CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES

REPORT ON AUDITS OF FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC WORKS
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 Public Works
City of Cleveland, Ohio:

Report on the Financial Statements

We have audited the accompanying financial statements of the Division of Parking Facilities, Department of Public Works, City of Cleveland, Ohio (the "Division") as of and for the years ended December 31, 2013 and 2012 and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Division of Parking Facilities, Department of Public Works, City of Cleveland, Ohio as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note A to the basic financial statements, 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, 2013 and 2012, and the respective changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note L to the basic financial statements, in 2013, the Division adopted GASB Statement No. 65, *Items Previously Recognized as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 26, 2014

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the City) Department of Public Works, 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, 2013 and 2012. Please read this information in conjunction with the Division's financial statements and footnotes which begin on page 14.

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 2013 and 2012 the Division facilities included two parking garages and four surface lots.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Division exceeded its liabilities and deferred inflows of resources (net position) by $19,949,000, $18,891,000 and $17,397,000 at December 31, 2013, 2012 and 2011, respectively. Of these amounts, $4,171,000, $4,094,000 and $3,876,000 (unrestricted net position) at December 31, 2013, 2012 and 2011, respectively, may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's total net position increased by $1,058,000 during 2013 and increased by $1,494,000 during 2012. In 2013 operating income increased by $246,000 due to lower maintenance costs of card readers and an increase in parking revenue. Net non-operating expenses increased $226,000 due to lower investment income offset by paying less interest on debt service payments. In 2012 there was investment income received due to the interest rate swap. In 2012 operating income decreased by $541,000 and net non-operating expenses and special items decreased by $2,867,000.

- The Division's total bonded debt decreased by $2,520,000 (8.0%), $2,420,000 (7.1%), and $19,570,000 (36.5%) during 2013, 2012 and 2011, respectively. These amounts represent the principal payments made in 2013, 2012 and 2011. In addition, in 2011 the Division defeased $16,145,000 as a result of the sale of the Gateway North Garage.

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.

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.

The basic financial statements of the Division can be found on pages 14 - 19 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 21 – 39 of this report.

CONDENSED STATEMENT OF NET POSITION INFORMATION

Provided below is condensed statement of net position information for the Division as of December 31, 2013, 2012 and 2011:

	2013	Restated 2012	Restated 2011
	(Amounts in 000's)		
Assets and deferred outflows:			
Assets			
Current assets	$ 5,802	$ 5,657	$ 1,959
Restricted assets	8,733	8,762	13,188
Capital assets, net	35,316	36,658	37,573
Total assets	49,851	51,077	52,720
Deferred outflows of resources:			
Loss on refunding	1,884	2,261	2,660
Total deferred outflows of resources	1,884	2,261	2,660
Total assets and deferred outflows	$ 51,735	$ 53,338	$ 55,380
Liabilities, deferred inflows and net position:			
Liabilities:			
Current liabilities	$ 3,887	$ 3,692	$ 4,066
Long-term liabilities	27,532	30,390	33,135
Total liabilities	31,419	34,082	37,201
Deferred inflows of resources:			
Derivative instruments-interest rate swaps	367	365	782
Total deferred inflows of resources	367	365	782
Net positon:			
Net investment in capital assets	10,252	9,272	7,943
Restricted for debt service	5,526	5,525	5,578
Unrestricted	4,171	4,094	3,876
Total net position	19,949	18,891	17,397
Total liabilities, deferred inflows and net position	$ 51,735	$ 53,338	$ 55,380

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Assets:

Current, restricted and other non-capital assets: The Division's current and restricted assets have increased 0.8% from 2012 to 2013. This is due to an increase of cash received from customers and increased parking revenue. The Division's current and restricted assets decreased 4.8% from 2011 to 2012. This was primarily due to the decrease in restricted assets including investments.

