

CITY OF CLEVELAND, OHIO



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

**REPORT ON AUDITS OF FINANCIAL STATEMENTS
For the years ended December 31, 2004 and 2003**

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 basic 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, 2004 and December 31, 2003, 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 audit to reasonably assure 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 opinions.

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, 2004 and December 31, 2003, 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, 2004 and December 31, 2003, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

May 31, 2005

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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 (the "City") Department of Parks, Recreation and 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 year ended December 31, 2004. Please read this information in conjunction with the Division's financial statements and footnotes which begin on pages 16 and 23, respectively.

The Division was created for the purpose of providing moderately priced off-street parking facilities and on-street metered parking to citizens, visitors, and those who work in the City. The Division's operating revenues are derived primarily from charges for parking at its facilities and from parking meter collections. In 2004, the Division's facilities included four parking garages and seven surface lots. In 2003, the Division's facilities also included one additional surface lot; however, this surface lot was permanently closed on March 31, 2003 and converted into a public park.

COMPARISON OF 2004 DATA TO 2003 DATA

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities at December 31, 2004 by \$18,107,000 (net assets). Of this amount, \$12,000 (unrestricted net assets) may be used to meet the Division's ongoing obligations to customers and creditors.
- The Division's total net assets increased by \$163,000 during 2004. This was primarily due to the increase in charges for services revenue of \$594,000 which was attributable to increased attendance at Gateway events, rent accruals and meter collections. The increase in revenue was partially offset by the increase in operating expenses of \$204,000. In addition, total non-operating expenses net of non-operating revenues decreased by \$436,000.
- The Division's total debt decreased by \$2,175,000 (3.0%) during the current year. This amount represents the principal payment made in 2004 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 and meter revenue collections. 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 16 - 21 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 23 - 35 of this report.

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Division as of December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>	<u>Increase/ (Decrease)</u>
	(In thousands)		
Assets:			
Current assets	\$ 601	\$ 379	\$ 222
Restricted assets	19,150	19,193	(43)
Unamortized bond issuance costs	870	953	(83)
Capital assets, net	<u>62,424</u>	<u>63,988</u>	(1,564)
Total assets	83,045	84,513	(1,468)
Net Assets and Liabilities:			
Liabilities:			
Current liabilities	3,876	3,724	152
Long term liabilities	<u>61,062</u>	<u>62,845</u>	(1,783)
Total liabilities	64,938	66,569	(1,631)
Net assets:			
Invested in capital assets, net of related debt	(876)	(972)	96
Restricted for capital projects	4,380	4,042	338
Restricted for debt service	14,591	14,678	(87)
Unrestricted	<u>12</u>	<u>196</u>	(184)
Total net assets	<u>18,107</u>	<u>17,944</u>	163
Total net assets and liabilities	<u>\$ 83,045</u>	<u>\$ 84,513</u>	\$ (1,468)

Assets:

Current and restricted assets: The Division's total assets remained relatively constant from 2003 to 2004. The increase in current assets is primarily due to the increases in the unrestricted cash and cash equivalents and accounts receivable, which is associated with the North Point rental agreement. The increases in current assets were partially offset by the decrease in restricted assets and unamortized bond issuance costs. The decreases in restricted assets and unamortized bond issuance costs were associated with the debt payments made by the Division during 2004.

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 (net of accumulated depreciation) as of December 31, 2004 amounted to \$62,424,000. The total decrease in the Division's investment in capital assets for the current year was \$1,564,000, or 2.4 percent, and was primarily due to the increase in accumulated depreciation for depreciation expense recognized during 2004. A summary of the activity in the Division's capital assets during the year ended December 31, 2004 is as follows:

	Balance January 1, 2004	Additions	Reductions	Transfers	Balance December 31, 2004
	(In thousands)				
Land	\$ 12,929	\$	\$	\$	\$ 12,929
Land improvements	1,256				1,256
Buildings, structures and improvements	65,200				65,200
Furniture, fixtures, equipment and vehicles	305	137		126	568
Total	79,690	137	-	126	79,953
 Accumulated depreciation	(15,702)	(1,745)		(82)	(17,529)
 Net book value	\$ 63,988	\$ (1,608)	\$ -	\$ 44	\$ 62,424

