DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

C O N T E N T S

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CPAs AND ADVISORS

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Independent Auditor's Report

To the Board of Directors of the
Detroit Regional Convention Facility Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Detroit Regional Convention Facility Authority (the "Authority" or "DRCFA"), as of and for the years ended September 30, 2013 and 2012, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 from material misstatement.

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

DoerenMayhew

Auditor's Responsibility - Continued

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

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 of the Detroit Regional Convention Facility Authority as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, the Authority implemented the provisions of Governmental Accounting Standards Board Statements No. 62 and No. 63. Our opinion was not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2014 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

Doeren Mayhew

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April 29, 2014
Troy, Michigan

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

BACKGROUND

The Cobo Hall Convention Center ("Cobo"), located in the City of Detroit, Michigan ("City"), is one of the 20th largest convention facilities in the United States consisting of approximately 2.4 million gross square feet and an attached 11,000 seat arena. The arena was recently converted into a 40,000 square foot ballroom with an additional 21,000 square feet of meeting space and a food court. Cobo was originally developed and has continuously been operated since the 1960's by the City and was expanded to its present size in 1986.

In 2008, the State of Michigan adopted the Regional Convention Facility Authority Act, being Act 554, Michigan Public Acts of 2008, which was amended in early 2009 (as amended "Act 554") providing for the transfer of Cobo from the City to a newly created Detroit Regional Convention Facility Authority (the "Authority").

Pursuant to Act 554, Cobo was transferred by lease to the Authority effective September 15, 2009. Under the terms of the 30-year capital lease, the Authority has full operational control and responsibility for Cobo, subject only to a potential reversion of Cobo to the City after 2039. This lease and related payment was paid in full during the year ended September 30, 2011.

Starting in September 2009, the Authority had to restructure and create an ongoing operation from the original transfer of the facility. There were many contracts and conditions that were not as well developed as they could have been from the original City of Detroit financial records. As a result, the operating expenses comprised of vendor expenses and open payables at the date of assumption are estimated to have exceeded $21 million.

After assuming control of the facility, management embarked on a complete restructuring of the operation's finances and contracts. The Authority commenced a comprehensive review of all major service contracts. Most contracts were either renegotiated or subject to a competitive bidding process with the objective of securing better and more efficient production methods that would maximize value for the Authority. Many of these contracts are short-term, less than two years, and will be available for rebidding as necessary. As a result of the board actions in 2009 and 2010, these changes reduced the operating expense for the facility by approximately $6 million.

As management of the Authority, we offer this narrative overview and analysis of the financial activities of the Authority for the years ended September 30, 2013 and 2012. Readers are encouraged to use this explanation of the Authority's activity in conjunction with the accompanying financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the financial statements, which focus on the Authority as a whole, and the notes to the financial statements, which provide additional information that is essential to gain a full understanding of the data presented in the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

The financial statements consist of the *Statements of Net Position*, the *Statements of Revenues, Expenses and Changes in Net Position* and the *Statements of Cash Flows.* These statements are prepared using the full accrual basis of accounting, which is similar to that employed by businesses in the private sector.

The ***Statements of Net Position*** present information on all of the assets and liabilities of the Authority, with the difference between the two reported as *net position.* Net position can be thought of as one way of measuring the financial strength of the Authority. Increases or decreases in net position over time may serve as a useful indicator of whether the financial condition of the Authority is improving or deteriorating.

The ***Statements of Revenues, Expenses and Changes in Net Position*** present information showing how the net position of the Authority has changed over the course of the most recent fiscal year. All changes in net position are recognized as soon as the underlying transactions take place, regardless of the timing of the related cash flows. As a result, certain revenues and expenses reported in these statements are related to items that will only result in cash flows in future years.

The ***Statements of Cash Flows*** present detailed information about the changes in the cash positions of the Authority during the year.

The ***Notes to the Financial Statements*** provide additional information that is essential to gain a full understanding of the data presented in financial statements and begin on page 13 of this report.

FINANCIAL OVERVIEW

Cobo Center receives three primary streams of revenue to support its daily operations: a state operating subsidy that is scheduled to decrease over time based on a formula outlined in the DRCFA's enabling legislation; a state debt subsidy that services all outstanding principal and interest payments on bonds issued to cover capital costs associated with expansions and upgrades to the center; and operating revenues received in exchange for the goods and services provided by the center to its customers and their guests. The operating revenues include event related items such as: room, audio visual, and equipment rentals; event set-up and tear down labor fees; food and beverage catering; booth cleaning; electric service charges; internet distribution charges and parking. Other non-event sources of operating revenue come from: chilled water sales; cellular antenna rental fees; office rent; and monthly parking rental fees.

The state operations and debt service subsidies are regularly scheduled and can be predetermined several years in advance. Non-event related operating revenues are somewhat predictable and tend to be insulated from general economic conditions, however they are dependent on the weather and the usage of the neighboring Joe Louis Arena (warm weather, an extended hockey season, or concert event can increase the demand for chilled water). Event related operating revenues are based on a number of factors including both macro and micro economic forces impacting the convention, hotel, food and beverage, travel, tourism and labor markets; some of which are beyond the direct control of the Authority. Consequently, event related revenues may fluctuate significantly from year to year.

