



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

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Balance Sheet for the year ended December 31, 2000	3
Statement of Activity for the year ended December 31, 2000	5
Statement of Cash Flows for the year ended December 31, 2000	6
Notes to the Financial Statements	7
Report on Compliance and on Internal Control required by <i>Government Auditing Standards</i>	19

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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, Ohio, (Gateway) as of and for the year ended December 31, 2000. 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, Cuyahoga County, Ohio, as of December 31, 2000, and the results of its operations and cash flows for the year then ended.

As described in Note 13 to the financial statements, Gateway has experienced a cash flow shortfall at December 31, 2000. In addition, Gateway has experienced significant losses in the last five years. Gateway has relied on short and long term borrowing as well as nonrecurring revenue to pay its obligations as they come due. As described in Note 9 to the financial statements, Gateway has been unable to fund the capital maintenance account required by certain facility leases. Management's plan in regard to these matters is described in Note 13 to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2001 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

March 26, 2001

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**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY
BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2000**

Assets	
Current Assets	
Cash and Cash Equivalents	\$ 1,211,656
Restricted Cash and Cash Equivalents	9,196,574
Restricted Investments	1,577,575
Receivables:	
Luxury Tax	1,068,143
Interest	895,050
Naming Rights	327,382
Prepaid Expenses and Other Assets	<u>76,505</u>
Total Current Assets	14,352,885
Non Current Assets	
Restricted Cash and Cash Equivalents	615,467
Restricted Investments	13,533,733
Naming Rights Receivables	13,677,954
Deferred Costs, Net	7,224,167
Sports Facility Project:	
Land	23,108,049
Stadium	179,974,529
Arena	157,929,581
Site	40,195,778
Capitalized Costs	23,720,720
Furniture, Fixtures and Equipment	<u>201,698</u>
	460,181,676
Less: Accumulated Depreciation	<u>134,387,094</u>
Sports Facility Project, Net	325,794,582
 Total Assets	 <u><u>\$ 340,147,467</u></u>

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

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY
BALANCE SHEET - (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2000**

Liabilities and Equity

Current Liabilities

Accounts Payable and Accrued Project Expenses	\$ 59,652
Property Taxes Payable	983,571
Accrued Interest	2,083,270
Current Portion of Long Term Debt	12,536,256
Current Portion of Deferred Revenue	<u>9,839,172</u>

Total Current Liabilities 25,501,921

Non Current Liabilities

Long Term Debt, Less Current Portion	284,550,672
Long Term Accrued Interest	20,203,781
Deferred Revenue, Less Current Portion	17,458,409
Refundable Deposits	<u>4,989,302</u>

Total Long-term Liabilities 327,202,164

Total Liabilities 352,704,085

Fund Equity

Fund Equity (12,556,618)

Total Fund Equity (12,556,618)

Total Liabilities and Fund Equity \$ 340,147,467

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

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY
STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2000**

Revenues	
Luxury Tax	\$ 15,998,730
Premium Seating Revenue	4,372,949
Naming Rights Revenue	700,000
Lease Income	5,703,876
Interest Income	2,982,325
Incremental Transient Occupancy Tax Credit	186,488
Other	<u>810,855</u>
Total Revenues	30,755,223
Expenses	
Administrative and General	4,504,572
Depreciation and Amortization	19,637,926
Salaries and Related Expenses	77,608
Professional Fees	110,687
Property Tax Expense	781,077
Security Expense	586,641
Repairs and Maintenance	2,251,970
Interest Expense	<u>21,442,359</u>
Total Expenses	<u>49,392,840</u>
Net Excess of Revenues Over (Under) Expenses	(18,637,617)
Fund Equity Beginning of Year	<u>6,080,999</u>
Fund Equity End of Year	<u><u>\$ (12,556,618)</u></u>

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

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY
STATEMENT OF ACTIVITY - (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2000**

