GATEWAY ECONOMIC DEVELOPMENT CORPORATION
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2002

Auditor of State
Betty Montgomery

GATEWAY ECONOMIC DEVELOPMENT CORPORATION
CUYAHOGA COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Members of the Board of Trustees
Gateway Economic Development Corporation
Cuyahoga County
758 Bolivar Street
Cleveland, Ohio 44115

We have audited the accompanying balance sheet, and related statements of activity and cash flows of the Gateway Economic Development Corporation, Cuyahoga County, Ohio, (Gateway) as of and for the year ended December 31, 2002. These financial statements are the responsibility of the Gateway's management. 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 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gateway Economic Development Corporation, Cuyahoga County, Ohio, as of December 31, 2002, and the results of its operations and the cash flows in conformity with accounting principles generally accepted in the United States of America.

As described in Note 13 to the financial statements, Gateway has experienced a cash flow shortfall at December 31, 2002. In addition, Gateway has experienced significant losses in the last five years. Gateway has relied on short and long term borrowing as well as nonrecurring revenue to pay its obligations as they come due. As described in Note 9 to the financial statements, Gateway has been unable to fund the capital maintenance account required by certain facility leases. Management's plan in regard to these matters is described in Note 13 to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2003 on our consideration of Gateway's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Betty Montgomery

Betty Montgomery
Auditor of State

April 2, 2003

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GATEWAY ECONOMIC DEVELOPMENT CORPORATION
CUYAHOGA COUNTY

BALANCE SHEET
AS OF DECEMBER 31, 2002

ASSETS		
Current Assets		
Cash and Cash Equivalents	$	547,326
Restricted Cash and Cash Equivalents		11,782,260
Receivables:		
Luxury Tax		1,438,824
Interest		486,965
Naming Rights		321,723
Prepaid Expenses and Other Assets		156,976
Total Current Assets		14,734,074
Non Current Assets		
Restricted Cash and Cash Equivalents		3,855,201
Restricted Investments		7,866,363
Naming Rights Receivables		13,855,381
Deferred Costs, Net		6,291,718
Sports Facility Project:		
Land		23,108,049
Stadium		180,664,676
Arena		158,306,378
Site		40,195,778
Capitalized Costs		23,720,720
Furniture, Fixtures and Equipment		201,698
		458,065,962
Less: Accumulated Depreciation		172,490,704
Sports Facility Project, Net		285,575,258
Total Assets	$	300,309,332

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

GATEWAY ECONOMIC DEVELOPMENT CORPORATION
CUYAHOGA COUNTY

BALANCE SHEET (Continued)
AS OF DECEMBER 31, 2002

LIABILITIES AND EQUITY

Current Liabilities		
Accounts Payable	$	162,535
Property Taxes Payable		896,785
Accrued Interest		1,225,453
Current Portion of Long Term Debt		15,834,034
Current Portion of Deferred Revenue		14,113,169
Total Current Liabilities		32,231,976
Non Current Liabilities		
Long Term Debt, Less Current Portion		276,176,624
Long Term Accrued Interest		25,426,396
Deferred Revenue, Less Current Portion		9,984,604
Refundable Deposits		3,431,250
Total Long-term Liabilities		315,018,874
Total Liabilities		347,250,850
Fund Equity		
Fund Equity		(46,941,518)
Total Fund Equity		(46,941,518)
Total Liabilities and Fund Equity	$	300,309,332

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

GATEWAY ECONOMIC DEVELOPMENT CORPORATION
CUYAHOGA COUNTY

STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2002

Revenues		
Luxury Tax	$	16,395,978
Premium Seating Revenue		4,536,538
Naming Rights Revenue		700,000
Lease Income		4,367,754
Interest Income		2,826,766
Incremental Transient Occupancy Tax Credit		212,180
Other		328,163
Total Revenues		29,367,379
Expenses		
Administrative and General		3,379,827
Depreciation and Amortization		19,241,158
Salaries and Related Expenses		153,848
Professional Fees		79,060
Property Tax Expense		943,729
Security Expense		587,547
Repairs and Maintenance		3,240,996
Interest Expense		19,062,417
Total Expenses		46,688,582
Net Excess of Revenues Over (Under) Expenses		(17,321,203)
Fund Equity Beginning of Year		(29,620,315)
Fund Equity End of Year	$	(46,941,518)