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW - Continued

For the years ended September 30, 2013 and 2012, the assets of the Authority exceeded its liabilities by $53,422,979 and $52,477,011, respectively. Below is a summary of the statements of net position:

	September 30, 2013	September 30, 2012
Assets		
Cash and cash equivalents	$ 22,058,285	$ 20,050,103
Cash and cash equivalents - restricted	68,352,234	117,494,407
Investments	3,015,569	3,000,209
Accounts receivable	993,639	973,710
State bonds receivable	20,789,604	30,468,832
Grant receivable	90,832	-
Capitalized bond issuance costs	4,264,475	4,474,179
Prepaid expenses and other assets	1,443,554	1,152,100
Capital assets, net	236,655,448	127,991,117
Total assets	$357,663,640	$305,604,657
Liabilities and Net Position		
Accounts payable	$ 28,403,528	$ 22,359,587
Accrued liabilities	1,732,794	2,419,492
Restricted deposits	3,974,735	3,974,735
Bonds payable	270,129,604	224,373,832
Total liabilities	304,240,661	253,127,646
Net position - net investment in capital assets	3,325,342	(4,266,502)
Net position - restricted	20,789,604	30,468,832
Net position - unrestricted	29,308,033	26,274,681
Total net position	53,422,979	52,477,011
Total liabilities and net position	$357,663,640	$305,604,657

FINANCIAL OVERVIEW - Continued

As indicated in the following schedule, the total net position of the Authority increased by $945,968 and $1,476,092 during the years ended September 30, 2013 and 2012, respectively. Revenues and expenses increased in fiscal 2013 and 2012 as a result of further convention activity.

	September 30, 2013	September 30, 2012
State operational subsidy	$ 9,000,000	$ 9,000,000
Federal revenues	163,691	1,303,021
Operational revenue	6,660,928	5,834,216
Parking revenue	3,474,175	2,156,162
Miscellaneous revenue	-	80,000
Operating expenses	(15,794,339)	(14,512,807)
Operating income	3,504,455	3,860,592
State debt service subsidy	4,246,647	3,445,415
Interest (net)	(3,617,166)	(2,955,096)
Depreciation and amortization expense	(3,187,968)	(2,874,819)
Increase in net position	$ 945,968	$ 1,476,092

STATE SUBSIDY

As noted above, the State of Michigan provides an annual operating revenue subsidy for the Authority to assist in its earliest years; for both of the years ended September 30, 2013 and 2012, the operating revenue totaled $9 million. Future subsidies are scheduled as follows for the years stated below:

2014	$	8 m
2015		8 m
2016		7 m
2017		6 m
2018 - 2023		5 m annually

These amounts were determined during the discussions on the structure of the Authority. Subsequent review of the operating expenses from the City of Detroit, and the further use of analysis over existing contracts, agreements and other financial information provide the basis for development of the detailed budget for the new organization.

The state also provides a subsidy in the form of debt service from the proceeds of the Convention Facility Development Fund (the "CFDF"). For the fiscal years ended September 30, 2013 and 2012, the Authority received $4,246,647 and $3,445,415, respectively, in debt service income from the CFDF. This revenue was off-set by the interest expense for debt service on the 2003 and 2011 Series A and B bonds.

FEDERAL FUNDING

In cooperation with the Detroit Economic Growth Corporation, the Authority applied for and was awarded a U.S. Department of Energy (DOE) grant to off-set capital improvement costs that would provide for more efficient energy usage in Cobo Center. The matching grant award provided $1 for every $5 of capital costs invested in energy saving initiatives by the DRCFA up to a maximum of approximately $2.48 million. The Authority was later able to secure an additional $168,000 in maximum grant capacity through the DOE during the 2013 fiscal year. Through the fiscal year ended September 30, 2012, the Authority received $2.48 million in DOE funding. In the fiscal year ended September 30, 2013, the Authority was awarded an additional $163,691 in matching grant funds from the DOE. In future years, the Authority will continue to pursue federal grant awards for which it may qualify.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Authority assumed certain assets and debt with the formation of the Authority. Such definition of the transfer of plant, facilities and movable equipment, is defined in a formal agreement between the City of Detroit and the Detroit Regional Convention Facility Authority, dated September 15, 2009.

Capital Assets

At the inception of the Authority, the capital assets referred to as Cobo and its related property were leased through a 30-year capital lease agreement for the amount of $20 million, due to the City of Detroit upon completion of initial funding of the Authority. The one-time payment of $20 million was made for the leasehold rights as defined in the lease and service agreement on December 2, 2010.

Long-Term Debt

Under Section 19(l)(f) of Act 554, the Authority assumed the bonds that were issued to finance or refinance the 1989 improvements to Cobo, being specifically the City of Detroit Convention Facility Special tax revenue and Revenue Refunding Bonds (Cobo Hall Project), Series 2003.

