



OHIO AUDITOR OF STATE
KEITH FABER



**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
CUYAHOGA COUNTY
DECEMBER 31, 2022**

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OHIO AUDITOR OF STATE KEITH FABER



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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 Audit of the Financial Statements

Opinions

We have audited the financial statements of the Gateway Economic Development Corporation of Greater Cleveland, Cuyahoga County, Ohio (Gateway), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Gateway's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Gateway Economic Development Corporation of Greater Cleveland, Cuyahoga County, Ohio as of December 31, 2022, and the changes in 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Gateway, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Gateway's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Gateway's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Gateway's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2023, 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. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Gateway's 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.



Keith Faber
Auditor of State
Columbus, Ohio

October 23, 2023

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

Management's Discussion and Analysis
For the Year Ended December 31, 2022
(Unaudited)

The following 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, 2022. The intent of this 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.

Business Activities

Gateway is an Ohio Non-Profit and 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. The Gateway Sports Complex consists of a Ballpark (Progressive Field), an Arena (Rocket Mortgage Fieldhouse), and their adjacent grounds.

Financial Highlights

Key financial highlights for 2022 and 2023 are as follows:

- Total Assets as of December 31, 2022, were \$383,176,733.
- Total Net Position as of December 31, 2022, was \$75,407,092.
- Total Revenues for 2022 were \$32,203,082.
- Total Expenses for 2022 were \$54,327,161.
- Gateway entered into an Amended and Restated Lease Agreement for the Ballpark with the Cleveland Guardians (f/k/a Cleveland Indians), effective as of January 1, 2022, which extends the lease term through 2036, with a five-year, convertible to ten-year, Gateway vesting option to renew.
- The Guardians lease extension also includes a \$202.5 million Ballpark Improvement Project, jointly funded by public entities and the team. The Project is funded through various bond issues in 2022 and other sources described below under the section titled Economic Factors and Next Year's 2023 Budget, including the sale of a parcel of real property owned by Gateway to the Guardians for \$2 million.
- In January 2023, the Ohio General Assembly designated a \$30,000,000 million grant to partially fund Ballpark Major Capital projects. Grant funds will be administered by the Ohio Facilities Construction Commission (OFCC). In practice, Gateway will submit packages of Ballpark Major Capital project invoices to OFCC, and upon its approval, the OFCC will disburse to Gateway 12.77% of invoice package totals.
- Gateway entered its current arena Lease and Management Agreement with the Cleveland Cavaliers on October 12, 2017. The lease term runs through the end of the 2033-2034 season, with two successive five-year team options to renew.
- The Cleveland Cavaliers made and funded improvements/alterations to Rocket Mortgage Fieldhouse totaling \$3,676,467 in 2022.

Using this Annual Financial Report

This annual report consists of financial statements with accompanying notes and an Independent Auditor's Report. Financial statements and notes are organized so the reader can understand Gateway Economic Development Corporation of Greater Cleveland as a financial whole. For interested parties, such as City of Cleveland, Cuyahoga County, citizens, and lessees of the facilities, these financial statements and notes answer the questions, "What is our financial status at 2022 year-end?" and "How did we do financially during 2022?".

Financial statements were prepared using the accrual basis of accounting. This basis of accounting recognizes all current year revenues and expenses regardless of when cash is received or disbursed.

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

Management's Discussion and Analysis
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Financial Statements are presented in Governmental Accounting format. The Ohio Auditor of State Independent Auditor's Report provides the opinion of whether these financial statements are fairly stated in accordance with accounting principles generally accepted in the United States of America.

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

The Statement of Net Position and the Statement of Revenues, Expenses and Change in Net Position provide information covering the entirety of Gateway's financial activities. Gateway has only one major fund for its business operations activities.

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

The Statement of Net Position includes all Assets, Deferred Outflows, Liabilities and Deferred Inflows. This report provides a snapshot of Gateway's Total Net Position value as of December 31, 2022. This report answers the question "What is our financial status at 2022 year-end?".

The Statement of Revenues, Expenses and Changes in Net Position summarizes all Gateway financial transactions for the year 2022, calculates the Change in Net Position for the year, and calculates the Net Position as of the end of the year. This Change in Net Position is key because it answers the question "How did we do financially during 2022?".

Business-wide Financial Analysis

Table 1 provides a summary of Gateway's overall Net Position as of year-end for 2022 and 2021.

