GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2017

Dave Yost • Auditor of State

GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY
DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

Gateway Economic Development Corporation of Greater Cleveland
Cuyahoga County
756 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, 2017, 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 the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gateway Economic Development Corporation of Greater Cleveland, Cuyahoga County as of December 31, 2017, 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 May 23, 2018, 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

Dave Yost
Auditor of State
Columbus, Ohio

May 23, 2018

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, 2017. 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 2017 are as follows:

- The most significant financial change for 2017 is that Gateway entered into a new lease and management agreement, dated October 12, 2017, with the Cleveland Cavaliers which extends the lease term through the end of the 2033-2034 season, with two successive five year team options to renew.
- In connection with, and as provided in the new Cavaliers lease, the Cavaliers and Gateway are undertaking a major alteration to the Arena consisting of a minimum $140,000,000 construction project known as the Arena Transformation. The Arena Transformation project is being paid through $140 million in County of Cuyahoga, Ohio sales tax bonds issued by the County in October 2017. The Bonds are to be repaid 50% by the Cavaliers through rent under the new lease and 50% from public funds consisting of City admission taxes and County bed taxes. Cost overruns or changes in scope which cause the costs to exceed $140 million will be paid for by the Cavaliers.
- Operating Revenues totaled $16,359,602 for the year.
- The Cleveland Indians have made significant improvements/Alterations in 2015 through 2017 totaling close to $39,000,000 to Progressive Field. These alterations are being funded by the Cleveland Indians and become the Property of Gateway.
- In 2014 Through 2017, Major Capital Improvements continued at Quicken Loans Arena totaling close to $30,000,000. Progressive Field also had Major Capital improvements totaling close to $32,000,000. These Excise Tax funded Improvements will continue subject to availability of Excise Tax Proceeds. In December 2015 the County approved the first release of Major Capital funds from the Excise tax Bond proceeds (Sin-tax) to fund the Ballpark and Arena Major Capital projects.

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 Changes 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 2017?" 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 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 2017 and 2016 Business Type Activities.

Table 1

	2017		2016	
ASSETS:				
Current Assets-Unrestricted	$	556,496	$	92,937
Current Assets-Restricted		1,089,334		500,418
Non-Current Assets		184,330,626		178,834,125
Total Assets	**$**	**185,976,456**	**$**	**179,427,480**
LIABILITIES:				
Current Liabilities	$	9,225,918	$	7,459,488
Non-Current Liabilities		294,407,500		296,728,212
Total Liabilities	**$**	**303,633,418**	**$**	**304,187,700**
Net Position				
Net Investment in Capital Assets	$	(116,161,874)	$	(123,604,087)
Restricted for Capital Repairs		1,089,334		500,418
Unrestricted		(2,584,422)		(1,656,551)
Total Net Position at End of Year	**$**	**(117,656,962)**	**$**	**(124,760,220)**

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 of $185,976,456 increased by $6,548,976 primarily due to Major Capital improvements made in Progressive Field and Quicken Loans Arena along with Alterations in Progressive Field.

Net Position for 2017 totaled ($117,656,962). Decreases to this deficit were due to significant improvements at both facilities. The overall deficit of ($117,656,962) is mainly due to depreciation and amortization in Non-Current Assets and Liabilities.

Table 2

	2017	2016
Operating Revenues		
Lease Income	$ 12,705,068	$ 17,779,108
Other	3,654,534	2,933,271
Total Operating Revenues	16,359,602	20,712,379
Operating Expenses		
Administrative and General	7,135,780	12,244,159
Depreciation and Amortization	13,474,307	12,153,872
Salaries and Related Expenses	786,142	745,712
Professional Fees	85,337	131,449
Property Tax Expense	1,579,678	1,543,249
Security Expense	945,828	920,438
Repairs and Maintenance	5,810,232	4,767,217
Total Operating Expense	29,817,304	32,506,096
Operating Loss	(13,457,702)	(11,793,717)
Non-Operating Revenues		
Admissions Tax	12,845,911	10,950,380
Cuyahoga County Grant Revenue	15,682,649	29,393,054
Capital Alteration Improvement Revenue	2,932,454	10,580,080
Incremental Transient Occup. Tax Credit	0	1,468,783
Investment Income	145	28
Total Non-Operating Revenues	31,461,159	52,392,325
Non-Operating Expenses		
Interest Expense	10,900,199	8,255,850
Total Non-Operating Expense	10,900,199	8,255,850
Net Non-Operating Income	20,560,960	44,136,475
Net Position		
Net Increase in Net Position	7,103,258	32,342,758
Total Net Position at Beginning of Year	(124,760,220)	(157,102,978)
Total Net Position at End of Year	**$ (117,656,962)**	**$ (124,760,220)**