Capital assets*:* The Division's capital assets (net of accumulated depreciation) as of December 31, 2013 and 2012 amounted to $35,316,000 and $36,658,000, respectively. The total decrease in the Division's investment in capital assets was $1,342,000 (3.7%) and $915,000 (2.4%) in 2013 and 2012, respectively. The decrease in both 2013 and 2012 was due to depreciation expense exceeding asset additions.

A summary of the activity in the Division's capital assets during the year ended December 31, 2013 is as follows:

	Balance January 1, 2013	Additions	Deletions	Balance December 31, 2013
	(Amounts in 000's)			
Land	$ 5,478	$	$	$ 5,478
Land improvements	1,256			1,256
Buildings, structures and improvements	53,719			53,719
Furniture, fixtures, equipment and vehicles	1,290			1,290
Construction in progress	440	34		474
Total	62,183	34	-	62,217
Less: Accumulated depreciation	(25,525)	(1,376)		(26,901)
Capital assets, net	$ 36,658	$ (1,342)	$ -	$ 35,316

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

A summary of the activity in the Division's capital assets during the year ended December 31, 2012 is as follows:

	Balance January 1, 2012	Additions	Deletions	Balance December 31, 2012
	(Amounts in 000's)			
Land	$ 5,478	$	$	$ 5,478
Land improvements	1,256			1,256
Buildings, structures and improvements	53,719			53,719
Furniture, fixtures, equipment and vehicles	1,250	50	(10)	1,290
Construction in progress		440		440
Total	61,703	490	(10)	62,183
Less: Accumulated depreciation	(24,130)	(1,405)	10	(25,525)
Capital assets, net	$ 37,573	$ (915)	$ -	$ 36,658

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 2013 and 2012, the Division had total bonded debt outstanding of $29,105,000 and $31,625,000 respectively. This is a reduction of approximately 8.0%. This reduction is primarily the result of annual principal payments on the Division's outstanding bonds. 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 and was subsequently sold in 2011. 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 2013 and 2012, no additional pledged revenue was required to meet the debt service requirements on the parking bonds.

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

The activity in the Division's debt obligations outstanding during the year ended December 31, 2013 is summarized below:

	Balance January 1, 2013	Debt Retired	Balance December 31, 2013
	(Amounts in 000's)		
Parking Facilities Improvement Revenue Bonds:			
Series 2006	$ 31,625	$ (2,520)	$ 29,105

The activity in the Division's debt obligations outstanding during the year ended December 31, 2012 is summarized below:

	Balance January 1, 2012	Debt Retired	Balance December 31, 2012
	(Amounts in 000's)		
Parking Facilities Improvement Revenue Bonds:			
Series 2006	$ 34,045	$ (2,420)	$ 31,625

The bond ratings at December 31, 2013 for the Division's revenue bonds are as follows:

	Moody's Investors Service	Standard & Poor's
Series 2006 Bonds	A2	AA-

The bond ratings indicated above are insured ratings only, reflecting the ratings of Assured Guaranty Municipal Corp. (formerly Financial Security Assurance, Inc.). On January 17, 2013, Moody's Investors Service lowered its rating on Assured Guaranty Municipal Corp. to A2 from Aa3. 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 and Other Obligations.

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

The Division has reported deferred inflows of resources in the amount of the fair value of the interest rate swap, which reflects the prevailing interest rate environment at December 31, 2013 and December 31, 2012. 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 and Other Obligations.

Net Position: Net position serves as a useful indicator of a government's financial position. In the case of the Division, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $19,949,000, $18,891,000 and $17,397,000 at December 31, 2013, 2012 and 2011, respectively.

Of the Division's net position at December 31, 2013, $5,526,000 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 $10,252,000 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 $4,171,000 balance of unrestricted net position may be used to meet the Division's ongoing obligations to customers and creditors.

Of the Division's net position at December 31, 2012, $5,525,000 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 $9,272,000 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 $4,094,000 balance of unrestricted net position may be used to meet the Division's ongoing obligations to customers and creditors.

