CITY OF CLEVELAND, OHIO

Single Audit Reports

Year Ended December 31, 2011

CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

Honorable Frank G. Jackson, Mayor,
Members of Council and the Audit Committee
City of Cleveland
601 Lakeside Ave
Cleveland, Ohio 44114-1027

We have reviewed the *Independent Auditors' Report* of the City of Cleveland, Cuyahoga County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Cleveland is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

September 5, 2012

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CITY OF CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2011

Federal Grant/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Federal Expenditures
Department of Agriculture			
Summer Food Service Program for Children 2010		10.559	$ 6,989
Summer Food Service Program for Children 2011		10.559	$ 256,940
Total Department of Agriculture			263,929
Department of Energy			
Weatherization Assistance for Low-Income Persons 2009		81.042	1,773
ARRA-Weatherization Assistance for Low-Income Persons 2009		81.042	9,212,590
			9,214,363
ARRA-Energy Efficiency And Conservation Block Grant Program (EECBG)		81.128	1,763,062
			1,763,062
Total Department of Energy			10,977,425
Department of Health and Human Service			
Healthy Start Initiative Yr 10		93.926	1,057,503
Healthy Start Initiative Yr 11		93.926	859,964
Subtotal			1,917,467
Family Planning Services Title X FY 2011		93.217	222,128
Family Planning Services Title X FY 2012		93.217	59,401
Subtotal			281,529
Pass Through Programs:			
Ohio Department of Health:			
Centers for Disease Control and Prevention - Investigations and Technical Assistance:			
Substance Abuse and Mental Health Services Administration	5H79TI019946-03	93.243	179,440
Subtotal			179,440
Ohio Department of Health:			
Immunization Grants 2008	18-100-1-2-IM-0108	93.268	553
Immunization Grants 2009	18-100-1-2-IM-0109	93.268	3,235
Immunization Grants 2010	18-100-1-2-IM-0110	93.268	88,303
Subtotal			92,091
Ohio Department of Health:			
Childhood Lead Poisoning Prevention 2010/2011	18-2-001-1-BD-09/10	93.197	141,943
Childhood Lead Poisoning Prevention 2011/2012	18-2-001-1-BD-11	93.197	43,666
Subtotal			185,609
Ohio Department of Health:			
Centers for Disease Control and Prevention - Investigations and Technical Assistance:			
City Readiness Initiative 2010	18-200-1-2-PI-0210	93.069	14,941
City Readiness Initiative 2011	18-200-1-2-PI-0211	93.069	559,086
City Readiness Initiative 2012	18-200-1-2-PI-0212	93.069	85,999
Public Health Collaborative 2011	18-1-001-2-BI-11	93.069	150,314
Public Health Collaborative 2012	18-1-001-2-BI-12	93.069	55,865
PHER Area 1 2010		93.069	9,228
PHER Area 2 2010		93.069	18,314
PHER Area 1 2011		93.069	73,475
PHER Area 2 2011		93.069	12,727
PHER Area 3 2011		93.069	316,095
Subtotal			1,296,044

(Continued)

CITY OF CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2011

Federal Grant/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Federal Expenditures
Department of Health and Human Service (continued):			
WRAAA OAA/ADRC Project		93.044	91,139
WRAAA Supportive Services		93.044	122,446
Subtotal			213,585
Ohio Department of Health:			
Preventive Health Services-Sexually Transmitted Diseases:			
Sexually Transmitted Diseases Diagnosis & Treatment 2010	18-2-001-2-BX-10	93.977	22,980
Sexually Transmitted Diseases Diagnosis & Treatment 2011	18-2-001-2-BX-11	93.977	98,490
Subtotal			121,470
Ohio Department of Health:			
HIV Prevention 2009	18-2-001-2-AS-09	93.940	921
HIV Prevention 2010	18-2-001-2-AS-10	93.940	195,390
HIV Prevention 2011	18-2-001-2-AS-11	93.940	549,213
Subtotal			745,524
Cuyahoga County Board of Health:			
Block Grants for Prevention and Treatment of Substance Abuse:			
Centerpoint 2011		93.959	134,171
Centerpoint 2011		93.959	41,183
Student Assistance 2012		93.959	106,367
Student Assistance 2012		93.959	8,533
Subtotal			290,254
Ohio Department of Development:			
Low-Income Home Energy Assistance-HHS 2009	09-111	93.568	738
ARRA-Low-Income Home Energy Assistance-HHS 2009	ARRA-10-111	93.568	1,509,463
Subtotal			1,510,201
Total Department of Health and Human Services			6,833,214
Department of Housing & Urban Development			
Ohio Department of Health:			
Lead Hazard Reduction Demonstration Grant Program 2009	OHLHD0144-06	14.905	205
Lead Hazard Reduction Demonstration Grant Program 2010	OHLHD0188-08	14.905	1,479,964
Subtotal			1,480,169
CDBG Yr 30		14.218	1,849,692
CDBG Yr 31		14.218	481,920
CDBG Yr 32		14.218	926,986
CDBG Yr 33		14.218	611,069
CDBG Yr 34		14.218	731,593
CDBG Yr 35		14.218	1,549,904
CDBG Yr 36		14.218	11,760,037
CDBG Yr 37		14.218	9,577,656
CDBG Neighborhood Stabilization Program		14.218	1,863,145
NSP 3		14.218	1,580,728
SHAP/CHORE 2007-2008		14.218	258,097
ARRA-CDBG Entitlement Grants (CDBG-R) (Recovery Act Funded)		14.253	2,834,761
Subtotal			34,025,588
Lead Technical Studies Grants 2010	OHLHD0188-08	14.900	1,145,147

(Continued)

CITY OF CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2011

Federal Grant/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Federal Expenditures
Department of Housing & Urban Development (continued):			
HOME Investment Partnerships Program 1992		14.239	2,286
HOME Investment Partnerships Program 2001		14.239	139,584
HOME Investment Partnerships Program 2004		14.239	6,492
HOME Investment Partnerships Program 2006		14.239	20,000
HOME Investment Partnerships Program 2007		14.239	522,013
HOME Investment Partnerships Program 2008		14.239	532,500
HOME Investment Partnerships Program 2009		14.239	2,234,250
HOME Investment Partnerships Program 2009		14.239	3,316,986
Subtotal			6,774,111
Emergency Shelter Grants Program 2009		14.231	131,100
Emergency Shelter Grants Program 2010		14.231	966,410
Subtotal			1,097,510
Housing Opportunities for Persons With Aids 2009		14.241	627,865
Housing Opportunities for Persons With Aids 2010		14.241	23,849
Subtotal			651,714
Empowerment Zones Program		14.244	1,576,916
Subtotal			1,576,916
Evergreen BEDI Grant	OH B-09-BD-39-8016	14.246	2,000,000
Evergreen HUD 108		14.248	8,000,000
Pass Through Programs:			
Ohio Department of Development:			
CDBG - Neighborhood Stabilization Program	A-Z-08-264-1	14.228	398,723
Ohio Department of Development:			
ARRA Homeless Prevention	S-09-MY-39-0004	14.257	3,580,323
ARRA-Neighborhood Stabilization Program NSP HUD		14.256	12,117,409
Total Department of Housing & Urban Development			72,847,610
Department of Justice			
Public Safety Partnership and Community Policing Grants:			
Cleveland Universal Hiring II		16.710	25,523
ARRA Cleveland Universal Hiring II		16.710	3,274,078
Federal DOJ-COPS Technology GR		16.710	122,652
Federal DOJ Cops Technology		16.710	1,750,168
Subtotal			5,172,421
2010-Edward Byrne Memorial-JAG	2010-DJ-BX-0251	16.738	651,465
ARRA-Recovery Act - Edward Byrne Memorial Justice Assistance Grants to Units of Local Government	2009-SB-B9-0367	16.804	714,156
Pass Through Programs:			
Ohio Department of Public Safety:			
2009-Edward Byrne Memorial-NOLETF	2009-JG-A01-6444	16.738	47,183
2010-Edward Byrne Memorial-NOLETF	2010-JG-A01-6444	16.738	165,277
ARRA-Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Local Program Grants to Units of Local Government	2009-RA-B01-2012	16.803	30,967
ARRA-Edward Byrne Memorial Justice Assistance Grant Local Program	2009-SB-B9-0367	16.804	70,675

(Continued)

CITY OF CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2011

Federal Grant/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Federal Expenditures
Department of Justice (continued):			
Cuyahoga County - Department of Justice Affairs:			
Edward Byrne Memorial Justice Assistance Grant Programs (JAG):			
2008-Edward Byrne Memorial-JAG	08-JAG-MUN-01	16.738	1,488
2009-Edward Byrne Memorial-JAG	2009-DJ-BX-0796	16.738	538,783
Subtotal			2,219,994
State of Ohio - Office of Criminal Justice Services:			
Law Enforcement Trust Federal		16.000	343,686
Subtotal			343,686
State of Ohio - Office of Criminal Justice Services:			
Violence Against Women Formula Grants :			
VAWA Team Approach 2010 Law	2010-VP-VA2-V041	16.588	80,947
Subtotal			80,947
State of Ohio - Office of Criminal Justice Services:			
VAWA Team Approach 2010 Safety	2010-VP-VA2-V042	16.590	114,217
Subtotal			114,217
State of Ohio - Office of Criminal Justice Services:			
Juvenile Accountability Incentive Block Grants 2010	2009-JB-MUN-1001	16.523	35,421
Juvenile Accountability Incentive Block Grants 2010	2010-JB-MUN-1001	16.523	78,349
Subtotal			113,770
Ohio Department of Public Safety:			
Anti-Gang Initiative 2006	2006-PS-CAG-372	16.744	43,547
Subtotal			43,547
Gang Resistance Education and Training 2009		16.737	18,969
Subtotal			18,969
Total Department of Justice			8,107,551
Department of Commerce			
Ohio Department of Jobs and Family Services:			
U S Department of Commerce, Economic Development Administration:			
Revolving Loan Fund Grant - Economic Adjustment Assistance	See Footnote 1	11.307	3,045,812
Total Department of Commerce			3,045,812
Department of Labor			
Ohio Department of Jobs and Family Services:			
WIA Adult Program	G-1011-15-0258	17.258	1,297,308
WIA Youth Program	G-1011-15-0258	17.259	83,199
WIA Dislocated Worker Program	G-1011-15-0258	17.260	487,782
Total Department of Labor			1,868,289
Department of Transportation			
Airport Improvement Program		20.106	36,045,083
ARRA-Airport Improvement Program		20.106	314,463
Subtotal			36,359,546
Pass Thru:			
ARRA-SRTS FY 2009		20.205	2,848
Highway Planning and Construction:			
MLK		20.205	50,980
SRTS FY 2009 Signals		20.205	9,391
Highway Planning and Construction:			
ARRA- East 14th Street		20.205	178,076
ARRA- Avenue District Ph IV		20.205	13,995
ARRA- KAMM'S CORNER		20.205	278,560

(Continued)

CITY OF CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2011

Federal Grant/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Federal Expenditures
Department of Transportation (continued):			
Highway Planning and Construction:			
Federal NOACA Bessemer		20.205	280,000
Federal NOACA Gateway Playhouse		20.205	38,271
Federal NOACA Kamm's Corner		20.205	35,956
Federal NOACA East 22 Trans Plan		20.205	25,617
Federal NOACA League Park Plan		20.205	10,743
Federal NOACA Westside Market Revival		20.205	40,800
Federal NOACA Variety Village Study		20.205	638
			965,875
Total Department of Transportation			37,325,421
Department of Environmental Protection Agency			
Direct Programs:			
Air Pollution Control Program Support 2010		66.001	213,173
Air Pollution Control Program Support 2011		66.001	2,110,683
Air Pollution Control Program Support 2012		66.001	402,782
Subtotal			2,726,638
OWDA Water		66.468	1,927,746
Subtotal			1,927,746
Brownfields Assessment and Cleanup Cooperative Agreements:			
Warner Swasey Brownfield ASBES		66.818	23,120
Lower Woolen Mills		66.818	163,444
Morgana Run		66.818	2
Subtotal			186,566
Brownfield Assessment Grant		66.814	8,732
Chemical Emergency Preparedness and Prevention:			
Bio-Watch Program 2011		66.810	246,744
Bio-Watch Program 2012		66.810	110,343
Subtotal			357,087
Total Environmental Protection Agency			5,206,769
Department of Homeland Security			
Metropolitan Medical Response System 2008		97.071	141,665
Metropolitan Medical Response System 2009		97.071	79,377
Metropolitan Medical Response System 2010		97.071	146,270
Subtotal			367,312
National Explosives Detection Canine Team Program		97.072	150,500
Subtotal			150,500
2009 Safer Grant		97.083	304,943
2010 Safer Grant		97.083	618,749
Subtotal			923,692
2007 (LETPP) Law Enforcement Terrorism Prevention Program		97.074	40,615
2008 (LETPP) Law Enforcement Terrorism Prevention Program		97.074	457,040
Subtotal			497,655
Law Enforcement Officer Reimbursement Agreement Program		97.090	556,294
Subtotal			556,294

(Continued)

CITY OF CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2011

Federal Grant/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Federal Expenditures
Department of Homeland Security (continued):			
Cuyahoga County Department of Justice Affairs			
Urban Area Security Initiative 2007	2007-GE-T7-0030	97.008	76,488
Urban Area Security Initiative 2008	2008-GE-T8-0025	97.008	315,339
Urban Area Security Initiative 2009	2009-SS-T9-0089	97.008	1,747,379
Urban Area Security Initiative 2010	2010-SS-T0-0012	97.008	164,738
Subtotal			2,303,944
Public Safety Fire Grants:			
Buffer Zone Protection FY 07	2007-BZ-T7-0048	97.078	83
Buffer Zone Protection FY 09	2009-BF-T9-0046	97.078	193,852
Federal BAPP-FY07-Crown		97.078	10,100
Federal-BZPP-FY08-Garrett Morgan		97.078	170,261
Federal-BZPP-FY08-Nottingham		97.078	64,532
Subtotal			438,828
Total Department of Homeland Security			5,238,225
Grand Total			$ 151,714,245

(Concluded)

Basis of Presentation

The accompanying "Schedule of Expenditures of Federal Awards" includes the federal grant activity of the City of Cleveland (the "City") and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

Longwood Apartments Grant

The United States Department of Housing and Urban Development (HUD) made available an UpFront grant, CFDA 14.199, to the City in connection with the demolition, rebuilding and redevelopment of the Longwood apartments.

The funding for the plan is to come from a variety of public and private sources, including, tax-exempt bonds issued under Section 103 of the Internal Revenue Code of 1986, private sector equity derived from benefits associated with the low income housing tax credits, HUD Section 221 (d)(4) mortgage insurance, HUD UpFront Grant Program Funds, and City general obligation bond, public utility, Housing Trust Fund, and NDA funds.

The UpFront Grant will be allocated and loaned to the developer throughout the various phases of the project in accordance with a Promissory Note, Interest on this Note began to accrue on April 1, 2006 at a fixed annual rate of 0.25% with this Note maturing on April 1, 2046.

Park Village Apartment Grant

The United States Department of HUD made available an UpFront Grant in the amount of $981,836 for the rehabilitation of the Park Village Apartments, CFDA 14.199.

In addition to the Upfront Grant, funding for the plan includes a private lender first mortgage, a Community Development Block Grant Float Loan and private sector equity derived from benefits associated with low income housing tax credits.

The UpFront Grant funds are being loaned to the developer in accordance with the Promissory Note. Interest on this Note began to accrue on March 19, 2003 at a fixed annual rate of 5.23% per annum with this Note maturing on March 19, 2033.

Footnote 1: Revolving Loan Fund
Activity in the Economic Adjustment Assistance, CFDA 11.307 revolving loan fund during 2011:

Beginning loans receivable balance as of January 1, 2011	$2,248,824
Loans made during 2011	295,997
Loan principal repaid on loans issued prior to 2011	(637,090)
Loan principal write off during 2011	(194,132)
Ending loans receivable balance as of December 31, 2011	1,713,599
Cash balance on hand in the revolving loan fund as of December 31, 2011	
Cash balance, unobligated	745,270
Revolving loan committed but not disbursed	925,366
Total unobligated cash and committed but not disbursed cash	1,670,636
Total value of revolving loan portion of the EDA 11.307 program	3,384,235
Less: City's matching share	(338,423)
Total federal value of revolving loan portion as of December 31, 2011	$3,045,812

Revolving Loan Fund (Continued)

4500 LTD	$41,969
Accurate Instrument Service Co., Inc.	333
Aeroscena LLC	28,637
Braden Sutphin Ink Co.	63,833
Bula Forge & Machine Inc.	104,112
Cardioninsight Tech, Inc	174,355
CEAM Investment Co.	147,327
DRD, Inc., DBA AS Power Direct	88,820
Dunecraft Inc.	74,193
Evergreen Cooperative	84,310
Jane and Arthur Ellison LTD	114,893
Nisman Rozgonyi Enterprise	148,997
Northern Ohio Lumber & Timber Co.	22,098
Otto Klonigslow Manufacturing Co.	27,559
Proxy Biomedical	141,817
Replica Engineering Inc.	19,952
Sparkbase LLC	88,975
Unger Company	124,263
Universal Heat Treating Inc.	18,794
Zen Industries Inc.	91,671
Northeast Ohio Neighborhood Real Estate	65,648
Northeast Ohio Neighborhood Real M & E	41,043
	$1,713,599

Footnote 2: Ohio Department of Transportation

The Ohio Department of Transportation (ODOT) CFDA 20.205 is the organization of state government responsible for developing and maintaining all state and federal roadways in the State of Ohio (State) with exception of the Ohio Turnpike. In addition to highways, the department also helps develop public transportation and public aviation programs. The "Schedule of Expenditures of Federal Awards" details expenditures incurred by the City in the year they were paid. Due to the timing of work executed and timing of the reimbursement from ODOT, the expenditures reported on the "Schedule of Expenditures of Federal Awards" may not coincide with expenditures reported by ODOT.

Amounts reimbursed to the City by ODOT during 2011	$459,912
Expensed and reported by the City in Fiscal Year 2011	($424,802)
Federal Expenditures reported in 2010 reimbursed 2011	($35,110)
Federal Expenditures expensed in 2011 not yet reimbursed	$2,848
Federal Expenditures expensed in 2011 not yet reimbursed	$94,027
Federal Expenditures expensed in 2011 not yet reimbursed	$12,173
Amount expensed by the City in Fiscal Year 2011 not yet reimbursed	$109,048

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Frank G. Jackson, Mayor, Members of Council and the Audit Committee
City of Cleveland, Ohio:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cleveland, Ohio ("City") as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 25, 2012, wherein we noted the City implemented Governmental Accounting Standards Board Statement No. 54. We conducted our audit 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.

Internal Control over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance And Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated June 25, 2012.

This report is intended solely for the information and use of the Mayor, Members of City Council, the Audit Committee, the City's management, others within the entity, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 25, 2012

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Frank G. Jackson, Mayor, Members of Council and the Audit Committee
City of Cleveland, Ohio:

Compliance

We have audited the City of Cleveland, Ohio's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2011. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-1.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2011-1. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2011, and have issued our report thereon dated June 25, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Mayor, Members of City Council, the Audit Committee, the City's management, others within the entity, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 30, 2012

CITY OF CLEVELAND, OHIO
Schedule of Findings and Questioned Costs
Year Ended December 31, 2011

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	None
• Significant deficiency(ies) identified not considered to be material weaknesses?	None
Noncompliance material to the financial statements noted?	None

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	None
• Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings that are required to be reported in accordance with 510(a) of Circular A-133?	Yes

Identification of major programs:

- CFDA 11.307 – Economic Adjustment Assistance
- CFDA 14.239 – Home Investment Partnerships Program
- CFDA 14.256 – ARRA-Neighborhood Stabilization Program
- CFDA 14.257 – ARRA-Homelessness Prevention and Rapid Re-Housing Program
- Justice Assistance Grants (JAG) Cluster:
  - CFDA 16.738 – Edward Byrne Memorial JAG Program
  - CFDA 16.803 – ARRA-Edward Byrne Memorial JAG – Grants to States and Territories
  - CFDA 16.804 – ARRA-Edward Byrne Memorial JAG – Grant to Units of Local Government
- CFDA 20.205 – ARRA-Highway Planning and Construction
- CFDA 16.710 – ARRA-Public Safety Partnership and Community Policing Grants
- CFDA 81.042 – ARRA-Weatherization Assistance for Low-Income Persons

Dollar threshold to distinguish between Type A and Type B Programs:	$3,000,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

DEPARTMENT OF TRANSPORTATION

Finding 2011-1 – Highway Planning and Construction – CFDA 20.205

Condition: We performed tests to determine if the City was in compliance with matching requirements of this grant agreement. The Westside Market Revival project required a local match of $10,000. The City met this matching requirement with the use of funds from another Federal grant program.

Criteria: 49 CFR 18.24 prohibits using costs borne by other Federal grant agreements to meet a cost sharing or matching requirement.

Context: This was the only project under this program the City used Federal funds to satisfy its local matching requirements.

Cause: There was a miscommunication between the Economic Development and Community Development departments when the matching funds were requested.

Effect: Costs of $10,000 are questioned as a result of using Federal funds to satisfy the City's local match requirement.

Recommendation: The City should implement procedures to ensure it has fully reviewed and communicated the specific details and requirements of a grant project to avoid any potential future instances of noncompliance.

Views of Responsible Officials: The Department of Community Development funded a separate contract with a sub-grantee for a program related to the Market District Centennial. When we were made aware of the "match" requirement, a journal entry was made transferring expenses ($10,000) from the federal grant (CDBG) to a non-federal source.

The Department of Community Development now has a proposal review process that reviews all contractual and regulatory issues. This process should identify circumstances such as this.

CITY OF CLEVELAND, OHIO

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended December 31, 2011

CITY OF CLEVELAND

Comprehensive Annual Financial Report

For the year ended December 31, 2011

Issued by the
Department of Finance

Sharon Dumas
Director

James E. Gentile, CPA
City Controller

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CITY OF CLEVELAND, OHIO

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INTRODUCTORY SECTION

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June 25, 2012

Honorable Mayor Frank G. Jackson
City of Cleveland Council and
Citizens of the City of Cleveland, Ohio

Introduction

We are pleased to submit the Comprehensive Annual Financial Report of the City of Cleveland (the City) for the year ended December 31, 2011. This report, prepared by the Department of Finance, includes the basic financial statements that summarize the various operations and cash flows related to the City's 2011 activities. Our intention is to provide a clear, comprehensive and materially accurate overview of the City's financial position at the close of last year. The enclosed information has been designed to allow the reader to gain an understanding of the City's finances, including financial trends, financial instruments and fund performances. The City has complete responsibility for all information contained in this report.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles in the United States of America (GAAP). Because the cost of internal controls should not outweigh their benefits, this comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free of material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Clark, Schaefer, Hackett & Co. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the year ended December 31, 2011, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Clark, Schaefer, Hackett & Co. concluded, based upon its audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the year ended December 31, 2011 are fairly presented in conformity with GAAP. The Independent Auditor's Report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the Independent Auditors' Report.

Structure of this Comprehensive Annual Financial Report

This Comprehensive Annual Financial Report (CAFR) is designed to assist the reader in understanding the City's finances. This CAFR consists of the following sections:

- The Introductory Section, which includes this letter of transmittal and contains information pertinent to the City's management and organization.
- The Financial Section contains the Independent Auditors' Report, Management's Discussion and Analysis (MD&A), Basic Financial Statements and various other statements and schedules pertaining to the City's funds and activities.
- The Statistical Section contains numerous tables of financial and demographic information. Much of this information is shown with comparative data for the ten-year period from 2002 through 2011.

References throughout this report to Note 1, Note 2, etc., are to the Notes to Financial Statements included in the Financial Section of this CAFR.

Profile of the Government

The City

The City is a municipal corporation and political subdivision of the State of Ohio. It is located on the southern shore of Lake Erie and is the county seat of Cuyahoga County.

The City is included in the Cleveland-Elyria-Mentor, OH Metropolitan Statistical Area (MSA), comprised of Cuyahoga, Lake, Lorain, Geauga and Medina counties. This MSA is the 26th largest of 366 Metropolitan Areas in the United States and the largest Metropolitan Area in the State of Ohio.

Cleveland is located in the northeast part of the state, approximately 150 miles north-east of Columbus. Bordering Lake Erie, Cleveland is home to world-renowned medical facilities, professional sports venues, Severance Hall, numerous State of Ohio lakefront parks, the Port of Cleveland, the Rock and Roll Hall of Fame and operates the nation's eighth largest water system. Interstate highways I-71, I-480, I-77 and I-90 serve as some of the City's major transportation arteries. The City is rich in educational and medical facilities, including Cleveland State University, Case Western Reserve University, the Cleveland Clinic and University Hospitals of Cleveland.

City Government

The City operates under, and is governed by, the Charter which was first adopted by the voters in 1913 and has been and may be further amended by the voters from time to time. The City is also subject to certain general State laws that are applicable to all cities in the State. In addition, under Article XVIII, Section 3 of the Ohio Constitution, the City may exercise all powers of local self-government and may exercise police powers to the extent not in conflict with applicable general State laws. The Charter provides for a mayor-council form of government.

The City's chief executive and administrative officer is the Mayor, elected by the voters for a four-year term. Frank G. Jackson was elected as Mayor of the City in November 2005 and began his first term on January 2, 2006. He was re-elected to a second term in November 2009. Prior to assuming office as Mayor, Mr. Jackson served as a Ward 5 City Council member for 16 years and in 2002, was elected by the 21-member City Council to serve as Council President. Under the Charter, the Mayor may veto any legislation passed by Council, but a veto may be overridden by a two-thirds vote of all members of the Council.

Legislative authority is currently vested in a 19-member Council. Council members serve four year terms and are elected from wards. The present terms of the Mayor and Council members expire on December 31, 2013. The Council fixes compensation of City officials and employees and enacts ordinances and resolutions relating to City services, tax levies, appropriating and borrowing money, licensing and regulating businesses and trades, and other municipal functions. The presiding officer is the President of Council, elected by the Council members. Martin J. Sweeney was re-elected as President of Council in November 2009. The Clerk of Council is appointed by Council. The Charter establishes certain administrative departments; the Council may establish divisions within departments or additional departments. The Mayor appoints all of the directors of the City's 12 departments.

The Director of Finance and City Controller believe that, to the best of their knowledge, the data contained in this report present fairly the financial position and results of operations of the various funds of the City. All necessary disclosures are included in this report to enable the reader to understand the City's financial activities.

Financial Reporting Entity

The City has applied guidelines established by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. Provisions outlined in this statement define the operational, functional and organizational units for which the City, "acting as Primary Government", is required to include as part of its reporting entity. The inclusion of a component unit as part of the City's reporting entity requires the appointment of a voting majority of the component unit's board and either (1) the City's ability to impose its will over the component unit or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the City.

Under these provisions, the City's financial reporting entity acts as a single rather than multi-component unit. The provisions permit the entity to include all funds, agencies, boards and commissions that, by definition, comprise components within the primary government itself. For the City, these components include police and fire protection services, waste collection, parks and recreation, health, select social services and general administrative services. Primary enterprise activities owned and operated by the City include a water system, electric distribution system and two airports.

In accordance with GASB Statement No. 14, the Cuyahoga Metropolitan Housing Authority, Cleveland-Cuyahoga Port Authority and Cleveland Municipal School District are defined as related organizations and Gateway Economic Development Corporation of Greater Cleveland is defined as a jointly governed organization. None of these organizations are included within the City's reporting entity.