Lease revenue is affected, in part, by the amount of Major Capital Repairs for both facilities that are funded by the teams. For 2017, Lease Income was $5,074,040 lower than last year due to lower Major Capital repairs in both facilities and alterations in Progressive Field. The teams also agreed to pay for certain capital repairs. For 2017, Gateway's approved operating budget of $4,489,618 was paid by the teams pursuant to the leases.

Operating expenses for 2017 totaled $29,817,304 which represents a decrease of $2,688,792 from the prior year. The decrease is primarily due to lower Administrative and general expenses for both facilities. Gateway and the teams have worked tirelessly to maintain first class facilities. In October 2017 a new lease was approved between Gateway and The Cleveland Cavaliers. As a result the prepaid rent against future rent obligation is no longer in place.

General Budget Highlights

Administration, maintenance and security of the Gateway Sports Complex fall under the direction of its Executive Director and staff. Gateway staff, in accordance with the team 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

	2017	2016
Land	$ 23,108,049	$ 23,108,049
Construction In Progress	21,809,510	8,277,002
Total non-Depreciable Capital Assets	44,917,559	31,385,051
Depreciable Capital Assets (Net)		
Stadium	66,964,388	72,586,531
Arena	63,723,355	64,589,525
Site	3,783,509	4,540,512
Capitalized Costs	4,941,815	5,732,506
Furniture, Fixtures and Equip	0	0
Depreciable Net Assets	139,413,067	147,449,074
Total	**$ 184,330,626**	**$ 178,834,125**

Gateway's Net investment in capital assets for its activities as of December 31, 2017 totaled $184,330,626. Capital assets increased by $5,496,501. Depreciation was offset by improvements in both facilities. 2018 will also include significant additional investments in the facilities. The teams are submitting new requests for Major Capital Improvements. 2014 was the first year for Excise Tax requests based on the 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

	2017	**2016**
Notes Payable: Cuyahoga County	165,381,980	175,375,882
State of Ohio ($4 million assumed from the Greater Cleveland New Stadium Corporation)	0	0
Cleveland Development Partnership	31,934,000	31,934,000
Subtotal	197,315,980	207,309,882
Less-Current Portion	(6,325,000)	(5,950,000)
Total	**$ 190,990,980**	**$ 201,359,882**

At the end of 2017, Gateway had Long Term Obligations outstanding of $190,990,980. 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 $165,381,980. 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 2018 Budget

On September 15, 2008 Gateway and the Indians approved a new lease that extended the lease term and therefore guaranteed the team would remain through 2023. The previous lease expired in 2007, pursuant to the terms of the original financing for the Ballpark. The signed lease with the Indians and the previously signed lease amendment with the Cavaliers on November 30, 2007 secured Gateway's financial standing and ensured the upkeep of the team's facilities.

In October 2017 Gateway and the Cavaliers entered into a new lease and management agreement that made many changes and extended the terms of the lease through the end of the 2034 season, with two successive five year team options to renew. In addition, Gateway and the Cavaliers, along with Cuyahoga County approved the Arena Transformation project. This project includes major modifications and improvements to both the north and south facades of the Arena, and multiple changes to the interior of the building creating a larger entrance and reception area. Gateway through a bond issue by Cuyahoga County, has agreed to pay construction costs up to $140 million from bond proceeds. The Cavaliers have agreed to pay any construction costs in excess of $140 million

As we analyze the last few years, the new leases signed by both teams have worked exactly as anticipated. Gateway has had a predictable stream of revenue to cover its expenses and the teams have been very cooperative. The new leases, which represent a reaffirmation of 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 notes payable to the County, the Cleveland Development Partnership, and Cleveland Foundation/Cuyahoga County are subject to revolving loan agreements and its obligation is to make "net revenue" payments to each entity. However, based on historical trends, Gateway will not be able to pay back these note payable amounts.