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

The Division's operations during 2013 increased net position by $1,058,000 and during 2012 increased net position by $1,494,000. Provided below are key elements of the Division's results of operations as of and for the years ended December 31, 2013, 2012 and 2011:

	2013	Restated 2012	Restated 2011
	(Amounts in 000's)		
Operating revenues	$ 7,875	$ 7,735	$ 8,453
Operating expenses	5,195	5,301	5,478
Operating income (loss)	2,680	2,434	2,975
Non-operating revenue (expense):			
Investment income (loss)	13	423	(773)
Interest expense	(1,739)	(1,853)	(8,649)
Other non-operating revenue (expense)	70		
Total non-operating revenue (expense), net	(1,656)	(1,430)	(9,422)
Income (loss) before capital contributions and special item	1,024	1,004	(6,447)
Capital contributions	34	490	
Special items - gain on sale of capital assets			5,125
Increase (decrease) in net position	1,058	1,494	(1,322)
Net position, beginning of year (as restated)	18,891	17,397	18,719
Net position, end of year	$ 19,949	$ 18,891	$ 17,397

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

Operating revenues: From 2012 to 2013, operating revenues increased $140,000, or 1.8%. This increase is primarily due to an increase in revenue from the Gateway East Garage. From 2011 to 2012, operating revenues decreased $718,000, or 8.5%. This reduction is primarily due to the sale of the Gateway North Garage. The Gateway North Garage was owned by the Division for all of 2010 and was sold in October of 2011.

Operating expenses: In 2013, operating expenses decreased $106,000, or 2.0%. This decrease is primarily attributed to a decrease in employee wages and benefits and a decrease in maintenance expenses of card readers offset by an increase in utility expenses. In 2012, operating expenses decreased $177,000, or 3.2%. This reduction was primarily due to the decrease in professional service fees associated with the operators of the Gateway North Garage.

Non-operating revenues and expenses: From 2012 to 2013, net non-operating expenses increased $226,000. This increase is primarily due to the decrease of investment income offset by a decrease in interest expense. In 2012 the interest rate swap increased the investment income. From 2011 to 2012, net non-operating expenses decreased $7,992,000. This decrease was primarily due to the reduction of interest expense, due to the defeasance of revenue bonds associated with the Gateway North Garage.

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 garage 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. 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.

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BASIC FINANCIAL STATEMENTS

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES

STATEMENTS OF NET POSITION
December 31, 2013 and 2012

	2013	Restated 2012
	(Amounts in 000's)	
ASSETS & DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	$ 5,575	$ 5,449
Accounts receivable - net of allowance	13	18
Due from other City of Cleveland departments, divisions or funds	69	51
Inventory of supplies, at cost	145	139
TOTAL CURRENT ASSETS	5,802	5,657
RESTRICTED ASSETS		
Cash and cash equivalents	8,733	8,762
TOTAL RESTRICTED ASSETS	8,733	8,762
CAPITAL ASSETS		
Land	5,478	5,478
Land improvements	1,256	1,256
Buildings, structures and improvements	53,719	53,719
Furniture, fixtures, equipment and vehicles	1,290	1,290
Construction in progress	474	440
	62,217	62,183
Less: Accumulated depreciation	(26,901)	(25,525)
CAPITAL ASSETS, NET	35,316	36,658
DEFERRED OUTFLOWS OF RESOURCES		
Loss on refunding	1,884	2,261
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,884	2,261
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	$ 51,735	$ 53,338

(Continued)

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES

STATEMENTS OF NET POSITION
December 31, 2013 and 2012

	2013	Restated 2012
	(Amounts in 000's)	
LIABILITIES, DEFERRED INFLOWS AND NET POSITON		
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	$ 2,645	$ 2,520
Accounts payable	283	214
Due to other governments	226	221
Due to other City of Cleveland departments, divisions or funds	191	117
Accrued interest payable	434	470
Accrued wages and benefits	108	150
TOTAL CURRENT LIABILITIES	3,887	3,692
LONG-TERM LIABILITIES		
Revenue bonds - excluding amount due within one year	27,510	30,364
Accrued wages and benefits	22	26
TOTAL LONG-TERM LIABILITIES	27,532	30,390
TOTAL LIABILITIES	31,419	34,082
DEFERRED INFLOWS OF RESOURCES		
Derivative instruments - interest rate swaps	367	365
TOTAL DEFERRED INFLOWS	367	365
NET POSITION		
Net investment in capital assets	10,252	9,272
Restricted for debt service	5,526	5,525
Unrestricted	4,171	4,094
TOTAL NET POSITION	19,949	18,891
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITON	$ 51,735	$ 53,338

(Concluded)

See notes to financial statements.