Internal Control

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure ensures that accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. The internal control structure is designed to provide reasonable assurances that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state and county financial assistance, the City is also responsible for maintaining a rigorous internal control structure that ensures full compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management, external auditors and the internal audit staff of the City. The City is required to undergo an annual audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-profit Organizations.* The information related to the Single Audit, including the schedule of federal awards expenditures, findings and recommendations and auditor's reports on the internal control structure and compliance with applicable laws and regulations are included in a separate report.

Accounting and Financial Reporting

The City's accounting system is organized and operated on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. The types of funds to be used are determined by GAAP and the number of individual funds established is determined by sound financial administration. Each fund is a separate accounting entity with its own self-balancing set of accounts, assets, liabilities and fund balance. The City's governmental funds include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds. The City's proprietary funds are its Enterprise Funds that provide services to the general public, including utilities and airport service and Internal Service Funds that provide services to City departments, divisions and other governments. The City also maintains Fiduciary Funds to account for assets held by the City in an agent capacity for individuals, private organizations and other governments.

Except for budgetary purposes, the basis of accounting used by the City conforms to GAAP as applicable to governmental units. All governmental funds are accounted for using a current financial resources (current assets and current liabilities) measurement focus. The modified accrual basis of accounting is utilized for governmental funds. Revenues are recognized when they are susceptible to accrual (both measurable and available). Expenditures are recognized when the related liability is incurred, except for interest on long-term debt which is recorded when due.

The measurement focus of the City's proprietary funds is on the flow of total economic resources (all assets and liabilities). The accrual basis of accounting (revenues are recognized when earned and expenses when incurred) is utilized for the Enterprise and Internal Service Funds.

The City's basis of accounting for budgetary purposes differs from GAAP in that revenues are recognized when received, rather than when susceptible to accrual (measurable and available), and encumbrances and pre-encumbrances are included as expenditures rather than included in fund balances.

In March of 2009, Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* was issued. This statement is effective for fiscal periods beginning after June 15, 2010. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. As required, the City has implemented GASB Statement No. 54.

Budgeting Procedures

Detailed provisions regulating the City's budget, tax levies and appropriations are set forth in the Ohio Revised Code and the City Charter. The Mayor is required to submit the appropriation budget, called "The Mayor's Estimate" to City Council by February 1 of each year. The Council may adopt a temporary appropriation measure for the first three months of the year, but must adopt a permanent appropriation measure for the fiscal year by April 1. The Cuyahoga County Auditor must certify that the City's appropriation measure does not exceed the amounts set forth in the County Budget Commission's Certificate of Estimated Resources.

The City maintains budgetary control on a non-GAAP basis at the character level (personnel and related expenditures and other expenditures) within each division. Lower levels within each character are accounted for and reported internally. Lower levels are referred to as the program level. Estimated expenditure amounts must be pre-encumbered and subsequently encumbered prior to the release of purchase orders to vendors or finalization of other contracts. Pre-encumbrances and encumbrances that would exceed the available character level appropriation are not approved or recorded until the Council authorizes additional appropriations or transfers. Unencumbered appropriations lapse at the end of each calendar year. As an additional control over expenditures, the City Charter requires that all contracts in excess of $50,000 shall first be authorized and directed by ordinance of City Council.

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is shown on page 55 as part of the basic financial statements. For other governmental funds with appropriated annual budgets, this comparison is presented in the supplementary information subsection of this report along with more detailed information regarding the General Fund, which starts on page 109.

Factors Affecting Financial Condition

Local Economy

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Cleveland's economic condition draws strength and stability from its evolving role as the focal point of a growing, changing and substantial regional economy. The City is located at the center of one of the nation's heaviest population concentrations. The Cleveland metropolitan area is a significant local market, housing 2.1 million people. Cleveland also provides superior links to the global markets. The Cleveland-Cuyahoga Port Authority handles the largest amount of overseas cargo on Lake Erie and includes a Foreign Trade Zone. The City is also well-served with extensive highways and Cleveland Hopkins International Airport serves as a United Continental Airlines Hub and is serviced by all major airlines. The re-emergence of downtown Cleveland as a vibrant center for national and regional entertainment and major cultural activities signals a turning point in the City's overall fortunes and is paving the way for further economic expansion that will be significantly more entrepreneurial in scope.

Major Industries, Economic Conditions and Employment

Cleveland, as well as most large urban municipalities across the nation, has faced significant economic challenges in recent years. Like all manufacturing cities across the country, Cleveland has tried to combat the declining industry base with more professional and service industry opportunities. The City's budget basis income tax collections increased 4.6% in 2011.

While the City's economy has shifted more toward health care and financial services, its manufacturing base has assumed a smaller, yet still vital role. Competitive pressures in manufacturing have limited job creation, but the competitive position of Cleveland based industrial companies has improved.

The 2007 economic census indicates that Cleveland's employment base continues to become more diversified. The following table summarizes the percentage of Clevelanders employed by industry type based on 2007 census figures.

Industry	**Percent of Workforce**
Utilities	0.39 %
Administration and Support of Waste Management and Remediation Services	8.40
Manufacturing	16.77
Wholesale Trade	6.54
Retail Trade	12.60
Transportation and Warehousing	3.28
Information	2.42
Finance, Insurance and Real Estate	9.57
Professional, Scientific Management	6.09
Education, Health, Social Services	19.43
Arts, Entertainment, Recreation	1.62
Other Services	3.42
Accomodation and Food Services	9.47
Total	100.00 %

Current Projects and 2011 Accomplishments

The 2011 budget focused on continuing the City's commitment to improve the quality of life of its citizens by strengthening our neighborhoods, fostering a favorable business climate and providing superior services.

Despite fiscal constraints and economic challenges, the City achieved the following 2011 programmatic goals and projects without an income or property tax increase:

Department of Community Development

- Neighborhood Stabilization Program (NSP) and other federal funds were committed to support "Green Building" by requiring all housing development supported by City funding to comply with the City's Green Building Standards. In 2011, the City committed $28,307,210 to single family and multifamily development projects that will meet standards for sustainability and energy efficiency. The Standards created a formula for completing 571 "Green" housing units in 2011.

- Completed installation of 46 green space and urban agricultural projects funded by the Re-Imagining Cleveland Grant program. The primary source of funding for this program was the City's NSP 1 grant.

- Commenced program to improve Land Bank land for transfer as side yard expansions or for lease to Community Development Corporations to be operated as public green space using NSP 2 funding. To date, 46 sites have been designated for improvement.

- In 2011, the Storefront Renovation Program (SRP) continued its efforts to make Cleveland's neighborhood retail districts visually attractive and economically competitive via private/public partnerships with commercial building and business owners. In conjunction with Community Development Corporations, the City provides marketing support, design assistance and program coordination to commercial property owners. A total of 46 projects were completed in 2011. Of that total, 12 projects consisted of full building renovations, 16 consisted of signage for new businesses that opened in already renovated storefronts located in neighborhood retail districts and 18 consisted of signage located in the downtown business district. The SRP rebate incentive of $293,369 leveraged a private investment of $903,763 (a $3.08 to $1.00 private-to-public investment ratio). These completed SRP projects represent 811 full and part-time employees and 282 temporary construction jobs.

- Supported community-based development corporations (CDC's) who undertook an array of revitalization programs tailored to their respective neighborhoods. Twenty-five CDC's received $8.8 million in support from the City in 2011 for activities including but not limited to:

    - Purchase and rehab of vacant structures;
    - Residential and commercial code enforcement;
    - Block club-based safety programs;
    - Technical assistance to businesses;
    - Home repair services; and
    - Greening projects, including community and market gardens and pocket parks.

- Awarded $4.1 million to non-profit organizations for providing essential social services, homeless services, AIDS prevention related services and services for at-risk youth.

- Partnered with the Cleveland/Cuyahoga County Office of Homeless Services to use Homeless Prevention & Rapid Rehousing funds to help families avoid homelessness or help homeless persons find permanent housing. Program results have been:

    - Assisted 1,759 households avoid homelessness in 2011 and 3,572 since the grant began at the end of 2009;

    - Assisted 946 homeless households to find housing in 2011 and 1,440 since the grant began at the end of 2009; and

    - Completed construction of a 70 unit permanent supportive housing building for disabled chronically homeless individuals and committed funding to the 2012 construction of two projects that will provide an additional 105 units of permanent supportive housing.

- The Senior Housing Assistance Program (SHAP) provided services to 106 units for income eligible seniors. In addition, seniors were assisted with emergency repairs, emergency tree removal and gutter cleaning.

- The City weatherized 1,302 homes, exceeding the 2011 goal of 1,147 units.

Department of Building and Housing

- Demolished 607 condemned structures. Since January 2006, the Department has inspected, condemned and razed over 5,854 structures.
- Initiated 1,899 court cases against negligent property owners.
- Issued 5,800 violation notices.
- Issued 15,082 construction permits valued at $1.556 billion in new construction.
- Boarded-up and secured 4,164 vacant structures.
- Deconstructed 15 structures to achieve a more sustainable demolition process.
- Issued 1,822 condemnation notices.

Department of Economic Development

- Provided a $400,000 loan to the Park Building Condominium project, a $12.8 million mixed-use project on Cleveland's Public Square.

- Supplied a $720,000 Vacant Property Initiative (VPI) loan to the developer of the West 25th Street Lofts, a renovation of the Odd-Fellows Lodge and Brewery and contiguous buildings. Once complete, the $21.3 million project will provide 72 loft style apartments and 34,000 square feet of commercial space.

- The City was awarded a $1.45 million Boating Infrastructure Grant from the United States Department of the Interior. The funding will be used to construct a transient marina located behind the Rock and Roll Hall of Fame in downtown Cleveland.

- The City provided a Non-School Tax Increment Financing designation related to $16 million in improvements that AmTrust Financial Services, Inc. will make at the 800 Superior Building. Upon completion, the project will add over 1,000 new employees to the Nine Twelve District of downtown.

- Provided a $80,000 Citywide Business Grant to Cleveland Research Company LLC to retain the growing company. The company currently has 68 full-time employees and is expecting to add 30 new jobs in the future.

- Granted loans and other financial assistance to Snavely Construction related to the construction of a 150-room LEED certified Courtyard by Marriott in University Circle. The $26 million business-class hotel will help meet substantial demand generated by the hospitals, university and other institutions in the area.

Department of Health

- Performed 12,774 proactive nuisance inspections in 2011. Nuisance complaints decreased overall by 51%, from 17,685 in 2010 to 8,695 in 2011.

- Encouraged food operators to take ServSafe and/or Person-in-Charge food training courses. As a result, the number of food complaints decreased 13% from 351 to 304.

- Administered 1,437 seasonal influenza vaccinations at the city's health centers and off-site events.

- Increased the number of HIV tests provided at the health centers by 14% in 2011.

- Hosted the most successful "We Run This City" youth marathon program to date with 720 participants.

- Collected $168,151 in air permit fees and completed 449 Ohio EPA-mandated inspections.

- Educated the community through meetings, forums, festivals and other outreach opportunities. Education touch-points tallied 79,757 in 2011.

- Distributed 118,689 birth and death certificates to Clevelanders and 30 Cuyahoga County suburbs as well.

- Inspected Cleveland's food shops, including restaurants, grocery stores, mobile food service operations, vending food service operations and temporary food service operations. A total of 6,517 food inspections were completed, exceeding last year's total by 6%.

Department of Aging

- Provided core services to 5,388 clients including senior citizens and adults with disabilities.
- Secured over $500,000 of external grants.
- The Annual Senior Day Program held in May 2011 attracted more than 2,000 senior citizens; the Annual Senior Walk attracted over 400 senior citizens.
- Provided the following services: 1,658 received Benefit Checkups, 128 received one or more major home repairs, 677 received grass cutting services, 874 received assistance with snow removal and 3,353 received other supportive services.

The Office of Equal Opportunity

- Collected over $55,000 in penalties from contractors for non-compliance with the Codified Ordinance 188.
- Under Codified Ordinance 123, OEO is assuming a leadership role in coordinating touch points for Prevailing Wage citywide.
- OEO is on track to complete the Citywide Disparity Study being conducted by National Employment Rights Authority by August 2012.
- To improve efficiency, OEO purchased and will begin implementation/testing of the new real-time compliance software, Business to Government Now (B2GNow).
- Monitored over 118 construction contracts exceeding $100,000 to ensure compliance with the Cleveland Resident Employment Law (aka Fannie M. Lewis Law) requiring that at least 20% construction worker hours are City of Cleveland residents.

Department of Public Service

- The Division of Recreation served 86,120 summer lunches during 2011.
- The Division of Park Maintenance serviced 47,539 vacant properties in 2011, a 2.4 % increase from 2010.
- The Division of Motor Vehicle Maintenance provided the following services:
    - Acquired 141 new vehicles; and
    - Consolidated various automotive contracts into one contract from one vendor. This streamlined our supply chain, eased payment volume, provided easier communication and resulted in timelier delivery of parts. This move also contributed to savings realized from invoice discounts.
- The Division of Urban Forestry trimmed 4,457 trees.
- The Division of Waste Collection collected and disposed of 239,000 tons of debris and recycled 10,938 tons of material. They also expanded the automated waste collection and curbside recycling program to 25,000 additional households, bringing the citywide total to 40,000.
- The Division of Parking initiated a $500,000 capital improvement project at the Gateway East Garage.
- The Division of Streets used over 6,500 tons of asphalt and 3,500 cubic yards of concrete for street repairs in 2011. They also resurfaced over 34,000 square yards of roadway.
- The Division of Traffic Engineering painted over 650 miles of lane lines and replaced over 4,500 traffic light bulbs.

Department of Public Safety

- The Violence and Gun Reduction and Interdiction Program (V-GRIP) was introduced to develop new partnerships to address gun violence. Agents from the FBI and the Bureau of Alcohol, Tobacco, Firearms and Explosives joined the Division of Police in patrolling some of Cleveland's most crime-ridden neighborhoods in search of guns and the criminals who use them. Federal agents also conducted "knock and talks" in some neighborhoods, going door-to-door to obtain information about crime and guns. In 2011, 14 firearms were confiscated, 1,333 citations were issued and 189 arrests were made.
- Conducted monthly Neighborhood Safety Initiatives. Every enforcement strategy is utilized with an emphasis on combating crime in those areas reflecting the greatest volume of violent crimes in the previous six month period. In 2011 there were 498 felony arrests, 292 misdemeanor arrests, 68 firearms confiscated and 6,076 traffic citations issued.
- The Division of Police realized a reduction in reported cases of arson, rape and robbery.
- Provided citizens with the ability to view/print accident reports and file police reports for property damage and theft reports at no cost because of the establishment of online tools. In 2011, 113,570 accident reports were accessed and 1,351 police reports were filed.

- The Division of Fire reported three fire-related fatalities in 2011. This is the lowest number in recorded history for the second year in a row. These numbers have been achieved through the cooperative efforts of the Division of Fire, the Cleveland Divisions of Aging and Community Relations, the Greater Cleveland Chapter of the American Red Cross and many other local partnerships.

- The Division of Fire initiated the Community Risk Reduction program through a grant from the Vision 20/20 Federal Program. The program will assist in the installation of 2,500 smoke alarms in residences as well providing home safety surveys for those in the greatest need.

Department of Public Utilities

- The Division of Water provided service to approximately 414,006 individual accounts throughout the City and 69 surrounding suburbs. The Division also processes approximately 5,000 payments daily, which include payments for water, sewer, waste collection fee, final notices and delinquent notices.

- The Division of Cleveland Public Power provided electric service to approximately 74,000 customers in 2011. As part of an effort to increase the available customer base, the Division has implemented a Capacity Expansion Program to serve new customers throughout the downtown area. Construction is 50% complete with an anticipated in-service date of 2013.

- The Division of Water Pollution Control provides sewer service to approximately 125,209 customer accounts in the City. The sewer system is comprised of 1,200 miles of sewer lines with attendant catch basins and includes 18 pump/lift stations.

Department of Port Control

- Cleveland Hopkins International Airport (CLE) has received an award for its marketing and advertising efforts in 2011 by Ohio's travel and tourism industry leaders. The Ohio Travel Association (OTA) acknowledged CLE for its radio advertising and 2010 Annual Report during the recent Ruby Awards which are held annually during the Ohio Tourism Conference.

- Construction Phases II and III of Runway 10-28 Safety Area Improvements were completed in 2011. The Runway 28 end was shifted 600 feet to the East and the Engineering Material Arresting System (EMAS) block installation was completed on both ends of the runway. The runway was officially re-opened on December 15, 2011.

Department of Law

- Drafted approximately 400 contracts and reviewed over 1,000 contracts for legal form and correctness.

- Prepared 580 pieces of legislation for introduction to City Council.

- Obtained 1,203 search warrants for housing court enforcement actions and helped Building and Housing obtain legal authorization for more than 1,300 demolitions of unsafe structures in the City.

- Responded to 2,853 citizen requests for non-routine public records; provided legal advice as needed in response to more than 10,000 routine requests.

- Processed 1,063 claims for property damage and other losses.

- Pursued collection of money due for taxes, fines and loan defaults. Collected approximately $1.4 million in income tax collection actions and collected more than $1.6 million in money due for loan defaults, unpaid utility service, damage to City property and other debts to the City.

2012 Budget

The strategic implementation of the five-year budget projections to manage the City's finances, Operations Efficiency Task Force and Clean Cleveland have resulted in significant reductions in operating costs and a balanced budget for 2011. The many unknown variables due to the global economic crisis require that stringent fiscal controls and mandated energy conservation be the platform of the 2012 operating budget. The Budget Management Strategy for fiscal 2012 includes, but is not limited to, the following:

- A 3% cost-of-living increase for 2012.
- The elimination of most vacant positions.
- The continuation of a hiring freeze that has been in effect since 2006, except for critical positions.

The estimate of receipts and expenditures for all General Fund departments and divisions for the 2012 budget are:

- Revenues and other sources are projected to decrease from $502.7 million in 2011 to $490.2 million in 2012. This decrease is attributed to a decrease of $12.5 million in the Local Government Fund due to State cuts.
- Expenditures and other uses are estimated to increase from $492.7 million to $507.0 million in 2012. This increase is primarily due to negotiated labor agreements and rising healthcare costs.

Major highlights of the 2012 budget are:

- Cost savings due to the merging of the Departments of Public Service and Parks, Recreations and Properties.
- Continued energy use reduction due to operation efficiency efforts.
- Savings due to attrition resulting from layoffs and other unfilled positions.
- Continue efforts to increase revenue, including implementing findings from a new fee study. Preliminary study completed. Portions of results already implemented and ordinances approved for 2012.

Long-term financial planning:

The City has a long-term goal of increasing the Rainy Day Reserve Fund to 5% of General Fund expenditures (approximately $25 million). This will allow the City to obtain the lowest rates possible when issuing debt and also withstand economic downturns with minimum disruptions to City services.

The City manages its long-term financing of its capital needs through the annual updating of its Capital Improvement Plan (CIP). The CIP schedules capital improvements through the current and succeeding five years. The CIP does not include appropriations or authorizations to expend monies. Capital Projects are approved by City Council when funding sources have been determined. The City usually issues bonds to fund capital projects.

The following projects currently underway will provide the momentum necessary to continue rebuilding the City's economic base:

- Construction continued in 2011 on the $465 million Convention Center and Medical Mart in downtown Cleveland. Once complete, the project is expected to generate up to $330 million a year of economic activity.
- The $33 million Greater Cleveland Aquarium opened in early 2012. As the only freestanding aquarium in the state of Ohio, the 40 tank-one million gallon attraction is projected to lure 500,000 visitors a year to the Old Powerhouse building located in the Flats west bank.
- Phase one of the Flats East Bank project ($272 million) continued construction in 2011. The development will initially include an office tower, hotel and retail.
- Rock Ohio Caesars continued building the first phase ($350 million) of a new casino in the historic Higbee Building on Public Square. The casino opened in May 2012 and is expected to attract over 10,000 visitors daily.

Major Initiatives

As the City plans ahead to achieve increased municipal efficiencies and enhanced infrastructure coordination, the Mayor has launched the following initiatives:

- *The Future of Public Safety*, a comprehensive plan outlining specific protocols for the Department of Public Safety addressing emergency preparedness, information and technology, professional standards and communications.

- *Five-Year Capital Improvement Program*, a comprehensive plan designed to meet the City's infrastructure needs with an emphasis on sustainability, increased efficiencies and consistent maintenance of City properties.

- *Clean Cleveland,* City crews from Public Works, Public Utilities, Public Health and Building and Housing Departments will inspect, fix and clean neighborhood properties in a coordinated and systemic fashion.

- *Connecting Cleveland: The Waterfront District Plan,* a blueprint was created to guide mixed-use commercial development of the waterfront between West 3rd and East 18th streets.

Awards and Acknowledgements

The Independent Audit: The City Charter requires an annual audit of the financial statements of all accounts of the City by an Independent Certified Public Accountant. Accordingly, this year's audit was completed by Clark, Schaefer, Hackett & Co. The year ended December 31, 2011, represents the 31st consecutive year the City has prepared a Comprehensive Annual Financial Report (CAFR). In addition to the independent auditors, the City maintains its own Internal Audit Division. Along with the duty of assisting the independent auditors, the Internal Audit Division is responsible for strengthening and reviewing the City's internal controls. The Internal Audit Division performs its own independent operational and financial audits of the City's many funds, departments and divisions. We believe that the City's internal control structure adequately safeguards its assets and provides reasonable assurance of proper recording of all financial transactions.

GFOA Certificate of Achievement Award: The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Cleveland, Ohio for its CAFR for the fiscal year ended December 31, 2010. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, the contents of which conform to program standards. Such CAFRs must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The City has received a Certificate of Achievement for the last 27 years (years ended 1984 – 2010). We believe our current report continues to conform to the Certificate of Achievement program requirements and we are submitting it to the GFOA.

Acknowledgements: The preparation of this report could not have been accomplished without the efficient and dedicated service of the Finance Department, particularly the Division of Financial Reporting and Control. We would also like to thank the Mayor, the cabinet and members of City Council. Without their continued support, the Department of Finance could not have maintained the financial management practices required to ensure the financial integrity of the City. We would like to thank the representatives of Clark, Schaefer, Hackett & Co. for their efforts and professional conduct throughout the audit engagement.

Very truly yours,

Sharon Dumas, Director
Department of Finance

James E. Gentile, CPA
City Controller

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CITY OF CLEVELAND, OHIO

City Officials

Frank G. Jackson, Mayor

EXECUTIVE STAFF

Ken Silliman, Esq. .... Chief of Staff

Darnell Brown .... Chief Operating Officer

Valarie J. McCall .... Chief of Government Affairs

Chris Warren .... Chief of Regional Development

Monyka S. Price .... Chief of Education

Maureen R. Harper .... Chief of Communications

Jenita McGowan .... Chief of Sustainability

Natoya J. Walker Minor .... Chief of Public Affairs

Andrea V. Taylor .... Press Secretary

Victor R. Perez, Esq. .... Chief Assistant Prosecutor

ADMINISTRATION

Jane E. Fumich .... Director, Department of Aging

Edward W. Rybka .... Director, Department of Building and Housing

Robert N. Brown .... Director, City Planning Commission

Lucille Ambroz .... Secretary, Civil Service Commission

Daryl P. Rush, Esq. .... Director, Department of Community Development

Blaine Griffin .... Director, Community Relations Board

Tracey A. Nichols .... Director, Economic Development

Sharon Dumas .... Director, Department of Finance

Karen Butler .... Director, Department of Public Health

Barbara A. Langhenry .... Interim Director, Department of Law

Natoya J. Walker Minor .... Director, Office of Equal Opportunity

Michael E. Cox .... Director, Department of Public Works

Deborah Southerington .... Director, Personnel and Human Resources

Ricky D. Smith, Sr. .... Director, Department of Port Control

Martin Flask .... Director, Department of Public Safety

Jomarie Wasik .... Director, Mayor's Office of Capital Projects

Barry A. Withers. .... Director, Department of Public Utilities

CITY OF CLEVELAND, OHIO

City Council

Martin J. Sweeney	President of Council /Ward 18
Patricia J. Britt	Clerk of Council
Terrell H. Pruitt	Ward 1
Zachary Reed	Ward 2
Joe Cimperman	Ward 3
Kenneth L. Johnson	Ward 4
Phyllis E. Cleveland	Ward 5
Mamie J. Mitchell	Ward 6
TJ Dow	Ward 7
Jeffrey D. Johnson	Ward 8
Kevin Conwell	Ward 9
Eugene R. Miller	Ward 10
Michael D. Polensek	Ward 11
Anthony Brancatelli	Ward 12
Kevin J. Kelley	Ward 13
Brian J. Cummins.	Ward 14
Matthew Zone	Ward 15
Jay Westbrook	Ward 16
Dona Brady	Ward 17
Martin J. Keane	Ward 19

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Cleveland
Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

