |
| PROPERTY, PLANT AND EQUIPMENT - Net | 15,683 | 154,728,558 | 154,744,241 | 21,005 | 139,148,882 | 139,169,887 |
| TOTAL | $ 6,211,621 | $ 230,525,797 | $ 236,737,418 | $ 6,238,938 | $ 226,471,793 | $ 232,710,731 |
| **LIABILITIES AND FUND EQUITY** | | | | | | |
| LIABILITIES: | | | | | | |
| Accounts payable | $ 11,592 | $ 1,739,176 | $ 1,750,768 | $ 41,727 | $ 1,526,273 | $ 1,568,000 |
| Interest payable | | 630,141 | 630,141 | | 653,991 | 653,991 |
| Accrued liabilities and other | 102,192 | 14,722 | 116,914 | 107,219 | 14,722 | 121,941 |
| Contractor escrow | | 653,831 | 653,831 | | | |
| Bonds payable - net | | 169,396,473 | 169,396,473 | | 171,239,640 | 171,239,640 |
| Total liabilities | 113,784 | 172,434,343 | 172,548,127 | 148,946 | 173,434,626 | 173,583,572 |
| FUND EQUITY: | | | | | | |
| Contributed capital | | 29,997,684 | 29,997,684 | | 29,520,800 | 29,520,800 |
| Retained earnings: | | | | | | |
| Reserved | 51,000 | 30,841,305 | 30,892,305 | 55,000 | 25,780,037 | 25,835,037 |
| Unreserved | 6,046,837 | (2,747,535) | 3,299,302 | 6,034,992 | (2,263,670) | 3,771,322 |
| Total retained earnings | 6,097,837 | 28,093,770 | 34,191,607 | 6,089,992 | 23,516,367 | 29,606,359 |
| Total fund equity | 6,097,837 | 58,091,454 | 64,189,291 | 6,089,992 | 53,037,167 | 59,127,159 |
| TOTAL | $ 6,211,621 | $ 230,525,797 | $ 236,737,418 | $ 6,238,938 | $ 226,471,793 | $ 232,710,731 |

See notes to combining financial statements.