Operating Activities	
Net Excess of Revenues over (under) Expenses	\$ (18,637,617)
Less: Non-Capital Financing Luxury Tax	(15,998,730)
Adjustments to Reconcile to Net Cash Provided by Operating Activities:	
Depreciation and amortization	19,637,926
Net Changes in Operating Assets and Liabilities:	
Increase in Receivables	(937,068)
Decrease in Prepaid Expenses and Other Assets	15,335
(Decrease) in Accounts Payable	(359,613)
(Decrease) in Property Taxes Payable	(242,707)
Increase in Accrued Interest	5,544,935
(Decrease) in Deferred Revenue	<u>(744,173)</u>
Net Cash Used by Operating Activities	(11,721,712)
Non Capital Financing Activities	
Luxury Tax Revenue	15,998,730
Capital and Related Financing Activities	
Proceeds from Notes Payable	6,445,538
Principal Paid on Notes Payable	(1,008,522)
Purchase of Fixed Assets for Arena	(112,855)
Principal Paid on Bonds Payable	<u>(9,895,000)</u>
Net Cash Used in Capital and Related Financing Activities	(4,570,839)
Investing Activities	
Purchase of Investments	(283,981)
Unrealized Losses on Investments	<u>(98,421)</u>
Net Cash Provided by Investing Activities	<u>(382,402)</u>
Increase (Decrease) in Cash and Cash Equivalents	(676,223)
Cash and Cash Equivalents at Beginning of Year	<u>11,699,920</u>
Cash and Cash Equivalents at End of Year	<u>\$ 11,023,697</u>

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000**

1. DESCRIPTION OF THE REPORTING ENTITY AND BASIS OF PRESENTATION

Gateway Economic Development Corporation of Greater Cleveland, Cuyahoga County, Ohio, (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.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Federal Taxes

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

3. LUXURY TAX

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

Luxury tax receipts are transferred immediately upon receipt by the County to a bailee of luxury tax creditors (including the bond trustees). It is the duty of the bailee, by agreement to 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 7) in authorized securities and deposits, including obligations of the federal government and its agencies, deposits with financial institutions, and other securities permitted by Gateway's financing agreements.

Gateway records the government securities held in the Senior Lien, Stadium Revenue and Subordinate Interest and Bond Funds at their fair value. Based upon the terms of the Debt Service Deposit Agreement, the following summarizes the balances in funds established by the trust indentures, at their amortized costs, at December 31, 2000:

	Senior Lien Bonds	Stadium Revenue Bonds	Subordinate Bonds	Total
Interest fund	\$ 715,907	\$ 279,668		\$ 995,575
Bond fund	1,660,398	138,683		1,799,081
Reserve fund	<u>8,728,382</u>	<u>3,114,820</u>	<u>\$4,364,130</u>	<u>16,207,332</u>
	<u>\$11,104,687</u>	<u>\$3,533,171</u>	<u>\$4,364,130</u>	<u>\$19,001,988</u>

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, 2000, the carrying amounts of Gateway's deposits was \$59,270 and the bank balance was \$63,705. Of the bank balance, \$63,705 was covered by federal depository insurance.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Investments: Gateway's investments are categorized below to give an indication of the level of risk assumed by Gateway at fiscal year ended December 31, 2000. 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 in physical or book entry form.

	<u>Category 3</u>	<u>Carrying Value</u>
U.S. Treasury Notes	\$15,111,308	\$15,111,308
Money Market Mutual Funds		<u>10,964,427</u>
Total	<u>\$15,111,308</u>	<u>\$26,075,735</u>

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.

