

**DALLAS CONVENTION CENTER HOTEL
DEVELOPMENT CORPORATION**
(A Discretely Presented Component Unit of the City of Dallas)
Basic Financial Statements
For the Year Ended December 31, 2019

Dallas Convention Center Hotel Development Corporation
(A Discretely Presented Component Unit of the City of Dallas)
December 31, 2019

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Dallas Convention Center Hotel Development Corporation

We have audited the accompanying financial statements of the Dallas Convention Center Hotel Development Corporation ("DCCHDC"), a discretely presented component unit of the City of Dallas, Texas, which comprise the statement of net position as of December 31, 2019, and the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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.

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

Opinion on financial position

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dallas Convention Center Hotel Development Corporation as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Dallas Convention Center Hotel Development Corporation and do not purport to, and do not, present fairly the financial position of the City of Dallas, Texas, as of December 31, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 7 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures 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.



Dallas, Texas
June 26, 2020

Dallas Convention Center Hotel Development Corporation
(A Discretely Presented Component Unit of the City of Dallas)
Management's Discussion & Analysis
December 31, 2019
(Unaudited)

As management of the Dallas Convention Center Hotel Development Corporation (the DCCHDC), we offer readers of the DCCHDC's financial statements, this narrative overview and analysis of the financial activities of the DCCHDC for the year ended December 31, 2019. The DCCHDC's financial statements consist of management's discussion and analysis (MD&A); statement of net position; statement of revenues, expenses, and changes in net position; statement of cash flows; and notes to the basic financial statements. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements and the accompanying notes.

DCCHDC is a discretely presented component unit of the City of Dallas (the City), and the members of its Board of Directors are appointed by the City Council.

BUSINESS STRUCTURE

The DCCHDC was established as a local government corporation on August 20, 2008 under the provisions of Subchapter D of Chapter 431 of the Texas Transportation Code and the Texas Nonprofit Corporation Law, Chapter 22, Business Organizations Code. The DCCHDC is organized for the purpose of aiding, assisting, and acting on behalf of the City in the performance of its governmental functions to promote the development of the geographic area of the City included at or in the vicinity of the Dallas Convention Center, in furtherance of the promotion, development, encouragement and maintenance of employment, commerce, convention and meeting activity, tourism, and economic development in the City, including specifically, without limitation, the development and financing of a convention center hotel located within 1,000 feet of the Dallas Convention Center.

On August 18, 2009, the DCCHDC issued approximately \$480 million in bonds to acquire land and build a four-star convention center headquarters hotel having approximately 1,001 rooms, at least 80,000 square feet of meeting space, including approximately 33,500 square feet of a grand ballroom and approximately 16,500 square feet of junior ballroom space and structured parking containing approximately 720 parking spaces. In addition, the proceeds from the bonds were used to fund approximately thirty-four months of net capitalized interest, fund a debt service reserve fund, and pay certain costs of issuing the Series 2009 Bonds. The hotel was completed and began operations on November 11, 2011.

The hotel is operated by Omni Hotels Management Corporation (Manager).

FINANCIAL HIGHLIGHTS

- The assets and deferred outflow of resources of the DCCHDC exceeded its liabilities and deferred inflows of resources at December 31, 2019 by \$24,020,763.
- The change in net position was \$12,362,859 for the year ended December 31, 2019 and \$16,482,741 for the ended December 31, 2018. The variance for the change in net position between the two years is a decrease of \$4,119,882.

Dallas Convention Center Hotel Development Corporation
(A Discretely Presented Component Unit of the City of Dallas)
Management's Discussion & Analysis
December 31, 2019
(Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS

The DCCHDC's basic financial statements are comprised of three components: 1) management's discussion and analysis, 2) basic financial statements, and 3) notes to the basic financial statements.

Basic financial statements: The basic financial statements are designed to provide readers with a broad overview of the Dallas Convention Center Hotel Development Corporation finances in a manner similar to a private-sector business, and the financial statements are made up of the statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

The statement of net position presents information on all of the Dallas Convention Center Hotel Development Corporation assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the DCCHDC is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how the DCCHDC's net position has changed during the year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. revenues earned but uncollected and expenses incurred but unpaid).

The statement of cash flows reflects changes to the beginning cash and cash equivalents balance. Cash flows are categorized into operating, capital and related financing, and investing activities.

Notes to the Basic Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found immediately following the financial statements.

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Dallas Convention Center Hotel Development Corporation
(A Discretely Presented Component Unit of the City of Dallas)
Management's Discussion & Analysis
December 31, 2019
(Unaudited)

FINANCIAL ANALYSIS

The DCCHDC's total net position was \$24,020,763 as of December 31, 2019, and the total net position was \$11,657,904 as of December 31, 2018. This analysis focuses on the net position (Table 1) and changes in net position (Table 2).

