

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, 2010 and 2009**

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PARKS, RECREATION & PROPERTIES DIVISION OF PARKING FACILITIES

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INDEPENDENT AUDITORS' REPORT

To the Honorable Frank G. Jackson, Mayor, Members of Council and the Audit Committee
Division of Parking Facilities
Department of Parks, Recreation and Properties
City of Cleveland, Ohio:

We have audited the accompanying basic financial statements of the Division of Parking Facilities, Department of Parks, Recreation and Properties, City of Cleveland, Ohio (the Division) as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audit. The basic financial statements of the Division as of December 31, 2009 were audited by other auditors whose report dated June 28, 2010, expressed an unqualified opinion on those financial statements. As discussed in Note A to the basic financial statements, the Division has adjusted its 2009 financial statements to retrospectively apply Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The other auditors reported on the financial statements before the retrospective adjustment.

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

As described in Note A, the financial statements present only the financial position and the changes in financial position and cash flows of the Division and do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2010 and 2009, 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 State of America.

As described in Note A, during the year ended December 31, 2010, the Division implemented Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division of Parking Facilities, Department of Parks, Recreation and Properties, City of Cleveland, Ohio as of December 31, 2010, 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.

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We also audited the adjustment to the 2009 financial statements to retrospectively apply the change in accounting as described in Note A. In our opinion, such adjustment is appropriate and has been properly applied. We were not engaged to audit, review, or apply any procedures to the Division's 2009 financial statements other than with respect to the adjustment and, accordingly, we do not express an opinion or other form of assurance on the 2009 financial statements as a whole.

The management's discussion and analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Clark, Schaefer, Harkness & Co.

Cincinnati, Ohio
June 24, 2011

**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, 2010 and 2009. Please read this information in conjunction with the Division's financial statements and footnotes which begin on page 13.

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 2010 and 2009, the Division's facilities included four parking garages and four surface lots.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities (net assets) by \$21,302,000, \$21,312,000, and \$21,327,000 at December 31, 2010, 2009 and 2008, respectively. Of these amounts, \$7,741,000, \$9,082,000 and \$10,116,000 (unrestricted net assets) at December 31, 2010, 2009 and 2008, respectively, may be used to meet the Division's ongoing obligations to customers and creditors.
- The Division's total net assets decreased by \$10,000 during 2010, decreased by \$15,000 during 2009 and increased by \$811,000 during 2008. In 2010, operating expenses increased by approximately 6.5%, which resulted in a decrease in net operating income of \$346,000. Net non-operating expenses decreased by \$351,000 which was mainly attributable to a decrease in interest expense payments and amortization on long-term debt associated with the revenue bonds. In 2009, there was a decrease in operating income of \$678,000, which was attributable to a decrease in parking revenues and an increase in operating expenses. In addition, net non-operating expenses increased by \$148,000 which was mainly attributable to a decrease in investment income.
- The Division's total bonded debt decreased by \$3,300,000 (5.8%), \$3,120,000 (5.2%) and \$2,945,000 (4.7%) during 2010, 2009 and 2008, respectively. These amounts represent the principal payments made in 2010, 2009 and 2008.

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 (Continued)

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 13 - 18 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 20 - 35 of this report.

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Division as of December 31, 2010, 2009 and 2008:

	2010	2009	2008
	(Amounts in 000's)		
Assets:			
Current assets	\$ 2,164	\$ 2,420	\$ 2,111
Restricted assets	16,002	16,497	17,703
Unamortized bond issuance costs	2,583	2,953	3,338
Deferred outflow of resources	1,829	1,544	4,168
Capital assets, net	53,748	55,425	56,999
Total assets	76,326	78,839	84,319
Net Assets and Liabilities:			
Liabilities:			
Current liabilities	4,983	4,635	4,574
Long-term liabilities	50,041	52,892	58,418
Total liabilities	55,024	57,527	62,992
Net Assets:			
Invested in capital assets, net of related debt	5,423	4,088	2,959
Restricted for debt service	8,138	8,142	8,252
Unrestricted	7,741	9,082	10,116
Total net assets	21,302	21,312	21,327
Total liabilities and net assets	\$ 76,326	\$ 78,839	\$ 84,319