The balance of the bonds payable as of September 30, 2013 and 2012 is $270,129,604 and $224,373,832, respectively. Details of these bonds payable are listed in the notes to the financial statements.

In September 2010, the Authority issued $80 million in short-term debt to support the payment of $20 million owed to the City of Detroit under the terms of the 30-year capital lease agreement. Bond funds in the amount of $3 million were reimbursed to the Authority operating fund for emergency repairs to the roof, electrical systems, event hall floor and loading dock area that were completed during the four month period between September 15, 2009 and the March 2010 North American International Auto Show. The remaining $57 million provided for a series of repairs to the facility and replacement of equipment that was identified by the strategic plan as Phase 2 of the enhancement of the facility.

CAPITAL ASSETS AND DEBT ADMINISTRATION - Continued

Long-Term Debt - Continued

On November 3, 2011, the Authority simultaneously refunded the outstanding Series 2010 bonds totaling $75,000,000 and received approval for the issuance of new bonds in the aggregate principal sum not to exceed $315,000,000, of which $249,340,000 is outstanding at September 30, 2013. The tax exempt portion of the new bond offering totaled $290,000,000 and is designated as Convention Facility Special Tax Revenue and Revenue Refunding Bonds, Series 2011A. The taxable portion of the bond offering totaled $25,000,000 and is designated as Convention Facility Special Tax Revenue and Revenue Refunding Bonds, Series 2011B. The issuance of these bonds is in accordance with State legislation.

See Note 5 for additional details of the Authority's bond issuances.

On December 19, 2013, in consultation with our financial advisors at First Southwest, Bond Counsel, Miller Canfield, and the State Treasury, the DRCFA utilized dedicated bond reserves to defease $22,210,000 in remaining outstanding debt from the Series 2003 Tax Revenue and Revenue Refunding Bonds which were assumed from the City of Detroit when the DRCFA took control of Cobo Center on September 15, 2009. This debt was a refinancing of the debt incurred by the City of Detroit in connection with the expansion of Cobo Center in the late 1980's. Factors which influenced this decision included:

- The 2003 bonds could not be called prior to their maturity date;
- The funds existed in the debt service, reserve and redemption accounts to allow the Authority to defease the 2003 bond issue;
- The dedicated reserves being held in trust were earning a single basis point per year in interest.
- The 2003 bonds were the DRCFA's highest cost of debt;
- Defeasance secures the interests of bond holders during a time of economic uncertainty for the City of Detroit;
- The counties and the state taxpayers benefit from a return of tax revenue from the convention fund for a period of 19 months;
- Defeasance is a positive story for the Authority that enables the Authority to differentiate itself from the municipal financial difficulties.

CONTACTING THE MANAGEMENT OF THE AUTHORITY

This financial report is designed to provide the citizens, taxpayers, investors, creditors and others with a general overview of the finances of the Authority as they establish themselves as an ongoing concern. Questions concerning any information contained in this report or requests for additional information should be referred to the Chief Financial Officer, Cobo Center, One Washington Boulevard, Detroit, Michigan 48226.

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

STATEMENTS OF NET POSITION

ASSETS

	September 30, 2013	September 30, 2012
Cash and cash equivalents (note 2)	$ 22,058,285	$ 20,050,103
Cash and cash equivalents - restricted (notes 2 and 5)	68,352,234	117,494,407
Investments (note 3)	3,015,569	3,000,209
Accounts receivable	993,639	973,710
State bonds receivable (note 5)	20,789,604	30,468,832
Grant receivable	90,832	-
Capitalized bond issuance costs (note 5)	4,264,475	4,474,179
Prepaid expenses and other assets (note 9)	1,443,554	1,152,100
Capital assets (note 4)	236,655,448	127,991,117
Total assets	$ 357,663,640	$ 305,604,657

LIABILITIES AND NET POSITION

	2013	2012
Liabilities		
Accounts payable	$ 28,403,528	$ 22,359,587
Accrued liabilities	1,732,794	2,419,492
Restricted deposits payable (notes 2 and 5)	3,974,735	3,974,735
Bonds payable (note 5)	270,129,604	224,373,832
Total liabilities	304,240,661	253,127,646
Net Position		
Net investment in capital assets	3,325,342	(4,266,502)
Restricted	20,789,604	30,468,832
Unrestricted	29,308,033	26,274,681
Total net position	53,422,979	52,477,011
Total liabilities and net position	$ 357,663,640	$ 305,604,657