Gateway's belief that these new lease agreements would protect the financial interests of Gateway for the foreseeable future has proven to be true. These agreements also protect 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 2018 operations budget totaling $4,672,594. Included in this budget are additional funds to cover assessments totaling $125,796 to participate in the Downtown Cleveland Business Improvement District. This represents the twelfth year of the Business Improvement District. The teams forward these payments monthly.

The Excise tax approval has allowed the Indians to make significant Major Capital Improvements to the Ballpark, which through 2017 totals close to $32,000,000. The total alterations to be completed to the Ballpark will be close to $39,000,000, of which the Cleveland Indians are funding.

The approval of the Excise Tax by the voters has commenced Major Capital expansion by the teams for both facilities. The Cavaliers Major Capital Improvements for 2014 through 2017 totaled close to $30,000,000. Other Major Capital projects will continue throughout 2018 and the foreseeable future.

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, 2017

Assets	
Current Assets - Unrestricted	
Cash and Cash Equivalents	$ 528,154
Prepaid Expenses and Other Assets	28,342
	556,496
Current Assets-Restricted	
Restricted Cash and Cash Equivalents	1,089,334
Total Current Assets	1,645,830
Non-Current Assets	
Sports Facility Project:	
Land	23,108,049
Stadium	227,795,197
Arena	184,099,264
Site	39,945,778
Capitalized Costs	23,720,720
Furniture, Fixtures and Equipment	201,698
Construction in Progress	21,809,510
	520,680,216
Less: Accumulated Depreciation	336,349,590
Total Non-Current Assets	184,330,626
Total Assets	$ 185,976,456

See accompanying notes to the financial statements.

GATEWAY ECONOMIC DEVELOPMENT CORPORATION
OF GREATER CLEVELAND
Statement of Net Position
As of December 31, 2017

Liabilities and Net Position

Current Liabilities	
Accrued Expenses	$ 580
Property Taxes Payable	467,776
Unearned Revenue	2,432,562
Current Portion of Long Term Debt	6,325,000
Total Current Liabilities	9,225,918
Non-Current Liabilities	
Long Term Debt, Less Current Portion	190,990,980
Long Term Accrued Interest	103,176,520
Refundable Deposits	240,000
Total Non-Current Liabilities	294,407,500
Total Liabilities	303,633,418
Net Position	
Net Investment in Capital Assets	(116,161,874)
Restricted for Capital Repairs	1,089,334
Unrestricted	(2,584,422)
Total Net Position	$ (117,656,962)

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, 2017

Operating Revenues	
Lease Income	$ 12,705,068
Other	3,654,534
Total Operating Revenues	16,359,602
Operating Expenses	
Administrative and General	7,135,780
Depreciation and Amortization	13,474,307
Salaries and Related Expenses	786,142
Professional Fees	85,337
Property Tax Expense	1,579,678
Security Expense	945,828
Repairs and Maintenance	5,810,232
Total Operating Expense	29,817,304
Operating Loss	(13,457,702)
Non-Operating Revenues	
Admission Taxes	12,845,911
Cuyahoga County Grant Revenue	15,682,649
Capital Alteration Improvement Revenue	2,932,454
Investment Income	145
Total Non-Operating Revenues	31,461,159
Non-Operating Expenses	
Interest Expense	10,900,199
Total Non-Operating Expense	10,900,199
Net Non-Operating Income	20,560,960
Change in Net Position	7,103,258
Net Position - Beginning of Year	(124,760,220)
Net Position - End of Year	$ (117,656,962)

See accompanying notes to the financial statements.

