

CITY OF CLEVELAND, OHIO



**DEPARTMENT OF PARKS, RECREATION & PROPERTIES
DIVISION OF PARKING FACILITIES**

**REPORT ON AUDITS OF FINANCIAL STATEMENTS
For the years ended December 31, 2002 and 2001**

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PARKS, RECREATION & PROPERTIES DIVISION OF PARKING FACILITIES

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Division of Parking Facilities
Department of Parks, Recreation, and Properties
City of Cleveland
Cuyahoga County
601 Lakeside Avenue
Cleveland, Ohio 44114

To the Honorable Jane L. Campbell, Mayor, Members of Council, and the Audit Committee:

We have audited the accompanying financial statements of the Division of Parking Facilities, Department of Parks, Recreation, and Properties, City of Cleveland, Ohio, as of and for the years ended December 31, 2002 and December 31, 2001, as listed in the table of contents. These financial statements are the responsibility of the Division of Parking Facilities' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Division of Parking Facilities and do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2002 and December 31, 2001, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division of Parking Facilities as of December 31, 2002 and December 31, 2001, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Betty Montgomery
Auditor of State

June 26, 2003

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**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES**

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's Department of Parks, Recreation & Properties, Division of Parking Facilities (the "Division"), we offer readers of the Division's financial statements this narrative overview and analysis of the financial activities of the Division for the fiscal year ended December 31, 2002. Please read this information in conjunction with the Division's financial statements and footnotes that begin on page 10.

The Division was created for the purpose of providing moderately priced off-street parking facilities to citizens within the City of Cleveland (the "City"). The Division's operating revenues are derived from charges for parking at its facilities and from parking meter collections. In 2002, the Division's facilities included four parking garages and eight surface lots.

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities at December 31, 2002 by \$18,607,000 (net assets). Of this amount, \$8,249,000 (unrestricted net assets) may be used to meet the Division's ongoing obligations to customers and creditors.
- The Division's total net assets decreased by \$172,000 during 2002. This was primarily due to a 7.1 percent decrease in revenues from the prior year, which was the result of a \$766,000, or 39.6 percent drop in Gateway Garage parking revenues.
- The Division's total debt decreased by \$1,965,000 (2.6 percent) during the current fiscal year. This amount represents the principal payment made in 2002 on its outstanding revenue bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Division's basic financial statements. The accompanying financial statements present financial information for the City of Cleveland's Division of Parking Facilities Fund, in which the City accounts for the activities of off-street parking operations. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Division of Parking Facilities Fund is considered an enterprise fund because the operations of the Division are similar to a private-sector business enterprise. Accordingly, in accounting for the activities of the Division, the economic resources measurement focus and the accrual basis of accounting is used. This is similar to businesses in the private sector.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The basic financial statements of the Division can be found on pages 10 - 15 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 16 - 26 of this report.

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Division as of December 31, 2002 and 2001:

	<u>2002</u>	<u>2001</u>	<u>Increase/ (Decrease)</u>
	(In thousands)		
Assets:			
Current assets	\$ 4,500	\$ 3,773	727
Restricted assets	15,519	16,296	(777)
Unamortized bond issuance costs	1,039	1,126	(87)
Capital assets	<u>65,670</u>	<u>67,412</u>	<u>(1,742)</u>
Total assets	<u><u>86,728</u></u>	<u><u>88,607</u></u>	<u><u>(1,879)</u></u>
Net Assets and Liabilities:			
Liabilities:			
Current liabilities	3,608	3,772	(164)
Payable from restricted assets	17	17	
Long term liabilities	<u>64,496</u>	<u>66,039</u>	<u>(1,543)</u>
Total liabilities	68,121	69,828	(1,707)
Net assets:			
Invested in capital assets, net of related debt	(835)	(530)	(305)
Restricted for debt service	11,193	11,883	(690)
Unrestricted	<u>8,249</u>	<u>7,426</u>	<u>823</u>
Total net assets	<u>18,607</u>	<u>18,779</u>	<u>(172)</u>
Total net assets and liabilities	<u><u>\$ 86,728</u></u>	<u><u>\$ 88,607</u></u>	<u><u>\$ (1,879)</u></u>

