

# **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, 2006 and 2005**



# CITY OF CLEVELAND, OHIO

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

### TABLE OF CONTENTS

---

|  | <b>Page</b> |
|--|-------------|
| Independent Accountants' Report .....                            | 1           |
| Management's Discussion and Analysis.....                        | 3-9         |
| Balance Sheets .....   | 12-13       |
| Statements of Revenues, Expenses and Changes in Net Assets ..... | 15          |
| Statements of Cash Flows .....                                   | 16-17       |
| Notes to Financial Statements.....                               | 19-32       |

**This page intentionally left blank.**



# Mary Taylor, CPA

Auditor of State

## 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 Frank G. Jackson, 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, Cuyahoga County, Ohio, (the Division) as of and for the years ended December 31, 2006 and December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express opinions 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 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 and do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2006 and December 31, 2005, and the respective 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 respective financial position of the Division of Parking Facilities, Department of Parks, Recreation, and Properties, City of Cleveland, Cuyahoga County, Ohio, as of December 31, 2006 and December 31, 2005, and the respective changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Division of Parking Facilities  
Department of Parks, Recreation, and Properties  
City of Cleveland  
Cuyahoga County  
Independent Accountants' Report  
Page 2

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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA  
Auditor of State

June 29, 2007

**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 years ended December 31, 2006 and 2005. Please read this information in conjunction with the Division's financial statements and footnotes which begin on page 12.

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 2006, the Division's facilities included four parking garages and four surface lots. In 2005, the Division's facilities included four parking garages and seven surface lots.

**COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA**

**FINANCIAL HIGHLIGHTS**

- The assets of the Division exceeded its liabilities (net assets) by \$20,028,000, \$18,206,000 and \$18,107,000 at December 31, 2006, 2005 and 2004, respectively. Of these amounts, \$10,256,000, \$633,000 and \$12,000 (unrestricted net assets) at December 31, 2006, 2005 and 2004, respectively, may be used to meet the Division's ongoing obligations to customers and creditors.
- The Division's total net assets increased by \$1,822,000, \$99,000 and \$163,000 during 2006, 2005 and 2004, respectively. In 2006, there was an increase in operating income of \$238,000, which was attributable to an increase in special events and increased attendance at Gateway events. In addition, net non-operating expenses decreased by \$1,485,000 which was mainly attributable to a decrease in interest expense on long-term debt due to the refunding of debt and the annual debt payments. In 2005, there was a decrease in operating income of \$410,000, which was attributable to a decrease in special events held in the downtown area; however, this decrease was partially offset by the increase in non-operating revenues of \$260,000 attributable to investment income. The decrease was further offset by a decrease in operating expenses of \$388,000 due to lower personnel and related costs, associated with the decrease in special events and a decrease in non-operating expenses of \$143,000 associated with interest expense on long-term debt.
- The Division's total bonded debt decreased by \$1,225,000 (1.8%), \$2,305,000 (3.3%) and \$2,175,000 (3.0%) during 2006, 2005 and 2004, respectively. These amounts represent the principal payment made and the net effect of the refunding bonds issued in 2006 and the principal payments made in 2005 and 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

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.

The basic financial statements of the Division can be found on pages 12 - 17 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 19 - 32 of this report.

**CONDENSED BALANCE SHEET INFORMATION**

Provided below is condensed balance sheet information for the Division as of December 31, 2006, 2005 and 2004:

|   | <u>2006</u>      | <u>2005</u>      | <u>2004</u>      |
|---|------------------|------------------|------------------|
|   | (In thousands)   |                  |                  |
| <b>Assets:</b>                                  |                  |                  |                  |
| Current assets                                  | \$ 1,320         | \$ 1,053         | \$ 601           |
| Restricted assets                               | 18,970           | 18,607           | 19,150           |
| Unamortized bond issuance costs                 | 4,162            | 790              | 870              |
| Capital assets, net                             | <u>58,950</u>    | <u>60,677</u>    | <u>62,424</u>    |
| Total assets                                    | <u>83,402</u>    | <u>81,127</u>    | <u>83,045</u>    |
| <b>Net Assets and Liabilities:</b>              |                  |                  |                  |
| <b>Liabilities:</b>                             |                  |                  |                  |
| Current liabilities                             | 4,186            | 3,816            | 3,876            |
| Long term liabilities                           | <u>59,188</u>    | <u>59,105</u>    | <u>61,062</u>    |
| Total liabilities                               | 63,374           | 62,921           | 64,938           |
| <b>Net assets:</b>                              |                  |                  |                  |
| Invested in capital assets, net of related debt | (2,994)          | (825)            | (876)            |
| Restricted for capital projects                 | 4,651            | 4,492            | 4,380            |
| Restricted for debt service                     | 8,115            | 13,906           | 14,591           |
| Unrestricted                                    | <u>10,256</u>    | <u>633</u>       | <u>12</u>        |
| Total net assets                                | <u>20,028</u>    | <u>18,206</u>    | <u>18,107</u>    |
| Total net assets and liabilities                | <u>\$ 83,402</u> | <u>\$ 81,127</u> | <u>\$ 83,045</u> |

**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)**

**Assets:**

**Current and restricted assets:** The Division's current assets have increased from 2004 to 2005 to 2006 and restricted assets have remained fairly consistent over the same period. The increase in current assets in 2006 is primarily due to the increase in unrestricted and restricted cash and cash equivalents at year end. This increase was partially offset by the decrease in accrued interest receivable. In addition, there was an increase in unamortized bond issuance costs which was associated with the issuance of refunding bonds in 2006. The increase in current assets in 2005 is primarily due to the increase in unrestricted cash and cash equivalents at year end. This increase was partially offset by the corresponding decrease in restricted cash and cash equivalents at year end and the decrease in unamortized bond issuance costs which was associated with the debt payments made by the Division during 2005.