See accompanying notes to financial statements

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended September 30, 2013	Year Ended September 30, 2012
Operating Revenues		
State operating subsidy	$ 9,000,000	$ 9,000,000
Federal revenue	163,691	1,303,021
Operational revenue	6,660,928	5,834,216
Parking revenue	3,474,175	2,156,162
Miscellaneous revenue	-	80,000
Total operating revenues	19,298,794	18,373,399
Operating Expenses		
Professional fees	380,672	366,838
Repairs and maintenance	1,442,306	1,576,425
Insurance expense	851,119	775,633
Contract expense	3,221,238	3,226,508
Event expense	613,636	573,691
Utilities	2,965,586	2,769,082
Payroll expenses	3,998,301	3,858,871
Parking expense	970,516	746,781
Management fees	509,987	465,458
Other expenses	840,978	153,520
Total operating expenses	15,794,339	14,512,807
Operating Income	3,504,455	3,860,592
Nonoperating Revenues (Expenses)		
State debt service subsidy	4,246,647	3,445,415
Interest income	629,481	496,079
Interest expense	(4,246,647)	(3,451,175)
Depreciation and amortization expense	(3,187,968)	(2,874,819)
Total nonoperating revenues (expenses)	(2,558,487)	(2,384,500)
Increase in Net Position	945,968	1,476,092
Net Position - Beginning	52,477,011	51,000,919
Net Position - Ending	$ 53,422,979	$ 52,477,011

See accompanying notes to financial statements

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

STATEMENTS OF CASH FLOWS

	Year Ended September 30, 2013	Year Ended September 30, 2012
Cash Flows From Operating Activities:		
Increase in net position	$ 945,968	$ 1,476,092
Adjustments:		
Depreciation and amortization	3,187,968	2,874,819
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(19,929)	344,744
Decrease (increase) in grant receivable	(90,832)	519,262
Increase in prepaid expenses and other assets	(291,454)	(157,504)
Increase in accounts payable	6,043,941	11,368,085
Increase (decrease) in accrued liabilities	(686,698)	1,711,065
Total adjustments	8,142,996	16,660,471
Net cash provided from operating activities	9,088,964	18,136,563
Cash Flows From Investing Activities:		
Acquisition of capital assets	(111,324,723)	(76,251,701)
Purchase of investments	(15,360)	(3,000,000)
Decrease in restricted deposits payable	-	(25,265)
Net cash used in investing activities	(111,340,083)	(79,276,966)
Cash Flows From Financing Activities:		
Proceeds from issuance of Series 2011 bonds	70,000,000	179,340,000
Payment of Series 2010 bonds	-	(75,000,000)
Payment of bond issuance costs	(317,872)	(4,657,294)
Payment of bond principal	(25,140,000)	-
Reduction of bonds receivable	10,575,000	14,565,000
Net cash provided from financing activities	55,117,128	114,247,706
Net Increase (Decrease) in Cash and Cash Equivalents	(47,133,991)	53,107,303
Cash and Cash Equivalents - Beginning	137,544,510	84,437,207
Cash and Cash Equivalents - Ending	$ 90,410,519	$ 137,544,510

Schedule of Noncash Financing Activities

	2013	2012
Increase in accreted value of Series 2003 bonds payable	$ 895,772	$ 857,641

See accompanying notes to financial statements

Note 1 - Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

The Detroit Regional Convention Facility Authority (the "Authority") is incorporated as a Michigan Public Body Corporate and Politic. It was created through an interlocal and intergovernmental agreement by and among the Mayor of the City of Detroit, Chairman of the Macomb County Board of Commissioners, County Executive of Oakland County and the Chief Executive Officer of Wayne County under the Regional Convention Facility Authority Act, Act 554, of the Michigan Public Acts of 2008. The Authority was created to oversee the development, ongoing management and operation of Cobo and to conduct any and all such activities and exercise any and all such powers as are authorized by the Regional Convention Facility Authority Act of 2008, which are necessary to the achievement of the foregoing and in furtherance of the purposes of the Authority. During the years ended September 30, 2013 and 2012, the Authority continues to be primarily funded by the State of Michigan.

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These audits were performed in order to prepare these statements as required by the State of Michigan. The Authority follows the "business-type" activities reporting requirements of GASB Statement No. 34 that provides a comprehensive look at the Authority's financial activities. Accordingly, net position of the Authority and changes therein are classified and reported as follows:

Net Investment in Capital Assets - capital assets, net of accumulated depreciation and reduced by any outstanding balances of bonds, notes, or other borrowings which were attributable to the acquisition, construction or improvement of those capital assets.

Restricted - restricted cash of the Authority which is restricted in use by external groups such as grantors, creditors, or laws and regulations of other governments; or by law through constitutional provisions or enabling legislation.

Unrestricted - all of the remaining net positions which do not meet the definition of the above categories.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies - Continued

Basis of Accounting

The Authority follows the rules promulgated by the Governmental Accounting Standards Board. Additionally, the Authority follows all Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") issued, unless pronouncements conflict with or contradict GASB. The Authority is not a component unit of a government, but rather a stand-alone public body corporate and politic. The periodic determination of revenues earned, expenses incurred, and net income is appropriate for management control and accountability; therefore, the business model is followed and the full accrual basis of accounting is used.

Estimates

The preparation of 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 reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Budget

Per the Regional Convention Facility Authority Act, No. 554 of 2008, section 141.1361, before the beginning of each fiscal year, the Board of Directors is responsible for the preparation of a budget for the Authority. This budget includes an itemized statement of the estimated current operational expenses and expenses for capital projects or debt repayment, and the estimated revenue from any and all sources for the fiscal year. The Board of Directors annually adopts an agreed upon budget in accordance with the Michigan Uniform Budget and Accounting Act.