THE FRANKLIN COUNTY CONVENTION
FACILITIES AUTHORITY

COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

| | 1999 | | | 1998 | | |
|---|---|---|---|---|---|---|
| | Operating Fund | Capital Fund | Total | Operating Fund | Capital Fund | Total |
| OPERATING REVENUE: | | | | | | |
| Hotel/motel excise tax | $ 1,524,132 | $ 10,953,592 | $ 12,477,724 | $ 1,447,558 | $ 10,315,424 | $ 11,762,982 |
| Interest earnings | 265,128 | 976,298 | 1,241,426 | 280,314 | 979,104 | 1,259,418 |
| Net increase (decrease) in fair value of investments | | (649,224) | (649,224) | | 235,225 | 235,225 |
| Lease rent | | 1,347,747 | 1,347,747 | | 1,370,193 | 1,370,193 |
| Miscellaneous | 275 | 33,315 | 33,590 | 1,207 | 21,657 | 22,864 |
| Excess of revenues over expenses from Facility Operator | 84,606 | | 84,606 | 338,472 | | 338,472 |
| Total operating revenue | 1,874,141 | 12,661,728 | 14,535,869 | 2,067,551 | 12,921,603 | 14,989,154 |
| OPERATING EXPENSES: | | | | | | |
| Interest | 904 | 6,049,123 | 6,050,027 | 1,530 | 6,129,908 | 6,131,438 |
| Salaries, vacation, sick and personal leave expense | 261,900 | | 261,900 | 244,134 | | 244,134 |
| Facility operations | 47,344 | | 47,344 | 45,835 | | 45,835 |
| Professional fees | 132,221 | | 132,221 | 231,420 | | 231,420 |
| Insurance | 162,380 | 38,367 | 200,747 | 159,837 | 38,367 | 198,204 |
| Retirement and payroll taxes | 56,210 | | 56,210 | 52,482 | | 52,482 |
| Rent | 1,043 | | 1,043 | 2,259 | | 2,259 |
| Advertising | 1,294 | | 1,294 | 2,857 | | 2,857 |
| Travel | 6,515 | | 6,515 | 8,476 | | 8,476 |
| Office | 9,064 | | 9,064 | 9,621 | | 9,621 |
| Depreciation | 5,322 | 4,939,711 | 4,945,033 | 5,848 | 5,070,270 | 5,076,118 |
| Telephone | 2,099 | | 2,099 | 2,087 | | 2,087 |
| Property tax | 12,645 | | 12,645 | 15,192 | | 15,192 |
| *Miscellaneous* | 23,316 | 9,191 | 32,507 | 47,764 | 72 | 47,836 |
| Total operating expenses | 722,257 | 11,036,392 | 11,758,649 | 829,342 | 11,238,617 | 12,067,959 |
| OPERATING INCOME | 1,151,884 | 1,625,336 | 2,777,220 | 1,238,209 | 1,682,986 | 2,921,195 |
| NONOPERATING REVENUE: | | | | | | |
| Gain (Loss) from disposal of property, plant, and equipment | | (11,267) | (11,267) | | | |
| Proceeds from dissolution of GCCC | | | | | 890,295 | 890,295 |
| Total nonoperating revenue | | (11,267) | (11,267) | | 890,295 | 890,295 |
| INCOME BEFORE OPERATING TRANSFERS | 1,151,884 | 1,614,069 | 2,765,953 | 1,238,209 | 2,573,281 | 3,811,490 |
| TRANSFERS IN (OUT) | (1,144,039) | 1,144,039 | | (1,116,283) | 1,116,283 | |
| NET INCOME | 7,845 | 2,758,108 | 2,765,953 | 121,926 | 3,689,564 | 3,811,490 |
| ADD DEPRECIATION ON FIXED ASSETS ACQUIRED BY CAPITAL CONTRIBUTION | | 1,819,295 | 1,819,295 | | 1,859,763 | 1,859,763 |
| NET INCREASE (DECREASE) IN RETAINED EARNINGS | 7,845 | 4,577,403 | 4,585,248 | 121,926 | 5,549,327 | 5,671,253 |
| RETAINED EARNINGS AT BEGINNING OF YEAR | 6,089,992 | 23,516,367 | 29,606,359 | 5,968,066 | 17,967,040 | 23,935,106 |
| RETAINED EARNINGS AT END OF YEAR | $ 6,097,837 | $ 28,093,770 | $ 34,191,607 | $ 6,089,992 | $ 23,516,367 | $ 29,606,359 |

See notes to combining financial statements.