There were no major events during the current 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 year, the Division had total debt outstanding of \$69,305,000. This 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 bonds are backed by the net revenues from these facilities. In addition, the City has pledged additional revenues, which consist of various non-tax revenues, to meet debt service requirements, if necessary. In 2004 and 2003, no additional pledged revenue was required to meet the debt service requirements on the parking bonds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED BALANCE SHEET INFORMATION (Continued)

The activity in the Division's debt obligation outstanding during the year ended December 31, 2004 is summarized below:

	Balance January 1, 2004	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2004
	(In thousands)				
Parking Facility Improvement Revenue Bonds	\$ 71,480	\$ _____	\$ _____	\$ (2,175)	\$ 69,305

The 2004 bond ratings for the Division's revenue bonds are as follows:

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

The bond ratings indicated above 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 25 - 28.

Net Assets: Net assets serve as a useful indicator of a government's financial position. In the case of the Division, assets exceeded liabilities by \$18,107,000 at December 31, 2004.

The largest portion of the Division's net assets, \$18,971,000, 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 (\$876,000) 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 \$12,000 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

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

The Division's operations increased net assets by \$163,000 and decreased net assets by \$663,000 during 2004 and 2003, respectively. Key elements of these activities are summarized below:

	<u>2004</u>	<u>2003</u>	<u>Increase/ (Decrease)</u>
	(In thousands)		
Operating revenues	\$ 8,000	\$ 7,406	\$ 594
Operating expenses	<u>3,833</u>	<u>3,629</u>	204
Operating income	4,167	3,777	390
Non-operating revenue (expense):			
Investment income	494	658	(164)
Other revenue		3	(3)
Interest expense	(4,472)	(4,595)	(123)
Amortization of bond issuance costs and discount	(83)	(85)	(2)
Loss on disposal of capital assets		(20)	(20)
Premium received on interest rate swap agreement		3,275	(3,275)
Operating transfers out	<u> </u>	<u>(3,733)</u>	(3,733)
Total non-operating revenue (expense), net	(4,061)	(4,497)	(436)
Capital and other contributions	<u>57</u>	<u>57</u>	-
Change in net assets	163	(663)	826
Net assets, beginning of year	<u>17,944</u>	<u>18,607</u>	(663)
Net assets, end of year	<u>\$ 18,107</u>	<u>\$ 17,944</u>	\$ 163

Operating revenues: Operating revenues increased \$594,000, or 8.0%, from 2003 to 2004. The Division experienced fairly consistent collections from operating revenue sources from 2003 to 2004; however, notable exceptions include the Gateway Garage, North Point and parking meter collections. These increases were due to increased attendance at Gateway events, the recognition of accruals for rent at year end and a bank settlement, respectively. These increases were able to offset decreases in revenue from other lots and the permanent closing of the North Mall parking lot, which was closed March 31, 2003 and converted to a public park.

Operating expenses: Operating expenses increased \$204,000, or 5.6%, in 2004. Of this increase, \$171,000, or 9.2%, in expenses was associated with operations due to higher personnel and related costs and the remaining amount was an increase in expenses associated with maintenance and depreciation of \$7,000 and \$26,000, respectively.

As a result of these increases, operating income increased \$390,000, or 10.3%, in 2004 from 2003.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CONDENSED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS INFORMATION (Continued)**

Non-operating revenues and expenses: Non-operating revenues decreased \$3,442,000 or approximately 87.5% from 2003 to 2004. This decrease was due to a premium received on an interest rate swap agreement of \$3,275,000 in 2003. Non-operating expenses decreased \$3,878,000 or 46.0% in 2004. This decrease is due to \$3,733,000 transferred to other funds in 2003 for debt service payments made in prior years.