GATEWAY ECONOMIC DEVELOPMENT CORPORATION
OF GREATER CLEVELAND
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash Flows from Operating Activities	
Cash Received from Lease Revenue	$ 7,059,385
Cash Received from Other Revenue	3,654,534
Cash Paid for Administrative and General	(96,560)
Cash Paid for Salaries and Related Expenses	(788,897)
Cash Paid for Professional Fees	(85,337)
Cash Paid for Property Tax Expense	(2,618,055)
Cash Paid for Security Expense	(945,828)
Cash Paid for Repairs and Maintenance	(4,782,929)
Net Cash Provided by Operating Activities	1,396,313
Cash Flows from Capital and Related Financing Activities	
Cash Received from Cuyahoga County Grant Revenue	15,682,647
Cash Received from Capital Alteration Improvement Revenue	2,932,454
Admission Tax	12,845,911
Investment Income	145
Interest Expense	(2,852,008)
Arena Capital Improvements	(4,059,503)
Stadium Capital Improvements	(1,378,796)
Construction in Progress	(13,532,508)
Principal Paid on Bonds Payable	(9,993,902)
Net Cash Used by Capital and Related Financing Activities	(355,560)
Net Increase in Cash and Cash Equivalents	1,040,753
Cash and Cash Equivalents at Beginning of Year	576,735
Cash and Cash Equivalents at End of Year	$ 1,617,488
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities	
Operating (Loss)	$ (13,457,702)
Adjustments to Reconcile to Net Cash (Used) by Operating Activities:	
Depreciation and amortization	13,474,307
Net Changes in Operating Assets and Liabilities:	
(Decrease) in Prepaid Expenses and Other Assets	(11,722)
(Decrease) in Accrued Expenses	(2,755)
Increase in Unearned Revenue	2,432,562
(Decrease) in Property Taxes Payable	(1,038,377)
Net Cash Provided by Operating Activities	$ 1,396,313

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 deferred outflows and liabilities and deferred inflows 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. 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)

D. Sports Facility Project (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, 2017 Gateway did not have any Deferred Inflows or Deferred Outflows 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. 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, 2017, Gateway had the following:

Account Type	Carrying Value
Demand Deposits	$ 511,113
Money Market Account	16,841
Total Deposits	$ 527,954

Gateway maintains cash balances in depository institutions at an excess of FDIC insured limits of $250,000.

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 year end, $266,841 of Gateway's bank balance of $527,954 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, 2017 is as follows:

	Stated Interest Rate	Balance 12/31/2016	Increase	Decrease	Balance 12/31/2017	Amounts Due in One Year
Notes Payable:						
Cuyahoga County	Variable	175,375,882	8,802,009	18,795,911	165,381,980	6,325,000
Cleveland Development Partnership	3%-6.25%	31,934,000			31,934,000	
		207,309,882	8,802,009	18,795,911	197,315,980	6,325,000
Less-Current Portion		(5,950,000)	(375,000)		(6,325,000)	
Total long-term debt less current portion		$201,359,882	$8,427,009	18,795,911	$190,990,980	$6,325,000

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, 2017, Gateway has borrowed $165.4 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 $104.0 million at December 31, 2017.

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 2017, the Bureau did not make any payments pursuant to the amended Cooperative Agreement (see note 9).

4. LONG-TERM OBLIGATIONS (Continued)

B. 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.

C. Debt to Maturity

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

	Principal	Interest
2018	6,325,000	11,858,203
2019	6,715,000	12,254,177
2020	7,130,000	12,140,024
2021	7,570,000	11,984,905
2022	4,890,000	11,884,103
Amount Thereafter	164,685,980	87,633,810
	197,315,980	147,755,222

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

	1/1/2017	Additions	Deletions	12/31/2017
Non-depreciable capital assets:				
Land	$ 23,108,049	$ -	$ -	$ 23,108,049
Construction in Progress	8,277,002	18,970,807	5,438,299	21,809,510
Total non-depreciable capital assets:	31,385,051	18,970,807	5,438,299	44,917,559
Depreciable capital assets:				
Stadium	226,416,401	1,378,796	-	227,795,197
Arena	180,039,761	4,059,503	-	184,099,264
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:	470,324,358	5,438,299	-	475,762,657

	1/1/2017	Additions	Deletions	12/31/2017
Accumulated Depreciation:				
Stadium	153,829,870	7,000,939	-	160,830,809
Arena	115,450,236	4,925,673	-	120,375,909
Site	35,405,266	757,003	-	36,162,269
Capitalized Costs	17,988,214	790,691	-	18,778,905
Furniture, Fixtures and Equipment	201,698	-	-	201,698
Total accumulated depreciation:	322,875,284	13,474,306	-	336,349,590
Depreciable net assets, net of accumulated depreciation	147,449,074	(8,036,007)	-	139,413,067
Capital assets, net	$178,834,125	$10,934,800	$5,438,299	$184,330,626

6. LEASES

The initial lease Gateway entered into was 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. 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.