Assets:

Current and restricted assets: These have remained relatively constant from the prior period with the increase in current assets generally offsetting the decrease in restricted assets.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Capital assets: The Division's investment in capital assets as of December 31, 2002 amounted to \$65,670,000 (net of accumulated depreciation). The total decrease in the Division's investment in capital assets for the current fiscal year was 2.6 percent and almost entirely the result of depreciation expense for the period. A summary of the activity in the Division's capital assets during the year ended December 31, 2002 is as follows:

	Balance January 1, 2002	Additions	Reductions	Balance December 31, 2002
(In thousands)				
Land	\$ 12,929	\$	\$	\$ 12,929
Land improvements	1,264			1,264
Buildings, structures and improvements	65,200			65,200
Furniture, fixtures and equipment	793	141	(609)	325
Total	80,186	141	(609)	79,718
Accumulated depreciation	(12,774)	(1,849)	575	(14,048)
Net book value	\$ 67,412	\$ (1,708)	\$ (34)	\$ 65,670

There were no major events during the current fiscal year affecting the Division's capital assets.

Additional information on the Division's capital assets can be found in Notes A and E.

Liabilities:

Long-term debt: At the end of the current fiscal year, the Division had total debt outstanding (excluding unamortized discounts, premiums and losses on debt refundings) of \$73,555,000. The bonds are backed by the revenues generated by the Division as well as additional pledged revenues, which consist of various non-tax revenues.

The Division's debt was incurred to construct two new parking garages around the Gateway site and a new Willard Park Garage behind City Hall. The City's first garage on the Gateway site was completed in January 1994. The second garage was completed in August 1994. The Willard Park Garage construction was completed in April 1996. The City has pledged the net revenues from these facilities, as well as additional pledged revenues, which consist of various non-tax revenues, to meet debt service requirements, if necessary. In 2002 and 2001, no additional pledged revenue was required to meet the debt service on the parking bonds.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

The activity in the Division's debt obligation outstanding during the year ended December 31, 2002 is summarized below (excluding unamortized discounts, premiums and losses on debt refundings):

	Balance January 1, 2002	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2002
	(In thousands)				
Parking Facility Improvement Revenue Bonds	\$ 75,520	\$	\$	\$ (1,965)	\$ 73,555

The 2002 bond ratings for the Division's revenue bonds are as follows:

Moody's Investors Service	Standard & Poor's	Fitch Investors Service
Aaa	AAA	AAA

These are insured ratings only. The Division has no ratings on its bonds based solely on its own credit.

Additional information on the Division's long-term debt can be found in Note B on pages 18 - 19.

Net Assets: Net assets serves as a useful indicator of a government's financial position. In the case of the Division, assets exceeded liabilities by \$18,607,000 at the close of the most recent fiscal year.

By far, the largest portion of the Division's net assets, \$11,193,000 (60 percent), represents resources that are classified as restricted since their use is limited by the bond indentures. In addition, the Division has a net deficit of (\$835,000) that reflects its investment in capital assets (e.g., land, buildings, furniture), net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. The \$8,249,000 balance of unrestricted net assets may be used to meet the Division's ongoing obligations to customers and creditors.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS INFORMATION

The Division's operations decreased net assets by \$172,000 during 2002 and increased net assets by \$136,000 during 2001. Key elements of these are summarized below:

	<u>2002</u>	<u>2001</u>	<u>Increase/ (Decrease)</u>
	(In thousands)		
Operating revenues	\$ 7,444	\$ 8,021	\$ (577)
Operating expenses	<u>3,603</u>	<u>3,847</u>	<u>(244)</u>
Operating income	3,841	4,174	(333)
Non-operating revenue (expense):			
Investment income	465	762	(297)
Interest expense	(4,416)	(4,784)	368
Amortization of bond issuance costs and discount	(88)	(89)	1
Other revenue	<u>5</u>	<u>5</u>	<u>(5)</u>
Total non-operating revenue (expense), net	(4,039)	(4,106)	67
Capital and Other Contributions	<u>26</u>	<u>68</u>	<u>(42)</u>
Change in net assets	(172)	136	(308)
Net assets, beginning of year	<u>18,779</u>	<u>18,643</u>	<u>136</u>
Net assets, end of year	<u>\$ 18,607</u>	<u>\$ 18,779</u>	<u>\$ (172)</u>