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$11,023,697	\$15,111,308
Investments which are part of Money Market Mutual Funds	<u>(10,964,427)</u>	<u>\$10,964,427</u>
GASB Statement No. 3	<u>\$ 59,270</u>	<u>\$26,075,735</u>

5. DEFERRED COSTS

Deferred costs at December 31, 2000 consist of the following:

Organization	\$1,110,500
Financing	9,248,085
Lease Negotiation	<u>4,387,356</u>
Total Deferred Costs	14,745,941
Accumulated Amortization	<u>(7,521,774)</u>
	<u>\$7,224,167</u>

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.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

5. DEFERRED COSTS (Continued)

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

6. CAPITALIZED COSTS

There were no additions to capitalized costs during the year ended December 31, 2000. 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, 2000 is as follows:

	<u>Stated Interest Rate</u>	<u>Principal Outstanding</u>
Bonds Payable:		
Senior Lien Excise Tax Bond		
Series A serial bonds due September 1, 2001 through 2005.	6.2% - 6.9%	\$ 41,340,252
Series B Capital Appreciation Bonds due September 1, 2001 (yield to maturity is 7%)	0%	\$ 959,320
Stadium Revenue Bonds Serial bonds due September 15, 2001 through 2003; term bonds due September 15, 2014.	3.1% - 6.5%	\$ 25,950,372
Subordinated Excise Tax Bonds Term bonds due September 1, 2001 through 2005	6.4% - 7.5%	\$ 21,155,000
Notes Payable:		
Cuyahoga County	Variable	\$167,977,665
State of Ohio (\$4 million assumed from the Greater Cleveland New Stadium Corporation)	0% - 2.5%	\$ 9,954,319
Cleveland Development Partnership	3% - 6.25%	\$ 28,000,000
Cleveland Foundation /Cuyahoga County	3%	<u>\$ 1,750,000</u>
Total Long Term Debt		\$297,086,928
Less- current portion		<u>12,536,256</u>
Total long-term debt less current portion		<u>\$284,550,672</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

7. LONG-TERM OBLIGATIONS (Continued)

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

<u>FUND</u>	<u>PURPOSE</u>
Escrow Fund	To account for the proceeds 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 \$279,748 at December 31, 2000 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 \$144,628 at December 31, 2000. This represents a substantive modification of 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

7. LONG-TERM OBLIGATIONS (Continued)

C. Subordinated Excise Tax Bonds

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

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, 2000, Gateway has borrowed \$167.9 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 \$51,361,082 at December 31, 2000. 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 2000, the liability was reduced by 2,207,892, including principal and interest repayment of \$503,470 and certain other credits totaling \$1,704,422.

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 and \$186,488 for the year 2000 as their contribution to the Gateway project 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, 2000.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

7. LONG-TERM OBLIGATIONS (Continued)

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, 2000.

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

F. Cleveland Development Partnership Notes Payable

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

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

2001	14,765,576
2002	3,294,753
2003	5,464,034
2004	4,659,120
2005	53,740,156
Thereafter	<u>215,587,665</u>

\$ 297,511,304

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 2001 - 2005 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 was due to have repayment starting July 1999 (per additional payment under the revolving loan agreement with Cuyahoga County). This payment has not been made. 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

8. DEFERRED REVENUE

Deferred revenue at December 31, 2000 consists of the following:

Premium Seating Revenue, net	\$ 6,889,410
Naming rights revenue	11,435,417
Prepaid lease income:	
Stadium	2,129,687
Arena	4,624,195
Interest Income	<u>2,218,872</u>
Total Deferred Revenue	27,297,581
Less – current portion	<u>(9,839,172)</u>
	<u><u>\$17,458,409</u></u>

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

Gateway entered into an agreement with the previous 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, 2000 is \$7,011,652 including a current portion of \$273,453.

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 through 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, 2000 is \$6,993,684, including a current portion of \$53,929.

In accordance with the Ballpark Management lease agreement, Gateway received \$2,127,720 from the Cleveland Indians representing 2001 debt service on the Stadium Revenue Bonds. The revenue will be recognized upon the payment debt services, which is paid directly to the Trustee for the Stadium Revenue Bonds by the Cleveland Indians (also see Note 9).