Table 1
Net Position (Condensed)

	2019	2018
Current and other assets	\$ 203,065,922	\$ 198,358,122
Capital assets	312,174,372	310,557,501
Total assets	<u>515,240,294</u>	<u>508,915,623</u>
Total deferred outflows of resources	<u>484,025</u>	<u>666,859</u>
Long-term liabilities	447,550,673	457,095,873
Other liabilities	<u>44,128,259</u>	<u>40,804,159</u>
Total liabilities	<u>491,678,932</u>	<u>497,900,032</u>
Total deferred inflows of resources	<u>24,624</u>	<u>24,546</u>
Net position:		
Net investment in capital assets	(62,345,742)	(72,433,744)
Unrestricted	<u>86,366,505</u>	<u>84,091,648</u>
Total net position (deficit)	<u>\$ 24,020,763</u>	<u>\$ 11,657,904</u>

A portion of the DCCHDC's net position reflects its investments in capital assets (e.g., building and components, furniture, fixtures and equipment, and land), less any outstanding debt used to acquire those assets. The DCCHDC uses these capital assets to provide services to hotel guests and that portion of net position is not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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Dallas Convention Center Hotel Development Corporation
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Management's Discussion & Analysis
December 31, 2019
(Unaudited)

Analysis of the DCCHDC's Operations

The following table provides a summary of the DCCHDC's operations for the years ended December 31, 2019 and December 31, 2018.

Table 2
Changes in Net Position (Condensed)

	2019	2018
Operating revenues	\$ 105,415,317	\$ 118,090,038
Operating expenses	(84,750,734)	(92,755,201)
Non-operating expenses	(8,301,724)	(8,852,096)
Change in net position	12,362,859	16,482,741
Net position (deficit) – beginning of year	11,657,904	(4,824,837)
Net position (deficit) – end of year	<u>\$ 24,020,763</u>	<u>\$ 11,657,904</u>

The operating revenues for the year ended December 31, 2019 were \$105,415,317 for a decrease of \$12,674,721 from the previous year of \$118,090,038. The decrease in operating revenues was mostly due to a decrease in food and beverage revenue of \$8,323,694, rooms revenue of \$5,370,862, and offset by an increase in other sales and services of \$1,019,835. The operating expenses for the year ended December 31, 2019 were \$84,750,734 for a decrease of \$8,004,467 from the previous year of \$92,755,201. The decrease in operating expenses was mostly due to a decrease in food and beverage expense of \$4,699,394, repairs and maintenance expense of \$1,251,760, rooms expense of \$881,619, depreciation and amortization expense of \$481,382, and offset by an increase in other sales and services expense of \$3,330. The non-operating expenses for the year ended December 31, 2019 were \$8,301,724 for a decrease of \$550,372 from the previous year of \$8,852,096.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2019, the DCCHDC had \$312,174,372 invested in capital assets, net of accumulated depreciation in the amount of \$108,530,091. (See Table 3 below.)

Table 3
Capital Assets

	2019	2018
Construction in progress	\$ 13,225,996	\$ 585,508
Land	27,511,082	27,511,082
Building and components	332,813,439	332,813,439
Furniture, fixtures, and equipment	47,153,946	45,076,895
Total capital assets	420,704,463	405,986,924
Less: Accumulated depreciation	(108,530,091)	(95,429,423)
Total capital assets, net of depreciation	<u>\$ 312,174,372</u>	<u>\$ 310,557,501</u>

See Note 3 in the Notes to the Basic Financial Statements.

Dallas Convention Center Hotel Development Corporation
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December 31, 2019
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Debt

The DCCHDC had \$455,575,673 in revenue bonds outstanding, including unamortized premium and discount, and accretion on capital appreciation bonds at December 31, 2019. There was a \$8,435,000 principal payment during the year. The net premium and discount amortization was \$53,454. Accretion for the capital appreciation bonds was \$833,254, resulting in a balance of \$6,531,643 for the year ended December 31, 2019. The DCCHDC had \$463,230,873 in revenue bonds outstanding, including unamortized premium and discount, and accretion on capital appreciation bonds at December 31, 2018.

The DCCHDC Revenue Bonds Series 2009A and 2009B had a Standard & Poor's rating of A and a Moody's rating of Baa1 at December 31, 2019, and the ratings were the same at December 31, 2018.

On October 27, 2011, the Manager contributed key money to DCCHDC in the amount of \$6 million to fund the operations of the hotel. On December 1, 2016, the key money contributed to the DCCHDC began amortizing and will be recognized as contribution income in equal monthly installments for a period of five years. Any key money that has not amortized as of the date of any termination of the hotel operating agreement with the Manager will be repaid by the DCCHDC to the Manager. For the year ended December 31, 2019, \$1.2 million was recognized as contribution income, and the balance of the key money was \$2.3 million.

