GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2015

GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY

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INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the Gateway Economic Development Corporation of Greater Cleveland, Cuyahoga County, Ohio (Gateway), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Gateway's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gateway Economic Development Corporation of Greater Cleveland, Cuyahoga County as of December 31, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2016, on our consideration of Gateway's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Gateway's internal control over financial reporting and compliance.

Dave Yost
Auditor of State
Columbus, Ohio

June 30, 2016

Management's Discussion and Analysis
For the Year Ended December 31, 2015
(Unaudited)

The discussion and analysis of the Gateway Economic Development Corporation of Greater Cleveland (Gateway) provides an overall review of Gateway's financial activities for the year ended December 31, 2015. The intent of the discussion and analysis is to look at Gateway's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of Gateway's financial performance.

Financial Highlights

Key financial highlights for 2015 are as follows:

- The most significant financial highlight positively affecting Gateway for the eleventh year is the continued stability resulting from the improved leases with both teams. On September 15, 2008 Gateway and the Indians approved a lease extension which reaffirms the Memo of Understanding. Gateway and the Cavaliers had previously approved a sixth amendment on November 28, 2007. The lease with each team provides Gateway a predictable stream of revenue from the teams that covers all Gateway's operating expenses and places responsibility for most capital repairs on the teams.
- Total Operating Revenues totaled $17,372,294 for the year.
- The Cleveland Indians have made significant improvements in 2015 totaling $22,027,728 to Progressive field. These alterations are being funded by the Cleveland Indians.
- In 2015, Major Capital Improvements continued at Quicken Loan Arena totaling $2,964,406. Progressive Field also had Major Capital totaling $464,406. In December 2015 the County approved the first release of funds from the Excise tax Bond (Sin-tax). Major Capital projects will continue through 2016.

Using this Annual Financial Report

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

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

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

While this document contains information about the funds used to provide service to the City, County, the teams and taxpayers, the view of Gateway as a whole looks at all financial transactions and asks the question, "How did we do financially during 2015?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position answer this question. These statements include all Assets, Deferred Outflows, Liabilities, and Deferred Inflows using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received.

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

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

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

Business-wide financial analysis

Table 1 provides a summary of Gateway's Net Position for 2015 and 2014 Business Type Activities.

Table 1

		2015		2014
ASSETS:				
Current Assets-Unrestricted	$	232,947	$	254,493
Current Assets-Restricted		233,672		174,460
Non-Current Assets		151,370,818		134,429,898
Total Assets	**$**	**151,837,437**	**$**	**134,858,851**
LIABILITIES:				
Current Liabilities	$	7,198,891	$	7,323,066
Non-Current Liabilities		301,741,524		302,051,596
Total Liabilities	**$**	**308,940,415**	**$**	**309,374,662**
Deferred Inflow of Resources	**$**	**-**	**$**	**17,568,018**
Net Position				
Net Investment in Capital Assets	$	(155,730,706)	$	(173,181,698)
Restricted for Debt Service		233,672		174,460
Unrestricted		(1,605,944)		(19,076,591)
Total Net Position at End of Year	**$**	**(157,102,978)**	**$**	**(192,083,829)**

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

Total Assets at $151,837,437 increased by $16,978,586 primarily due to Major Capital improvements made in Progressive Field and Quicken Loans Arena along with Alterations in Progressive Field.

Net Position for 2015 totaled ($157,102,978). Decreases to this deficit were due to improvements at both facilities. The overall deficit of ($157,102,978) is mainly due to depreciation and amortization in Non-Current Assets and Liabilities.

GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY

Management's Discussion and Analysis
For the Year Ended December 31, 2015
(Unaudited)

