DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

(With Independent Auditor's Report Thereon)

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

TABLE OF CONTENTS

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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"), which comprise the statements of net position as of September 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, 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 net financial position of the business-type activities of the Detroit Regional Convention Facility Authority as of and for the years ended September 30, 2015 and 2014, and the respective changes in net position and cash flows, 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.

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 10, 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 March 14, 2016 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

Troy, Michigan
March 14, 2016

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

BACKGROUND

Cobo Center ("Cobo"), located in the City of Detroit, Michigan ("City"), is currently the 17th largest convention facility in the United States consisting of approximately 2.4 million gross square feet. The facility offers a total of 722,000 square feet of exhibit space across five halls, the 40,000 square foot Grand Riverview Ballroom and over 150,000 square feet of meeting space in over 100 meeting rooms. The venue also features two junior ballrooms, a 30,000 square foot three-story atrium, a 3,800 square foot atrium lounge, a 225-seat, 20,000 square foot food court, several other permanent food and beverage outlets, and a full service television production studio and sound stage. There are 2,200 combined parking spaces in three distinct parking structures on site and the Detroit People Mover elevated monorail system, which operates throughout the downtown area, has a station stop inside Cobo. The building 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 restructured the organization of the facility management in an effort to bring the facility in line with current convention center business practices and to begin the process of eliminating the estimated annual $21 million operating loss as required under the terms of the Authority's enabling legislation. A critical component of the DRCFA's strategy for success was to retain professional management to run critical elements of the day-to-day operations. In May 2010, Centerplate was selected to assume responsibility for the facility's food and beverage service operations. In October 2010, SMG was retained to oversee and coordinate all elements of event production, sales, administration facility operations, and third-party contract management.

Simultaneously, the Authority initiated a three-phase, six-year capital improvement program designed to address millions of dollars in deferred maintenance and transform the facility from an aging, and uncompetitive relic into a world class convention and meeting facility that would serve as a vital economic engine for the City, region and state. The facility remained fully operational during the renovation and redevelopment. The majority of the capital improvement program was completed by the end of the 2015 fiscal year.

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, 2015 and 2014. 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.

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 the financial statements and begin on page 15 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 retail and 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.

FINANCIAL OVERVIEW (Continued)

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.

For the years ended September 30, 2015 and 2014, the assets of the Authority exceeded its liabilities by $15,077,754 and $25,113,123, respectively. Below is a summary of the statements of net position:

	2015	2014
Assets		
Cash and cash equivalents	$ 21,063,973	$ 23,376,962
Cash and cash equivalents - restricted	40,938,861	36,288,454
Investments	3,053,292	3,035,022
Accounts receivable - trade	477,528	877,337
Accounts receivable - subsidy	1,333,334	666,663
Prepaid expenses and other assets	447,077	1,445,837
Capital assets, net	298,543,032	279,076,019
Total assets	$365,857,097	$344,766,294
Liabilities and Net Position		
Accounts payable	$ 6,880,535	$ 9,714,367
Accrued liabilities	2,2,69,762	2,464,069
Accrued interest	7,139,300	-
Restricted deposits	3,974,735	3,974,735
Bonds payable	330,515,011	303,500,000
Total liabilities	350,779,343	319,653,171
Net position - net investment in capital assets	2,518,914	3,145,910
Net position - unrestricted	12,558,840	21,967,213
Total net position	15,077,754	25,113,123
Total liabilities and net position	$365,857,097	$344,766,294

FINANCIAL OVERVIEW (Continued)

As indicated in the following schedule, the total net position of the Authority decreased by $10,035,369 and $24,045,381 during the years ended September 30, 2015 and 2014, respectively. Revenues and expenses increased in fiscal 2015 and 2014 as a result of further convention activity. Additionally, the Authority moved all stagehand expense in-house which has increased the payroll expense of the Authority as well as the operating revenue as the Authority is now able to bill for these expenses directly.