**Capital assets:** The Division's investment in capital assets (net of accumulated depreciation) as of December 31, 2006 and 2005 amounted to \$58,950,000 and \$60,677,000, respectively. The total decrease in the Division's investment in capital assets was \$1,727,000 (2.8%) and \$1,747,000 (2.8%) in 2006 and 2005, respectively. These decreases are due to the increase in accumulated depreciation for depreciation expense recognized during 2006 and 2005. A summary of the activity in the Division's capital assets during the year ended December 31, 2006 is as follows:

|   | <b>Balance<br/>January 1,<br/>2006</b> | <b>Additions</b> | <b>Deletions</b> | <b>Transfers</b> | <b>Balance<br/>December 31,<br/>2006</b> |
|---|--|------------------|------------------|------------------|--|
|   | <b>(In thousands)</b>                  |                  |                  |                  |  |
| Land  | \$ 12,929                              | \$               | \$               | \$               | \$ 12,929                                |
| Land improvements                           | 1,256                                  |                  |                  |                  | 1,256                                    |
| Buildings, structures and improvements      | 65,200                                 |                  |                  |                  | 65,200                                   |
| Furniture, fixtures, equipment and vehicles | 577                                    |                  | (43)             |                  | 534                                      |
| Total                                       | 79,962                                 | -                | (43)             | -                | 79,919                                   |
| Accumulated depreciation                    | (19,285)                               | (1,726)          | 42               |                  | (20,969)                                 |
| Net book value                              | \$ 60,677                              | \$ (1,726)       | \$ (1)           | \$ -             | \$ 58,950                                |

**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)**

A summary of the activity in the Division's capital assets during the year ended December 31, 2005 is as follows:

|   | <b>Balance<br/>January 1,<br/>2005</b> | <b>Additions</b>  | <b>Deletions</b> | <b>Transfers</b> | <b>Balance<br/>December 31,<br/>2005</b> |
|---|--|-------------------|------------------|------------------|--|
| (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 | 568                                    |                   | (14)             | 23               | 577                                      |
| Total                                       | 79,953                                 | -                 | (14)             | 23               | 79,962                                   |
| Accumulated depreciation                    | (17,529)                               | (1,747)           | 14               | (23)             | (19,285)                                 |
| Net book value                              | <u>\$ 62,424</u>                       | <u>\$ (1,747)</u> | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ 60,677</u>                         |

There were no major events during the last three years 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 2006 and 2005, the Division had total bonded debt outstanding of \$65,775,000 and \$67,000,000, respectively. This current debt was incurred to refund debt previously issued 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 2006 and 2005, no additional pledged revenue was required to meet the debt service requirements on the parking bonds.

The activity in the Division's debt obligation outstanding during the year ended December 31, 2006 is summarized below:

|                                | <b>Balance<br/>January 1,<br/>2006</b> | <b>Debt<br/>Issued</b> | <b>Debt<br/>Refunded</b> | <b>Debt<br/>Retired</b> | <b>Balance<br/>December 31,<br/>2006</b> |
|--------------------------------|--|------------------------|--------------------------|-------------------------|--|
| (In thousands)                 |  |                        |                          |                         |  |
| Parking Facilities Improvement |  |                        |                          |                         |  |
| Revenue Bonds                  | <u>\$ 67,000</u>                       | <u>\$ 57,520</u>       | <u>\$ (56,300)</u>       | <u>\$ (2,445)</u>       | <u>\$ 65,775</u>                         |

**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, 2005 is summarized below:

|                                | <b>Balance<br/>January 1,<br/>2005</b> | <b>Debt<br/>Issued</b> | <b>Debt<br/>Refunded</b> | <b>Debt<br/>Retired</b> | <b>Balance<br/>December 31,<br/>2005</b> |
|--------------------------------|--|------------------------|--------------------------|-------------------------|--|
|                                | <b>(In thousands)</b>                  |                        |                          |                         |  |
| Parking Facilities Improvement |  |                        |                          |                         |  |
| Revenue Bonds                  | <u>\$ 69,305</u>                       | <u>\$</u>              | <u>\$</u>                | <u>\$ (2,305)</u>       | <u>\$ 67,000</u>                         |

The bond ratings for the Division's revenue bonds have remained constant for the past three years and are as follows:

|                   | <b>Moody's<br/>Investors Service</b> | <b>Standard &amp; Poor's</b> | <b>Fitch<br/>Investors Service</b> |
|-------------------|--------------------------------------|------------------------------|------------------------------------|
| Series 1996 Bonds | Aaa                                  | AAA                          | AAA                                |
| Series 2006 Bonds | 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.

