CITY OF CLEVELAND, OHIO

DEPARTMENT OF PARKS, RECREATION & PROPERTIES
DIVISION OF PARKING FACILITIES

REPORT ON AUDITS OF FINANCIAL STATEMENTS
For the years ended December 31, 2003 and 2002

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PARKS, RECREATION & PROPERTIES
DIVISION OF PARKING FACILITIES

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INDEPENDENT ACCOUNTANTS' REPORT

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

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

We have audited the Balance Sheets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows of the Division of Parking Facilities, Department of Parks, Recreation, and Properties, City of Cleveland, Ohio, as of and for the years ended December 31, 2003 and December 31, 2002, as listed in the table of contents. These financial statements are the responsibility of the Division of Parking Facilities' management. Our responsibility is to express opinions on these financial statements based on our audits.

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

As discussed in Note A, the financial statements present only the Division of Parking Facilities and do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2003 and December 31, 2002, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division of Parking Facilities as of December 31, 2003 and December 31, 2002, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

May 28, 2004

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MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the "City") Department of Parks, Recreation & Properties, Division of Parking Facilities (the "Division"), we offer readers of the Division's financial statements this narrative overview and analysis of the financial activities of the Division for the fiscal year ended December 31, 2003. Please read this information in conjunction with the Division's financial statements and footnotes which begin on pages 10 and 16, respectively.

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

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities at December 31, 2003 by $17,944,000 (net assets). Of this amount, $4,238,000 (unrestricted net assets) may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's total net assets decreased by $663,000 during 2003. This was primarily due to the transfers to other funds to repay amounts that were transferred in during previous years to fund debt service payments in prior years. The impact of the amounts transferred out was lessened by the premium received by the Division under the interest rate swap agreement. In addition, the Division experienced a 1.7 percent decrease in operating income from the prior year, which was the result of a net decrease in parking revenues due primarily to the closing of the North Mall lot on March 31, 2003.

- The Division's total debt (excluding unamortized discounts, premiums and losses on debt refundings) decreased by $2,075,000 (2.8 percent) during the current fiscal year. This amount represents the principal payment made in 2003 on its outstanding revenue bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 16 - 27 of this report.

CONDENSED BALANCE SHEET INFORMATION

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

	2003	2002	Increase/ (Decrease)
		(In thousands)	
Assets:			
Current assets	$ 379	$ 4,500	$ (4,121)
Restricted assets	19,193	15,519	3,674
Unamortized bond issuance costs	953	1,039	(86)
Capital assets, net	63,988	65,670	(1,682)
Total assets	84,513	86,728	(2,215)
Net Assets and Liabilities:			
Liabilities:			
Current liabilities	3,724	3,608	116
Payable from restricted assets		17	(17)
Long term liabilities	62,845	64,496	(1,651)
Total liabilities	66,569	68,121	(1,552)
Net assets:			
Invested in capital assets, net of related debt	(972)	(835)	(137)
Restricted for debt service	14,678	11,193	3,485
Unrestricted	4,238	8,249	(4,011)
Total net assets	17,944	18,607	(663)
Total net assets and liabilities	$ 84,513	$ 86,728	$ (2,215)

Assets:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

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

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

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

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

Liabilities:

Long-term debt: At the end of the current fiscal year, the Division had total debt outstanding (excluding unamortized discounts, premiums and losses on debt refundings) of $71,480,000. This debt was incurred to construct two new parking garages around the Gateway site and a new Willard Park Garage behind City Hall. The City's first garage on the Gateway site was completed in January 1994. The second garage was completed in August 1994. The Willard Park Garage construction was completed in April 1996. The bonds are backed by the net revenues from these facilities. In addition, the City has pledged additional revenues, which consist of various non-tax revenues, to meet debt service requirements, if necessary. In 2003 and 2002, no additional pledged revenue was required to meet the debt service requirements on the parking bonds.

CONDENSED BALANCE SHEET INFORMATION (Continued)

The activity in the Division's debt obligation outstanding during the year ended December 31, 2003 is summarized below (excluding unamortized discounts, premiums and losses on debt refundings):

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

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

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

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

Additional information on the Division's long-term debt can be found in Note B on pages 18 - 21.

Net Assets: Net assets serve as a useful indicator of a government's financial position. In the case of the Division, assets exceeded liabilities by $17,944,000 at the close of the most recent fiscal year.

By far, the largest portion of the Division's net assets, $14,678,000 (81.8 percent), represents resources that are classified as restricted since their use is limited by the bond indentures. In addition, the Division has a net deficit of ($972,000) that reflects its investment in capital assets (e.g., land, buildings, furniture) net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. The $4,238,000 balance of unrestricted net assets may be used to meet the Division's ongoing obligations to customers and creditors.