Operating revenues: Operating revenues decreased \$577,000 from 2001 to 2002. Although the Division showed general increases in most operating revenue sources from 2001 to 2002, these increases were offset by a \$766,000 or 39.6 percent drop in Gateway Garage parking revenues. This was due to a significant decrease in attendance at professional sporting events at Jacob's Field and Gund Arena.

Operating expenses: Operating expenses generally increased across all categories with the exception of a \$347,000 or 49.1 percent decrease in contractual services, which resulted in an overall decrease in operating expenses of \$244,000.

The net affect of the decreases in operating revenues and operating expenses was a \$333,000 decrease in operating income in 2002 from 2001.

Investment income: Investment income dropped \$297,000 from 2001 to 2002 due to substantially lower interest rates.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

**FACTORS EXPECTED TO IMPACT THE DIVISION'S FUTURE
FINANCIAL POSITION OR RESULTS OF OPERATIONS**

Operating revenues decreased 7.2 percent from 2001. Reduced operating expenses were not sufficient to offset the reduced operating revenue stream resulting in an 8 percent drop in operating income in 2002 from 2001. The Division showed general increases in most operating revenue sources from 2001 to 2002, however, these increases were offset by 39.6 percent drop in Gateway Garage parking revenues which are dependant on attendance at professional sporting events at Jacob's Field and Gund Arena in addition to daily parking fees.

Operating revenues are derived primarily from fees charged to users of City-owned parking garages and facilities operated by the Division including the net income from the Gateway garages and on-street parking meter revenue. The following events occurred subsequent to December 31, 2002 affecting the Division's operating revenues:

- City Council passed an ordinance, on February 12, 2003, increasing parking fees at the Willard Park Garage, Convention Center Garage, Canal Basin Lot, and North Coast Municipal Parking Lot. These increases are projected to generate \$439,000 in additional operating revenues annually.
- The North Mall parking lot was permanently closed on March 31, 2003. This lot generated \$377,000 in parking fees in 2002.

If the decline in operating revenues and operating income continues, City Council has the authority to further increase parking fees to assist the Division in meeting operational and debt commitments.

ADDITIONAL INFORMATION

This financial report is designed to provide a general overview of the Division's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Finance Director, City Hall, Room 104, 601 Lakeside Avenue, Cleveland, Ohio 44114.

BASIC FINANCIAL STATEMENTS

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PARKS, RECREATION AND PROPERTIES

DIVISION OF PARKING FACILITIES

BALANCE SHEETS

December 31, 2002 and 2001

	<i>(In thousands)</i>	
	2002	2001
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,318	\$ 3,515
Investments	2,000	
Accounts receivable - net of allowance	23	120
Due from other City of Cleveland departments, divisions or funds	157	120
Inventory of supplies, at cost	2	18
TOTAL CURRENT ASSETS	4,500	3,773
RESTRICTED ASSETS		
Cash and cash equivalents	15,516	16,173
Accrued interest receivable	3	123
TOTAL RESTRICTED ASSETS	15,519	16,296
UNAMORTIZED BOND ISSUANCE COSTS	1,039	1,126
CAPITAL ASSETS		
Land	12,929	12,929
Land improvements	1,264	1,264
Buildings, structures and improvements	65,200	65,200
Furniture, fixtures and equipment	325	793
	79,718	80,186
Less: Accumulated depreciation	(14,048)	(12,774)
CAPITAL ASSETS, NET	65,670	67,412
TOTAL ASSETS	\$ 86,728	\$ 88,607

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PARKS, RECREATION & PROPERTIES