**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 \$20,028,000, \$18,206,000 and \$18,107,000 at December 31, 2006, 2005 and 2004, respectively.

Of the Division's net assets at December 31, 2006, \$12,766,000 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 (\$2,994,000) 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 \$10,256,000 balance of unrestricted net assets may be used to meet the Division's ongoing obligations to customers and creditors.

Of the Division's net assets at December 31, 2005, \$18,398,000 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 (\$825,000) 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 \$633,000 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 during 2006 and 2005 increased net assets by \$1,822,000 and \$99,000, respectively. Provided below are key elements of the Division's results of operations as of and for the years ended December 31, 2006, 2005 and 2004:

|  | <u>2006</u>       | <u>2005</u>       | <u>2004</u>      |
|--|-------------------|-------------------|------------------|
|  | (In thousands)    |                   |                  |
| Operating revenues                               | \$ 8,460          | \$ 7,202          | \$ 8,000         |
| Operating expenses                               | <u>4,465</u>      | <u>3,445</u>      | <u>3,833</u>     |
| Operating income                                 | 3,995             | 3,757             | 4,167            |
| Non-operating revenue (expense):                 |                   |                   |                  |
| Investment income                                | 901               | 754               | 494              |
| Interest expense                                 | (2,846)           | (4,332)           | (4,472)          |
| Other non-operating expense                      | (65)              |                   |                  |
| Amortization of bond issuance costs and discount | <u>(163)</u>      | <u>(80)</u>       | <u>(83)</u>      |
| Total non-operating revenue (expense), net       | (2,173)           | (3,658)           | (4,061)          |
| Capital and other contributions                  | <u>          </u> | <u>          </u> | <u>57</u>        |
| Change in net assets                             | 1,822             | 99                | 163              |
| Net assets, beginning of year                    | <u>18,206</u>     | <u>18,107</u>     | <u>17,944</u>    |
| Net assets, end of year                          | <u>\$ 20,028</u>  | <u>\$ 18,206</u>  | <u>\$ 18,107</u> |

**Operating revenues:** From 2005 to 2006, operating revenues increased \$1,258,000, or 17.5%. This was due to an increase in special events and increased attendance at Gateway events.

From 2004 to 2005, operating revenues decreased \$798,000, or 10.0%. This was due to a decrease in collections from operating revenue sources due to a decrease in special events held in the downtown area.

**Operating expenses:** In 2006, operating expenses increased \$1,020,000, or 29.6%. Of this increase, \$1,045,000, or 63.5%, was associated with operations due to an increase in professional services expense. This increase was partially offset by a \$21,000 decrease in depreciation expense. As a result of the changes in operating revenues and expenses, operating income increased \$238,000, or 6.3%, in 2006 from 2005.

In 2005, operating expenses decreased \$388,000, or 10.1%. Of this decrease, \$375,000, or 10.9%, was associated with operations due to lower personnel and related costs, which was associated with the decrease in special events. As a result of the changes in operating revenues and expenses, operating income decreased \$410,000, or 9.8%, in 2005 from 2004.

**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**

*Non-operating revenues and expenses:* From 2005 to 2006, non-operating revenues increased \$147,000 or approximately 19.5%. This increase was due to an increase in interest revenue due to higher amounts available for investment during the year and higher interest rates. Non-operating expenses decreased \$1,338,000 or 33.3% in 2006. This decrease is primarily due to a decrease in interest expense payments on long-term debt associated with the issuance of the refunding bonds.

From 2004 to 2005, non-operating revenues increased \$260,000 or approximately 52.6%. This increase was due to an increase in interest revenue due to higher amounts available for investment during the year and higher interest rates. Non-operating expenses decreased \$143,000 or 3.1% in 2005. This decrease is due to a decrease in interest expense payments on long-term debt.

**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 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**

**This page intentionally left blank.**

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PARKS, RECREATION AND PROPERTIES