Table 1

	<u>2022</u>	<u>2021</u>
ASSETS:		
Current Assets-Unrestricted	\$ 686,281	\$ 597,104
Current Assets-Restricted	771,368	269,705
Non-Current Assets	381,719,084	400,557,031
Total Assets	\$ 383,176,733	\$ 401,423,840
LIABILITIES:		
Current Liabilities	\$ 9,312,457	\$ 10,009,204
Non-Current Liabilities	298,457,184	293,883,465
Total Liabilities	\$ 307,769,641	\$ 303,892,669
Net Position		
Net Investment in Capital Assets	\$ 77,175,896	\$ 98,873,566
Restricted for Capital Repairs	771,368	269,705
Unrestricted	(2,540,172)	(1,612,100)
Total Net Position at End of Year	\$ 75,407,092	\$ 97,531,171

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
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Management's Discussion and Analysis
For the Year Ended December 31, 2022
(Unaudited)

In the case of Gateway, the vast majority of Total Assets and Total Liabilities are capital related. As a result, acquisitions and disposals of capital assets, as well as their associated depreciation, amortization, and interest expenses have a significant impact on Gateway's Total Net Position from one year to the next.

Total Assets equaled \$383,176,733 as of December 31, 2022. Total Assets decreased \$18,247,107 in 2022. This is primarily due to depreciation and amortization of capital (Non-Current) assets in 2022 being \$18,831,872 greater than new capital asset additions were in 2022.

Table 2 on the following page provides a Summary of Gateway's Revenues, Expenses, and Changes in Net Position for 2022 and 2021.

Net Position on December 31, 2022 totaled \$75,407,092. The \$22,124,079 decrease from 2021 was due to the combination of a \$29,876,015 Operating Net Loss and a \$7,751,936 Non-Operating Net Income for the year 2022.

Lease Income was \$4,506,848 in 2022. This was a \$384,012 increase compared to 2021. The increase was due to \$62,710 increased base rent receipts and \$117,489 increased additional rent receipts in 2022, and \$203,813 prior year rent credits applied to base rent receipts in 2021.

Other Operating Revenues totaled \$2,730,186 in 2022. This was a \$526,480 increase compared to 2021. The increase was mostly due to \$429,741 increased Ballpark Capital Repair Revenue compared to 2021.

Operating expenses for 2022 totaled \$37,113,049, which was an increase of \$2,318,404 from 2021. The increase is primarily due to increases in Depreciation and Amortization for both facilities. Additionally, Repairs & Maintenance Expense increased back to its pre-pandemic level and Gateway filled two vacant positions and added an employer matching contribution to its 401(k)-benefit plan.

Non-Operating Revenues totaled \$24,966,048 in 2022, which was a \$1,169,639 increase from 2021. This increase was due to Ballpark Improvement Project Revenue, which was a new revenue source in 2022. Ballpark Improvement Revenue was \$4,161,379 in 2022. Capital Improvement Revenue and Capital Alteration Revenue decreased a combined \$2,796,529 in 2022 versus 2021.

Non-Operating Expenses totaled \$17,214,112 in 2022, which was an \$8,751,967 decrease from 2021. This decrease was mostly due to Losses on Disposals of Assets being \$9,127,084 less in 2022 than in 2021.

Operating Budget Highlights

For 2022, Gateway's approved operating budget of \$4,831,047 was paid by the teams as rent pursuant to the leases.

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 separate operating budgets for each team to determine their rents for the coming year. After Gateway and the teams agree to their respective budgets, a consolidated budget is presented to Gateway's Board of Trustees for final approval. After Board approval, Gateway meets monthly with each team to review financial reports comparing actual results to budget amounts. Financial reports are also submitted to the Board of Trustee members for review at meetings. Gateway has responsibility for Major Capital Repairs for both facilities and Minor Capital repairs for the stadium. Teams are responsible for routine maintenance of facilities and equipment.

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

Management's Discussion and Analysis
For the Year Ended December 31, 2022
(Unaudited)