More detailed information about the DCCHDC's long-term liabilities is presented in Note 4 to the financial statements.

CONTACTING THE DCCHDC'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the DCCHDC's finances and to show the DCCHDC's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Controller's Office, at City of Dallas, 1500 Marilla Drive, Room 2BS, Dallas, Texas 75201.

Dallas Convention Center Hotel Development Corporation
(A Discretely Presented Component Unit of the City of Dallas)
Statement of Net Position
As of December 31, 2019

ASSETS

Current assets

Cash and cash equivalents	\$ 122,824,066
Accrued interest receivable	189,352
Accounts receivable miscellaneous	4,105,221
Accounts receivable city tax revenues	1,782,069
Inventory	719,144
Prepaid expenses	<u>5,442,286</u>

Total current assets 135,062,138

Capital assets

Construction in progress	13,225,996
Land	27,511,082
Building and components	332,813,439
Furniture, fixtures, and equipment	<u>47,153,946</u>

Total capital assets 420,704,463

Less: Accumulated depreciation (108,530,091)

Total capital assets, net of depreciation 312,174,372

Other noncurrent assets

Restricted assets

Held for construction purposes	
Cash and cash equivalents	1,300,884
Future debt service	
Cash and cash equivalents	29,536,863
Investments	37,051,870

Franchise fees, net of accumulated amortization 114,167

Total other noncurrent assets 68,003,784

Total assets 515,240,294

DEFERRED OUTFLOWS OF RESOURCES

Excess consideration provided for acquisition 484,025

Total deferred outflows of resources 484,025

LIABILITIES

Current liabilities

Accounts payable	5,339,553
Accrued expenses	1,081,769
Accrued payroll liabilities	1,461,747
Accrued taxes payable	735,896
Accrued interest payable	15,053,879
Accounts payable Omni	1,807,659
Deposit advances	8,247,776
Other current liabilities	74,980
Key money payable	1,200,000
Revenue bonds payable	<u>9,125,000</u>

Total current liabilities 44,128,259

Noncurrent liabilities

Key money payable	1,100,000
Revenue bonds payable	<u>446,450,673</u>

Total noncurrent liabilities 447,550,673

Total liabilities 491,678,932

DEFERRED INFLOWS OF RESOURCES

Advance for Build America Bonds rebate 24,624

Total deferred inflows of resources 24,624

NET POSITION

Net investment in capital assets	(62,345,742)
Unrestricted	<u>86,366,505</u>

Total net position (deficit) \$ 24,020,763

The notes to the basic financial statements are an integral part of this statement.

Dallas Convention Center Hotel Development Corporation
(A Discretely Presented Component Unit of the City of Dallas)
Statement of Revenues, Expenses, and Changes in Net Position
For the Year ended December 31, 2019

Operating revenues:	
Rooms	\$ 51,074,977
Food and beverage	45,886,688
Other sales and services	8,453,652
Total operating revenues	<u>105,415,317</u>
Operating expenses:	
Rooms	9,552,494
Food and beverage	30,654,715
Other sales and services	3,801,518
General and administrative	13,780,847
Sales and marketing expense	8,065,189
Repairs and maintenance	3,518,206
Utilities	2,049,263
Depreciation and amortization	13,328,502
Total operating expenses	<u>84,750,734</u>
Operating income	20,664,583
Non-operating revenues (expenses):	
City tax revenues	8,583,416
Rebate from Build America Bonds	9,047,161
Contribution income	1,200,000
Investment income	3,920,860
Interest on bonds	<u>(31,053,161)</u>
Total non-operating expenses	<u>(8,301,724)</u>
Change in net position	12,362,859
Net position (deficit), beginning of year	<u>11,657,904</u>
Net position (deficit), end of year	<u><u>\$ 24,020,763</u></u>

The notes to the basic financial statements are an integral part of this statement.

Dallas Convention Center Hotel Development Corporation
(A Discretely Presented Component Unit of the City of Dallas)
Statement of Cash Flows
For the Year Ended December 31, 2019