	2015	2014
Revenues		
State operating subsidy	$ 8,000,000	$ 8,000,000
Interest income	42,276	35,842
Parking revenue	4,546,764	4,143,969
Operations revenue	16,443,658	14,141,632
Total revenues	29,032,698	26,321,443
Operating Expenses		
Authority administration	859,778	639,197
Parking expenses	1,220,371	1,072,199
Operations expenses	22,667,882	19,928,932
Total operating expenses	24,748,031	21,640,328
Non-Operating Revenues (Expenses)		
Depreciation expense	(8,845,281)	(7,597,574)
State debt service subsidy	8,000,000	4,719,143
Interest expense	(13,543,816)	(4,719,143)
Bond issuance costs	(1,497,252)	(74,794)
Interest income on bond	2,652	288,108
Amortization of bond premium (net)	1,338,461	-
Miscellaneous	225,200	-
Net reduction in 2003 bond service subsidy	-	(21,342,236)
Total non-operating revenues (expenses)	(14,320,036)	(28,726,496)
Decrease in net position	$ (10,035,069)	$ (24,045,381)

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 the years ended September 30, 2015 and 2014, the operating revenue totaled $8,000,000 in both 2015 and 2014. Future subsidies are scheduled as follows for the years stated below:

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 Authority.

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, 2015 and 2014, the Authority received $8,000,000 and $4,719,143, respectively, in debt service income from the CFDF. This revenue was off-set by the interest expense for debt service on the 2014 and 2011 Series A and B bonds.

FEDERAL FUNDING

There were no material federal grants in fiscal year 2015 or 2014. 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. We present more detailed information about our capital assets and long-term liabilities in the notes to the financial statements.

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.

At the culmination of major construction activities associated with the six-year capital improvement program, the Authority embarked on a new Phase IV capital program initiative designed to address capital needs that were not covered under the State authorized bond program. As of September 30, 2015, the Authority is evaluating the merits of capital projects with aggregate cost ranging from $9,668,000 to $65,000,000. These projects would likely occur between the second quarter of 2016 through September 30, 2017 and would address additional facility infrastructure repairs along with the expansion and rehabilitation of existing parking assets. These projects will be paid for out of existing Authority unrestricted cash reserves and will not require additional borrowing to complete. The Authority will also continue to evaluate any impairment or disposal issues related to these renovations as well as the original purchase of the building from the City of Detroit in 2010. These costs will be recognized as incurred.

See Note 4 for additional details of the Authority's capital assets.

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, 2015 and 2014 is $330,515,011 and $303,500,000, 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 January 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 II 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 $303,500,000 was outstanding on September 30, 2014 while $249,340,000 was 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 secured 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; and
- Defeasance was a positive story that enabled the Authority to differentiate itself from the municipal financial difficulties of the City and to improve their image and bond rating.
- See Note 5 for additional details of the Authority's bond issuances.

Michigan Finance Authority 2014 H-1 and H-2 Bond Issue

On October 22, 2014, the Authority issued $295,350,000 of tax exempt and taxable bonds through the Michigan Finance Authority (the "MFA"). The designated purpose of this issue was the refunding of the Series 2011 bond issue, thus converting the three-year construction financing into 25-year long-term obligation. See Note 5 for additional details concerning the 2014 bond issue.

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Long-Term Debt (Continued)

Termination of Interest Rate Cap Derivative Instrument

Upon the repayment of the 2011 bonds, the DRCFA was able to terminate the interest rate cap. The termination provided the Authority a one-time $245,000 payment from the Bank of New York Mellon, which was received November 3, 2014. See Note 5 for additional details concerning the termination of the interest rate cap.

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

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. 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
SEPTEMBER 30, 2015 AND 2014

Assets	**2015**	**2014**
Current assets:		
Cash and cash equivalents (note 2)	$ 21,063,973	$ 23,376,962
Cash and cash equivalents - restricted (notes 2 and 5)	40,938,861	36,288,454
Accounts receivable:		
Trade	477,528	877,337
Subsidy	1,333,334	666,663
Prepaid expenses and other assets (note 9)	447,077	1,445,837
Total current assets	64,260,773	62,655,253
Noncurrent assets:		
Investments (note 3)	3,053,292	3,035,022
Capital assets (note 4)	298,543,032	279,076,019
Total noncurrent assets	301,596,324	282,111,041
Total assets	$ 365,857,097	$ 344,766,294
Liabilities and Net Position		
Current liabilities:		
Accounts payable	$ 6,880,535	$ 9,714,367
Accrued liabilities	2,269,762	2,464,069
Accrued interest	7,139,300	-
Restricted deposits payable (notes 2 and 5)	3,974,735	3,974,735
Total current liabilities	20,264,332	16,153,171
Long-term liabilities:		
Bonds payable, net (note 5)	330,515,011	303,500,000
Total liabilities	350,779,343	319,653,171
Net position:		
Net investment in capital assets	2,518,914	3,145,910
Unrestricted	12,558,840	21,967,213
Total net position	15,077,754	25,113,123
Total liabilities and net position	$ 365,857,097	$ 344,766,294