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

GATEWAY ECONOMIC DEVELOPMENT CORPORATION
CUYAHOGA COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2002

Operating Activities		
Net Excess of Revenues over (under) Expenses	$	(17,321,203)
Less: Non-Capital Financing Luxury Tax		(16,395,978)
Adjustments to Reconcile to Net Cash Provided by Operating Activities:		
Depreciation and amortization		19,241,158
Net Changes in Operating Assets and Liabilities:		
(Increase) in Receivables		(73,211)
(Increase) in Prepaid Expenses and Other Assets		(94,617)
Increase in Accounts Payable		150,201
(Decrease) in Property Taxes Payable		(34,177)
Increase in Accrued Interest		2,902,875
Increase in Deferred Revenue		662,500
(Decrease) in Deposits		(1,258,052)
Net Cash Used by Operating Activities		(12,220,504)
Non-Capital Financing Activities		
Luxury Tax Revenue		16,395,978
Capital and Related Financing Activities		
Proceeds from Notes Payable		8,480,344
Principal Paid on Bonds Payable		(11,070,000)
Principal Paid on Notes Payable		(1,064,753)
Purchase of Fixed Assets for Stadium		(690,147)
Purchase of Fixed Assets for Arena		(110,158)
Net Cash Used in Capital and Related Financing Activities		(4,454,714)
Investing Activities		
Proceeds from Sale of Investments		14,907
Increase in Cash and Cash Equivalents		(264,333)
Cash and Cash Equivalents at Beginning of Year		16,449,120
Cash and Cash Equivalents at End of Year	$	16,184,787

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

1. DESCRIPTION OF THE REPORTING ENTITY AND BASIS OF PRESENTATION

Gateway Economic Development Corporation of Greater Cleveland (Gateway) was incorporated on May 31, 1990 and is a governmental not-for-profit corporation legally separate from any other entity. Gateway, the City of Cleveland, and Cuyahoga County have entered into a three party agreement, whereby Gateway is authorized to construct, own, and provide for the operation of the sports facility, which includes a baseball stadium, arena and a joint development site (the Project). Substantially all of Gateway's assets are restricted as to use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Gateway follows the accrual basis of accounting whereby revenues are recognized when they are earned and become measurable and expenses are recognized where they are incurred.

Gateway applies a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included on the balance sheet. The Statement of Activity presents increases (e.g., revenues) and decreases (e.g., expenses) in fund equity.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to timing of the measurements made.

B. Cash and Cash Equivalents

Cash received by Gateway is deposited into checking accounts for short-term needs or investment accounts under the direction of trustees appointed through the various financing agreements in order to pay long-term debt principal and interest. For presentation on the balance sheet, investments with an original maturity of three months or less are considered cash equivalents.

C. Investments

Investments are stated at fair value per GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

D. Sports Facility Project

Costs directly attributable to the stadium, arena and site are separately classified in the financial statements. Joint or common costs are allocated to the project components based upon management's allocation. The Stadium and Arena were substantially completed April 1, 1994 and September 15, 1994, respectively.

The sports facility project is recorded on the basis of cost and is depreciated on a straight-line basis over the estimated useful life of each class of depreciable asset. Normal maintenance and repair costs are expensed as incurred.

Land contributed to Gateway in 1990 includes the acquisition and demolition cost of obtaining the land by Greater Cleveland New Stadium Corporation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Federal Taxes

Gateway is exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code.

3. LUXURY TAX

Effective August 1, 1990, Cuyahoga County (the County) began to levy excise taxes on sales of liquor, cigarettes, beer, wine and mixed beverages in the County and will continue to do so for a period of fifteen years. Under the terms of the three party agreement between, Gateway, the City of Cleveland, and Cuyahoga County, the County has agreed to contribute the entirety of the luxury tax revenues to the payment of the costs of the sports facility and operations of Gateway during the capitalized interest period, which is equivalent to the construction period. After the capitalized interest period, the County pledged the luxury tax revenues to the payment of debt service obligations of Gateway and to pay costs of the sports facility. Any balance of such revenues is to be used to pay the costs of related economic development projects of the City of Cleveland.