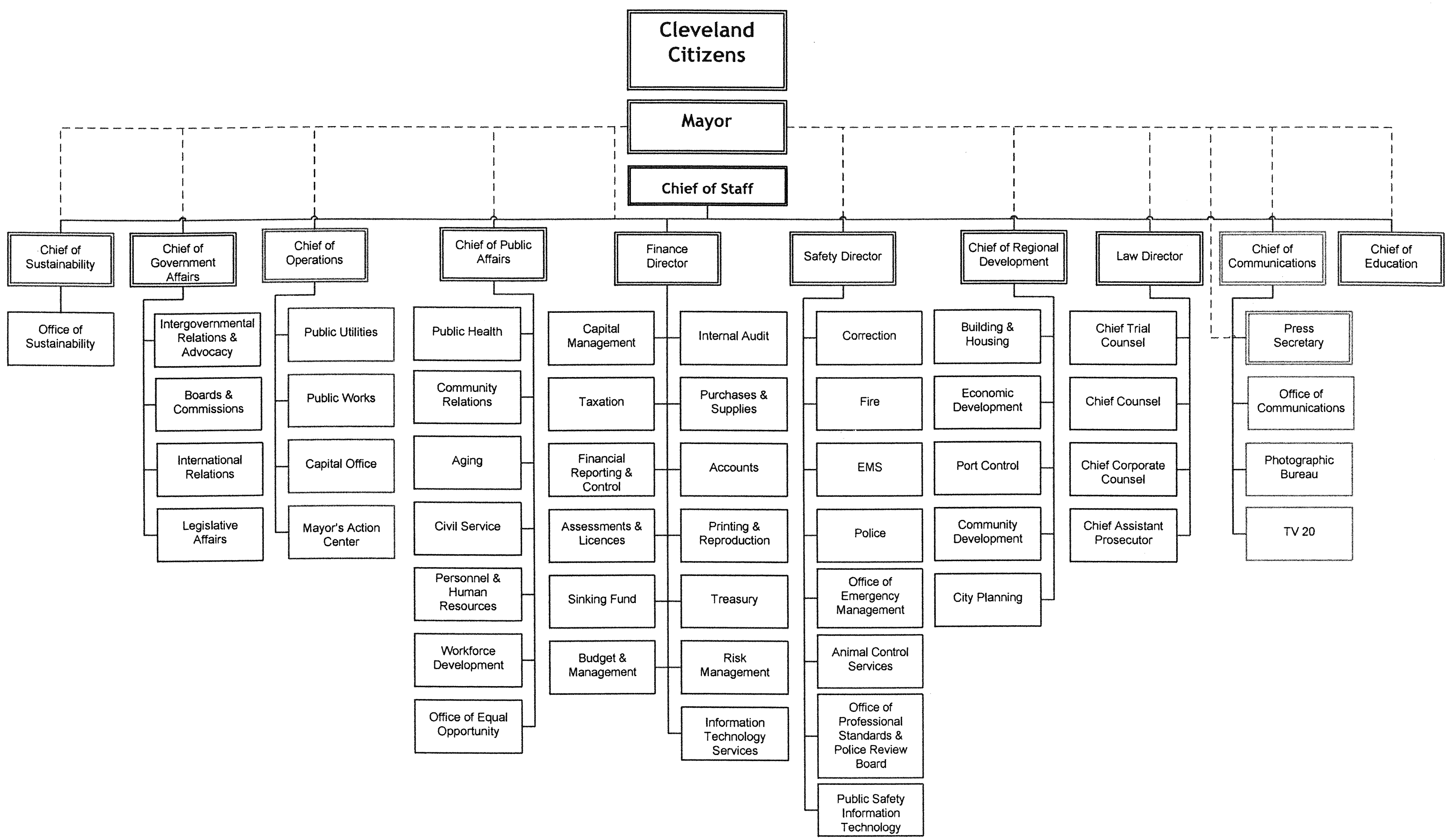
Linda C. Davison

President

Jeffrey R. Esser

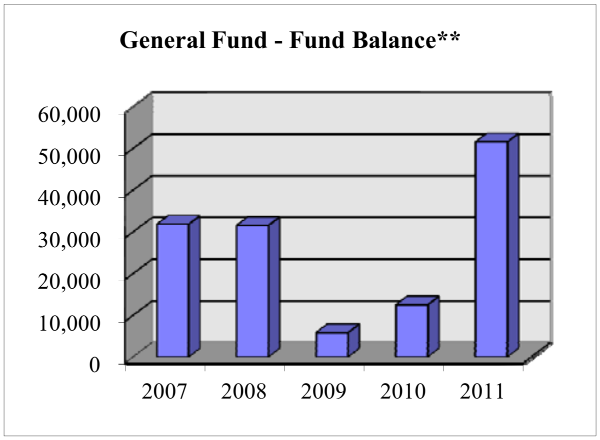
Executive Director

CITY OF CLEVELAND, OHIO
ADMINISTRATIVE ORGANIZATION CHART

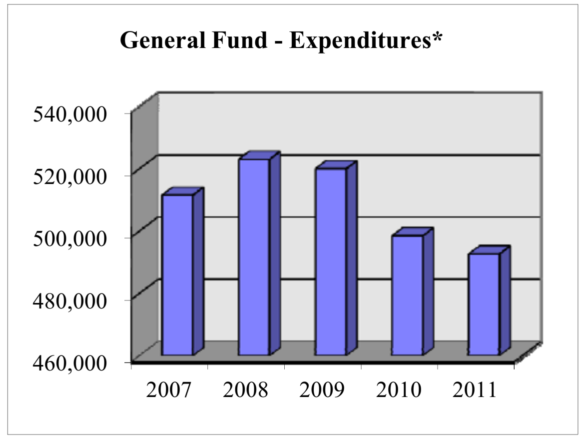


CITY OF CLEVELAND, OHIO

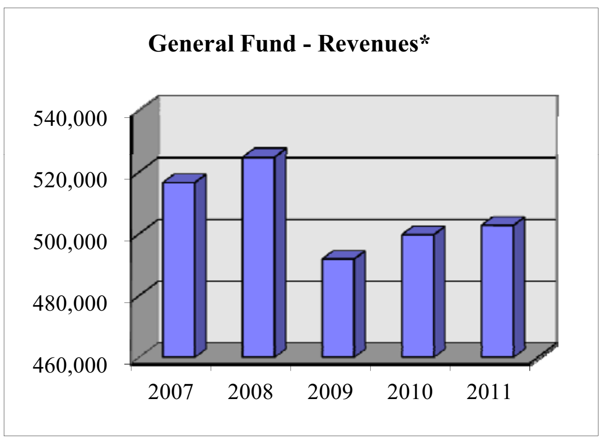
FINANCIAL HIGHLIGHTS
(Amounts in 000's)



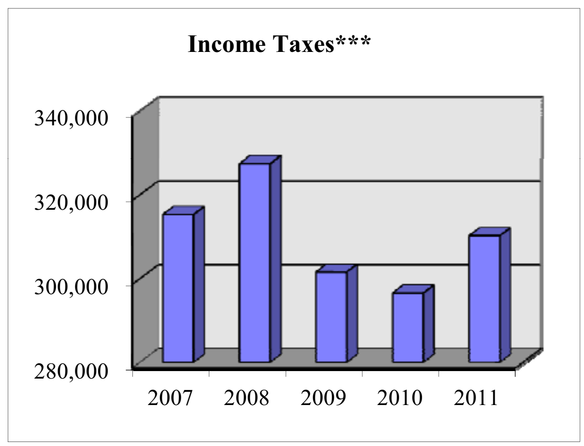
General Fund - Fund Balance**



General Fund - Expenditures*



General Fund - Revenues*



Income Taxes***

For Year Ended	General Fund Fund Balance**	General Fund Revenues*	General Fund Expenditures*	Income Taxes***
2007	31,854	516,551	511,567	315,262
2008	31,545	524,744	523,046	327,338
2009	5,865	491,827	520,036	301,559
2010	12,541	499,681	498,504	296,525
2011	51,594	502,703	492,672	310,197

* *Budget Basis* - General Fund revenues and expenditures include other financing sources (uses).
** *GAAP Basis.*
*** *Budget Basis* - Income Taxes includes General Fund and Restricted Income Tax Fund.

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FINANCIAL SECTION

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CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

INDEPENDENT AUDITORS' REPORT

To the Honorable Frank G. Jackson, Mayor, Members of Council and the Audit Committee
City of Cleveland, Ohio:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cleveland, Ohio (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit 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 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows and the budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 17, during the year ended December 31, 2011, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to described the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 29 through 47 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and schedules and capital assets schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 25, 2012

CITY OF CLEVELAND, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Cleveland (the City) we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2011. Please read this information in conjunction with the City's financial statements and footnotes that begin on page 50.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at December 31, 2011 by approximately $2.444 billion (net assets). Of this amount, $419.0 million (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- Of the approximately $2.444 billion of net assets, governmental activities accounted for approximately $641 million of net assets, while business-type activities net assets accounted for approximately $1.803 billion.
- The City's net assets increased by $31.0 million as compared to 2010. The governmental activities net assets increased by $14.3 million and the business-type activities net assets increased by $16.7 million.
- At the end of the current year, unassigned fund balance for the General Fund was $39.0 million, which represents the amount available for spending at the City's discretion. The unassigned fund balance equals 8.1% of the total current General Fund expenditures and other financing uses.
- In 2011, the City's total long-term debt and other debt-related obligations, excluding premiums, discounts and unamortized loss on debt refunding, decreased by $63.0 million. The decrease indicates that the City's debt service payments and debt refunded or defeased exceeded new debt issued in 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of four components: (1) government-wide financial statements, (2) fund financial statements, (3) General Fund budget and actual statement and (4) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City principally include: General Government; Public Service; Public Safety; Community Development; Building and Housing; Public Health; Parks, Recreation and Properties; and Economic Development. The business-type activities of the City principally include: water; electricity; and airport facilities.

The government-wide financial statements can be found on pages 50 - 51 of this report.

Fund financial statements. 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. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City presents 34 individual governmental funds on a modified accrual basis. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other 33 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annually appropriated budget for its General Fund, Enterprise and Internal Service Funds. The City adopts an annually appropriated budget for some of its Special Revenue and Debt Service Funds. The General Fund budgetary comparison has been provided as a separate financial statement to demonstrate compliance with its budget.

The basic governmental fund financial statements can be found on pages 52 - 55 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. The first type is Enterprise Funds. They are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for its water, electric, airport, sewer, public auditorium, markets, parking lots, cemeteries and golf course operations. The second type of proprietary fund the City uses is Internal Service Funds to account for its motor vehicle maintenance, printing and reproduction, postal services, utilities administration, sinking fund administration, municipal income tax administration, telephone exchange, radio communications operations and workers' compensation reserve. Internal Service Funds are an accounting device used to accumulate and allocate costs internally throughout the City's various functions. Because most of the internal services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements, except for the Utilities Administration Fund which has been classified as a business-type activity.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Division of Water, Cleveland Public Power and Department of Port Control Funds, which are considered to be major funds of the City. Conversely, Internal Service Funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the nonmajor Enterprise and Internal Service Funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 56 - 60 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. All of the City's fiduciary funds are Agency Funds.

The basic fiduciary fund financial statement can be found on page 61 of this report.

Notes to the financial statements. The notes provide additional information that is essential to achieve a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 63 - 108 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Information regarding the government-wide net assets of the City is provided below:

Summary Statement of Net Assets
as of December 31, 2011 and 2010

	Governmental Activities		Business-Type Activities (Amounts in 000's)		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Assets:						
Current and other assets	$ 728,561	$ 742,618	$ 1,202,684	$ 1,252,668	$ 1,931,245	$ 1,995,286
Capital assets	915,743	911,132	2,885,420	2,854,499	3,801,163	3,765,631
Total assets	1,644,304	1,653,750	4,088,104	4,107,167	5,732,408	5,760,917
Liabilities:						
Long-term obligations	763,056	779,675	2,037,300	2,076,084	2,800,356	2,855,759
Other liabilities	239,794	246,894	247,809	244,843	487,603	491,737
Total liabilities	1,002,850	1,026,569	2,285,109	2,320,927	3,287,959	3,347,496
Net assets:						
Invested in capital assets, net of related debt	543,460	557,804	1,130,178	1,080,332	1,673,638	1,638,136
Restricted	117,765	159,942	234,050	243,511	351,815	403,453
Unrestricted	(19,771)	(90,565)	438,767	462,397	418,996	371,832
Total net assets	$ 641,454	$ 627,181	$ 1,802,995	$ 1,786,240	$ 2,444,449	$ 2,413,421

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. The City's assets exceeded liabilities by approximately $2.444 billion at the close of the most recent fiscal year. This represents an increase of 1.3% in 2011. Of the City's net assets, 26.2% represents its governmental net assets and 73.8% represents its business-type net assets.

Of the net assets from governmental activities, $543.5 million represents its investment in capital assets (e.g., land, land improvements, buildings, infrastructure, furniture, fixtures, equipment and vehicles), net of accumulated depreciation, less any related, still-outstanding debt issued to acquire, construct or improve those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities. Another significant portion of net assets, $117.8 million, represents resources that are subject to external restrictions on how they may be used. There was an increase in unrestricted net assets of $70.8 million.

In 2011, the total assets from governmental activities decreased by $9.4 million. This decrease is primarily attributed to decreases of $12.9 million in cash and cash equivalents and $2.6 million in unamortized bond issuance costs. The total decreases were partially offset by an increase of $4.4 million in net receivables.

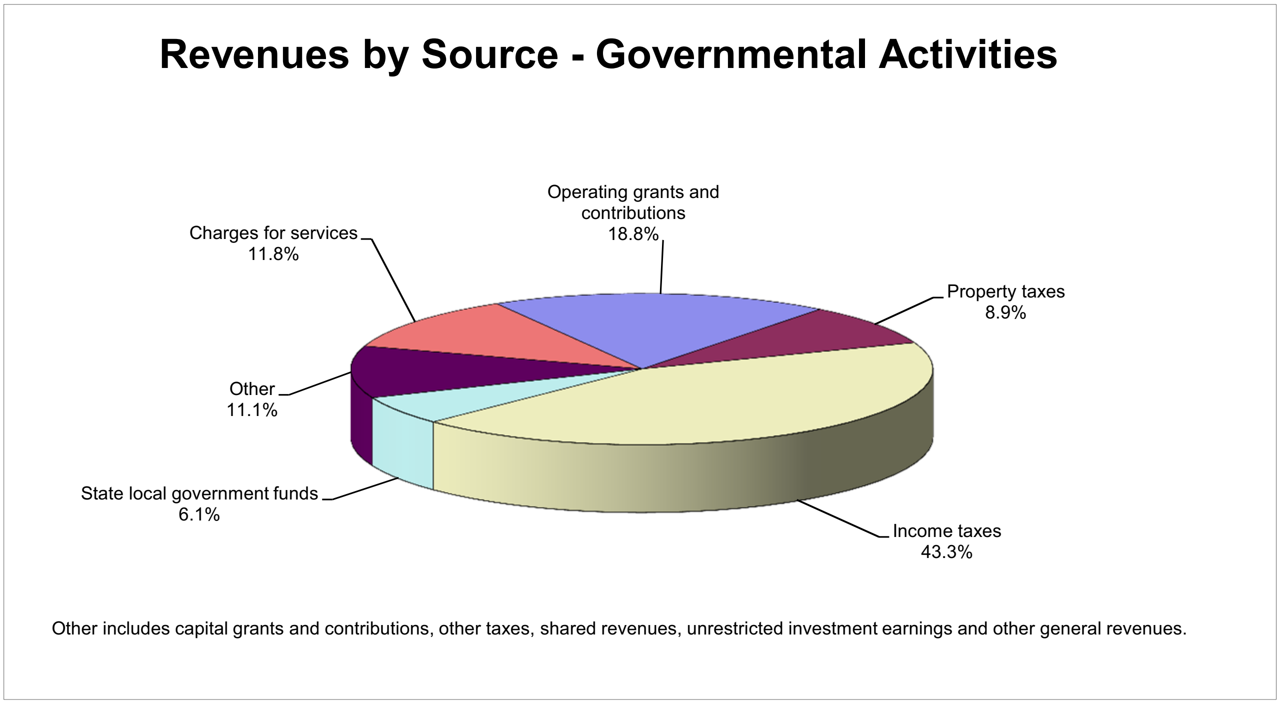
Also in 2011, the total liabilities from governmental activities decreased by $23.7 million. This decrease is primarily due to decreases of $16.6 million in long-term obligations and $9.4 million in deferred revenue, which was partially offset by an increase of $9.1 million in due to other governments.

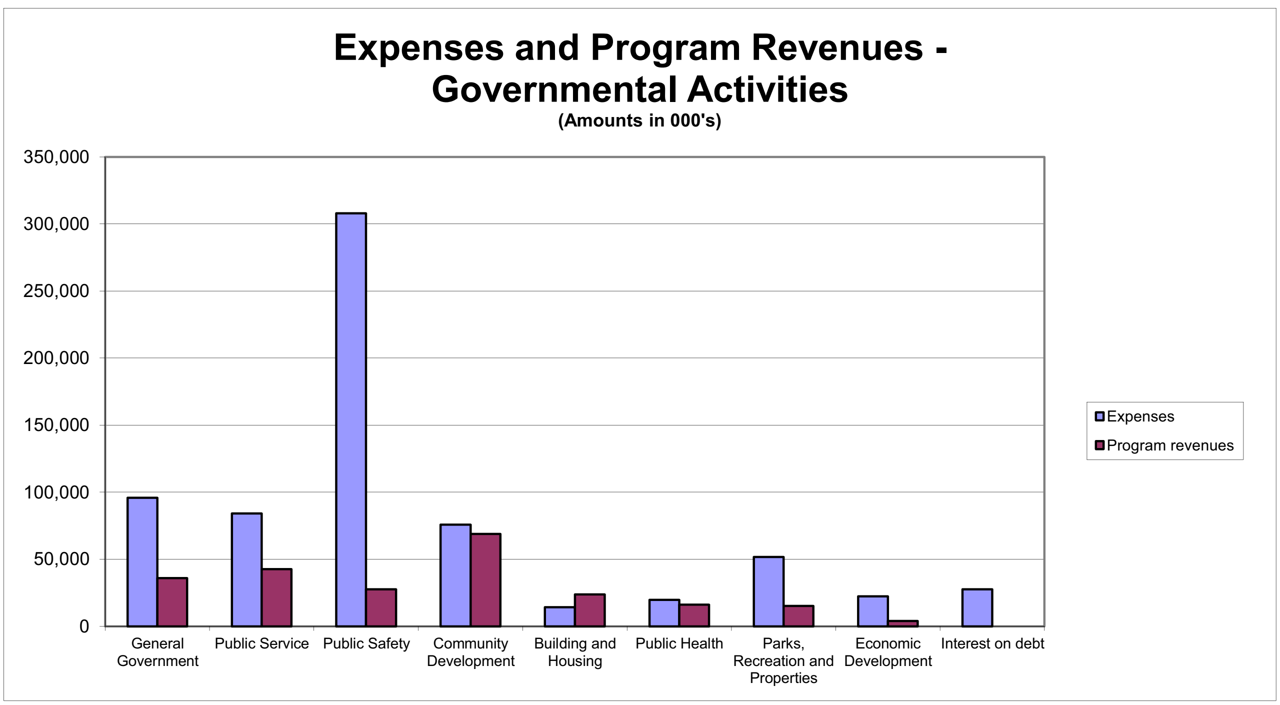
At the end of the current year, the City is able to report positive balances in total net assets for both its governmental activities and its business-type activities. Information regarding government-wide changes in net assets is provided below:

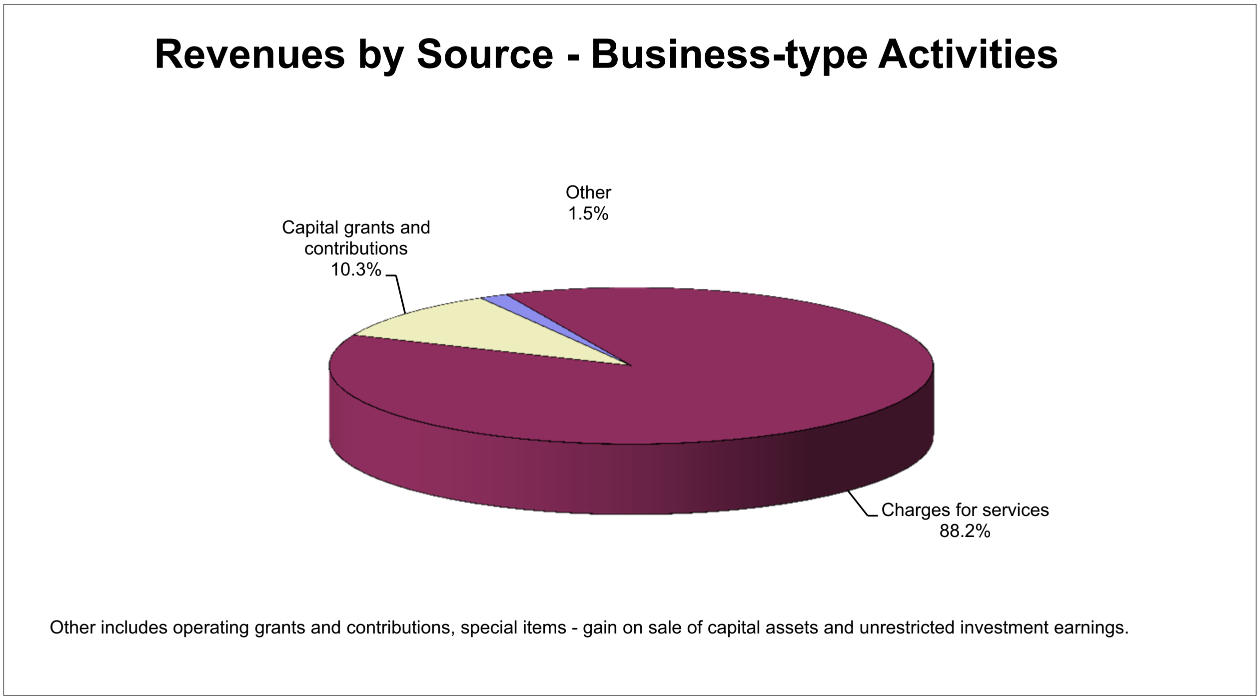
Changes in Net Assets
For Fiscal Years Ended December 31, 2011 and 2010

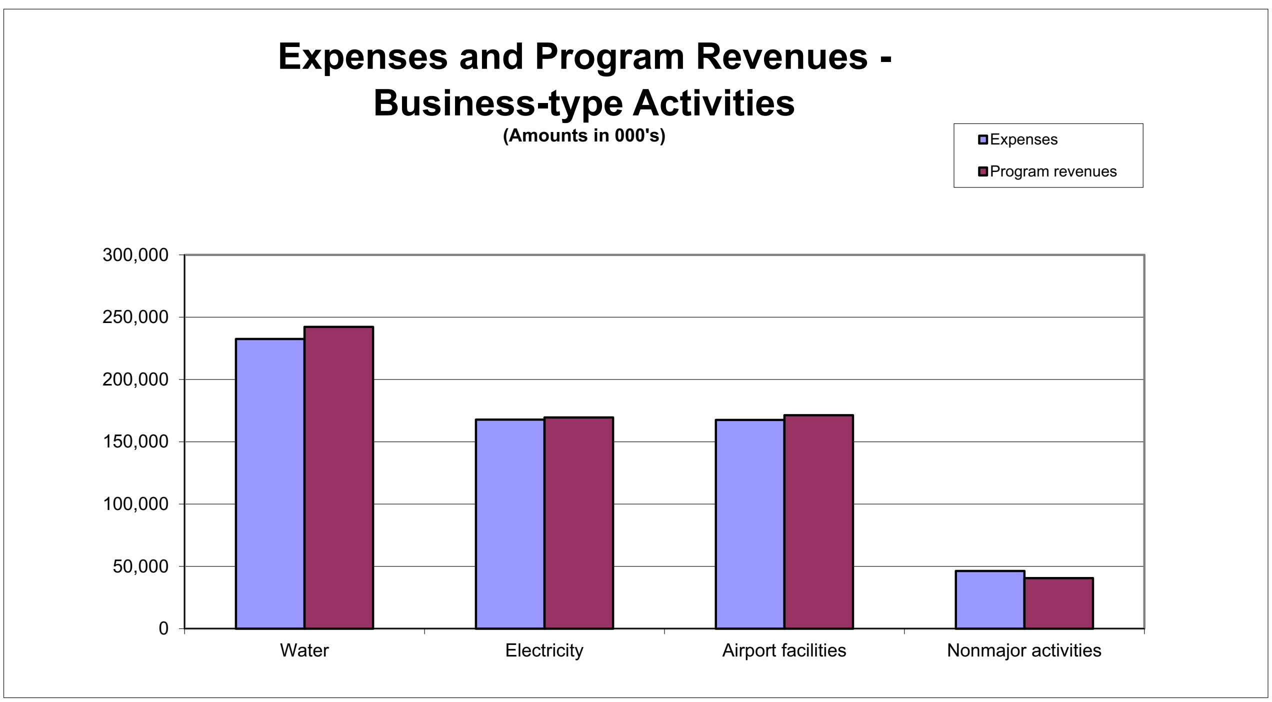
	Governmental Activities		Business-Type Activities (Amounts in 000's)		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Revenues:						
Program revenues:						
Charges for services	$ 84,681	$ 77,309	$ 554,641	$ 549,989	$ 639,322	$ 627,298
Operating grants and contributions	135,355	141,122	4,466	8,789	139,821	149,911
Capital grants and contributions	14,005	11,220	64,591	85,534	78,596	96,754
General revenues:						
Income taxes	311,492	298,209			311,492	298,209
Property taxes	63,839	88,087			63,839	88,087
Other taxes	27,312	28,450			27,312	28,450
Shared revenues	19,558	23,869			19,558	23,869
State local government funds	43,821	49,266			43,821	49,266
Unrestricted investment earnings	97	654	30	4	127	658
Other	19,086	14,104			19,086	14,104
Total revenues	719,246	732,290	623,728	644,316	1,342,974	1,376,606
Expenses:						
General Government	95,833	81,898			95,833	81,898
Public Service	84,166	93,425			84,166	93,425
Public Safety	308,051	315,900			308,051	315,900
Community Development	75,778	70,589			75,778	70,589
Building and Housing	14,098	17,445			14,098	17,445
Public Health	19,596	19,740			19,596	19,740
Parks, Recreation and Properties	55,411	46,963			55,411	46,963
Economic Development	22,323	24,729			22,323	24,729
Interest on debt	27,686	47,531			27,686	47,531
Water			232,497	232,862	232,497	232,862
Electricity			167,799	165,330	167,799	165,330
Airport facilities			167,531	158,262	167,531	158,262
Nonmajor activities			46,302	43,443	46,302	43,443
Total expenses	702,942	718,220	614,129	599,897	1,317,071	1,318,117
Changes in net assets before special items and transfers	16,304	14,070	9,599	44,419	25,903	58,489
Special items - gain on sale of capital assets			5,125		5,125	-
Transfers	(2,031)	19,278	2,031	(19,278)	-	-
Changes in net assets	14,273	33,348	16,755	25,141	31,028	58,489
Net assets at beginning of year	627,181	593,833	1,786,240	1,761,099	2,413,421	2,354,932
Net assets at end of year	$ 641,454	$ 627,181	$ 1,802,995	$ 1,786,240	$ 2,444,449	$ 2,413,421

Business-type net assets increased $16.8 million in 2011. Of the business-type net assets, $1.130 billion represents its investment in capital assets, net of accumulated depreciation, less any related, still-outstanding debt issued to acquire, construct or improve those assets. These capital assets are used to provide services to their customers. Consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities. $234 million of net assets are subject to external restrictions on their use. The remaining balance of $439 million is unrestricted and may be used to meet the City's ongoing obligations to customers and creditors.


Revenues by Source - Governmental Activities
Operating grants and contributions 18.8%
Charges for services 11.8%
Property taxes 8.9%
Other 11.1%
State local government funds 6.1%
Income taxes 43.3%
Other includes capital grants and contributions, other taxes, shared revenues, unrestricted investment earnings and other general revenues.


Expenses and Program Revenues - Governmental Activities
(Amounts in 000's)
350,000
300,000
250,000
200,000
150,000
100,000
50,000
0
General Government
Public Service
Public Safety
Community Development
Building and Housing
Public Health
Parks, Recreation and Properties
Economic Development
Interest on debt
Expenses
Program revenues


Revenues by Source - Business-type Activities
Other
1.5%
Capital grants and
contributions
10.3%
Charges for services
88.2%
Other includes operating grants and contributions, special items - gain on sale of capital assets and unrestricted investment earnings.


Expenses and Program Revenues -
Business-type Activities
(Amounts in 000's)
Expenses
Program revenues
300,000
250,000
200,000
150,000
100,000
50,000
0
Water
Electricity
Airport facilities
Nonmajor activities

In 2011, business-type total assets decreased by $19.1 million primarily due to decreases in restricted cash and cash equivalents and investments of $39.5 million. This decrease was partially offset by an increase in net capital assets of $30.9 million. Business-type total liabilities decreased by $35.8 million primarily due to decreases in long-term obligations of $38.8 million and accrued interest payable of $2.6 million. These decreases were partially offset by an increase in liabilities payable from restricted assets of $3.7 million.

Business-type activities are principally accounted for in the City's Enterprise Funds. The City operates three major Enterprise Funds encompassing two airports, a water system and an electric distribution system. The City also operates other Enterprise Funds consisting of a sewer system, cemeteries, a public auditorium, golf courses, municipal parking lots and public market facilities. The operating results of the City's principal Enterprise Funds are discussed below.

Division of Water: The Division operates a major public water supply system, the ninth largest in the United States that serves not only the City, but also 69 suburban municipalities in Cuyahoga, Medina, Summit and Geauga counties. The Division is an emergency standby provider for systems in three other counties. The present service area covers over 640 square miles and serves over 1.5 million people. Operating revenue in 2011 decreased to $236.6 million from $237.3 million in 2010. Operating expenses, exclusive of depreciation, decreased approximately 2.2% to $146.2 million compared to $149.5 million in 2010. This decrease was primarily attributed to reductions in computer hardware maintenance expenditures as well as employee salary and benefit costs.