See accompanying notes to financial statements

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
Operating revenues:		
State operating subsidy	$ 8,000,000	$ 8,000,000
Interest income	42,276	35,842
Operational revenue	16,443,658	14,141,632
Parking revenue	4,546,764	4,143,969
Total operating revenues	29,032,698	26,321,443
Operating expenses:		
Professional fees	316,171	293,610
Repairs and maintenance	1,877,850	1,468,737
Insurance expense	999,897	980,105
Contract expense	3,578,542	3,576,903
Event expense	796,564	676,171
Utilities	4,555,217	3,982,549
Payroll expenses	8,933,960	8,222,725
Parking expense	1,220,371	1,072,199
Management fees	433,181	413,420
Other expenses (note 9)	2,036,278	953,909
Total operating expenses	24,748,031	21,640,328
Operating income	4,284,667	4,681,115
Nonoperating revenues (expenses):		
State debt service subsidy	8,000,000	4,719,143
Interest income on bonds	2,652	288,108
Bond issuance costs	(1,497,252)	(74,794)
Amortization of bond premiums and discount (net)	1,338,461	-
Interest expense	(13,543,816)	(4,719,143)
Depreciation expense	(8,845,281)	(7,597,574)
Interest rate cap termination	245,000	-
Miscellaneous	(19,800)	-
Net reduction of 2003 debt service subsidy (note 5)	-	(21,342,236)
Net nonoperating revenues (expenses)	(14,320,036)	(28,726,496)
Decrease in net position	(10,035,369)	(24,045,381)
Net position - beginning	25,113,123	49,158,504
Net position - ending	$ 15,077,754	$ 25,113,123

See accompanying notes to financial statements

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
Cash flows from operating activities:		
Cash received from customers	$ 22,099,174	$ 17,687,749
Cash received from State operating subsidy	7,333,333	8,083,333
Cash paid to suppliers and employees	(27,486,357)	(39,545,507)
Interest received	42,276	35,842
Net cash provided from (used in) operating activities	1,988,426	(13,738,583)
Cash flows from capital and related financing activities:		
(Payment of) proceeds from issuance of Series 2011 bonds	(303,500,000)	54,160,000
Proceeds from issuance of Series 2014 bonds	331,853,472	-
Debt service interest subsidy	8,000,000	4,719,143
Payment of issuance costs	(1,497,252)	(74,794)
Proceeds from termination of derivative	245,000	804,000
Payment of bond interest	(6,404,516)	(4,719,143)
Other revenues (expenses)	(19,801)	-
Acquisition and construction of capital assets	(28,312,294)	(50,018,144)
Payment to escrow agent for bond defeasance	-	(22,146,237)
Net cash provided from (used in) capital and related financing activities	364,609	(17,275,175)
Cash flows from investing activities:		
Interest and dividends received	2,652	288,108
Maturities of investments	2,030,074	980,000
Purchase of investments	(2,048,343)	(999,453)
Net cash (used in) provided from investing activities	(15,617)	268,655
Net increase (decrease) in cash and cash equivalents	2,337,418	(30,745,103)
Cash and cash equivalents - beginning	59,665,416	90,410,519
Cash and cash equivalents - ending	$ 62,002,834	$ 59,665,416

See accompanying notes to financial statements

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY

STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
Reconciliation of operating income to net cash provided from (used In) operating activities:		
Operating income	$ 4,284,667	$ 4,681,115
Adjustments to reconcile operating income to net cash provided from (used in) operating activities:		
Decrease (increase) in accounts receivable - trade	399,809	(550,361)
Increase in accounts receivable - subsidy	(666,671)	-
Decrease in grant receivable	-	90,832
Decrease (increase) in prepaid expenses and other assets	998,760	(2,283)
Decrease in accounts payable	(2,833,832)	(18,689,161)
(Decrease) increase in accrued liabilities	(194,307)	731,275
Total adjustments	(2,296,241)	(18,419,698)
Net cash provided from (used in) operating activities	$ 1,988,426	$ (13,738,583)

Schedule of Noncash Financing Activities

	2015	2014
Increase in accreted value of Series 2003 bonds payable	$ -	$ 1,356,633
Amortization of bond premiums and discounts, net	$ 1,338,461	$ -

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.