### DIVISION OF PARKING FACILITIES

#### BALANCE SHEETS

December 31, 2006 and 2005

|  |           | <i>(In thousands)</i> |                                |
|--|-----------|-----------------------|--------------------------------|
|  |           | <b>2006</b>           | <b>2005</b>                    |
| <b>ASSETS</b>  |           |                       |                                |
| <b>CURRENT ASSETS</b>  |           |                       |                                |
| Cash and cash equivalents  | \$        | 976                   | \$ 789                         |
| Accounts receivable - net of allowance                           |           | 127                   | 79                             |
| Due from other City of Cleveland departments, divisions or funds |           | 59                    | 70                             |
| Inventory of supplies, at cost                                   |           | <u>158</u>            | <u>115</u>                     |
| <b>TOTAL CURRENT ASSETS</b>                                      |           | 1,320                 | 1,053                          |
| <b>RESTRICTED ASSETS</b>   |           |                       |                                |
| Cash and cash equivalents  |           | 18,918                | 18,397                         |
| Accrued interest receivable                                      |           | <u>52</u>             | <u>210</u>                     |
| <b>TOTAL RESTRICTED ASSETS</b>                                   |           | 18,970                | 18,607                         |
| <b>UNAMORTIZED BOND ISSUANCE COSTS</b>                           |           | 4,162                 | 790                            |
| <b>CAPITAL ASSETS</b>  |           |                       |                                |
| Land   |           | 12,929                | 12,929                         |
| Land improvements  |           | 1,256                 | 1,256                          |
| Buildings, structures and improvements                           |           | 65,200                | 65,200                         |
| Furniture, fixtures, equipment and vehicles                      |           | <u>534</u>            | <u>577</u>                     |
|  |           | 79,919                | 79,962                         |
| Less: Accumulated depreciation                                   |           | <u>(20,969)</u>       | <u>(19,285)</u>                |
| <b>CAPITAL ASSETS, NET</b>                                       |           | <u>58,950</u>         | <u>60,677</u>                  |
| <b>TOTAL ASSETS</b>  | <b>\$</b> | <u><u>83,402</u></u>  | <b>\$</b> <u><u>81,127</u></u> |

(Continued)

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PARKS, RECREATION & PROPERTIES

### DIVISION OF PARKING FACILITIES

#### BALANCE SHEETS

December 31, 2006 and 2005

|  | <i>(In thousands)</i> |                  |
|--|-----------------------|------------------|
|  | <b>2006</b>           | <b>2005</b>      |
| <b>LIABILITIES AND NET ASSETS</b>                              |                       |                  |
| <b>LIABILITIES</b>   |                       |                  |
| <b>CURRENT LIABILITIES</b>                                     |                       |                  |
| Current portion of long-term debt, due within one year         | \$ 2,795              | \$ 2,445         |
| Accounts payable   | 117                   | 10               |
| Due to other governments                                       | 92                    | 94               |
| Due to other City of Cleveland departments, divisions or funds | 71                    | 63               |
| Accrued interest payable                                       | 965                   | 1,087            |
| Accrued wages and benefits                                     | 146                   | 117              |
| <b>TOTAL CURRENT LIABILITIES</b>                               | <u>4,186</u>          | <u>3,816</u>     |
| <b>LONG TERM LIABILITIES</b>                                   |                       |                  |
| Revenue bonds - excluding amount due within one year           | 59,146                | 59,057           |
| Accrued wages and benefits                                     | 42                    | 48               |
| <b>TOTAL LONG TERM LIABILITIES</b>                             | <u>59,188</u>         | <u>59,105</u>    |
| <b>TOTAL LIABILITIES</b>                                       | 63,374                | 62,921           |
| <b>NET ASSETS</b>  |                       |                  |
| Invested in capital assets, net of related debt                | (2,994)               | (825)            |
| Restricted for capital projects                                | 4,651                 | 4,492            |
| Restricted for debt service                                    | 8,115                 | 13,906           |
| Unrestricted   | 10,256                | 633              |
| <b>TOTAL NET ASSETS</b>  | <u>20,028</u>         | <u>18,206</u>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                        | <u>\$ 83,402</u>      | <u>\$ 81,127</u> |

(Concluded)

See notes to financial statements.

**This page intentionally left blank.**

# 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, 2006 and 2005

|  | <i>(In thousands)</i> |           |
|--|-----------------------|-----------|
|  | 2006                  | 2005      |
| <b>OPERATING REVENUES</b>                          |                       |           |
| Charges for services                               | \$ 8,460              | \$ 7,202  |
| <b>TOTAL OPERATING REVENUES</b>                    | 8,460                 | 7,202     |
| <b>OPERATING EXPENSES</b>                          |                       |           |
| Operations   | 2,691                 | 1,646     |
| Maintenance  | 48                    | 52        |
| Depreciation                                       | 1,726                 | 1,747     |
| <b>TOTAL OPERATING EXPENSES</b>                    | 4,465                 | 3,445     |
| <b>OPERATING INCOME</b>                            | 3,995                 | 3,757     |
| <b>NON-OPERATING REVENUE (EXPENSE)</b>             |                       |           |
| Investment income                                  | 901                   | 754       |
| Interest expense                                   | (2,846)               | (4,332)   |
| Other non-operating expense                        | (65)                  |           |
| Amortization of bond issuance costs                | (163)                 | (80)      |
| <b>TOTAL NON-OPERATING REVENUE (EXPENSE) - NET</b> | (2,173)               | (3,658)   |
| <b>INCREASE (DECREASE) IN NET ASSETS</b>           | 1,822                 | 99        |
| <b>NET ASSETS, beginning of year</b>               | 18,206                | 18,107    |
| <b>NET ASSETS, end of year</b>                     | \$ 20,028             | \$ 18,206 |