**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, restricted and other non-capital assets: The Division's current assets have decreased from 2009 to 2010 and have increased from 2008 to 2009 and restricted assets have had moderate decreases over the same periods. The decrease in current assets in 2010 is primarily due to decreases in cash and cash equivalents at year end due to increased operating expenses and a decrease in the inventory of supplies, which reflects the Division's ongoing attempts to decrease costs by using the supplies on hand rather than incurring additional expenses for supplies. These decreases were partially offset by the increase in the amounts due from other City departments, divisions or funds. There was also a decrease in unamortized bond issuance costs associated with the issuance of the refunding bonds. The increase in current assets in 2009 is primarily due to the increase in cash and cash equivalents at year end. This increase was partially offset by the decrease in restricted cash and cash equivalents at year end. There was also a decrease in unamortized bond issuance costs associated with the issuance of the refunding bonds.

Capital assets: The Division's investment in capital assets (net of accumulated depreciation) as of December 31, 2010 and 2009 amounted to \$53,748,000 and \$55,425,000, respectively. The total decrease in the Division's investment in capital assets was \$1,677,000 (3.0%) and \$1,574,000 (2.8%) in 2010 and 2009, respectively. The decreases in 2010 and 2009 were due to depreciation expense exceeding asset additions.

A summary of the activity in the Division's capital assets during the year ended December 31, 2010 is as follows:

	Balance January 1, 2010	Additions	Deletions	Balance December 31, 2010
	(Amounts in 000's)			
Land	\$ 13,095	\$	\$	\$ 13,095
Land improvements	1,256			1,256
Buildings, structures and improvements	65,757			65,757
Furniture, fixtures, equipment and vehicles	1,281	39	(11)	1,309
Total	81,389	39	(11)	81,417
Less: Accumulated depreciation	(25,964)	(1,716)	11	(27,669)
Capital assets, net	<u>\$ 55,425</u>	<u>\$ (1,677)</u>	<u>\$ -</u>	<u>\$ 53,748</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)

A summary of the activity in the Division's capital assets during the year ended December 31, 2009 is as follows:

	Balance January 1, 2009	Additions	Deletions	Balance December 31, 2009
(Amounts in 000's)				
Land	\$ 12,929	\$ 166	\$	\$ 13,095
Land improvements	1,256			1,256
Buildings, structures and improvements	65,757			65,757
Furniture, fixtures, equipment and vehicles	1,313		(32)	1,281
Total	81,255	166	(32)	81,389
Less: Accumulated depreciation	(24,256)	(1,740)	32	(25,964)
Capital assets, net	<u>\$ 56,999</u>	<u>\$ (1,574)</u>	<u>\$ -</u>	<u>\$ 55,425</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 Note A – Summary of Significant Accounting Policies and Note E – Capital Assets.

Liabilities:

Long-term debt: At the end of 2010 and 2009, the Division had total bonded debt outstanding of \$53,615,000 and \$56,915,000 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 2010 and 2009, 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, 2010 is summarized below:

	Balance January 1, 2010	Debt Retired	Balance December 31, 2010
	(Amounts in 000's)		
Parking Facilities Improvement			
Revenue Bonds	\$ 56,915	\$ (3,300)	\$ 53,615

The activity in the Division's debt obligation outstanding during the year ended December 31, 2009 is summarized below:

	Balance January 1, 2009	Debt Retired	Balance December 31, 2009
	(Amounts in 000's)		
Parking Facilities Improvement			
Revenue Bonds	\$ 60,035	\$ (3,120)	\$ 56,915

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

	Moody's Investors Service	Standard & Poor's	Fitch Investors Service
Series 2006 Bonds	Aa3	AA+	-

The bond ratings indicated above are insured ratings only, reflecting the ratings of Assured Guaranty Municipal Corp. (formerly Financial Security Assurance, Inc.). The Division has no ratings on its bonds based solely on its own credit.

In addition, the Division entered into a derivative or hedging agreement in 2003. Derivative instruments are contracts, the value of which depends on, or derives from, the value of an underlying asset, index or rate. The most common types of derivatives used by governments are interest rate swaps and interest rate locks. A detailed description of the outstanding derivative, including its terms, objectives, risks and fair value, can be found in Note B – Long-Term Debt.