Cash and Cash Equivalents

The Authority considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Cash and cash equivalents consist of cash on hand, demand deposits and money market accounts. The Authority places its temporary cash investments with high credit quality financial institutions.

Capital Assets

Capital assets are stated at cost. Expenditures relating to normal repairs and maintenance are charged to operations as incurred. The assets are depreciated over their estimated useful lives using the straight-line method.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies - Continued

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources until then. The Authority does not have any items that qualify for reporting in this category.

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources until that time. The Authority does not have any items that qualify for reporting in this category.

Subsidy Receivable and Revenue Recognition

The Authority receives subsidies on an annual basis from the State of Michigan. This subsidy is funded on a reimbursement basis which can lead to a receivable amount at the Authority's year end. Revenues are recorded monthly when billed to the State of Michigan. Convention and other revenue are recorded as Authority revenue in the period the convention or service takes place. Additional accounts receivable pertains to billings for convention use of the facility. Accounts receivable that are deemed uncollectible are written-off in the period that determination is made.

Management Fees

The Authority engaged SMG, a third-party management company, to provide services over operations and marketing. The agreement calls for compensation owed to SMG in a fixed annual fee of $250,000 and an annual incentive fee limited to a maximum of $250,000. At September 30, 2013 and 2012, the Authority's obligation applicable to the annual incentive fee under the terms of the agreement totaled $245,833 and $355,208, respectively. The obligation at September 30, 2012 included incentive fees of $242,708 and $112,500 applicable to the years ended September 30, 2012 and 2011, respectively.

Reclassification

Certain items in the financial statements for the year ended September 30, 2012 have been reclassified to conform with the presentation at September 30, 2013.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies - Continued

Adoption of New Accounting Standards

Effective October 1, 2012, the Authority adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.*

GASB Statement No. 62 incorporates into GASB literature certain accounting and financial reporting guidance issued prior to November 30, 1989 that is included in FASB statements and interpretations, APB opinions, and accounting and research bulletins of the AICPA Committee on Accounting Procedure. This statement did not have a significant impact on the Authority's financial statements.

GASB Statement No. 63 incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including April 29, 2014, which is the date the financial statements were available to be issued.

Note 2 - Cash and Cash Equivalents

The Authority is authorized to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loans associations that have offices in Michigan pursuant to Public Act 20 of 1943, as amended. The Authority's cash and cash equivalents are subject to custodial credit risk as discussed in the following paragraph.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. At various times during the year, such balances may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Restricted Deposits

Unspent bond proceeds and related interest have legal requirements to be spent for specific purposes of the bond issuances as discussed in Note 5. The balances of the restricted cash and cash equivalent asset accounts are as follows:

	September 30, 2013	September 30, 2012
2003 Bond Proceeds	$ 36,767,464	$ 51,388,560
2011 Bond Proceeds	31,584,770	66,105,847
Total restricted assets	$ 68,352,234	$ 117,494,407

Note 3 - Investments

The investment policy adopted by the Authority in accordance with Public Act 20 of 1943, as amended, authorizes investments in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; certain certificates of deposits insured by an agency of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications that mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; mutual funds composed of investment vehicles that are legal for direct investment by a public corporation; and certain investment pools.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investment policy requires that all investments not purchased directly from an issuer must be held in the name of the Authority and be held in third-party safekeeping. At September 30, 2013 and 2012, the Authority does not have investments with custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy addresses this risk by structuring portfolio maturities to meet operating cash flow needs; investing primarily in short-term securities or investment pools; and only purchasing securities with the intent to hold-to-maturity.

Concentration of Credit Risk

Through its investment policy, the Authority limits the holdings at any given institution to a maximum of 60% of the portfolio.

As of September 30, 2013, the Authority's investments consist of thirteen brokered certificates of deposits totaling $3,010,000 and a money market mutual fund account of approximately $5,500 which are held in trust and invested by Wells Fargo Securities, LLC. The Authority has the positive intent and ability to hold these investments to maturity, as such, investments are classified as held-to-maturity and recorded at amortized cost. The brokered certificates of deposits mature at various dates through September 2015.

Note 4 - Capital Assets

The principal categories of capital assets may be summarized as follows:

	September 30, 2013	September 30, 2012
Buildings	$ 20,346,245	$ 20,346,245
Computer equipment	312,245	193,910
Furniture and office equipment	3,639,542	1,312,064
Building improvements	181,663,053	58,265,017
Construction-in-progress	37,205,406	51,724,532
Total cost	243,166,491	131,841,768
Less accumulated depreciation	(6,511,043)	(3,850,651)
Undepreciated cost	$236,655,448	$127,991,117

As of September 30, 2013, the Authority is planning an additional $86 million in future capital projects through December 2014. Of this amount, $53 million represents the Authority's remaining commitment to various contractors at September 30, 2013. These costs will be recognized as incurred. Depreciation will begin on the capital assets as the projects are completed and placed into service. Depreciation expense charged to operations for the years ended September 30, 2013 and 2012 totaled $2,660,392 and $2,326,641, respectively.