# THE FRANKLIN COUNTY CONVENTION FACILITIES AUTHORITY

## COMBINING STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

| | 1999 | | | 1998 | | |
|---|---|---|---|---|---|---|
| | Operating Fund | Capital Fund | Total | Operating Fund | Capital Fund | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | | |
| Operating income | $ 1,151,884 | $ 1,625,336 | $ 2,777,220 | $ 1,238,209 | $ 1,682,986 | $ 2,921,195 |
| Adjustments to reconcile operating income over operating expenses to net cash provided (used) by operating activities: | | | | | | |
| Depreciation | 5,322 | 4,939,711 | 4,945,033 | 5,848 | 5,070,270 | 5,076,118 |
| Amortization of bond and note issuance costs | | 9,984 | 9,984 | | 18,144 | 18,144 |
| Accretion of discount on bonds payable | | 2,479,295 | 2,479,295 | | 647,930 | 647,930 |
| *Amortization (accretion) by discount/premium* | | | | | | |
| Accretion of discount/premium on investment securities, net | | (104,429) | (104,429) | | 378,818 | 378,818 |
| Net (increase) decrease in fair value of investments | | 649,224 | 649,224 | | (235,225) | (235,225) |
| (Increase) in hotel/motel excise taxes receivable | | (109,940) | (109,940) | | (77,376) | (77,376) |
| (Increase) decrease in lease receivable | | (8,804) | (8,804) | | 183,191 | 183,191 |
| (Increase) decrease in interest receivable | | 294,991 | 294,991 | | (545,669) | (545,669) |
| (Increase) in receivable from SMG | (84,606) | | (84,606) | (338,472) | | (338,472) |
| (Increase) in other receivables | 1,330 | | 1,330 | 220 | | 220 |
| (Increase) decrease in prepaid expenses and other | (7,969) | 50,694 | 42,725 | 143,510 | (270,507) | (126,997) |
| Increase (decrease) in accounts payable | (30,135) | 212,903 | 182,768 | 8,888 | 1,490,203 | 1,499,091 |
| Increase (decrease) in accrued interest payable | | (23,850) | (23,850) | | 283,372 | 283,372 |
| Decrease in accrued liabilities and other | (5,027) | | (5,027) | (100,046) | (1,238) | (101,284) |
| Net cash provided by operating activities | 1,030,799 | 10,015,115 | 11,045,914 | 958,157 | 8,624,899 | 9,583,056 |
| NONCAPITAL FINANCING ACTIVITIES: | | | | | | |
| *(Increase) decrease in due to (from) other funds* | | | | 513,687 | (513,687) | |
| Transfers in (out) | (1,144,039) | 1,144,039 | | (1,116,283) | 1,116,283 | |
| Net cash (used) provided by noncapital funding activities | (1,144,039) | 1,144,039 | | (602,596) | 602,596 | |
| *CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:* | | | | | | |
| Capital expenditures for property, plant and equipment | | (18,581,053) | (18,581,053) | (12,646) | (26,115,843) | (26,128,489) |
| *Proceeds from exchange of property, plant, and equipment* | | 910,287 | 910,287 | | | |
| Capital contributed | | 283,855 | 283,855 | | 1,438,722 | 1,438,722 |
| Capitalized interest | | *(840,010)* | *(840,010)* | | *(36,849)* | *(36,849)* |
| Proceeds from bonds (net of issuance costs of $226,625) | | | | | 83,773,375 | 83,773,375 |
| Redemption of bonds (net of deferred loss of $1,108,117) | | | | | (9,113,117) | (9,113,117) |
| Payments of bonds | | (4,340,000) | (4,340,000) | | (4,120,000) | (4,120,000) |
| Net cash provided (used) by capital and related financing activities | | (22,566,921) | (22,566,921) | (12,646) | 45,826,288 | 45,813,642 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | | |
| Proceeds from maturities of investment securities | | 24,519,512 | 24,519,512 | | 31,182,665 | 31,182,665 |
| Net purchases of short-term investment securities | 160,062 | (14,466,235) | (14,306,173) | (333,317) | (8,367,102) | (8,700,419) |
| Purchases of U.S. government obligations | | | | | (77,350,894) | (77,350,894) |
| Proceeds from dissolution of GCCC | | | | | 890,295 | 890,295 |
| Net cash provided (used) by investing activities | 160,062 | 10,053,277 | 10,213,339 | (333,317) | (53,645,036) | (53,978,353) |
| NET INCREASE IN CASH | 46,822 | (1,354,490) | (1,307,668) | 9,598 | 1,408,747 | 1,418,345 |
| CASH AT BEGINNING OF YEAR | 66,766 | 1,434,237 | 1,501,003 | 57,168 | 25,490 | 82,658 |
| CASH AT END OF YEAR | $ 113,588 | $ 79,747 | $ 193,335 | $ 66,766 | $ 1,434,237 | $ 1,501,003 |
| SUPPLEMENTAL DISCLOSURE - Noncash activity - | | | | | | |
| Land acquired through like-kind exchange | | $ 1,900,000 | $ 1,900,000 | | | |
| Capital contributions - land | | $ 2,012,324 | $ 2,012,324 | | | |
| Additions to contractor escrow, net | $ | $ 653,831 | $ 653,831 | $ | $ | $ |

### 1. BACKGROUND INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***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, 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. The trustee allocates monthly tax revenues to the Capital Fund and Operating Fund based upon the terms of the Bond Indenture.

***Significant Accounting Policies*** - The significant accounting policies followed in preparation of these 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 also applies the Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, to the extent that they do not contradict or conflict with GASB pronouncements. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Proprietary Fund*** - The Authority operates as an enterprise fund. 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 where it has been decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

***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 fund types are used by the Authority:

*Operating Fund* - The operating fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund. The fund balance of the operating fund is available to the Authority for any purpose, provided it is expended or transferred according to the Authority's regulations.

*Capital Fund* - The capital fund is used to account for financial resources used for the acquisition, development or construction of the facility, as well as the accumulation of resources for, and the payment of, capital debt principal, interest and related costs.

*Accrual Basis* - The financial statements of the Authority have been prepared on the accrual basis. Accordingly, revenue is recognized when earned and expenses are recorded as incurred. Differences between amounts earned and received are shown as receivables. Differences between expenses incurred and paid are shown as liabilities.