COMPARISON OF 2003 DATA TO 2002 DATA

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities at December 31, 2003 by \$17,944,000 (net assets). Of this amount, \$196,000 (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 \$663,000 during 2003. This was primarily due to the transfers to other funds to repay amounts that were transferred in during previous years to fund debt service payments in prior years. The impact of the amounts transferred out was lessened by the premium received by the Division under the interest rate swap agreement. In addition, the Division experienced a 1.7 percent decrease in operating income from the prior year, which was the result of a net decrease in parking revenues due primarily to the closing of the North Mall lot on March 31, 2003.
- The Division's total debt decreased by \$2,075,000 (2.8%) during the current year. This amount represents the principal payment made in 2003 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 and meter revenue collections. 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 16 - 21 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 23 - 35 of this report.

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Division as of December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>	<u>Increase/ (Decrease)</u>
	(In thousands)		
Assets:			
Current assets	\$ 379	\$ 4,500	\$ (4,121)
Restricted assets	19,193	15,519	3,674
Unamortized bond issuance costs	953	1,039	(86)
Capital assets, net	<u>63,988</u>	<u>65,670</u>	(1,682)
Total assets	84,513	86,728	(2,215)
Net Assets and Liabilities:			
Liabilities:			
Current liabilities	3,724	3,608	116
Payable from restricted assets		17	(17)
Long term liabilities	<u>62,845</u>	<u>64,496</u>	(1,651)
Total liabilities	66,569	68,121	(1,552)
Net assets:			
Invested in capital assets, net of related debt	(972)	(835)	(137)
Restricted for capital projects	4,042	4,016	26
Restricted for debt service	14,678	11,193	3,485
Unrestricted	<u>196</u>	<u>4,233</u>	(4,037)
Total net assets	<u>17,944</u>	<u>18,607</u>	(663)
Total net assets and liabilities	<u>\$ 84,513</u>	<u>\$ 86,728</u>	\$ (2,215)

Assets:

Current and restricted assets: The Division's total assets remained relatively constant from 2002 to 2003. The increase in restricted assets was offset by the decrease in current assets. The increase in restricted assets was due to the cash from the premium received by the Division under the interest rate swap agreement due to the external restrictions placed on this amount. The decrease in current assets was primarily due to transfers made by the Division to other funds for repayment of prior years' debt payments.

**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, 2003 amounted to \$63,988,000 (net of accumulated depreciation). The total decrease in the Division's investment in capital assets for the current year was \$1,682,000, or 2.6%, and was due almost entirely to the increase in accumulated depreciation for depreciation expense recognized during 2003. A summary of the activity in the Division's capital assets during the year ended December 31, 2003 is as follows:

	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003
	(In thousands)			
Land	\$ 12,929	\$	\$	\$ 12,929
Land improvements	1,264	57	(65)	1,256
Buildings, structures and improvements	65,200			65,200
Furniture, fixtures, equipment and vehicles	325	_____	(20)	305
Total	79,718	57	(85)	79,690
Accumulated depreciation	(14,048)	(1,719)	65	(15,702)
Net book value	\$ 65,670	\$ (1,662)	\$ (20)	\$ 63,988

There were no major events during the current 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 year, the Division had total debt outstanding of \$71,480,000. This 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 bonds are backed by the net revenues from these facilities. In addition, the City has pledged additional revenues, which consist of various non-tax revenues, to meet debt service requirements, if necessary. In 2003 and 2002, no additional pledged revenue was required to meet the debt service requirements 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, 2003 is summarized below:

	Balance January 1, 2003	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2003
	(In thousands)				
Parking Facility Improvement Revenue Bonds	\$ 73,555	\$	\$	\$ (2,075)	\$ 71,480

The 2003 bond ratings for the Division's revenue bonds are as follows:

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

The bond ratings indicated above 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 25 - 28.

Net Assets: Net assets serve as a useful indicator of a government's financial position. In the case of the Division, assets exceeded liabilities by \$17,944,000 at December 31, 2003.