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, 2006 and 2005

|   | <i>(In thousands)</i> |                  |
|---|-----------------------|------------------|
|   | <u>2006</u>           | <u>2005</u>      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                       |                       |                  |
| Cash received from customers                                      | \$ 8,093              | \$ 7,570         |
| Cash payments to suppliers for goods or services                  | (1,283)               | (1,120)          |
| Cash payments to employees for services                           | <u>(1,033)</u>        | <u>(1,130)</u>   |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                  | 5,777                 | 5,320            |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>   |                       |                  |
| Proceeds from the sale of revenue bonds                           | 57,512                |                  |
| Cash paid to escrow agent for refunding                           | (58,710)              |                  |
| Acquisition and construction of capital assets                    | (65)                  |                  |
| Principal paid on long-term debt                                  | (2,445)               | (2,305)          |
| Interest paid on long-term debt                                   | <u>(2,419)</u>        | <u>(3,865)</u>   |
| <b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b> | (6,127)               | (6,170)          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                       |                       |                  |
| Interest received on investments                                  | <u>1,058</u>          | <u>706</u>       |
| <b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>                  | <u>1,058</u>          | <u>706</u>       |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>       | 708                   | (144)            |
| <b>CASH AND CASH EQUIVALENTS, beginning of year</b>               | <u>19,186</u>         | <u>19,330</u>    |
| <b>CASH AND CASH EQUIVALENTS, end of year</b>                     | <u>\$ 19,894</u>      | <u>\$ 19,186</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, 2006 and 2005**

|  | <i>(In thousands)</i> |                 |
|--|-----------------------|-----------------|
|  | 2006                  | 2005            |
| <b>RECONCILIATION OF OPERATING INCOME TO</b>   |                       |                 |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>   |                       |                 |
| Operating Income   | \$ 3,995              | \$ 3,757        |
| Adjustments to reconcile operating income<br>to net cash provided by operating activities: |                       |                 |
| Depreciation   | 1,726                 | 1,747           |
| Changes in assets and liabilities:   |                       |                 |
| Accounts receivable, net   | (48)                  | 63              |
| Due from other City of Cleveland departments, divisions or funds                           | 11                    | (9)             |
| Inventory of supplies  | (43)                  | (60)            |
| Accounts payable   | 107                   | (19)            |
| Due to other governments   | (2)                   | (74)            |
| Due to other City of Cleveland departments, divisions or funds                             | 8                     | (51)            |
| Accrued wages and benefits   | 23                    | (34)            |
| <b>TOTAL ADJUSTMENTS</b>   | <b>1,782</b>          | <b>1,563</b>    |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>   | <b>\$ 5,777</b>       | <b>\$ 5,320</b> |

(Concluded)

See notes to financial statements.

**This page intentionally left blank.**

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

**NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2006 and 2005**

**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. Beginning January 1, 2002, the Division changed its financial reporting to comply with GASB Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*. Effective January 1, 2005, the Division implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is effective for the year ended December 31, 2005. The Division has determined that GASB Statement No. 42 has no impact on its financial statements as of December 31, 2005. In May 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*, which is effective for the year ended December 31, 2006. The Division has determined that GASB Statement No. 44 has no impact on its financial statements as of December 31, 2006. In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*, which is effective for the year ended December 31, 2006. The Division has determined that GASB Statement No. 47 has no impact on its financial statements as of December 31, 2006.

The Division’s net assets are accounted for in the accompanying balance sheets and the net assets are divided into the following categories:

- 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.

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

**NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2006 and 2005**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenues:** Revenues are derived primarily from fees charged to users of City-owned parking garages and facilities operated by the Division including 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.

**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 2006 and 2005. 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, 2006 and 2005.

**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.

**Inventory of Supplies:** Inventory is valued at cost using the first in/ first out method. Inventory costs are charged to operations when consumed.

**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.

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

**NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2006 and 2005 (Continued)**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The estimated useful lives are as follows:

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

**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<br/>Issuance</u> | <u>2006</u><br>(In thousands) | <u>2005</u>      |
|--|----------------------|------------------------------|-------------------------------|------------------|
| Parking Facilities Refunding Revenue Bonds |                      |                              |                               |                  |
| Series 1996, due through 2009              | 6.00%                | \$ 81,105                    | \$ 8,255                      | \$ 67,000        |
| Series 2006, due through 2022              | 4.00%-5.25%          | 57,520                       | 57,520                        |                  |
|  |                      | <u>\$ 138,625</u>            | <u>\$ 65,775</u>              | <u>\$ 67,000</u> |
| Less:                                      |                      |                              |                               |                  |
| Unamortized loss on debt refunding         |                      |                              | (7,701)                       | (4,591)          |
| Unamortized discount and premium           |                      |                              | 3,867                         | (907)            |
| Current portion                            |                      |                              | <u>(2,795)</u>                | <u>(2,445)</u>   |
| Total Long-Term Debt                       |                      |                              | <u>\$ 59,146</u>              | <u>\$ 59,057</u> |