DIVISION OF PARKING FACILITIES

BALANCE SHEETS

December 31, 2002 and 2001

	<i>(In thousands)</i>	
	2002	2001
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	\$ 2,075	\$ 1,965
Accounts payable	32	201
Due to other governments	79	78
Due to other City of Cleveland departments, divisions or funds	118	60
Accrued interest payable	1,197	1,352
Accrued wages and benefits	107	116
TOTAL CURRENT LIABILITIES	3,608	3,772
PAYABLE FROM RESTRICTED ASSETS	17	17
LONG TERM LIABILITIES		
Revenue bonds - excluding amount due within one year	64,438	65,985
Accrued wages and benefits	58	54
TOTAL LONG TERM LIABILITIES	64,496	66,039
TOTAL LIABILITIES	68,121	69,828
NET ASSETS		
Invested in capital assets, net of related debt	(835)	(530)
Restricted for debt service	11,193	11,883
Unrestricted	8,249	7,426
TOTAL NET ASSETS	18,607	18,779
TOTAL LIABILITIES AND NET ASSETS	\$ 86,728	\$ 88,607

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CITY OF CLEVELAND, OHIO

DEPARTMENT OF PARKS, RECREATION AND PROPERTIES DIVISION OF PARKING FACILITIES STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For the Years Ended December 31, 2002 and 2001

	<i>(In thousands)</i>	
	2002	2001
OPERATING REVENUES		
Charges for services	\$ 7,444	\$ 8,021
TOTAL OPERATING REVENUES	7,444	8,021
OPERATING EXPENSES		
Operations	1,799	2,075
Maintenance	70	68
Depreciation	1,734	1,704
TOTAL OPERATING EXPENSES	3,603	3,847
OPERATING INCOME	3,841	4,174
NON-OPERATING REVENUE (EXPENSE)		
Investment income	465	762
Interest expense	(4,416)	(4,784)
Amortization of bond issuance costs and discount	(88)	(89)
Other revenue	5	5
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	(4,039)	(4,106)
INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	(198)	68
Capital and other contributions	26	68
INCREASE (DECREASE) IN NET ASSETS	(172)	136
NET ASSETS, beginning of year	18,779	18,643
NET ASSETS, end of year	\$ 18,607	\$ 18,779

See notes to financial statements.

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PARKS, RECREATION AND PROPERTIES

DIVISION OF PARKING FACILITIES

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2002 and 2001

	<i>(In thousands)</i>	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 7,902	\$ 7,901
Cash payments to suppliers for goods or services	(1,250)	(1,051)
Cash payments to employees for services	(924)	(810)
	<hr/>	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,728	6,040
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Other non-operating revenues		5
		<hr/>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES		5
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long-term debt	(1,965)	(1,875)
Interest paid on long-term debt	(4,207)	(4,294)
	<hr/>	<hr/>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(6,172)	(6,169)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(2,000)	(20,238)
Proceeds from sale and maturity of investment securities		29,884
Interest received on investments	590	1,096
	<hr/>	<hr/>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(1,410)	10,742
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,854)	10,618
CASH AND CASH EQUIVALENTS, beginning of year	<hr/> 19,688	<hr/> 9,070
CASH AND CASH EQUIVALENTS, end of year	<hr/> \$ 17,834	<hr/> \$ 19,688

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PARKS, RECREATION AND PROPERTIES

DIVISION OF PARKING FACILITIES

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2002 and 2001

	<i>(In thousands)</i>	
	2002	2001
RECONCILIATION OF OPERATING INCOME TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 3,841	\$ 4,174
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,734	1,704
Changes in assets and liabilities:		
Accounts receivable, net	97	(28)
Due from other City of Cleveland departments, divisions or funds	(37)	267
Inventory of supplies	16	(1)
Accounts payable	23	(117)
Due to other governments	1	6
Due to other City of Cleveland departments, divisions or funds	58	48
Accrued wages and benefits	(5)	(13)
TOTAL ADJUSTMENTS	1,887	1,866
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 5,728	\$ 6,040

See notes to financial statements.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES**

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2002 and 2001**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Division of Parking Facilities (Division) is reported as an enterprise fund of the City of Cleveland's (the "City") Department of Parks, Recreation and Properties and is a part of the City of Cleveland's (City) primary government. The Division was created for the purpose of providing moderately priced off-street parking facilities to citizens within the City. The following is a summary of the more significant accounting policies.