Luxury tax receipts are transferred immediately upon receipt by the County to a bailee of luxury tax creditors (including the bond trustees). It is the duty of the bailee, by agreement to safe keep the luxury tax receipts, to invest the receipts and hold investment income, and to distribute luxury tax receipts only to those creditors entitled to receive the luxury taxes.

4. DEPOSITS AND INVESTMENTS

Gateway may invest the proceeds of various bond offerings (see Note 7) in authorized securities and deposits, including obligations of the federal government and its agencies, deposits with financial institutions, and other securities permitted by Gateway's financing agreements.

Gateway records the government securities held in the Senior Lien, Stadium Revenue and Subordinate Interest and Bond Funds at their fair value. Based upon the terms of the Debt Service Deposit Agreement, the following summarizes the balances in funds established by the trust indentures, at their amortized costs, at December 31, 2002:

	Senior Lien Bonds	Senior Lien Refunding Bonds	Stadium Revenue Bonds	Subordinate Bonds	Total
Interest Fund	$ 262	$ 606,353	$ 394,741	-	$ 1,001,356
Bond Fund	9,003	3,002,261	232,771	-	3,244,035
Reserve Fund	108	7,866,363	3,105,113	3,855,201	14,826,785
	$ 9,373	$ 11,474,977	$ 3,732,625	$ 3,855,201	$ 19,072,176

The following information classifies deposits and investment by categories of risk as defined in GASB Statement 3, "Deposits with Financials Institutions, Investments and Reverse Repurchase Agreements."

Deposits: At fiscal year ended December 31, 2002, the carrying amounts of Gateway's deposits was $471,230 and the bank balance was $474,843. Of the bank balance, $100,000 was covered by federal depository insurance and $374,843 was uninsured and uncollateralized.

4. DEPOSITS AND INVESTMENTS (Continued)

Investments: Gateway's investments are categorized below to give an indication of the level of risk assumed by Gateway at fiscal year ended December 31, 2002. Category 1 includes investments that are insured or registered or for which the securities are held by Gateway or its agent in Gateway's name. Category 2 includes uninsured and unregistered investments which are held by the counter party's trust department or agent in Gateway's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent, but not in Gateway's name. Gateway's investment in money market mutual funds are unclassified investment since they are not evidenced by securities that exist is physical or book entry form.

	Category 3	Carrying Value
Commercial Paper	$ 7,866,363	$ 7,866,363
Money Market Mutual Funds		15,713,557
Total	$ 7,866,363	$23,579,920

The classification of cash and cash equivalents, and investments on the general purpose financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the general purpose financial statements and the classification per GASB Statement No. 3 is as follows.

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	$16,184,787	$7,866,363
Investments which are part of Money Market Mutual Funds	(15,713,557)	$15,713,557
GASB Statement No. 3	$ 471,230	$23,579,920

5. DEFERRED COSTS

Deferred costs at December 31, 2002 consist of the following:

Organization	$1,110,501
Financing	6,775,598
Lease Negotiation	4,387,356
	12,273,455
Accumulated Amortization	(5,981,737)
	$6,291,718

Organization costs associated with Gateway were amortized over the construction period. As of December 31, 1994, such costs were fully amortized.

The financing cost incurred with issuing the Senior Lien Excise Tax Refunding Bonds was capitalized and will be amortized over the life of the debt issue on a basis that approximates a constant rate of amortization of debt outstanding.

5. DEFERRED COSTS (Continued)

Financing costs associated with the Stadium Revenue Bonds and the Subordinated Excise Tax Bonds (the “Bonds”), including original issue discount, if any, and the notes payable to Cuyahoga County are deferred and amortized over the life of the respective debt issue on a basis that approximates a constant rate of amortization of debt outstanding. Cost associated with credit enhancement are deferred and amortized over the respective life of each contract on a straight line basis.

