GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2011

Dave Yost • Auditor of State

GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying financial statements of Gateway Economic Development Corporation of Greater Cleveland, Cuyahoga County (Gateway), as of and for the year ended December 31, 2011, as listed in the table of contents. 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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 Gateway, as of December 31, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2012, on our consideration of the 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Dave Yost
Auditor of State

June 15, 2012

Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

The discussion and analysis of the Gateway Economic Development Corporation of Greater Cleveland provides an overall review of Gateway's financial activities for the year ended December 31, 2011. The intent of the discussion and analysis is to look at the company'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 2011 are as follows:

- The most significant financial highlight positively affecting Gateway for the eighth 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's 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 $10,757,963 for the year.
- Total Operating Expenses decreased by $2,355,536.

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

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

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 2011?" The Statement of Net Assets and The Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include all assets and liabilities 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 assets and the change in those assets. This change in net assets 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, 2011
(Unaudited)

Business-wide financial analysis.
Table 1 provides a summary of Gateway's net assets for December 31, 2011 and 2010 Business-Type Activities.

	2011	2010
ASSETS:		
Current Assets-Unrestricted	$ 310,418	$ 314,115
Current Assets-Restricted	6,761,681	6,825,077
Non-Current Assets Deferred Costs, Net	147,901,493	157,980,715
Total Assets	**154,973,592**	**165,119,907**
LIABILITIES:		
Current Liabilities	12,356,365	11,809,049
Non-Current Liabilities	306,358,373	305,886,515
Total Liabilities	**318,714,738**	**317,695,564**
Net Assets		
Invested in Capital Assets, net of Related Debt	(153,771,663)	(146,537,281)
Restricted for Debt Service	6,761,681	6,825,077
Unrestricted	(16,731,164)	(12,863,453)
Total Net Assets	**$ (163,741,146)**	**$ (152,575,657)**

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 Assets. The majority of the change is due to Depreciation and Amortization.

Total Assets at $154,973,592 decreased by ($10,146,315) resulting from Depreciation of Assets.

Net Assets for 2011 totaled ($163,741,146). Increases in this deficit were mainly due to depreciation and amortization in Non-Current Assets and Liabilities.

Table 2 shows the changes in Net Assets for the year ended December 31, 2011 and 2010. Gateway implemented GASB statement no. 34, basic financial statements nine years ago.

Table 2

Statement of Revenues, Expenses and Changes in Net Assets

	2011	2010
Operating Revenues		
Lease Income	$ 8,724,784	$ 11,733,849
Other	2,033,179	1,716,341
Total Operating Revenues	10,757,963	13,450,190
Operating Expenses		
Administrative and General	4,731,959	7,580,045
Depreciation and Amortization	10,079,492	10,093,718
Salaries and Related Expenses	482,502	509,129
Professional Fees	70,637	55,809
Property Tax Expense	1,041,058	1,044,469
Security Expense	748,581	717,760
Repairs and Maintenance	3,552,809	3,061,644
Total Operating Expense	20,707,038	23,062,574
Operating Loss	(9,949,075)	(9,612,384)
Non-Operating Revenues		
Premium Seating Revenue	3,140,773	3,138,261
Interest Income	4,310,146	4,446,848
Incremental Transient Occup. Tax Credit	1,425,101	3,075,403
Other Non-Operating Revenues	500,000	1,000,000
Total Non-Operating Revenues	9,376,020	11,660,512
Non-Operating Expenses		
Interest Expense	10,592,434	11,598,216
Total Non-Operating Expense	10,592,434	11,598,216
Net Non-Operating Income	(1,216,415)	62,296
Net Assets		
Net Decrease in Net Assets	(11,165,490)	(9,550,088)
Total Net Assets at Beginning of Year	(152,575,657)	(143,025,569)
Total Net Assets at End of Year	**$ (163,741,147)**	**$ (152,575,657)**

Lease income for 2011 was lower as the Cavaliers had less Capital improvements compared to the prior year. The teams also agreed to pay most of the capital repairs. For 2011 Gateway's total operating budget of $3,306,633 was paid by the teams pursuant to the Lease's.

Operating expenses for 2011 totaled $20,707,038 which represents a decrease of $2,355,536 from the prior year. 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 under the Lease's now 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.