Reporting Model and Basis of Accounting: The accounting policies and financial reporting practices of the Division comply with accounting principles generally accepted in the United States of America applicable to governmental units. Effective January 1, 2002, the Division changed its financial reporting by implementing the provisions of Statement No. 34 of the Governmental Accounting Standards Board (GASB), *Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These "Reporting Model" statements affect the way the Division prepares and presents financial information. As a result of the implementation of these new GASB statements, the amount previously reported as the Division's equity is now reported as the Division's net assets in the accompanying balance sheets, and the net assets are divided into three categories as follows:

- Amount invested in capital assets, net of related debt.
- Amount restricted for debt service.
- Remaining unrestricted amount.

In addition, certain additional financial information regarding the Division is included in these footnotes. The implementation of the new GASB statements did not result in a change in the Division's beginning net asset/equity balance as previously reported.

Basis of Accounting: The Division's financial statements are prepared under the accrual basis of accounting. Under this method, revenues are recognized when earned and measurable and expenses are recognized as incurred. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Activities*, all Proprietary Funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, Proprietary Funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements (unless they conflict with GASB pronouncements). The City has chosen not to apply future FASB standards.

Revenues: Revenues are derived primarily from fees charged to users of City-owned parking garages and facilities operated by the Division including the net income from the Gateway garages and on-street parking meter revenue. Parking rates are authorized by City Council. Parking fees are collected on a daily basis or monthly basis.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES**

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2002 and 2001**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Cash Flows: The Division utilizes the direct method of reporting for the statement of cash flows as defined by the GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. In the statement of cash flows, cash receipts and cash payments are classified according to operating, non-capital financing, capital and related financing, and all investment activities.

Cash and Cash Equivalents: Cash and cash equivalents represent cash on hand and cash deposits maintained by the City Treasurer on behalf of the Division. Cash equivalents are defined as highly liquid investments with a maturity of three months or less when purchased.

Investments: The Division follows the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair values of investments at year-end are based on market quotes, where available.

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2002 and 2001. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2002 and 2001.

Restricted Assets: Proceeds from debt and amounts set aside in various fund accounts for payment of debt are classified as restricted assets since their use is limited by the underlying loan agreement.

Capital Assets and Depreciation: Capital assets are stated on the basis of historical cost or, if contributed, at fair market value as of the date received. Depreciation is computed by allocating the cost of capital assets over the estimated useful lives of the assets using the straight-line method. A fixed asset is defined as a tangible item with a useful life in excess of one year and an individual cost of more than \$5,000 for furniture, fixtures, and equipment and \$10,000 for all other assets. When capital assets are disposed of, the cost and related accumulated depreciation are removed from the accounts with gains or losses on disposition being reflected in operations. The estimated useful lives are as follows:

Land improvements	15 to 20 years
Buildings, structures and improvements	20 to 50 years
Furniture, fixtures and equipment	5 to 20 years

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES**

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2002 and 2001**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences: The Division accrues for compensated absences such as vacation, sick leave and compensatory time using the termination payment method specified under GASB Statement No. 16, *Accounting for Compensated Absences*. These amounts are recorded as accrued wages and benefits in the accompanying balance sheets. The portion of the compensated absence liability that is not expected to be paid or utilized within one year is reported as a long-term liability.

Normally, all vacation time is to be taken in the year available unless written approval for carryover of vacation time is obtained. Sick days not taken may be accumulated until retirement. An employee is paid one-third of accumulated sick leave upon retirement, calculated at current wage rates, with the balance being forfeited.

Bond Issuance Costs, Discount and Unamortized Loss on Debt Refunding: Bond issuance costs are initially recorded as deferred expenses and unamortized original issuance discounts are netted against long-term debt. Both are amortized over the lives of the related bonds. Unamortized loss on debt refunding is netted against long-term debt and is amortized over the shorter of the remaining life of the defeased bond or the newly issued bond.