Lease negotiation costs associated with the stadium and arena leases (see Note 9) are being amortized over the respective leases.

6. CAPITALIZED COSTS

There were no additions to capitalized costs during the year ended December 31, 2002. Capitalized costs consist of net interest expense capitalized, property taxes, legal fees, and indirect project costs incurred during the construction period. Capitalized costs are depreciated over 30 years.

7. LONG-TERM OBLIGATIONS

Long-term debt outstanding at December 31, 2002 is as follows:

Bonds Payable:	Stated Interest Rate	Principal Outstanding
Senior Lien Excise Tax Refunding Bonds, Issue 2001	4.125% - 5.125'	$ 35,710,000
Stadium Revenue Bonds Serial bonds due September 15, 2003 through 2003; term bonds due September 15, 2014.	3.1% - 6.5%	$ 24,385,000
Subordinated Excise Tax Bonds Term bonds due September 1, 2003 through 2005	7.5%	$ 8,955,000
Notes Payable:		
Cuyahoga County	Variable	$184,480,783
State of Ohio ($4 million assumed from the Greater Cleveland New Stadium Corporation)	0% - 2.5%	$ 7,853,310
Cleveland Development Partnership	3% - 6.25%	$ 28,000,000
Cleveland Foundation /Cuyahoga County	3%	$ 1,750,000
		$291,134,093
Less:		
Current portion		(15,834,034)
Unamortized discount		(122,072)
Plus – Unamortized premium		988,637
Total long-term debit less current portion		$ 276,176,624

7. LONG-TERM OBLIGATIONS (Continued)

On December 27, 1990 Gateway issued approximately $148 million of tax exempt bonds to be used primarily to pay for the cost of the stadium. The trust indentures generally require the establishment of the following funds:

FUND	PURPOSE
Escrow Fund	To account for the process of the bonds until certain conditions are met.
Construction Fund	To account for the financial resources to be used for the constructic of the stadium
Bond Fund	To account for the accumulation of financial resources for the principal interest on the bonds
Bond Reserve Fund	To account for the escrowed financial resources
Rebate Fund	To account for any excess earnings from the bonds during the capitalized interest period as required by the Internal Revenue Code.

A. Senior Lien Excise Tax Refunding Bonds

The Senior Lien Excise Tax Refunding Bonds were issued during 2001 to refinance the Senior Lien Excise Bonds. The total proceeds from the bonds were $45,557,523 representing the par amount of $44,575,000, plus the original issue premium of $1,828,965, minus the underwriter's compensation of $937,465, plus accrued interest of $91,023.

The net proceeds were used for the purpose of refunding all of the Senior Lien Excise Tax Bonds, Series 1990; $7,585,000 of the Subordinated Tax Bonds maturing September 1, 2005; and the costs of issuing the bonds.

The bonds are presented net of unamortized premium of $998,637 at December 31, 2002 and are guaranteed by an insurance policy issued by a municipal bond insurance company as to principal and interest. In accordance with the original trust indenture, the Funds were held in a Bond Reserve Fund and an Escrow Fund.

B. Stadium Revenue Bonds

The original Stadium Revenue Bonds were guaranteed by a letter of credit. On December 4, 1992, Gateway entered into a new letter of credit arrangement with a consortium of local financial institutions replacing the original letter of credit. The letter of credit restricted the use of the Stadium Revenue Bond proceeds, requiring Gateway to deposit approximately $3,100,000 into a bond reserve fund and approximately $3,000,000 into a renewal and replacement fund (for future capital improvements of the Stadium), and obtain a completion and cost overrun guaranty. Costs of $819,287 related to the new letter of credit were incurred during 1992 and were included in deferred financing costs.

7. LONG-TERM OBLIGATIONS (Continued)

B. Stadium Revenue Bonds (Continued)

The Stadium Revenue Bonds were reoffered on December 16, 1993, converting the interest rate from variable to fixed. As a result of the reoffering, the Stadium Revenue Bonds are presented net of an unamortized discount of $122,072 at December 31, 2002. This represents a substantive modification or the terms of the bonds and, as a result, the reoffering was accounted for as an extinguishment of debt. The repayment of the 1993 bond issue has been guaranteed by Cuyahoga County. As a result of the reoffering, Gateway eliminated the cash flow risk of a variable rate debt, eliminated the need for certain credit enhancements, and made certain funds previously restricted, available for use in construction.