*Cash* - For purposes of the combining statement of cash flows, cash and cash equivalents include demand and time deposits with original maturities less than three months.

*Funds Held in Escrow* - At December 31, 1999, various short-term investments and cash balances amounting to $653,831 were held in contractor escrow accounts on deposit with the trustee.

*Property, Plant and Equipment* - Office equipment is capitalized at cost in the operating fund; construction costs (including capitalized interest) and improvements are recorded at cost in the capital fund. 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 3 to 40 years.

*Bond Discount and Premium* - The bond discount and premium are being accreted or amortized over the life of the bond issue using the level yield method.

*Bond Issuance Costs* - Costs relating to issuing bonds are netted against the outstanding bonds, as a liability valuation account, and are amortized using the straight-line method, which does not differ materially from the level yield method, over the life of the bond issue.

*Deferred Loss on Advanced Refunding* - Deferred loss on the advance bond refunding is netted against the outstanding bonds, as a liability valuation account, and is being amortized using the straight-line method over the life of the refunded bond.

*Reclassifications* - Certain reclassifications have been made to the 1998 financial statements in order to conform to the 1999 presentation.

## 2. CASH AND INVESTMENTS

*Deposits* - At December 31, 1999 and 1998, the carrying amount of the Authority's deposits were $193,335 and $1,501,003, respectively, and the bank balances were $194,668 and $1,502,397, respectively. All bank balances are covered by Federal depository insurance at December 31, 1999. Of the bank balances at December 31, 1998, $167,160 was covered by federal deposit insurance and $1,335,237 was uninsured but collateralized by pools of securities pledged by the depository bank and held in the name of the respective bank.

*Investments* - Effective January 1, 1998, the Authority adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* In accordance with GASB Statement No. 31, investments are carried at market value. The Ohio Revised Code authorizes the Authority to invest in bonds, notes and other obligations of the United States, its instrumentalities and agencies, the state of Ohio, political subdivisions of the state of Ohio, and other investments as permitted by trust agreements. It is management's policy to invest in the State Treasury Asset Reserve of Ohio (STAROhio), government securities, and money market mutual funds. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 1999 and 1998. It is management's intent to hold all investments until maturity.

As of December 31, 1999 and 1998 the Authority held the following investments:

| | 1999 | |
|---|---|---|
| | Market Value | |
| | Operating Fund | Capital Fund |
| STAR Ohio | $5,321,599 | $45,365,639 |
| U.S. Treasury notes and bonds | | 25,202,829 |
| Total | $5,321,599 | $70,568,468 |

| | 1998 | |
|---|---|---|
| | Market Value | |
| | Operating Fund | Capital Fund |
| STAR Ohio | $5,481,661 | $30,899,404 |
| U.S. Treasury notes and bonds | | 50,267,136 |
| Total | $5,481,661 | $81,166,540 |

All United States government securities are uninsured and unregistered and held by the Authority's trustee in the name of the trustee.

Cash and investments in the operating fund in the amount of $51,000 and $55,000 were restricted at December 31, 1999 and 1998, respectively under the terms of the Bond Indenture, and may by used only in the event that the Authority does not have sufficient funds available to pay property insurance premiums when due.

As further discussed in Note 5, a portion of investments in the capital fund are restricted for debt service.

## 3. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment at December 31 is as follows:

| | 1999 | | 1998 | |
|---|---|---|---|---|
| | Operating Fund | Capital Fund | Operating Fund | Capital Fund |
| Building and improvements | | $ 114,969,855 | | $ 114,135,711 |
| Major building equipment | | 9,423,859 | | 9,423,860 |
| Land | | 33,242,189 | | 31,810,383 |
| Parking lot | | 1,144,557 | | 1,144,557 |
| Equipment and furnishings | $ 33,045 | 3,535,712 | $ 33,045 | 3,474,609 |
| Improvements other than building | | 122,500 | | 122,500 |
| Construction in progress | | 21,012,377 | | 2,856,593 |
| Total | 33,045 | 183,451,049 | 33,045 | 162,968,213 |
| Less accumulated depreciation | (17,362) | (28,722,491) | (12,040) | (23,819,331) |
| Property, plant and equipment, net | $ 15,683 | $ 154,728,558 | $ 21,005 | $ 139,148,882 |

The 1997 bond interest costs for fixed asset construction are capitalized. However, all other interest costs are expensed. Interest costs incurred during 1999 were $10,320,875 of which $840,010 has been capitalized. During 1998 interest costs of $10,312,585 were incurred of which $36,849 was capitalized.

