



Dave Yost • Auditor of State

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Gateway Economic Development Corporation of Greater Cleveland
Cuyahoga County
758 Bolivar Road
Cleveland, Ohio 44115

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the Gateway Economic Development Corporation of Greater Cleveland, Cuyahoga County, Ohio (Gateway), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Gateway's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to Gateway's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of Gateway's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

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 of Greater Cleveland, Cuyahoga County as of December 31, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2015, 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 grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Gateway's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

June 15, 2015

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY**

Management's Discussion and Analysis
For the Year Ended December 31, 2014
(Unaudited)

The discussion and analysis of the Gateway Economic Development Corporation of Greater Cleveland (Gateway) provides an overall review of Gateway's financial activities for the year ended December 31, 2014. The intent of the discussion and analysis is to look at Gateway's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of Gateway's financial performance.

Financial Highlights

Key financial highlights for 2014 are as follows:

- The most significant financial highlight positively affecting Gateway for the tenth year is the continued stability resulting from the improved leases with both teams. On September 15, 2008 Gateway and the Indians approved a lease extension which reaffirms the Memo of Understanding. Gateway and the Cavaliers had previously approved a sixth amendment on November 28, 2007. The lease with each team provides Gateway a predictable stream of revenue from the teams that covers all Gateway's operating expenses and places responsibility for most capital repairs on the teams.
- Total Operating Revenues totaled \$14,891,377 for the year.
- The Cleveland Indians have made significant improvements in 2014 totaling \$3,923,246 to Progressive Field. This is the beginning of \$25,000,000 in alterations. These alterations are being funded by the Cleveland Indians.
- In 2014 Major Capital Improvements commenced at Quicken Loan Arena totaling \$13,644,727. The Cleveland Cavaliers have paid for these improvements and have sought reimbursement from Cuyahoga County as part of the recently approved County wide Excise Tax on Tobacco and Alcohol Products. Gateway would own the improvements made at Quicken Loan Arena and Progressive Field.

Using this Annual Financial Report

This annual report consists of financial statements and notes to those statements. These statements are organized so the reader can understand Gateway Economic Development Corporation of Greater Cleveland as a financial whole.

The Statement of Net Position and the Statement of Revenues, Expenses and Change in Net Position provide information about the activities of Gateway. Gateway only has one major fund for business-type activities.

Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

While this document contains information about the funds used to provide service to the City, County, the teams and taxpayers, the view of Gateway as a whole looks at all financial transactions and asks the question, "How did we do financially during 2014?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position answer this question. These statements include all Assets, Deferred Outflows, Liabilities and Deferred Inflows using the accrual basis of accounting. This basis of accounting takes into accounts all of the current year's revenues and expenses regardless of when the cash is received.

These statements report Gateway's net position and the change in net position. This change in net position is important because it tells the reader whether Gateway has improved or diminished.

- Business Activities – Gateway is a Non-Profit 501(c)(3) Corporation created to own, finance, construct and operate the Gateway Sports Complex by overseeing services such as maintenance, security and other capital repairs at the Gateway Sports Complex.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY**

Management's Discussion and Analysis
For the Year Ended December 31, 2014
(Unaudited)

Business-wide financial analysis

Table 1 provides a summary of Gateway's Net Position for 2014 and 2013 Business Type Activities.

Table 1

	2014	2013
ASSETS:		
Current Assets-Unrestricted	\$ 254,493	\$ 257,142
Current Assets-Restricted	174,460	4,002,574
Non-Current Assets	134,429,898	126,207,284
Total Assets	\$ 134,858,851	\$ 130,467,000
LIABILITIES:		
Current Liabilities	\$ 7,323,066	\$ 10,793,051
Non-Current Liabilities	302,051,596	296,363,839
Total Liabilities	\$ 309,374,662	\$ 307,156,890
Deferred Inflow of Resources	\$ 17,568,018	\$ 440,000
Net Position		
Net Investment in Capital Assets	\$ (173,181,698)	\$ (179,233,739)
Restricted for Debt Service	174,460	4,002,574
Unrestricted	(19,076,591)	(1,898,725)
Total Net Position at End of Year	\$ (192,083,829)	\$ (177,129,890)

In the case of Gateway, the majority of all assets and liabilities are capital related. As a result, the depreciation, amortization and interest expense have a significant impact on the Total Net Position. The majority of the change is due to depreciation and amortization.