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

**NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2006 and 2005 (Continued)**

**NOTE B – LONG-TERM DEBT (Continued)**

**Summary:** Changes in long-term debt for the year ended December 31, 2006 are as follows:

|  | <b>Balance<br/>January 1,<br/>2006</b> | <b>Increase</b>  | <b>Decrease</b>    | <b>Balance<br/>December 31,<br/>2006</b> | <b>Due<br/>Within<br/>One Year</b> |
|--|--|------------------|--------------------|--|------------------------------------|
| <b>(In thousands)</b>                      |  |                  |                    |  |                                    |
| Parking Facilities Refunding Revenue Bonds |  |                  |                    |  |                                    |
| Series 1996, due through 2009              | \$ 67,000                              |                  | \$ (58,745)        | \$ 8,255                                 | \$ 2,590                           |
| Series 2006, due through 2022              |  | 57,520           |                    | 57,520                                   | 205                                |
|  | <u>\$ 67,000</u>                       | <u>\$ 57,520</u> | <u>\$ (58,745)</u> | <u>\$ 65,775</u>                         | <u>\$ 2,795</u>                    |

**Summary:** Changes in long-term debt for the year ended December 31, 2005 are as follows:

|   | <b>Balance<br/>January 1,<br/>2005</b> | <b>Increase</b> | <b>Decrease</b> | <b>Balance<br/>December 31,<br/>2005</b> | <b>Due<br/>Within<br/>One Year</b> |
|---|--|-----------------|-----------------|--|------------------------------------|
| <b>(In thousands)</b>   |  |                 |                 |  |                                    |
| Parking Facilities Improvement Revenue Bonds due through 2022 | \$ 69,305                              |                 | \$ (2,305)      | \$ 67,000                                | \$ 2,445                           |

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

|           | <b><u>Principal</u></b> | <b><u>Interest</u></b> | <b><u>Total</u></b> |
|-----------|-------------------------|------------------------|---------------------|
|           | <b>(In thousands)</b>   |                        |                     |
| 2007      | 2,795                   | 3,309                  | \$ 6,104            |
| 2008      | 2,945                   | 3,145                  | 6,090               |
| 2009      | 3,120                   | 2,972                  | 6,092               |
| 2010      | 3,300                   | 2,789                  | 6,089               |
| 2011      | 3,425                   | 2,657                  | 6,082               |
| 2012-2016 | 19,520                  | 10,920                 | 30,440              |
| 2017-2021 | 24,880                  | 5,572                  | 30,452              |
| 2022      | <u>5,790</u>            | <u>304</u>             | <u>6,094</u>        |
| Total     | <u>\$ 65,775</u>        | <u>\$ 31,668</u>       | <u>\$ 97,443</u>    |

The proceeds from the Parking Facilities 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  
For the Years Ended December 31, 2006 and 2005 (Continued)**

**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 2006 and 2005, 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, 2006 and 2005, the Division was in compliance with the terms and requirements of the trust indenture.

Effective August 16, 2006, the City issued \$57,520,000 of Parking Facilities Refunding Revenue Bonds, Series 2006. The bonds were issued to currently refund \$56,300,000 of the outstanding Series 1996 Parking Facilities Improvement Revenue Bonds. In addition, proceeds were also used to fund a portion of a payment owed by the City upon early termination under an interest rate swaption agreement entered into in 2003. Net proceeds of \$58,709,855 were placed in an irrevocable escrow account which were used to pay the principal, interest and premium on the refunding bonds. As a result, the refunding bonds are considered to be defeased and the liability for these bonds has been removed from long-term debt. The City completed the refunding to reduce its total debt service payments by \$1.34 million and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of approximately \$970,000. At the time of the issuance of the Series 2006 Bonds, the City entered into a basis swap agreement with UBS AG, which is described below.

***Interest Rate Swap Transactions***

Terms: Simultaneously with the issuance of the City's \$57,520,000 Series 2006 Parking Facilities Refunding Revenue Bonds on August 3, 2006, the City entered into a floating to floating rate basis swap agreement with a notional amount equal to the total declining balance of the Series 2006 Bonds. USB AG is the counterparty on the transactions. Under the swap agreement for the Series 2006 Bonds, the City will be the floating rate payor, paying a floating rate based on the USD-BMA Municipal Swap Index. The counterparty is also a floating rate payor, paying the City 67% of one month LIBOR. The City also received an upfront payment in the amount of \$1,606,000. net payments are exchanged semi-annually each March 15 and September 15. The obligation of the City to make periodic payments (but not any termination payment) is secured by a pledge of and lien on the Parking Revenues and Additional Pledged Revenue as defined in the trust indenture securig the Parking Facilities Bonds on a parity with the pledge and lien securing the payment of debt service on the bonds.

Objective: The City entered into the swaps in order to maximize the savings associated with the refunding of the bonds. The actual overall savings to be realized by the City will depend upon the net payments received under the swap agreement.

Basis Risk: By entering into the swaps based upon the 30 day LIBOR rate of interest, the City has undertaken basis risk associated with a change in tax rates and structure. While the average relationship between LIBOR (taxable) and BMA (tax-exempt) interest rate has been 67%, this relationship may not continue to apply. If the payments received from the counterparty are less than the amount paid to the counterparty, the City must make up the difference in addition to paying the fixed rate resulting from the swap. In addition, a reduction in federal income tax rates would increase the percentage relationship between BMA and LIBOR and would potentially increase the cost of the financing.