By far, the largest portion of the Division's net assets, \$18,720,000, 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 (\$972,000) 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 \$196,000 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 \$663,000 and \$172,000 during 2003 and 2002, respectively. Key elements of these activities are summarized below:

	<u>2003</u>	<u>2002</u>	<u>Increase/ (Decrease)</u>
	(In thousands)		
Operating revenues	\$ 7,406	\$ 7,444	\$ (38)
Operating expenses	<u>3,629</u>	<u>3,603</u>	26
Operating income	3,777	3,841	(64)
Non-operating revenue (expense):			
Investment income	658	465	193
Other revenue	3		3
Interest expense	(4,595)	(4,416)	179
Amortization of bond issuance costs and discount	(85)	(88)	(3)
Loss on disposal of capital assets	(20)		20
Premium received on interest rate swap agreement	3,275		3,275
Operating transfers out	<u>(3,733)</u>	<u> </u>	3,733
Total non-operating revenue (expense), net	(4,497)	(4,039)	(458)
Capital and other contributions	<u>57</u>	<u>26</u>	31
Change in net assets	(663)	(172)	(491)
Net assets, beginning of year	<u>18,607</u>	<u>18,779</u>	(172)
Net assets, end of year	<u>\$ 17,944</u>	<u>\$ 18,607</u>	\$ (663)

Operating revenues: Operating revenues decreased \$38,000, or .51%, from 2002 to 2003. The Division experienced fairly consistent collections from operating revenue sources from 2002 to 2003; however, notable exceptions include the North Mall parking lot and parking meter collections. The North Mall parking lot was permanently closed March 31, 2003 resulting in a decrease in revenue from this lot of \$283,000 or 75.5% from 2002 to 2003. This decrease was partially offset by the increase in parking meter collections of \$251,000, or 15.1%. In addition, the Division raised the monthly parking rate at the Willard Park Garage in March 2003. However, the increase in revenue from the rate increase was offset by a decrease in the number of monthly parking customers and a decrease in parking spaces sold for special events in 2003.

Operating expenses: Operating expenses increased \$26,000, or 0.7%, in 2003. The increase of \$51,000, or 2.8%, in expenses associated with operations was due to higher personnel and related costs. This was partially offset by decreases in expenses associated with maintenance and depreciation of \$10,000 and \$15,000, respectively. The net effect of the decreases in operating revenues and operating expenses was a \$64,000, or 1.7%, decrease in operating income in 2003 from 2002.

**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 (Continued)**

Non-operating revenues and expenses: Non-operating revenues increased \$3,471,000 from 2002 to 2003. This increase was primarily due to a premium received on an interest rate swap agreement of \$3,275,000 in 2003. In addition, investment income increased \$193,000 from 2002 to 2003 due to an increase in amounts available for investment throughout the year. Non-operating expenses increased \$3,929,000 from 2002 to 2003. This increase is primarily due to \$3,733,000 transferred to other funds in 2003 for debt service payments made in prior years.

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

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 permanent closing of the North Mall parking lot will result in lost revenue for the Division in future years.

The Division is currently assessing their operations to improve efficiencies, identify additional revenue sources and improve existing revenue sources.

City Council has the authority to further increase parking fees when deemed necessary to assist the Division in meeting operational and debt commitments as economic circumstances dictate.

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

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CITY OF CLEVELAND, OHIO

DEPARTMENT OF PARKS, RECREATION AND PROPERTIES

DIVISION OF PARKING FACILITIES

BALANCE SHEETS

December 31, 2004 and 2003

	<i>(In thousands)</i>	
	2004	2003
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 342	\$ 201
Investments		
Accounts receivable - net of allowance	142	10
Due from other City of Cleveland departments, divisions or funds	61	99
Inventory of supplies, at cost	56	69
TOTAL CURRENT ASSETS	<u>601</u>	<u>379</u>
RESTRICTED ASSETS		
Cash and cash equivalents	18,988	19,030
Accrued interest receivable	162	163
TOTAL RESTRICTED ASSETS	<u>19,150</u>	<u>19,193</u>
UNAMORTIZED BOND ISSUANCE COSTS	870	953
CAPITAL ASSETS		
Land	12,929	12,929
Land improvements	1,256	1,256
Buildings, structures and improvements	65,200	65,200
Furniture, fixtures, equipment and vehicles	568	305
	<u>79,953</u>	<u>79,690</u>
Less: Accumulated depreciation	(17,529)	(15,702)
CAPITAL ASSETS, NET	<u>62,424</u>	<u>63,988</u>
TOTAL ASSETS	<u>\$ 83,045</u>	<u>\$ 84,513</u>

(Continued)