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

8. DEFERRED REVENUE (Continued)

During 1996, Gateway and the owners of the Cavaliers reached a settlement agreement whereby the owners of the team agreed to forgive \$7 million of the \$7.8 million referred to herein for certain consideration, apply \$300,000 to team obligations and Gateway would pay the team \$500,000. As of December 31, 2000, deferred revenue of \$4,624,195 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 2000 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.

§ 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, 2000, \$1,315,175 was deposited in a capital maintenance fund and is included in cash.

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

The significant provisions of the leases are as follows:

§ Gateway will receive annual payments consisting of 27.5% of Executive Suite Revenue (as defined), and 48% of club seat revenue (as defined), and, additional payments based on attendance (as defined).

§ Gateway will pay certain parking revenue to the Cavaliers based on a predetermined formula (as defined) with a minimum annual payment of \$1.5 million.

§ Gateway must establish a capital maintenance fund to accumulate funds for the payment of repairs and maintenance. This fund was not established as of December 31, 2000.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

10. PARKING FACILITIES

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

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

11. RISK MANAGEMENT

Gateway has obtained commercial insurance for the following risks:

§ Commercial general liability and garage keepers automobile liability.

§ Directors, Officers, and Trustees liability.

Gateway also provides health, dental, vision, and life insurance for 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 7, which will be referred to herein as the "Gateway Account"). This amount represents the incremental amount the Bureau receives from the County Transient Occupancy Tax, per Section 5739.024, Ohio Revised Code (the "Bed Tax"), which is understood to be generated by new Gateway attendees' utilization of overnight accommodations in the County (the "Annual Incremental Credit"). This credit was to be determined pursuant to and in accordance with a certain Consultant Agreement to be entered into by and among Cuyahoga County, the Bureau and Gateway. This agreement stated in part that "for 1994 or such later year that the Arena Facility is first used, the Bureau shall credit to the Gateway Account the amount determined pursuant to the Consultant Agreement within 10 days of notice thereof. For succeeding years, the Bureau is to credit to the Gateway Account the applicable Annual Incremental Credit as limited by the Bureau's receipt of Bed Tax revenues, as provided" by the Consultant Agreement. 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

12. INCREMENTAL TRANSIENT OCCUPANCY TAX CREDIT (Continued)

Per an agreement entered into between Gateway, Cuyahoga County and the Bureau on December 22, 1998, the Cooperative Agreement was amended by the parties redefining the Annual Incremental Credit and providing for the deposit by the Bureau to the Gateway Account for calendar years 1994 through 1998 a specific sum of money. Per this agreement, the parties have defined the Annual Incremental Credit to mean the amount of \$200,000 per calendar year for a total of \$1 million dollars, which was credited to the Gateway Account in 1999. For subsequent years, the Annual Incremental Credit will be determined upon Cuyahoga County certifying to the Bureau the amount paid during the calendar year on bond services charges for up to \$75,000,000 on the Arena Bonds (see Note 7) accompanied by a financial statement of Gateway reflecting its need to pay any amount not funded from other Gateway revenue. The Annual Incremental Credit for the year 2000 amounted to \$186,488. 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 and the \$186,488 for the year 2000 was reflected on Gateway's Statement of Activity for their respective years, as revenue as well as a corresponding reduction to Long-Term Debt (specifically the Cuyahoga County Note Payable) as reflected on Gateway's balance sheet.

13. SUBSEQUENT EVENT

Gateway has experienced a cash flow shortfall for the year ended December 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 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, Ohio, (Gateway) as of and for the year ended December 31, 2000 and have issued our report thereon dated March 26, 2001 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*. However, we noted an immaterial instance of noncompliance that we have reported to the management of Gateway in a separate letter dated March 26, 2001.

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 26, 2001.

Gateway Economic Development Corporation
of Greater Cleveland
Cuyahoga County
Report on Compliance and on Internal Control Required
by *Government Auditing Standards*
Page 2

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 26, 2001



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OFFICE OF THE AUDITOR

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GATEWAY ECONOMIC DEVELOPMENT CORPORATION

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 10, 2001**