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)

In accordance with the implementation of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the Division has reported an asset and a liability in the amount of the fair value of the interest rate swap, which reflects the prevailing interest rate environment at December 31, 2010 and December 31, 2009. The fair value of the swap has been provided by the counterparty and confirmed by the City's financial advisor.

Additional information on the Division's long-term debt can be found in Note B – Long-Term Debt.

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 \$21,302,000, \$21,312,000 and \$21,327,000 at December 31, 2010, 2009 and 2008, respectively.

Of the Division's net assets at December 31, 2010, \$8,138,000 represents resources that are classified as restricted since their use is limited by the bond indentures. In addition, the Division has a net balance of \$5,423,000 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 \$7,741,000 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, 2009, \$8,142,000 represents resources that are classified as restricted since their use is limited by the bond indentures. In addition, the Division has a net balance of \$4,088,000 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 \$9,082,000 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 2010 decreased net assets by \$10,000 and during 2009 decreased net assets by \$15,000. Provided below are key elements of the Division's results of operations as of and for the years ended December 31, 2010, 2009 and 2008:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(Amounts in 000's)		
Operating revenues	\$ 9,227	\$ 9,214	\$ 9,523
Operating expenses	<u>5,842</u>	<u>5,483</u>	<u>5,114</u>
Operating income	3,385	3,731	4,409
Non-operating revenue (expense):			
Investment income	5	16	441
Interest expense	(3,044)	(3,544)	(3,656)
Other non-operating revenue (expense)	11	(6)	21
Sale of scrap	3	6	1
Capital contributions		166	
Amortization of bond issuance costs	<u>(370)</u>	<u>(384)</u>	<u>(405)</u>
Total non-operating revenue (expense), net	(3,395)	(3,746)	(3,598)
Increase (decrease) in net assets	(10)	(15)	811
Net assets, beginning of year	<u>21,312</u>	<u>21,327</u>	<u>20,516</u>
Net assets, end of year	<u>\$ 21,302</u>	<u>\$ 21,312</u>	<u>\$ 21,327</u>

Operating revenues: From 2009 to 2010, operating revenues increased \$13,000, or 0.1%. Collections from the various revenue sources remained fairly consistent from 2009 to 2010.

From 2008 to 2009, operating revenues decreased \$309,000, or 3.2%. This was due to a decrease in attendance at events held at Cleveland Browns Stadium and at Gateway. These decreases were partially offset by the modest increase in parking meter collections.

Operating expenses: In 2010, operating expenses increased \$359,000, or 6.5%. This is primarily due to an increase in operations due to an increase in purchases of various supplies and services which was partially offset by a decrease in maintenance and depreciation expense.

In 2009, operating expenses increased \$369,000, or 7.2%. This is primarily due to an increase in operations due to an increase in purchases of various supplies and an increase in depreciation expense.

**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: From 2009 to 2010, net non-operating expenses decreased \$351,000 or approximately 9.4%. This decrease was due to a decrease in interest expense payments and amortization on long-term debt associated with the revenue bonds.

From 2008 to 2009, net non-operating expenses increased \$148,000 or approximately 4.1%. This increase was due to a decrease in investment income, which was partially offset by decreases in interest expense payments and amortization on long-term debt associated with the revenue bonds.

**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 continues to assess their operations to improve efficiencies, identify additional revenue sources and improve existing revenue sources in this time of economic recession. 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.

On May 9, 2011, the City introduced legislation which would authorize the sale of the Gateway North Garage, which is part of the City's parking facilities. The garage is one of two City-owned garages located in the Gateway neighborhood and is to be sold to Rock Ohio Caesars Gateway LLC to facilitate the development of Phase I of the Horseshoe Casino Cleveland. This legislation was approved by City Council on June 6, 2011.