Table 2

	2015	**2014**
Operating Revenues		
Lease Income	$ 14,212,583	$ 11,053,113
Other	3,159,711	3,838,264
Total Operating Revenues	17,372,294	14,891,377
Operating Expenses		
Administrative and General	8,637,041	5,818,589
Depreciation and Amortization	10,240,100	9,053,702
Salaries and Related Expenses	633,336	597,654
Professional Fees	66,317	133,495
Property Tax Expense	1,621,848	1,528,466
Security Expense	837,461	787,837
Loss on Disposal of Assets	0	291,465
Repairs and Maintenance	5,371,959	5,617,790
Total Operating Expense	27,408,062	23,828,998
Operating Loss	(10,035,768)	(8,937,621)
Non-Operating Revenues		
Admissions Tax	8,572,444	3,091,269
County Support Revenue	17,790,073	0
Capital Alteration Improvement Revenue	27,216,468	0
Incremental Transient Occup. Tax Credit	1,460,954	1,453,353
Unrealized Gain on Investments	0	70,971
Investment Income	6	0
Total Non-Operating Revenues	55,039,945	4,615,593
Non-Operating Expenses		
Interest Expense	10,023,327	10,631,912
Total Non-Operating Expense	10,023,327	10,631,912
Net Non-Operating Income	45,016,618	(6,016,319)
Net Position		
Net Decrease in Net Position	34,980,850	(14,953,940)
Total Net Position at Beginning of Year	(192,083,828)	(177,129,889)
Total Net Position at End of Year	**$ (157,102,978)**	**$ (192,083,829)**

Lease Income for 2015 was $3,159,470 higher than last year. The teams also agreed to pay most of the capital repairs. For 2015, Gateway's approved operating budget of $4,089,006 was paid by the teams pursuant to the leases.

Operating expenses for 2015 totaled $27,408,062 which represents an increase of $3,579,064 from the prior year. The increase is primarily due to increase in depreciation expense and administrative and general expenses. With new agreements in place it has been determined that the amount of prepaid rent by Quicken Loans Arena could only be recovered as a credit against future rent obligations. Since the requirement to recognize prepaid rent is not an obligation of the city or county and any prepaid rent would be extinguished at the end of the lease there is no possible circumstance where this could be a liability of Gateway to be paid to Quicken Loans Arena.

General Budget Highlights

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

Table 3

Capital Assets

Net of Accumulated Depreciation

	2015	2014
Land	$ 23,108,049	$ 23,108,049
Construction In Progress	4,623,939	7,382,171
Total non-Depreciable Capital Assets	27,731,988	30,490,220
Depreciable Capital Assets		
Stadium	45,256,836	24,691,624
Arena	66,561,282	65,879,648
Site	5,297,515	6,054,518
Capitalized Costs	6,523,197	7,313,888
Furniture, Fixtures and Equipment	-	-
Depreciable Net Capital Assets	123,638,830	103,939,678
Total	**$ 151,370,818**	**$ 134,429,898**

Gateway's investment in capital assets for its activities as of December 31, 2015 totaled $151,370,818. Capital assets increased by $16,940,920. Depreciation was offset by improvements in both facilities. 2016 will also include additional investments in the facilities. The teams are submitting new requests for Major Capital Improvements. 2014 was the first year for Sin-tax requests based on the voter approved Excise Tax specific to improvements for Sports Facilities. This investment in capital assets includes land, 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

	2015	2014
Notes Payable: Cuyahoga County	185,360,912	193,216,617
State of Ohio ($4 million assumed from the Greater Cleveland New Stadium Corporation)	500,000	1,000,000
Cleveland Development Partnership	31,934,000	31,934,000
Cleveland Foundation/Cuyahoga County	1,750,000	1,750,000
Subtotal	219,544,912	227,900,617
Less-Current Portion	(5,600,000)	(5,800,000)
Total	**$ 213,944,912**	**$ 222,100,617**

At the end of 2015, Gateway had Long Term Obligations outstanding of $213,944,912. Additional information on Gateway's long term debt can be found in the Notes to the Financial Statements. Of this amount, Gateway's current loan with the County has a balance of $185,360,912. Gateway intends to fully comply with it's obligation under the revolving loan agreement and its obligation to make "Net Revenue" payments to the County. However, based on historical trends, Gateway's ability to repay the obligation is unlikely.

Economic Factors and Next Year's 2016 Budget

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

As we analyze the last two years, the new leases signed by both teams has reaffirmed the Memoranda of Understanding. The agreements have worked exactly as anticipated. Gateway has had a predictable stream of revenue to cover its expenses and the teams have been very cooperative. The new leases which 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 agreements and its obligation is to make "net revenue" payments to each entity. However, based on historical trends, Gateway may not be able to pay back these note payable amounts.