C. Subordinated Excise Tax Bonds

The Subordinated Excise Tax Bonds are guaranteed by Cuyahoga County through an annual appropriation of debt service.

During 2001, $7,585,000 of the bonds maturing September 1, 2005 were refunded. The source of the funding was part of the proceeds of the Senior Lien Excise Tax Refunding Bonds. Additionally, the mandatory redemption requirements were reduced pro rata by the principal amount of the bonds redeemed. The restated maturity dates are as follows:

September 1, 2003	1,365,000
September 1, 2004	1,370,000
September 1, 2005	6,220,000

D. Cuyahoga County Notes Payable

On September 24, 1992, Cuyahoga County (the “County”) issued $75 million ($35 million fixed rate and $40 million variable rate) Taxable Economic Development Revenue Bonds. In conjunction with this bond issue, Gateway and the County entered into a Revolving Loan Agreement, whereby the County agreed to loan the bond proceeds to Gateway to pay Arena construction costs. On February 1, 1994, Cuyahoga County issued an additional $45 million Taxable Economic Development Revenue Bonds. The Revolving Loan Agreement was amended to allow Gateway to borrow the additional proceeds. As of December 31, 2001, Gateway has borrowed $184.5 million, including interest, under the Revolving Loan Agreement. Gateway is responsible to pay interest on the County bonds to the extent interest expense exceed interest earned by the County on bonds proceeds which have not been borrowed by Gateway. Interest payable included in the notes payable to the County totaled approximately $69,925,783 at December 31, 2002. Financing costs of $3.6 million, payable by Gateway in connection with the County Bond Offerings are also included in the notes payable liability. The associated expense of $3.6 million is included in deferred financing costs.

Gateway entered into an Emergency Loan Agreement dated December 28, 1995 (effectuated in early 1996) in which Gateway received a total of $11.5 million to pay for certain cost overruns that were incurred in the construction of the Gateway stadium and arena project. Of this amount, the agreement called for $2.5 million to be repaid by the City of Cleveland, $4 million to be repaid directly by Gateway, with the remaining $5 million to be repaid by the Greater Cleveland Convention and Visitors Bureau (the “Bureau”) pending negotiations regarding this repayment between Cuyahoga County and the Bureau. At that time, Gateway determined that the $5 million to be repaid by the Bureau was not a legal obligation of Gateway and, therefore, recognized this amount as revenue in 1996 pending the outcome of the negotiations between Cuyahoga County and the Bureau. In 2002, the Bureau paid $212,180 pursuant to the amended Cooperative Agreement (see note 12). During 1999, the issue of the $5 million dollar portion of the Emergency Loan Agreement was re-evaluated by Cuyahoga County and Gateway. As of March 21, 2000, Cuyahoga County is of the opinion that the $5 million was a legal liability of Gateway.

7. LONG-TERM OBLIGATIONS (Continued)

D. Cuyahoga County Notes Payable (Continued)

The management of Gateway is currently reviewing this issue to determine if a legal liability in fact exists. However, based on historical trends, Gateway may not and probably will not be able to pay back this amount to Cuyahoga County. Accordingly, this amount is not reflected as an accounting liability and prior fund equity was not restated on Gateway's balance sheet as of December 31, 2002.

E. State of Ohio Notes Payable

Four million was borrowed by the Greater Cleveland New Stadium Corporation from the State of Ohio for land acquisitions on June 23, 1986. The Greater Cleveland New Stadium Corporation was later merged into Gateway on November 19, 1990. On December 17, 1990, Gateway and the State of Ohio entered into an amended and restated loan agreement. The agreement allows for the forgiveness of interest immediately, and the forgiveness of principal, if certain conditions are met. The forgiveness of principal will be accounted for when and if all conditions are satisfied. The note is due immediately, if any of the conditions are violated. As Gateway is in compliance with the terms and conditions of the note, the note is classified as long-term as of December 31, 2002.

