GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND

CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 1999

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying balance sheet, and the related statements of activity and cash flows of the Gateway Economic Development Corporation of Greater Cleveland, Cuyahoga County (Gateway) as of and for the year ended December 31, 1999. These financial statements are the responsibility of 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 generally accepted auditing standards 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 of Greater Cleveland as of December 31, 1999, and the results of its operations and cash flows for the year then ended.

As described in Note 13 to the financial statements, Gateway is projecting a cash flow shortfall in July 2000. In addition, Gateway has experienced significant losses in four of 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. If Gateway's financial activity continues at its historical pace, they will realize a fund equity deficit during fiscal year 2000. 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 March 21, 2000 on our consideration of the Gateway's internal control over financial reporting and our tests of its compliance with certain provisions of debt covenants and lease agreements.

Jim Petro
Auditor of State

March 21, 2000

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BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 1999

Assets	
Current Assets	
Cash and Cash Equivalents	$ 1,420,196
Restricted Cash and Cash Equivalents	8,410,972
Restricted Investments	2,298,422
Receivables:	
Interest	878,816
Naming Rights	430,487
Prepaid Expenses and Other Assets	91,840
Total Current Assets	13,530,733
Non Current Assets	
Restricted Cash and Cash Equivalents	1,868,752
Restricted Investments	12,430,484
Naming Rights Receivables	13,722,158
Deferred Costs, Net	7,802,474
Sports Facility Project:	
Land	23,108,049
Stadium	179,974,529
Arena	157,816,726
Site	40,195,778
Capitalized Costs	23,720,720
Furniture, Fixtures and Equipment	224,627
	425,040,429
Less: Accumulated Depreciation	115,429,739
Sports Facility Project, Net	309,610,690
Total Assets	$ 358,965,291

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

BALANCE SHEET (Continued)
FOR THE YEAR ENDED DECEMBER 31, 1999

Liabilities and Equity		
Current Liabilities		
Accounts Payable and Accrued Project Expenses	$	419,265
Property Taxes Payable		1,226,278
Accrued Interest		2,248,165
Current Portion of Long Term Debt		8,153,522
Current Portion of Deferred Revenue		8,462,093
Total Current Liabilities		20,509,323
Non Current Liabilities		
Long Term Debt, Less Current Portion		293,312,056
Long Term Accrued Interest		14,493,951
Deferred Revenue, Less Current Portion		19,579,660
Refundable Deposits		4,989,302
Total Long-term Liabilities		332,374,969
Total Liabilities		352,884,292
Fund Equity		
Fund Equity		6,080,999
Total Fund Equity		6,080,999
Total Liabilities and Fund Equity	$	358,965,291

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

STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 1999

Revenues		
Luxury Tax	$	15,538,081
Premium Seating Revenue		4,549,778
Naming Rights Revenue		700,000
Lease Income		6,415,453
Interest Income		2,125,276
Incremental Transient Occupancy Tax Credit		1,000,000
Other		6,215
Total Revenues		30,334,803
Expenses		
Administrative and General		4,299,941
Depreciation and Amortization		20,535,739
Salaries and Related Expenses		65,699
Professional Fees		110,681
Property Tax Expense		782,484
Security Expense		483,625
Repairs and Maintenance		2,204,457
Interest Expense		17,636,414
Total Expenses		46,119,040
Net Excess of Revenues Over (Under) Expenses		(15,784,237)
Fund Equity Beginning of Year		21,865,236
Fund Equity End of Year	$	6,080,999