Total Assets at \$134,858,851 increased by \$4,391,851 primarily due to Construction-in-Progress with the Cleveland Indians alterations.

Net Position for 2014 totaled (\$192,083,829). Increases in this deficit were mainly due to depreciation and amortization in Non-Current Assets and Liabilities as well as (\$17,568,018) in deferred inflows of Resources due to the projects undertaken in 2014 by both teams.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY**

Management's Discussion and Analysis
For the Year Ended December 31, 2014
(Unaudited)

Table 2

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Lease Income	\$ 11,053,113	\$ 9,654,061
Other	3,838,264	2,455,247
	<hr/>	<hr/>
Total Operating Revenues	14,891,377	12,109,308
Operating Expenses		
Administrative and General	5,818,589	4,767,342
Depreciation and Amortization	9,053,702	9,400,246
Salaries and Related Expenses	597,654	528,544
Professional Fees	133,495	53,122
Property Tax Expense	1,528,466	1,505,290
Security Expense	787,837	740,341
Loss on Disposal of Assets	291,465	
Repairs and Maintenance	5,617,790	4,065,776
Total Operating Expense	<hr/> 23,828,998	<hr/> 21,060,661
Operating Loss	(8,937,621)	(8,951,353)
Non-Operating Revenues		
Premium Seating Revenue		3,149,531
Admissions Tax	3,091,269	2,379,413
Incremental Transient Occup. Tax Credit	1,453,353	1,445,974
Unrealized Gain on Investments	70,971	72,103
Total Non-Operating Revenues	<hr/> 4,615,593	<hr/> 7,047,021
Non-Operating Expenses		
Interest Expense	<hr/> 10,631,912	<hr/> 10,739,635
Total Non-Operating Expense	10,631,912	10,739,635
Net Non-Operating Income	(6,016,319)	(3,692,614)
Net Position		
Net Decrease in Net Position	(14,953,940)	(12,643,967)
Total Net Position at Beginning of Year	(177,129,889)	(164,485,923)
Total Net Position at End of Year	<hr/> \$ (192,083,829) <hr/>	<hr/> \$ (177,129,890) <hr/>

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY**

Management's Discussion and Analysis
For the Year Ended December 31, 2014
(Unaudited)

Lease Income for 2014 was \$1,399,052 higher than last year. The teams also agreed to pay most of the capital repairs. For 2014, Gateway's approved operating budget of \$3,755,389 was paid by the teams pursuant to the leases.

Operating expenses for 2014 totaled \$23,828,998 which represents an increase of \$2,768,337 from the prior year. The increase is primarily due to increases in repairs for both facilities. With new agreements in place it has been determined that the amount of prepaid rent by Quicken Loans Arena could only be recovered as a credit against future rent obligations. Since the requirement to recognize prepaid rent is not an obligation of the city or county and any prepaid rent would be extinguished at the end of the lease there is no possible circumstance where this could be a liability of Gateway to be paid to Quicken Loans Arena.

General Budget Highlights

Administration, maintenance and security of Gateway fall under the direction of its Executive Director and staff. Gateway staff in accordance with the leases prepares a detailed operating budget for both teams and a consolidated budget that is reviewed with the teams as well as Gateway's Board of Directors. This budget, once approved, is analyzed and reviewed on a quarterly basis with the teams. Financial reports are also submitted to the Board members monthly and reviewed at quarterly meetings. Gateway also has oversight of capital repairs for both teams.