Note 5 - Bonds

Long-term bond obligation activity for the year ended September 30, 2013 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 2003 Bonds	$ 45,033,832	$ 895,772	$ 25,140,000	$ 20,789,604	$ 11,105,000
Series 2011 Bonds	179,340,000	70,000,000	-	249,340,000	-
Total	$ 224,373,832	$ 70,895,772	$ 25,140,000	$ 270,129,604	$ 11,105,000

Long-term bond obligation activity for the year ended September 30, 2012 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 2003 Bonds	$ 44,176,191	$ 857,641	$ -	$ 45,033,832	$ 25,140,000
Series 2010 Bonds	75,000,000	-	75,000,000	-	-
Series 2011 Bonds	-	179,340,000	-	179,340,000	-
Total	$ 119,176,191	$180,197,641	$ 75,000,000	$ 224,373,832	$ 25,140,000

Series 2003 Bonds

For the purpose of financing the expansion of Cobo, the City of Detroit issued bonds in 2003 (Convention Facility Special Tax Revenue and Revenue Refunding Bonds), the proceeds of which were transferred to the Authority as of the date of its inception. The issuance consisted of current interest bonds, which pay principal annually and interest semiannually at coupon rates, and capital appreciation bonds, which are issued at a discounted amount and accrete principal to the date of maturity. Interest rates for both types of bonds range from 2% to 5%. The total values of the bonds are as follows:

	September 30, 2013	September 30, 2012
Current interest bonds	$ -	$ 25,140,000
Capital appreciation bonds	20,789,604	19,893,832
Total	$ 20,789,604	$ 45,033,832

Note 5 - Bonds - Continued

Series 2003 Bonds - Continued

The valuation of these bonds is in accordance with fair value measurement standards; disclosed at cost.

The Series 2003 bonds are special limited obligations of the Authority which are payable from and secured solely by a lien on the distributions the Authority is entitled to receive for the revenues deposited in the Convention Facility Development Fund collected from a specific tax on the sale of spirits in the State of Michigan (the “Liquor Tax” and from a State of Michigan excise tax on persons engaged in the business of providing rooms for dwelling, lodging or sleeping purposes to transient guests in certain counties (the “Hotel Occupancy Tax”). The State of Michigan is not obligated to pay principal of, the premium, if any and the interest on the Series 2003 bonds and neither the faith and credit nor the taxing power of the State of Michigan or the Authority is pledged therefore. Distributions of the Hotel Occupancy Tax and the Liquor Tax are subject to annual appropriation of the proceeds of such taxes by the Michigan Legislature. The State of Michigan has specifically reserved the right to repeal or amend the laws imposing the Hotel Occupancy Tax or the Liquor Tax. The scheduled payment of the principal of and interest on the Series 2003 bonds when due will be guaranteed under an insurance policy issued by the National Public Finance Guarantee Corporation.

The following are maturities of Series 2003 bonds for the years ending September 30th:

2014	$ 11,105,000
2015	11,105,000

In connection with the Authority’s assumption of the 2003 bonds, six bond bank accounts, totaling $36,767,464 and $51,388,560 at September 30, 2013 and 2012, respectively, and held by Wells Fargo Corporate Trust Services as trustee, were assumed by and redesignated in the name of the Authority. As discussed in Note 2, these funds are comprised of the unspent proceeds from the original bond issue and the related earnings, and are restricted in use to the payment or pre-payment of existing debt as authorized under the original bond resolution of 1985 or should all bond debt be paid, remaining funds in these accounts may be used for certain capital projects.

Note 5 - Bonds - Continued

Series 2003 Bonds - Continued

Defeasance

On December 19, 2013, the Authority utilized dedicated bond reserves to defease $22,210,000 in remaining outstanding debt from the Series 2003 Tax Revenue and Revenue Refunding Bonds which were assumed from the City of Detroit when the Authority took control of Cobo Center on September 15, 2009. The bond reserves were deposited in an irrevocable trust with an escrow agent to provide for required future debt service payments on the original bonds.

As a result of the defeasance, the Authority will not realize the debt service subsidy receivable due from the State of Michigan. The net effect of forgoing receipt of the debt service subsidy is expected to result in a decrease in net position of approximately $22 million during the year ending September 30, 2014.

Under the terms of an agreement between the Authority and the City, the City may use up to $4 million for the cost of City improvements directly associated with the City of Detroit Civic Center Complex, which extends from Hart Plaza to Joe Louis Arena along the Detroit Riverfront. To access the funds, the City must submit a list of projects that are in compliance with Section 103 of the Sale Order and obtain an opinion from a nationally recognized bond counsel regarding the proposed use of the funds. The Authority's Chief Financial Officer must also concur that the proposed use of funds is in compliance with the agreement before authorizing the bond trustee to release the requested funds to the City. During the year ended September 30, 2012, approximately $25,000 was distributed to the City. No funds were distributed to the City during the year ended September 30, 2013. The remaining funds are presented with the Authority's restricted cash and cash equivalents and restricted deposits payable, respectively, in the statements of net position.