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CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2013 and 2012

	2013	Restated 2012
	(Amounts in 000's)	
OPERATING REVENUES		
Charges for services	$ 7,875	$ 7,735
TOTAL OPERATING REVENUES	7,875	7,735
OPERATING EXPENSES		
Operations	3,764	3,797
Maintenance	55	99
Depreciation	1,376	1,405
TOTAL OPERATING EXPENSES	5,195	5,301
OPERATING INCOME (LOSS)	2,680	2,434
NON-OPERATING REVENUE (EXPENSE)		
Investment income (loss)	13	423
Interest expense	(1,739)	(1,853)
Other non-operating revenue (expense)	70	
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	(1,656)	(1,430)
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,024	1,004
Capital contributions	34	490
INCREASE (DECREASE) IN NET POSITION	1,058	1,494
NET POSITION, beginning of year (as restated)	18,891	17,397
NET POSITION, end of year	$ 19,949	$ 18,891

See notes to financial statements.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

	2013	2012
	(Amounts in 000's)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 8,256	$ 7,939
Cash payments to suppliers for goods or services	(3,042)	(3,474)
Cash payments to employees for services	(1,073)	(1,091)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	4,141	3,374
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from settlement	70	
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	70	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long-term debt	(2,520)	(2,420)
Interest paid on long-term debt	(1,609)	(1,705)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(4,129)	(4,125)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturity of investment securities		4,095
Interest received on investments	15	12
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	15	4,107
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	97	3,356
CASH AND CASH EQUIVALENTS, beginning of year	14,211	10,855
CASH AND CASH EQUIVALENTS, end of year	$ 14,308	$ 14,211

(Continued)

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

	2013	2012
	(Amounts in 000's)	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating Income	$ 2,680	$ 2,434
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,376	1,405
Changes in assets and liabilities:		
Accounts receivable, net	5	(11)
Due from other City of Cleveland departments, divisions or funds	(18)	(3)
Inventory of supplies	(6)	(3)
Accounts payable	70	(539)
Due to other governments	5	36
Due to other City of Cleveland departments, divisions or funds	74	50
Accrued wages and benefits	(45)	5
TOTAL ADJUSTMENTS	1,461	940
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 4,141	$ 3,374
SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributions of capital assets	$ 34	$ 490

(Concluded)

See notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2013 and 2012

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 Public Works 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 March of 2012, Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Recognized as Assets and Liabilities* was issued. This Statement is effective for fiscal periods beginning after December 15, 2012. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. As required, the Division implemented GASB Statement No. 65 for 2013 and restated its comparative financial statements for 2012.

In March of 2012, Governmental Accounting Standards Board (GASB) Statement No. 66, *Technical Corrections – 2012 as amendment of GASB Statements No. 10 and No. 62* was issued. This Statement is effective for fiscal periods beginning after December 15, 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Division has determined that GASB Statement No. 66 has no impact on its financial statements as of December 31, 2013.

In November of 2010, Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34* was issued. This Statement is effective for fiscal periods beginning after June 15, 2012. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. GASB Statement No. 61 requires reporting a component unit as if they were part of the primary government (that is, blending) in circumstances where the component unit's total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The Division has determined that GASB Statement No. 61 has no impact on its financial statements as of December 31, 2013.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Division's net position is accounted for in the accompanying statements of net position and the net position is divided into the following categories:

- Net investment in capital assets
- 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 result in a change in the Division's beginning net position 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.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2013 and 2012. 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, 2013 and 2012.