Cash flows from operating activities:	
Cash received from customers	\$ 104,898,406
Cash paid to outside vendors and employees	(73,468,318)
Net cash provided by operating activities	<u>31,430,088</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(14,717,539)
Principal paid on revenue bonds	(8,435,000)
Interest expense paid	(30,471,025)
Cash received from City tax revenues	9,679,491
Rebate from Build America Bonds	9,047,239
Net cash used in capital and related financing activities	<u>(34,896,834)</u>
Cash flows from investing activities:	
Purchase of investments	(1,096,735)
Sale of investments	1,096,735
Investment income	3,996,647
Net cash provided by investing activities	<u>3,996,647</u>
Net increase in cash and cash equivalents	529,901
Cash and cash equivalents, beginning of year	153,131,912
Cash and cash equivalents, end of year	<u>\$ 153,661,813</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating income	<u>\$ 20,664,583</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	13,100,668
Amortization expense	227,834
Change in assets and liabilities:	
Increase in accounts receivable	(516,911)
Increase in inventory	(96,076)
Increase in prepaid expense	(4,781,774)
Increase in accounts payable	2,653,440
Decrease in accrued expenses	(283,793)
Decrease in accrued payroll liabilities	(97,049)
Decrease in accrued taxes payable	(100,057)
Increase in intercompany payable-Omni	129,268
Increase in deposit advances	549,433
Decrease in other current liabilities	(19,478)
Total adjustments	<u>10,765,505</u>
Net cash provided by operating activities	<u>\$ 31,430,088</u>
Noncash investing, capital, and financing activities:	
Premium/discount amortization	53,454
Accretion on capital appreciation bonds	833,254

The notes to the basic financial statements are an integral part of this statement.

Dallas Convention Center Hotel Development Corporation
(A Discretely Presented Component Unit of the City of Dallas)
Notes to the Basic Financial Statements
December 31, 2019

Note 1. Significant Accounting Policies

A. Reporting Entity

The Dallas Convention Center Hotel Development Corporation (DCCHDC) was established as a local government corporation on August 20, 2008 under the provisions of Subchapter D of Chapter 431 of the Texas Transportation Code and the Texas Nonprofit Corporation Law, Chapter 22, Business Organizations Code. The DCCHDC is organized for the purpose of aiding, assisting, and acting on behalf of the City of Dallas (City) in the performance of its governmental functions to promote the development of the geographic area of the City included at or in the vicinity of the Dallas Convention Center, in furtherance of the promotion, development, encouragement and maintenance of employment, commerce, convention and meeting activity, tourism, and economic development in the City, including specifically, without limitation, the development and financing of a convention center hotel located within 1,000 feet of the Dallas Convention Center.

The DCCHDC is a discretely presented component unit of the City of Dallas, and the members of its Board of Directors are appointed by the City Council.

The accompanying financial statements present only the financial position and results of operations and its cash flows of the DCCHDC and are not intended to and do not present fairly the financial position and results of operations or its cash flows of the City in conformity with accounting principles generally accepted in the United States of America (GAAP).

The DCCHDC does not have any employees. The City provides all accounting and administrative services.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of DCCHDC use the economic resources measurement focus and are presented on the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when incurred.

DCCHDC distinguishes between operating and non-operating revenues and expenses based on the nature of revenues and expenses. Operating revenues include fees for lodging, food and beverage, and other sales and services. In general, operating revenues are recognized when the service is rendered. Attrition revenues are recognized when cash is collected in accordance with the hotel Manager's revenue recognition policy. Ongoing credit evaluations are performed and an allowance for credit losses is provided against the portion of accounts receivable that is estimated to be uncollectible. Such losses have been within management's expectations. Subsequent payments on accounts receivable previously estimated to be uncollectible are recorded as a credit to bad debt expense in the period of payment. Non-operating revenues, such as city tax revenues, rebate from the Build America Bonds, other income and investment income result from non-exchange transactions or ancillary activities. The non-operating revenues are presented on the accrual basis of accounting. Non-operating expense consist of interest expense on bonds, and this expense is presented on the accrual basis of accounting.

The DCCHDC's basic financial statements are comprised of the following: 1) statement of net position; 2) statement of revenues, expenses, and changes in net position; 3) statement of cash flows; and 4) notes to the basic financial statements. Also, included in the required supplementary information is the management's discussion and analysis.

C. Interest Income

Interest income is recorded as earned based on prevailing interest rates on deposits and investments.

Dallas Convention Center Hotel Development Corporation
(A Discretely Presented Component Unit of the City of Dallas)
Notes to the Basic Financial Statements
December 31, 2019

Note 1. Significant Accounting Policies - continued

D. Use of 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 certain reported amounts and disclosures. Actual results could differ from those estimates.

E. Deposits and Investments

For purposes of the accompanying statement of cash flows, DCCHDC considers cash on hand, cash in banks, money market mutual funds, and investments with original maturities of three months or less to be cash equivalents.

The DCCHDC investments are governed by the Texas Public Funds Investment Act, City of Dallas investment policy, and the bond indenture. Investment policies must address safety of principal, liquidity, yield, diversification and maturity, with primary emphasis on safety of principal. In accordance with this Policy, the DCCHDC may invest in direct or guaranteed obligations of the U.S. Treasury, certain U.S. agencies and instrumentalities, and the State of Texas or its agencies and instrumentalities with a credit rating no less than A; fully collateralized certificates of deposit and repurchase agreements; no-load money market mutual funds and local government investments pools with credit ratings no less than AAAM or AAAM-G, commercial paper, collateralized mortgage obligations, obligations of cities, counties and political subdivisions of other states, all of which are authorized by State law.