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 pronouncements of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which requires the Authority to follow the pronouncements of the GASB in its accounting and financial reporting. GASB Statement No. 62 superceded previous guidance contained in GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting.* The Authority is not a component unit of a government, but rather a stand-alone public body corporate and politic. The Authority's activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net position, revenues and expenses are accounted for as a proprietary fund with revenues recorded when earned and expense recorded at the time the liabilities are incurred.

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. For purposes of the statement of cash flows, the Authority considers all highly liquid investments, including restricted assets, with a maturity of three months or less when purchased to be cash equivalents.

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

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.

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 base fee ($270,264 for fiscal year 2015 and $267,588 for fiscal year 2014) and an annual incentive fee limited to a maximum of $250,000. At September 30, 2015 and 2014, the Authority's obligation applicable to the annual incentive fee under the terms of the agreement totaled $162,917 and $145,832, respectively.

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

Long-Term Obligations

Long-term debt obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

Reclassification

Certain items in the financial statements for the year ended September 30, 2014 have been reclassified to conform with the presentation at September 30, 2015.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including March 14, 2016, 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.

Note 2 - Cash and Cash Equivalents (Continued)

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:

	2015	2014
2003 Bond Proceeds	$ 12,485,766	$ 13,798,131
2011 Bond Proceeds	-	22,490,323
2014 Bond Proceeds	28,453,095	-
Total restricted assets	$ 40,938,861	$ 36,288,454

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, 2015 and 2014, 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.

Note 3 - Investments (Continued)

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, 2015, the Authority's investments consist of fourteen brokered certificates of deposits totaling $3,040,000 and a money market mutual fund account of approximately $14,000 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 May 2017.

Note 4 - Capital Assets

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

	2015	2014
Buildings	$ 20,346,245	$ 20,346,245
Computer equipment	313,887	313,887
Furniture and office equipment	32,443,592	4,417,918
Building improvements	260,001,598	240,925,845
Construction-in-progress	8,391,607	27,180,740
Total cost	321,496,929	293,184,635
Less accumulated depreciation	(22,953,897)	(14,108,616)
Undepreciated cost	$298,543,032	$279,076,019

As of September 30, 2015, the Authority had approximately $2,120,000 in uncommitted funds, $1,518,000 in retention and $4,892,000 in open payables associated with the six-year capital improvement program. A portion of the unrestricted net position is designated to cover upgrades to corridor lighting on the third and fourth floor ($399,000) and upgrades to heating and cooling controls in meeting rooms 331-338 ($196,000).

Depreciation is recognized on capital assets as the projects are completed and placed into service. Depreciation expense for the years ended September 30, 2015 and 2014 totaled $8,845,281 and $7,597,574, respectively.

Note 5 - Bonds

Long-term bond obligation activity for the year ended September 30, 2015 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 2011 Bonds	$ 303,500,000	$ -	$ 303,500,000	$ -	$ -
Series 2014 Bonds	-	295,350,000	-	295,350,000	-
Series 2014 Bond:					
Bond Premium (net)	-	36,503,472	1,338,461	35,165,011	-
Total	$ 303,500,000	$331,853,472	$ 304,838,461	$ 330,515,011	$ -

Long-term bond obligation activity for the year ended September 30, 2014 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 2003 Bonds	$ 20,789,604	$ 1,356,633	$ 22,146,237	$ -	$ -
Series 2011 Bonds	249,340,000	54,160,000	-	303,500,000	-
Total	$ 270,129,604	$ 55,516,633	$ 22,146,237	$ 303,500,000	$ -

Series 2003 Bonds

For the purpose of refinancing the funds used for the expansion of Cobo in 1989, 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 were issued at a discounted amount and accreted principal to the date of maturity. Interest rates for both types of bonds range from 2% to 5%. As discussed later, these bonds were defeased during the year ended September 30, 2014.