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 an 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 100 years
Buildings, structures and improvements	5 to 60 years
Furniture, fixtures, equipment and vehicles	3 to 60 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 statements of net position. 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 vacation time from one year to the next. 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources: In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Bond Issuance Costs, Discounts/Premiums and Unamortized Loss on Debt Refunding: Bond issuance costs are expensed when incurred. Deferred bond discounts/premiums are netted against long-term debt. The discounts/premiums are amortized over the lives of the applicable bonds. Unamortized loss on debt refundings are categorized as a deferred outflow and is amortized over the shorter of the defeased bond or the newly issued bond.

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS

Long-term debt outstanding at December 31, 2013 and 2012 is as follows:

	Interest Rate	Original Issuance	2013	2012
			(Amounts in 000's)	
Parking Facilities Refunding Revenue Bonds Series 2006, due through 2022	4.00%-5.25%	$ 57,520	$ 29,105	$ 31,625
Unamortized discount/premium			1,050	1,259
Current portion			(2,645)	(2,520)
Total Long-Term Debt			$ 27,510	$ 30,364

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

Summary: Changes in long-term obligations for the year ended December 31, 2013 are as follows:

	Balance January 1, 2013	Increase	Decrease	Balance December 31, 2013	Due Within One Year
			(Amounts in 000's)		
Parking Facilities Refunding Revenue Bonds					
Series 2006, due through 2022	$ 31,625	$	$ (2,520)	$ 29,105	$ 2,645
Accrued wages and benefits	176	104	(150)	130	108
Total	$ 31,801	$ 104	$ (2,670)	$ 29,235	$ 2,753

Summary: Changes in long-term obligations for the year ended December 31, 2012 are as follows:

	Balance January 1, 2012	Increase	Decrease	Balance December 31, 2012	Due Within One Year
			(Amounts in 000's)		
Parking Facilities Refunding Revenue Bonds					
Series 2006, due through 2022	$ 34,045	$	$ (2,420)	$ 31,625	$ 2,520
Accrued wages and benefits	170	148	(142)	176	150
Total	$ 34,215	$ 148	$ (2,562)	$ 31,801	$ 2,670

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

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

	Principal	Interest	Total
		(Amounts in 000's)	
2014	$ 2,645	$ 1,487	$ 4,132
2015	2,770	1,354	4,124
2016	2,880	1,244	4,124
2017	3,040	1,093	4,133
2018	3,200	933	4,133
2019-2022	14,570	1,961	16,531
Total	$ 29,105	$ 8,072	$ 37,177

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.

Effective October 6, 2011, the City completed the sale of the City-owned Gateway North Parking Garage to Rock Ohio Caesars Gateway LLC. The garage is being used by the purchaser in conjunction with a new casino constructed in the Higbee Building adjacent to the garage. The net proceeds of the sale of the garage received by the City totaled $20,915,504. Of this amount, $19,578,288 was placed into an irrevocable escrow fund, along with $1,967,425 released from the debt service reserve fund as a result of the transaction, to be used to pay the principal and interest as it comes due on $16,145,000 Parking Facilities Refunding Revenue Bonds, Series 2006. As a result, these bonds are considered to be defeased and the liability for the bonds has been removed from long-term debt. In addition, $480,000 of the sale proceeds was used to terminate the portion of an existing basis swap which was associated with the bonds being defeased. Sale proceeds were also utilized to pay costs of the transaction. As a result of this transaction, the City expects to save approximately $600,000 annually through 2022.

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS (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.

On April 16, 2013, the City entered into a novation agreement with UBS, AG and PNC Bank, National Association (PNC) under which the basis swap associated with the Parking Facilities Refunding Revenue Bonds, Series 2006, was transferred from UBS to PNC effective March 15, 2013. All of the terms of the original basis swap remain the same. The City agreed to novate the swap to PNC based upon UBS' mandate to downsize its swap portfolio.