During 1999, the Authority exchanged land with a book value of $2,790,786 for land with an appraised value of approximately $1,900,000 plus cash of $910,287. The land received has been recorded in the amount of $1,900,000, which represents the book value of the land given up less the net cash received.

The Authority received four parcels of land during 1999, which have been recorded as contributed capital at the fair market value of $2,012,324 (see Note 6).

## 4. BONDS PAYABLE

Bonds outstanding at December 31, 1999 and 1998 are as follows:

| Type | Interest Rate | Maturity | Amount 1999 | Amount 1998 |
|---|---|---|---|---|
| Refunded Term/92 | 5.0% and 5.85% | 2013 and 2019 | $ 56,585,000 | $ 56,585,000 |
| Refunded Term/Series 97 | 5% | 2017 and 2027 | 61,600,000 | 61,600,000 |
| Serial | 6.7 % | 1999 | | 4,080,000 |
| Refunded Serial/92 | 5.2% to 5.8% | 2000 to 2006 | 2,100,000 | 2,345,000 |
| Refunded Serial/97 | 4.1% to 5.5% | 2000 to 2012 | 22,325,000 | 22,340,000 |
| Zero Coupon | | 2000 to 2010 | 47,905,000 | 47,905,000 |
| Total | | | 190,515,000 | 194,855,000 |
| Less: | | | | |
| Unamortized discount | | | (19,692,071) | (22,123,186) |
| Unamortized issuance costs | | | (414,698) | (432,236) |
| Unamortized deferred loss | | | (1,011,758) | (1,059,938) |
| Total | | | $ 169,396,473 | $ 171,239,640 |

Interest on the term and serial bonds is payable semiannually on June 1 and December 1. Interest is accreted on the zero coupon bonds semiannually on June 1 and December 1, to provide yields of 6.90% to 7.15% at maturity. Interest has been accrued on all bonds through December 31, 1999. Bonds mature on December 1 in the years set forth above.

On January 25, 1993, the Authority advance refunded its outstanding 1990 tax and lease revenue anticipation bonds. Such bonds are considered to be defeased and have been removed from the balance sheet of the capital fund. At December 31, 1999, the escrow balance relating to these defeased bonds was $53,982,000.

On January 6, 1998, the Authority issued $84,000,000 of tax and lease revenue anticipation bonds with an average interest rate of 5.0%, in part to advance refund $8,005,000 of outstanding 2020 term bonds with an average interest rate of 6%. The net proceeds of $82,859,082 (after payment of $1,140,918 in underwriting fees, insurance, and other issuance costs) provided for a deposit of $8,220,336 into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2020 term bonds. As a result, the 2020 term bonds are considered to be defeased and the liability for those bonds has been removed from the bonds payable balance.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1,108,117. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2020 using the straight-line method. The Authority completed the advance refunding to reduce its total bond payments over the next 22 years by $853,298 and to obtain an economic gain (difference between the present values of the old and new bond payments of $501,205).

The principal payment obligations related to all bond indebtedness for the five-year period commencing January 1, 1999 and thereafter, including the effect of the refunding, are as follows:

| | Amount |
|---|---|
| 2000 | $ 4,625,000 |
| 2001 | 6,060,000 |
| 2002 | 6,130,000 |
| 2003 | 6,215,000 |
| 2004 | 6,300,000 |
| Thereafter | 161,185,000 |
| Total | $190,515,000 |

All term bonds are callable at the option of the Authority commencing December 1, 2002 at prescribed redemption prices plus accrued interest.

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, 2027. The Bond Indenture grants a first lien on the excise tax and rent revenues, moneys and investments in the capital fund. These amounts are included as hotel/motel excise taxes receivable, investments, and interest receivable in the capital fund and all debt related accounts are therefore restricted accounts.