Gateway entered into a new loan agreement with the Ohio Department of Development on April 20, 1994 for $12 million. The principal and interest on the note and service fees are payable in 12 annual installments, due and payable on September 1 of each year, beginning in 1994. Interest payable at a rate of 2.5% annually.

F. Cleveland Development Partnership Notes Payable

The Cleveland Development Partnership and Gateway have entered into two loan agreements for a total of $28 million. Per the agreements, payment is only to be made on this amount by Gateway out of "surplus cash" as specifically defined in the loan agreements.

G. Debt to Maturity

The following schedule represents future principal payments on long-term debt:

2003	$ 15,834,034
2004	15,319,120
2005	28,905,156
2006	3,745,000
2007	3,870,000
Amount Thereafter	223,460,783
	$291,134,093

Included in the "Thereafter" amount are amounts due on the Cleveland Development Partnership note payable of $28 million and the Cleveland Foundation/Cuyahoga County note payable of $1.75 million. The $28 million is not included in prior years' scheduled principal payments because it is only payable out of "surplus cash" as specifically defined in the loan agreement with the Cleveland Development Partnership and after various other obligations are paid first. Based on historical trends, Gateway may, and probably will not earn the required revenues in order for the payment obligation on this note to occur. The $1.75 million note payable to the County is due to have repayment starting July 1999 (per additional payment under the revolving loan agreement with Cuyahoga County). Based on historical trends, Gateway may, and probably will not earn the required revenues in order for Gateway to meet the repayment obligation on this note.

8. DEFERRED REVENUE

Deferred revenue at December 31, 2002 consists of the following:

Premium Seating Revenue, net	$ 2,299,743
Naming rights revenue	10,035,417
Prepaid lease income:	
Stadium	2,463,450
Arena	8,314,196
Interest Income	984,967
	24,097,773
Less – current portion	(14,113,169)
	$ 9,984,604

In December, 1991, Ballpark Management Company, an affiliate of the Cleveland Indians, entered into the Premium Seating License agreements for the benefit of Gateway, with various companies to license private suites at the stadium for ten years beginning in 1994. Deposits and the related interest earned totaling $21,813,304 at March 31, 1994, were held in an escrow account until substantial completion of the Stadium. The deferred premium seating revenue is amortized over the term of the license agreements beginning in April, 1994, when construction of the Stadium was completed.

Gateway entered into an agreement with the owner of the Cleveland Indians, Richard E. Jacobs, for the sale of naming rights of the baseball complex for twenty years. Annual payments are to be made by the Cleveland Indians on September 15 through the year 2013. The first ten annual payments are to be $400,000 and the last ten payments are to be $986,893. The contract has been recorded as deferred revenue at its present value of $7 million. Naming rights revenue is recognized on a straight line basis over the life of the contract. Interest income is recognized based upon the effective interest rate of 6.3%. The related naming rights receivable balance at December 31, 2002 is $7,102,032 including a current portion of $271,822.

Effective September 15, 1994, Gateway and Gund Business Enterprises entered into an agreement for the sale of naming rights of the arena for 33 years. Annual payments are to be made by Gund Business Enterprises on March 15 through the year 2015. The first ten annual payments are to be $400,000 and the last ten payments are to be $986,893. An amount of $2 million was paid in 1994 for the period September 15, 2014 though September 15, 2027. The contract has been recorded as deferred revenue as its present value of $9 million. Naming rights revenue is recognized on a straight line basis over the life of the contract periods. Interest income is recognized based upon the effective interest rate of 6.3%. The naming right receivable balance at December 31, 2002 is $7,075,074, including a current portion of $49,902.

In accordance with the Ballpark Management lease agreement, Gateway received $2,463,450 from the Cleveland Indians representing 2002 debt services on the Stadium Revenue Bonds. The revenue will be recognized upon the payment of debt services, which is paid directly to the Trustee for the Stadium Revenue Bonds by the Cleveland Indians (also see Note 9).