Table 2

	<u>2022</u>	<u>2021</u>
Operating Revenues		
Lease Income	\$ 4,506,848	\$ 4,122,836
Other	2,730,186	2,203,706
	<hr/>	<hr/>
Total Operating Revenues	7,237,034	6,326,542
Operating Expenses		
Administrative and General	1,301,102	1,317,411
Depreciation and Amortization	30,328,219	28,707,164
Salaries and Related Expenses	1,155,454	928,738
Professional Fees	277,752	181,744
Property Tax Expense	1,697,816	1,572,383
Security Expense	704,621	714,459
Repairs and Maintenance	1,648,085	1,372,746
	<hr/>	<hr/>
Total Operating Expense	37,113,049	34,794,645
Operating Loss	(29,876,015)	(28,468,103)
Non-Operating Revenues		
Admissions Tax	8,423,275	8,464,363
Capital Improvement Revenue	6,810,471	8,737,015
Capital Alteration Improvement Revenue	75,364	945,349
Transformation Project Revenue	5,491,853	5,458,038
Ballpark Improvement Project Revenue	4,161,379	0
Gain on PPP Loan Forgiveness	0	191,572
Investment Income	3,706	72
	<hr/>	<hr/>
Total Non-Operating Revenues	24,966,048	23,796,409
Non-Operating Expenses		
Interest Expense	11,223,060	10,945,430
Transformation Project Expense	5,555,525	5,458,038
Loss on Disposal of Assets	435,527	9,562,611
	<hr/>	<hr/>
Total Non-Operating Expense	17,214,112	25,966,079
Net Non-Operating Income	<hr/>	<hr/>
	7,751,936	(2,169,670)
Net Position		
Net Decrease in Net Position	(22,124,079)	(30,637,773)
Total Net Position at Beginning of Year	97,531,171	128,168,944
	<hr/>	<hr/>
Total Net Position at End of Year	\$ 75,407,092	\$ 97,531,171

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

Management's Discussion and Analysis
For the Year Ended December 31, 2022
(Unaudited)

Table 3 below shows a summary of Gateway's Capital Assets, Net of Accumulated Depreciation.

Gateway's Net investment in Capital Assets as of December 31, 2022, totaled \$381,719,084, marking a decrease of \$18,837,947 from the prior year. This was mostly due to depreciation and amortization of capital assets in 2022 being \$18,295,657 greater than new capital asset additions were in 2022. The selling of a developmental parcel of land to the Cleveland Guardians, in accordance with their new lease, reduced Total Capital Assets by \$435,527.

Construction in Progress shows total expenditures to-date for projects under way at both the Ballpark and the Arena. As of December 31, 2022, ongoing projects at the Ballpark include the Ballpark Improvement Project, building automation systems, and replacement of lower bowl seating. Ongoing projects at the Arena include box office renovation and a laser system, both of which are being funded by the Cleveland Cavaliers.

**Table 3
Capital Assets
Net of Accumulated Depreciation**

	<u>2022</u>	<u>2021</u>
Land	\$ 22,672,522	\$ 23,108,049
Construction In Progress	<u>5,895,001</u>	<u>8,589</u>
Total non-Depreciable Capital Assets	28,567,523	23,116,638
Depreciable Capital Assets (Net)		
Stadium	65,841,001	72,198,323
Arena	286,110,673	302,692,960
Site	155,835	770,057
Capitalized Costs	988,365	1,779,053
Furniture, Fixtures, and Equipment	0	0
Right to Use Asset	<u>55,687</u>	<u>0</u>
Depreciable Net Assets	353,151,561	377,440,393
Total	<u>\$ 381,719,084</u>	<u>\$ 400,557,031</u>

Table 4 on the following page summarizes Gateway's long-term loan obligations outstanding.

At the end of 2022, Gateway had Long Term Obligations outstanding totaling \$152,793,299. Gateway's revolving loan balance with Cuyahoga County accounted for \$120,859,299 of this amount. Under the revolving loan agreement, as amended, Gateway is obligated to make payments to the County contingent upon and to the extent of Gateway's "net revenue." However, "net revenue" as defined in the loan agreement is limited to funds available after payment of all of Gateway's operating expenses, taxes and obligations under the team leases including Major Capital Repairs and, under the Guardians' recent lease, Minor Capital Repairs. Based on the nature of the definition of "net revenue" in the loan agreement, Gateway has not historically and does not

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
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Management's Discussion and Analysis
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(Unaudited)

reasonably expect in the future to have “net revenue” and, therefore, Gateway does not expect to be able to pay back the note payable amount. In the absence of Gateway “net revenue”, Gateway has no payment obligation under the note and is not in default for non-payment. Moreover, the County bonds underlying the revolving loan fund have now matured and, therefore, the principal payments on the bonds no longer act as a credit to the revolving debt balance.