Note 5 - Bonds - Continued

Series 2010 Bonds

For the purpose of financing the expansion and renovation of Cobo, the Authority issued special limited obligation bonds on September 30, 2010 (Convention Facility Special Tax Revenue Bond, Series 2010A (Series 2010A) for $74,000,000 and Convention Facility Special Tax Revenue Bond, Series 2010B (Series 2010B) for $6,000,000. The issuance consisted of current interest bonds, which paid interest semiannually at variable rates, except as described below. Interest rates on the Series 2010A bonds were 67% of the London InterBank Offered Rate (LIBOR) plus 120 basis points. The interest on the Series 2010B bonds was 67% of LIBOR plus 180 basis points. These two bonds were payable solely and only from and are secured by a first lien on the distributions the Authority was entitled to receive from certain revenues collected by the Treasurer of the State of Michigan and deposited in the Convention Facility Development Fund to Act 106, Act 34 and Act 554, Public Acts of Michigan, 2008, as amended, and entitled to the benefits of the resolutions authorizing the bonds. The Convention Facility Development Fund collects monies from a specific tax on the sale of spirits in the State of Michigan (the “Liquor Tax”) and from a State of Michigan excise tax on persons engaged in the business of providing rooms for dwelling, lodging or sleeping purposes to transient guests in certain counties (the “Hotel Occupancy Tax”). The State of Michigan was not obligated to pay principal of, the premium, if any, or the interest on the Series 2010A and Series 2010B bonds and neither the faith and credit nor the taxing power of the State of Michigan or the Authority is pledged therefore. Distributions of the Hotel Occupancy Tax and the Liquor Tax are subject to annual appropriation of the proceeds of such taxes by the Michigan Legislature.

The State of Michigan has specifically reserved the right to repeal or amend the laws imposing the Hotel Occupancy Tax or the Liquor Tax. The registered owner of the Series 2010A and Series 2010B bonds is Wells Fargo Bank, National Association. These bonds do not represent a general corporate indebtedness of the Authority. Bond issue costs of approximately $509,000 were incurred in connection with the issuance of the Series 2010 Bonds. These bonds were refunded during the year ended September 30, 2012.

Note 5 - Bonds - Continued

Series 2011 Bonds

On November 3, 2011, the Authority simultaneously refunded the outstanding Series 2010 bonds totaling $75,000,000 and received approval for the issuance of new bonds in the aggregate principal sum not to exceed $315,000,000. The tax exempt portion of the new bond offering totaled $290,000,000 and is designated as Convention Facility Special Tax Revenue and Revenue Refunding Bonds, Series 2011A. The taxable portion of the bond offering totaled $25,000,000 and is designated as Convention Facility Special Tax Revenue and Revenue Refunding Bonds, Series 2011B. The issuance of these bonds is in accordance with State legislation.

Interest rates on the Series 2011A bonds is 70% of the one month London InterBank Offered Rate (LIBOR) plus 150 basis points. The interest on the Series 2010B bonds is 100% of the one month LIBOR plus 230 basis points. These two bonds are payable solely and only from and are secured by a first lien on the distributions the Authority is entitled to receive from certain revenues collected by the Treasurer of the State of Michigan and deposited in the Convention Facility Development Fund to Act 106, Act 34 and Act 554, Public Acts of Michigan, 2008, as amended, and entitled to the benefits of the resolutions authorizing the bonds. The Convention Facility Development Fund collects monies from a specific tax on the sale of spirits in the State of Michigan (the “Liquor Tax”) and from a State of Michigan excise tax on persons engaged in the business of providing rooms for dwelling, lodging or sleeping purposes to transient guests in certain counties (the “Hotel Occupancy Tax”). The State of Michigan is not obligated to pay principal of, the premium, if any, or the interest on the Series 2011A and Series 2011B bonds and neither the faith and credit nor the taxing power of the State of Michigan or the Authority is pledged therefore. Distributions of the Hotel Occupancy Tax and the Liquor Tax are subject to annual appropriation of the proceeds of such taxes by the Michigan Legislature. The State of Michigan has specifically reserved the right to repeal or amend the laws imposing the Hotel Occupancy Tax or the Liquor Tax.

The registered owners of the Series 2011A bonds are JP Morgan Chase ($100,000,000), PNC Bank ($63,500,000) and Wells Fargo Bank, National Association ($126,500,000). The registered owner of the Series 2011B bond is Wells Fargo Bank, National Association ($25,000,000). These bonds do not represent a general corporate indebtedness of the Authority.