Division of Cleveland Public Power: The Division supplies electrical service to approximately 74,000 customers in the City. The Division is responsible for supplying, transmitting and distributing electricity and providing related electrical services to customers within its service area. The Division's 2011 operating revenue increased 1.0% to $168.4 million from $166.7 million in 2010. Purchased power expense decreased 4.3% to $90.5 million in 2011 from $94.6 million in 2010. Operating expenses, exclusive of depreciation and purchased power, increased 13.8% to $49.4 million compared to $43.4 million in 2010.

Department of Port Control: The City's Department of Port Control consists of the Divisions of Cleveland Hopkins International Airport and Burke Lakefront Airport. Currently, 27 passenger airlines provide scheduled airline service at Cleveland Hopkins International Airport. Burke Lakefront Airport, a federally certified commercial and general aviation reliever airport, provides the majority of its services to air taxi operators serving the City's downtown business activities. The airports' operating revenue in 2011 amounted to $115.0 million. This represents a 7.8% increase from 2010 operating revenues. Cleveland Hopkins International Airport served 9,203,740 passengers in 2011. This reflects a 3.0% decrease in the number of passengers served from 2010. This decrease is attributed to normal industry fluctuation and the economic recession.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current year, the City's governmental funds reported combined ending fund balances of $362.9 million, a decrease of $9.5 million and approximately 2.6% in comparison with the prior year. The components of the governmental fund balances include an unassigned balance of $39.0 million, which indicates the amount available for spending at the City's discretion. An additional $204.6 million of fund balance is available for expenditures that are legally restricted for a particular purpose. The nonspendable portion of fund balance has $1.7 million of items that are not in a spendable form, such as inventory. An additional $105.6 million is committed to fund specific purposes and cannot be reassigned without legislative approval. The remaining assigned balance of $12.0 million represents funds that the City intends to use for a specific purpose.

The General Fund is the chief operating fund of the City. At the end of the current year, the unassigned fund balance of the General Fund was $39.0 million and the total fund balance was $51.6 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures and transfers out. Unassigned fund balance represents 8.1% of total General Fund expenditures and other financing uses, while total fund balance represents approximately 10.8% of that same amount.

A two-year comparison of General Fund activity is shown below. The revenues, expenditures and changes in fund balance shown in these comparisons are presented on the modified accrual basis of accounting applicable to governmental funds.

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance Information - GAAP Basis
2011 and 2010
(Amounts in 000's)

	2011	Restated 2010
Revenues:		
Income taxes	$ 277,857	$ 267,355
Property taxes	36,618	38,568
State local government funds	45,640	47,972
Other taxes and shared revenues	43,994	45,230
Licenses and permits	14,224	10,581
Charges for services	33,669	27,374
Fines, forfeits and settlements	23,473	23,714
Investment earnings	228	353
Grants	3,934	2,569
Miscellaneous	10,812	11,282
Total revenues	490,449	474,998
Expenditures:		
General Government	69,790	72,078
Public Service	33,795	34,394
Public Safety	292,594	301,100
Building and Housing	8,333	8,337
Public Health	4,451	5,240
Parks, Recreation and Properties	36,130	35,715
Economic Development	1,400	1,188
Other	11,171	11,490
Capital Outlay	2,350	
Total expenditures	460,014	469,542
Excess (deficiency) of revenues over (under) expenditures	30,435	5,456
Other financing sources (uses):		
Transfers in	8,404	39,508
Transfers out	(18,789)	(18,838)
Sale of City assets	729	70
Net change in fund balance	20,779	26,196
Fund balance at beginning of year (As Restated)	30,815	4,619
Fund balance at end of year	$ 51,594	$ 30,815

Analysis of General Fund Revenues

General Fund revenues and other sources totaled $499.6 million in 2011, a decrease of approximately $15.0 million from 2010. A discussion of each of the major types of General Fund revenues follows.

Municipal Income Taxes

Ohio law authorizes a municipal income tax both on corporate income (net profits from the operation of a business or profession) and employee wages, salaries and other compensation at a rate of up to 1% without voter authorization and at a rate above 1% with voter authorization. In 1979 and in 1981, the voters in the City approved increases of one-half of one percent to the rate of the income tax, bringing it to the current 2% rate. By the terms of the 1981 voter approval, as amended in 1985, one-ninth of the receipts of the total 2% tax (the Restricted Income Tax) must be used only for capital improvements, debt service or obligations issued for capital improvements or the payment of past deficits. The remaining eight-ninths of the municipal income tax is recorded in the General Fund and is pledged to, and may also be used for, debt service on General Obligation Bonds of the City, to the extent required and certain other obligations of the City.

The income tax is also imposed on gross salaries and wages earned in the City by non-residents of the City and on salaries, wages and other compensation of City residents earned within or outside the City. The income tax liability of a City resident employed outside the City is reduced by a credit equal to 50% of the tax paid to the municipality in which the City resident is employed. The tax on business profits is imposed on that part of profits attributable to business conducted within the City. In 2011, approximately 89% of the total income taxes paid to the City were derived from non-residents employed in the City and business profits.

Income tax collections increased approximately $10.5 million in 2011 from 2010, primarily due to increased construction activity in the University Circle and downtown areas.

Property Taxes

Taxes collected from real property in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year. Taxes collected from tangible personal property in one calendar year are levied in the same calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year, and at the rates determined in the preceding year. Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year.

The "assessed valuation" of real property is fixed at 35% of true value and is determined pursuant to rules of the State Tax Commissioner. An exception is that real property devoted exclusively to agricultural use is to be assessed at not more than 35% of its current agricultural use value. Real property devoted exclusively to forestry or timber growing is taxed at 50% of the local tax rate multiplied by the assessed value.

The assessed values of taxable property in the City for the past two years were as follows:

Tax Collection Year	Real Property	Public Utility Tangible Personal (Amounts in 000's)	Total Assessed Valuation
2011	$ 5,398,098	$ 242,172	$ 5,640,270
2010	$ 5,279,349	$ 233,870	$ 5,513,219

Property tax revenues decreased by $2 million in 2011 principally due to lower current tax collections and an increase in delinquencies in 2011.

State Local Government Funds and Other Taxes and Shared Revenues

State Local Government Funds and Other Taxes and Shared Revenues include taxes levied and collected by the State of Ohio or counties and partially redistributed to the City and other political subdivisions. Other taxes and shared revenues include state income, sales, admission, motor vehicle, parking, hotel, commercial activity, corporate franchise, homestead and rollback, public utility, estate and cigarette taxes as well as liquor fees. State Local Government Funds and Other Taxes and Shared Revenues have decreased in total by approximately $3.6 million in 2011.

Since 1993, the State Local Government Funds (LGF) have been the City's largest source of non-tax General Fund revenue. Through these funds, Ohio subdivisions share in a portion of the State's collection of the sales tax, use tax, personal income tax, corporate franchise tax and public utilities excise tax. The percentages of the five taxes supporting these funds have varied over the years. At times, the dollar amount in the funds has been capped at specified levels.

Pursuant to statutory law in Ohio, State LGF revenues are divided into county and municipal portions. The county portion, the larger of the two, is distributed to each of the State's 88 counties and is allocated based upon a statutory formula utilizing county population and county municipal property values. Once received by a county, the funds can either be distributed to all subdivisions using the statutory formula or the county and its subdivisions may agree upon an alternate method for allocating the funds. Cuyahoga County and its recipient communities have chosen the latter method which is comprised of a base allocation and an excess allocation. The excess allocation takes into account such factors as assessed value per capita, per capita income, population density and the number of individuals receiving public assistance. The municipal portion of the LGF is distributed directly by the State to those municipalities that collect an income tax. A municipality receives its share of the funds based upon its percentage of total municipal income taxes collected throughout the state in a given year.

Distributions from the State of Ohio and Cuyahoga County (as a conduit between the State and City) have generally decreased since 2000.

Analysis of General Fund Expenditures

General Fund expenditures and other financing uses totaled $478.8 million in 2011, a decrease of 2.0% from 2010. The amount of expenditures and other uses by function on a GAAP basis, including the increases (decreases) over the prior year, are shown in the following table:

Expenditures and Other Financing Uses	Actual 2011	% of Total	Restated Actual 2010	% of Total	Increase (Decrease)	% Change
			(Amounts in 000's)			
Current:						
General Government	$ 69,790	14.58	$ 72,078	14.76	$ (2,288)	(3.17)
Public Service	33,795	7.06	34,394	7.04	(599)	(1.74)
Public Safety	292,594	61.11	301,100	61.65	(8,506)	(2.82)
Building and Housing	8,333	1.74	8,337	1.71	(4)	(0.05)
Public Health	4,451	0.93	5,240	1.07	(789)	(15.06)
Parks, Recreation and Properties	36,130	7.55	35,715	7.31	415	1.16
Economic Development	1,400	0.29	1,188	0.25	212	17.85
Other	11,171	2.33	11,490	2.35	(319)	(2.78)
Capital Outlay	2,350	0.49			2,350	N/A
Transfers Out	18,789	3.92	18,838	3.86	(49)	(0.26)
Total Expenditures and Other Financing Uses	$ 478,803		$ 488,380		$ (9,577)	

The total expenditures and other financing uses decreased by $9.6 million. The decreases in General Government and Public Safety expenditures were due to decreases in full-time permanent personnel. The increase in capital outlay of $2.4 million resulted from ongoing improvements to the Public Auditorium.

Proprietary Funds. The City's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net assets of the Division of Water, Cleveland Public Power and the Department of Port Control Funds amounted to $204.9 million, $58.2 million and $128.9 million, respectively, at December 31, 2011. The change in net assets for each of the respective funds amounted to increases of $10.1 million, $1.8 million and $4.0 million during 2011. Other factors concerning the finances of the City's proprietary funds have already been addressed in the discussion of the City's business-type activities.

Major Functional Expense Categories. A discussion of the City's major functional expense categories follows:

Employees and Labor Relations

As of December 31, 2011 and 2010, the City had approximately 7,398 and 7,694 full-time employees, respectively. Of the 7,398 full-time employees, approximately 5,179 full-time employees are represented by 31 collective bargaining units. The largest collective bargaining units, together with the approximate number of employees represented by such units, include the American Federation of State, County and Municipal Employees, Local 100 – 1,279 members; Cleveland Police Patrolmen's Association – 1,273 members; the Association of Cleveland Firefighters – 809 members; Municipal Foreman and Laborers Union, Local 1099 – 468 members; and Local 244 – 358 members.

There have been no significant labor disputes or work stoppages in the City within the last 28 years.

The Council, by ordinance, establishes schedules of salaries, wages and other economic benefits for City employees. Generally, the terms of these ordinances have been the product of negotiations with representatives of the employees or bargaining units, and increases in economic benefits have normally been provided on an annual basis.

Chapter 4117 of the Ohio Revised Code (the Collective Bargaining Law), establishes procedures for, and regulates public employer-employee collective bargaining and labor relations for the City and other state and local governmental units in Ohio. The Collective Bargaining Law creates a three-member State Employment Relations Board (the SERB), which administers and enforces the Collective Bargaining Law. Among other things, the Collective Bargaining Law: (i) creates rights and obligations of public employers, public employees and public employee organizations with respect to labor relations; (ii) defines the employees it covers; (iii) establishes methods for (a) the recognition of employees and organizations as exclusive representatives for collective bargaining and (b) the determination of bargaining units; (iv) establishes matters for which collective bargaining is either required, prohibited or optional; (v) establishes procedures for bargaining and the resolution of disputes, including negotiation, mediation and fact finding; and (vi) permits all covered employees to strike, except certain enumerated classes of employees, such as police and fire personnel.

Over the past two years, the total salaries and wages paid to the City's employees from all funds were as follows:

Year	Amount Paid (Amounts in 000's)
2011	$ 424,311
2010	$ 424,680

In 2011, salaries and wages remained relatively consistent.

Employee Retirement Benefits

City employees are members of one of two retirement systems. These retirement systems provide both pension and post-retirement health care benefits to participants. They were created pursuant to Ohio statutes and are administered by state created Boards of Trustees. The boards are comprised of a combination of elected members from the respective retirement system's membership and ex-officio members from certain state and local offices.

These two retirement systems are:

- Ohio Public Employees Retirement System (OPERS), created in 1935, represents state and local government employees not included in one of the other retirement systems. Management of the system indicates there are 349,188 actively contributing members and total net assets of this pension system approximated $72.3 billion as of December 31, 2011, the latest information available. More data on this pension system is shown in Note 13 – Defined Benefit Pension Plans and Note 14 – Other Postemployment Benefits of this report.
- Ohio Police and Fire Pension Fund (OP&F), created in 1966, represents sworn personnel, not civilians, employed in police and fire divisions of Ohio's local governments. As of December 31, 2010, the latest information available, management of the fund indicates membership of approximately 28,479 active members and assets of this pension fund approximated $14.2 billion. All of the City's police and fire officers are members of this pension fund. More data on this pension fund is shown in Note 13 – Defined Benefit Pension Plans and Note 14 – Other Postemployment Benefits of this report.

Over the past two years, the City and its employees have paid the following amounts to OPERS and OP&F:

	2011	2010
	(Amounts in 000's)	
Paid by City to:		
OPERS	$ 35,782	$ 40,348
OP&F	32,612	33,294
Total paid by City	68,394	73,642
Paid by employees to:		
OPERS	25,529	25,524
OP&F	15,171	15,719
Total paid by employees	40,700	41,243
Total	$ 109,094	$ 114,885

The City is current in all of its required contributions to the respective pension funds. The pension plans and other postemployment benefits for health care are explained in Note 13 – Defined Benefit Pension Plans and Note 14 – Other Postemployment Benefits.

GENERAL FUND BUDGETARY ANALYSIS

In 2011, the principal difference between the original and the final revenue budget (see page 55) was a $4.6 million decrease in other taxes and shared revenues. This was due to the State of Ohio cuts to the Commercial Activity Tax. Also, $14.0 million in proceeds from the Convention Center sale was properly reclassified from miscellaneous revenue to transfers in.

In 2011, the major differences between the final amended budget and the actual total revenues were increases of $9.9 million in income taxes and $3.2 million in licenses and permits. Both increases were primarily attributed to increased construction activity and an improving local economy. Also, actual transfers in was $19.8 million less than budgeted because transfers related to the Convention Center sale and the Rainy Day Fund were not required. There was a difference of $7.1 million between the final amended budget and the actual total expenditures including transfers out. This decrease in expenditures resulted primarily from citywide reductions in employee staff levels.

CAPITAL ASSETS AND DEBT ADMINISTRATION

***Capital assets*:** The City's investment in capital assets for its governmental and business-type activities as of December 31, 2011, amounts to $3.8 billion (net of accumulated depreciation). This investment in capital assets includes land; land improvements; utility plant; buildings, structures and improvements; furniture, fixtures, equipment and vehicles; infrastructure; and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was .9% (a .5% increase for governmental activities and a 1.1% increase for business-type activities). A summary of the City's capital assets at December 31, 2011 is as follows:

	Capital Assets, Net of Accumulated Depreciation		
	Governmental Activities	Business-Type Activities (Amounts in 000's)	Total
Land	$ 66,188	$ 191,512	$ 257,700
Land improvements	51,922	22,379	74,301
Utility plant		771,885	771,885
Buildings, structures and improvements	339,955	306,359	646,314
Furniture, fixtures, equipment and vehicles	50,413	672,310	722,723
Infrastructure	319,136	542,234	861,370
Construction in progress	88,129	378,741	466,870
Total	$ 915,743	$ 2,885,420	$ 3,801,163

Additions to construction in progress during the current fiscal year affecting the City's capital assets included the following:

- Cleveland Public Power incurred $14.1 million of capital expenditures relating to various projects, pole replacements, equipment and building betterments.
- The Division of Water had expenditures for capital improvements totaling $100.1 million. Major expenses were for continuing renovations and enhancements at the Morgan, Baldwin and Nottingham Plants, equipment and rehabilitation of water mains.
- Port Control expenditures for capital improvements totaled approximately $19.4 million. Major initiatives were the Runway 10/28 Safety Improvement Project, installation of a new terrazzo floor in the main concourse, and reconstruction and upgrading and enhancements of the terminal utilities.
- Water Pollution Control had capital expenditures of $4.6 million. Major components included emergency repairs and various sewer line replacement projects.
- Major capital projects for Governmental Activities included land improvements, building improvements, vehicles and equipment, various computer system upgrades and infrastructure improvements.

The primary sources for financing the City's Capital Improvement Projects are general obligation bond proceeds, certificates of participation proceeds, urban renewal bond proceeds, revenue bond proceeds, proceeds from capital leases, interest earned on funds prior to and during the construction period, restricted income taxes and funds from the State Issue 2 and Local Transportation Improvement Programs. The City has three primary goals relating to its Capital Improvements: (1) preservation and revitalization of the City's neighborhoods, (2) economic development and job creation and (3) provision of cost-effective, basic City services to Cleveland residents and the business community. Additional information on the City's capital assets, including commitments made for future capital expenditures, can be found in Note 15 – Capital Assets.

Long-term debt and certain other obligations: At the end of the current fiscal year, the City had total long-term debt and certain other obligations outstanding of $2.70 billion as shown below. General Obligation Bonds are typically issued for general governmental activities and are backed by the full faith and credit of the City. Revenue bonds are typically recorded in the applicable Enterprise Fund and are supported by the revenues generated by the respective Enterprise Fund. The remainder of the City's debt represents bonds or notes secured solely by specified revenue sources.

The activity in the City's debt obligations outstanding during the year ended December 31, 2011 is summarized below (excluding unamortized discounts, premiums and losses on debt refundings).

	Balance January 1, 2011	Debt Issued	Debt Refunded or Defeased	Debt Retired	Balance December 31, 2011
			(Amounts in 000's)		
Governmental Activities:					
General Obligation Bonds	$ 297,115	$ 31,260	$	$ (29,715)	$ 298,660
Urban Renewal Bonds	5,365			(530)	4,835
Subordinated Income Tax Bonds	55,785			(2,810)	52,975
Subordinate Lien Income Tax Bonds	83,025			(2,520)	80,505
Non-Tax Revenue Bonds	61,795			(3,204)	58,591
Annual Appropriation Bonds	11,000				11,000
Certificates of Participation	135,537			(5,990)	129,547
Capital Lease Obligations	8,937	6,615		(2,644)	12,908
Gateway Note Payable	1,500			(250)	1,250
Total Governmental Activities	660,059	37,875	-	(47,663)	650,271
Business –Type Activities:					
Revenue Bonds & Notes	1,974,828	156,475	(135,000)	(66,140)	1,930,163
Ohio Water Development Loans	121,335	566		(6,378)	115,523
Deferred Payment Obligation	9,268			(2,768)	6,500
Total Business –Type Activities	2,105,431	157,041	(135,000)	(75,286)	2,052,186
Total	$ 2,765,490	$ 194,916	$ (135,000)	$ (122,949)	$ 2,702,457

Funds used to meet the debt service requirements of the City's General Obligation Bonds are from certain ad valorem taxes, restricted income taxes and interest earnings. Ad valorem taxes, the primary source of funds, amounted to $19.33 million in 2011 which represents approximately 43% of the debt service requirements on the General Obligation Bonds. These taxes were derived from a levy of $4.35 per $1,000 of assessed property. The remaining 57% of debt service requirements is retired from a portion of the City's restricted income tax proceeds, homestead and rollback reimbursement from the State, interest earnings and other miscellaneous revenue sources generated within the Debt Service Funds.

The City issues its General Obligation Bonds within the context of its Capital Improvement Program. Programs which have benefited due to the issuance of general obligation debt include, but are not limited to, public service improvements, bridge and roadway improvements, recreation facilities, cemeteries and urban redevelopment. The City's Enterprise Funds implement their own individual Capital Improvement Programs and issue revenue bond and note debt necessary to fund their programs.

The City's bond ratings for general obligation and revenue bonds are as follows as of December 31, 2011:

	Moody's Investors Service	**Standard & Poor's**	**Fitch Ratings**
General Obligation Bonds	A1	AA	A+ *
Subordinate Lien Income Tax Bonds	A2	AA	N/A
Waterworks Revenue Bonds	Aa1	AA	N/A
Cleveland Public Power Revenue Bonds	A2	A-	N/A
Airport System Revenue Bonds	Baa1	A-	A- **
Parking Revenue Bonds (Insured Ratings)	Aa3	AA-	N/A

* On April 13, 2011, Fitch Ratings downgraded its rating on City GO Bonds from AA- to A+ with a stable outlook.

** On April 25, 2011, Fitch Ratings downgraded its ratings on the Airport System Bonds from A (negative outlook) to A- (stable outlook).

The ratio of net general bonded debt to assessed valuation and the amount of bonded debt per capita are useful indicators of the City's debt position to management, citizens and investors. Net general bonded debt is total general bonded debt supported by taxes less amounts available in the Debt Service Fund. This data at December 31, 2011 was:

Net General Bonded Debt:	$297,172,000
Ratio of Net Bonded Debt to Assessed Valuation:	5.27%
Net General Bonded Debt Per Capita:	$748.89

The Ohio Revised Code provides that the net debt of the municipal corporation, whether or not approved by the electors, shall not exceed 10.50% of the assessed value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.50% of total assessed value of property. The City's total debt limit (10.50%) is $592,228,390 and unvoted debt limit (5.50%) is $310,214,871. At December 31, 2011, the City had capacity under the indirect debt limitation calculation per the Ohio Revised Code to issue approximately $50 million of additional unvoted debt. These debt limitations are not expected to affect the financing of any currently planned facilities or services.

In addition, the City has entered into various derivative or hedging agreements since 1999. 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 each outstanding derivative, including its terms, objectives, risks and fair value, can be found in Note 5 – Debt and Other Long-Term Obligations.

In accordance with the implementation of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the City has reported a deferred outflow asset, a liability in the amount of the fair value of the interest rate swaps, which reflect the prevailing interest rate environment at December 31, 2011 and an investment loss as appropriate based on the change in fair value. The specific terms and conditions of each swap have been provided by the respective counterparty for each swap and confirmed by the City's financial advisor.

Additional information on the City's long-term debt can be found in Note 5 – Debt and Other Long-Term Obligations.

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

The City, like all municipalities both local and national, continues to face the challenges of economic recession. Basic operating costs continue to rise due to negotiated salary increases, higher benefit costs and federal and state mandates being placed upon municipalities at the same time federal and state funding is being reduced.

Over the last several years, the City has seen significant reductions in funding from the federal and state governments. To offset these reductions, the City continues to focus on stimulating economic and community development throughout its core business districts and neighborhoods to strengthen its housing stock value and ensure a strong local job market.

On October 6, 2011, the City completed the sale of the City-owned Gateway North Parking Garage to Rock Ohio Caesars Gateway LLC. The garage will be used in conjunction with the opening of a new casino being constructed in the Higbee Building adjacent to the garage. The net proceeds of the sale of the garage were placed into an escrow fund to be used to pay the principal and interest as it comes due on $16,145,000 Parking Facilities Refunding Revenue Bonds, Series 2006.

Other Impacting Factors

- On February 23, 2012, the City issued $235,150,000 Airport System Revenue Bonds, Series 2012A (Non-AMT).
- On February 24, 2012, the City issued $15,325,000 Public Power System Revenue Bonds, Series 2012.
- On May 22, 2012, the City issued $50,245,000 Various Purpose and Refunding General Obligation Bonds, Series 2012.
- On June 5, 2012, the City entered into an equipment lease agreement with PNC Equipment Finance LLC in the amount of $6,507,400.

See Note 21 for additional information.

NEED ADDITIONAL INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City'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

STATEMENT OF NET ASSETS
DECEMBER 31, 2011
(Amounts in 000's)

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 297,798	$ 307,025	$ 604,823
Investments		27,317	27,317
Receivables:			
Taxes	142,090		142,090
Accounts	28,715	229,845	258,560
Grants	24,005		24,005
Loans	184,659		184,659
Unbilled revenue		35,853	35,853
Accrued interest	12	102	114
Assessments	5,675		5,675
Less: Allowance for doubtful accounts	(21,511)	(38,307)	(59,818)
Receivables, net	363,645	227,493	591,138
Internal balances	2,756	(2,756)	-
Due from other governments	38,021	673	38,694
Inventory of supplies	2,971	15,391	18,362
Prepaid expenses and other assets		1,561	1,561
Restricted assets:			
Cash and cash equivalents		489,759	489,759
Investments		79,735	79,735
Accrued interest receivable		100	100
Accrued passenger facility charge		2,280	2,280
Total restricted assets	-	571,874	571,874
Unamortized bond issuance costs	23,370	26,151	49,521
Deferred outflows of resources		27,955	27,955
Capital assets:			
Land and construction in progress	154,317	570,253	724,570
Other capital assets, net of accumulated depreciation	761,426	2,315,167	3,076,593
Total capital assets	915,743	2,885,420	3,801,163
Total assets	1,644,304	4,088,104	5,732,408
LIABILITIES			
Accounts payable	14,298	31,721	46,019
Accrued wages and benefits	43,000	12,954	55,954
Due to other governments	97,674	112,509	210,183
Accrued interest payable	9,677	37,452	47,129
Deferred revenue	59,797		59,797
Unearned revenue	12,431		12,431
Liabilities payable from restricted assets		24,436	24,436
Loans payable	2,475		2,475
Derivative instruments-interest rate swaps	442	28,737	29,179
Long-term obligations:			
Due within one year	79,303	128,771	208,074
Due in more than one year	683,753	1,908,529	2,592,282
Total liabilities	1,002,850	2,285,109	3,287,959
NET ASSETS			
Invested in capital assets, net of related debt	543,460	1,130,178	1,673,638
Restricted for:			
Capital		1,309	1,309
Debt service	41,210	212,365	253,575
Other purposes	76,555	20,376	96,931
Unrestricted (deficit)	(19,771)	438,767	418,996
Total net assets	$ 641,454	$ 1,802,995	$ 2,444,449

The notes to the financial statements are an integral part of this statement.

CITY OF CLEVELAND, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011
(Amounts in 000's)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs:							
Governmental activities:							
General Government	$ 95,833	$ 32,248	$ 3,673	$ 23	$ (59,889)	$	$ (59,889)
Public Service	84,166	15,665	12,897	13,982	(41,622)		(41,622)
Public Safety	308,051	15,034	12,497		(280,520)		(280,520)
Community Development	75,778		68,887		(6,891)		(6,891)
Building and Housing	14,098	18,072	5,698		9,672		9,672
Public Health	19,596	2,931	13,228		(3,437)		(3,437)
Parks, Recreation and Properties	55,411	694	14,467		(40,250)		(40,250)
Economic Development	22,323	37	4,008		(18,278)		(18,278)
Interest on debt	27,686				(27,686)		(27,686)
Total governmental activities	702,942	84,681	135,355	14,005	(468,901)	-	(468,901)
Business-type activities:							
Water	232,497	236,626	3,305	2,284		9,718	9,718
Electricity	167,799	168,448	883	206		1,738	1,738
Airport facilities	167,531	114,967		56,385		3,821	3,821
Nonmajor activities:							
Sewer	22,809	22,199	53	2,033		1,476	1,476
Public Auditorium	2,629	790		1,395		(444)	(444)
Westside Market	1,677	1,287	2	105		(283)	(283)
Eastside Market	99					(99)	(99)
Municipal Parking Lots	15,968	8,453				(7,515)	(7,515)
Cemeteries	1,895	1,393	129	2,183		1,810	1,810
Golf Courses	1,225	478	94			(653)	(653)
Total business-type activities	614,129	554,641	4,466	64,591	-	9,569	9,569
Total	$ 1,317,071	$ 639,322	$ 139,821	$ 78,596	(468,901)	9,569	(459,332)
General revenues:							
Income taxes					311,492		311,492
Property taxes					63,839		63,839
Other taxes					27,312		27,312
Shared revenues					19,558		19,558
State local government funds					43,821		43,821
Unrestricted investment earnings					97	30	127
Other					19,086		19,086
Transfers					(2,031)	2,031	-
Total general revenues and transfers					483,174	2,061	485,235
Special items - gain on sale of capital assets						5,125	5,125
Change in net assets					14,273	16,755	31,028
Net assets at beginning of year					627,181	1,786,240	2,413,421
Net assets at end of year					$ 641,454	$ 1,802,995	$ 2,444,449

The notes to the financial statements are an integral part of this statement.