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 15, 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 was the counterparty on the transaction. As stated above, the basis swap was transferred to PNC Bank, National Association in 2013. Under the swap agreement for the Series 2006 Bonds, the City is a 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.

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

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 historically been 67%, this relationship may not always apply. Since late 2008, this relationship has been significantly higher for various periods of time 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. However there have also been periods recently when the SIFMA/LIBOR relationship has been significantly lower than 67%. In this case payments received from the counterparty may be greater than the amount owed to the counterparty which results in a net decrease 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 PNC 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 PNC, or by PNC 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 PNC upon early termination of the agreement is insured by FSA (now Assured Guaranty Municipal Corp.) up to a maximum amount of $8,000,000.

Fair Value: The fair value of the swap at December 31, 2013 reported by PNC and at December 31, 2012 reported by UBS was $367,000 and $365,000, 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 $29,105,000 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 full amount of net operating revenues. The total principal and interest remaining to be paid on the Parking Facilities Refunding Revenue Bonds is $37,177,000. Principal and interest paid for the current year (including net swap payments) and total net revenues were $4,129,000 and $4,221,000, respectively.

In 2013 and 2012, 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, 2013 and 2012, the Division was in compliance with the terms and requirements of the trust indenture.

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

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/or a liability as appropriate in the amount of the fair value of the interest rate swap, which reflects the prevailing interest rate environment at December 31, 2013 and December 31, 2012. The fair value of the swap has been provided by the counterparty and confirmed by the City's financial advisor. The Division recognized a $2,000 investment loss pursuant to this swap in 2013 and $417,000 investment income in 2012.

The tables below present the fair value balances and notional amounts of the Division's derivative instrument outstanding at December 31, 2013 and December 31, 2012, classified by type and the change in fair value of this derivative during fiscal years 2013 and 2012 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, 2013 and December 31, 2012 and the specific terms and conditions of the swap, have been provided by the counterparty and confirmed by the City's financial advisor.

	Changes in Fair Value		Fair Value at December 31, 2013		
	Classification	**Amount**	**Classification**	**Amount**	**Notional**
	(Amounts in 000's)				
Floating to floating interest rate swap					
2006 Parking Basis Swap	Investment Loss	$ 2	Investment	$ (367)	$ 29,105

	Changes in Fair Value		Fair Value at December 31, 2012		
	Classification	**Amount**	**Classification**	**Amount**	**Notional**
	(Amounts in 000's)				
Floating to floating interest rate swap					
2006 Parking Basis Swap	Investment Revenue	$ 417	Investment	$ (365)	$ 31,625

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

The table below presents the objective and significant terms of the Division's derivative instrument at December 31, 2013, along with the credit rating of the swap counterparty.

Bonds	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
			(Amounts in 000's)				
2006 Parking Bonds	Basis Swap - Pay Floating / Receive Floating	Exchange floating rate payments on Series 2006 Parking System Revenue Bonds	$ 29,105	8/15/2006	9/15/2022	Pay SIFMA, receive 67% of LIBOR	A2/A/A+

Defeaseance of Debt: The Division defeased certain debt by placing cash or the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and defeased bonds are not recorded in the Division's financial statements.

In conjunction with the sale of the Gateway North Garage, the Division defeased some of the Parking Facilities Refunding Revenue Bonds, Series 2006, by placing a portion of the proceeds of the sale into an irrevocable trust to provide for the all future debt service payments on the defeased bonds. The Division had $13,800,000 of defeased debt outstanding at December 31, 2013.

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. In October 2011, the City sold one of the Gateway garages and defeased the applicable bonds. Going forward the amounts required to be reimbursed will be calculated based upon the net revenues of the remaining garage and remaining applicable bonds outstanding.

The first garage on the Gateway site was completed in January 1994. The second garage was completed in August 1994.

In 2013, net revenues generated by the remaining Gateway garage were less than the debt service payments attributed to that garage by $1,527,000. Cumulative debt service payments funded by the City that are due from Gateway totaled $46,765,000 at December 31, 2013. 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.