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

The Division's operations decreased net assets by $663,000 and $172,000 during 2003 and 2002, respectively. Key elements of these activities are summarized below:

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

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

Operating expenses: Operating expenses increased $26,000 or 0.7 percent in 2003. The increase of $51,000 or 2.8 percent in expenses associated with operations was due to higher personnel and related costs. This was partially offset by decreases in expenses associated with maintenance and depreciation of $10,000 and $15,000, respectively.

The net effect of the decreases in operating revenues and operating expenses was a $64,000 or 1.7 percent decrease in operating income in 2003 from 2002.

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

Investment income: Investment income increased $193,000 from 2002 to 2003 due to an increase in amounts available for investment throughout the year.

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

Operating revenues are derived primarily from fees charged to users of City-owned parking garages and facilities operated by the Division including the net income from the Gateway garages and on-street parking meter revenue. The permanent closing of the North Mall parking lot will result in lost revenue for the Division in future years.

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

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

ADDITIONAL INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES
BALANCE SHEETS
December 31, 2003 and 2002

	(In thousands) 2003	2002
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 201	$ 2,318
Investments		2,000
Accounts receivable - net of allowance	10	23
Due from other City of Cleveland departments, divisions or funds	99	157
Inventory of supplies, at cost	69	2
TOTAL CURRENT ASSETS	379	4,500
RESTRICTED ASSETS		
Cash and cash equivalents	19,030	15,516
Accrued interest receivable	163	3
TOTAL RESTRICTED ASSETS	19,193	15,519
UNAMORTIZED BOND ISSUANCE COSTS	953	1,039
CAPITAL ASSETS		
Land	12,929	12,929
Land improvements	1,256	1,264
Buildings, structures and improvements	65,200	65,200
Furniture, fixtures, equipment and vehicles	305	325
	79,690	79,718
Less: Accumulated depreciation	(15,702)	(14,048)
CAPITAL ASSETS, NET	63,988	65,670
TOTAL ASSETS	$ 84,513	$ 86,728

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PARKS, RECREATION & PROPERTIES
DIVISION OF PARKING FACILITIES
BALANCE SHEETS
December 31, 2003 and 2002

	(*In thousands*) 2003	2002
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	$ 2,175	$ 2,075
Accounts payable	26	32
Due to other governments	168	79
Due to other City of Cleveland departments, divisions or funds	72	118
Accrued interest payable	1,165	1,197
Accrued wages and benefits	118	107
TOTAL CURRENT LIABILITIES	3,724	3,608
PAYABLE FROM RESTRICTED ASSETS		17
LONG TERM LIABILITIES		
Revenue bonds - excluding amount due within one year	62,785	64,438
Accrued wages and benefits	60	58
TOTAL LONG TERM LIABILITIES	62,845	64,496
TOTAL LIABILITIES	66,569	68,121
NET ASSETS		
Invested in capital assets, net of related debt	(972)	(835)
Restricted for debt service	14,678	11,193
Unrestricted	4,238	8,249
TOTAL NET ASSETS	17,944	18,607
TOTAL LIABILITIES AND NET ASSETS	$ 84,513	$ 86,728

(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, 2003 and 2002

	(In thousands) 2003	2002
OPERATING REVENUES		
Charges for services	$ 7,406	$ 7,444
TOTAL OPERATING REVENUES	7,406	7,444
OPERATING EXPENSES		
Operations	1,850	1,799
Maintenance	60	70
Depreciation	1,719	1,734
TOTAL OPERATING EXPENSES	3,629	3,603
OPERATING INCOME	3,777	3,841
NON-OPERATING REVENUE (EXPENSE)		
Investment income	658	465
Other revenue	3	
Interest expense	(4,595)	(4,416)
Amortization of bond issuance costs and discount	(85)	(88)
Loss on disposal of capital assets	(20)	
Premium received on interest rate swap agreement	3,275	
Operating transfers out	(3,733)	
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	(4,497)	(4,039)
INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	(720)	(198)
Capital and other contributions	57	26
INCREASE (DECREASE) IN NET ASSETS	(663)	(172)
NET ASSETS, beginning of year	18,607	18,779
NET ASSETS, end of year	$ 17,944	$ 18,607