The money market funds and repurchase agreement are valued using the amortized cost valuation method.

F. Capital Assets

Generally, assets with an individual cost of \$5,000 or more and an estimated useful life of more than one year are capitalized. Purchased or constructed capital assets are valued at historical cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation is computed using the straight-line method over the estimated useful or service lives of the related assets. The estimated useful life of the building is 40 years, the estimated useful life of the building components is 20 years, and the estimated useful life of the furniture, fixtures, and equipment range from 3 to 8 years.

G. Franchise Fees

Franchise fees are amortized on a straight-line basis over a period of five years.

Dallas Convention Center Hotel Development Corporation
(A Discretely Presented Component Unit of the City of Dallas)
Notes to the Basic Financial Statements
December 31, 2019

Note 1. Significant Accounting Policies – continued

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. During 2017, the DCCHDC paid consideration that exceeded the acquisition value of certain assets by \$914,171, and this amount was reported as deferred outflows of resources. The deferred outflows of resources are amortized on a straight-line basis over a period of five years. The balance of the deferred outflows of resources after amortization was \$484,025 at December 31, 2019.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The DCCHDC has only one type of item that qualifies for reporting in this category.

Some of the resources from the Build America Bonds rebate were received before the time requirements were met to be recognized as an inflow of resources, but after all other eligibility requirements were met; therefore, the amount advanced of \$24,624 was reported as a deferred inflow of resources at December 31, 2019. These amounts will be recognized as an inflow of resources in the period that the amounts become available.

I. Bond Premiums, Bond Discounts, and Accretion

Bond premiums and discounts are included in the carrying amount of the bonds, and amortized as a component of interest expense over the applicable term of the bonds using the effective interest method. Accreted interest on capital appreciation bonds is reflected as interest expense in the statement of revenues, expenses, and changes in net position and as an addition to revenue bonds payable in the statement of net position.

J. Build America Bonds

In February 2009, as part of the American Recovery and Reinvestment Act, Congress permitted local governments to obtain certain advantages when issuing taxable obligations that meet certain requirements of the Code and the related Treasury regulations. Such bonds are referred to as Build America Bonds. As a result of issuing these bonds, the DCCHDC may receive up to 35% of the corresponding interest payable on the related Series 2009B Bonds on any debt service payment in the form of a rebate.

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Dallas Convention Center Hotel Development Corporation
(A Discretely Presented Component Unit of the City of Dallas)
Notes to the Basic Financial Statements
December 31, 2019

Note 2. Deposits and Investments

The DCCHDC maintained the following cash equivalents and investments balances at December 31, 2019:

Authorized Investment Type	Fair Value	Weighted Average Maturity (Years)
Cash in bank and on hand	\$ 9,494,921	-
Goldman Sachs Financial Square Government Money Market Fund	144,166,892	0.10
Repurchase Agreement	37,051,870	22.02
Total cash equivalents and investments	<u>\$ 190,713,683</u>	
Portfolio weighted average maturity in years:		4.35

The DCCHDC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The DCCHDC has the following recurring fair value measurements as of December 31, 2019:

Investments by Fair Value Level	Total	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)
Goldman Sachs Financial Square Government Money Market Fund	\$ 144,166,892	\$ 144,166,892
Other Investments Measured at Purchasing Cost Repurchase Agreements	37,051,870	
Total Investments	<u>\$ 181,218,762</u>	

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or a deposit. In accordance with the bond indenture, the investment maturities will not exceed the anticipated cash flow requirements.

Dallas Convention Center Hotel Development Corporation
(A Discretely Presented Component Unit of the City of Dallas)
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Note 2. Deposits and Investments - continued

Credit risk

Generally, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. This type of risk is typically expressed in terms of the credit ratings issued by a nationally recognized statistical rating organization. The DCCHDC reduces the risk of issuer/counterparty default by limiting investments to those instruments allowed by the Texas Public Funds Investment Act, City of Dallas investment policy, and the bond indenture. The investments in the Goldman Sachs Financial Square Government Money Market Fund carried a credit rating of AAAM by Standard & Poor's as of December 31, 2019. The counterparty of the repurchase agreement investment, Bayerische Landesbank is rated Aa3 by Moody's. The eligible securities of the repurchase agreement investment (US Agency securities) are rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service.

Concentration of credit risk

Percentage of each individual investment issuer or counterparty in total investment assets are stated below.