CITY OF CLEVELAND, OHIO

BALANCE SHEET-GOVERNMENTAL FUNDS
DECEMBER 31, 2011
(Amounts in 000's)

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 54,888	$ 228,376	$ 283,264
Receivables:			
Taxes	104,745	37,345	142,090
Accounts	28,715		28,715
Grants		24,005	24,005
Loans		184,659	184,659
Accrued interest		12	12
Assessments		5,675	5,675
Less: Allowance for doubtful accounts	(21,511)		(21,511)
Receivables, net	111,949	251,696	363,645
Due from other funds	8,953	11,687	20,640
Due from other governments	26,336	11,685	38,021
Inventory of supplies	576	1,172	1,748
TOTAL ASSETS	$ 202,702	$ 504,616	$ 707,318
LIABILITIES			
Accounts payable	$ 4,337	$ 8,268	$ 12,605
Accrued wages and benefits	39,056	2,992	42,048
Due to other governments	1,529	95,828	97,357
Deferred revenue	98,755	53,277	152,032
Unearned revenue	434	11,997	12,431
Due to other funds	6,997	20,963	27,960
Total liabilities	151,108	193,325	344,433
FUND BALANCES			
Nonspendable	576	1,172	1,748
Restricted		204,590	204,590
Committed		105,624	105,624
Assigned	12,027	1	12,028
Unassigned	38,991	(96)	38,895
Total fund balances	51,594	311,291	362,885
TOTAL LIABILITIES AND FUND BALANCES	$ 202,702	$ 504,616	

Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities (excluding internal service fund capital assets) are not financial resources and, therefore, are not reported in the funds.	912,281
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	92,235
Long-term liabilities, including bonds and claims payable, are not due and payable in the current period and therefore are not reported in the funds.	(735,034)
The assets and liabilities of most of the internal service funds are included in the governmental activities in the statement of net assets.	9,087
Net assets of governmental activities	$ 641,454

The notes to the financial statements are an integral part of this statement.

CITY OF CLEVELAND, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2011

(Amounts in 000's)

	General	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Income taxes	$ 277,857	$ 34,651	$ 312,508
Property taxes	36,618	19,331	55,949
State local government funds	45,640		45,640
Other taxes and shared revenues	43,994	33,642	77,636
Licenses and permits	14,224	2,653	16,877
Charges for services	33,669	5,764	39,433
Fines, forfeits and settlements	23,473	4,903	28,376
Investment earnings	228	290	518
Grants	3,934	116,185	120,119
Contributions		52	52
Miscellaneous	10,812	4,544	15,356
Total revenues	490,449	222,015	712,464
EXPENDITURES:			
Current:			
General Government	69,790	8,002	77,792
Public Service	33,795	19,470	53,265
Public Safety	292,594	9,415	302,009
Community Development		73,682	73,682
Building and Housing	8,333	5,698	14,031
Public Health	4,451	14,709	19,160
Parks, Recreation and Properties	36,130	2,531	38,661
Economic Development	1,400	17,948	19,348
Other	11,171		11,171
Capital outlay	2,350	64,225	66,575
Inception of capital lease		4,566	4,566
Debt service:			
Principal retirement		47,481	47,481
Interest		30,628	30,628
General Government		438	438
Other		315	315
Total expenditures	460,014	299,108	759,122
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	30,435	(77,093)	(46,658)
OTHER FINANCING SOURCES (USES):			
Transfers in	8,404	60,239	68,643
Transfers out	(18,789)	(52,725)	(71,514)
Issuance of debt		31,260	31,260
Premium on bonds and notes		1,105	1,105
Discount on bonds and notes		(217)	(217)
Sale of City assets	729	500	1,229
Proceeds from capital lease		6,615	6,615
Total other financing sources (uses)	(9,656)	46,777	37,121
NET CHANGE IN FUND BALANCES	20,779	(30,316)	(9,537)
FUND BALANCES AT BEGINNING OF YEAR (as restated)	30,815	341,607	372,422
FUND BALANCES AT END OF YEAR	$ 51,594	$ 311,291	$ 362,885

The notes to the financial statements are an integral part of this statement.

CITY OF CLEVELAND, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES OF GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2011

(Amounts in 000's)

Amounts reported for governmental activities in the statement of activities (page 51) are different because:

Net change in fund balances - total governmental funds (page 53)	$ (9,537)
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	4,847
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,468
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of debt issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences, including accrued interest, in the treatment of long-term debt and related items.	9,327
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	8,539
The net revenue of certain activities of internal service funds is reported with governmental activities.	(371)
Change in net assets of governmental activities (page 51)	$ 14,273

The notes to the financial statements are an integral part of this statement.

CITY OF CLEVELAND, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (BUDGET AND ACTUAL) - GENERAL FUND FOR THE YEAR ENDED DECEMBER 31, 2011

(Amounts in 000's)

	Original Budget	Final Budget	Actual*	Variance- Positive (Negative)
REVENUES:				
Income taxes	$ 265,789	$ 265,789	$ 275,731	$ 9,942
Property taxes	38,069	37,605	36,618	(987)
State local government funds	47,585	47,710	47,257	(453)
Other taxes and shared revenues	45,413	40,846	42,058	1,212
Licenses and permits	11,104	11,104	14,329	3,225
Charges for services	29,314	29,314	31,601	2,287
Fines, forfeits and settlements	24,209	24,209	23,461	(748)
Investment earnings	170	170	208	38
Grants	3,963	3,963	3,934	(29)
Miscellaneous	31,879	17,838	20,889	3,051
Total revenues	497,495	478,548	496,086	17,538
EXPENDITURES:				
Current:				
General Government	80,538	77,213	74,644	2,569
Public Service	35,779	34,994	34,571	423
Public Safety	302,425	299,765	297,770	1,995
Building and Housing	9,231	8,504	8,303	201
Public Health	5,442	5,183	4,737	446
Parks, Recreation and Properties	36,860	35,085	34,756	329
Economic Development	1,504	1,504	1,393	111
Other	21,050	17,220	16,709	511
Total expenditures	492,829	479,468	472,883	6,585
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,666	(920)	23,203	24,123
OTHER FINANCING SOURCES (USES):				
Transfers in	11,654	25,695	5,883	(19,812)
Transfers out	(19,473)	(20,353)	(19,789)	564
Sale of City assets			734	734
Total other financing sources (uses)	(7,819)	5,342	(13,172)	(18,514)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(3,153)	4,422	10,031	5,609
DECERTIFICATION OF PRIOR YEAR ENCUMBRANCES AND PRE-ENCUMBRANCES			686	686
NET CHANGE IN FUND BALANCES	(3,153)	4,422	10,717	6,295
FUND BALANCES AT BEGINNING OF YEAR	6,144	6,144	6,144	-
FUND BALANCES AT END OF YEAR	$ 2,991	$ 10,566	$ 16,861	$ 6,295

* On budgetary basis of accounting (see Note 2 - Summary of Significant Accounting Policies, "D" Budgetary Procedures).

The notes to the financial statements are an integral part of this statement.

CITY OF CLEVELAND, OHIO

BALANCE SHEET - PROPRIETARY FUNDS
DECEMBER 31, 2011
(Amounts in 000's)

	Business Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Division of Water	Cleveland Public Power	Department of Port Control	Nonmajor Enterprise Funds	Total Enterprise Funds	
ASSETS						
Current assets:						
Cash and cash equivalents	$ 146,027	$ 54,386	$ 64,252	$ 41,653	$ 306,318	$ 15,241
Restricted cash and cash equivalents	14,842	1,930	7,664		24,436	
Investments	12,141	5,059	10,117		27,317	
Receivables:						
Accounts	77,576	16,947	19,922	115,400	229,845	
Unbilled revenue	27,225	2,080	3,599	2,949	35,853	
Accrued interest	1		94	7	102	
Less: Allowance for doubtful accounts	(23,401)	(6,889)	(2,006)	(6,011)	(38,307)	
Receivables, net	81,401	12,138	21,609	112,345	227,493	-
Due from other funds	12,449	2,558		464	15,471	10,273
Due from other governments			673		673	
Inventory of supplies	3,722	9,089	2,118	462	15,391	1,224
Prepaid expenses and other assets	1,138	93	330		1,561	
Total current assets	271,720	85,253	106,763	154,924	618,660	26,738
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	171,498	59,031	224,144	10,650	465,323	
Investments			69,570	10,165	79,735	
Accrued interest receivable	100				100	
Accrued passenger facility charges			2,280		2,280	
Total restricted assets	171,598	59,031	295,994	20,815	547,438	-
Unamortized bond issuance costs	4,517	2,947	17,172	1,515	26,151	
Deferred outflow of resources	27,955				27,955	
Capital assets:						
Land	5,463	4,863	167,457	13,729	191,512	663
Land improvements	16,549	305	74,153	6,728	97,735	146
Utility plant	1,115,117	473,921		131,132	1,720,170	
Buildings, structures and improvements	221,373	20,080	329,324	106,072	676,849	3,557
Furniture, fixtures, equipment and vehicles	566,679	79,996	38,298	18,485	703,458	8,658
Infrastructure			956,696		956,696	
Construction in progress	275,907	52,049	36,246	14,539	378,741	190
Less: Accumulated depreciation	(705,396)	(299,162)	(680,397)	(155,383)	(1,840,338)	(9,155)
Total capital assets, net	1,495,692	332,052	921,777	135,302	2,884,823	4,059
Total noncurrent assets	1,699,762	394,030	1,234,943	157,632	3,486,367	4,059
TOTAL ASSETS	$ 1,971,482	$ 479,283	$ 1,341,706	$ 312,556	$ 4,105,027	$ 30,797

(Continued)

CITY OF CLEVELAND, OHIO

BALANCE SHEET - PROPRIETARY FUNDS
DECEMBER 31, 2011
(Amounts in 000's)

	Business-Type Activities - Enterprise Funds					Governmental
	Division of Water	Cleveland Public Power	Department of Port Control	Nonmajor Enterprise Funds	Total Enterprise Funds	Activities - Internal Service Funds
LIABILITIES						
Current liabilities:						
Accounts payable	$ 14,702	$ 10,110	$ 4,457	$ 2,427	$ 31,696	$ 2,444
Accrued wages and benefits	10,079	3,635	3,972	2,047	19,733	2,417
Due to other funds	2,770	4,922	969	9,561	18,222	202
Due to other governments			6,487	106,022	112,509	317
Accrued interest payable	12,727	7,246	16,980	499	37,452	
Current payable from restricted assets	14,842	1,930	7,664		24,436	
Current portion of long-term obligations	90,085	11,640	16,649	2,925	121,299	
Total current liabilities	145,205	39,483	57,178	123,481	365,347	5,380
Long-term liabilities:						
Accrued wages and benefits	1,464	513	578	236	2,791	15,886
Construction loans payable	106,595			2,338	108,933	
Deferred payment obligation			3,510		3,510	
Revenue bonds payable	657,481	230,690	874,540	30,447	1,793,158	
Derivative instruments-interest rate swaps	27,955			782	28,737	
Total noncurrent liabilities	793,495	231,203	878,628	33,803	1,937,129	15,886
Total liabilities	938,700	270,686	935,806	157,284	2,302,476	21,266
NET ASSETS						
Invested in capital assets, net of related debt	734,270	145,158	147,324	102,829	1,129,581	4,059
Restricted for capital projects		1,309			1,309	
Restricted for debt service	93,601	3,894	109,292	5,578	212,365	
Restricted for passenger facility charges			20,376		20,376	
Unrestricted	204,911	58,236	128,908	46,865	438,920	5,472
Total net assets	1,032,782	208,597	405,900	155,272	1,802,551	9,531
TOTAL LIABILITIES AND NET ASSETS	$ 1,971,482	$ 479,283	$ 1,341,706	$ 312,556		$ 30,797
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					444	
NET ASSETS OF BUSINESS-TYPE ACTIVITIES					$ 1,802,995	

The notes to the financial statements are an integral part of this statement. (Concluded)

CITY OF CLEVELAND, OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS FOR THE YEAR ENDED DECEMBER 31, 2011

(Amounts in 000's)

	Business-Type Activities - Enterprise Funds					Governmental
	Division of Water	Cleveland Public Power	Department of Port Control	Nonmajor Enterprise Funds	Total Enterprise Funds	Activities - Internal Service Funds
OPERATING REVENUES:						
Charges for services	$ 236,626	$ 168,448	$ 114,967	$ 34,600	$ 554,641	$ 44,406
Total operating revenue	236,626	168,448	114,967	34,600	554,641	44,406
OPERATING EXPENSES:						
Operations	100,221	29,542	68,094	19,355	217,212	42,876
Maintenance	46,011	19,896	5,216	8,910	80,033	2,733
Purchased power		90,514			90,514	
Depreciation	58,796	16,576	47,775	7,618	130,765	673
Total operating expenses	205,028	156,528	121,085	35,883	518,524	46,282
OPERATING INCOME (LOSS)	31,598	11,920	(6,118)	(1,283)	36,117	(1,876)
NON-OPERATING REVENUES (EXPENSES):						
Investment income (loss)	2,349	151	(9,634)	(615)	(7,749)	15
Interest expense	(27,071)	(11,170)	(35,389)	(8,770)	(82,400)	
Passenger facility charges			17,874		17,874	
Sound insulation program			(689)		(689)	
Loss on disposal of capital assets				(4)	(4)	
Other revenues (expenses)	2,682	780	(534)	(847)	2,081	
Total non-operating revenues (expenses)	(22,040)	(10,239)	(28,372)	(10,236)	(70,887)	15
INCOME (LOSS) BEFORE CONTRIBUTIONS, SPECIAL ITEMS AND TRANSFERS	9,558	1,681	(34,490)	(11,519)	(34,770)	(1,861)
Capital contributions	558	158	38,511	5,614	44,841	178
Special items - Gain on Sale of Capital Assets				5,125	5,125	
Transfers in				2,031	2,031	840
Change in net assets	10,116	1,839	4,021	1,251	17,227	(843)
NET ASSETS AT BEGINNING OF YEAR	1,022,666	206,758	401,879	154,021		10,374
NET ASSETS AT END OF YEAR	$ 1,032,782	$ 208,597	$ 405,900	$ 155,272		$ 9,531
Adjustment to reflect consolidation of internal service fund activities related to enterprise funds					(472)	
CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES					$ 16,755	

The notes to the financial statements are an integral part of this statement.

CITY OF CLEVELAND, OHIO

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Amounts in 000's)

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Division of Water	Cleveland Public Power	Department of Port Control	Nonmajor Enterprise Funds	Total Enterprise Funds	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash received from customers	$ 229,625	$ 172,078	$ 104,916	$ 35,327	$ 541,946	$ 42,589
Cash payments to suppliers for goods or services	(64,085)	(20,615)	(41,575)	(12,723)	(138,998)	(25,622)
Cash payments to employees for services	(75,905)	(24,018)	(28,826)	(14,802)	(143,551)	(17,981)
Cash payments for purchased power		(90,960)			(90,960)	
Agency activity on behalf of other sewer authorities				(681)	(681)	
Other	(226)	(5,334)			(5,560)	
Net cash provided by (used for) operating activities	89,409	31,151	34,515	7,121	162,196	(1,014)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Cash payments for sound insulation of homes			(603)		(603)	
Cash received through transfers from other funds				2,031	2,031	840
Cash payments to various parties			(5,163)		(5,163)	
Cash receipts from various parties		847		161	1,008	
Net cash provided by (used for) noncapital financing activities	-	847	(5,766)	2,192	(2,727)	840
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Cash receipts for passenger facility charges			18,064		18,064	
Proceeds from sale of revenue bonds, loans and notes	155,988		79,221		235,209	
Proceeds from sale of capital assets				20,162	20,162	
Acquisition and construction of capital assets	(89,005)	(9,618)	(68,589)	(5,750)	(172,962)	(71)
Principal paid on long-term debt	(93,407)	(10,495)	(22,560)	(3,911)	(130,373)	
Interest paid on long-term debt	(39,158)	(10,573)	(36,071)	(2,816)	(88,618)	
Cash paid to escrow agent for refunding	(104,676)		(9,236)	(21,545)	(135,457)	
Capital grant proceeds	558		38,560	1,980	41,098	
Net cash provided by (used for) capital and related financing activities	(169,700)	(30,686)	(611)	(11,880)	(212,877)	(71)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of investment securities	(12,044)	(5,019)	(79,602)	(10,117)	(106,782)	
Proceeds from sale and maturity of investment securities	6,998	3,572	1,999		12,569	
Interest received on investments	2,588	123	764	112	3,587	14
Net cash provided by (used for) investing activities	(2,458)	(1,324)	(76,839)	(10,005)	(90,626)	14
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(82,749)	(12)	(48,701)	(12,572)	(144,034)	(231)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	415,116	115,359	344,761	64,875	940,111	15,472
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 332,367	$ 115,347	$ 296,060	$ 52,303	$ 796,077	$ 15,241

(Continued)

CITY OF CLEVELAND, OHIO

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Amounts in 000's)

	Business-Type Activities - Enterprise Funds					Governmental
	Division of Water	Cleveland Public Power	Department of Port Control	Nonmajor Enterprise Funds	Total Enterprise Funds	Activities - Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:						
Operating income (loss)	$ 31,598	$ 11,920	$ (6,118)	$ (1,283)	$ 36,117	$ (1,876)
Adjustment to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation	58,796	16,576	47,775	7,618	130,765	673
Non-cash rental income			(3,389)		(3,389)	
Changes in assets and liabilities:						
Receivables, net	(3,359)	4,012	(4,568)	2,194	(1,721)	
Due from other funds	(585)	(53)	96	55	(487)	(1,598)
Inventory of supplies	218	46	(62)	(156)	46	56
Prepaid expenses and other assets	(65)	23	2		(40)	
Accounts payable	565	(946)	1,114	810	1,543	710
Accrued wages and benefits	(499)	(193)	(230)	(140)	(1,062)	1,258
Due to other funds	547	(242)	(100)	431	636	(17)
Due to other governments				(2,408)	(2,408)	(220)
Accrued expenses and other liabilities	2,193	8	(5)		2,196	
Total adjustments	57,811	19,231	40,633	8,404	126,079	862
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 89,409	$ 31,151	$ 34,515	$ 7,121	$162,196	$ (1,014)
Non-cash operating activity:						
Rental income			$ 3,389			

(Concluded)

The notes to the financial statements are an integral part of this statement.

CITY OF CLEVELAND, OHIO

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
DECEMBER 31, 2011
(Amounts in 000's)

	Agency Funds
ASSETS	
Cash and cash equivalents	$ 30,696
Taxes receivable	19,361
Due from other governments	721
Total assets	$ 50,778
LIABILITIES	
Due to other governments	26,453
Due to others	24,325
Total liabilities	$ 50,778

The notes to the financial statements are an integral part of this statement.

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NOTE 1 – DESCRIPTION OF CITY OPERATIONS AND REPORTING ENTITY

The City: The City of Cleveland, Ohio (the City) operates under an elected Mayor/Council (19 Council members) administrative/legislative form of government.

Reporting Entity: The accompanying financial statements as of December 31, 2011 and for the year then ended have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

In evaluating how to define the governmental reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, under which the financial statements include all the organizations, activities, functions and component units for which the City (primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (1) the City's ability to impose its will over the component unit or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the City.

On this basis, the City's financial reporting entity has no component units but includes in its financial statements the financial activities of all departments, agencies, boards and commissions that are part of the primary government, including police and fire protection, waste collection, parks and recreation, health, certain social services and general administrative services. In addition, the City owns and operates several enterprise activities, the principal ones consisting of a water system, an electric distribution system and two airports.

The following entities are related organizations of the City of Cleveland; however, the City's accountability does not extend beyond its appointing authority:

Cuyahoga Metropolitan Housing Authority – Created under the Ohio Revised Code, the Cuyahoga Metropolitan Housing Authority provides public housing services. The five-member board consists of two appointed by the Mayor of the City of Cleveland, two appointed by Cleveland City Council and one appointed by the Mayor of the City of East Cleveland with approval from its City Council.

Cleveland-Cuyahoga County Port Authority – Created under the Ohio Revised Code, the Cleveland-Cuyahoga County Port Authority conducts port operations and economic development activities. The nine-member Board of Directors consists of three appointed by the Cuyahoga County Commissioners and six appointed by the City of Cleveland.

Cleveland Metropolitan School District (Schools) – In November of 1998, the Mayor of the City of Cleveland was given appointing authority for the Schools. As approved by the State Legislature, the Ohio Revised Code provides for the Mayor to appoint a Chief Executive Officer who must be approved by the Board of Education (the Board). The Board is comprised of nine-members. The members of the Board are appointed by the Mayor from a pool of candidates presented to the Mayor by an independent nominating panel. In November 2002, the voters of Cleveland elected to maintain the current governance structure.

The following entity is a jointly governed organization of the City; however, the City has no ongoing financial interest or responsibility:

Gateway Economic Development Corporation of Greater Cleveland (Gateway) – Gateway is responsible for the operations of a sports complex and related economic development. The five-member board consists of two members appointed by the City, two members appointed by the Board of County Commissioners and one by the President of the Board of County Commissioners with concurrence of the Mayor of the City of Cleveland.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant Accounting Policies:

The following is a summary of the more significant policies followed during the preparation of the accompanying financial statements.

A. ***Government-Wide and Fund Financial Statements***

GASB Statement No. 34 established requirements and a reporting model for the annual financial reports of state and local governments. GASB Statement No. 34 was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions. Financial information of the City is presented in the following format:

Basic Financial Statements:

1. *Government-wide financial statements* consist of a statement of net assets and a statement of activities. These statements report all of the assets, liabilities, revenues, expenses, gains and losses of the City. Governmental activities are reported separately from business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues whereas business-type activities are normally supported by fees and charges for services and are usually intended by management to be financially self-sustaining. Fiduciary funds of the City are not included in these government-wide financial statements.

   Interfund receivables and payables, bonds and notes issued and held by the City as investments within governmental and business-type activities have been eliminated in the government-wide statement of net assets. Related interest amounts are eliminated in the government-wide statement of activities. These eliminations minimize the duplicating effect on assets and liabilities within the governmental and business-type activities total column.

   Internal Service Fund balances, whether positive or negative, have been eliminated against the expenses and program revenues shown as governmental activities in the statement of activities, except for the Utilities Administration Fund which is shown in the business-type activities column.

   The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities.

   Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenue includes (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. General revenues are considered unrestricted in nature.

Program revenues and expenses previously reported as "Other" program revenues and expenses in governmental activities on the statement of activities are now classified as General Government program revenues and expenses as appropriate.

Business-type activities on the government-wide statement of activities summarizes other Enterprise Funds as Nonmajor activities. These include Sewer, Public Auditorium, West Side Market, East Side Market, Municipal Parking Lots, Cemeteries and Golf Courses.

2. *Fund financial statements* consist of a series of statements focusing on information about the City's major governmental and Enterprise Funds. Separate statements are presented for the governmental, proprietary and fiduciary funds.

   The City's major governmental fund is the General Fund. Of the City's business-type activities, the Division of Water Fund, Cleveland Public Power Fund and Department of Port Control Fund are considered major Enterprise Funds.

   The General Fund is the primary operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in other funds. Its revenues consist primarily of income and property taxes, investment earnings, other taxes and shared revenues, charges for services, licenses, fees and fines.

   General Fund expenditures represent costs of General Government; Public Service (including waste collection); Public Safety (including police and fire); Building and Housing; Public Health; Parks, Recreation and Properties; and Economic Development. General Fund resources are also transferred annually to support other services which are accounted for in other separate funds.

   The Division of Water Fund is a segment of the Department of Public Utilities of the City. The Division of Water was created for the purpose of supplying water services to customers within the Cleveland Metropolitan Area.

   The Cleveland Public Power Fund is a segment of the Department of Public Utilities of the City. The Cleveland Public Power Fund was established by the City to provide electrical services to customers within the City.

   The Department of Port Control Fund was established to account for the operations of the City's airport facilities.

   While not considered major funds, the City maintains Internal Service Funds used to account for the financing of goods or services provided by one department or division to another department, division or other government on a cost-reimbursement basis.

   Also maintained by the City are fiduciary funds, such as Agency Funds, used to account for assets held by the City as an agent for individuals, private organizations or other governments.

3. The City's General Fund budget to actual statement is presented as part of the basic financial statements.

4. Notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.

B. *Financial Reporting Presentation*

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance (equity), revenues and expenditures (expenses). The fund types and classifications that the City reports are as follows:

GOVERNMENTAL FUNDS

1. **General Fund** – The general fund should be used to account for and report all financial resources not accounted for and reported in another fund.

2. **Special Revenue Funds** – Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures of specified purposes other than debt service or capital projects. The term *proceeds of specific revenue sources* establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund.

3. **Debt Service Funds –** Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated (i.e. debt payable from property taxes). Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.

4. **Capital Project Funds –** Capital project funds are used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital project funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

PROPRIETARY FUNDS

1. **Enterprise Funds –** The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

2. **Internal Service Funds –** The Internal Service Funds are used to account for the financing of goods or services provided by one department or division to other departments or divisions or to other governments on a cost-reimbursement basis. The City’s most significant Internal Service Funds are used to account for Motor Vehicle Maintenance, Municipal Income Tax Administration and the Workers’ Compensation Reserve.

FIDUCIARY FUNDS

1. **Agency Funds –** Agency Funds are used to account for assets held by the City as an agent for individuals, private organizations and other governments. The Agency Funds are custodial in nature (assets equal liabilities) and do not have a measurement focus. However, the accrual basis of accounting is used to recognize receivables and payables. The City’s more significant Agency Funds are used to account for Municipal Court and income tax collections for other municipalities.

Fiduciary funds are not included in the government-wide statements.