## 5. DEBT SERVICE RESERVES

In accordance with the Bond Indenture, the debt service reserve fund and the rental reserve fund are special trust funds created 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 amounts to be placed into these special trust funds as well as minimum reserve balances to be maintained in each. These reserves, which are part of investments in the capital fund, were as follows at December 31:

| | 1999 | | 1998 | |
|---|---|---|---|---|
| | Reserve Balance | Required Reserve | Reserve Balance | Required Reserve |
| Debt service fund | $ 1,018,951 | $ 1,015,557 | $ 1,018,429 | $ 1,015,658 |
| Debt service reserve fund | 13,632,486 | 13,612,777 | 13,977,313 | 13,612,777 |
| Rental reserve fund | 6,841,426 | 6,806,389 | 6,860,854 | 6,806,389 |
| Total | $21,492,863 | $21,434,723 | $21,856,596 | $21,434,824 |

The Authority monitors arbitrage rebate compliance in accordance with Internal Revenue Code Section 148(f).

Additionally, 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 reserve 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.

## 6. CONTRIBUTED CAPITAL

At December 31, 1999 contributed capital consisted of the following:

| | 1999 | 1998 |
|---|---|---|
| Funds received for capital assets/The Limited, Inc. in 1988 | $ 236,031 | $ 236,031 |
| The South Facility received from GCCC in 1996 | 31,565,575 | 31,565,575 |
| Cash restricted for land acquisition in 1998 | 1,438,722 | 1,438,722 |
| Cash restricted for land acquisition in 1999 | 283,855 | |
| Land received from the City of Columbus in 1999 | 2,012,324 | |
| Total | 35,536,507 | 33,240,328 |
| Less: Accumulated amortization | (5,538,823) | (3,719,528) |
| Total | $29,997,684 | $29,520,800 |

Contributed capital of $283,855 and $1,438,722 was received during 1999 and 1998, respectively, in the form of cash restricted for land acquisition from Capitol South. This land is leased to Capitol South for the Nationwide Arena. The lease commenced December 1998. Rent commences after the later of Certificate of Occupancy or July 1, 2000 for a term of 40 years. Base rent equals $150,000 a year for years 1-10, $165,000 a year for years 11-25 and $165,000 plus inflation thereafter. Additional rent as defined is also due. No rental revenue has been earned as of December 31, 1999 related to this lease.

During 1999, the Authority received four parcels of land from the City of Columbus at an aggregate fair value of $2,012,324 as additional land for use in conjunction with the Nationwide Arena.

## 7. FACILITY OPERATOR AGREEMENTS

On March 31, 1997 the Authority entered into a Management Agreement with SMG for facility management, operations and marketing of the convention center for the period April 1, 1997 through December 31, 1999, which has been renewed through December 31, 2001. As base compensation for providing these services, SMG will receive the following:

| Year | Fixed Fee |
|---|---|
| 1998 | $250,000 |
| 1999 | $225,000 |
| 2000 and 2001 | Based upon prior year adjusted for CPI as defined |

SMG is also entitled to annual quantitative and qualitative incentive fees, as defined, with respect to each fiscal 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 80% of the fixed fee payable as discussed above and may not be paid if the Net Operating Profit/Loss, as defined, does exceed the Net Operating Profit/Loss Benchmark, as defined. The Net Operating Profit/Loss Benchmark is based on the prior year's Facility operating results. The qualitative incentive fee cannot exceed 20% 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. In 1999 and 1998, the Authority expensed $450,000 and $500,000, respectively, of which $225,000 and $250,000 was accrued at December 31, 1999 and 1998, respectively.

In accordance with the terms of the Management Agreement, the Authority is required to provide the operator certain operating funds, as defined, sufficient to meet one quarter's operating expenses plus maintain a $400,000 cash flow reserve fund (or other such amount mutually agreed upon). At December 31, 1999 and 1998, the Authority has not been required to advance any funds to the operator to establish this reserve.

SMG is required to provide $90,000 annually to the facility for capital improvements. The title to the improvements will be transferred to the Authority upon termination of the Agreement. At termination of the agreement the Authority is required to pay SMG for any unamortized balance on these improvements.

On March 31, 1997, the Authority and SMG entered into a Marquee and Advertising Rights Agreement whereby SMG will provide a capital contribution up to $300,000 for Marquee systems (as defined) in exchange for exclusive rights to provide advertising on these systems. Advertising income generated will be remitted 100% to SMG up to its capital contribution and 50% to SMG, 50% to the Authority thereafter. No income has been earned or remitted to the Authority under this agreement as of December 31, 1999.