Investment by Issuer or Counterparty	Fair Value	% of Total Portfolio
Goldman Sachs Financial Square Government Money Market Fund	\$ 144,166,892	79.55%
Repurchase Agreement - Bayerische Landesbank	37,051,870	20.45%
Total Investment	\$ 181,218,762	100.00%

Custodial credit risk

In the case of deposits, this is the risk that in the event of a bank failure, the DCCHDC's deposits may not be returned to it. The Public Funds Collateral Act does require that financial institutions secure deposits made by state or local governmental bodies by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities of the collateral must always remain at least equivalent to the bank balance less the Federal Deposit Insurance Corporation (FDIC) insurance. The DCCHDC did not have any custodial credit risk related to the deposits as of December 31, 2019. For an investment, this is the risk that, in the event of the failure of the counterparty, the DCCHDC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party and not registered in the name of the DCCHDC or its trustee. The trustee means U.S. Bank National Association, a national banking association, which is authorized by law to accept and exercise the trust powers set forth in the Indenture, and its successors in trust and assigns. The investments held by the custodian are in the name of the trustee of DCCHDC; therefore, the investments of DCCHDC were not exposed to any custodial credit risk as of December 31, 2019.

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Note 3. Capital Assets

Capital assets activity for the year ended December 31, 2019 is as follows:

	Balance 12/31/2018	Additions	Deletions and Transfers	Balance 12/31/2019
Capital assets, not being depreciated:				
Construction in progress	\$ 585,508	\$ 13,169,119	\$ (528,631)	\$ 13,225,996
Land	27,511,082	-	-	27,511,082
Capital assets, being depreciated:				
Building and components	332,813,439	-	-	332,813,439
Furniture, fixtures, and equipment	45,076,895	2,077,051	-	47,153,946
Total capital assets	<u>\$ 405,986,924</u>	<u>\$ 15,246,170</u>	<u>\$ (528,631)</u>	<u>\$ 420,704,463</u>
Less accumulated depreciation for:				
Building and components	(57,379,313)	(8,428,850)	-	(65,808,163)
Furniture, fixtures, and equipment	(38,050,110)	(4,671,818)	-	(42,721,928)
Total accumulated depreciation	<u>(95,429,423)</u>	<u>(13,100,668)</u>	<u>-</u>	<u>(108,530,091)</u>
Net capital assets	<u>\$ 310,557,501</u>	<u>\$ 2,145,502</u>	<u>\$ (528,631)</u>	<u>\$ 312,174,372</u>

The depreciation expense for the year ended December 31, 2019 was \$13,100,668.

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Note 4. Long-Term Debt

The changes in the DCCHDC long-term liabilities for the year ended December 31, 2019 are as follows:

	Balance 12/31/2018	Additions	Deletions	Balance 12/31/2019	Due Within One Year
2009A Current Interest Bonds	\$ 62,165,000	\$ -	\$ (8,435,000)	\$ 53,730,000	\$ 9,125,000
2009A Capital Appreciation Bonds	7,139,686	-	-	7,139,686	-
2009B Taxable Build America Bonds	388,175,000	-	-	388,175,000	-
Total Revenue Bonds	<u>457,479,686</u>	<u>-</u>	<u>(8,435,000)</u>	<u>449,044,686</u>	<u>9,125,000</u>
Add: Unamortized Premium	177,626	-	(81,778)	95,848	
Less: Unamortized Discount	(124,828)	-	28,324	(96,504)	
Add: Accretion on Capital Appreciation Bonds	5,698,389	833,254	-	6,531,643	
Total Bonds Payable	<u>463,230,873</u>	<u>833,254</u>	<u>(8,488,454)</u>	<u>455,575,673</u>	<u>9,125,000</u>
Other: Key Money	3,500,000	-	(1,200,000)	2,300,000	1,200,000
Total Long-term Debt	<u>\$ 466,730,873</u>	<u>\$ 833,254</u>	<u>\$ (9,688,454)</u>	<u>\$ 457,875,673</u>	<u>\$ 10,325,000</u>

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Note 4. Long-Term Debt - continued