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1999

Operating Activities	
Net Excess of Revenues over (under) Expenses	$ (15,784,237)
Adjustments to Reconcile to Net Cash Provided by Operating Activities:	
Depreciation and amortization	20,535,739
Net Changes in Operating Assets and Liabilities:	
(Increase) in Receivables	(314,637)
Decrease in Prepaid Expenses and Other Assets	3,226
(Decrease) in Property Taxes Payable	(241,830)
Increase in Accrued Interest	1,647,309
(Decrease) in Deferred Revenue	(1,305,511)
Net Cash Provided by Operating Activities	4,540,059
Capital and Related Financing Activities	
Proceeds from Notes Payable	8,353,690
Principal Paid on Notes Payable	(3,932,027)
Purchase of Fixed Assets for Arena	(254,432)
Principal Paid on Bonds Payable	(9,675,000)
Net Cash Used in Capital and Related Financing Activities	(5,507,769)
Investing Activities	
Purchase of Investments	(430,973)
Realized Gain on Sales of Investments	1,609,108
Net Cash Provided by Investing Activities	1,178,135
Increase in Cash and Cash Equivalents	210,425
Cash and Cash Equivalents at Beginning of Year	11,489,495
Cash and Cash Equivalents at End of Year	$ 11,699,920

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 when 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.

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 safekeep 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 G) 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, 1999:

	Senior Lien Bonds	Stadium Revenue Bonds	Subordinate Bonds	Total
Interest fund	$1,098,712	$ 430,096		$1,528,808
Bond fund	2,119,334	197,837		2,317,171
Reserve fund	8,539,094	3,111,615	4,269,209	15,919,918
	11,757,140	3,739,548	4,269,209	19,765,897

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, 1999, the carrying amounts of Gateway's deposits was $341,955 and the bank balance was $342,357. Of the bank balance, $100,000 was covered by federal depository insurance and $242,357 was uninsured and uncollateralized.

Investments: Gateway's investments are categorized below to give an indication of the level of risk assumed by Gateway at fiscal year ended December 31,1999. 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 counterparty's trust department or agent in Gateway's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, 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.

4. DEPOSITS AND INVESTMENTS (Continued)

	Category 3	Carrying Value
U.S. Treasury Notes	$14,728,906	$14,728,906
Money Market Mutual Funds		11,357,965
Total	$14,728,906	$26,086,871

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	$11,699,920	$14,728,906
Investments which are part of Money Market Mutual Funds	(11,357,965)	$11,357,965
GASB Statement No. 3	$ 341,955	$26,086,871

5. DEFERRED COSTS

Deferred costs at December 31, 1999 consist of the following:

Organization	$1,110,500
Financing	9,248,085
Lease Negotiation	4,387,356
Total Deferred Costs	14,745,941
Accumulated Amortization	(6,943,467)
	$7,802,474

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

Financing cost associated with issuing the Senior Lien Excise Tax Bonds, 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 I) are being amortized over the respective leases.

6. CAPITALIZED COSTS

There were no additions to capitalized costs during the year ended December 31, 1999. 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, 1999 is as follows:

	Stated Interest Rate	Principal Outstanding
Bonds Payable:		
Senior Lien Excise Tax Bond		
Series A serial bonds due September 1, 1999 through 2005.	6.2% - 6.9%	$ 47,627,416
Series B Capital Appreciation Bonds due September 1, 2000 (yield to maturity is 7%)	0%	$ 959,320
Stadium Revenue Bonds Serial bonds due September 15, 1999 through 2003; term bonds due September 15, 2014.	3.1% - 6.5%	$ 26,728,875
Subordinated Excise Tax Bonds Term bonds due September 1, 1999 through 2005	6.4% - 7.5%	$ 23,905,000
Notes Payable:		
Cuyahoga County	Variable	$161,532,126
State of Ohio ($4 million assumed from the Greater Cleveland New Stadium Corporation)	0% - 2.5%	$ 10,962,841
Cleveland Development Partnership	3% - 6.25%	$ 28,000,000
Cleveland Foundation /Cuyahoga County	3%	$ 1,750,000
Total Long Term Debt		$301,465,578
Less- current portion		8,153,522
Total long-term debt less current portion		$293,312,056

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:

7. LONG-TERM OBLIGATIONS (Continued)

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 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.