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, 2010 and 2009

	(Amounts in 000's)	
	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,014	\$ 2,048
Accounts receivable - net of allowance	20	82
Due from other City of Cleveland departments, divisions or funds	99	39
Inventory of supplies, at cost	31	251
TOTAL CURRENT ASSETS	2,164	2,420
RESTRICTED ASSETS		
Cash and cash equivalents	16,002	16,497
UNAMORTIZED BOND ISSUANCE COSTS	2,583	2,953
DEFERRED OUTFLOW OF RESOURCES	1,829	1,544
CAPITAL ASSETS		
Land	13,095	13,095
Land improvements	1,256	1,256
Buildings, structures and improvements	65,757	65,757
Furniture, fixtures, equipment and vehicles	1,309	1,281
	81,417	81,389
Less: Accumulated depreciation	(27,669)	(25,964)
CAPITAL ASSETS, NET	53,748	55,425
TOTAL ASSETS	\$ 76,326	\$ 78,839

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PARKS, RECREATION & PROPERTIES

DIVISION OF PARKING FACILITIES

BALANCE SHEETS

December 31, 2010 and 2009

	(Amounts in 000's)	
	2010	2009
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	\$ 3,425	\$ 3,300
Accounts payable	315	178
Due to other governments	185	93
Due to other City of Cleveland departments, divisions or funds	143	84
Accrued interest payable	775	814
Accrued wages and benefits	140	166
TOTAL CURRENT LIABILITIES	<u>4,983</u>	<u>4,635</u>
LONG-TERM LIABILITIES		
Revenue bonds - excluding amount due within one year	48,181	51,318
Derivative instruments - interest rate swaps	1,829	1,544
Accrued wages and benefits	31	30
TOTAL LONG-TERM LIABILITIES	<u>50,041</u>	<u>52,892</u>
TOTAL LIABILITIES	55,024	57,527
NET ASSETS		
Invested in capital assets, net of related debt	5,423	4,088
Restricted for debt service	8,138	8,142
Unrestricted	7,741	9,082
TOTAL NET ASSETS	<u>21,302</u>	<u>21,312</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 76,326</u>	<u>\$ 78,839</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
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2010 and 2009

	(Amounts in 000's)	
	2010	2009
OPERATING REVENUES		
Charges for services	\$ 9,227	\$ 9,214
TOTAL OPERATING REVENUES	<u>9,227</u>	<u>9,214</u>
OPERATING EXPENSES		
Operations	4,087	3,697
Maintenance	39	46
Depreciation	<u>1,716</u>	<u>1,740</u>
TOTAL OPERATING EXPENSES	<u>5,842</u>	<u>5,483</u>
OPERATING INCOME	3,385	3,731
NON-OPERATING REVENUE (EXPENSE)		
Investment income	5	16
Interest expense	(3,044)	(3,544)
Other non-operating revenue (expense)	11	(6)
Sale of scrap	3	6
Capital contribution		166
Amortization of bond issuance costs	<u>(370)</u>	<u>(384)</u>
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	<u>(3,395)</u>	<u>(3,746)</u>
INCREASE (DECREASE) IN NET ASSETS	(10)	(15)
NET ASSETS, beginning of year	<u>21,312</u>	<u>21,327</u>
NET ASSETS, end of year	<u>\$ 21,302</u>	<u>\$ 21,312</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, 2010 and 2009

	(Amounts in 000's)	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 9,743	\$ 9,856
Cash payments to suppliers for goods or services	(3,080)	(3,053)
Cash payments to employees for services	<u>(1,077)</u>	<u>(1,071)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,586	5,732
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Sale of scrap	3	6
Principal paid on long-term debt	(3,300)	(3,120)
Interest paid on long-term debt	<u>(2,823)</u>	<u>(3,199)</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(6,120)	(6,313)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	<u>5</u>	<u>26</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>5</u>	<u>26</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(529)	(555)
CASH AND CASH EQUIVALENTS, beginning of year	<u>18,545</u>	<u>19,100</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 18,016</u>	<u>\$ 18,545</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, 2010 and 2009

	(Amounts in 000's)	
	2010	2009
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 3,385	\$ 3,731
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,716	1,740
Changes in assets and liabilities:		
Accounts receivable, net	62	35
Due from other City of Cleveland departments, divisions or funds	(60)	57
Inventory of supplies	220	241
Accounts payable	137	33
Due to other governments	92	(92)
Due to other City of Cleveland departments, divisions or funds	59	(18)
Accrued wages and benefits	(25)	5
TOTAL ADJUSTMENTS	<u>2,201</u>	<u>2,001</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 5,586</u>	<u>\$ 5,732</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, 2010 and 2009**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Division of Parking Facilities (the 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. In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which is effective for the year ended December 31, 2009. The Division has determined that GASB Statement No. 52 has no impact on its financial statements as of December 31, 2009. In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for the year ended December 31, 2010. The Division has determined that GASB Statement No. 51 has no impact on its financial statements as of December 31, 2010. In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for the year ended December 31, 2010. The Division has implemented GASB Statement No. 53 and its effects have been included in its financial statements as of December 31, 2010 and December 31, 2009.