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

Note 5 - Bonds (Continued)

Series 2003 Bonds (Continued)

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.

In connection with the Authority's assumption of the 2003 bonds, unspent bond proceeds, totaling $12,485,766 and $13,798,131 at September 30, 2015 and 2014, respectively, 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.

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. No funds were distributed to the City during the years ended September 30, 2015 and 2014. 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 2003 Bonds (Continued)

Defeasance

On December 19, 2013, the Authority utilized dedicated bond reserves to decrease $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. The escrow account was invested in obligations of U.S. Government agencies and was not controlled by the Authority. The bonds are considered extinguished and accordingly, the assets and obligations are not reflected on the financial statements of the Authority as of September 30, 2015 and 2014.

As a result of the defeasance, the Authority did not realize the debt service subsidy receivable due from the State of Michigan. The net effect of forgoing receipt of the debt service subsidy resulted in a net reduction of debt service subsidy receivable of $21,342,236 which is included in non-operating expenses in the statements of revenues, expenses and changes in net position for the year ended September 30, 2014.

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 was in accordance with State legislation.

The registered owners of the Series 2011A bonds were 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. As discussed below, these bonds were refunded during the year ended September 30, 2015 in connection with the issuance of the Series 2014 Refunding Bonds.

Note 5 - Bonds (Continued)

Series 2011 Bonds (Continued)

Interest rates on the Series 2011A bonds was 70% of the one month London InterBank Offered Rate (LIBOR) plus 150 basis points. The interest on the Series 2010B bonds was 100% of the one month LIBOR plus 230 basis points. These two bonds were 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 was 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 was 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.

At September 30, 2014, a total of $303,500,000 in bond proceeds had been drawn on by the Authority; $282,587,000 is from Series 2011A and $20,913,000 is from Series 2011B. The Series 2011A and Series 2011B bonds were scheduled to mature on October 31, 2021. As discussed in Note 2, unspent bond proceeds, totaling $22,490,323 at September 30, 2014, were held by Wells Fargo Corporate Trust Services as former trustee in the name of the Authority. These funds were 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. All remaining unspent bond proceeds were transferred to the current trustee in connection with the issuance of the Series 2014 Refunding Bonds discussed below.

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

2022	$ 303,500,000

Note 5 - Bonds (Continued)

Interest Rate Cap

In order to secure full funding for the Authority's $279,000,000 capital improvement program and $20,000,000 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 was October 1, 2014 and the termination date of the cap was 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 was 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.

Series 2014 Refunding Bonds

Michigan Finance Authority 2014 H-1 and H-2 Bond Issue

On October 22, 2014, the Authority issued $295,350,000 of tax exempt and taxable bonds through the Michigan Finance Authority (the "MFA"). Utilizing the MFA as the surrogate for this transaction enabled the DRCFA to overcome potential financial penalties associated with having the name Detroit attached to our bond issue and helped to save the state's taxpayers incremental financing costs. The magnitude of the avoided penalty has been estimated to be anywhere from 5 to 75 basis points (a basis point represents one hundredth of a percent) in interest costs with each basis point equaling approximately $248,000. The bonds are available for purchase in the public bond markets and are designated as Michigan Finance Authority Local Government Loan Program Revenue Bonds, Series 2014H-1 (tax exempt bonds) and Michigan Finance Authority Local Government Loan Program Revenue Bonds, Series 2014H-2 (taxable bonds).

The bonds range in maturity from one to twenty-five years. The funds generated from the bond issuance were used to refund the outstanding 2011 Series bonds that paid for the Authority's $279,000,000 capital improvement program and the one-time $20,000,000 lease payment to the City of Detroit for the Authority's 30-year capital lease of Cobo Center.

Note 5 - Bonds (Continued)

Series 2014 Refunding Bonds (Continued)

Michigan Finance Authority 2014 H-1 and H-2 Bond Issue (Continued)

The bonds have been rated AA-/Stable by Standard & Poors and A+/Stable by Fitch ratings services. This represents a two-step improvement in agency ratings when compared with the 2003 Series bonds that were issued under the City of Detroit and that were assumed by the DRCFA after taking control of Cobo Center from the City of Detroit in September, 2009. The ratings place the DRCFA bond offering on par with the Michigan State Building Authority which is the highest rated appropriation credit in the state of Michigan (meaning the state legislature must appropriate the funding to pay for the bonds each year). Both rating agencies sited the strength of the underlying revenues that support the bonds along with the DRCFA's existence as a separate and distinct entity from the City of Detroit in their rationale for determining their final rating of the credit.