Table 3

Capital Assets

Net of Accumulated Depreciation

	2011	2010
Land	$ 23,108,049	$ 23,108,049
Building & Improvements		
Stadium	34,072,363	37,199,276
Arena	62,516,275	65,261,697
Site	8,325,527	9,082,530
Equipment		
Stadium	2,000,981	2,890,172
Arena	5,627,072	7,054,403
Capital Costs	9,685,960	10,476,651
Other	(3)	(3)
Total	**$ 145,336,224**	**$ 155,072,775**

Capital Assets

Gateway's investment in capital assets for its activities as of December 31, 2011 amount to $145,336,224. Capital assets decreased by ($9,736,551) as some items are reaching full depreciation. 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

	2011	**2010**
Bonds Payable:		
Stadium Revenue Refunding Bonds, Series 2004A Term Bonds due September 15, 2014	$ 9,070,000	$ 11,780,000
Notes Payable:		
Cuyahoga County	192,609,041	197,354,394
State of Ohio ($4 million assumed from the Greater Cleveland New Stadium Corporation)	2,500,000	3,000,000
Cleveland Development Partnership	31,934,000	31,934,000
Cleveland Foundation/Cuyahoga County	1,750,000	1,750,000
Subtotal	237,863,041	245,818,394
Less-Current Portion	(7,770,000)	(7,230,000)
Less-Unamortized Discount	(391)	(661)
Total	**$ 230,092,650**	**$ 238,587,733**

At the end of 2011, Gateway had Long Term Obligations outstanding of $230,092,650. Additional information on Gateway's long term debt can be found in the footnote section. Of this amount, Gateway's current loan with the County has a balance of $192,609,041. Gateway intends to fully comply with its obligation under the revolving loan agreement and its obligation to make "Net Revenue" payments to the County. However, based on historical trends, Gateway may and probably will not be able to pay back this amount to Cuyahoga County.

Economic Factors and Next Year's 2012 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 newly signed lease with the Indians and the previously signed lease with the Cavaliers on November 28, 2007 secured Gateway's financial standing and insure 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 look back at both 2011 and 2010 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 lease's which represents 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 revolving loan agreement and its obligation is to make "net Revenue" payments to each entity. However, based on historical trends, Gateway may and probably will 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 proved 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 2012 operations budget totaling $3,435,309. Included in this budget are additional funds to cover assessments totaling $119,290 to participate in the Business Improvement District. This represents the seventh year of the Business Improvement District. The teams forward these payments at the beginning of each quarter.

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 Assets
As of December 31, 2011

Assets		
Current Assets - Unrestricted		
Cash and Cash Equivalents	$	212,283
Receivables:		
Interest		11,962
Prepaid Expenses and Other Assets		86,173
		310,418
Current Assets-Restricted		
Restricted Cash and Cash Equivalents		6,761,681
Total Current Assets		7,072,099
Non-Current Assets		
Deferred Costs, Net		2,565,269
Sports Facility Project:		
Land		23,108,049
Stadium		179,854,745
Arena		168,095,463
Site		39,945,778
Capitalized Costs		23,720,720
Furniture, Fixtures and Equipment		201,698
		437,491,722
Less: Accumulated Depreciation		289,590,229
Sports Facility Project, Net		147,901,493
Total Assets	$	154,973,592

See accompanying notes to the basic financial statements.

(Continued)

GATEWAY ECONOMIC DEVELOPMENT CORPORATION
OF GREATER CLEVELAND
Statement of Net Assets
As of December 31, 2011

Liabilities

Current Liabilities		
Accounts Payable	$	44,120
Accrued Expenses		8,675
Property Taxes Payable		1,003,963
Accrued Interest		127,947
Current Portion of Long Term Debt		7,770,000
Current Portion of Deferred Revenue		3,401,660
Total Current Liabilities		12,356,365
Non Current Liabilities		
Long Term Debt, Less Current Portion		230,092,650
Long Term Accrued Interest		61,117,290
Deferred Revenue, Less Current Portion		14,908,433
Refundable Deposits		240,000
Total Long-term Liabilities		306,358,373
Total Liabilities		318,714,738
Net Assets		
Invested in Capital Assets, net of related debt		(153,771,663)
Restricted for Debt Service		6,761,681
Unrestricted		(16,731,164)
Total Net Assets	$	(163,741,146)

See accompanying notes to the basic financial statements.