In 1998 Hyatt, a lessor (see Note 8), acquired a 50% ownership of SMG.

At December 31, 1999 and 1998, amounts receivable from the operations of the convention center were $698,157 and $613,551, respectively. The amount due at December 31, 1999 was comprised of $613,551 due as of December 31, 1998 plus the $84,606 net profit for the year ended December 31, 1999.

## 8. CONVENTION FACILITIES TRANSFER AGREEMENT

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 this facility, and the Hotel CURC lease (the Hyatt) lease.

Hyatt Regency lease revenue is comprised of monthly minimum rentals in addition to annual cash distributions from the Hyatt Regency if the Hyatt Regency meets certain targets for cash flow (as defined). Minimum rent was $31,250 per quarter for 1999 and 1998. Additional lease revenue of $1,253,997 and $1,245,193, respectively, was owed to the Authority at December 31, 1999 and 1998. Additionally, in 1999 SMG recorded revenues of $835,000 and $850,000 in 1999 and 1998, respectively, from Ohio Center Hotel Company, LTD. (an affiliate of Hyatt) (primarily from utilities, parking and meeting space).

Additionally, 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 guarantees. These leases are retail leases with various rental terms. The retail lease revenue is recognized by the operators of the facility in accordance with the operating method.

Prior to SMG, the facility was operated by the Greater Columbus Convention Center (GCCC). Upon agreement with the Authority, GCCC ceased operations on March 31, 1997. Upon dissolution of GCCC, any assets remaining after fulfillment of outstanding obligations up to a maximum of $500,000 will be transferred to a third party, and any amount in excess of $500,000 will be transferred to the Authority. The Authority will, upon transfer of any funds, indemnify the GCCC from any claims that may arise up to the amount of the funds transferred. In 1998 the Authority received $890,295 from the dissolution of GCCC with future funds pending final dissolution.

## 9. VACATION, SICK LEAVE, AND PERSONAL LEAVE

Authority employees are granted vacation, sick leave, and personal leave at amounts which vary by length of service. In the event of termination, employees are reimbursed for accumulated vacation, sick leave, and personal leave at the employee's current wage or a portion thereof.

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

## 10. RETIREMENT PLAN

***Plan Description*** - All full time employees of the Authority are eligible to participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system. PERS provides retirement and disability benefits, annual cost-of-living adjustments, health care benefits, and death benefits to plan members and beneficiaries. PERS issues a publicly available comprehensive annual financial report which includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or (800) 222-PERS (7377).

***Funding Policy*** - The Authority and covered employees contribute at actuarially determined rates for 1999, 13.55% and 8.5%, respectively, of covered employee payroll to PERS. The Authority's contributions to PERS for the years ended December 31, 1999, 1998 and 1997 were $33,702, $30,039 and $26,632, respectively. The employees' contributions to PERS for the years ended December 31, 1999, 1998 and 1997 were $21,142, $18,844 and $16,707, respectively, of which approximately $21,142, $18,844 and $16,707, respectively, were paid by the Authority.

PERS also provides postretirement health care coverage (OPEB) to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. The portion of the 1999 employer contribution rate of 13.55% used to fund health care was 4.2% in 1999 and 1998. The Ohio

Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

OPEB are financed through employer contributions and investment earnings. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

Expenditures for OPEB during 1999 and 1998 were $523,599,349 and $440,596,663, respectively. As of December 31, 1999 and 1998 the unaudited estimated net assets available for future OPEB payments were $9,870,285,641 and $9,447,325,318, respectively. The number of benefit recipients eligible for OPEB at December 31, 1999 and 1998 were 118,062 and 115,579, respectively.

## 11. RISK MANAGEMENT

During the year the Authority is subjected to certain types of risks in the performance of its normal functions. They include risks that 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.

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# INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
The Franklin County Convention Facilities Authority:

We have audited the financial statements of The Franklin County Convention Facilities Authority (the Authority), as of and for the year ended December 31, 1999, and have issued our report thereon dated May 3, 2000. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## COMPLIANCE

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

## INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Directors and the Auditor of State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

May 3, 2000

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**THE FRANKLIN COUNTY 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.**

By: Susan Babbitt

Date: JUNE 27, 2000