**Table 4
Outstanding Long-Term Obligations at Year End**

	<u>2022</u>	<u>2021</u>
Notes Payable:		
Cuyahoga County	\$ 120,859,299	\$ 128,984,299
Cleveland Development Partnership	31,934,000	31,934,000
Wells Fargo	7,148	0
	<hr/>	<hr/>
Subtotal	152,800,447	160,918,299
Less-Current Portion	(6,312,148)	(8,040,000)
	<hr/>	<hr/>
Total	<u>\$ 146,488,299</u>	<u>\$ 152,878,299</u>

Economic Factors and Next Year's 2023 Budget

Gateway and the Guardians negotiated an Amended and Restated Lease Agreement effective January 1, 2022, that extended the term of the lease between Gateway and the Guardians through 2036, a two five-year, convertible to ten-year, Gateway vesting option to renew, potentially extending the lease term through 2046. As part of the Amended and Restated Lease, the Guardians, Gateway, the City of Cleveland, Cuyahoga County and State of Ohio approved the Ballpark Improvement Project. The Project includes major modifications and improvements to the Ballpark including transformation of the left field terraces, redesign of the right field upper deck and concourse, dugout area redesign, service level and clubhouse modernization, and administrative office renovation and connection to the Gateway Plaza. The total construction costs of the Ballpark Improvement Project are estimated at \$202.5 million with Gateway paying construction costs of \$135 million through a \$122,590,000 non-taxable bond issue by Cuyahoga County and \$2 million in proceeds from the sale of the Gateway Development Parcel to the Guardians plus other public funding sources from the City of Cleveland, Cuyahoga County and the State of Ohio and the Guardians paying the remaining \$67.5 million of the construction costs through a \$67.5 million taxable bond issued by Cuyahoga County to be paid by the Guardians through the Lease as additional rent. The Guardians have also agreed to pay any cost overruns that may arise on the Project.

In September 2017 Gateway entered into a lease and management agreement with the Cavaliers providing primarily for the lease and management of the Field House. The term of the agreement is through the 2034 season with two successive five-year options. The agreed rent consists of the funds necessary to permit Gateway to meet its obligations to the Cavaliers under the terms of the agreement (other than Major Capital) and common area agreement, including non-major capital repairs, real estate taxes, overhead expenses, and common area expenses. Gateway and the Cavaliers also approved the Transformation project. This is a significant capital addition to the north side of Rocket Mortgage Field House providing a large Glass Façade and an improved entranceway with shops, restaurants, meeting areas and concessions that make it a more “up to

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

Management's Discussion and Analysis
For the Year Ended December 31, 2022
(Unaudited)

date" facility to meet current and future needs. This project was to be publicly funded by the County along with other various assessments for a total of \$140 Million with the Cavaliers repaying \$70 million of the funding via additional rent under their lease. The Cavaliers also agreed to pay all additional costs/overruns above \$140 million. This project was completed in the beginning of 2020.

As we analyze the last few years, the leases signed by both teams have worked largely as anticipated. Gateway has had a predictable stream of Team Rent Revenues to cover its operating expenses, and voter-approved Excise Tax Revenue has provided funding for owner obligated Capital Repairs to both sports venues.

Gateway's notes payable to the County, the Cleveland Development Partnership, and Cleveland Foundation/Cuyahoga County are subject to revolving loan agreements. Gateway's obligation is to make "net revenue" payments to each entity contingent on and to the extent of Gateway's "net revenue." However, "net revenue" as defined in each of the loan agreements is limited to funds available after payment of all of Gateway's operating expenses, taxes and obligations under the team leases including Major Capital Repairs and, under the Guardians' recent lease, Minor Capital Repairs. Based on the nature of the definition of "net revenue" in the loan agreements, Gateway has not historically and does not reasonably expect in the future to have "net revenue" and, therefore, Gateway does not expect to be able to pay back these note payable amounts. In the absence of Gateway "net revenue", Gateway has no payment obligation under the notes and is not in default for non-payment.

The Gateway\sports team leases represent a reaffirmation of Memoranda of Understanding between Gateway and the Cleveland Cavaliers and Gateway and the Cleveland Guardians and help protect the financial interests of Gateway. 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. Both teams and Gateway's Board of Trustees have approved Gateway's 2023 operations budget totaling \$4,990,735. Included in this budget are estimated Real Estate Taxes of \$1,588,113 and special assessments totaling \$125,627 due to The Gateway Complex being located within the Downtown Cleveland Business Improvement District.