NOTE D – DEPOSITS AND INVESTMENTS

Deposits: The carrying amount of the Division's deposits at December 31, 2013 and 2012 totaled $115,000 and $778,000, respectively, and the Division's bank balances were $112,000 and $787,000, respectively. The differences represent positions in pooled bank accounts and normal reconciling items. Based on the criteria described in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*, $112,000 and $787,000 of the bank balances at December 31, 2013 and 2012, 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; State Treasurer Asset Reserve Fund (STAROhio); commercial paper; US Government Money Market Mutual Funds; guaranteed investment contracts; manuscript debt; bonds and other State of Ohio obligations; certificates of deposit; 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 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; therefore, 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 both short and long-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.

NOTE D – DEPOSITS AND INVESTMENTS (Continued)

Credit Risk: The Division's investments as of December 31, 2013 and 2012 include STAROhio and mutual funds. The Division maintains the highest ratings for their investments. Investments in STAROhio and Dreyfus Government Cash Management Mutual Funds 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.

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, 2013 and 2012, which include those classified as cash and cash equivalents in the Statement of Net Position in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

Type of Investment	2013 Fair Value	2013 Cost	2012 Fair Value	2012 Cost	Investment Maturities Less than One Year
	(Amounts in 000's)				
STAROhio	$ 1,684	$ 1,684	$ 969	$ 969	$ 1,684
Mutual Funds	12,509	12,509	12,464	12,464	12,509
Total Investments	14,193	14,193	13,433	13,433	14,193
Total Deposits	115	115	778	778	115
Total Deposits and Investments	$ 14,308	$ 14,308	$ 14,211	$ 14,211	$ 14,308

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 fair value.

As of December 31, 2013, the investments in STAROhio and mutual funds are approximately 12% and 88%, respectively, of the Division's total investments. As of December 31, 2012, the investments in STAROhio and in mutual funds are approximately 7% and 93%, respectively, of the Division's total investments.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2013 and 2012

NOTE E – CAPITAL ASSETS

Capital Asset Activity: Capital asset activity for the year ended December 31, 2013 was as follows:

	Balance January 1, 2013	Additions	Deletions	Balance December 31, 2013
		(Amounts in 000's)		
Capital assets, not being depreciated:				
Land	$ 5,478	$	$	$ 5,478
Construction in progress	440	34		474
Total capital assets, not being depreciated	5,918	34	-	5,952
Capital assets, being depreciated:				
Land improvements	1,256			1,256
Buildings, structures and improvements	53,719			53,719
Furniture, fixtures, equipment and vehicles	1,290			1,290
Total capital assets, being depreciated	56,265	-	-	56,265
Less: Accumulated depreciation	(25,525)	(1,376)		(26,901)
Total capital assets being depreciated, net	30,740	(1,376)	-	29,364
Capital assets, net	$ 36,658	$ (1,342)	$ -	$ 35,316

NOTE E – CAPITAL ASSETS (Continued)

Capital Asset Activity: Capital asset activity for the year ended December 31, 2012 was as follows:

	Balance January 1, 2012	Additions	Deletions	Balance December 31, 2012
	(Amounts in 000's)			
Capital assets, not being depreciated:				
Land	$ 5,478	$	$	$ 5,478
Construction in progress		440		440
Total capital assets, not being depreciated	5,478	440	-	5,918
Capital assets, being depreciated:				
Land improvements	1,256			1,256
Buildings, structures and improvements	53,719			53,719
Furniture, fixtures, equipment and vehicles	1,250	50	(10)	1,290
Total capital assets, being depreciated	56,225	50	(10)	56,265
Less: Accumulated depreciation	(24,130)	(1,405)	10	(25,525)
Total capital assets being depreciated, net	32,095	(1,355)	-	30,740
Capital assets, net	$ 37,573	$ (915)	$ -	$ 36,658

NOTE F – DEFINED BENEFIT PENSION PLANS

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

1) The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan.