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 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.

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

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2010 and 2009 (Continued)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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) guidance 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 guidance (including amendments of earlier guidance), or (2) continuing to follow new FASB guidance (unless they conflict with GASB pronouncements). The City has chosen not to apply future FASB guidance.

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, 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 2010 and 2009. 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, 2010 and 2009.

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.

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

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2010 and 2009 (Continued)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 land, furniture, fixtures, equipment and vehicles 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, 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, Discounts 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.

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

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2010 and 2009 (Continued)**

NOTE B – LONG-TERM DEBT

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

	<u>Interest Rate</u>	<u>Original Issuance</u>	<u>2010</u> (Amounts in 000's)	<u>2009</u>
Parking Facilities Refunding Revenue Bonds				
Series 2006, due through 2022	4.00%-5.25%	\$ 57,520	\$ 53,615	\$ 56,915
Unamortized loss on debt refunding			(4,534)	(5,184)
Unamortized discount and premium			2,525	2,887
Current portion			<u>(3,425)</u>	<u>(3,300)</u>
Total Long-Term Debt			<u>\$ 48,181</u>	<u>\$ 51,318</u>

Summary: Changes in long-term obligations for the year ended December 31, 2010 are as follows:

	<u>Balance January 1, 2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance December 31, 2010</u>	<u>Due Within One Year</u>
	(Amounts in 000's)				
Parking Facilities Refunding Revenue Bonds					
Series 2006, due through 2022	\$ 56,915	\$	\$ (3,300)	\$ 53,615	\$ 3,425
Accrued wages and benefits	<u>196</u>	<u>13</u>	<u>(38)</u>	<u>171</u>	<u>140</u>
Total	<u>\$ 57,111</u>	<u>\$ 13</u>	<u>\$ (3,338)</u>	<u>\$ 53,786</u>	<u>\$ 3,565</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, 2010 and 2009 (Continued)**

NOTE B – LONG-TERM DEBT (Continued)

Summary: Changes in long-term obligations for the year ended December 31, 2009 are as follows:

	Balance January 1, 2009	Increase	Decrease	Balance December 31, 2009	Due Within One Year
(Amounts in 000's)					
Parking Facilities Refunding Revenue					
Bonds					
Series 1996, due through 2009	\$ 2,915	\$	\$ (2,915)	\$ -	\$ -
Series 2006, due through 2022	57,120		(205)	56,915	3,300
Total revenue bonds	60,035	-	(3,120)	56,915	3,300
Accrued wages and benefits	191	27	(22)	196	166
Total	\$ 60,226	\$ 27	\$ (3,142)	\$ 57,111	\$ 3,466

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

	Principal	Interest	Total
	(Amounts in 000's)		
2011	\$ 3,425	\$ 2,657	\$ 6,082
2012	3,570	2,520	6,090
2013	3,715	2,377	6,092
2014	3,900	2,192	6,092
2015	4,085	1,997	6,082
2016-2020	23,635	6,812	30,447
2021-2022	11,285	897	12,182
Total	\$ 53,615	\$ 19,452	\$ 73,067

The Parking Facilities Refunding Revenue Bonds are payable from net revenues generated from certain parking facilities and other operating revenues of the Division of Parking Facilities, including parking meter revenue. In addition, the City has pledged other non-tax revenue to meet debt service requirements. The City has pledged and assigned to the trustee a first lien on pledged revenues consisting of fines and penalties collected as a result of the violation of municipal parking ordinances and fines, waivers and costs relating to citations for misdemeanor offenses and the special funds as defined within the bond indenture.

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

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2010 and 2009 (Continued)**

NOTE B – LONG-TERM DEBT (Continued)

Effective August 15, 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 Parking Facilities Refunding Revenue Bonds, Series 1996. 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 was used to pay the principal, interest and premium on the refunded bonds. As a result, the refunded 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 \$1,340,000 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, which is described below.