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, or phone no. 216-420-4071.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION
OF GREATER CLEVELAND**

*Statement of Net Position
As of December 31, 2022*

Assets

Current Assets - Unrestricted

Cash	\$	392,418
Investments		252,125
Prepaid Expenses and Other Assets		41,738
		<u>686,281</u>

Current Assets-Restricted

Cash		740,811
Investments		30,557
		<u>771,368</u>

Total Current Assets 1,457,649

Non-Current Assets

Sports Facility Project:		
Land		22,672,522
Stadium		256,147,478
Arena		422,068,648
Site		40,112,313
Capitalized Costs		23,720,720
Furniture, Fixtures and Equipment		111,480
Right to Use Asset, net		55,687
Construction in Progress		5,895,001
		<u>770,783,849</u>

Less: Accumulated Depreciation 389,064,765

Total Non-Current Assets 381,719,084

Total Assets \$ 383,176,733

See accompanying notes to the financial statements.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION
OF GREATER CLEVELAND**

*Statement of Net Position
As of December 31, 2022*

Liabilities and Net Position

Current Liabilities

Accounts Payable	\$ 894,198
Accrued Expenses	77,212
Property Taxes Payable	1,694,685
Unearned Revenue	320,358
Current Portion of Long Term Debt	6,312,148
Current Portion of Lease Liability	<u>13,856</u>
Total Current Liabilities	<u>9,312,457</u>

Non-Current Liabilities

Long Term Debt, Less Current Portion	146,488,299
Long Term Lease Liability, Less Current Portion	41,831
Long Term Accrued Interest	151,687,054
Refundable Deposits	<u>240,000</u>
Total Non-Current Liabilities	<u>298,457,184</u>

Total Liabilities 307,769,641

Net Position

Net Investment in Capital Assets	77,175,896
Restricted for Capital Repairs	771,368
Unrestricted	<u>(2,540,172)</u>

Total Net Position \$ 75,407,092

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, 2022*

Operating Revenues

Lease Income	\$ 4,506,848
Other	2,730,186
Total Operating Revenues	<u>7,237,034</u>

Operating Expenses

Administrative and General	1,301,102
Depreciation and Amortization	30,328,219
Salaries and Related Expenses	1,155,454
Professional Fees	277,752
Property Tax Expense	1,697,816
Security Expense	704,621
Repairs and Maintenance	1,648,085
Total Operating Expense	<u>37,113,049</u>

Operating Loss	<u>(29,876,015)</u>
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Non-Operating Revenues

Admission Taxes	8,423,275
Capital Improvement Revenue	6,810,471
Capital Alteration Improvement Revenue	75,364
Transformation Project Revenue	5,491,853
Ballpark Improvement Project Revenue	4,161,379
Investment Income	3,706
Total Non-Operating Revenues	<u>24,966,048</u>

Non-Operating Expenses

Interest Expense	11,223,060
Transformation Project Expense	5,555,525
Loss on Disposal of Assets	435,527
Total Non-Operating Expense	<u>17,214,112</u>

Net Non-Operating Income	<u>7,751,936</u>
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Change in Net Position	(22,124,079)
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Net Position - Beginning of Year	<u>97,531,171</u>
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Net Position - End of Year	<u>\$ 75,407,092</u>
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See accompanying notes to the financial statements.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION
OF GREATER CLEVELAND**

Statement of Cash Flows

For the Year Ended December 31, 2022

Cash Flows from Operating Activities

Cash Received from Lease Revenue	\$ 4,590,255
Cash Received from Other Revenue	2,603,133
Cash Paid for Administrative and General	(1,273,090)
Cash Paid for Salaries and Related Expenses	(1,091,497)
Cash Paid for Professional Fees	(277,752)
Cash Paid for Property Tax Expense	(1,575,520)
Cash Paid for Security Expense	(704,621)
Cash Paid for Repairs and Maintenance	(773,442)
Net Cash Provided by Operating Activities	<u>1,497,466</u>

Cash Flows from Capital and Related Financing Activities

Cash Received from Capital Improvement Revenue	6,810,471
Cash Received from Capital Alteration Improvement Revenue	75,364
Cash Received from Transformation Project Revenue	5,491,853
Bond Transformation Project Payment	(5,555,525)
Cash Received from Ballpark Improvement Project Revenue	4,161,379
Cash Received from Admission Tax	8,423,275
Cash Received from Wells Fargo Loan	15,595
Investment Income	3,706
Interest Payments	(301,172)
Purchase of Investments	(282,682)
Site Capital Improvements	(11,870,112)
Principal Paid on Wells Fargo Loan	(8,447)
Principal Paid on Bonds Payable	(8,125,000)
Net Cash Used by Capital and Related Financing Activities	<u>(1,161,295)</u>