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

**NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2006 and 2005 (Continued)**

**NOTE B – LONG-TERM DEBT (Continued)**

***Interest Rate Swap Transactions (Continued)***

Counterparty Risk: The City selected a highly rated counterparty in order to minimize this risk. However, over the long term, it is possible that the credit strength of UBS AG could change and this event could trigger a termination payment on the part of the City.

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 AG, or by UBS AG 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 the event of a rating 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.

Fair Value: The fair value of the swap at December 31, 2006 and 2005 reported by UBS AG was \$1,506,364 and \$6,012,269, respectively, which would be payable by the City.

**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 2006 and 2005, net revenues generated by the two Gateway garages were less than the debt service payments attributed to those garages by \$1,286,000 and \$2,818,000, respectively. Cumulative debt service payments funded by the City that are due from Gateway totaled \$32,024,000 and \$30,738,000 at December 31, 2006 and 2005, 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, 2006 and 2005 totaled \$957,000 and \$6,610,000, respectively, and the Division's bank balances were \$954,000 and \$6,595,000, respectively. The differences represent 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*, \$957,000 and \$415,000 of the bank balances at December 31, 2006 and 2005, 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 at December 31, 2006 and 2005, was \$0 and \$6,180,000, respectively.

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

**NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2006 and 2005 (Continued)**

**NOTE D – DEPOSITS AND INVESTMENTS (Continued)**

Custodial credit risk for deposits is the risk that in the event of bank failure, the Division will not be able to recover deposits or collateral for securities that are in possession of an outside party. At year end, the Division's deposits were fully insured or collateralized. All deposits are collateralized with eligible securities pledged and deposited either with the City or with a qualified trustee by the financial institution as security for repayment of all public monies deposited in the financial institution whose market value at all times is equal to at least 110% of the carrying value of the deposits being secured.

**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 statutes prohibit 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.

**Interest rate risk:** As a means of limiting its exposure to fair value losses caused by rising interest rates, the Division invests primarily in short-term investments maturing within five years from the date of purchase. The intent is to avoid the need to sell securities prior to maturity. Investment maturities are disclosed in the table on the following page.

**Custodial Credit Risk:** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Division will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party.

**Credit Risk:** Investments in STAROhio carry a rating of AAAM, which is the highest money market fund rating given by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Division has no investment policy that would further limit its investment choices.

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

**NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2006 and 2005 (Continued)**

**NOTE D – DEPOSITS AND INVESTMENTS (Continued)**

Concentration of Credit Risk: The Division places a limitation on the amount it may invest in any one issuer to help minimize the concentration of credit risk. The Division had the following investments at December 31, 2006 and 2005, which include those 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>2006 Fair Value</u> | <u>2006 Cost</u> | <u>2005 Fair Value</u> | <u>2005 Cost</u> | <u>Investment Maturities for 2006</u> |                    |
|--------------------------------|------------------------|------------------|------------------------|------------------|---------------------------------------|--------------------|
|                                |                        |                  |                        |                  | <u>Less than One Year</u>             | <u>1 - 5 Years</u> |
| (In thousands)                 |                        |                  |                        |                  |                                       |                    |
| STAROhio                       | \$ 19                  | \$ 19            | \$ 359                 | \$ 359           | \$ 19                                 |                    |
| Investment in Mutual Funds     | 1,085                  | 1,085            | 7,740                  | 7,740            | 1,085                                 |                    |
| Other                          | <u>17,833</u>          | <u>17,833</u>    | <u>4,477</u>           | <u>4,477</u>     | <u>17,833</u>                         |                    |
| Total Investments              | 18,937                 | 18,937           | 12,576                 | 12,576           | 18,937                                |                    |
| Total Deposits                 | <u>957</u>             | <u>957</u>       | <u>6,610</u>           | <u>6,610</u>     | <u>957</u>                            |                    |
| Total Deposits and Investments | <u>\$ 19,894</u>       | <u>\$ 19,894</u> | <u>\$ 19,186</u>       | <u>\$ 19,186</u> | <u>\$ 19,894</u>                      |                    |

These amounts are monies invested by the City Treasurer on behalf of the Division and are used in daily operations with excess monies invested daily in STAROhio and mutual funds. These investments are carried at cost which approximates market value. Amounts represented by "Other" consist of deposits into a collective pool managed by JPMorgan, as trustee.

As of December 31, 2006, the investments in mutual funds and the investment pool ("Other") are approximately 6% and 94%, respectively, of the Division's total investments. As of December 31, 2005, the investments in mutual funds and the investment pool ("Other") are approximately 62% and 36%, respectively, of the Division's total investments.