NOTE B - LONG-TERM DEBT

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

	<u>Interest Rate</u>	<u>Original Issuance</u>	<u>2002</u> (In thousands)	<u>2001</u>
Parking Facility Improvement Revenue Bonds due through 2022	4.45%-6.00%	\$ <u>81,105</u>	\$ 73,555	\$ 75,520
Less:				
Unamortized loss on debt refunding			(6,039)	(6,548)
Unamortized discount			(1,003)	(1,022)
Current portion			<u>(2,075)</u>	<u>(1,965)</u>
Total Long-Term Debt			<u>\$ 64,438</u>	<u>\$ 65,985</u>

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES**

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2002 and 2001**

NOTE B - LONG-TERM DEBT (Continued)

Summary: Changes in long-term obligations for the year ended December 31, 2002 are as follows:

	Balance January 1, 2002	Increase	Decrease	Balance December 31, 2002	Due Within One Year
	(In thousands)				
Parking Facility Improvement Revenue Bonds due through 2022	\$ 75,520	\$	\$ (1,965)	\$ 73,555	\$ 2,075

Minimum principal and interest payments on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	(In thousands)		
2003	\$ 2,075	\$ 4,104	\$ 6,179
2004	2,175	3,995	6,170
2005	2,305	3,864	6,169
2006	2,445	3,726	6,171
2007	2,590	3,580	6,170
2008-2012	15,435	15,429	30,864
2013-2017	20,160	10,696	30,856
2018-2022	<u>26,370</u>	<u>4,506</u>	<u>30,876</u>
Total	<u>\$ 73,555</u>	<u>\$ 49,900</u>	<u>\$ 123,455</u>

The proceeds from the Parking Facility Improvement Revenue Bonds Series 1992 were used to construct two new parking garages around the Gateway site and a new Willard Park Garage behind City Hall. The City's first garage on the Gateway site was completed in January 1994. The second garage was completed in August 1994. The Willard Park Garage construction was completed in April 1996.

The City has pledged the net revenues of the parking facilities, as defined in the trust indenture, as well as additional pledged revenues which consist of various non-tax revenues, to meet debt service requirements, if necessary. In 2002 and 2001, no additional pledged revenue was required to meet the debt service on the parking bonds. The trust indenture requires, among other things, that the Division will fix parking rates and will charge and collect fees for the use of the Parking Facilities, and will restrict operating expenses. As of December 31, 2002 and 2001, the Division was in compliance with the terms and requirements of the trust indenture.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES**

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2002 and 2001**

NOTE B - LONG-TERM DEBT (Continued)

Defeasance of Parking Facility Improvement Revenue Bonds: In 1996, the Division defeased 1992 Parking Facility Revenue Bonds by placing the proceeds of 1996 Parking Facility Revenue Bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements. The aggregate amounts of this defeased debt at December 31, 2002 and 2001 are \$0 and \$64,085,000, respectively.

NOTE C - RECEIVABLE FROM GATEWAY ECONOMIC DEVELOPMENT CORPORATION

In accordance with an agreement with Gateway Economic Development Corporation (Gateway), Gateway is required to reimburse the City for the excess of the debt service requirements of the Parking Facility Improvement Revenue Bonds attributed to the two Gateway garages over the net revenues generated by the two Gateway garages.

In 2002 and 2001, net revenues generated by the two Gateway garages were less than the debt service payments attributed to those garages by \$3,005,000 and \$2,373,000, respectively. Cumulative debt service payments funded by the City that are due from Gateway totaled \$22,217,000 and \$19,212,000 at December 31, 2002 and 2001, respectively. Due to the uncertainty of collecting such amounts, an allowance has been recorded to offset the amounts in full.

NOTE D - DEPOSITS AND INVESTMENTS

Deposits: The carrying amount of the Division's deposits at December 31, 2002 and December 31, 2001 totaled \$6,578,000 and \$13,706,000, respectively, and the Division's bank balances were \$6,278,000 and \$13,707,000, respectively.