Interest Rate Swap Transaction

Terms: Simultaneously with the issuance of the City's \$57,520,000 Parking Facilities Refunding Revenue Bonds, Series 2006 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. UBS is the counterparty on the transaction. Under the swap agreement for the Series 2006 Bonds, the City is the floating rate payor, paying a floating rate based on the Securities Industry Financial Markets Association (SIFMA) 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 securing the Parking Facilities Refunding Revenue Bonds, Series 2006, on parity with the pledge and lien securing the payment of debt service on the bonds.

Objective: The City entered into the swap in order to maximize the savings associated with the refunding of the bonds and to reduce the City's risk exposure. 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 swap 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 the SIFMA (tax-exempt) and LIBOR (taxable) interest rates has been 67%, this relationship may not always apply. Since late 2008, this relationship has been significantly higher due to disruptions in the financial markets. The payments received from the counterparty may be less than the amount owed to the counterparty, resulting in a net increase in debt service. In addition, a reduction in federal income tax rates might increase the percentage relationship between SIFMA and LIBOR and may potentially increase the cost of the financing.

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 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
For the Years Ended December 31, 2010 and 2009 (Continued)**

NOTE B – LONG-TERM DEBT (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 the event of a downgrade of the City's bond rating. 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, 2010 and 2009 reported by UBS was \$1,829,000 and \$1,544,000, respectively, which would be payable by the City.

The City has pledged future revenues from certain parking facilities, net of specified operating expenses, and other operating revenues to repay \$53,615,000 of Parking Facilities Refunding Revenue Bonds issued in 2006. Proceeds from the bonds initially issued provided financing for the construction of parking facilities. The bonds are payable from parking facilities net revenues and are payable through 2022. Annual principal and interest payments on the bonds are expected to require the amount of net pledged revenues. The total principal and interest remaining to be paid on the Parking Facilities Refunding Revenue Bonds is \$73,067,000. Principal and interest paid for the current year (including net swap payments) and total net revenues were \$6,136,000 and \$5,331,000, respectively.

In 2010 and 2009, no additional pledged revenue was required to meet the debt service on the Parking Facilities Refunding Revenue 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, 2010 and 2009, the Division was in compliance with the terms and requirements of the trust indenture.

Derivative Instruments

Derivative instruments are contracts, the value of which depends on, or derives from, the value of an underlying asset, index or rate. The most common types of derivatives used by governments are interest rate swaps and interest rate locks. The Division entered into a derivative or hedging agreement in 2003. A detailed description of the outstanding derivative, including its terms, objectives, risks and fair value, can be found in the preceding section.

The Division has reported an asset and a liability in the amount of the fair value of the interest rate swap, which reflects the prevailing interest rate environment at December 31, 2010 and December 31, 2009. The fair value of the swap has been provided by the counterparty and confirmed by the City's financial advisor.

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

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2010 and 2009 (Continued)**

NOTE B – LONG-TERM DEBT (Continued)

The tables below present the fair value balances and notional amounts of the Division's derivative instrument outstanding at December 31, 2010 and December 31, 2009, classified by type and the change in fair value of this derivative during FYs 2010 and 2009 as reported in the respective financial statements. The fair values of the interest rate swap, which reflect the prevailing interest rate environment at December 31, 2010 and December 31, 2009 and the specific terms and conditions of the swap, have been provided by the counterparty and confirmed by the City's financial advisor.

	<u>Changes in Fair Value</u>		<u>Fair Value at December 31,</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
	<u>2010</u>				
		(Amounts in 000's)			
Floating to floating interest rate swap					
2006 Parking Basis Swap	Deferred outflow	(285)	Debt	(1,829)	53,615

	<u>Changes in Fair Value</u>		<u>Fair Value at December 31,</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
	<u>2009</u>				
		(Amounts in 000's)			
Floating to floating interest rate swap					
2006 Parking Basis Swap	Deferred inflow	2,624	Debt	(1,544)	56,915

The table below presents the objective and significant terms of the Division's derivative instrument at December 31, 2010, along with the credit rating of the swap counterparty.