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PARKS, RECREATION & PROPERTIES
DIVISION OF PARKING FACILITIES
BALANCE SHEETS
December 31, 2004 and 2003

	<i>(In thousands)</i>	
	2004	2003
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	\$ 2,305	\$ 2,175
Accounts payable	30	26
Due to other governments	168	168
Due to other City of Cleveland departments, divisions or funds	114	72
Accrued interest payable	1,127	1,165
Accrued wages and benefits	132	118
TOTAL CURRENT LIABILITIES	3,876	3,724
LONG TERM LIABILITIES		
Revenue bonds - excluding amount due within one year	60,995	62,785
Accrued wages and benefits	67	60
TOTAL LONG TERM LIABILITIES	61,062	62,845
TOTAL LIABILITIES	64,938	66,569
NET ASSETS		
Invested in capital assets, net of related debt	(876)	(972)
Restricted for capital projects	4,380	4,042
Restricted for debt service	14,591	14,678
Unrestricted	12	196
TOTAL NET ASSETS	18,107	17,944
TOTAL LIABILITIES AND NET ASSETS	\$ 83,045	\$ 84,513

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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, 2004 and 2003

		<i>(In thousands)</i>	
		<u>2004</u>	<u>2003</u>
OPERATING REVENUES			
Charges for services		\$ 8,000	\$ 7,406
	TOTAL OPERATING REVENUES	8,000	7,406
OPERATING EXPENSES			
Operations		2,021	1,850
Maintenance		67	60
Depreciation		1,745	1,719
	TOTAL OPERATING EXPENSES	<u>3,833</u>	<u>3,629</u>
	OPERATING INCOME	4,167	3,777
NON-OPERATING REVENUE (EXPENSE)			
Investment income		494	658
Other revenue			3
Interest expense		(4,472)	(4,595)
Amortization of bond issuance costs		(83)	(85)
Loss on disposal of capital assets			(20)
Premium received on interest rate swap agreement			3,275
Operating transfers out			<u>(3,733)</u>
	TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	<u>(4,061)</u>	<u>(4,497)</u>
	INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	106	(720)
Capital and other contributions		<u>57</u>	<u>57</u>
	INCREASE (DECREASE) IN NET ASSETS	163	(663)
NET ASSETS, beginning of year		<u>17,944</u>	<u>18,607</u>
NET ASSETS, end of year		<u>\$ 18,107</u>	<u>\$ 17,944</u>

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, 2004 and 2003

	<i>(In thousands)</i>	
	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 8,298	\$ 8,147
Cash payments to suppliers for goods or services	(1,129)	(1,522)
Cash payments to employees for services	<u>(1,271)</u>	<u>(1,092)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,898	5,533
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to other funds	<u> </u>	<u>(3,733)</u>
NET CASH USED FOR NONCAPITAL FINANCING ACTIVITIES	-	(3,733)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Premium received on interest rate swap agreement		3,275
Other revenue		3
Acquisition and construction of capital assets	(123)	
Principal paid on long-term debt	(2,175)	(2,075)
Interest paid on long-term debt	<u>(3,995)</u>	<u>(4,104)</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(6,293)	(2,901)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities		
Proceeds from sale and maturity of investment securities		2,000
Interest received on investments	494	498
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>494</u>	<u>2,498</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	99	1,397
CASH AND CASH EQUIVALENTS, beginning of year	<u>19,231</u>	<u>17,834</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 19,330</u>	<u>\$ 19,231</u>

(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, 2004 and 2003

(In thousands)

2004 **2003**

**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Income	\$	4,167	\$	3,777
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation		1,745		1,719
Changes in assets and liabilities:				
Accounts receivable, net		(132)		13
Due from other City of Cleveland departments, divisions or funds		38		58
Inventory of supplies		13		(67)
Accounts payable		4		(23)
Due to other governments				89
Due to other City of Cleveland departments, divisions or funds		42		(46)
Accrued wages and benefits		21		13
TOTAL ADJUSTMENTS		<u>1,731</u>		<u>1,756</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$	<u>5,898</u>	\$	<u>5,533</u>

(Concluded)

See notes to financial statements.