Gateway's belief that these agreements would protect the financial interests of Gateway for the foreseeable future has proven to be true. This agreement also protects the taxpayer's investment in the facilities through City and County investment without asking the County or City taxpayers to subsidize Gateway operations. The teams have approved Gateway's 2016 operations budget totaling $4,179,351. Included in this budget are additional funds to cover assessments totaling $104,781 to participate in the Business Improvement District. This represents the eleventh year of the Business Improvement District. The teams forward these payments monthly.

Progressive Field made significant improvements to the Ballpark in 2015 totaling $22,027,728. The total alterations are scheduled to be completed by early 2016. The Cleveland Indians are funding this project.

The approval of the Excise Tax (Sin-tax) by the voters has commenced Major Capital expansion by the teams for both facilities. The Cavaliers Major Capital Improvements for 2015 totaled $2,964,406. The Indians Major Capital Improvements totaled $464,406 Other Major Capital projects will continue throughout 2016.

Contacting Gateway's Financial Management

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

GATEWAY ECONOMIC DEVELOPMENT CORPORATION
OF GREATER CLEVELAND
Statement of Net Position
As of December 31, 2015

Assets	
Current Assets - Unrestricted	
Cash and Cash Equivalents	$ 110,108
Accounts Receivable	100,540
Prepaid Expenses and Other Assets	22,299
	232,947
Current Assets-Restricted	
Restricted Cash and Cash Equivalents	233,672
Total Current Assets	466,619
Non-Current Assets	
Sports Facility Project:	
Land	23,108,049
Stadium	201,296,640
Arena	177,043,327
Site	39,945,778
Capitalized Costs	23,720,720
Furniture, Fixtures and Equipment	201,698
Construction in Progress	4,623,939
	469,940,151
Less: Accumulated Depreciation	318,569,333
Total Non-Current Assets	151,370,818
Total Assets	$ 151,837,437

See accompanying notes to the financial statements.

GATEWAY ECONOMIC DEVELOPMENT CORPORATION
OF GREATER CLEVELAND
Statement of Net Position
As of December 31, 2015

Liabilities

Current Liabilities	
Accounts Payable	$ 87,771
Accrued Expenses	1,321
Property Taxes Payable	1,509,799
Current Portion of Long Term Debt	5,600,000
Total Current Liabilities	7,198,891
Non-Current Liabilities	
Long Term Debt, Less Current Portion	213,944,912
Long Term Accrued Interest	87,556,612
Refundable Deposits	240,000
Total Non-Current Liabilities	301,741,524
Total Liabilities	308,940,415
Net Position	
Net Investment in Capital Assets	(155,730,706)
Restricted for Capital Repairs	233,672
Unrestricted	(1,605,944)
Total Net Position	$ (157,102,978)

See accompanying notes to the financial statements.

GATEWAY ECONOMIC DEVELOPMENT CORPORATION
OF GREATER CLEVELAND
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2015

Operating Revenues	
Lease Income	$ 14,212,583
Other	3,159,711
Total Operating Revenues	17,372,294
Operating Expenses	
Administrative and General	8,637,041
Depreciation and Amortization	10,240,100
Salaries and Related Expenses	633,336
Professional Fees	66,317
Property Tax Expense	1,621,848
Security Expense	837,461
Repairs and Maintenance	5,371,959
Total Operating Expense	27,408,062
Operating Loss	(10,035,768)
Non-Operating Revenues	
Admission Taxes	8,572,444
County Support Revenue	17,790,073
Capital Alteration Improvement Revenue	27,216,468
Incremental Transient Occupancy Tax Credit	1,460,954
Investment Income	6
Total Non-Operating Revenues	55,039,945
Non-Operating Expenses	
Interest Expense	10,023,327
Total Non-Operating Expense	10,023,327
Net Non-Operating Income	45,016,618
Change in Net Position	34,980,850
Net Position - Beginning of Year	(192,083,828)
Net Position - End of Year	$ (157,102,978)

See accompanying notes to the financial statements.