Capital Assets

**Table 3
Capital Assets
Net of Accumulated Depreciation**

	<u>2014</u>	<u>2013</u>
Land	\$ 23,108,049	\$ 23,108,049
Construction In Progress	<u>7,382,171</u>	<u>-</u>
Total non-Depreciable Capital Assets	30,490,220	23,108,049
Depreciable Capital Assets		
Stadium	24,691,624	28,145,535
Arena	65,879,648	60,037,601
Site	6,054,518	6,811,521
Capitalized Costs	7,313,888	8,104,578
Furniture, Fixtures and Equip	<u>-</u>	<u>-</u>
Depreciable Net Assets	103,939,678	103,099,235
Total	<u>\$ 134,429,898</u>	<u>\$ 126,207,284</u>

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY**

Management's Discussion and Analysis
For the Year Ended December 31, 2014
(Unaudited)

Gateway's investment in capital assets for its activities as of December 31, 2014 amount to \$134,429,898. Capital assets increased by \$8,222,614. Depreciation was offset by improvements in both facilities. 2015 will also include additional investments in the facilities. The teams are submitting new requests for Major Capital Improvements. 2014 was the first year for Excise tax requests based on the recently voter approved Excise Tax specific to improvements for Sports Facilities. This investment in capital assets includes land, both sports facilities and equipment, site-work and furniture.

Table 4 below summarizes Gateway's long-term loan obligations outstanding.

**Table 4
Outstanding Long-Term Obligations at Year End**

	<u>2014</u>	<u>2013</u>
Bonds Payable:		
Stadium Revenue Refunding Bonds, Series 2004A		
Term Bonds due September 15, 2014	\$ -	\$ 3,255,000
Notes Payable:		
Cuyahoga County	193,216,617	193,818,242
State of Ohio (\$4 million assumed from the Greater Cleveland New Stadium Corporation)	1,000,000	1,500,000
Cleveland Development Partnership	31,934,000	31,934,000
Cleveland Foundation/Cuyahoga County	<u>1,750,000</u>	<u>1,750,000</u>
Subtotal	227,900,617	232,257,242
Less-Current Portion	(5,800,000)	(9,270,000)
Less-Unamortized Discount	0	(57)
Total	<u><u>\$ 222,100,617</u></u>	<u><u>\$ 222,987,185</u></u>

At the end of 2014, Gateway had Long Term Obligations outstanding of \$222,100,617. The Stadium Revenue Refunding Bonds were retired in 2014. Additional information on Gateway's long term debt can be found in the Notes to the Financial Statements. Of this amount, Gateway's current loan with the County has a balance of \$193,216,617. Gateway intends to fully comply with it's obligation under the revolving loan agreement and its obligation to make "Net Revenue" payments to the County. However, based on historical trends, Gateway's ability to repay the obligation is unlikely.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY**

Management's Discussion and Analysis
For the Year Ended December 31, 2014
(Unaudited)

Economic Factors and Next Year's 2015 Budget

On September 15, 2008 Gateway and the Indians approved a lease extension that guaranteed the team would remain through 2023. The previous lease was due to expire in 2013. The signed lease with the Indians and the previously signed lease amendment with the Cavaliers on November 28, 2007 secured Gateway's financial standing and ensured the upkeep of the team's facilities. The newly signed lease and before that the Memoranda of Understanding provided Gateway for the first time, a predictable stream of revenue from the teams that covers all Gateways's operating expenses and places responsibility for most capital repairs on the teams.

As we analyze the last two years, the new leases signed by both teams, has reaffirmed the Memoranda of Understanding. The agreements have worked exactly as anticipated. Gateway has had a predictable stream of revenue to cover its expenses and the teams have been very cooperative. The new leases which represent a reaffirmation of the Memoranda of Understanding between Gateway and the Cleveland Cavaliers and Gateway and the Cleveland Indians, have proven that the new agreements are acceptable to all involved. Gateway's bond payments and State of Ohio's notes payable are covered by the Lease. Gateway's notes payable with the County, the Cleveland Development Partnership, and Cleveland Foundation/Cuyahoga County are under a revolving loan agreement and its obligation is to make "net revenue" payments to each entity. However, based on historical trends, Gateway may not be able to pay back these note payable amounts.

Gateway's belief that these agreements would protect the financial interests of Gateway for the foreseeable future has proven to be true. This agreement also protects the taxpayer's investment in the facilities through City and County investment without asking the County or City taxpayers to subsidize Gateway operations. The teams have approved Gateway's 2015 operations budget totaling \$4,089,006. Included in this budget are additional funds to cover assessments totaling \$130,352 to participate in the Downtown Business Improvement District. This represents the eight year of the Business Improvement District. The teams forward these payments monthly.