Note 5 - Bonds - Continued

Series 2011 Bonds - Continued

At September 30, 2013, a total of $249,340,000 in bond proceeds have been drawn on by the Authority; $236,913,000 is from Series 2011A and $12,427,000 is from Series 2011B. The Series 2011A and Series 2011B bonds mature on October 31, 2021. As discussed in Note 2, unspent bond proceeds, totaling $31,584,770 and $66,105,847 at September 30, 2013 and 2012, respectively, are held by Wells Fargo Corporate Trust Services as trustee in the name of the Authority. These funds are comprised of the unspent proceeds from the bond issue and the related earnings, and are restricted in use to the payment or pre-payment of existing debt as authorized under the bond resolution or should all bond debt be paid, remaining funds in these accounts may be used for certain capital projects

The following are maturities of Series 2011 bonds for the years ending September 30th:

2022	$ 249,340,000

Interest Rate Cap

In order to secure full funding for the Authority's $279 million capital improvement program and $20 million lease payment to the City of Detroit, the lending institutions required the Authority to enter into an agreement with a third-party to hedge against the risk of an interest rate increase that would raise debt service payments to a level that could not be sustained by the convention fund. After consulting with the Authority's financial advisors and legal counsel, it was determined that the most appropriate vehicle for hedging against this risk would be an interest rate cap.

On October 26, 2011, the Authority purchased an interest rate cap from the Bank of New York for $2,262,000. The effective date of the interest rate cap is October 1, 2014 and the termination date of the cap is October 1, 2021. The interest rate cap will effectively limit the interest rate on the Series 2011 bonds to 7% in 2014 and 7.5% for 2015 through 2021. Payment for the interest rate cap is considered a cost of issuance which does not fall under the legislative borrowing limits for the capital program and was therefore paid for through additional borrowing.

Note 5 - Bonds - Continued

Bond Issuance Costs

Bond issuance costs are recorded as deferred charges and are amortized over the term of the related debt. During the year ended September 30, 2013, the Authority incurred issuance costs totaling $317,872 in connection with commitment fees related to the Series 2011A and Series 2011B bonds. The gross carrying amount and accumulated amortization of bond issuance costs may be summarized as follows:

	September 30, 2013	September 30, 2012
Gross carrying amount	$ 5,484,085	$ 5,166,213
Accumulated amortization	(1,219,610)	(692,034)
Unamortized bond issuance costs	$ 4,264,475	$ 4,474,179

Amortization expense for the years ended September 30, 2013 and 2012 totaled $527,576 and $548,177, respectively; estimated amortization expense for each of the five ensuing years through September 30, 2018 is approximately $528,000.

Note 6 - Retirement Plans

The Authority contributes to a defined contribution pension plan, organized as a multiple cost sharing plan through the City of Detroit's General Retirement System (GRS). At the date of the Authority's inception, an obligation existed for contributions made on behalf of the workers formerly employed by the City of Detroit. The City of Detroit has agreed that the Authority's obligation would be limited to the "normal cost" of funding the pension liability beginning at inception and going forward. Pension expense for the years ended September 30, 2013 and 2012 amounted to $52,395 and $52,263, respectively.

The Authority maintains a 401(k) retirement savings plan which covers all SMG employees who are not participants in the GRS plan and have completed one year of employment. The 401(k) plan requires a 3% matching contribution to be made by the Authority for all participating employees. The Authority contributed $85,648 and $83,434 to this plan for the years ended September 30, 2013 and 2012, respectively. The Authority also maintains a 457(b) retirement saving plan which covers all employees who are not participants in the GRS or 401(k) plans and have completed one year of employment. The 457(b) plan includes provisions for discretionary and matching contributions to be made by the Authority for all participating employees. The Authority contributed $-0- and $3,968 to this plan for the years ended September 30, 2013 and 2012, respectively.

Note 7 - Concentrations

For the years ended September 30, 2013 and 2012, 56% and 57% of revenues, respectively, are subsidies received through the State of Michigan, Department of Treasury. At September 30, 2013 and 2012, accounts receivable includes $750,000 for each year, due from the State of Michigan related to these subsidies.

Note 8 - Risk Management

The Authority maintains insurance coverage for property, liability, directors and officers and terrorism. The Authority incurred expenses as follows:

	September 30, 2013	September 30, 2012
Property and liability insurance	$ 708,163	$ 641,206
Workers' compensation insurance	71,558	57,723
Other insurance	71,398	76,704
Total insurance expense	$ 851,119	$ 775,633

The Authority requires that all vendors, exhibitors, workers, provide general liability and specific insurance requirements for activities. There is a limit of $1 million from our exhibitors for coverage of the liability. The Authority carries a $500,000 deductible against its liability insurance.

Note 9 - Host Committee and American Society of Association Executives Pledge

The Authority, with the assistance of the Detroit Metropolitan Convention Visitor's Bureau, has secured the 2015 American Society of Association Executives (ASAE) meeting to be held at the Cobo Center. In order to achieve the desired level of positive marketing in preparation for, and during the event, a Host Committee will be established to raise funds in anticipation of the meeting. The Authority was asked to pledge $1,000,000 towards these efforts. The Authority contributed $500,000 during the current fiscal year to achieve the million dollar pledge. As of September 30, 2013 and 2012, $1,000,000 and $500,000, respectively, are included in prepaid expenses and other current assets and unrestricted net position in the statements of net position.

Note 10 - Contingent Liabilities

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Authority but which will only be resolved when one or more future events occur or fail to occur. The Authority's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceeds that are pending against the Authority or unasserted claims that may result in such proceeding, the Authority's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Authority's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.