GATEWAY ECONOMIC DEVELOPMENT CORPORATION
OF GREATER CLEVELAND
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended December 31, 2011

Operating Revenues	
Lease Income	$ 8,724,784
Other	2,033,179
Total Operating Revenues	10,757,963
Operating Expenses	
Administrative and General	4,731,959
Depreciation and Amortization	10,079,492
Salaries and Related Expenses	482,502
Professional Fees	70,637
Property Tax Expense	1,041,058
Security Expense	748,581
Repairs and Maintenance	3,552,809
Total Operating Expense	20,707,038
Operating Loss	(9,949,075)
Non-Operating Revenues	
Premium Seating Revenue	3,140,773
Interest Income	4,310,146
Incremental Transient Occupancy Tax Credit	1,425,101
Other Non-Operating Revenue	500,000
Total Non-Operating Revenues	9,376,020
Non-Operating Expenses	
Interest Expense	10,592,434
Total Non-Operating Expense	10,592,434
Net Non-Operating Income	(1,216,414)
Net Assets	
Net Decrease in Net Assets	(11,165,489)
Total Net Assets at Beginning of Year	(152,575,657)
Total Net Assets at End of Year	$ (163,741,146)

See accompanying notes to the basic financial statements.

GATEWAY ECONOMIC DEVELOPMENT CORPORATION
OF GREATER CLEVELAND
Statement of Cash Flows
For the Year Ended December 31, 2011

Cash Flows from Operating Activities		
Cash Received from Lease Revenue	$	3,262,332
Cash Received from Other Revenue		1,779,547
Cash Paid for Administrative and General		(95,480)
Cash Paid for Salaries and Related Expenses		(487,345)
Cash Paid for Professional Fees		(70,637)
Cash Paid for Property Tax Expense		(1,044,468)
Cash Paid for Security Expense		(748,581)
Cash Paid for Repairs and Maintenance		(2,680,146)
Net Cash (Used) by Operating Activities		(84,778)
Cash Flows from Non-Capital Financing Activities		
Cash Received from Premium Seating Revenue		3,148,028
Net Cash Provided by Non-Capital Financing Activities		3,148,028
Cash Flows from Capital and Related Financing Activities		
Cash Received from Occupancy Tax Revenue		1,425,101
Investment Income Received		4,310,149
Interest Expense		(5,139,519)
Increase in Deferred Revenue		3,731,853
Principal Paid on Bonds Payable		(7,455,353)
Net Cash (Used) for Capital and Related Financing Activities		(3,127,769)
Net (Decrease) in Cash and Cash Equivalents		(64,519)
Cash and Cash Equivalents at Beginning of Year		7,038,483
Cash and Cash Equivalents at End of Year	$	6,973,964
Reconciliation of Operating (Loss) to Net Cash (Used) by Operating Activities		
Operating (Loss)	$	(9,949,075)
Adjustments to Reconcile to Net Cash (Used) by Operating Activities:		
Depreciation and amortization		10,079,492
Net Changes in Operating Assets and Liabilities:		
Decrease in Prepaid Expenses and Other Assets		2,570
Increase in Accounts Payable		44,120
(Decrease) in Accrued Expenses		(4,843)
(Decrease) in Property Taxes Payable		(3,410)
(Decrease) in Deferred Revenue		(253,632)
Net Cash (Used) by Operating Activities	$	(84,778)

See accompanying notes to the basic financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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 balance sheet. The Statement of Activity presents increases (e.g., revenues) and decreases (e.g., expenses) in fund equity.

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

B. Cash and Cash Equivalents

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

C. Investments

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

D. Sports Facility Project

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Federal Taxes

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

F. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets net of related debt consists 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 assets are reported as restricted when there are 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 assets are available.