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

**NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2006 and 2005 (Continued)**

**NOTE E – CAPITAL ASSETS**

*Capital Asset Activity:* Capital asset activity for the year ended December 31, 2006 was as follows:

|   | <b>Balance<br/>January 1,<br/>2006</b> | <b>Additions</b>  | <b>Deletions</b> | <b>Transfers</b> | <b>Balance<br/>December 31,<br/>2006</b> |
|---|--|-------------------|------------------|------------------|--|
|   | <b>(In thousands)</b>                  |                   |                  |                  |  |
| 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, equipment and vehicles | <u>577</u>                             |                   | <u>(43)</u>      |                  | <u>534</u>                               |
| Total capital assets, being depreciated     | 67,033                                 | -                 | (43)             | -                | 66,990                                   |
| Less: Accumulated depreciation              | <u>(19,285)</u>                        | <u>(1,726)</u>    | <u>42</u>        | <u>-</u>         | <u>(20,969)</u>                          |
| Total capital assets being depreciated, net | <u>47,748</u>                          | <u>(1,726)</u>    | <u>(1)</u>       | <u>-</u>         | <u>46,021</u>                            |
| Capital assets, net                         | <u>\$ 60,677</u>                       | <u>\$ (1,726)</u> | <u>\$ (1)</u>    | <u>\$ -</u>      | <u>\$ 58,950</u>                         |

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

**NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2006 and 2005 (Continued)**

**NOTE E – CAPITAL ASSETS (Continued)**

*Capital Asset Activity:* Capital asset activity for the year ended December 31, 2005 was as follows:

|   | <b>Balance<br/>January 1,<br/>2005</b> | <b>Additions</b> | <b>Deletions</b> | <b>Transfers</b> | <b>Balance<br/>December 31,<br/>2005</b> |
|---|--|------------------|------------------|------------------|--|
|   | <b>(In thousands)</b>                  |                  |                  |                  |  |
| 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, equipment and vehicles | 568                                    |                  | (14)             | 23               | 577                                      |
| Total capital assets, being depreciated     | 67,024                                 | -                | (14)             | 23               | 67,033                                   |
| Less: Accumulated depreciation              | (17,529)                               | (1,747)          | 14               | (23)             | (19,285)                                 |
| Total capital assets being depreciated, net | 49,495                                 | (1,747)          | -                | -                | 47,748                                   |
| Capital assets, net                         | \$ 62,424                              | \$ (1,747)       | \$ -             | \$ -             | \$ 60,677                                |

**NOTE F – PENSION AND RETIREMENT PLANS**

All full-time employees 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  
For the Years Ended December 31, 2006 and 2005 (Continued)**

**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 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. OPERS 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) 222-5601 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 9.0% in 2006 and 8.5% in 2005 and 2004 and employer contribution rates were 13.70% of covered payroll in 2006 and 13.55% of covered payroll in 2005 and 2004. The Division's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2006, 2005 and 2004 were approximately \$68,000, \$83,000 and \$87,000 each year, respectively. The required payments due in 2006, 2005 and 2004 have been made.

**NOTE G – OTHER POST-EMPLOYMENT BENEFITS**

Ohio Public Employees Retirement System: 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 benefit 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 13.70% of covered payroll in 2006 and 13.55% of covered payroll in 2005 and 2004, and 4.50% was used to fund health care for the year in 2006 and 4.00% was used to fund health care for the year in 2005 and 2004. 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, 2005. The individual entry age 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, not to exceed a 12% corridor. The investment assumption rate for 2005 was 6.50%. 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  
For the Years Ended December 31, 2006 and 2005 (Continued)**

**NOTE G – OTHER POST-EMPLOYMENT BENEFITS (Continued)**

Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50% to 6% for the next 9 years. In subsequent years (10 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate). OPEBs are advance-funded on an actuarially determined basis. The Traditional Pension and Combined Plans had 369,214 active contributing participants as of December 31, 2006. The number of active contributing participants for both plans used in December 31, 2005, actuarial valuation was 358,804. The employer contribution rate of 13.70% is the actuarially determined contribution requirements for OPERS. The Division's actual contributions for 2006 which were to fund postemployment benefits were approximately \$34,000. \$11.1 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2005. Based on the actuarial cost method used, the actuarial valuation as of December 31, 2005, reported the actuarial accrued liability and the unfunded actuarial accrued liability for OPEB at \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

**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:

|                                     | 2006           | 2005   |
|-------------------------------------|----------------|--------|
|                                     | (In thousands) |        |
| Division of Convention Center       | \$ 99          | \$ 199 |
| Department of Community Development | 86             | 334    |

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

**NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2006 and 2005 (Continued)**

**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, 2006 and 2005 are as follows:

|                           | 2006           | 2005  |
|---------------------------|----------------|-------|
|                           | (In thousands) |       |
| Parks Maintenance         | \$ 61          | \$ 75 |
| Motor Vehicle Maintenance | 19             | 14    |
| Cleveland Public Power    | 152            | 156   |
| Maintenance               | 15             | 15    |
| Telephone                 | 17             | 28    |

**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 2006 or 2005.

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  
For the Years Ended December 31, 2006 and 2005 (Continued)**

**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 2006 and 2005. Future minimum rentals on non-cancelable leases are as follows:

| <b>(In thousands)</b> |                 |
|-----------------------|-----------------|
| 2007                  | \$ 180          |
| 2008                  | 180             |
| 2009                  | 180             |
| 2010                  | 180             |
| 2011                  | 180             |
| Thereafter            | <u>5,820</u>    |
|                       | <u>\$ 6,720</u> |



**Mary Taylor, CPA**  
Auditor of State

**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 17, 2007**