A. Senior Lien Excise Tax Bonds

The Senior Lien Excise Tax Bonds are presented net of unamortized discount of $347,584 at December 31, 1999 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. In June, 1992, Gateway met the conditions stipulated in the Trust Indenture allowing for the release of funds from escrow. The amounts held in the Escrow Fund were transferred to the Construction Fund, the Bond Reserve Fund and the Rebate Fund, based upon required levels as stated in the Trust Indenture.

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.

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 $156,126 at December 31, 1999. 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.

7. LONG-TERM OBLIGATIONS (Continued)

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, 1999, Gateway has borrowed $161.5 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 $45,109,044 at December 31, 1999. 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. During 1999, the liability was reduced by 2,950,505, including principal and interest repayment of $583,033 and certain other credits totaling $2,367,472.

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 late 1998, the Bureau agreed to pay the sum of $200,000 for the years 1994 - 1998 as their contribution to the Gateway project pursuant to the amended Cooperative Agreement (see note L). 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 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, 1999.

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, 1999.

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.

7. LONG-TERM OBLIGATIONS (Continued)

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.

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

2000	9,353,522
2001	14,765,576
2002	3,294,753
2003	5,464,034
2004	4,659,120
Thereafter	263,928,573
	$ 301,465,578

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 years 2000 - 2004 scheduled principal payments above 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, 1999 consists of the following:

Premium Seating Revenue, net	$ 9,224,180
Naming rights revenue	12,135,417
Prepaid lease income:	
Stadium	2,225,679
Arena	3,115,922
Interest Income	1,340,555
Total Deferred Revenue	28,041,753
Less – current portion	(8,462,093)
	$19,579,660

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.

8. DEFERRED REVENUE (Continued)

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, 1999 is $7,196,084 including a current portion of $374,721.

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 rights receivable balance at December 31, 1999 is $6,956,561, including a current portion of $55,766.

In accordance with the Ballpark Management lease agreement, Gateway received $2,206,210 from the Cleveland Indians representing 1999 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 I).

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.

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, 1999, deferred revenue of $3,115,922 represents prepayment of rent by the team's owners.

On August 30, 1994, Gateway entered into a debt service deposit agreement, whereby Gateway received $852,000 in exchange for future interest earned of the Senior Lien Principal and Interest Funds through August 31, 2005. The $852,000 was recorded as deferred revenue and is being amortized over the life of the contract. Amortization recorded in 1999 totaled $82,708.

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 pre-opening 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.

9. LEASES (Continued)

§ 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, 1999, $1,142,434 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 J).

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, 1999.

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.

11. RISK MANAGEMENT (Continued)

Gateway also provides health, dental, vision, and life insurance for one full-time employee 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 G, 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. 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 (see Note G) accompanied by a financial statement of Gateway reflecting its need to pay any amount not funded from other Gateway revenue. 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 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 is reflected on Gateway's Statement of Activity for 1999 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 as of December 31, 1999.

13. SUBSEQUENT EVENT

Gateway projects a cash flow shortfall in July of 2000. Based on current revenue and expense patterns, this condition would exist until the Cleveland Indians pay rent, which is due on October 31, 2000. In response to this condition, Gateway is developing a final strategy to stabilize its cash flows. Options include, but are not limited to, short term commercial bridge loans, restructuring of debt and negotiations with business partners. Gateway is also working toward developing new revenue streams such as on-site limousine parking, promotional events on the plaza and selling naming rights to the plaza. Gateway will also defer certain one time expenses until November, 2000 to avert the cash shortfall.

13. SUBSEQUENT EVENT (Continued)

In the event of a cash shortfall, Gateway will continue to operate. 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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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the Gateway Economic Development Corporation of Greater Cleveland, Cuyahoga County (Gateway), as of and for the year ended December 31, 1999 and have issued our report thereon dated March 21, 2000 wherein we noted certain cash flow difficulties. We conducted our audit in accordance with generally accepted auditing standards 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 debt covenants and lease agreements, 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 a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of Gateway in a separate letter dated March 21, 2000.

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

Jim Petro
Auditor of State

March 21, 2000

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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
APRIL 4, 2000