Net Increase in Cash and Cash Equivalents 336,171

Cash and Cash Equivalents at Beginning of Year 797,058

Cash and Cash Equivalents at End of Year \$ 1,133,229

Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities

Operating (Loss)	\$ (29,876,015)
Adjustments to Reconcile to Net Cash (Used) by Operating Activities:	
Depreciation and amortization	30,328,219
Net Changes in Operating Assets and Liabilities:	
Decrease in Prepaid Expenses and Other Assets	28,013
Increase in Accounts Payable	874,643
Decrease in Accrued Expenses	63,957
Decrease in Property Taxes Payable	122,296
Increase in Unearned Revenue	(43,647)
Net Cash Provided by Operating Activities	<u><u>\$ 1,497,466</u></u>

See accompanying notes to the financial statements.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(CONTINUED)**

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 (Stadium), multipurpose arena (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 Gateway 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 Gateway's 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." Gateway's investments are in U.S. Government Treasury bills, Treasury Notes and Federated Government Obligations with a maturity of less than twelve months.

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:

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(CONTINUED)**

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.

The Rocket Mortgage Fieldhouse Transformation Project was completed during 2020. The project 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 three series of bond issues through Cuyahoga County, agreed to pay construction costs up to \$140 million. The Cavaliers agreed to pay additional rent to repay one series of bonds of \$70 million and pay any construction costs in excess of \$140 million. The total cost of the project capitalized in 2020 was \$196,464,694.

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 are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Deferred Outflows/Inflows of Resources (Continued)

consumption of net assets that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time.

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 assets that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

As of December 31, 2022, Gateway did not have any Deferred Inflows or Deferred Outflows of Resources.

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 other income. Revenues and expenses not meeting these definitions are reported as non-operating.

I. Adoption of GASB Statement No. 87, "Leases"

Effective January 1, 2022, Gateway adopted GASB Statement No. 87, "Leases" (GASB 87). The new standard establishes a Right Of Use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the statement of net position for all leases with terms longer than 12 months. All leases are classified as finance leases. Leases with a term of less than 12 months will not record an ROU asset and lease liability, and the payments will be recognized into revenue and expense on a straight-line basis over the lease term.

The adoption of GASB 87 resulted in the recognition of an operating ROU asset of \$18,376 and an operating lease liability of \$18,376 as of January 1, 2022.

3. CASH AND INVESTMENTS

Cash on Hand

At December 31, 2022, 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.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(CONTINUED)**

3. CASH AND INVESTMENTS (Continued)

Cash on Deposit

At fiscal year ended December 31, 2022, Gateway had the following:

<u>Account Type</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Business Bank Accounts	\$ 392,218	\$740,811	\$1,133,029
Investment Accounts	<u>252,125</u>	<u>30,557</u>	<u>282,682</u>
Total Cash and Investments	<u>\$ 644,343</u>	<u>\$771,368</u>	<u>\$1,415,711</u>

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, \$883,029 of Gateway's bank balance of \$1,133,029 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money have been followed, noncompliance with federal requirements could potentially subject Gateway to a successful claim by the F.D.I.C.

Restricted Cash

Restricted cash and cash equivalents of \$771,368, at December 31, 2022, include funds maintained for capital repairs and capital improvements.

Investment accounts are not insured by the FDIC.

4. LONG-TERM DEBT OBLIGATIONS

Long-term debt outstanding at December 31, 2022 is as follows:

	<u>Stated</u>	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
	<u>Interest Rate</u>	<u>12/31/2021</u>	<u>Increase</u>	<u>Decrease</u>	<u>12/31/2022</u>	<u>Due in One</u>
						<u>Year</u>
Notes Payable:						
Cuyahoga County	Variable	\$128,984,299	\$8,423,275	\$16,548,275	\$120,859,299	\$6,305,000
Cleveland Development Partnership	3%-6.25%	31,934,000			31,934,000	
Wells Fargo	0%	-	15,595	8,447	7,148	7,148
		160,918,299	8,438,870	16,556,722	152,800,447	6,312,148
Less-Current Portion		(8,040,000)		1,727,852	(6,312,148)	
Total long-term debt less						
current portion		<u>\$152,878,299</u>	<u>\$8,438,870</u>	<u>14,828,870</u>	<u>\$146,488,299</u>	<u>\$6,312,148</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(CONTINUED)**

4. LONG-TERM DEBT OBLIGATIONS (Continued)

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, 2022, Gateway has borrowed \$120.9 million, including interest, under the Revolving Loan Agreement. Gateway is responsible to pay interest on the County bonds to the extent interest expense exceed interest earned by the County on bonds proceeds which have not been borrowed by Gateway. Interest payable included in the notes payable to the County totaled approximately \$66.6 million at December 31, 2022.