Based on the criteria described in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, \$97,000 and \$61,000 of the bank balances at December 31, 2002 and 2001, respectively, were insured or collateralized with securities held by the City or by its agent in the City's name. At December 31, 2002 and 2001, \$6,181,000 was invested in Bank Investment Contracts secured by securities held by the pledging institution's trust department, but not in the City's name. The remaining balance of \$7,465,000 at December 31, 2001, was deposited into a collective investment pool managed by JPMorgan, as trustee.

Investments: The City's investment policies are governed by state statutes and City ordinances, which authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; bonds and other State obligations; certificates of deposit; U.S. Government Money Market Mutual Funds; STAROhio; guaranteed investment contracts and repurchase transactions. Such repurchase transactions must be purchased from financial institutions or registered broker/dealers. Repurchase transactions are not to exceed a period of one year and confirmation of securities pledged must be obtained.

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DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
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**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2002 and 2001**

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

Under City policy, investments are limited to repurchase agreements, U.S. Government securities, certificates of deposit, investments in certain money market mutual funds, and STAROhio. Generally, investments are recorded in segregated accounts by way of book entry through the banks' commercial or trust department and are kept at the Federal Reserve Bank in the depository institutions' separate custodial account for the City, apart from the assets of the depository institution. Ohio statute prohibits the use of Reverse Repurchase Agreements.

Investment securities are exposed to various risks such as interest rate, market and credit. Market values of securities fluctuate based on the magnitude of changing market conditions; significant changes in market conditions could materially affect portfolio value.

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements*, requires the City to categorize its investments into one of three credit risk categories:

Category 1: Includes insured or registered, or securities held by the City or its agent in the City's name.

Category 2: Includes uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

Category 3: Includes uninsured and unregistered, with securities held by the counterparty, or its trust department or agent, but not in the City's name.

The categorized investments shown in the following table include those which are classified as cash and cash equivalents in the balance sheet in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

<u>Type of Investment</u>	<u>Risk Category</u>	<u>2002 Fair Value</u>	<u>2002 Cost</u>	<u>2001 Fair Value</u>	<u>2001 Cost</u>
(In thousands)					
U.S. Agency Obligation	1	\$ 2,000	\$ 2,000	\$	\$
STAROhio	n/a	1,937	1,937	3,493	3,493
Investment in Mutual Funds	n/a	3,587	3,587	2,489	2,489
Other	n/a	5,732	5,732		
Total Investments		13,256	13,256	5,982	5,982
Total Deposits		6,578	6,578	13,706	13,706
Total Deposits and Investments		<u>\$ 19,834</u>	<u>\$ 19,834</u>	<u>\$ 19,688</u>	<u>\$ 19,688</u>

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
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**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2002 and 2001**

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

STAROhio investments and investments in mutual funds are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form. Amounts represented by "Other" consist of deposits into a collective pool managed by JPMorgan, as trustee.

NOTE E – CAPITAL ASSETS

Capital Asset Activity: Capital asset activity for the year ended December 31, 2002 was as follows:

	Balance January 1, 2002	Additions	Reductions	Balance December 31, 2002
	(In thousands)			
Capital assets, not being depreciated:				
Land	\$ 12,929	\$	\$	\$ 12,929
Total capital assets, not being depreciated	12,929			12,929
Capital assets, being depreciated:				
Land improvements	1,264			1,264
Buildings, structures and improvements	65,200			65,200
Furniture, fixtures and equipment	793	141	(609)	325
Total capital assets, being depreciated	67,257	141	(609)	66,789
Less: Accumulated depreciation	(12,774)	(1,849)	575	(14,048)
Total capital assets being depreciated, net	54,483	(1,708)	(34)	52,741
Capital assets, net	\$ 67,412	\$ (1,708)	\$ (34)	\$ 65,670

NOTE F - PENSION AND RETIREMENT PLANS

All full-time employees participate in the Ohio Public Employees Retirement Systems (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Ohio Public Employees Retirement Board (the "Board"). OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

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**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2002 and 2001**

NOTE F - PENSION AND RETIREMENT PLANS (Continued)

Plan members are required to contribute 8.5 percent of their annual salary to fund pension obligations. The 2002 and 2001 employer contribution rates for the Division were 13.55 percent of covered payroll. Contributions are authorized by State statute. The contribution rates are determined actuarially. The Division's required contributions to OPERS for the years ended December 31, 2002, 2001, and 2000 were \$95,000, \$83,000, and \$81,000, respectively. The required amounts have been contributed for 2002, 2001, and 2000.