C. *Measurement Focus and Basis of Accounting*

Except for budgetary purposes, the basis of accounting used by the City conforms to GAAP as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include income taxes, property taxes, grants, shared revenue and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the taxpayer's liability occurs and revenue from property taxes is recognized in the fiscal year for which the taxes are levied. On an accrual basis, revenue in the form of shared revenue is recognized when the provider government recognizes its liability to the City. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include: (1) timing requirements which specify the year when the resources are required to be used or the year when use is first permitted; (2) matching requirements, in which the City must provide local resources to be used for a specified purpose; and (3) expenditure requirements, in which the resources are provided to the City on a cost-reimbursement basis.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. The City generally considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year end. Expenditures are generally recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments and compensated absences, which are recognized as expenditures only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

In applying the susceptible-to-accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within sixty days after year end and available to pay obligations of the current period): income taxes, investment earnings and shared revenues. Reimbursements due for federal or state funded projects are accrued as revenue at the time the expenditures are made or, when received in advance, deferred until expenditures are made. Property taxes and special assessments, though measurable, are not available to finance current period obligations. Therefore, property tax receivables are recorded and deferred until they become available. Other revenues, including licenses, fees, fines and forfeitures and charges for services are recorded as revenue when received in cash because they are generally not measurable until actually received.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. Non-operating revenues, such as investment income and passenger facility charges, result from non-exchange transactions or ancillary activities.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. The City uses unrestricted resources that are committed first, assigned second and unassigned last.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the City complies with GASB guidance applicable to its proprietary funds and business-type activities. The City also complies with Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989 to its business-type activities and to its proprietary funds that do not conflict with or contradict GASB pronouncements. The City has chosen the option not to apply future FASB standards (including amendments to earlier pronouncements).

D. ***Budgetary Procedures***

The City is required by state law to adopt annual budgets for the General Fund, certain Special Revenue Funds (including the Division of Streets, Restricted Income Tax, Rainy Day Reserve, Schools Recreation and Cultural Activities and Cleveland Stadium Operations Funds), Debt Service Funds (except for Urban Renewal and Urban Renewal Reserve Funds) and Proprietary Operating Funds. Modifications to the original budget are approved by City Council throughout the year. The City maintains budgetary control by not permitting expenditures to exceed appropriations for personnel costs (including benefits) and other costs (including debt service and capital outlay), within a division of the City, without the approval of City Council. Adjustments to the budget can only be made within a division and then within each category. Further legislation is needed in order to move budget amounts from “personnel” to “other” or vice versa, or between divisions. City Council adopted six appropriation amendments during 2011 which reallocated appropriations and decreased the budget less than 1% from the original budget.

Unencumbered appropriations for annually budgeted funds lapse at year end.

The City’s budgetary process does not include annual budgeting for certain Special Revenue Funds and Capital Project Funds. Appropriations in these funds remain open and carry over to succeeding years (i.e., multi-year) until the related expenditures are made or until they are modified or canceled. Appropriations for these funds are controlled on a project basis.

The City’s budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budget basis and the GAAP basis are that:

- Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
- Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
- Encumbrances and pre-encumbrances are recorded as the equivalent of expenditures (budget) as opposed to being included in fund balances (GAAP).

A reconciliation of the General Fund’s results of operations for 2011 reported on the budget basis versus the GAAP basis is as follows:

	(Amounts in 000's)
Excess of Revenues and Other Financing Sources over Expenditures and Other Financing Uses (Budget Basis)	$ 10,031
Adjustments:	
Revenue Accruals	(8,385)
Expenditure Accruals	9,393
Encumbrances and Pre-Encumbrances	7,772
Differences due to GASB54 Implementation	1,968
Net Change in Fund Balance	$ 20,779

E. ***Other Significant Accounting Policies***

Cash and Cash Equivalents**:** Cash resources of certain individual funds are combined to form a pool of cash and investments which is managed by the City Treasurer. Investments in the Pooled Cash Account, consisting of certificates of deposit, repurchase agreements, U.S. government securities, mutual funds, guaranteed investment contracts, State Treasurer Asset Reserve Fund (STAROhio) and time deposits, are carried at fair value (see Note 4 – Pooled And Segregated Cash And Investments) based on quoted market values, where applicable. Interest earned on pooled cash and investments is distributed to the appropriate funds utilizing a formula based on the month-end balance of cash and investments of each fund. Cash equivalents are defined as highly liquid investments with a maturity of three months or less at the time they are purchased by the City.

Investments: The City reports its investments at fair value based on quoted market values, where applicable, and recognizes the corresponding change in the fair value of the investments recorded in investment earnings in the year in which the change occurs.

Unbilled Revenue: Unbilled revenues are estimates for services rendered but not billed to customers at year end.

Inventory of Supplies: Utility funds' inventory is valued at average cost. All other funds' inventory is valued at cost using the first in/first out method. Inventory generally consists of construction materials, utility plant supplies and parts inventory not yet placed into service. Inventory costs are charged to operations when consumed.

Restricted Assets: Issuance of debt and amounts set aside for payment of Enterprise Fund revenue bonds and construction loans are classified as restricted assets since their use is limited by applicable bond indentures. Passenger facility charges are restricted for capital expenditures or related debt. Construction loans are restricted to fund approved capital projects.

Capital Assets: Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements to the extent the City's capitalization threshold is met. The City defines capital assets as assets with an estimated 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 or projects. Assets are recorded at historical cost or estimated historical cost, if historical cost is not available. Contributed capital assets are recorded at their estimated fair market value on the date contributed.

As permitted under the implementation provisions of GASB Statement No. 34, the historical cost of infrastructure assets acquired, significantly reconstructed or that received significant improvements prior to January 1, 1980 have not been included as part of governmental capital assets in the government-wide financial statements.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets are the same as those used for the general capital assets. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Capitalized interest is amortized on the straight-line basis over the estimated useful lives of such assets. The City applies guidance provided by the Financial Accounting Standards Board. This guidance requires capitalization of the interest cost of the borrowings less interest earned on investment of the bond proceeds from the date of the borrowing until the assets constructed from the bond proceeds are ready for their intended use. This guidance is applied to Waterworks Improvement First Mortgage Revenue Bonds, its Public Power Improvement First Mortgage Revenue Bonds and its Airport Revenue Bonds.

Costs for maintenance and repairs are expensed when incurred. However, costs for repairs and upgrading that materially add to the value or life of an asset and meet the above criteria are capitalized.

The City depreciates capital assets on a straight-line basis using the following estimated useful lives:

Assets	Years
Land improvements	15-100
Utility plant	5-100
Buildings, structures and improvements	5-60
Furniture, fixtures, equipment and vehicles	3-60
Infrastructure	3-50

Compensated Absences: The City 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.* In the government-wide and proprietary funds financial statements, the entire amount of unpaid compensated absences is reported as a liability. A liability for compensated absences is accrued in the governmental funds only if the amount is currently due and payable at year end. These amounts are recorded as accrued wages and benefits in the fund from which the employees who have accumulated leave are paid. The remaining portion of the liability is not reported in the governmental funds.

Normally, all vacation time is to be taken in the year available. The City 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.

Uniformed police and fire employees are eligible to defer earned vacation time and overtime, with the appropriate approvals, until retirement. Once deferred, the employee cannot use deferred time as vacation. Deferred vacation is paid to the employee upon retirement, calculated using their current hourly rate at the date of retirement. Deferred overtime is paid once a year upon request up to the amount budgeted for the year for such purpose. If requests exceed the budgeted amounts, the requests are to be paid on a pro-rata basis.

***Long-Term Obligations*:** In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities and proprietary fund type statements of net assets and balance sheet. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Losses on advance refundings are deferred and amortized over the life of the new debt, or the life of the advance refunded debt, whichever is shorter. Bonds payable are reported net of the applicable unamortized bond premium, discount or advance refunding losses. Bond issuance costs are reported as other assets and amortized over the term of the related debt.

In the governmental fund financial statements, bond premiums and discounts are reported as other financing sources and uses during the period in which they are incurred. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

***Swap Agreements*:** The City may enter into interest rate swap agreements to modify interest rates on outstanding debt. The City has implemented GASB Statement No. 53 beginning with the year ending December 31, 2010 and has accordingly recorded the fair value of each swap in the Government-wide financial statements. As further described in Note 5 – Debt And Other Long-Term Obligations, the City has four swap agreements outstanding at December 31, 2011, one for its Subordinated Income Tax Variable Rate Refunding Bonds, one on the Parking Facilities Refunding Revenue Bonds and two associated with the 2008 Water Revenue Bonds Series Q and 2010 Water Revenue Bonds Series U and V.

***Grants and Other Intergovernmental Revenues*:** Grants and assistance awards made on the basis of entitlement programs are recorded as intergovernmental receivables and revenues when entitlement occurs. Reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures (expenses) are incurred. The City accounts for loans receivable related to the Economic Development Funds, Urban Development Action Funds, Community Development Block Grants, Neighborhood Development Investment Funds and Supplemental Empowerment Zone as restricted or committed fund balance in the fund financial statements to the extent that these loans do not have to be repaid to the Federal government. Loans receivable deemed uncollectible are included in the allowance for doubtful accounts. The loan proceeds are earmarked for future reprogramming under federal guidelines and are not available to fund current operating expenditures of the City.

***Encumbrances and Pre-Encumbrances*:** Encumbrance accounting, under which purchase orders, requisitions, contracts and other commitments for expenditures are recorded as encumbrances or pre-encumbrances to reserve the applicable portion of the appropriation.

***Interfund Transactions*:** During the course of normal operations, the City has numerous transactions between funds, including the allocation of centralized expenses and transfers of resources to provide services, construct assets and service debt. Such transactions are generally reflected as transfers or direct expenses of the fund that is ultimately charged for such costs.

***Statement of Cash Flows*:** The City utilizes the direct method of reporting cash flows from operating activities in the Statement of Cash Flows as defined by the GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable 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 financing, capital and related financing and investing activities.

F. ***Accounting Pronouncements***

In March of 2009, Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* was issued. This statement is effective for fiscal periods beginning after June 15, 2010. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. As required, the City has implemented GASB Statement No. 54 effective for the 2011 fiscal year.

NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds and net assets – governmental activities* as reported in the government–wide statement of net assets. One element of that reconciliation explains that long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of this $735 million difference are as follows:

		(Amounts in 000's)
Bonds payable	$	(629,480)
Less: Deferred charge for issuance costs (to be amortized over life of debt)		23,370
Unamortized bond premium		(15,602)
Accrued interest payable		(9,677)
Capital leases payable		(12,908)
Loans payable		(2,475)
Claims and adjustments		(1,799)
Compensated absences		(86,463)
Net adjustments to reduce *fund balance - total governmental funds* to arrive at *net assets - governmental activities*	$	(735,034)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this $4.8 million difference are as follows:

	(Amounts in 000's)
Capital outlay	$ 56,196
Depreciation expense	(51,125)
Capital asset disposal	(224)
Net adjustment to increase *net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities*	$ 4,847

Another element of that reconciliation states that revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund statements. The details of this difference are as follows:

	(Amounts in 000's)
Reversal of prior year deferred revenue	$ (90,767)
Current year deferred revenues	92,235
Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 1,468

Another element of that reconciliation states that the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences, including accrued interest and in the treatment of long-term debt is $9.3 million which is detailed as follows:

	(Amounts in 000's)
Debt issued or incurred:	
Issuance of general obligation bonds and other obligations	$ (38,763)
Accrued interest	3,381
Principal repayments:	
General obligation debt and other obligations	44,577
Payment on capital lease	2,644
Payment on loan	85
Amortization of debt issuance cost	(2,597)
Net adjustment to increase *net changes in fund balances - total* governmental funds to arrive at *changes in net assets of governmental activities*	$ 9,327

Another element of that reconciliation states that some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The details of this $8.5 million difference are as follows:

		(Amounts in 000's)
Compensated absences	$	6,338
Claims judgements		2,201
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*	$	8,539

NOTE 4 – POOLED AND SEGREGATED CASH AND INVESTMENTS

Monies for the Debt Service Funds, certain Capital Project Funds, Central Collection Agency, Municipal Courts, Department of Port Control, Division of Water, Division of Water Pollution Control, Division of Cleveland Public Power, Division of Municipal Parking Lots, Cemeteries, Golf Courses and certain Special Revenue Funds are deposited or invested in individual segregated bank accounts.

Monies of all other funds of the City, including the accounts of the General Fund, other Special Revenue Funds, other Capital Project Funds, other Enterprise Funds, Internal Service Funds and other fiduciary funds are maintained or invested in a common group of bank accounts. Collectively these common bank accounts and investments represent the Pooled Cash Account (PCA). Each fund whose monies are included in the PCA has equity therein.

Certain funds have made disbursements from the PCA in excess of their individual equities in the PCA. Such amounts have been classified as due to other funds and due from other funds between the Restricted Income Tax Special Revenue Fund, General Fund and the respective funds that have made disbursements in excess of their individual equities in the PCA.

The City has a restrictive arrangement for certain segregated monies held in escrow at the banks' trust departments in which the City must act in conjunction with a trust officer in order to make investments. The City's role is that of investment manager and the trust officer's role is that of purchasing agent. For other segregated monies, the City acts alone in placing investments with the banks. Amounts held in escrow are designated for a special purpose and are entrusted to a third party to fulfill certain legal provisions.

***Deposits*: **Ohio law requires that deposits be placed in eligible banks located in Ohio. The City's policy is to place deposits only with major commercial banks having offices within the City of Cleveland. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation. Further, City ordinance requires such collateral amounts to exceed deposits by 10%. Collateral that may be pledged is limited to obligations of the following entities: the United States and its agencies, the State of Ohio, the Ohio Student Loan Commission and any legally constituted taxing subdivision within the State of Ohio. The City also requires that non-pooled securities pledged be held by either the Federal Reserve Bank or other trust institution, as designated by the City, as trustee. This collateral is held in joint custody with the financial institution pledging the collateral and cannot be sold or released without written consent from the City.

Monthly, the City determines that the collateral has a market value adequate to cover the deposits and that it has been segregated either physically or in book entry form. At year end, the carrying amount of the City's deposits including certificates of deposit was $275,847,000 and the actual bank balance totaled $282,243,000. The difference represents 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 Repurchase Agreements*, and GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*, $282,243,000 of the bank balance was 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 City will not be able to recover deposits or collateral for securities that are in possession of an outside party. At year end, the City'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; U.S. 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 as discussed in "Deposits" above or registered broker/dealers. Repurchase transactions are not to exceed a period of one year and confirmation of securities pledged must be obtained. Under City policy, investments are limited to repurchase agreements, U.S. government securities, commercial paper, guaranteed investment contracts, manuscript debt, 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 bank's commercial or trust department and are kept at the Federal Reserve Bank in the depository institution's 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; therefore, significant changes in market conditions could materially affect portfolio value.

Interest rate risk: In accordance with its investment policy, the City limits its exposure to fair value losses caused by rising interest rates, investing primarily in short-term investments maturing within five years from the date of purchase. The intent is to avoid the need to sell securities prior to maturity.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The City does not have an investment policy dealing with investment custodial risk beyond the requirement in the State statue.

Credit Risk: The City's investments as of December 31, 2011 include U.S. Agencies, STAROhio, commercial paper, money market mutual funds, guaranteed investment contracts and manuscript debt. The City maintains the highest ratings for its investments. Investments in the Victory Money Market Fund, PNC Government Money Market Fund (A) and STAROhio carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that would further limit its investment choices.

The City's investments shown in the following table include those which are classified as cash equivalents in accordance with the provisions of GASB Statement No. 9:

Type of Investment	Fair Value	Cost	Investment Maturities: Less than One Year	1 - 5 Years	5 Years or More
			(Amounts in 000's)		
U.S. Agency Obligations	$ 107,052	$ 106,782	$ 107,052	$	$
STAROhio	186,152	186,152	186,152		
Commercial Paper	199,527	199,527	199,527		
Investments in Mutual Funds	415,614	415,614	415,614		
Guaranteed Investment Contracts	36,850	36,850		36,850	
Manuscript Debt	6,531	6,531			6,531
Other	4,757	4,757	4,757		
Total Investments	956,483	956,213	913,102	36,850	6,531
Total Deposits	275,847	275,847	275,847		
Total Deposits and Investments	$ 1,232,330	$ 1,232,060	$ 1,188,949	$ 36,850	$ 6,531

Amounts represented by "Other" consist of deposits into a collective pool managed by Huntington Bank, as trustee. STAROhio is an investment pool created pursuant to Ohio statutes and managed by the Treasurer of the State of Ohio. The fair value of the City's position in STAROhio is equal to the value of the shares the City owns in the investment pool.

Concentration of Credit Risk: The City places a limitation on the amount it may invest in any one issuer to help minimize the concentration of credit risk. As of December 31, 2011, the investments in U.S. Agency Obligations, STAROhio, commercial paper, mutual funds, guaranteed investment contracts, manuscript debt and other are approximately 11%, 19%, 21%, 43%, 4%, 1% and 1%, respectively, of the City's total investments.

***Reconciliation to Financial Statements*:** Total cash and investments are reported as follows:

Government-Wide Financial Statements

	(Amounts in 000's)
Unrestricted:	
Cash and cash equivalents	$ 604,823
Investments	27,317
Restricted:	
Cash and cash equivalents	489,759
Investments	79,735
Total	$ 1,201,634

Fund Financial Statements

		(Amounts in 000's)
Balance Sheet – Governmental Funds:		
Unrestricted:		
Cash and cash equivalents	$	283,264
Balance Sheet – Proprietary Funds:		
Enterprise Funds:		
Unrestricted:		
Cash and cash equivalents		306,318
Investments		27,317
Restricted:		
Cash and cash equivalents		489,759
Investments		79,735
Internal Service Funds:		
Unrestricted:		
Cash and cash equivalents		15,241
Subtotal		1,201,634
Statement of Fiduciary Assets and Liabilities:		
Unrestricted:		
Cash and cash equivalents		30,696
Total	$	1,232,330

NOTE 5 – DEBT AND OTHER LONG-TERM OBLIGATIONS

A summary of the changes in long-term debt and other long-term obligations of the City during the year ended December 31, 2011, are as follows:

	Balance January 1, 2011	Additions	(Reductions)	Balance December 31, 2011	Due Within One Year
		(Amounts in 000's)			
Governmental Activities					
General Obligation Bonds due through 2033	$ 297,115	$ 31,260	$ (29,715)	$ 298,660	$ 28,680
Other Obligations:					
Urban Renewal Bonds due through 2018, 6.63% to 6.75%	5,365		(530)	4,835	565
Subordinated Income Tax Refunding Bonds due through 2024, 5.00% to 5.25%	55,785		(2,810)	52,975	2,955
Subordinate Lien Income Tax Bonds due through 2031, 2.00% to 6.34%	83,025		(2,520)	80,505	3,305
Non-Tax Revenue Bonds:					
Stadium due through 2020, 3.50% to 5.13%	12,720		(1,055)	11,665	1,090
Taxable Economic and Community Dev. (Core City Bonds) Series 2004 & 2008 due through 2033, .14% to 5.40%	41,780		(1,385)	40,395	1,440
Lower Euclid Ave. TIF 2003A&B due through 2032, 1.00% to 5.00%	7,295		(764)	6,531	167
Annual Appropriation Bonds - Flats East Bank due through 2035, 2.60% to 6.00%	11,000			11,000	235
Certificates of Participation-Stadium due through 2028, 1.42% to 5.70%	135,537		(5,990)	129,547	5,942
Capital Lease Obligations, due through 2018, 2.26% to 3.22%	8,937	6,615	(2,644)	12,908	2,948
Gateway Note Payable, due through 2016	1,500		(250)	1,250	250
Accrued wages and benefits	51,284	18,617	(18,832)	51,069	28,858
Police and fire overtime	53,784	200	(5,072)	48,912	610
Fire deferred vacation	2,863	821	(685)	2,999	395
Estimated claims payable	4,000	986	(2,458)	2,528	1,863
	771,990	58,499	(74,710)	755,779	79,303
Unamortized loss on debt refunding	(9,417)		1,092	(8,325)	
Unamortized (discount)/premium - net	17,102	888	(2,388)	15,602	
Total Governmental Activities, Net	$ 779,675	$ 59,387	$ (76,006)	$ 763,056	$ 79,303

(Continued)

	Balance January 1, 2011	Additions	(Reductions)	Balance December 31, 2011	Due Within One Year
		(Amounts in 000's)			
Business-Type Activities (Enterprise Funds)					
Airport System Revenue Bonds:					
Series 2000 due through 2031, 4.00% to 5.00%	$ 398,445	$	$	$ 398,445	$
Series 2006 due through 2024, 5.00% to 5.25%	117,450		(1,180)	116,270	1,245
Series 2007B due through 2027, 4.00% to 5.00%	10,680		(505)	10,175	530
Series 2008D-H due through 2033, Variable Rate	84,160		(19,235)	64,925	950
Series 2009A-B due through 2027, Variable Rate	38,275		(1,200)	37,075	1,215
Series 2009C-D due through 2027, .07% to 5.00%	200,250		(9,640)	190,610	9,720
Series 2011A due through 2024, 3.00% to 5.00%		74,385		74,385	
	849,260	74,385	(31,760)	891,885	13,660
Public Power System Revenue Bonds:					
Series 1994 due through 2013, Zero Coupon	21,185		(6,535)	14,650	7,325
Series 1996 due through 2011, 6.00%	1,050		(1,050)		
Series 2001 due through 2016, 4.25% to 5.50%	18,890		(2,910)	15,980	3,405
Series 2006 due through 2024, 4.25% to 5.00%	107,560			107,560	
Series 2008 due through 2038, 3.00% to 5.40%	93,713			93,713	910
Series 2010 due through 2017, 3.00% to 5.00%	23,915			23,915	
	266,313	-	(10,495)	255,818	11,640
Waterworks Improvement Revenue Bonds:					
Series G 1993 due through 2021, 5.50%	94,830		(13,605)	81,225	14,365
Series H 1996 due through 2026, 5.50% to 5.75%	2,020		(2,020)		
Series J 2001 due through 2016, 4.25% to 5.38%	43,230		(43,230)		
Series K 2002 due through 2021, 4.00% to 5.25%	52,810		(52,810)		
Series N 2005 due through 2023, 3.50% to 5.00%	33,045			33,045	5,030
Series O 2007 due through 2037, 4.25% to 5.00%	138,725		(5,410)	133,315	2,705
Series P 2007 due through 2028, 4.00% to 5.00%	135,410		(16,315)	119,095	5,815
Series Q 2008 due through 2033, Variable Rate	90,800			90,800	
Series T 2009 due through 2021, 2.00% to 5.00%	83,340		(5,925)	77,415	6,085
Series U 2010 due through 2033, Variable Rate	54,935			54,935	
Series V 2010 due through 2033, Variable Rate	26,495			26,495	
Series W 2011 due through 2026, 2.00% to 5.00%		82,090		82,090	
	755,640	82,090	(139,315)	698,415	34,000
Ohio Water Development Authority and Public Works Commission Loans due through 2031, 0.00% to 4.18%	121,335	566	(6,378)	115,523	6,590
Parking Facilities Refunding Revenue Bonds:					
Series 2006 due through 2022, 4.00% to 5.25%	53,615		(19,570)	34,045	2,420
Deferred Payment Obligation	9,268		(2,768)	6,500	2,989
Accrued wages and benefits	10,783	797	(1,180)	10,400	7,472
	2,066,214	157,838	(211,466)	2,012,586	78,771
Unamortized loss on debt refunding	(76,847)	(1,931)	10,732	(68,046)	
Unamortized (discount)/premium - net	36,717	13,605	(7,562)	42,760	
Total Business-Type Activities, Net	$ 2,026,084	$ 169,512	$ (208,296)	$ 1,987,300	$ 78,771
Total Debt and Other Long-Term Obligations	$ 2,805,759	$ 228,899	$ (284,302)	$ 2,750,356	$ 158,074

(Concluded)

Internal Service Funds predominantly serve the governmental funds, except the Utilities Administration Fund, which serves only business-type activity funds. Long-term liabilities for all Internal Service Funds, except the Utilities Administration Fund, are included as part of the totals for governmental activities in the government-wide statement of net assets. At December 31, 2011, $1,160,207 of the Internal Service Funds, except for Utilities Administration Fund, compensated absences were included in the governmental activities accrued wages and benefits. Long-term liabilities for the Utilities Administration Fund are included as part of the totals for business-type activities in the government-wide statements. At December 31, 2011, $478,864 of the Utilities Administration Fund compensated absences were included in business-type activities accrued wages and benefits.

The Subordinated Income Tax Refunding Bonds were issued to fund the City's obligation for the employer's accrued liability to the Police and Firemen's Disability and Pension Fund of the State of Ohio. All other bonds were issued to fund capital related activities.

The accrued wages and benefits liability will be paid from the fund from which the employees' salaries are paid. The estimated claims payable liability will be paid from the fund that incurred the liability or from Judgment Bond proceeds.

A detailed summary of General Obligation Bonds and business-type activities debt by purpose is as follows for 2011:

	Original Issue Amount	Balance January 1, 2011	Additions	(Reductions)	Balance December 31, 2011
			(Amounts in 000's)		
Governmental Activities Obligations:					
General Obligation Bonds					
Public Facilities	$ 96,695	$ 37,855	$ 13,790	$ (4,085)	$ 47,560
Convention Center	1,010	1,005		(35)	970
Residential Redevelopment	27,905	15,030		(1,225)	13,805
Bridges and Roadways	151,180	66,755	14,690	(7,185)	74,260
Parks & Recreation	64,435	30,935	2,780	(2,810)	30,905
Refunding Bonds	264,100	128,145		(13,810)	114,335
Revitalization	6,020	5,595		(155)	5,440
Judgments/Settlements	18,515	11,795		(410)	11,385
Total Governmental Activities	$ 629,860	$ 297,115	$ 31,260	$ (29,715)	$ 298,660
Business-Type Activities Obligations:					
Revenue Bonds / Notes					
Airports	$ 1,114,065	$ 849,260	$ 74,385	$ (31,760)	$ 891,885
Public Power	609,938	266,313		(10,495)	255,818
Waterworks	1,446,105	805,640	132,090	(189,315)	748,415
Parking Facilities	57,520	53,615		(19,570)	34,045
Loans					
Waterworks	141,367	118,006	566	(5,892)	112,680
Water Pollution Control	8,378	3,329		(486)	2,843
Total Business-Type Activities	$ 3,377,373	$ 2,096,163	$ 207,041	$ (257,518)	$ 2,045,686

The following is a summary of the City's future debt service requirements as of December 31, 2011:

Governmental Activities

(Amounts in 000's)

Year Ending December 31	General Obligation Bonds Principal	General Obligation Bonds Interest	Urban Renewal Bonds Principal	Urban Renewal Bonds Interest	Subordinated Income Tax Bonds Principal	Subordinated Income Tax Bonds Interest
2012	$ 28,680	$ 14,453	$ 565	$ 307	$ 6,260	$ 6,323
2013	24,775	13,168	600	268	6,495	6,084
2014	23,270	12,034	640	226	6,750	5,830
2015	23,260	10,955	685	181	7,015	5,559
2016	22,785	9,853	730	134	7,310	5,274
2017-2021	96,740	32,994	1,615	111	41,080	20,904
2022-2026	55,365	13,037			38,785	10,321
2027-2031	22,040	2,852			19,785	2,702
2032-2036	1,745	125				
	$ 298,660	$ 109,471	$ 4,835	$ 1,227	$ 133,480	$ 62,997

(Amounts in 000's)

Year Ending December 31	Non-Tax Revenue Bonds Principal	Non-Tax Revenue Bonds Interest	City Annual Appropriation Bonds Principal	City Annual Appropriation Bonds Interest	Certificates of Participation Principal	Certificates of Participation Interest
2012	$ 2,697	$ 2,454	$ 235	$ 639	$ 5,942	$ 7,445
2013	2,786	2,387	240	633	5,935	7,448
2014	2,895	2,275	245	626	5,890	4,397
2015	2,954	2,149	260	612	6,185	4,103
2016	3,206	2,013	275	598	6,495	3,793
2017-2021	17,035	7,791	1,635	2,730	37,235	14,040
2022-2026	11,385	4,302	2,175	2,187	43,925	6,722
2027-2031	9,288	2,302	2,910	1,452	17,940	789
2032-2036	6,345	355	3,025	467		
	$ 58,591	$ 26,028	$ 11,000	$ 9,944	$ 129,547	$ 48,737

(Amounts in 000's)

Year Ending December 31	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Gateway Note Payable Principal	Gateway Note Payable Interest	Governmental Activities Total Principal	Governmental Activities Total Interest
2012	$ 2,948	$ 308	$ 250	$	$ 47,577	$ 31,929
2013	1,970	241	250		43,051	30,229
2014	2,025	187	250		41,965	25,575
2015	2,081	130	250		42,690	23,689
2016	2,139	72	250		43,190	21,737
2017-2021	1,745	31			197,085	78,601
2022-2026					151,635	36,569
2027-2031					71,963	10,097
2032-2036					11,115	947
	$ 12,908	$ 969	$ 1,250	$ -	$ 650,271	$ 259,373

Year Ending December 31	Business-Type Activities: Revenue Bonds / Notes Principal	Interest	Construction Loans Principal	Interest
	(Amounts in 000's)			
2012	$ 111,720	$ 84,818	$ 6,590	$ 3,717
2013	62,195	84,067	6,808	3,498
2014	87,570	81,280	7,035	3,271
2015	90,055	77,258	7,218	3,036
2016	92,250	72,911	7,405	2,797
2017-2021	499,935	293,170	37,973	10,289
2022-2026	458,716	183,168	36,253	3,931
2027-2031	416,510	97,294	7,755	296
2032-2036	93,842	38,085		
2037-2041	17,370	11,659		
	$ 1,930,163	$ 1,023,710	$ 117,037	$ 30,835

Year Ending December 31	Deferred Payment Obligations (Note 6) Principal	Interest	Business-Type Activities Total Principal	Interest
	(Amounts in 000's)			
2012	$ 2,889	$ 400	$ 121,199	$ 88,935
2013	3,230	159	72,233	87,724
2014	281	1	94,886	84,552
2015			97,273	80,294
2016			99,655	75,708
2017-2021			537,908	303,459
2022-2026			494,969	187,099
2027-2031			424,265	97,590
2032-2036			93,842	38,085
2037-2041			17,370	11,659
	$ 6,400	$ 560	$ 2,053,600	$ 1,055,105

The schedule of minimum principal and interest payments for construction loans includes the amortization on fourteen loans provided to the Division of Water and the Division of Water Pollution Control by the Ohio Water Development Authority (OWDA) and two loans to the Division of Water Pollution Control by the Ohio Public Works Commission (OPWC). This amortization is based upon the full amount expected to be financed, regardless of whether the Division of Water and the Division of Water Pollution Control have received all the loan proceeds. Therefore, at December 31, 2011, the amount financed on these OWDA loan projects, which is reflected in the amortization schedule, less the principal payments made to date, exceeds the actual loan balances shown on the schedule of long-term debt outstanding and changes in long-term debt obligations by $1,514,000.