2) The Member-Directed Plan – 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 – a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions 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.

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 visiting https://www.opers.org/investments/cafr.shtml, by writing 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 2013, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2013, 2012 and 2011. The employer contribution rates were 14.00% of covered payroll in 2013, 2012 and 2011.

The Division's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2013, 2012 and 2011 were $95,000, $81,000 and $77,000 each year, respectively. The required payments due in 2013, 2012 and 2011 have been made.

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* This accounting standard replaces GASB Statement No. 27 and it is effective for employer fiscal years beginning after June 15, 2014.

NOTE G – OTHER POSTEMPLOYMENT BENEFITS

***Ohio Public Employees Retirement System*:** All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: 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 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 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 visiting https://www.opers.org/investments/cafr.shtml, by writing 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 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 2013, 2012, and 2011. 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 1.00% for members of the Traditional Plan in 2013 and 4.00% in 2012 and 2011, 1.00% for members of the Combined Plan in 2013 and 6.05% for 2012 and 2011. Effective January 1, 2014, the portion of employer contributions allocated to health care was raised to 2.00% for both plans, as recommended by the OPERS Actuary. 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 $7,000 in 2013, $32,000 in 2012 and $31,000 in 2011. The required payments due in 2013, 2012 and 2011 have been made.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.00% of the employer contributions toward the health care fund after the end of the transition period.

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:

	2013	2012
	(Amounts in 000's)	
Department of Community Development	$ 36	$ 41

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, 2013 and 2012 are as follows:

	2013	2012
	(Amounts in 000's)	
Parks Maintenance	$ 65	$ 74
Motor Vehicle Maintenance	9	9
Cleveland Public Power	188	178
Telephone	13	17

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 2013 or 2012.

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.

NOTE I – CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

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

NOTE J – LEASES

The Division leases the land for various parking facilities to management companies under non-cancelable lease agreements, which expire at various times through the year 2056. Revenues generated from such leases totaled $180,000 in 2013 and 2012. Future minimum rentals on non-cancelable leases are as follows:

	(Amounts in 000's)
2014	$ 180
2015	180
2016	180
2017	180
2018	180
Thereafter	4,560
	$ 5,460

NOTE K – SUBSEQUENT EVENTS

On March 18, 2014, Standard and Poor’s Ratings Services raised its rating on Assured Guaranty Municipal Corporation, the insurer of the Series 2006 Parking Facilities Refunding Revenue Bonds. The rating was raised to AA from AA-. The Division’s bonds only carry the insured rating and have no ratings based solely on its own credit.

NOTE L – RESTATEMENT

The Governmental Accounting Standards Board (GASB) issued Statement No. 65 effective for periods beginning after December 15, 2012. The Statement changed the treatment of bond issuance costs. Previously, the costs were recorded as assets and amortized over the life of the related debt issue. The GASB evaluated these costs and concluded that with the exception of prepaid insurance, the costs relate to services provided in the current period and thus they should be expensed in the current period. This statement also changed the treatment of loss on refunding. Prior to GASB 65, loss on refunding was included in revenue bonds. It is now reported as a deferred outflow of resources. This is reflected as a reclassification in the 2012 financial figures.

Impact on Statements of Net Position	December 31, 2012	Restatement/Reclass (Amounts in 000's)	Restated December 31, 2012
Unamortized bond issuance cost	$ 1,288	$ (1,288)	$ -
Deferred outflows of resources:			
Loss on refunding		2,261	2,261
Long-term liabilities:			
Revenue bonds	28,103	2,261	30,364
Unrestricted net position	5,382	(1,288)	4,094

Impact on Statements of Revenues, Expenses and Changes in Net Position	2012	Restatement/Reclass (Amounts in 000's)	Restated 2012
Amortization of bond issuance costs	$ (227)	$ 227	$ -
Total non-operating revenue (expense) - net	(1,657)	227	(1,430)
Increase (decrease) in net position	1,267	227	1,494
Net position, beginning of year	18,912	(1,515)	17,397