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, 2003 and 2002

	(In thousands) 2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 8,147	$ 7,902
Cash payments to suppliers for goods or services	(1,522)	(1,250)
Cash payments to employees for services	(1,092)	(924)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,533	5,728
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to other subclasses	(3,733)	
NET CASH USED FOR NONCAPITAL FINANCING ACTIVITIES	(3,733)	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Premium received on interest rate swap agreement	3,275	
Other revenue	3	
Principal paid on long-term debt	(2,075)	(1,965)
Interest paid on long-term debt	(4,104)	(4,207)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(2,901)	(6,172)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities		(2,000)
Proceeds from sale and maturity of investment securities	2,000	
Interest received on investments	498	590
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	2,498	(1,410)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,397	(1,854)
CASH AND CASH EQUIVALENTS, beginning of year	17,834	19,688
CASH AND CASH EQUIVALENTS, end of year	$ 19,231	$ 17,834

(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, 2003 and 2002

	(In thousands) 2003	2002
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$ 3,777	$ 3,841
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,719	1,734
Changes in assets and liabilities:		
Accounts receivable, net	13	97
Due from other City of Cleveland departments, divisions or funds	58	(37)
Inventory of supplies	(67)	16
Accounts payable	(23)	23
Due to other governments	89	1
Due to other City of Cleveland departments, divisions or funds	(46)	58
Accrued wages and benefits	13	(5)
TOTAL ADJUSTMENTS	1,756	1,887
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 5,533	$ 5,728

(Concluded)

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2003 and 2002. 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, 2003 and 2002.

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Normally, all vacation time is to be taken in the year available. The Division allows employees to carryover up to 80 hours of vacation time from one year to the next. Amounts in excess of 80 hours are forfeited, unless written approval for carryover of vacation time is obtained. Sick days not taken may be accumulated until retirement. An employee is paid one-third of accumulated sick leave upon retirement, calculated at the three-year average base salary rate, with the balance being forfeited.

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

NOTE B - LONG-TERM DEBT

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

	Interest Rate	Original Issuance	2003 (In thousands)	2002
Parking Facility Improvement Revenue Bonds due through 2022	4.45%-6.00%	$ 81,105	$ 71,480	$ 73,555
Less:				
Unamortized loss on debt refunding			(5,542)	(6,039)
Unamortized discount			(978)	(1,003)
Current portion			(2,175)	(2,075)
Total Long-Term Debt			$ 62,785	$ 64,438

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2003 and 2002

NOTE B - LONG-TERM DEBT (Continued)

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

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

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

	Principal	Interest (In thousands)	Total
2004	$ 2,175	$ 3,995	$ 6,170
2005	2,305	3,864	6,169
2006	2,445	3,726	6,171
2007	2,590	3,580	6,170
2008	2,750	3,424	6,174
2009-2013	16,300	14,564	30,864
2014-2018	21,270	9,587	30,857
2019-2022	21,645	3,056	24,701
Total	$ 71,480	$ 45,796	$ 117,276

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

The City has pledged the net revenues of the parking facilities, as defined in the trust indenture, as well as additional pledged revenues which consist of various non-tax revenues, to meet debt service requirements, if necessary. In 2003 and 2002, no additional pledged revenue was required to meet the debt service on the parking bonds. The trust indenture requires, among other things, that the Division will fix parking rates and will charge and collect fees for the use of the Parking Facilities, and will restrict operating expenses. As of December 31, 2003 and 2002, the Division was in compliance with the terms and requirements of the trust indenture.

NOTE B - LONG-TERM DEBT (Continued)

Interest Rate Swap Transactions

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

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

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

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

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

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

NOTE B - LONG-TERM DEBT (Continued)

Interest Rate Swap Transactions (Continued)

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

Fair Value: The fair value of the swap at December 31, 2003, as reported by UBS AG was $4,240,338 which would be payable by the City.

NOTE C - RECEIVABLE FROM GATEWAY ECONOMIC DEVELOPMENT CORPORATION

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

In 2003 and 2002, net revenues generated by the two Gateway garages were less than the debt service payments attributed to those garages by $2,988,000 and $3,005,000, respectively. Cumulative debt service payments funded by the City that are due from Gateway totaled $25,205,000 and $22,217,000 at December 31, 2003 and 2002, respectively. Due to the uncertainty of collecting such amounts, allowance accounts have been recorded to offset the amounts in full.

NOTE D - DEPOSITS AND INVESTMENTS

Deposits: The carrying amount of the Division's deposits at December 31, 2003 and December 31, 2002 totaled $6,363,000 and $6,578,000, respectively, and the Division's bank balances were $6,360,000 and $6,278,000, respectively. The differences represent outstanding warrants payable and normal reconciling items.