General Obligation Bonds

***General Obligation Bonds*:** General Obligation Bonds are backed by the full faith and credit of the City. Such bonds are payable from ad valorem property taxes levied within the limitations provided by law, irrespective of whether such bonds are secured by other receipts of the City in addition to such ad valorem property taxes.

Under the direct debt limitation imposed by the Ohio Revised Code, the City had the capacity to issue $310,214,871 of additional unvoted debt at December 31, 2011.

Effective May 19, 2011, the City issued $31,260,000 Various Purpose General Obligation Bonds, Series 2011. The proceeds of the bonds will be used to pay costs of various public improvements to public facilities, parks and recreation facilities, cemeteries and bridges and roadways and to pay the costs of issuing the bonds.

Other Governmental Obligations

Urban Renewal Bonds**:** In 1993, the City issued $10,800,000 of Urban Renewal Bonds (Rock and Roll Hall of Fame and Museum Project) for the purpose of paying a portion of the costs of the acquisition and construction of a "port authority educational and cultural facility" to conduct programs of an educational and instructional nature relating to the field of contemporary music, including rock and roll music, which constitutes the Rock and Roll Hall of Fame and Museum (the Facility). The net proceeds were contributed to the Cleveland-Cuyahoga County Port Authority which owns and leases the facility to Rock and Roll Hall of Fame and Museum, Inc., an Ohio non-profit corporation. The Rock and Roll Hall of Fame and Museum opened in September 1995. The Urban Renewal Bonds are not general obligations of the City and are not secured by the full faith and credit of the City nor are they payable from the general revenues or assets of the City. The Urban Renewal Bonds are secured solely by pledged receipts, consisting of payments to be made in lieu of real property taxes pursuant to Development Agreements between the City and certain property owners and interest income on those payments.

Subordinated Income Tax Variable Rate Refunding Bonds**:** Effective June 1, 1994, the City issued $74,700,000 of Subordinated Income Tax Variable Rate Refunding Bonds, Series 1994. The proceeds were used to fund the City's obligation for the employer's accrued liability to the Ohio Police and Fire Pension Fund (the Fund). The principal use of the proceeds was the current refunding of the City's obligation to the Fund for the employer's accrued liability in the amount of $104,686,400, which was payable in semi-annual installments of $2,696,243 through May 15, 2035. Pursuant to Section 742.30 (C) of the Ohio Revised Code, the City and the Fund entered into an agreement that permitted the City to make a one-time payment to the Fund to extinguish the City's obligation. The payment amount of $70,493,204 was calculated by applying a 35% discount factor to the $104,686,400 accrued liability plus adding accrued interest of $2,447,044.

Effective August 6, 2008, the City issued $59,960,000 Subordinate Lien Unrestricted Income Tax Bonds, Series 2008 (Police and Fire Pension Payment) to refund all the outstanding Subordinated Income Tax Variable Rate Refunding Bonds, Series 1994. The interest rate swap related to the Series 1994 Bonds was terminated by the City on July 28, 2008 and the termination payment of $4,325,000 owed to Ambac Financial Services, LLC, the swap counterparty, was paid from the proceeds of the Series 2008 Bonds. The City refunded the Series 1994 Bonds in order to address the increased interest rates incurred on the bonds as a result of the downgrade of the bond insurer. The Bonds are not general obligations of the City and are not secured by its full faith and credit. The Series 2008 Bonds are unvoted special obligations secured by a pledge of and a lien on the unrestricted municipal income taxes of the City, to the extent that such income taxes are not needed to pay debt service on the City's currently outstanding unvoted General Obligation Bonds or unvoted General Obligation Bonds issued in the future.

Interest Rate Swap Transaction:

Terms: On February 7, 2003, the City sold an option to JPMorgan Chase Bank (JPM) that gives JPM the right to execute an interest rate swap at its discretion at any time until the option expires on May 15, 2024 on a declining notional amount equal to the outstanding principal amount of the City's Subordinated Income Tax Variable Rate Refunding Bonds, Series 1994. The swaption is now associated with the Series 2008 Bonds. Under the swap agreement, the City will be the fixed rate receiver, receiving the fixed rate of 4.88%, and JPM will be the floating rate receiver, receiving interest on what would have been the outstanding notional amount of the original 1994 Bonds of $50,200,000 at December 31, 2011, at a rate equal to the weekly Securities Industry and Financial Markets Association (SIFMA) index. If the option is exercised, the stated termination date under the swap agreement with JPM will be May 15, 2024. The obligation of the City under the swap agreement to make periodic floating rate payments (but not any termination payment) is secured by a subordinate pledge of the income tax receipts, subordinate to the pledge of the income tax receipts made under the "General Bond Ordinance" securing the City's General Obligation Bonds. The payment of any termination payment is subordinate to the payment of debt service on the Subordinate Lien Unrestricted Income Tax Bonds, Series 2008, and the periodic floating rate payments under the swap agreement.

Objective: The City entered into the swaption in order to potentially capture in the future the savings which could be derived from converting these bonds back to a variable rate if or when the option is exercised. In exchange for selling the option to JPM, the City received a premium payment of $1,700,000.

Basis Risk: There is no basis risk for the City associated with this transaction with the exception of the risk inherent in all variable rate debt. If the option is exercised, the City will receive a fixed rate of 4.88% which is approximately 29 basis points less than the fixed rate being paid on the Series 2008 Bonds. This transaction would leave the City paying the weekly SIFMA rate plus 29 basis points.

Counterparty Risk: The City selected JPM as a counterparty partly due to its credit strength. Over the long-term, it is possible that the credit strength of JPM 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 JPM, or by JPM to the City, depending upon the prevailing economic circumstances at the time of the termination.

Fair Value: The fair value of the swaption at December 31, 2011 as reported by JPM was $442,000 which would be payable by the City.

***Subordinate Lien Income Tax Bonds*:** Effective June 23, 2010, the City issued $27,380,000 Subordinate Lien Income Tax Bonds, Series 2010. The proceeds of the bonds will be used to pay costs of various municipal improvements including public facilities, parks and recreation, and bridges and roadways. The $5,405,000 Series 2010A-1 Bonds were issued as traditional tax-exempt debt. The City took advantage of several new financing programs created by the American Recovery and Reinvestment Act (ARRA) when issuing the remaining portion of the bonds. The $5,385,000 Series 2010A-2 Bonds were issued as taxable Build America Bonds while the $8,245,000 Series 2010B Bonds and the $8,345,000 Series 2010C Bonds were issued using the City's allocation of taxable Recovery Zone Bonds. Pursuant to these programs, the City will receive federal cash subsidies in amounts equal to a portion of the interest on these bonds.

These bonds are special obligations of the City and are not general obligation debt and are not secured by a pledge of the full faith and credit of the City. The bonds are payable from the City's municipal income tax revenues to the extent those revenues are not needed to pay debt service charges on the City's unvoted general obligation debt or unvoted general obligation debt issued in the future. It is the City's intention to pay the debt service on these bonds and the Series 2008 Subordinate Lien Income Tax Bonds from the Restricted Income Tax collections.

***Non-Tax Revenue Bonds – Stadium*:** Effective December 16, 2004, the City issued $14,835,000 Non-Tax Revenue Bonds, Series 2004 (Cleveland Stadium Project) to refund the Non-Tax Revenue Stadium Bonds, Series 1999A&B. These bonds do not represent a general obligation debt or pledge of the full faith and credit or taxing power of the City, and are payable solely from non-tax revenues of the City.

Non-Tax Revenue Bonds – Economic Development Bonds Series 2003A and Series 2003B (Lower Euclid Avenue Project): In November 2003, the City issued $7,200,000 Economic Development Revenue Bonds, Series 2003A and $1,000,000 Economic Development Revenue Bonds, Series 2003B-1 for the Lower Euclid Avenue Project. In November 2004, the final $1,000,000 Economic Development Revenue Bonds, Series 2003B-2 were issued. The proceeds of these bonds were made available to the owners of certain properties on Euclid Avenue for the construction and renovation of commercial restaurant and retail facilities and the construction of a parking garage. These Tax Increment Financing (TIF) Bonds are secured by a pledge of (a) service payments in lieu of taxes received by the City from the owners of certain properties located within a tax increment financing district, (b) loan payments payable to the City and (c) by a pledge of certain non-tax revenues of the City, subject to the prior pledge by the City of such non-tax revenues to secure other obligations of the City.

Non-Tax Revenue Bonds – Taxable Economic and Community Development Revenue Bonds (Core City): Effective July 24, 2008, the City issued $28,160,000 Taxable Economic and Community Development Refunding Revenue Bonds, Series 2008 (Core City Fund). The proceeds of these bonds were used to refund the outstanding $26,900,000 Series 2003 Taxable Economic and Community Development Revenue Bonds, to fund a bond reserve fund and to pay the costs of issuing the bonds. The Series 2003 Bonds were refunded in order to address increased interest rates incurred on the bonds due to the collapse of the auction rate securities market. The Series 2008 Bonds, which are special obligations of the City, were issued as variable rate demand obligations secured by a letter of credit provided by Citizens Bank. Upon the expiration of the letter of credit in 2010, the City obtained a new letter of credit for the Series 2008 Bonds from PNC. The Bonds are payable from the City's non-tax revenues and net project revenues.

On November 10, 2004, the City issued Taxable Economic and Community Development Revenue Bonds, Series 2004 (Core City). The Series 2004 Bonds were issued in the amount of $19,280,000 to pay the costs of certain economic and community development projects. These Series 2004 Bonds were issued as fixed rate securities and are special obligations of the City, payable from non-tax revenues and net project revenues.

Annual Appropriation Bonds – Flats East Bank: On December 21, 2010, the City issued $11,000,000 City Annual Appropriation Bonds through the Cleveland-Cuyahoga County Port Authority. The proceeds of the bonds are being used to provide funds for land purchase and public improvements in the area of the Flats East Development Project. The bonds are special obligations of the Port Authority payable from appropriation payments made by the City under a cooperative agreement. The City's obligation to make payments is subject to and dependent upon annual appropriations being made by the City. The City intends to make these debt service payments from the Restricted Income Tax collections.

***Certificates of Participation (COPS) - Stadium*:** In June 1997, Certificates of Participation (COPS) in the amount of $139,345,000 were issued to assist in the construction of an open-air stadium for the play of professional football and other events. In October 1999, COPS in the amount of $20,545,000 were issued to retire then outstanding Non-Tax Revenue Bond Anticipation Notes. The City will make lease payments subject to annual appropriation by City Council and certification by the Director of Finance as to the availability of funds from those appropriations. These obligations do not constitute a debt or pledge of the full faith and credit of the City.

On February 13, 2003 the City sold an option to UBS giving UBS the right, at its discretion, to enter into an interest rate swap transaction on November 15, 2007 on a declining notional amount equal to the outstanding principal amount of the City's to be issued COPS, Series 2007. On August 17, 2007, UBS notified the City that it was exercising its option under the swaption agreement. This agreement required the issuance of variable rate refunding bonds. Therefore, effective October 11, 2007, the City issued $108,390,000 Refunding COPS, Series 2007, to currently refund $105,800,000 of the outstanding COPS, Series 1997. These were issued as auction rate securities and the City realized $753,000 of net present value savings. The swap associated with this transaction went into effect on November 15, 2007.

Due to the downgrade of the bond insurers beginning in late 2007 and the collapse of the auction rate securities market, the COPS, Series 2007 experienced failed auctions and interest rates as high as 12% in early 2008. To address these issues, the City converted all of the outstanding $108,390,000 COPS, Series 2007 Auction Rate Certificates to Weekly Rate Certificates effective May 29, 2008. The payment of principal and interest was secured by a direct-pay letter of credit provided by Wachovia Bank, National Association.

Effective April 22, 2010, the City issued $63,225,000 COPS, Series 2010A and $69,900,000 COPS, Series 2010B to refund all of the outstanding $108,390,000 COPS, Series 2007, upon the expiration of the Wachovia letter of credit. Proceeds of the COPS, Series 2010, were used to currently refund the COPS, Series 2007, on the day of closing, to fund a required debt service reserve fund in the amount of $8,324,045, to make a termination payment on the existing hedge agreement with UBS in the amount of $17,322,000 and to pay costs of issuing the COPS. This refunding was undertaken (1) to remove Ambac as the bond and swap insurer and eliminate the risk of early termination of the hedge agreement due to Ambac's possible insolvency, (2) to obtain lower credit enhancement costs and (3) to restructure debt service payments. The COPS, Series 2010A, were issued as fixed rate obligations. The COPS, Series 2010B, were purchased by Wells Fargo Bank, National Association, as floating rate obligations, the interest on which is reset weekly based on the SIFMA index plus a spread of 135 basis points. As a result of this refunding, the City achieved an economic gain (the difference between the present values of the old and new debt service payments) of approximately $3,461,000 or 3.19%.

***Capital Lease Arrangements*:** The City has entered into various agreements to lease equipment. Such agreements are treated as lease purchases (Capital Leases) and are classified as long-term lease obligations in the financial statements. The lease contracts contain annual one-year renewal options that can be exercised by the City if sufficient funds are appropriated by City Council. Upon the exercise of each annual one-year renewal option and satisfaction of the lease obligations related thereto, title to the equipment will pass to the City.

In April 2004, the City entered into an equipment lease agreement with Minority Alliance Capital, LLC which resulted in the City purchasing approximately $6,603,000 of heavy duty vehicles and apparatus. In July 2005, the City entered into an equipment lease agreement. This lease agreement is with Chase Equipment Leasing, Inc. and allowed the City to purchase approximately $8,425,000 of heavy duty vehicles and apparatus. The City entered into an equipment lease agreement in February 2010. This lease agreement is with The Fifth Third Leasing Company and resulted in the City purchasing approximately $6,690,000 of heavy duty vehicles and apparatus. On June 30, 2011, the City entered into an equipment lease agreement. This agreement is with PNC Equipment Finance LLC and will enable the City to purchase approximately $6,585,000 of vehicles and equipment for various departments, including police cars, a fire truck, waste collection equipment and ambulances. Payments on all of these equipment leases are made over a period of seven years from issuance from the Restricted Income Tax Fund. The final payment on the 2004 lease was made in April 2011.

The assets recorded by the City under Capital Leases were as follows as of December 31, 2011:

	Governmental Activities (Amounts in 000's)
Furniture, fixtures and equipment	$ 29,197
Less – accumulated depreciation	(12,253)
Net book value	$ 16,944

***Gateway Note Payable*:** In October 1996, the City and Cuyahoga County each agreed to pay $5,000,000 for additional costs associated with the Gateway Sports Complex. The amounts are to be repaid in annual installments of $250,000 for 20 years. The monies are deducted from the monthly distribution of the State Local Government Fund which is recorded in the City's General Fund. The first deduction was made in March 1997.

***Accrued Wages and Benefits*:** Accrued wages and benefits, included in long-term obligations, consist of the non-current portion of vacation and sick pay benefits earned by employees of the City. The City accrues vacation and sick pay benefits when earned and future compensation is likely.

Police and Fire Overtime and Deferred Vacation Pay: Uniformed employees of the Police and Fire Divisions accumulate overtime compensation in accordance with the union contracts and the requirements of the Fair Labor Standards Act. In addition, uniformed employees may defer earned vacation time, with the appropriate approvals, until retirement. The liabilities for overtime and deferred vacation time, at current pay rates including their related fringe benefits and converted to straight time hours, at December 31, 2011, follow:

	Overtime		Deferred Vacation	
Division	**Hours**	**Dollars**	**Hours**	**Dollars**
		(Amounts in 000's)		
Police	1,382	$ 41,853		$
Fire	222	7,059	95	2,999
Total	1,604	$ 48,912	95	$ 2,999

Business-Type (Enterprise Fund) Obligations

Airport System Revenue Bonds**:** These bonds are secured by the pledge of all airport revenues, as defined in the revenue bond indenture. Further, the City has assigned to the trustee all its interests in and rights to the airline use agreements under the revenue bond indenture.

In June 2011, the Airport System, under its rights to optional redemption, elected to deposit cash on hand into the Series 2008G Bond Fund and into the Series 2008H Bond Fund sufficient to redeem, prior to maturity, all of the outstanding Series 2008G and Series 2008H Bonds. A notice of full redemption of the bonds was issued by the trustee on June 15, 2011. After taking into account the funds on hand in the respective bond funds, other available Airport funds were placed into the accounts to pay on June 22, 2011 principal in the amount of $7,425,000 on the Series 2008G Bonds and $430,000 on the Series 2008H Bonds, plus accrued interest to the redemption date. As a result, these bonds have been defeased and the liability for the bonds has been removed from long-term debt.

Effective November 16, 2011, the City issued $74,385,000 Airport System Revenue Bonds, Series 2011A (Non-AMT). Of this amount, $64,515,000 of the proceeds was issued to pay a portion of the costs of improvements to the Airport System, to fund deposits to the bond reserve fund and the Renewal and Replacement Fund and to pay issuance costs. The remaining $9,870,000 was used to refund a portion of the outstanding Airport System Revenue Bonds, Series 2008D in the aggregate principal amount of $9,200,000 on November 28, 2011 and to pay costs of issuing the bonds. As a result, the refunded bonds have been defeased and the liability for these bonds has been removed from long-term debt. The City obtained an economic gain (the difference between the present values of the old and new debt service payments) of approximately $1.67 million as a result of the refunding.

Interest Rate Swap Transactions:

On November 2, 2011, the City, at its option, terminated the four interest rate exchange agreements originally entered into in 2003 and most recently identified as hedges for the Series 2008D Bonds and the Series 2009D Bonds. The City owed a payment to the counterparty, JP Morgan Chase Bank, National Association, under each hedge agreement in connection with the early terminations. Those termination payments totaled $10,515,000 and were paid on November 16, 2011 from available Airport funds. The City has no remaining interest rate swap agreements in place with respect to any Airport System Revenue Bonds

Public Power System Revenue Bonds**:** These bonds are payable from the net revenues derived from the Public Power System and are secured by a pledge of and lien on such net revenues.

On September 8, 2010, the City issued $23,915,000 of Public Power System Revenue Bonds, Series 2010. Proceeds of these bonds were used to refund all of the outstanding $26,425,000 Public Power System Bonds, Series 1998. Net proceeds of the Series 2010 Bonds in the amount of $27,081,033 were placed in an irrevocable escrow account to pay the principal and interest on the refunded 1998 Bonds on October 8, 2010. As a result, the refunded bonds were defeased and the liability for these bonds has been removed from long-term debt. The City completed the refunding in order to achieve debt service savings of approximately $3,138,000 or an economic gain (the difference between the present values of the old and new debt service payments) of approximately $3,055,000.

Waterworks Improvement Revenue Bonds**:** These bonds are payable from the revenues derived from operations of the Waterworks System after the payment of all operating and maintenance expenses (net revenue) and from monies and investments, on deposit in the Revenue Fund, the Debt Service Fund, the Debt Service Reserve Fund, the Contingency Fund and the Additions and Improvements Fund.

Effective October 6, 2011, the City issued $82,090,000 Water Revenue Bonds, Series W, 2011. Proceeds of these bonds were used to refund (1) the outstanding $1,940,000 Waterworks Improvement and Refunding First Mortgage Revenue Bonds, Series H, 1996, (2) the outstanding $42,865,000 Waterworks Refunding Revenue Bonds, Series J, 2001, (3) the outstanding $48,095,000 Water Revenue Bonds, Series K, 2002 and to pay issuance costs. Net proceeds of the Series W Bonds, amounts then on deposit in the Series H, J and K bond funds and an amount released from the debt service reserve fund totaling $95,349,171 were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds on January 1, 2012. As a result, the refunded bonds were defeased and the liability for these bonds has been removed from long-term debt. The City completed the refunding in order to achieve debt service savings of approximately $9,527,000 or an economic gain (the difference between the present values of the old and new debt service payments) of approximately $8,955,000 or 9.6%.

In December 2011, the Division of Water utilized cash on hand to defease $2,825,000 principal amount of outstanding Series O Bonds and $6,075,000 principal amount of outstanding Series P Bonds. The Division placed $9,327,000 in an irrevocable account which will be used to pay principal and interest on the defeased bonds. As a result, the bonds are considered defeased and the liability for those bonds has been removed from long-term debt.

Effective December 30, 2010, the Division issued $54,935,000 Water Revenue Bonds, Series U, and $26,495,000 Water Revenue Bonds, Series V. Proceeds of these bonds were used to refund the outstanding Water Revenue Bonds, Series R, 2009 and Water Revenue Bonds, Series S, 2009. The Series U bonds were issued in order to eliminate high letter of credit fees and the Series V Bonds were issued to address higher than expected interest rates caused by the downgrade of the letter of credit bank. The City negotiated a direct purchase of all of the Series U Bonds by U.S. Bank at an index rate of 75% of LIBOR plus 63.75 basis points. The City negotiated a direct purchase of the Series V Bonds by PNC Bank at an index rate of 65% of LIBOR plus 81.25 basis points. Both rates will be reset monthly and the bonds can be tendered for purchase after three years. The City obtained an economic gain (the difference between the present values of the old and new debt service payments) of approximately $2.7 million or 3.329% as a result of the refundings.

Interest Rate Swap Transactions:

Series U and Series V Bonds (previously Series R and Series S Bonds):

When the Series R and Series S Bonds were refunded in 2010, the swap associated with these bonds was transferred to a portion of the new Series U and Series V Bonds.

Terms: Simultaneously with the issuance of the City's $175,000,000 Water Revenue Bonds, Series M on August 10, 2004, the City entered into floating to fixed rate swap agreements with notional amounts equal to the total declining balance of the Series M Bonds. Bear Stearns Financial Products Inc. (Bear Stearns) (which has since been acquired by JPMorgan Chase Bank, N.A. (JPM)) was the counterparty on a two-thirds pro-rata share of the transaction and Morgan Stanley Capital Services Inc. (Morgan Stanley) is the counterparty on a one-third pro-rata share of the transaction. Under the original swap agreements for the Series M Bonds, the Water System was the fixed rate payor, paying a fixed rate of 3.533%. Each counterparty was a floating rate payor, with each paying the Water System 61.25% of one month LIBOR plus a spread of 28 basis points. Net payments were exchanged semiannually on January 1 and July 1. The obligation of the Water System to make periodic payments (but not any termination payment) was secured by a pledge of and lien on the net revenues of the Water System on a parity with the pledge and lien securing the payment of debt service on the bonds. Both the bond debt service payments on the Series M Bonds and the periodic swap payments are insured by Financial Security Assurance (FSA).

As part of the refunding of the Series M Bonds, the City amended and restated the original swap agreements to (a) eliminate the swap insurance and related insurer rights, (b) modify the payment frequency, (c) transfer the original swap agreement from Bear Stearns to JPM and (d) split each original swap agreement into two separate interest rate swaps in order to hedge separate series of bonds. The original Bear Stearns swap which has been assumed by JPM hedged the entire principal amount of Series R and certain maturities of the Series Q Bonds. The original Morgan Stanley swap hedged the entire principal amount of Series S and a portion of the Series Q Bonds. The floating rate received by the City was not altered. However, the fixed rate paid by the City was adjusted to 3.553% for the JPM swap and 3.5975% for the Morgan Stanley swap. The termination date for the swaps associated with Series Q is January 1, 2021 while the termination date for the Series R and Series S swaps is January 1, 2033. Net payments are now exchanged monthly. With the refunding of the Series R and Series S Bonds, the JPM swap now hedges all but $200,000 of the Series U Bonds and the Morgan Stanley swap hedges all but $200,000 of the Series V Bonds.

Objective: The City entered into the swaps in order to maximize the savings associated with the refunding of the bonds. The actual savings to be realized by Water System will depend upon the payments made on the variable rate bonds and the payments received under the swap agreement.

Basis Risk: By entering into swaps based upon the 30 day LIBOR rate of interest, the City has undertaken basis risk associated with a change in tax rates and structure. While the average relationship between SIFMA (tax-exempt) and LIBOR (taxable) interest rates has been 67%, this relationship may not always apply. If the payments received from the counterparties are less than the amount paid on the variable rate bonds, the Water System must make up the difference in addition to paying the fixed rate resulting from the swap. As a result of the turmoil in the financial markets since 2008, the SIFMA/LIBOR ratio was significantly higher than 67% for periods of time. 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 financing.

Counterparty Risk: The City selected highly rated counterparties in order to minimize this risk. However, in the wake of the sub-prime mortgage crisis, Bear Stearns was acquired by JPM. The portion of the City's swap with Bear Stearns as the counterparty has been assumed by JPM. Over the long-term it is possible that the credit strength of JPM and/or Morgan Stanley could change and this event could trigger a termination payment on 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 JPM and Morgan Stanley or by JPM and Morgan Stanley to the City, depending upon the prevailing economic circumstances at the time of the termination. The City obtained insurance to mitigate much of the risk associated with termination due to the event of a rating downgrade of the Water System.