Revenue Bonds Payable

During August 2009, the DCCHDC issued \$74,411,197 Hotel Revenue Bonds Series 2009A and \$388,175,000 Hotel Revenue Bonds Taxable Series 2009B (Build America Bonds). The bonds were issued to design, acquire, construct, equip, and furnish a four-star full-service convention center headquarters hotel and to acquire land from the City for the project. Bond Series 2009A consists of \$62,530,000 current interest bonds and \$11,881,197 capital appreciation bonds. The current interest bonds include principal payments of \$365,000 to \$12,470,000 beginning January 1, 2018 with interest rates ranging from 4.25% to 5.25% and a final maturity of January 1, 2024. The bonds were issued with a net premium of \$572,164, which includes a gross discount of \$400,094 and premium of \$972,258. The balance of the premium and discount at December 31, 2019 was \$95,848 and \$96,504, respectively. The capital appreciation bonds include principal payments of \$2,007,180 to \$5,132,506 beginning January 1, 2018 with interest rates ranging from 5.43% to 6.46% and a final maturity of January 1, 2026. Accretion for the capital appreciation bonds for the year ended December 31, 2019 was \$833,254, resulting in a balance of \$6,531,643 as of December 31, 2019. Bond Series 2009B are term bonds which include principal payments of \$8,045,000 to \$35,420,000 beginning January 1, 2026 with an interest rate of 7.088% and maturity of January 1, 2042.

The future maturities of the bond principal and interest requirements as of December 31, 2019 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	9,125,000	30,041,094	39,166,094
2021	9,890,000	29,557,557	39,447,557
2022	10,690,000	29,024,594	39,714,594
2023	11,555,000	28,440,663	39,995,663
2024	12,470,000	27,825,594	40,295,594
2025-2029	61,389,686	142,739,392	204,129,078
2030-2034	99,410,000	101,593,013	201,003,013
2035-2039	133,895,000	60,483,144	194,378,144
2040-2042	100,620,000	10,962,301	111,582,301
Total	<u>\$ 449,044,686</u>	<u>\$ 460,667,352</u>	<u>\$ 909,712,038</u>

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Note 4. Long-Term Debt - continued

Key Money

On October 27, 2011, the Manager contributed key money to DCCHDC in the amount of \$6 million to fund the operations of the hotel. On December 1, 2016, the key money contributed to the DCCHDC began amortizing and will be recognized as contribution income in equal monthly installments for a period of five years. Any key money that has not amortized as of the date of any termination of the hotel operating agreement with the Manager will be repaid by the DCCHDC to the Manager. For the year ended December 31, 2019, \$1.2 million was recognized as contribution income, and the balance of the key money was \$2.3 million. The future amortization requirements as of December 31, 2019 are as follows:

<u>Year</u>	<u>Principal</u>
2020	1,200,000
2021	1,100,000
Total	<u>\$ 2,300,000</u>

Note 5. Employee Benefit Plans

DCCHDC does not have any employees or employee benefits. All employees working at the Hotel are employed by Omni Hotels Management Corporation and are included in operations in these financial statements. Omni Hotels Management Corporation provides health care, disability, retirement and other social benefits to its employees.

Note 6. Related Party Transactions

Cash Management and Lockbox Agreement

DCCHDC and the Manager entered into a Cash Management and Lockbox Agreement. A Dallas Convention Center Hotel Lockbox Fund was created for the purposes of receiving deposits of all gross operating revenues, paying operating expenses as described in the Hotel Operating Agreement, and transferring remaining amounts into an account to pay for other items such as debt service principal and interest payments.

Hotel Operating Agreement

The DCCHDC and the Manager entered into a Hotel Operating Agreement (Agreement) whereby DCCHDC pays the Manager a management fee, centralized services fee, eligible employee compensation pool fee, and reimbursable expenses. Each item is described in more detail below.

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Note 6. Related Party Transactions - continued

Management Fee

In consideration for performing all of its management, administrative, oversight, cooperation, and coordination services under the Agreement, DCCHDC shall pay for each twelve month period, a management fee as outlined below:

First twelve month period	\$1,631,263
Second twelve month period	\$1,909,199
Third twelve month period	\$2,121,957
Fourth twelve month period	\$2,276,064
Fifth twelve month period	\$2,392,731
Sixth twelve month period	\$2,473,775

In later twelve month periods, the management fee for each succeeding twelve month period shall be increased or decreased, as applicable, by a percentage equal to the percentage change in the consumer price index from the last month of the preceding twelve month period as compared to the last month of the twelve month period immediately preceding such preceding twelve month period.

The management fee is divided into two portions, the base management fee and the subordinate management fee. The base management fee is 75.5% of the management fee for each twelve month period, and the subordinate management fee is 24.5% of the management fee for each twelve month period. The management fee will be paid monthly, and the subordinate management fee will be paid semi-annually after the payment is made for the bond principal and interest. If funds are not available to pay the subordinate management fee, the amount will accrue without interest. The management fee was \$2,958,059 for the year ended December 31, 2019.