Based on the criteria described in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, $180,000 and $97,000 of the bank balances at December 31, 2003 and 2002, respectively, were insured or collateralized with securities held by the City or by its agent in the City's name. The amount invested in Bank Investment Contracts secured by securities held by the pledging institution's trust department, but not in the City's name, was $6,180,000 and $6,181,000, respectively.

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

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2003 and 2002

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

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

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

Type of Investment	Risk Category	2003 Fair Value	2003 Cost	2002 Fair Value	2002 Cost
		(In thousands)			
U.S. Agency Obligation	1	$	$	$ 2,000	$ 2,000
STAROhio	n/a	31	31	1,937	1,937
Investment in Mutual Funds	n/a	1,534	1,534	3,587	3,587
Other	n/a	11,303	11,303	5,732	5,732
Total Investments		12,868	12,868	13,256	13,256
Total Deposits		6,363	6,363	6,578	6,578
Total Deposits and Investments		$ 19,231	$ 19,231	$ 19,834	$ 19,834

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

NOTE E – CAPITAL ASSETS

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

	Balance January 1, 2003	Additions	Deletions	Balance December 31, 2003
	(In thousands)			
Capital assets, not being depreciated:				
Land	$ 12,929	$	$	$ 12,929
Total capital assets, not being depreciated	12,929			12,929
Capital assets, being depreciated:				
Land improvements	1,264	57	(65)	1,256
Buildings, structures and improvements	65,200			65,200
Furniture, fixtures and equipment	325		(20)	305
Total capital assets, being depreciated	66,789	57	(85)	66,761
Less: Accumulated depreciation	(14,048)	(1,719)	65	(15,702)
Total capital assets being depreciated, net	52,741	(1,662)	(20)	51,059
Capital assets, net	$ 65,670	$ (1,662)	$ (20)	$ 63,988

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 thereon.
3). The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional 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.

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 Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2003, member and employer contribution rates were consistent across all three plans (TP, MD and CO). The 2003 member contribution rates were 8.5% and employer contribution rates were 13.55% of covered payroll. The Division's required employer contributions to OPERS for all plans for the years ending December 31, 2003, 2002 and 2001 were approximately $116,000, $95,000, $83,000 each year, respectively. The required payments due in 2003, 2002 and 2001 have been made.

NOTE G - OTHER POSTEMPLOYMENT BENEFITS

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

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The Division's contribution rate was 13.55% of covered payroll, and 5.00% was used to fund health care for the year. The Ohio Revised Code provides the statutory authority to require public employers to fund post retirement health care through their contributions to OPERS. The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2002. An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment assumption rate for 2002 was 8.00%. An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%.

NOTE G - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Health care costs were assumed to increase 4.00% annually. OPEBs are advance-funded on an actuarially determined basis. At year-end 2003, the number of active contributing participants in the Traditional and Combined Plans totaled 364,881. The employer contribution rates are the actuarially determined contribution requirements for OPERS. The Division's actual contributions for 2003 which were to fund postemployment benefits were approximately $43,000. $10.0 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2002. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $18.7 billion and $8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired in an OPERS covered-position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present plan. The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply his or her allowance toward specific medical expenses, much like a Medical Spending Account. In response to the adverse investment returns experienced by OPERS from 2000 through 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending "Choices" type cost cutting measures to all active members and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

NOTE H - RELATED PARTY TRANSACTIONS

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

	2003	2002
	(In thousands)	
Division of Convention Center	$ 220	$ 208
Department of Community Development	307	439

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2003 and 2002

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, 2003 and 2002 are as follows:

	2003	2002
	(In thousands)	
Parks Maintenance	$ 65	$ 105
Motor Vehicle Maintenance	21	21
Cleveland Public Power	139	206
Maintenance	20	21
Telephone	40	44
Printing services	6	2
Waste collection	1	1
Data Processing		1
Central storeroom	1	1

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 2003 or 2002.

The City provides the choice of four separate health insurance plans for its employees. These plans are provided by two different insurers through commercial insurance. Operating funds are charged a monthly rate per employee, by type of coverage. In 2002, the City participated in the State of Ohio workers' compensation premium program to provide workers' compensation benefits to its employees. In 2003, the City exercised the option of retrospective rating mechanism for our workers' compensation 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.

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 2003 and 2002. Future minimum rentals on non-cancelable leases are as follows:

	(In thousands)
2004	180
2005	180
2006	180
2007	180
2008	180
Thereafter	6,360
	$ 7,260

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CITY OF CLEVELAND - DIVISION OF PARKING FACILITIES

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 17, 2004