Progressive Field made significant Improvements to the Ballpark beginning in 2014 totaling \$3,923,246. The total alteration to be completed by 2015 will total \$25,000,000. The Cleveland Indians are funding this project.

The recent approval of the Excise Tax by the voters has commenced Major Capital expansion by the teams for both facilities. The Cavaliers Major Capital Improvements for 2014 totaled \$13,644,727. Other Major Capital projects will continue throughout 2015. The County has yet to vote on how and when to disburse the Excise Tax proceeds to the three teams.

Contacting Gateway's Financial Management

The financial report is designed to provide the City, County, taxpayers and any other interested parties with a general overview of Gateway's finances. If you have any questions about this report or need additional information, contact Gateway's Executive Director, Todd Greathouse at Gateway Economic Development Corporation of Greater Cleveland, 758 Bolivar, Cleveland, Ohio 44115, and phone no. 216-420-4071.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION
OF GREATER CLEVELAND**

Statement of Net Position

As of December 31, 2014

Assets

Current Assets - Unrestricted

Cash and Cash Equivalents	\$ 98,432
Accounts Receivable	100,540
Prepaid Expenses and Other Assets	55,521
	<u>254,493</u>

Current Assets-Restricted

Restricted Cash and Cash Equivalents	<u>174,460</u>
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Total Current Assets 428,953

Non-Current Assets

Sports Facility Project:

Land	23,108,049
Stadium	179,854,745
Arena	176,299,023
Site	39,945,778
Capitalized Costs	23,720,720
Furniture, Fixtures and Equipment	201,698
Construction in Progress	7,382,171
	<u>450,512,184</u>

Less: Accumulated Depreciation 316,082,286

Total Non-Current Assets 134,429,898

Total Assets \$ 134,858,851

See accompanying notes to the financial statements.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION
OF GREATER CLEVELAND**

Statement of Net Position

As of December 31, 2014

Liabilities

Current Liabilities

Accounts Payable	\$	21,576
Accrued Expenses		10,120
Property Taxes Payable		1,491,370
Current Portion of Long Term Debt		<u>5,800,000</u>
Total Current Liabilities		7,323,066

Non-Current Liabilities

Long Term Debt, Less Current Portion		222,100,617
Long Term Accrued Interest		79,710,979
Refundable Deposits		<u>240,000</u>
Total Non-Current Liabilities		<u>302,051,596</u>

Total Liabilities 309,374,662

Deferred Inflows of Resources

17,568,018

Net Position

Net Investment in Capital Assets	(173,181,698)
Restricted for Capital Repairs	174,460
Unrestricted	<u>(19,076,591)</u>

Total Net Position \$ (192,083,829)

See accompanying notes to the financial statements.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION
OF GREATER CLEVELAND**

*Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2014*

Operating Revenues

Lease Income	\$ 11,053,113
Other	<u>3,838,264</u>
Total Operating Revenues	<u>14,891,377</u>

Operating Expenses

Administrative and General	5,818,589
Depreciation and Amortization	9,053,702
Salaries and Related Expenses	597,654
Professional Fees	133,495
Property Tax Expense	1,528,466
Security Expense	787,837
Loss on Disposal of Assets	291,465
Repairs and Maintenance	<u>5,617,790</u>
Total Operating Expense	<u>23,828,998</u>

Operating Loss (8,937,621)

Non-Operating Revenues

Admission Taxes	3,091,269
Incremental Transient Occupancy Tax Credit	1,453,353
Investment Income	<u>70,971</u>
Total Non-Operating Revenues	<u>4,615,593</u>

Non-Operating Expenses

Interest Expense	<u>10,631,912</u>
Total Non-Operating Expense	<u>10,631,912</u>

Net Non-Operating Loss (6,016,319)

Change in Net Position (14,953,940)

Net Position - Beginning of Year (177,129,889)

Net Position - End of Year \$ (192,083,829)

See accompanying notes to the financial statements.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION
OF GREATER CLEVELAND**