G. 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

Gateway may invest the proceeds of various bond offerings (see Note 6) 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 Stadium Revenue 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, 2011:

	Bond Fund	Reserve Fund	Total
Stadium Revenue Refunding Series A	$ 0	$ 3,280,756	$ 3,280,756
Stadium Revenue Refunding Series B	0	3	3
	$ 0	$ 3,280,759	$ 3,280,759

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

3. DEPOSITS AND INVESTMENTS (Continued)

Deposits

At fiscal year ended December 31, 2011, Gateway had the following:

Account Type	Fair Value
Demand Deposits	$ 348,633
Money Market Treasury Account	52,697
Total Deposits	$ 401,329

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, $605,143 of Gateway's bank balance of $855,143 was uninsured and uncollateralized. Although the securities were held by the pledging institutions' trust department and 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.

Investments

Investments are reported at fair value. As of December 31, 2011, Gateway had the following investments:

		Investment Maturities (In Years)	
Investment Type	Fair Value	Less than 1	Total
Commercial Paper	$ 3,280,291	$ 3,280,291	$ 3,280,291
Money Market Treasuries	3,292,144	3,292,144	3,292,144
Total Investments	$ 6,572,435	$ 6,572,435	$ 6,572,435

Credit Risk: The commercial paper carries a rating of P-1 by Moody's and A-1 by Standard and Poor's. The Money Market Treasuries carries a rating of AAAm by Standard and Poor's.

Custodial Credit Risk: Gateway has no deposit policy for custodial risk beyond the requirement permitted by Gateway's financing agreements and State Statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with Gateway or a qualified trustee by the financial institution as a security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Concentration of Credit Risk: Gateway's major investment holdings at year end were commercial paper of 50% and money market securities of 50%.

4. DEFERRED COSTS

Deferred costs at December 31, 2011 consist of the following:

Financing	$4,369,136
Lease Negotiation	4,387,356
	8,756,492
Accumulated Amortization	(6,191,222)
	$ 2,565,269

The financing cost incurred with issuing the Stadium Revenue Refunding Bonds (the "Bonds"), including original issue discount, if any, were capitalized and will be amortized over the life of the debt issue on a basis that approximates a constant rate of amortization of debt outstanding. The remaining financing costs associated with the Stadium Revenue Bonds including original issue discount were written off.

The notes payable to Cuyahoga County are deferred and amortized over the life of the respective debt issue on a basis that approximates a constant rate of amortization of debt outstanding. Cost associated with credit enhancement are deferred and amortized over the respective life of each contract on a straight line basis.

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

5. CAPITALIZED COSTS

There were no additions to capitalized costs during the year ended December 31, 2011. 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.

6. LONG-TERM OBLIGATIONS

Long-term debt outstanding at December 31, 2011 is as follows:

	Stated Interest Rate	Balance 12/31/2010	Increase	Decrease	Balance 12/31/2011	Amounts Due in One Year
Bonds Payable:						
Stadium Revenue Refunding Bonds, Series 2004A Term Bonds due September 15, 2014	2.45%-4.97%	$ 11,780,000	$0	$ 2,710,000	$ 9,070,000	$ 2,840,000
Notes Payable:						
Cuyahoga County	Variable	197,354,394	9,323,082	14,068,435	192,609,041	4,930,000

6. LONG-TERM OBLIGATIONS (Continued)

	Stated Interest Rate	Balance 12/31/2010	Increase	Decrease	Balance 12/31/2011	Amounts Due in One Year
State of Ohio ($4 million assumed from the Greater Cleveland New Stadium Corporation)	0%-2.5%	3,000,000		500,000	2,500,000	
Cleveland Development Partnership	3%-6.25%	31,934,000			31,934,000	
Cleveland Foundation Cuyahoga County	3%	1,750,000			1,750,000	
		245,818,394	9,323,082	17,278,435	237,862,650	7,770,000
Less-Current Portion		(7,230,000)		540,000	(7,770,000)	
Less-Unamortized Discount		(661)	270		(391)	
Total long-term debt less current portion		$238,587,733	$9,323,352	17,818,435	$230,092,650	$7,770,000

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

FUND	PURPOSE
Escrow Fund	To account for the process of the bonds until certain conditions are met.
Construction Fund	To account for the financial resources to be used for the 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.

6. 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, 2011, Gateway has borrowed $192.6 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 $104.1 million at December 31, 2011. Financing costs of $4.7 million, payable by Gateway in connection with the County Bond Offerings are also included in the notes payable liability. The associated expense of $4.7 million is included in deferred financing costs.