GATEWAY ECONOMIC DEVELOPMENT CORPORATION
OF GREATER CLEVELAND
Statement of Cash Flows
For the Year Ended December 31, 2015

Cash Flows from Operating Activities	
Cash Received from Lease Revenue	$ 4,146,402
Cash Received from Other Revenue	3,159,711
Cash Paid for Administrative and General	(52,092)
Cash Paid for Salaries and Related Expenses	(642,135)
Cash Paid for Professional Fees	(66,317)
Cash Paid for Property Tax Expense	(1,603,419)
Cash Paid for Security Expense	(837,461)
Cash Paid for Repairs and Maintenance	(3,791,310)
Net Cash Provided by Operating Activities	313,379
Cash Flows from Capital and Related Financing Activities	
Cash Received from County Support	4,145,345
Cash Received from Capital Alteration Improvement Revenue	23,293,178
Cash Received from Occupancy Tax Revenue	1,460,954
Admission Tax	8,572,444
Investment Income	6
Interest Expense	(2,177,693)
Arena Capital Improvements	(5,646,797)
Stadium Capital Improvements	(24,292,455)
Construction in Progress	2,758,232
Principal Paid on Bonds Payable	(8,355,705)
Net Cash (Used) for Capital and Related Financing Activities	(242,491)
Net Increase in Cash and Cash Equivalents	70,888
Cash and Cash Equivalents at Beginning of Year	272,892
Cash and Cash Equivalents at End of Year	$ 343,780
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities	
Operating (Loss)	$ (10,035,768)
Adjustments to Reconcile to Net Cash (Used) by Operating Activities:	
Depreciation and amortization	10,240,100
Net Changes in Operating Assets and Liabilities:	
Decrease in Prepaid Expenses and Other Assets	33,222
Increase in Accounts Payable	66,195
(Decrease) in Accrued Expenses	(8,799)
Increase in Property Taxes Payable	18,429
Net Cash Provided by Operating Activities	$ 313,379

See accompanying notes to the financial statements.

1. DESCRIPTION OF THE REPORTING ENTITY AND BASIS OF PRESENTATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

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

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

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

B. Cash and Cash Equivalents

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

C. Investments

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

D. Sports Facility Project

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stadium:	
Building and Structure	30 Years
Equipment	5-15 Years
Furniture and Fixtures	5 Years
Arena:	
Building and Structure	30 Years
Equipment	5-15 Years
Furniture and Fixtures	5 Years
Site:	
Improvements	20 Years
Equipment	5-15 Years

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

E. Federal Taxes

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

F. Net Position

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

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

G. Deferred Outflows/Inflows of Resources

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

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

As of December 31, 2015 Gateway did not have any Deferred Inflows of Resources.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Operating Revenues and Expenses

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

3. DEPOSITS AND INVESTMENTS

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

Deposits

At fiscal year ended December 31, 2015, Gateway had the

following: Account Type	Carrying Value
Demand Deposits	$ 109,908
Money Market Treasury Account	233,672
Total Deposits	$ 343,580

Custodial Credit Risk: Custodial credit risk for deposits is the risk that in the event of bank failure, Gateway will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, $0 of Gateway's bank balance of $343,580 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject Gateway to a successful claim by the F.D.I.C.

Restricted Cash

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

4. LONG-TERM OBLIGATIONS

Long-term debt outstanding at December 31, 2015 is as follows:

	Stated Interest Rate	Balance 12/31/2014	Increase	Decrease	Balance 12/31/2015	Amounts Due in One Year
Notes Payable:						
Cuyahoga County	Variable	193,216,617	8,898,896	16,754,601	185,360,912	5,600,000
State of Ohio ($4 million assumed from the Greater Cleveland New Stadium Corporation)	0%-2.5%	1,000,000		500,000	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	
		227,900,617	8,898,896	17,254,601	219,544,912	5,600,000
Less-Current Portion		(5,800,000)	200,000		(5,600,000)	
Total long-term debt less current portion		$222,100,617	$9,098,896	17,254,601	$213,944,912	$5,600,000

A. 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, 2015, Gateway has borrowed $185.4 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 $120.2 million at December 31, 2015.

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

4. LONG-TERM OBLIGATIONS (Continued)

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 2015, the Bureau made a payment of $1,460,954 pursuant to the amended Cooperative Agreement (see note 9). During 1999, the issue of the $5 million dollar portion of the Emergency Loan Agreement was re-evaluated by Cuyahoga County and Gateway. As of March 21, 2000, Cuyahoga County is of the opinion that the $5 million was a legal liability of Gateway. The management of Gateway is currently reviewing this issue to determine if a legal liability in fact exists. However, based on historical trends, Gateway may not be able to pay back this amount to Cuyahoga County. Accordingly, this amount is not reflected as an accounting liability and prior fund equity was not restated on Gateway's Statement of Net Position as of December 31, 2015.