Statement of Cash Flows

For the Year Ended December 31, 2014

Cash Flows from Operating Activities

Cash Received from Lease Revenue	\$ 3,624,110
Cash Received from Other Revenue	3,838,264
Cash Paid for Administrative and General	(102,661)
Cash Paid for Salaries and Related Expenses	(595,292)
Cash Paid for Professional Fees	(164,826)
Cash Paid for Property Tax Expense	(1,505,290)
Cash Paid for Security Expense	(787,837)
Cash Paid for Repairs and Maintenance	(3,961,369)
Net Cash (Used) by Operating Activities	<u>345,099</u>

Cash Flows from Capital and Related Financing Activities

Cash Received from Occupancy Tax Revenue	1,453,353
Admission Tax	3,091,269
Investment Income	143,075
Interest Expense	(4,104,771)
Other Deferred Inflows of Resources	17,128,018
Arena Capital Improvements	(10,185,553)
Construction in Progress	(7,382,171)
Principal Paid on Bonds Payable	(4,356,625)
Net Cash (Used) for Capital and Related Financing Activities	<u>(4,213,405)</u>

Net (Decrease) in Cash and Cash Equivalents (3,868,306)

Cash and Cash Equivalents at Beginning of Year 4,141,198

Cash and Cash Equivalents at End of Year \$ 272,892

Reconciliation of Operating (Loss) to Net Cash (Used) by Operating Activities

Operating (Loss)	\$ (8,937,621)
Adjustments to Reconcile to Net Cash (Used) by Operating Activities:	
Depreciation and amortization	9,053,702
Loss on Disposal of Assets	291,465
Net Changes in Operating Assets and Liabilities:	
Increase in Prepaid Expenses and Other Assets	(9,106)
Increase in Accounts Receivable	(100,540)
Increase in Accounts Payable	21,661
(Decrease) in Accrued Expenses	2,362
Increase in Property Taxes Payable	23,176

Net Cash (Used) by Operating Activities \$ 345,099

See accompanying notes to the financial statements.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(CONTINUED)**

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 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 Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position 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 Statement of Net Position, 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. The estimated useful lives of the assets are as follows:

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stadium:

Building and Structure	30 Years
Equipment	5-15 Years
Furniture and Fixtures	5 Years

Arena:

Building and Structure	30 Years
Equipment	5-15 Years
Furniture and Fixtures	5 Years

Site:

Improvements	20 Years
Equipment	5-15 Years

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

E. Federal Taxes

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

F. Net Position

Net position is the residual amount when comparing assets and deferred outflows of resources to liabilities and deferred inflows of resources. Net Investment in Capital Assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net Position is reported as restricted when there is limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Gateway applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available.

G. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

As of December 31, 2014 Gateway had Deferred Inflows of Resources of \$17,568,018 for capital improvements being made during 2015.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from primary activities of the proprietary fund. For Gateway, these revenues are lease income and naming rights revenue. Revenues and expenses not meeting these definitions are reported as non-operating.

3. DEPOSITS AND INVESTMENTS

Cash on hand: At year-end, Gateway had \$200 in undeposited cash on hand, which is included in the Statement of Net Position of Gateway as part of the equity in pooled cash and cash equivalents.

Deposits

At fiscal year ended December 31, 2014, Gateway had the following:

<u>Account Type</u>	<u>Carrying Value</u>
Demand Deposits	\$ 81,529
Money Market Treasury Account	<u>16,702</u>
Total Deposits	<u>\$ 98,232</u>

Custodial Credit Risk: Custodial credit risk for deposits is the risk that in the event of bank failure, Gateway will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$0 of Gateway's bank balance of \$272,692 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject Gateway to a successful claim by the F.D.I.C.

Restricted Cash

Restricted cash includes funds maintained for capital repairs and capital improvements. All of the funds were maintained in Money Market Treasury Accounts.