Gateway entered into an Emergency Loan Agreement dated December 28, 1995 (effectuated in early 1996) in which Gateway received a total of $11.5 million to pay for certain cost overruns that were incurred in the construction of the Gateway stadium and arena project. Of this amount, the agreement called for $2.5 million to be repaid by the City of Cleveland, $4 million to be repaid directly by Gateway, with the remaining $5 million to be repaid by the Greater Cleveland Convention and Visitors Bureau (the "Bureau") pending negotiations regarding this repayment between Cuyahoga County and the Bureau. At that time, Gateway determined that the $5 million to be repaid by the Bureau was not a legal obligation of Gateway and, therefore, recognized this amount as revenue in 1996 pending the outcome of the negotiations between Cuyahoga County and the Bureau. In 2011, the Bureau made a payment of $1,425,101 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 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, 2011.

6. 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. Since this was previously recorded as a debt, this amount is being treated as a special item and is reported as income on the Statement of Revenues, Expenses and Changes in Net Assets.

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 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.

E. Debt to Maturity

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

	Principal	Interest
2012	$ 7,770,000	$ 15,924,643
2013	8,090,000	15,783,265
2014	8,555,000	15,634,797
2015	5,485,000	15,527,604
2016	5,670,000	15,542,919
Amount Thereafter	202,293,041	106,315,272
	$ 237,863,041	$ 184,728,500

7. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	1/1/2011	Additions	Deletions	12/31/2011
Non-depreciable capital assets:				
Land	$ 23,108,049	$ -	$ -	$ 23,108,049
Total non-depreciable capital assets:	23,108,049	-	-	23,108,049
Depreciable capital assets:				
Stadium	179,854,745	-	-	179,854,745
Arena	168,095,463	-	-	168,095,463
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	-	-	411,818,404
Less accumulated depreciation:				
Stadium	139,765,297	4,016,104	-	143,781,401
Arena	95,779,366	4,172,753	-	99,952,119
Site	30,863,248	757,003	-	31,620,251
Capitalized Costs	13,244,069	790,691	-	14,034,760
Furniture, Fixtures and Equipment	201,698	-	-	201,698
Total accumulated depreciation:	279,853,678	9,736,551	-	289,590,229
Depreciable net assets, net of accumulated depreciation	131,964,726	(9,736,551)	-	122,228,175
Capital assets, net	$155,072,775	$ (9,736,551)	-	$145,336,224

8. DEFERRED REVENUE

Deferred revenue at December 31, 2011 consists of the following:

Scoreboard Revenue	$ 2,318,915
Prepaid Stadium Lease Income	3,148,028
Deferred County Revenue	12,843,150
	18,310,093
Less – current portion	3,401,660
	$14,908,433

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.

In accordance with the Ballpark Management lease agreement, Gateway received $3,148,028 from the Cleveland Indians representing 2012 debt services on the Stadium Revenue Bonds. The revenue will be recognized upon the payment of debt services, which is paid directly to the Trustee for the Stadium Revenue Bonds by the Cleveland Indians (also see Note 9).

9. 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 10).

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:

General Liability: Policy limits $1 Million – Medical expense: $5,000 – Gateway Limit: $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 (NFS 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).

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 6, 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 (see Note 6) accompanied by a financial statement of Gateway reflecting its need to pay any amount not funded from other Gateway revenue. The Annual incremental Credit for the year 2010 amounted to $3,075 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 and $1,425,101 for 2011 was reflected on Gateway's Statement of Activity for their respective years, as revenue as well as a corresponding reduction to Long-Term Debt (specifically the Cuyahoga County Note Payable) as reflected on Gateway's balance sheet.

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INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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

To the Board of Trustees:

We have audited the basic financial statements of Gateway Economic Development Corporation of Greater Cleveland, Cuyahoga County, Ohio (Gateway) as of and for the year ended December 31, 2011, and have issued our report thereon dated June 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gateway's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of Gateway's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of Gateway's internal control over financial reporting.

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 more than a reasonable possibility that a material misstatement of Gateway's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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, providing an opinion 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*.

We intend this report solely for the information and use of the audit committee, management, the Board of Trustees, and others within Gateway. We intend it for no one other than these specified parties.

Dave Yost

Dave Yost
Auditor of State

June 15, 2012

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 03, 2012