During 1994, Gateway received $4 million from the owners of the Cavaliers. During 1995, an additional $3.8 million was received. These amounts were advanced by the Cavaliers to Gateway to fund additional construction costs related to the arena. At December 31, 1995, these amounts were recorded as deferred revenue and prepaid rent by Gateway.

8. DEFERRED REVENUE (Continued)

During 1996, Gateway and the owners of the Cavaliers reached a settlement agreement whereby the owners of the team agreed to forgive $7 million of the $7.8 million referred to herein for certain consideration, apply $300,000 to team obligations and Gateway would pay the team $500,000. As of December 31, 2002, deferred revenue of $8,314,196 represents prepayment of rent by the team's owners.

9. LEASES

On July, 3, 1991, Gateway entered into a 20 year lease agreement with the Cleveland Indians and Ballpark Management Company providing for the lease of the Stadium and related improvements as well as management and operation of the stadium, Gateway reimbursed the Cleveland Indians for certain preopening marketing costs.

The significant provisions of the leases are as follows:

- Gateway will receive annually, during the life of the lease terms, the lesser of $2.95 million or the net debt service on the Stadium Revenue bonds.
- The Indians will annually pay Gateway an amount using a predetermined formula which starts at $.75 per ticket for annual attendance over 1,850,000.
- Gateway must establish a capital maintenance fund to accumulate funds for the repair and maintenance of the ballpark. As of December 31, 2002, $533,677 was deposited in a capital maintenance fund and is included in cash.

On December 20, 1991, Gateway entered into a 30 year lease agreement with the Cavaliers Division of Nationwide Advertising Services, Inc. (a division of Gund Business Enterprises) providing primarily for the lease of the arena. The lease agreements and subsequent amendments require that Gateway shall cause the County to provide $120 million to be deposited into the County Guaranty Escrow Fund and used to meet certain arena obligations during the construction period. The Cavaliers lease agreements also provide that Gateway must issue or cause the City of Cleveland to issue on-site parking bonds with proceeds deposited into an On-Site Parking Construction Draw Account (See Note 10).

The significant provisions of the leases are as follows:

- Gateway will receive annual payments consisting of 27.5% of Executive Suite Revenue (as defined), and 48% of club seat revenue (as defined), and, additional payments based on attendance (as defined).
- Gateway will pay certain parking revenue to the Cavaliers based on a predetermined formula (as defined) with a minimum annual payment of $1.5 million.
- Gateway must establish a capital maintenance fund to accumulate funds for the payment of repairs and maintenance. This fund was not established as of December 31, 2002.

10. PARKING FACILITIES

On October 15, 1992, the City of Cleveland issued $71,000,000 for Parking Facility Improvement Revenue Bonds to finance the construction of, among others, the Gateway onsite and offsite garages. The garages are to be owned by the City; however, construction was managed by Gateway.

The City and Gateway have also entered into an agreement providing for the payment of debt services on the City’s Parking Bonds. Pursuant to the agreement, Gateway is liable for the debt service on the Parking Bonds allocated to the Gateway Parking Facilities, payable only from the net revenues of the parking facilities. Net revenues from the garages are pledged first to the City for payment of debt service and secondly to the teams in accordance with their lease agreements. The liability for payment of this debt service lies with the City of Cleveland and, therefore, is not included as a liability on Gateway’s balance sheet. Accordingly, the net revenues of the parking facilities are not reflected in Gateway’s revenues on their Statement of Activity.

11. RISK MANAGEMENT

Gateway has obtained commercial insurance for the following risks:

- Commercial general liability and garage keepers automobile liability.
- Directors, Officers, and Trustees liability

Gateway also provides health, dental, vision, and life insurance for two full-time employees through a group program sponsored by the Council of Smaller Enterprises (COSE).