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 2022, the Bureau did not make any payments pursuant to the amended Cooperative Agreement (See Note 9, Incremental Transient Occupancy Tax Credit.)

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.

C. Other Long-Term Debt

During 2022, Gateway financed the \$15,595 purchase of a Bobcat utility vehicle with Wells Fargo Vendor Financial Services, LLC (Wells Fargo). The note is payable in twenty-four monthly installments of \$650, principal only. The outstanding balance at December 31, 2022 is \$7,148 and the note is due in November 2023.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(CONTINUED)**

4. LONG-TERM DEBT OBLIGATIONS (Continued)

D. Debt to Maturity

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

	<u>Principal</u>
2023	\$6,312,148
2024	-
2025	-
2026	-
2027	-
Amount Thereafter	<u>146,488,299</u>
	<u><u>\$152,800,447</u></u>

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.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(CONTINUED)**

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2022 was as follows:

	<u>1/1/2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2022</u>
Non-depreciable capital assets:				
Land	\$ 23,108,049	\$ -	\$ 435,527	\$ 22,672,522
Construction in Progress	8,589	5,886,412	-	5,895,001
Total non-depreciable capital assets:	23,116,638	5,886,412	435,527	28,567,523
Depreciable capital assets:				
Stadium	252,911,268	3,236,210	-	256,147,478
Arena	419,481,425	2,587,223	-	422,068,648
Site	39,952,046	160,267	-	40,112,313
Capitalized Costs	23,720,720	-	-	23,720,720
Furniture, Fixtures and Equipment	111,480	-	-	111,480
Right to Use Asset, net	-	55,687	-	55,687
Total depreciable capital assets:	736,176,939	6,039,387	-	742,216,326
	<u>1/1/2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2022</u>
Accumulated Depreciation:				
Stadium	180,712,945	9,593,532	-	190,306,477
Arena	116,788,465	19,169,510	-	135,957,975
Site	39,181,989	774,489	-	39,956,478
Capitalized Costs	21,941,667	790,688	-	22,732,355
Furniture, Fixtures and Equipment	111,480	-	-	111,480
Total accumulated depreciation:	358,736,546	30,328,219	-	389,064,765
Depreciable net assets, net of accumulated depreciation	377,440,393	(24,288,832)	-	353,151,561
Capital assets, net	<u>\$400,557,031</u>	<u>\$(18,402,420)</u>	<u>\$435,527</u>	<u>\$381,719,084</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(CONTINUED)**

6. LEASES

The initial lease Gateway entered into was a 20-year lease agreement with the Cleveland Indians and Management Agreement with the Ballpark Management Company (the "Indians" n/k/a "Guardians") 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 certain of its obligations to the Guardians under the terms of the lease and common area agreements, including funds to pay ballpark real estate taxes, overhead expenses, and common area expenses. In September 2008, a new lease was entered into with the Guardians (the "2008 Lease"). Gateway was still responsible for Major Capital Repairs under the 2008 Lease.

Gateway and the Guardians entered into an Amended and Restated Lease Agreement effective January 1, 2022, that extended the term of the lease between Gateway and the Guardians through 2036, with a five-year, convertible to ten-year, Gateway vesting options to renew, potentially extending the lease term through 2046. As part of the Amended and Restated Lease, the Guardians, Gateway, the City of Cleveland, Cuyahoga County and State of Ohio approved the Ballpark Improvement Project. The Project includes major modifications and improvements to the Ballpark including transformation of the left field terraces, redesign of the right field upper deck and concourse, dugout area redesign, service level and clubhouse modernization, and administrative office renovation and connection to the Gateway Plaza. The total construction cost of the Ballpark Improvement Project is \$202.5 million with Gateway paying construction costs of \$135 million through a \$122,590,000 non-taxable bond issue by Cuyahoga County and \$2 million in proceeds from the sale of the Gateway Development Parcel to the Guardians plus other public funding sources from the City of Cleveland, Cuyahoga County and State of Ohio and the Guardians paying the remaining \$67.5 million of the construction costs through a \$67.5 million taxable bond issue by Cuyahoga County to be paid by the Guardians through the Lease as additional rent. The Guardians have also agreed to pay any cost overruns that may arise on the Project. (See Note 11, Sale of Gateway Development Parcel.)

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 team options. The agreed rent consists of the funds necessary to permit Gateway to meet certain of its obligations to the Cavaliers under the terms of the Agreement and Common Area Agreement, including real estate taxes, overhead expenses, and common area expenses. Gateway is still responsible for Major Capital Repairs under the lease.