Centralized Services Fees

Centralized services are the following services, programs and group benefits a) group advertising, b) sales and business promotion services for both individual guests and conventions, c) national marketing programs, d) the Omni reservation service, e) credit card services, f) the Omni software, g) accounting services and h) such additional services, programs or group benefits as are, from time to time, provided generally to other Omni hotels that comprise at least ninety percent of the aggregate hotel rooms of the other Omni hotels. In consideration for the Manager providing all centralized services pursuant to the Agreement, DCCHDC, shall pay to the Manager, subject to further terms and conditions of the Agreement, during each operating year, as an operating expense, one-twelfth of the annual centralized services fees, as set forth below, for the applicable twelve month period on the first business day of each month in each twelve month period in arrears:

First twelve month period	\$1,360,207
Second twelve month period	\$1,609,830
Third twelve month period	\$1,822,742
Fourth twelve month period	\$1,962,496
Fifth twelve month period	\$2,061,078

In later twelve month periods, each succeeding twelve month period shall be increased or decreased, as applicable, by a percentage equal to the percentage change in the consumer price index from the last month of the preceding twelve month period as compared to the last month of the twelve month period immediately preceding such preceding twelve month period. Revisions may be made to the centralized services fees. The centralized services fees were \$2,169,753 for the year ended December 31, 2019.

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Note 6. Related Party Transactions - continued

Eligible Employee Compensation Pool

The eligible employee compensation pool is for the executive committee personnel provided by the Manager. Commencing with the first full calendar year following the year in which the opening date occurs and continuing for each operating year thereafter during the operating term except as provided below with respect to the year of termination, the Manager shall be paid the amount of \$1,968,089 as the then applicable eligible employee compensation pool, provided that such amount for each operating year after the first full calendar year following the opening date shall be increased by a percentage equal to the percentage change in the consumer price index for the last month of the operating year for which such eligible employee compensation pool is payable as compared to the last month of the operating year immediately preceding the operating year for which such eligible employee compensation pool is payable. In addition, for the year in which the opening date occurs, and for the year of termination, the Manager shall be paid the amount of \$1,877,618 (as increased or decreased by the provisions of the preceding sentence) multiplied by the number of days between the opening date and the last day of such year, divided by 365, as the eligible employee compensation pool for the year in which the opening date occurs, and the first day of the year of termination and the date of termination, divided by 365, as the eligible employee compensation pool for the year in which the termination occurs. Any amount remaining in the eligible employee compensation pool at the end of any operating year shall be retained by the Manager. The eligible employee compensation pool amount was \$2,362,929 for the year ended December 31, 2019.

Reimbursable Expenses

The Manager shall be entitled to reimbursement for all reasonable out of pocket costs and expenses incurred by the Manager and paid to non-affiliates (and, if permitted under the agreement, affiliates of the Manager) that were incurred in the ordinary course of managing the hotel developed on the site (Hotel) pursuant to the Agreement.

Economic Development Agreement

The DCCHDC and the City entered into an Economic Development Agreement for the City to pledge or rebate certain City tax revenues to the DCCHDC. The purpose of pledging or rebating City tax revenues is to provide security for the payment of debt service on the Series 2009 Bonds and any additional bonds. Under the authority of the Texas Tax Code, the City is eligible to pledge revenue derived from the 7% local hotel occupancy tax collected at the Hotel project back to the project for as long as the Series 2009 Bonds and/or additional bonds are outstanding. In addition, under the Texas Tax Code, the City is eligible to receive the 6% state hotel occupancy tax and 6.25% state sales and use tax received from the Hotel project and rebate the same to the Hotel project for a period of 10 years after the Hotel project is open for initial occupancy. The City Council will consider making appropriated grant payments from its general fund to the Hotel project in the event amounts available under the indenture are insufficient to service the Series 2009 Bonds or additional bonds issued by the DCCHDC. The 7% local hotel occupancy tax, 6% state hotel occupancy tax, 6.25% state sales and use tax, and the appropriated grant payments are collectively defined as City tax revenues. The DCCHDC recognized \$8,583,416 in City tax revenues for the year ended December 31, 2019.

Note 7. Contingencies

In the ordinary course of business, DCCHDC may become involved in various legal proceedings and claims. After consultation with legal counsel, the management of DCCHDC believes the outcome of these matters will not materially affect the financial position, changes in financial position, or cash flows of DCCHDC as of December 31, 2019.

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Note 8. Subsequent Events

Novel Coronavirus (COVID-19)

In late December 2019, the Novel Coronavirus or COVID-19, was identified in Wuhan, China. In late January 2020, the United States had its first confirmed case of the virus in Washington State. On January 30, 2020, the World Health Organization declared a “public health emergency of international concern.” Throughout this time period, DCCHDC management has been monitoring world, national, and local events and preparing for cases in the Dallas area.

On March 12, 2020, in response to the increasing concerns regarding COVID-19 across the nation, City of Dallas officials declared a “local state of disaster.” Local officials announced the declaration to proactively increase preventative measures and put in place mitigation plans for events in the City. It is too early to identify the full impact of this virus on the Dallas economy or the DCCHDC financial position.

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