<u>Bonds</u>	<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Counterparty Credit Rating</u>
			(Amounts in 000's)				
2006 Parking Bonds	Basis Swap - Pay	Exchange	\$ 53,615	8/15/2006	9/15/2022	Pay SIFMA, receive 67% of LIBOR	Aa3/A+/A+
	Floating/ Receive	floating rate					
	Floating	payments on					
		Series 2006					
		Parking					
		System Bonds					

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 Facilities Refunding Revenue Bonds attributed to the two Gateway garages over the net revenues generated by the two Gateway garages. The first garage on the Gateway site was completed in January 1994. The second garage was completed in August 1994. The third parking facility, Willard Park Garage, 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, 2010 and 2009 (Continued)**

**NOTE C – RECEIVABLE FROM GATEWAY ECONOMIC DEVELOPMENT CORPORATION
(Continued)**

In 2010 and 2009, net revenues generated by the two Gateway garages were less than the debt service payments attributed to those garages by \$1,983,000 and \$2,357,000, respectively. Cumulative debt service payments funded by the City that are due from Gateway totaled \$40,810,000 and \$38,827,000 at December 31, 2010 and 2009, respectively. Due to the uncertainty of collecting such amounts, an allowance has been recorded to offset the amounts in full; therefore, these amounts do not appear in the accompanying financial statements.

To enhance the security of the bonds, the City has agreed to pledge annually a percentage of admissions taxes on all events held at the arena to pay debt service if other revenue sources are not sufficient. Any exempted admissions tax not required for debt service will be reimbursed to the City. The City's current admissions tax rate is 8%. For the year ended December 31, 2010, the City pledged \$3,981,000.

NOTE D – DEPOSITS AND INVESTMENTS

Deposits: The carrying amount of the Division's deposits at December 31, 2010 and 2009 totaled \$1,307,000 and \$555,000, respectively, and the Division's bank balances were \$1,435,000 and \$554,000, 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*, and GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*, \$1,435,000 and \$554,000 of the bank balances at December 31, 2010 and 2009, respectively, were insured or collateralized with securities held by the City or by its agent in the City's name.

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 of Ohio obligations; certificates of deposit; U.S. Government Money Market Mutual Funds; State Treasury Asset Reserve of Ohio Fund (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.

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.

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

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2010 and 2009 (Continued)**

NOTE D – DEPOSITS AND INVESTMENTS (Continued)

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; therefore, significant changes in market conditions could materially affect portfolio value.

Interest rate risk: In accordance with its investment policy, the Division limits 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. The Division does not have an investment policy dealing with investment custodial credit risk beyond the requirement in the state statute.

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.

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, 2010 and 2009, 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>2010 Fair Value</u>	<u>2010 Cost</u>	<u>2009 Fair Value</u>	<u>2009 Cost</u>	<u>Investment Maturities for 2010 Less than One Year</u>
	(Amounts in 000's)				
STAROhio	\$ 708	\$ 708	\$ 1,516	\$ 1,516	\$ 708
Investment in Mutual Funds	<u>16,001</u>	<u>16,001</u>	<u>16,474</u>	<u>16,474</u>	<u>16,001</u>
Total Investments	16,709	16,709	17,990	17,990	16,709
Total Deposits	<u>1,307</u>	<u>1,307</u>	<u>555</u>	<u>555</u>	<u>1,307</u>
Total Deposits and Investments	<u>\$ 18,016</u>	<u>\$ 18,016</u>	<u>\$ 18,545</u>	<u>\$ 18,545</u>	<u>\$ 18,016</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.

As of December 31, 2010, the investments in mutual funds and in STAROhio are approximately 96% and 4%, respectively, of the Division's total investments. As of December 31, 2009, the investments in mutual funds and in STAROhio are approximately 92% and 8%, 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, 2010 and 2009 (Continued)**

NOTE E – CAPITAL ASSETS

Capital Asset Activity: Capital asset activity for the year ended December 31, 2010 was as follows:

	Balance January 1, 2010	Additions	Deletions	Balance December 31, 2010
	(Amounts in 000's)			2010
Capital assets, not being depreciated:				
Land	\$ 13,095	\$ _____	\$ _____	\$ 13,095
Total capital assets, not being depreciated	13,095	-	-	13,095
Capital assets, being depreciated:				
Land improvements	1,256			1,256
Buildings, structures and improvements	65,757			65,757
Furniture, fixtures, equipment and vehicles	<u>1,281</u>	<u>39</u>	<u>(11)</u>	<u>1,309</u>
Total capital assets, being depreciated	68,294	39	(11)	68,322
Less: Accumulated depreciation	<u>(25,964)</u>	<u>(1,716)</u>	<u>11</u>	<u>(27,669)</u>
Total capital assets being depreciated, net	<u>42,330</u>	<u>(1,677)</u>	<u>-</u>	<u>40,653</u>
Capital assets, net	<u>\$ 55,425</u>	<u>\$ (1,677)</u>	<u>\$ -</u>	<u>\$ 53,748</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, 2010 and 2009 (Continued)**