Leases for the year ended December 31, 2022 under GASB 87:

Gateway has two leases in place to support its operations that are accounted for in accordance with GASB 87. These leases are for equipment used for project maintenance. Gateway made cash payments of \$13,798 relating to these operating leases in 2022. Gateway also rents land under a lease for \$150,000 in 2022 which renews annually on January 1. The land is used for supplemental parking by Guardian's employees and gameday workers.

Noncash activities involving ROU assets in exchange for operating lease liabilities totaled \$66,588 for 2022, including the impact of adopting GASB 87, effective January 1, 2022.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(CONTINUED)**

6. LEASES (Continued)

Operating lease ROU assets and liabilities at December 31, 2022 are as follows:

Right of use asset	\$ 67,678
Less: Accumulated amortization	<u>11,991</u>
Right of use asset, net	<u>\$55,687</u>
Current portion of lease liability	\$ 13,856
Long-Term portion of lease liability	<u>41,831</u>
	<u>\$ 55,687</u>

Operating lease expense included in the Statement of Revenues, Expenses and Changes in Net Position was \$10,901 for the year ended December 31, 2022.

The weighted average remaining lease term related to Gateway's operating lease liabilities was 4.0 years as of December 31, 2022. The discount rate related to Gateway's lease liabilities as of December 31, 2022, was 5.75%. The discount rate is generally based on Gateway's estimated incremental borrowing rate, as the discount rates implicit in Gateway's leases cannot be readily determined.

Lease liability maturities as of December 31, 2022, are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2023	\$16,577
2024	16,577
2025	15,212
2026	11,118
2027	<u>2,779</u>
Total undiscounted liabilities	62,263
Less: present value discount	<u>(6,576)</u>
Total Lease Liability	<u>\$55,687</u>

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.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(CONTINUED)**

7. PARKING FACILITIES (Continued)

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 Each Occurrence, General Aggregate \$2 Million.

Limitation of coverage to designated premises: "Common areas between Rocket Mortgage Fieldhouse and Progressive Field defined as interior streets, underground service area, east garage bridge (skywalk), interior streets, sidewalks, plaza, parking areas, and underground dock areas located in the underground service level."

Commercial Umbrella: Policy limits \$5 Million

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 thirteen 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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(CONTINUED)**

9. INCREMENTAL TRANSIENT OCCUPANCY TAX CREDIT (Continued)

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.

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 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.

During 2020, the Bureau's annual credit payment obligation ceased as the County surpassed the \$75,000,000 debt repayment threshold outlined in Section 10 of the Bed Tax Agreement.

10. 401(k) PROFIT SHARING PLAN AND TRUST

Gateway sponsors a 401(k) plan which provides employees the ability to defer up to 96% of their annual compensation up to a maximum of \$20,500 for 2022. Employees over the age of 50 may make a catch-up contribution not to exceed \$6,500 for 2022. Gateway makes a matching contribution up to a maximum of 3% of employee wages at 100%. Gateway's matching contributions of employee elective deferrals for 2022 were \$21,873. The plan also provides for Gateway to make discretionary contributions. There were no discretionary contributions for 2022.

11. SALE OF GATEWAY DEVELOPMENT PARCEL

On January 1, 2022, Gateway entered into an agreement to sell an undeveloped parcel of land to the Guardians for \$2,000,000. The transaction closed on April 13, 2022 when funds were transferred to the County's Ballpark Improvement Fund. See Note 6. Leases.

12. SUBSEQUENT EVENTS

Gateway evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date the financial statements were available to be issued.

In January 2023, The State of Ohio through its Facilities Construction Commission awarded Gateway a \$30,000,000 grant to finance a portion of renovation at the Stadium. Final approval by the Ohio Facilities Construction Commission for disbursement of funds is expected in August 2023.

OHIO AUDITOR OF STATE KEITH FABER



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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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Gateway Economic Development Corporation of Greater Cleveland, Cuyahoga County, (Gateway) as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Gateway's basic financial statements and have issued our report thereon dated October 23, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Gateway's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gateway's internal control. Accordingly, we do not express an opinion on the effectiveness of Gateway's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Gateway's financial statements will not be prevented, or detected and corrected, on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gateway's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Gateway's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Gateway's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

October 23, 2023

OHIO AUDITOR OF STATE KEITH FABER



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

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 11/9/2023

88 East Broad Street, Columbus, Ohio 43215
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This report is a matter of public record and is available online at
www.ohioauditor.gov