NOTE G - OTHER POSTEMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care based on authority granted by State statute. The 2002 and 2001 employer contribution rate was 13.55 percent of covered payroll; 5.0 percent in 2002 and 4.30 percent in 2001 was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2001, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no-change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The number of active contributing participants was 402,041 at December 31, 2001. The Division's actual contributions for 2002, which were used to fund post-retirement benefits, was \$35,000. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2001, (the latest information available) were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$16.4 billion and \$4.8 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present plan.

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**NOTES TO FINANCIAL STATEMENTS (Continued)
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NOTE G - OTHER POSTEMPLOYMENT BENEFITS (Continued)

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

NOTE H - RELATED PARTY TRANSACTIONS

Revenues and Accounts Receivable: The Division provides parking facilities at usual and customary rates to various departments and divisions of the City of Cleveland. The Division operates certain garages and parking lots on behalf of other City divisions. The professional management fees recorded by the Division to operate the garages and parking lots are as follows:

	2002	2001
	(In thousands)	
Division of Convention Center	\$ 208	\$ 192
Department of Community Development	439	194

Operating Expenses: The Division is provided various services by other City divisions. Charges are based on actual usage or on a reasonable pro rata basis. The more significant expenses included in the statements of operations for the years ended December 31, 2002 and 2001 are as follows:

	2002	2001
	(In thousands)	
Parks Maintenance	\$ 105	\$ 96
Motor Vehicle Maintenance	21	16

NOTE I - CONTINGENT LIABILITIES AND RISK MANAGEMENT

Contingent Liabilities: Various claims are pending against the City involving the Division for personal injuries, property damage and other matters. The City is responsible for the lawsuits. The City's management is of the opinion that ultimate settlement of such claims will not result in a material adverse effect on the Division's financial position, results of operations or cash flows.

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**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2002 and 2001**

NOTE I - CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

Risk Management: The Division is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Division is generally self-insured. No material losses, including incurred but not reported losses, occurred in 2002.

The City provides the choice of four separate health insurance plans for its employees. These plans are provided by two different insurers through commercial insurance. Operating funds are charged a monthly rate per employee, by type of coverage. The City participates in the State of Ohio workers' compensation program to provide workers' compensation benefits to its employees.

In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses, regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Claims liability for the Division is immaterial.

NOTE J – LEASES

The Division leases the land for various parking facilities to management companies under non-cancelable lease agreements, which expire at various times through the year 2056. Revenues generated from such leases totaled \$180,000 in 2002 and 2001. Future minimum rentals on non-cancelable leases are as follows:

(In thousands)	
2003	\$ 180
2004	180
2005	180
2006	180
2007	180
Thereafter	<u>6,540</u>
	\$ 7,440

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**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2002 and 2001**

NOTE K – SUBSEQUENT EVENTS

In February 2003, the Division entered into an agreement with UBS Paine Webber (UBS) in which UBS paid the Division \$3,275,000 for the right to enter into a floating-to-fixed swap on the Parking Facilities Refunding Revenue Bonds, Series 1996, 90 days prior to the bonds' call date (September 15, 2006). If UBS exercises its option, the Division will issue variable rate bonds to refund the outstanding Parking Revenue Bonds. The Division will then pay a fixed rate, initially at the rate of 4.911%, while UBS will pay a floating rate of 67% of one month LIBOR. The Division's synthetic fixed payments created in this transaction are structured to equal the prior debt service on the 1996 Bonds.

The City Council passed an ordinance on February 12, 2003, which increased parking fees at the Willard Park Garage, Cleveland Convention Center Garage, Canal Basin Lot, and North Coast Municipal Parking Lot. The increase is projected to generate \$439,000 in parking fees annually for the Division.

The North Mall parking lot was permanently closed on March 31, 2003 to allow for the Mall "C" Park Renovation. This parking lot generated \$377,000 in operating revenues for the Division in 2002.