NOTE E – CAPITAL ASSETS (Continued)

Capital Asset Activity: Capital asset activity for the year ended December 31, 2009 was as follows:

	Balance January 1, 2009	Additions	Deletions	Balance December 31, 2009
	(Amounts in 000's)			
Capital assets, not being depreciated:				
Land	\$ 12,929	\$ 166	\$ _____	\$ 13,095
Total capital assets, not being depreciated	12,929	166	-	13,095
Capital assets, being depreciated:				
Land improvements	1,256			1,256
Buildings, structures and improvements	65,757			65,757
Furniture, fixtures, equipment and vehicles	<u>1,313</u>	<u> </u>	<u>(32)</u>	<u>1,281</u>
Total capital assets, being depreciated	68,326	-	(32)	68,294
Less: Accumulated depreciation	<u>(24,256)</u>	<u>(1,740)</u>	<u>32</u>	<u>(25,964)</u>
Total capital assets being depreciated, net	<u>44,070</u>	<u>(1,740)</u>	<u>-</u>	<u>42,330</u>
Capital assets, net	<u>\$ 56,999</u>	<u>\$ (1,574)</u>	<u>\$ -</u>	<u>\$ 55,425</u>

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, 2010 and 2009 (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 in 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 (800) 222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2010, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2010, 2009 and 2008. The employer contribution rates were 14.00% of covered payroll in 2010, 2009 and 2008. The Division's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2010, 2009 and 2008 were approximately \$77,000, \$67,000 and \$58,000 each year, respectively. The required payments due in 2010, 2009 and 2008 have been made.

NOTE G – OTHER POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System: All full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS maintains a cost-sharing multiple employer defined benefit postemployment health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, 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 postemployment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten 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 meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

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

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2010 and 2009 (Continued)**

NOTE G – OTHER POSTEMPLOYMENT BENEFITS (Continued)

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for funding of post-retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. The employer contribution rates were 14.00% of covered payroll in 2010, 2009 and 2008. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00% of covered payroll. Active members do not make contributions to the OPEB Plan. OPERS Postemployment Health Care plan was established under and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. Employer contribution rates used to fund postemployment benefits were 5.50% from January 1, 2010 through February 28, 2010 and 5.00% from March 1, 2010 through December 31, 2010 and 7.00% from January 1, 2009 through March 31, 2009 and 5.50% from April 1, 2009 through December 31, 2009, and 7.00% in 2008. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Division’s actual contributions to OPERS to fund postemployment benefits were approximately \$44,000, \$49,000 and \$58,0000 in 2010, 2009 and 2008, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed 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:

		2010		2009
		(Amounts in 000's)		
Division of Convention Center and Department of Community Development	\$	290	\$	227

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

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2010 and 2009 (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, 2010 and 2009 are as follows:

	2010	2009
	(Amounts in 000's)	
Parks Maintenance	\$ 70	\$ 61
Motor Vehicle Maintenance	29	13
Cleveland Public Power	177	171
Maintenance	15	14
Telephone	18	13

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 2010 or 2009.

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, 2010 and 2009 (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 2010 and 2009. Future minimum rentals on non-cancelable leases are as follows:

(Amounts in 000's)	
2011	\$ 180
2012	180
2013	180
2014	180
2015	180
Thereafter	<u>5,100</u>
	<u>\$ 6,000</u>

NOTE K – SUBSEQUENT EVENTS

The City introduced legislation on May 9, 2011 which would authorize the sale of the Gateway North Garage which is part of the Division's parking facilities. The garage is one of two City-owned garages located in the Gateway neighborhood and is being sold to Rock Ohio Caesars Gateway LLC to facilitate the development of Phase I of the Horseshoe Casino Cleveland. This legislation was approved by City Council on June 6, 2011.