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

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2004 and 2003**

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's primary government. The Division was created for the purpose of providing moderately priced off-street parking facilities and on-street metered parking to citizens, visitors and those who work in 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 capital projects.
- 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, 2004 and 2003**

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 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 2004 and 2003. 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, 2004 and 2003.

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 bond indenture.

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 capital 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, 2004 and 2003**

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. The Division allows employees to carryover up to 80 hours of vacation time from one year to the next with proper approval. Sick days not taken may be accumulated until retirement. An employee is paid one-third of accumulated sick leave upon retirement, calculated at the three-year average base salary rate, 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>2004</u> (In thousands)	<u>2003</u>
Parking Facility Improvement Revenue Bonds due through 2022	5.375%-6.00%	\$ 81,105	\$ 69,305	\$ 71,480
Less:				
Unamortized loss on debt refunding			(5,059)	(5,542)
Unamortized discount			(946)	(978)
Current portion			<u>(2,305)</u>	<u>(2,175)</u>
Total Long-Term Debt			<u>\$ 60,995</u>	<u>\$ 62,785</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, 2004 and 2003**

NOTE B - LONG-TERM DEBT (Continued)

Summary: Changes in long-term obligations for the year ended December 31, 2004 are as follows:

	Balance January 1, 2004	Increase	Decrease	Balance December 31, 2004	Due Within One Year
	(In thousands)				
Parking Facility Improvement Revenue Bonds due through 2022	\$ 71,480	\$	\$ (2,175)	\$ 69,305	\$ 2,305

Summary: Changes in long-term obligations for the year ended December 31, 2003 are as follows:

	Balance January 1, 2003	Increase	Decrease	Balance December 31, 2003	Due Within One Year
	(In thousands)				
Parking Facility Improvement Revenue Bonds due through 2022	\$ 73,555	\$	\$ (2,075)	\$ 71,480	\$ 2,175

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	(In thousands)		
2005	\$ 2,305	\$ 3,864	\$ 6,169
2006	2,445	3,726	6,171
2007	2,590	3,580	6,170
2008	2,750	3,424	6,174
2009	2,915	3,259	6,174
2010-2014	17,200	13,666	30,866
2015-2019	22,445	8,417	30,862
2020-2022	16,655	1,865	18,520
Total	\$ 69,305	\$ 41,801	\$ 111,106

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.

**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, 2004 and 2003**

NOTE B - LONG-TERM DEBT (Continued)

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 2004 and 2003, 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, 2004 and 2003, the Division was in compliance with the terms and requirements of the trust indenture.

Interest Rate Swap Transactions

Terms. On February 13, 2003 the City sold an option to UBS AG (“UBS”) giving UBS the right, at its discretion, to enter into an interest rate swap transaction on September 15, 2006 on a declining notional amount equal to the outstanding principal amount of the City’s to be issued Parking Facilities Improvement Revenue Bonds, Series 2006. The notional amount upon which the swap agreement was based equaled \$58,525,000 at December 31, 2004 and December 31, 2003. Under the swap agreement, the City will be the fixed rate payor, paying fixed rates of interest (initially 4.91%) that equate the estimated periodic swap payments plus amortizing principal of the 2006 Bonds to the debt service currently being paid on the Parking Facilities Improvement Revenue Bonds, Series 1996, and UBS will be the floating rate payor, paying at a rate equivalent to 67% of one month LIBOR. If the option is exercised, the stated termination date under the swap agreement with UBS will be September 15, 2022. The obligation of the City to make periodic fixed rate payments (but not any termination payment) is secured by a pledge of the Parking Revenues and Additional Pledged Revenues.

Both the future bond debt service payments and the periodic swap payments will be insured by FSA. The City has obtained a commitment for insurance upon exercise of the swap and the issuance of the bonds.

Objective: The City entered into the swap in order to capture the present value savings which could be derived from refunding its 1996 Parking Facilities Improvement Revenue Bonds in a lower interest rate environment. The 1996 Parking Revenue Bonds could not be advance refunded because the 1996 Bonds refunded the original 1992 Parking Revenue Bonds. Therefore, the City decided to utilize a “synthetic refunding” to realize the savings currently rather than wait for the call date. In exchange for selling the option to UBS, the City received a premium payment of \$3,275,000.