B. 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.

C. Cleveland Development Partnership Notes Payable

The Cleveland Development Partnership and Gateway have entered into two loan agreements for a total of $31.9 million. Per the agreements, payment is only to be made on this amount by Gateway out of "surplus cash" as specifically defined in the loan agreements.

Included in the "Thereafter" amount are amounts due on the Cleveland Development Partnership note payable of $31.9 million and the Cleveland Foundation/Cuyahoga County note payable of $1.75 million. The $31.9 million is not included in prior years' scheduled principal payments because it is only payable out of "surplus cash" as specifically defined in the loan agreement with the Cleveland Development Partnership and after various other obligations are paid first. Based on historical trends, Gateway is unlikely to earn the required revenues to meet the obligation of this note. The $1.75 million note payable to the County was to be repaid beginning in July 1999. Based on historical trends, Gateway is unlikely to earn the required revenues to repay the note.

4. LONG-TERM OBLIGATIONS (Continued)

D. Debt to Maturity

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

	Principal	Interest
2016	5,600,000	11,346,696
2017	5,950,000	11,696,645
2018	6,325,000	11,595,286
2019	6,715,000	11,457,680
2020	7,130,000	11,903,622
Amount Thereafter	187,824,912	99,680,591
	219,544,912	157,680,520

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 was as follows:

	1/1/2015	Additions	Deletions	12/31/2015
Non-depreciable capital assets:				
Land	$ 23,108,049	$ -	$ -	$ 23,108,049
Construction in Progress	7,382,171	4,623,939	7,382,171	4,623,939
Total non-depreciable capital assets:	30,490,220	4,623,939	7,382,171	27,731,988
Depreciable capital assets:				
Stadium	179,854,745	24,292,455	2,850,560	201,296,640
Arena	176,299,023	5,646,797	4,902,493	177,043,327
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:	420,021,964	29,939,252	7,753,053	442,208,163

5. CAPITAL ASSETS (Continued)

	1/1/2015	Additions	Deletions	12/31/2015
Accumulated Depreciation:				
Stadium	155,163,121	3,727,243	2,850,560	156,039,804
Arena	110,419,375	4,965,163	4,902,493	110,482,045
Site	33,891,260	757,003	-	34,648,263
Capitalized Costs	16,406,832	790,691	-	17,197,523
Furniture, Fixtures and Equipment	201,698	-	-	201,698
Total accumulated depreciation:	316,082,286	10,240,100	7,753,053	318,569,333
Depreciable capital assets, net of accumulated depreciation	103,939,678	19,699,152	0	123,638,830
Capital assets, net	$134,429,898	$24,323,091	7,382,171	$151,370,818

6. LEASES

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

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

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

The initial lease signed on December 20, 1991, Gateway entered into a 30 year lease agreement with the Cavaliers Division of Nationwide Advertising Services, Inc. providing primarily for the lease of the arena. The lease agreements and subsequent amendments require that Gateway shall cause the County to provide $120 million to be deposited into the County Guaranty Escrow Fund and used to meet certain arena obligations during the construction period. The Cavaliers lease agreements also provide that Gateway must issue or cause the City of Cleveland to issue on-site parking bonds with proceeds deposited into an On-Site Parking Construction Draw Account (See Note 7).

7. PARKING FACILITIES

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

The City and Gateway have also entered into an agreement providing for the payment of debt services on the City's Parking Bonds. Pursuant to the agreement, Gateway is liable for the debt service on the Parking Bonds allocated to the Gateway Parking Facilities, payable only from the net revenues of the parking facilities. Net revenues from the garages are pledged first to the City for payment of debt service and secondly to the teams in accordance with their lease agreements.

The liability for payment of this debt service lies with the City of Cleveland and, therefore, is not included as a liability on Gateway's Statement of Net Position. Accordingly, the net revenues of the parking facilities are not reflected in Gateway's revenues on their Statement Revenues, Expenses, and Changes in Net Position.