4. LONG-TERM OBLIGATIONS

Long-term debt outstanding at December 31, 2014 is as follows:

	<u>Stated</u>	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
<u>Interest Rate</u>	<u>12/31/2013</u>	<u>Increase</u>	<u>Decrease</u>	<u>12/31/2014</u>	<u>Due in One</u>	<u>Year</u>
Bonds Payable:						
Stadium Revenue Refunding						
Bonds, Series 2004A						
Term Bonds due	2.45%-4.97%	\$ 3,255,000	\$ 3,255,000	\$	0	
September 15, 2014						

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(CONTINUED)**

4. LONG-TERM OBLIGATIONS (Continued)

	<u>Stated</u> <u>Interest Rate</u>	<u>Balance</u> <u>12/31/2013</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>12/31/2014</u>	<u>Amounts</u> <u>Due in One</u> <u>Year</u>
Notes Payable:						
Cuyahoga County	Variable	193,818,242	9,212,997	9,814,622	193,216,617	5,800,000
State of Ohio (\$4 million assumed from the Greater Cleveland New Stadium Corporation)	0%-2.5%	1,500,000		500,000	1,000,000	
Cleveland Development Partnership	3%-6.25%	31,934,000			31,934,000	
Cleveland Foundation Cuyahoga County	3%	1,750,000			1,750,000	
		232,257,242	9,212,997	13,569,622	227,900,617	5,800,000
Less-Current Portion		(9,270,000)	(3,470,000)		(5,800,000)	
Less-Unamortized Discount		(57)	57			
Total long-term debt less current portion		<u>\$222,987,185</u>	<u>\$5,743,054</u>	<u>13,569,622</u>	<u>\$222,100,617</u>	<u>\$5,800,000</u>

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:

<u>FUND</u>	<u>PURPOSE</u>
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 construction 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.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(CONTINUED)**

4. LONG-TERM OBLIGATIONS (Continued)

A. Stadium Revenue Refunding Bonds

The Stadium Revenue Refunding Bonds were issued during 2004 to refinance the Stadium Revenue Bonds. The total proceeds from the bonds were \$26,399,507 representing the par amount of \$25,635,000 for Series A Bonds and \$1,000,000 for Series B Bonds (Series B were repaid in 2008), less the original issue discount of \$3,743, minus the underwriter's compensation of \$231,750.

The net proceeds were used for the purpose of refunding all of the Stadium Revenue Bonds, financing construction costs and the funding cost of issuing the bonds. In accordance with the original trust indenture, the Funds were held in a Bond Reserve Fund and an Escrow Fund.

B. 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, 2014, Gateway has borrowed \$193.2 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 \$122.7 million at December 31, 2014.

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 2014, the Bureau made a payment of \$1,453,353 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. 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 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 Statement of Net Position as of December 31, 2014.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(CONTINUED)**

4. LONG-TERM OBLIGATIONS (Continued)

C. 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. Based on additional information provided by Cuyahoga County, Gateway's payment liability no longer exists.

D. Cleveland Development Partnership Notes Payable

The Cleveland Development Partnership and Gateway have entered into two loan agreements for a total of \$31.9 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.

Included in the "Thereafter" amount are amounts due on the Cleveland Development Partnership note payable of \$31.9 million and the Cleveland Foundation/Cuyahoga County note payable of \$1.75 million. The \$31.9 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 is unlikely to earn the required revenues to meet the obligation of this note. The \$1.75 million note payable to the County was to be repaid beginning in July 1999. Based on historical trends, Gateway is unlikely to earn the required revenues to repay the note.

E. Debt to Maturity

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

	Principal	Interest
2015	5,800,000	10,917,911
2016	6,330,000	11,216,640
2017	6,860,000	11,531,175
2018	7,390,000	11,863,197
2019	7,920,000	12,214,494
Amount Thereafter	193,600,617	102,487,934
	227,900,617	160,231,351

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(CONTINUED)**

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 was as follows:

	<u>1/1/2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2014</u>
Non-depreciable capital assets:				
Land	\$ 23,108,049	\$ -	\$ -	\$ 23,108,049
Construction in Progress	-	7,382,171	-	7,382,171
Total non-depreciable capital assets:	23,108,049	7,382,171	-	30,490,220
Depreciable capital assets:				
Stadium	179,854,745	-	-	179,854,745
Arena	168,095,463	10,185,553	1,981,993	176,299,023
Site	39,945,778	-	-	39,945,778
Capitalized Costs	23,720,720	-	-	23,720,720
Furniture, Fixtures and Equipment	201,698	-	-	201,698
Total depreciable capital assets:	411,818,404	10,185,553	1,981,993	420,021,964
Less: Accumulated Depreciation:				
Stadium	151,709,210	3,453,911	-	155,163,121
Arena	108,057,862	4,052,041	1,690,528	110,419,375
Site	33,134,257	757,003	-	33,891,260
Capitalized Costs	15,616,142	790,690	-	16,406,832
Furniture, Fixtures and Equipment	201,698	-	-	201,698
Total accumulated depreciation:	308,719,169	9,053,645	1,690,528	316,082,286
Depreciable net assets, net of accumulated depreciation	103,099,235	1,131,908	291,465	103,939,678
Capital assets, net	<u>\$126,207,284</u>	<u>\$ 8,514,079</u>	<u>291,465</u>	<u>\$134,429,898</u>

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(CONTINUED)**

6. LEASES

The Memorandum of Understanding (MOU) dated January 1, 2004 between Gateway and the Indians modified the understanding of the parties. The Agreed Rent consists of the funds necessary to permit Gateway to meet its obligations to the Indians under the terms of the lease and common area agreements, including funds to pay ball park real estate taxes, overhead expenses, and common area expenses.

The initial lease signed 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 Memorandum of Understanding (MOU) dated February 2, 2004 between Gateway and the Cavaliers modified the understanding of the parties, whereby the Cavaliers agree to pay Gateway's operating and common area expenses and capital repairs in the arena up to \$500,000 (without aggregation of such capital repairs), thus enabling Gateway to fulfill its obligations to the Cavs under the lease agreement.

The initial lease signed on December 20, 1991, Gateway entered into a 30 year lease agreement with the Cavaliers Division of Nationwide Advertising Services, Inc. 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 7).

7. 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 Statement of Net Position. Accordingly, the net revenues of the parking facilities are not reflected in Gateway's revenues on their Statement Revenues, Expenses, and Changes in Net Position.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(CONTINUED)**

8. RISK MANAGEMENT

Gateway has obtained commercial insurance for the following risks:

General Liability: Policy limits \$1 Million -Medical expenses: \$5,000 -General aggregate \$2 Million.

Limitation of coverage to designated premises: "Common areas between Quicken Arena and Progressive Field defined as interior streets, underground service area, east garage bridge (skywalk), interior streets, sidewalks, plaza, parking areas (NSF Lot), and underground dock areas located in the underground service level."

Commercial Umbrella: Policy limits \$1 Million – Retained limit \$10,000.

Automobile Liability: Limits \$1 Million.

Directors and Officers Insurance: Total \$10 Million.

Settled claims have not exceeded coverage in any of the last three years and there was no significant reduction in coverage from the prior year.

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

9. 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 4, 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. Due to no fault of any of the parties, a Consultant Agreement had never been entered into and the Bureau had never credited any amount to the Gateway Account.

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 accompanied by a financial statement of Gateway reflecting its need to pay any amount not

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(CONTINUED)**

9. INCREMENTAL TRANSIENT OCCUPANCY TAX CREDIT (Continued)

funded from other Gateway revenue. The Annual incremental Credit for the year 2014 amounted to \$1.45 million. 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 years 2001 through 2007, \$218,545 for 2008, \$0 for 2009, \$3,075,403 for 2010, \$1,425,101 for 2011, \$1,431,854 for 2012, \$1,445,974 for 2013 and \$1,453,353 for 2014 was reflected on Gateway's Statement of Revenues, Expenses and Changes in Net Position 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 Statement of Net Position.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Gateway Economic Development Corporation of Greater Cleveland
Cuyahoga County
758 Bolivar Road
Cleveland, Ohio 44115

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Gateway Economic Development Corporation of Greater Cleveland, Cuyahoga County, (Gateway) as of and for the year ended December 31, 2014, and the related notes to the financial statements and have issued our report thereon dated June 15, 2015.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered Gateway's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of Gateway's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of Gateway's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether Gateway's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of Gateway's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering Gateway's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State
Columbus, Ohio

June 15, 2015



Dave Yost • Auditor of State

GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND

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
JULY 7, 2015**