Basis Risk: If the option is exercised in 2006, the City will receive 67% of LIBOR from UBS and the City will issue tax exempt variable rate debt that should price at approximately the BMA index. While historically the relationship between LIBOR and BMA has been 67%, in the short term this relationship does not always apply. If the 67% of LIBOR received from UBS is less than the actual amount paid on the variable rate bonds, the City must make up the difference in addition to paying the fixed rate resulting from the swap. In addition, a reduction in the marginal federal income tax rates would increase the percentage relationship between BMA and LIBOR and would potentially increase the cost of the financing.

Counterparty Risk: The City selected UBS as a counterparty partly due to its credit strength. Over the long term, it is possible that the credit strength of UBS could change and this event could trigger a termination payment on the part of the City.

**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, 2004 and 2003**

NOTE B - LONG-TERM DEBT (Continued)

Interest Rate Swap Transactions (Continued)

Termination Risk: The swap agreement may be terminated prior to its stated termination date under certain circumstances. Upon termination, a payment may be owed by the City to UBS, or by UBS to the City, depending upon the prevailing economic circumstances at the time of the termination. The City obtained insurance to mitigate much of the risk associated with termination due to an event of downgrade of the City. An amount due by the City to UBS upon early termination of the agreement is insured by FSA up to a maximum amount of \$8,000,000.

Market-access Risk: If UBS decides to exercise the option, the City's intention would be to issue variable rate debt to refund the outstanding 1996 Bonds. These variable rate bonds would need to be issued in order to achieve the original objective of the synthetic refunding. The City has already obtained municipal bond insurance which will become effective the day the refunding bonds are issued. There is no guarantee that the City will be able to access the short term market. In that case, the City would be left paying the fixed rate on the existing 1996 Bonds plus the difference between the fixed rate on the swap and 67% of LIBOR received from UBS.

Fair Value: The fair value of the swap at December 31, 2004 and December 31, 2003, as reported by UBS AG was \$5,647,187 and \$4,240,338, respectively, which would be payable by the City to UBS.

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 2004 and 2003, net revenues generated by the two Gateway garages were less than the debt service payments attributed to those garages by \$2,714,000 and \$2,988,000, respectively. Cumulative debt service payments funded by the City that are due from Gateway totaled \$27,920,000 and \$25,205,000 at December 31, 2004 and 2003, respectively. Due to the uncertainty of collecting such amounts, allowance accounts have 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, 2004 and December 31, 2003 totaled \$6,230,000 and \$6,363,000, respectively, and the Division's bank balances were \$6,314,000 and \$6,360,000, respectively. The differences represent outstanding warrants payable and normal reconciling items.

Based on the criteria described in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, \$134,000 and \$180,000 of the bank balances at December 31, 2004 and 2003, respectively, were insured or collateralized with securities held by the City or by its agent in the City's name. The amount invested in Bank Investment Contracts secured by securities held by the pledging institution's trust department, but not in the City's name, was \$6,180,000 and \$6,180,000, respectively.

**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, 2004 and 2003**

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

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.

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:

**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, 2004 and 2003**

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

<u>Type of Investment</u>	<u>Risk Category</u>	<u>2004 Fair Value</u>	<u>2004 Cost</u>	<u>2003 Fair Value</u>	<u>2003 Cost</u>
(In thousands)					
STAROhio	n/a	\$ 310	\$ 310	\$ 31	\$ 31
Investment in Mutual Funds	n/a	8,425	8,425	1,534	1,534
Other	n/a	<u>4,365</u>	<u>4,365</u>	<u>11,303</u>	<u>11,303</u>
Total Investments		13,100	13,100	12,868	12,868
Total Deposits		<u>6,230</u>	<u>6,230</u>	<u>6,363</u>	<u>6,363</u>
Total Deposits and Investments		<u>\$ 19,330</u>	<u>\$ 19,330</u>	<u>\$ 19,231</u>	<u>\$ 19,231</u>

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, 2004 was as follows:

	<u>Balance January 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance December 31, 2004</u>
(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	1,256				1,256
Buildings, structures and improvements	65,200				65,200
Furniture, fixtures and equipment	<u>305</u>	<u>137</u>		<u>126</u>	<u>568</u>
Total capital assets, being depreciated	66,761	137	-	126	67,024
Less: Accumulated depreciation	<u>(15,702)</u>	<u>(1,745)</u>		<u>(82)</u>	<u>(17,529)</u>
Total capital assets being depreciated, net	<u>51,059</u>	<u>(1,608)</u>	<u>-</u>	<u>44</u>	<u>49,495</u>
Capital assets, net	<u>\$ 63,988</u>	<u>\$ (1,608)</u>	<u>\$ -</u>	<u>\$ 44</u>	<u>\$ 62,424</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, 2004 and 2003**

NOTE E – CAPITAL ASSETS (Continued)

Capital Asset Activity: Capital asset activity for the year ended December 31, 2003 was as follows:

	Balance January 1, 2003	Additions	Deletions	Balance December 31, 2003
	(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	57	(65)	1,256
Buildings, structures and improvements	65,200			65,200
Furniture, fixtures and equipment	<u>325</u>	<u>_____</u>	<u>(20)</u>	<u>305</u>
Total capital assets, being depreciated	66,789	57	(85)	66,761
Less: Accumulated depreciation	<u>(14,048)</u>	<u>(1,719)</u>	<u>65</u>	<u>(15,702)</u>
Total capital assets being depreciated, net	<u>52,741</u>	<u>(1,662)</u>	<u>(20)</u>	<u>51,059</u>
Capital assets, net	<u>\$ 65,670</u>	<u>\$ (1,662)</u>	<u>\$ (20)</u>	<u>\$ 63,988</u>

NOTE F - PENSION AND RETIREMENT PLANS

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

- 1) The Traditional Pension Plan (TP) – a cost-sharing, multiple-employer defined benefit pension plan.
- 2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
- 3) The Combined Plan (CO) – a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

**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, 2004 and 2003**

NOTE F - PENSION AND RETIREMENT PLANS (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. Member and employer contribution rates were consistent across all three plans (TP, MD and CO). Member contribution rates were 8.5% and employer contribution rates were 13.55% of covered payroll. The Division's required employer contributions to OPERS for all plans for the years ending December 31, 2004, 2003 and 2002 were approximately \$124,000, \$116,000 and \$95,000 each year, respectively. The required payments due in 2004, 2003 and 2002 have been made.

NOTE G - OTHER POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. In order to qualify for postretirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The Division's contribution rate was 13.55% of covered payroll, and 4.00% was used to fund health care for the year. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The assumptions and calculations below were based on OPERS' latest actuarial review performed as of December 31, 2003. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment assumption rate for 2003 was 8.00%. An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%.

**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, 2004 and 2003**

NOTE G - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (and beyond) health care costs were assumed to increase at 4% (the projected inflation rate). OPEBs are advance-funded on an actuarially determined basis. At year-end 2004, the number of active contributing participants in the Traditional and Combined Plans totaled 369,885. The employer contribution rates are the actuarially determined contribution requirements for OPERS. The Division's actual contributions for 2004 which were to fund postemployment benefits were approximately \$37,000. \$10.5 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2003. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

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. 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:

	2004	2003
	(In thousands)	
Division of Convention Center	\$ 178	\$ 220
Department of Community Development	486	307

**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, 2004 and 2003**

NOTE H - RELATED PARTY TRANSACTIONS (Continued)

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, 2004 and 2003 are as follows:

	2004		2003
	(In thousands)		
Parks Maintenance	\$ 68	\$	65
Motor Vehicle Maintenance	16		21
Cleveland Public Power	176		139
Maintenance	22		20
Telephone	36		40

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.

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 2004 or 2003.

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 retrospective rating program.

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.

**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, 2004 and 2003**

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 2004 and 2003. Future minimum rentals on non-cancelable leases are as follows:

(In thousands)	
2005	\$ 180
2006	180
2007	180
2008	180
2009	180
Thereafter	<u>6,180</u>
	<u>\$ 7,080</u>



**Auditor of State
Betty Montgomery**

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**CITY OF CLEVELAND
DIVISION OF PARKING FACILITIES**

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 14, 2005**