During 2017, Gateway entered into a Lease and Management Agreement with the Cavaliers providing primarily for the lease and management of the arena. The term of the agreement is through the end of the 2034 season, with two successive five year options. The agreed rent consists of consists of the funds necessary to permit Gateway to meet its obligations to the Cavaliers under the terms of the Agreement and Common Area Agreement, including capital repairs, real estate taxes, overhead expenses and common area expenses.

7. PARKING FACILITIES

In accordance with an agreement with the City of Cleveland, Gateway is required to reimburse the City for the excess of the debt service requirements of the Parking Facilities Refunding Revenue Bonds attributed to the two Gateway garages over the net revenues generated by the two Gateway garages. The first garage on the Gateway site was completed in January 1994. The second garage was completed in August 1994.

In October 2011, the City sold one of the Gateway garages and defeased the applicable bonds. Going forward the amounts required to be reimbursed will be calculated based upon the net revenues of the remaining garage and remaining applicable bonds outstanding.

Due to the uncertainty of collecting such amounts, the City of Cleveland recorded an allowance to offset the amounts in full; therefore, these amounts do not appear in the City of Cleveland's financial statements. Additionally, the net revenues of the parking facilities are not reflected in Gateway's revenues on their Statement of 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

Automobile Liability: Limits $1 Million

Directors and Officers Insurance: Total $10 Million.

8. RISK MANAGEMENT - Continued

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

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

9. INCREMENTAL TRANSIENT OCCUPANCY TAX CREDIT

Gateway, Cuyahoga County and The Convention and Visitors Bureau of Greater Cleveland, Inc. (the "Bureau") entered into a Cooperative Agreement (known commonly as the "Bed Tax Agreement") as of September 15, 1992 (the "Cooperative Agreement") which included a provision that allowed a credit to be given to Gateway as payment on the Cuyahoga County Note Payable (for the Arena Bonds Issued by Cuyahoga County discussed in Note 4, which will be referred to herein as the "Gateway Account"). This amount represents the incremental amount the Bureau receives from the County Transient Occupancy Tax, per Section 5739.024, Ohio Revised Code (the "Bed Tax"), which is understood to be generated by new Gateway attendees' utilization of overnight accommodations in the County (the "Annual Incremental Credit"). This credit was to be determined pursuant to and in accordance with a certain Consultant Agreement to be entered into by and among Cuyahoga County, the Bureau and Gateway. This agreement stated in part that "for 1994 or such later year that the Arena Facility is first used, the Bureau shall credit to the Gateway Account the amount determined pursuant to the Consultant Agreement within 10 days of notice thereof. For succeeding years, the Bureau is to credit to the Gateway Account the applicable Annual Incremental Credit as limited by the Bureau's receipt of Bed Tax revenues, as provided" by the Consultant Agreement. Due to no fault of any of the parties, a Consultant Agreement had never been entered into and the Bureau had never credited any amount to the Gateway Account.

Per an agreement entered into between Gateway, Cuyahoga County and the Bureau on December 22, 1998, the Cooperative Agreement was amended by the parties redefining the Annual Incremental Credit. 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 2017 amounted to $1.47 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. For 2017 $0 was reflected on Gateway's Statement of Revenues, Expenses and Changes in Net Position 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.

10. SUBSEQUENT EVENT

The Quicken Loan Arena Transformation Project is currently underway which includes major modifications and improvements to both the north and south facades of the building, and multiple changes to the interior of the building creating a larger entrance and reception area. Gateway, through a bond issue through Cuyahoga County, has agreed to pay construction costs up to $140 million. The Cavaliers have agreed to pay any construction costs in excess of $140 million.

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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
756 Bolivar Road
Cleveland, Ohio 44115

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Gateway Economic Development Corporation of Greater Cleveland, Cuyahoga County, (Gateway) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Gateway's basic financial statements and have issued our report thereon dated May 23, 2018.

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 report is not suitable for any other purpose.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

May 23, 2018

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
JUNE 5, 2018