The All-in Total Interest Cost for the transaction is 3.87526% for both the tax exempt and the taxable bonds.

The underwriter's discount, which represents the fee paid to the underwriters for taking the bonds to the marketplace was $573,319 while the cost of issuance fees for the transaction, which include financial advisory, legal counsel, marketing, printing, rating agency, and trustee fees, were $940,000. These combined fees are included in the calculation of the All-in Total Interest Costs and were paid for from the proceeds of the bond issue. According to new GASB accounting rules, the cost of issuance will be expensed in the period in which they were incurred whereas in previous years these costs would have been amortized over the life of the bond issue.

Termination of Interest Rate Cap Derivative Instrument

A condition of the agreement with the banking consortium that purchased the 2011 bonds which funded the Authority's capital project required that the DRCFA enter into an Interest Rate Cap agreement with an independent third-party to provide protection to the Authority in the event that interest rates would increase to a level that would prevent the Authority from meeting its debt service obligations under the bond agreement.

Upon the repayment of the 2011 bonds, the DRCFA was able to terminate the interest rate cap. The termination provided the Authority a one-time $245,000 payment from the Bank of New York Mellon, which was received November 3, 2014.

Note 5 - Bonds (Continued)

Series 2014 Refunding Bonds (Continued)

As discussed in Note 2, unspent bond proceeds, totaling $28,453,095 at September 30, 2015, were held by U.S. Bank 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 annual requirements to service the 2014 bonds outstanding to maturity, including both principal and interest, are as follows:

Year Ending September 30th:	Principal	Interest	Total
2016	$ -	$ 14,278,600	$ 14,278,600
2017	7,005,000	14,212,500	21,217,500
2018	7,145,000	14,011,857	21,156,857
2019	7,410,000	13,702,582	21,112,582
2020	7,760,000	13,343,132	21,103,132
2021 - 2025	44,740,000	60,599,833	105,339,833
2026 - 2030	56,780,000	48,252,066	105,032,066
2031 - 2035	72,305,000	32,332,846	104,637,846
2036 - 2040	92,205,000	11,934,004	104,139,004
Total	$ 295,350,000	$ 222,667,420	$ 518,017,420

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, 2015 and 2014 amounted to $18,040 and $48,019, respectively.

The Authority contributes to union-administered plans providing health, welfare and pension benefits under the terms of collective bargaining agreements that cover certain SMG employees. Total contributions to these plans for the years ended September 30, 2015 and 2014 amounted to $380,150 and $392,674, respectively.

Note 7 - Concentrations

For the years ended September 30, 2015 and 2014, 42% and 41% of revenues, respectively, are subsidies received through the State of Michigan, Department of Treasury. At September 30, 2015 and 2014, accounts receivable includes $1,333,334 and $666,663, respectively, due from the State of Michigan related to these subsidies. The Company has three major vendors that accounted for approximately 77% and 30% of accounts payable at September 30, 2015 and 2014, respectively. The Company expects to maintain these relationships with these vendors.

Note 8 - Risk Management

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

	2015	2014
Property and liability insurance	$ 723,608	$ 749,047
Workers' compensation insurance	204,770	171,058
Other insurance	71,519	60,000
Total insurance expense	$ 999,897	$ 980,105

The Authority requires that all vendors, exhibitors, workers, provide general liability and specific insurance requirements for activities. There is a limit of $1,000,000 from our exhibitors for coverage of the liability. The Authority carries a $250,000 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, secured the 2015 American Society of Association Executives (ASAE) meeting which was 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 was established to raise funds in anticipation of the meeting. The Authority was asked and contributed $1,000,000 towards these efforts through September 30, 2014. As of September 30, 2014, $1,000,000 was reflected in prepaid expenses and other current assets and unrestricted net position in the statement of net position. As the event was held during the year ended September 30, 2015, the Authority recognized an expense of $1,000,000 which is included as other expense in the statement of revenues, expenses, and changes in 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 proceedings 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.

*** * * End of Notes * * ***