8. RISK MANAGEMENT

Gateway has obtained commercial insurance for the following risks:

General Liability: Policy limits $1 Million -Medical expenses: $10,000 -General aggregate $2 million. Limitation of coverage to designated premises: "Common areas between Quicken Arena and Progressive Field defined as interior streets, underground service area, east garage bridge (skywalk), interior streets, sidewalks, plaza, parking areas (NSF Lot), and underground dock areas located in the underground service level."

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

Automobile Liability: Limits $1 Million.

Directors and Officers Insurance: Total $10 Million.

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

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

9. INCREMENTAL TRANSIENT OCCUPANCY TAX CREDIT

Gateway, Cuyahoga County and The Convention and Visitors Bureau of Greater Cleveland, Inc. (the "Bureau") entered into a Cooperative Agreement (known commonly as the "Bed Tax Agreement") as of September 15, 1992 (the "Cooperative Agreement") which included a provision that allowed a credit to be given to Gateway as payment on the Cuyahoga County Note Payable (for the Arena Bonds Issued by Cuyahoga County discussed in Note 4, which will be referred to

9. INCREMENTAL TRANSIENT OCCUPANCY TAX CREDIT (Continued)

herein as the "Gateway Account"). This amount represents the incremental amount the Bureau receives from the County Transient Occupancy Tax, per Section 5739.024, Ohio Revised Code (the "Bed Tax"), which is understood to be generated by new Gateway attendees' utilization of overnight accommodations in the County (the "Annual Incremental Credit"). This credit was to be determined pursuant to and in accordance with a certain Consultant Agreement to be entered into by and among Cuyahoga County, the Bureau and Gateway. This agreement stated in part that "for 1994 or such later year that the Arena Facility is first used, the Bureau shall credit to the Gateway Account the amount determined pursuant to the Consultant Agreement within 10 days of notice thereof. For succeeding years, the Bureau is to credit to the Gateway Account the applicable Annual Incremental Credit as limited by the Bureau's receipt of Bed Tax revenues, as provided" by the Consultant Agreement. Due to no fault of any of the parties, a Consultant Agreement had never been entered into and the Bureau had never credited any amount to the Gateway Account.

Per an agreement entered into between Gateway, Cuyahoga County and the Bureau on December 22, 1998, the Cooperative Agreement was amended by the parties redefining the Annual Incremental Credit and providing for the deposit by the Bureau to the Gateway Account for calendar years 1994 through 1998 a specific sum of money. Per this agreement, the parties have defined the Annual Incremental Credit to mean the amount of $200,000 per calendar year for a total of $1 million dollars, which was credited to the Gateway Account in 1999. For subsequent years, the Annual Incremental Credit will be determined upon Cuyahoga County certifying to the Bureau the amount paid during the calendar year on bond services charges for up to $75,000,000 on the Arena Bonds accompanied by a financial statement of Gateway reflecting its need to pay any amount not funded from other Gateway revenue. The Annual incremental Credit for the year 2015 amounted to $1.46 million. Such credit will be limited to the difference between the debt service required by the Arena Bonds and the amounts paid by Gateway to Cuyahoga County, if any, along with any other credits. The annual increase of this credit will be capped at no more than 3% greater than the prior calendar year's credit. Since payment of the Annual Incremental Credit will only be advanced upon the aforementioned certification and delivery of a financial statement from Gateway, this revenue will be recognized by Gateway in the year in which the credit is received. The $1 million for calendar years 1994 through 1998 reflected in 1999, $186,488 for the year 2000, $212,180 for the years 2001 through 2007, $218,545 for 2008, $0 for 2009, $3,075,403 for 2010, $1,425,101 for 2011, $1,431,854 for 2012, $1,445,974 for 2013, $1,453,353 for 2014 and $1,460,954 for 2015 was reflected on Gateway's Statement of Revenues, Expenses and Changes in Net Position for their respective years, as revenue as well as a corresponding reduction to Long-Term Debt (specifically the Cuyahoga County Note Payable) as reflected on Gateway's Statement of Net Position.

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

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

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Gateway Economic Development Corporation of Greater Cleveland, Cuyahoga County, Ohio (Gateway) as of and for the year ended December 31, 2015, and the related notes to the financial statements and have issued our report thereon dated June 30, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

June 30, 2016

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 19, 2016