12. INCREMENTAL TRANSIENT OCCUPANCY TAX CREDIT

Gateway, Cuyahoga County and The Convention and Visitors Bureau of Greater Cleveland, Inc. (the "Bureau") entered into a Cooperative Agreement (known commonly as the "Bed Tax Agreement") as of September 15, 1992 (the "Cooperative Agreement") which included a provision that allowed a credit to be given to Gateway as payment on the Cuyahoga County Note Payable (for the Arena Bonds Issued by Cuyahoga County discussed in Note 7, which will be referred to herein as the "Gateway Account"). This amount represents the incremental amount the Bureau receives from the County Transient Occupancy Tax, per Section 5739.024, Ohio Revised Code (the "Bed Tax"), which is understood to be generated by new Gateway attendees' utilization of overnight accommodations in the County (the "Annual Incremental Credit"). This credit was to be determined pursuant to and in accordance with a certain Consultant Agreement to be entered into by and among Cuyahoga County, the Bureau and Gateway. This agreement stated in part that "for 1994 or such later year that the Arena Facility is first used, the Bureau shall credit to the Gateway Account the amount determined pursuant to the Consultant Agreement within 10 days of notice thereof. For succeeding years, the Bureau is to credit to the Gateway Account the applicable Annual Incremental Credit as limited by the Bureau's receipt of Bed Tax revenues, as provided" by the Consultant Agreement. A Consultant Agreement had never been entered into and the Bureau had never credited any amount to the Gateway Account.

12. INCREMENTAL TRANSIENT OCCUPANCY TAX CREDIT

Per an agreement entered into between Gateway, Cuyahoga County and the Bureau on December 22, 1998, the Cooperative Agreement was amended by the parties redefining the Annual Incremental Credit and providing for the deposit by the Bureau to the Gateway Account for calendar years 1994 through 1998 a specific sum of money. Per this agreement, the parties have defined the Annual Incremental Credit to mean the amount of $200,000 per calendar year for a total of $1 million dollars, which was credited to the Gateway Account in 1999. For subsequent years, the Annual Incremental Credit will be determined upon Cuyahoga County certifying to the Bureau the amount paid during the calendar year on bond services charges for up to $75,000,000 on the Arena Bonds (see Note 7) accompanied by a financial statement of Gateway reflecting its need to pay any amount not funded from other Gateway revenue. The Annual incremental Credit for the year 2002 amounted to $212,180. Such credit will be limited to the difference between the debt service required by the Arena Bonds and the amounts paid by Gateway to Cuyahoga County, if any, along with any other credits. The annual increase of this credit will be capped at no more than 3% greater than the prior calendar year's credit. Since payment of the Annual Incremental Credit will only be advanced upon the aforementioned certification and delivery of a financial statement from Gateway, this revenue will be recognized by Gateway in the year in which the credit is received. The $1 million for calendar years 1994 through 1998 reflected in 1999, $186,488 for the year 2000, $212,180 for the year 2001 and $212,180 for the year 2002 was reflected on Gateway's Statement of Activity for their respective years, as revenue as well as a corresponding reduction to Long-Term Debt (specifically the Cuyahoga County Note Payable) as reflected on Gateway's balance sheet.

13. SUBSEQUENT EVENTS

Gateway has experienced a cash flow shortfall for the year ended December 31, 2002. In response to this condition, Gateway has developed a strategy to stabilize its cash flows. This includes, but is not limited to, restructuring of debt, financing of debt through Cuyahoga County and Gateway has entered into negotiations with business partners.

Through various lease provisions with the teams, they will pay Gateway’s expenses until there are sufficient resources for Gateway to resume paying expenses on its own. Per the lease provisions, Gateway is required to reimburse the teams for the payments made on Gateway’s behalf, including interest.

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Members of the Board of Trustees
Gateway Economic Development Corporation
Cuyahoga County
758 Bolivar Street
Cleveland, Ohio 44115

We have audited the financial statements of Gateway Economic Development Corporation, Cuyahoga County, Ohio, (Gateway) as of and for the year ended December 31, 2002, and have issued our report thereon dated April 2, 2003, wherein we noted Gateway has experienced a cash flow shortfall at December 31, 2002, and has been unable to fund the capital maintenance account required by certain facility leases. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gateway's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of Gateway in a separate letter dated April 2, 2003.

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

Betty Montgomery

Betty Montgomery
Auditor of State

April 2, 2003

Auditor of State
Betty Montgomery

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GATEWAY ECONOMIC DEVELOPMENT CORPORATION

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 13, 2003