Fair Value: The fair value of the swaps (including accrued amounts) at December 31, 2011 as reported by JPM and Morgan Stanley totaled $27,955,000, which would be payable by the City.

Short-term Obligation: At the end of 2011, the Division of Water had $50,000,000 of Subordinate Lien Revenue Notes outstanding. The notes, which are subordinate to the Division's outstanding revenue bonds, are due on July 26, 2012 and are backed by the revenues generated by the Division.

	Balance January 1, 2011	Increase	Decrease (In thousands)	Balance December 31, 2011	Due Within One Year
Water Revenue Notes:					
Subordinate Lien Revenue Notes, due 2011	$ 50,000	$	$ (50,000)	$	$
Subordinate Lien Revenue Notes, due 2012		50,000		50,000	50,000
Total revenue notes	$ 50,000	$ 50,000	$ (50,000)	$ 50,000	$ 50,000

***Ohio Water Development Authority and Ohio Public Works Commission Loans*:** These loans are payable from net revenues derived from the Waterworks and Water Pollution Control Systems. These obligations do not have a lien on revenues of the Divisions. In 2011, Water expended an additional $565,862 out of an expected $9,000,000 for the Baldwin Residuals and Fairmount Reservoir. This is a zero percent 20 year loan.

***Parking Facilities Revenue Bonds*:** These 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 will be used by the purchaser in conjunction with the opening of a new casino being 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, a portion of 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.

Effective August 15, 2006, the City issued $57,520,000 of Parking Facilities Refunding Revenue Bonds, Series 2006. The bonds were issued to currently refund $56,300,000 of the outstanding Parking Facilities Refunding Revenue Bonds, Series 1996. In addition, proceeds were also used to fund a portion of a payment owed by the City upon early termination under an interest rate swaption agreement entered into in 2003. Net proceeds of $58,709,855 were placed in an irrevocable escrow account which was used to pay the principal, interest and premium on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for these bonds has been removed from long-term debt. The City completed the refunding to reduce its total debt service payments by $1,340,000 and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of approximately $970,000. At the time of the issuance of the Series 2006 Bonds, the City entered into a basis swap agreement with UBS which is described below.

Interest Rate Swap Transaction:

Terms: Simultaneously with the issuance of the City's $57,520,000 Parking Facilities Refunding Revenue Bonds, Series 2006 on August 3, 2006, the City entered into a floating-to-floating rate basis swap agreement with a notional amount equal to the total declining balance of the Series 2006 Bonds. UBS is the counterparty on the transaction. Under the swap agreement for the Series 2006 Bonds, the City is the floating rate payor, paying a floating rate based on the 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 revenues as defined in the trust indenture securing the Parking Facilities Refunding Revenue Bonds, Series 2006, on parity with the pledge and lien securing the payment of debt service on the bonds.

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

Basis Risk: By entering into a swap based upon the 30 day LIBOR rate of interest, the City has undertaken basis risk associated with a change in tax rates and structure. While the average relationship between the SIFMA (tax-exempt) and LIBOR (taxable) interest rates has been 67%, this relationship may not always apply. Since late 2008, this relationship has been significantly higher for various periods of time due to the disruptions in the financial markets. The payments received from the counterparty may be less than the amount owed to the counterparty, resulting in a net increase in debt service. In addition, a reduction in federal income tax rates might increase the percentage relationship between SIFMA and LIBOR and may potentially increase the cost of the financing.

Counterparty Risk: The City selected a highly rated counterparty in order to minimize this risk. However, over the long-term it is possible that the credit strength of UBS could change and this event could trigger a termination payment on 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 the event of a downgrade of the City's bond rating. An amount due by the City to UBS upon early termination of the agreement is insured by FSA up to a maximum amount of $8,000,000.

Fair Value: The fair value of the swap at December 31, 2011 as reported by UBS totaled $782,000, which would be payable by the City.

***Debt Covenants*:** The Enterprise Funds' bond agreements have certain restrictive covenants and principally require that bond reserve funds be maintained and that fees charged to customers be in sufficient amounts, as defined, to satisfy the obligations under the indenture agreements. In addition, special provisions exist regarding covenant violations, redemption of principal and maintenance of properties in good condition.

Defeasance of Debt

The City has 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 City's financial statements.

The aggregate amount of defeased debt outstanding at December 31, 2011 is as follows:

Bond Issue	(Amounts in 000's)	Bond Issue	(Amounts in 000's)
Waterworks Improvement Bonds:		Unvoted Tax Supported GO:	
Series H, 1996	$ 1,940	Series 2002	$ 26,080
Series J, 2001	52,335	Series 2003	24,970
Series K, 2002	116,420	Series 2004	7,530
Series O, 2007	2,825		
Series P, 2007	6,075		

Airport Special Facilities Revenue Bonds

Airport Special Revenue Bonds, Series 1990, totaling $76,320,000 were issued to finance the acquisition and construction of a terminal, hangar and other support facilities leased to Continental Airlines at Cleveland Hopkins International Airport. These bonds were refunded in 1999 by the issuance of Airport Special Revenue Refunding Bonds, Series 1999 totaling $71,440,000. Additional Airport Special Revenue Bonds, Series 1998, totaling $75,120,000, were issued in 1998 to finance the design and construction of certain airport facilities leased to Continental Airlines, including a new regional jet concourse. Because principal and interest on these bonds are unconditionally guaranteed by Continental Airlines and paid directly by Continental Airlines, these bonds do not constitute a debt, liability or general obligation of the City or a pledge of the City's revenues. As such, no liabilities relating to these bonds are included in the accompanying financial statements.

Pledges of Future Revenues

The City has pledged future airport revenues to repay $891,885,000 in various Airport System Revenue Bonds issued in various years since 2000. Proceeds from the bonds provided financing for airport operations. The bonds are payable from airport net revenues and are payable through 2033. Annual principal and interest payments on the bonds are expected to require less than 63% of net revenues. The total principal and interest remaining to be paid on the various Airport System Revenue Bonds is $1,400,958,000. Principal and interest paid for the current year and total net revenues were $48,600,000 and $76,802,000, respectively.

The City has pledged future power system revenues, net of specified operating expenses, to repay $255,818,000 in various Public Power System Revenue Bonds issued in various years since 1994. Proceeds from the bonds provided financing for Public Power System improvements. The bonds are payable from Public Power System net revenues and are payable through 2038. Annual principal and interest payments on the bonds are expected to require less than 72% of net revenues. The total principal and interest remaining to be paid on the various Power System Revenue Bonds is $427,883,000. Principal and interest paid for the current year and total net revenues were $21,068,000 and $28,647,000, respectively

The City has pledged future Water System revenues, net of specified operating expenses, to repay $748,415,000 in various Water Improvement Revenue Bonds and Notes issued in various years since 1993. Proceeds from the bonds provided financing for Water System improvements. The bonds are payable from Water System net revenues and are payable through 2037. Annual principal and interest payments on the bonds are expected to require less than 70% of net revenues. The total principal and interest remaining to be paid on the various Water Improvement Revenue Bonds and Notes is $1,079,593,000. Principal and interest paid for the current year and total net revenues were $65,668,000 and $92,743,000, respectively.

The City has pledged future revenues from certain parking facilities, net of specified operating expenses, and other operating revenues to repay $34,045,000 in 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 pledged revenues. The total principal and interest remaining to be paid on the Parking Facilities Revenue Bonds is $45,439,000. Principal and interest paid for the current year (including net swap payments) and total net revenues were $6,120,000 and $4,558,000 respectively.

In 2011, 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, 2011, the Division of Parking Facilities was in compliance with the terms and requirements of the trust indenture.

Derivative Instruments

Derivative instruments are contracts, the value of which depends on, or derives from, the value of an underlying asset, index or rate. The most common types of derivatives used by governments are interest rate swaps and interest rate locks. The City has entered into various derivative or hedging agreements since 1999. A detailed description of each outstanding derivative, including its terms, objectives, risks and fair value, can be found in the section discussing the bonds to which the derivative relates.

The table below presents the fair value balances and notional amounts of the City's derivative instruments outstanding at December 31, 2011, classified by type, and the changes in fair value of these derivatives during fiscal year 2011 as reported in the 2011 financial statements. The fair values of the interest rate swaps, which reflect the prevailing interest rate environment at December 31, 2011 and the specific terms and conditions of each swap, have been provided by the respective counterparty for each swap and confirmed by the City's financial advisor.

	Changes in Fair Value		Fair Value at December 31, 2011		
	Classification	Amount	Classification	Amount	Notional
			(Amounts in 000's)		
Investment Derivatives:					
Governmental Activities:					
Fixed to floating interest rate swap					
2003 Subordinated Income Tax Swaption	Investment Loss	$ 472 (a)	Debt	$ (442)	$ 50,200
Business-Type Activities:					
Floating to floating interest rate swap					
2006 Parking Basis Swap	Investment Loss	1,047 (a)	Debt	(782)	34,045
Hedging Derivatives:					
Floating to fixed interest rate swaps					
2008 Q Water Swap	Deferred outflow	(2,210)	Debt	(10,161)	82,625
2010 U Water Swap	Deferred outflow	(5,467)	Debt	(11,904)	54,735
2010 V Water Swap	Deferred outflow	(2,614)	Debt	(5,890)	26,295

(a) These were reclassified from hedging derivatives to investment derivatives in 2011 due to the City's determination that the derivatives were not effectively hedged, therefore the loss recognized in 2011 was $442,000 for governmental activities and $782,000 for business-type activities.

The table below presents the objective and significant terms of the City's derivative instruments at December 31, 2011, along with the credit rating of each swap counterparty.

Bonds	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
Subordinated Income Tax Bonds	Receive Fixed Interest Rate Swaption	Hedge of changes in fair value of Series 1994 Subordinated Income Tax Bonds	$ 50,200,000	2/11/2003	5/15/2024	If option is exercised, Receive 4.88%, pay SIFMA	Aa1/A+/AA-
Water Series Q	Pay Fixed Interest Rate Swap	Hedge of changes in cash flow on the Series Q Water System Bonds	$ 54,355,000	8/10/2004	1/1/2021	Pay 3.553%, receive 61.25% of LIBOR + 28 bps	Aa1/A+/AA-
Water Series Q	Pay Fixed Interest Rate Swap	Hedge of changes in cash flow on the Series Q Water System Bonds	$ 28,270,000	8/10/2004	1/1/2021	Pay 3.5975%, receive 61.25% of LIBOR + 28 bps	A2/A/A
Water Series U	Pay Fixed Interest Rate Swap	Hedge in changes in cash flow on the Series U Water System Bonds	$ 54,735,000	2/12/2009	1/1/2033	Pay 3.553%, receive 61.25% of LIBOR + 28 bps	Aa1/A+/AA-
Water Series V	Pay Fixed Interest Rate Swap	Hedge in changes in cash flow on the Series V Water System Bonds	$ 26,295,000	2/12/2009	1/1/2033	Pay 3.5975%, receive 61.25% of LIBOR + 28 bps	A2/A/A
2006 Parking Bonds	Basis Swap - Pay Floating/Receive Floating	Exchange floating rate payments on Series 2006 Parking System Bonds	$ 34,045,000	8/15/2006	9/15/2022	Pay SIFMA, receive 67% of LIBOR	Aa3/A/A

The following table presents the aggregate debt service requirements on the City's hedged debt and net receipts/payments on the associated hedging derivative instruments as of December 31, 2011. These amounts assume that the interest rates on variable rate bonds and the reference rates in existence as of December 31, 2011 remain the same for the life of the hedging agreement. However, these rates will vary over time and the actual interest payments on the variable rate bonds and the net receipts/payments on the hedging derivative instruments will deviate from the numbers presented below.

Aggregate Cash Flows on Hedging Derivative Instruments

Fiscal Year Ending December 31	Principal	Interest	Hedging Derivatives, Net	Total
		(Amounts in 000's)		
2012	$	$ 860	$ 4,879	$ 5,739
2013		860	4,680	5,540
2014		860	4,422	5,282
2015		860	4,150	5,010
2016		860	4,093	4,953
2017-2021	2,170	4,282	16,515	22,967
2022-2026	82,300	2,253	5,458	90,011
2027-2031	63,685	483	422	64,590
2032-2036	24,075	26	18	24,119
Total	$ 172,230	$ 11,344	$ 44,637	$ 228,211

NOTE 6 – DEFERRED PAYMENT OBLIGATION / I-X CENTER

In January 1999, the City purchased the International Exposition (I-X) Center and the land on and around it for $66.5 million as part of its master plan to expand Cleveland Hopkins International Airport. As part of the purchase agreement, the City leased the building back to the former owner for 15 years, after which the City may demolish the building to make way for airport development. Of the $66.5 million purchase price, $36.5 million was paid in cash in 1999. The remaining $30 million, including interest at 7.75%, is being deferred by the seller and will be offset by future lease payments owed to the City over the 15 year lease period. The future lease payments are equal to the remaining purchase price plus interest at 7.75%, and as such, no cash will be exchanged between the City and the lessee over the term of the lease. The deferred payment is reported as "Deferred Payment Obligation" in the accompanying proprietary funds balance sheet.

In the event that either a similar facility is developed that exceeds a specified size, or there is an expansion of an existing facility that exceeds a specified size within the municipal boundary of the City of Cleveland, the lessee has the right to terminate the lease. Such termination would require the City to pay the lessee the remaining portion of the deferred purchase price.

Rental income recognized by the City under this agreement totaled $3,389,000 in 2011. Of this amount $621,000 was offset against interest expense and $2,768,000 was offset against the principal balance of the deferred obligation.

NOTE 7 – RISK MANAGEMENT

***Self Insurance*:** The City 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 City does not carry commercial insurance for such risks, except for certain proprietary funds and the football stadium. 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 (IBNRs). Claims that meet this criteria are reported as liabilities of either governmental or business-type activities in the government-wide statement of net assets. In the fund financial statements, claims liabilities that relate to proprietary funds are reported. The current portion of claims is reported as a fund liability in governmental funds; however, the long-term portion of claims liabilities is 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.

Changes in the estimated claims payable for all funds during the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
	(Amounts in 000's)	
Estimated claims payable, January 1	$ 4,000	$ 4,889
Current year claims (including IBNRs) and changes in estimates	986	857
Claim payments	(2,458)	(1,746)
Estimated claims payable, December 31	$ 2,528	$ 4,000

The estimated claims liabilities are based on the estimated cost of settling claims (including incremental claim adjustment expenses) through a case-by-case review of all outstanding claims and by using historical experience. Claims payable are included as accounts payable on the modified accrual financial statements and are reclassed to long-term obligations as due with one year or due in more than one year on the Statement of Net Assets.

Insurance**:** Certain proprietary funds carry insurance to cover particular liability risks and property protection. Otherwise, the City is generally self-insured. No material losses, including incurred but not reported losses, occurred in 2011. There was no significant decrease in any insurance coverage in 2011. In addition, there were no insurance settlements in excess of insurance coverage during the past three years.

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 January of 2003, the City exercised the option of retrospective rating as the premium rating mechanism for its workers' compensation program. The total estimated claims liability outstanding at December 31, 2011 was $24,250,736. Of this amount, $8,892,857 was recorded as a fund liability within each respective fund. The remaining $15,357,879 is due in future years and is recorded as a liability in the Workers' Compensation Reserve Internal Service Fund. This liability is funded by charging the appropriate funds their proportionate share of this liability and recording the associated due to or due from as appropriate.

NOTE 8 – CONTINGENCIES

General Contingencies**:** Various claims and lawsuits are pending against the City. In accordance with GASB Statement No. 10, those claims which are considered "probable" are accrued (see Note 7 – Risk Management), while those claims that are considered "reasonably possible" are disclosed but not accrued.

As of December 31, 2011, the City had $1,000,000 in claims for which an unfavorable outcome is deemed to be reasonably possible.

These estimates were based on a case-by-case review of outstanding claims by the City's in-house legal department.

Contingent Liabilities**:** In November 2009, participants in the American Municipal Power Generating Station (AMP) voted to terminate development of the 1,000 MW coal-fired generating station that was to be located on the Ohio River in Meigs County, Ohio. The City was one of 81 member participants in the project and had committed to receive an 80 MW share of the project's output.

The City and the other members participated in the project through "take or pay" contracts with AMP and are obligated to pay for the project's sunk costs based on each member's allocation. The City's share of the incurred project costs is $13,084,418. AMP anticipates that any such costs that are not recovered through participation in a replacement project will be financed by AMP and recovered from the AMP participants over a period of time yet to be determined. AMP has rolled over a portion of the Meigs County facility cost into the Fremont Energy Center ("Fremont"), a new natural gas generating station that AMP is purchased in July 2011. AMP has provided the City a Development Cost Credit of $6,281,769. These credits cut the City's risk of loss in half. None of these credits have been recorded in the City's financial statements through December 31, 2011.

City Council passed legislation in 2011 allowing the City to pass through 50% of the cost to customers in their monthly electricity bills over time. Through this legislation, the City will purchase power from the Fremont project, pay about half of its allocable share in AMP costs as power costs purchased from Fremont and include the costs in bills to customers over time. The legislation directs the City to pay its remaining share of costs due to AMP, estimated at $3,401,325, from operating funds over a period of time yet to be determined.

The City of Cleveland has not paid any monies to AMP towards the project's sunk cost. Furthermore, the City has not reported the stranded costs in the financial statements as the City's communication received from AMP to date is that the amount of incurred cost that are not recoverable from the vendor is undeterminable.

Contingencies Under Grant Programs**:** The City participates in a number of federally assisted Investment Act Grant Programs, principal of which are Community Development Block Grants, Home Weatherization Assistance, the Healthy Start Initiative, Federal HOME Program, Youth Opportunity Area Grant, Workforce Investment Act Grant, Empowerment Zone and Federal Aviation Administration Airport Improvement Grant Programs. These programs are subject to financial and compliance audits by the grantors or their representatives.

In addition to the federally assisted Investment Act Grant Programs, the City received a portion of the American Recovery and Reinvestment Act (ARRA) funds. These funds were funded through existing programs. The ARRA funds are subject to financial and compliance audits by the grantor or their representative and are subject to availability.

NOTE 9 – INTERFUND TRANSACTIONS AND BALANCES

Interfund Transactions: During the course of normal operations, the City records numerous transactions between funds including expenditures and transfers of resources to provide services, subsidize operations and service debt. The City has the following types of transactions among funds:

(1) Reciprocal interfund services provided and used – Purchases and sales of goods and services between funds for a price approximating their external exchange value.

(2) Nonreciprocal interfund transfers – Flows of assets between funds without equivalent flows of assets in return and without a requirement for repayment. This includes transfers to subsidize various funds.

(3) Nonreciprocal interfund reimbursements – Repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them.

For the year ended December 31, 2011, transfers consisted of the following:

Transfers Out	Transfers In					
	Total	General Fund	Other Govern-mental Funds	Total Govern-mental Funds	Enterprise Funds	Internal Service Funds
	(Amounts in 000's)					
Governmental Funds:						
General	$ 18,789	$	$ 15,918	$ 15,918	$ 2,031	$ 840
Other Governmental	52,725	8,404	44,321	52,725		
Total Governmental Funds	71,514	8,404	60,239	68,643	2,031	840
Total	$ 71,514	$ 8,404	$ 60,239	$ 68,643	$ 2,031	$ 840

Interfund Balances: Interfund balances at December 31, 2011 represent charges for services or reimbursable expenses. These remaining balances resulted from the time lag between the dates that (1) interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting records and (3) payments between funds are made. All are expected to be paid within one year.

Interfund receivable and payable balances as of December 31, 2011 are as follows:

		Due From							
Due To	**Total**	**General Fund**	**Other Govern-mental Funds**	**Total Govern-mental Funds**	**Division of Water Fund**	**Cleveland Public Power Fund**	**Other Enterprise Funds**	**Total Enterprise Funds**	**Internal Service Funds**
					(Amounts in 000's)				
Governmental Funds:									
General	$ 6,997	$	$	$ -	$ 9	$ 1,416	$ 64	$ 1,489	$ 5,508
Other Governmental	20,963	8,662	11,687	20,349		8	50	58	556
Total Governmental	$ 27,960								
Enterprise Funds:									
Division of Water	$ 2,770	11		11		1,036	252	1,288	1,471
Cleveland Public Power	4,922	6		6	3,856		3	3,859	1,057
Department of Port Control	969	228		228		18	81	99	642
Other Enterprise	9,561	42		42	8,584	73	9	8,666	853
Total Enterprise	18,222								
Internal Service Funds	202	4		4		7	5	12	186
Total Due To/Due From	$ 46,384	$ 8,953	$ 11,687	$ 20,640	$ 12,449	$ 2,558	$ 464	$ 15,471	$ 10,273

NOTE 10 – INCOME TAXES

During 2011, the City income tax rate remained at 2% and the credit provided to City residents for income taxes paid to other municipalities remained at 50% and the maximum credit is limited to 1%. A portion of the City income tax is restricted in its use to capital expenditures and debt service and is included in the Restricted Income Tax Special Revenue Fund. All other income tax proceeds are included in the General Fund.

Employers within the City are required to withhold income taxes on employee compensation and remit withholdings to the City at least quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

NOTE 11 – PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the City. The 2011 levy was based upon an assessed valuation of approximately $5.640 billion. Ohio law prohibits taxation of property from all taxing authorities in excess of 10 mills of assessed value without a vote of the people. Under current procedures, the City's share is 4.4 mills, of which 4.35 mills is dedicated to debt service and .05 mills is dedicated to the payment of fire pension obligations. A revaluation of all property is required to be completed no less than every six years, with a statistical update every third year. The last statistical update was completed in 2009. Assessed values are established by the Cuyahoga County (County) Auditor. The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City.

Real property taxes, excluding public utility property, are assessed at 35% of appraised market value. Pertinent real property tax dates are:

- Collection Dates — January 20 and June 20 of the current year
- Lien Date — January 1 of the year preceding the collection year
- Levy Date — October 1 of the year preceding the collection year

An electric company's taxable utility production equipment is assessed at 25% of true value, while all of its other taxable property is assessed at 88% of true value. Pertinent public utility tangible personal property tax dates are:

- Collection Dates — January 20 and June 20 of the current year
- Lien Date — December 31 of the second year preceding the collection year
- Levy Date — October 1 of the year preceding the collection year

NOTE 12 – DEFERRED AND UNEARNED REVENUE

Governmental funds report deferred and unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period (deferred). Governmental funds also defer revenue recognition in connection with resources that have been received, but not all eligibility requirements have been met (unearned).

As of December 31, 2011, the various components of deferred revenue reported in the governmental funds on the modified accrual approach were as follows:

	Unavailable	Eligibility Requirements Not Met	Total
		(Amounts in 000's)	
Governmental Funds:			
General Fund:			
Income taxes receivable	$ 15,760	$	$ 15,760
Property taxes receivable	61,250		61,250
Local government receivable	14,096		14,096
Estate tax receivable	205		205
Homestead rollback	4,036		4,036
Emergency medical service receivable	238		238
Special assessments receivable	3,170		3,170
Other taxes receivable		434	434
Total General Fund	98,755	434	99,189
Other Governmental Funds:			
Income taxes receivable	1,970		1,970
Special assessments receivable	10,531		10,531
Property taxes receivable	31,908		31,908
Advances received under grants		11,979	11,979
Motor vehicle taxes receivable	1,384		1,384
Municipal gas tax receivable	1,036		1,036
State gasoline tax receivable	1,988		1,988
Homestead rollback	2,103		2,103
Grant receivable	50	18	68
Due from other governments	2,307		2,307
Total Other Governmental Funds	53,277	11,997	65,274
Total Deferred and Unearned Revenue	$ 152,032	$ 12,431	$ 164,463

NOTE 13 – 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, 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 2011, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2011, 2010 and 2009. The employer contribution rates were 14.00% of covered payroll in 2011, 2010 and 2009.

The City's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2011, 2010 and 2009 were $25,558,982, $25,698,844 and $23,986,453 each year, respectively. The required payments due in 2011, 2010 and 2009 have been made.

Ohio Police and Fire Pension Fund**:** The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.00% of their annual covered salary, while the City is required to contribute 19.50% for police officers and 24.00% for firefighters. The City's contributions to the OP&F for the years ended December 31, 2011, 2010 and 2009 were $22,213,372, $22,678,219 and $23,177,060, respectively. The required payments due in 2011, 2010, and 2009 have been made.

NOTE 14 – 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 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, 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 2011, 2010 and 2009. 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 4.00% for members of the Traditional Plan in 2011, 6.05% for members of the Combined Plan in 2011, 5.50% from January 1, 2010 through February 28, 2010 and 5.00% from March 1, 2010 through December 31, 2010 and 7.00% from January 1, 2009 through March 31, 2009 and 5.50% from April 1, 2009 through December 31, 2009. The portion of employer contributions allocated to health care beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during 2012. 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 City's actual contributions to OPERS to fund postemployment benefits were $10,222,877 in 2011, $14,648,933 in 2010 and $17,346,339 in 2009. The required payments due in 2011, 2010, and 2009 have been made.

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

***Ohio Police and Fire Pension Fund*:** The City contributes to the OP&F sponsored health care program; a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides health care benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long-term care to retirees, qualifying benefit recipients and their eligible dependents. OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

The Ohio Revised Code provides for contribution requirements of the participating employers and plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.50% of covered payroll for police and 24.00% of covered payroll for firefighters. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police and 24.00% of covered payroll for firefighters. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by provisions of Sections 115 and 401(h). The OP&F Board of Trustees is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's contribution to OP&F that was allocated to the health care plan was $10,399,050 for the year ending December 31, 2011, $10,615,539 for 2010 and $10,858,674 for 2009. The required payments due in 2011, 2010, and 2009 have been made.

NOTE 15 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance January 1, 2011	Additions	Reductions	Balance December 31, 2011
		(Amount in 000's)		
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 63,895	$ 2,335	$ (42)	$ 66,188
Construction in progress	116,818	43,651	(72,340)	88,129
Total capital assets, not being depreciated	180,713	45,986	(72,382)	154,317
Capital assets, being depreciated:				
Land improvements	136,092	11,680		147,772
Buildings, structures and improvements	597,251	21,374		618,625
Furniture, fixtures, equipment and vehicles	180,509	8,234	(2,224)	186,519
Infrastructure	502,926	41,825	(843)	543,908
Total capital assets, being depreciated	1,416,778	83,113	(3,067)	1,496,824
Less accumulated depreciation for:				
Land improvements	(90,522)	(5,328)		(95,850)
Buildings, structures and improvements	(264,654)	(14,016)		(278,670)
Furniture, fixtures, equipment and vehicles	(125,307)	(12,841)	2,042	(136,106)
Infrastructure	(205,876)	(19,739)	843	(224,772)
Total accumulated depreciation	(686,359)	(51,924)	2,885	(735,398)
Total capital assets being depreciated, net	730,419	31,189	(182)	761,426
Governmental activities capital assets, net	$ 911,132	$ 77,175	$ (72,564)	$ 915,743

	Balance January 1, 2011	Reclass	Additions	Reductions	Balance December 31, 2011
			(Amount in 000's)		
Business-Type Activities:					
Capital assets, not being depreciated:					
Land	$ 199,129	$	$	$ (7,617)	$ 191,512
Construction in progress	379,621		126,536	(127,416)	378,741
Total capital assets, not being depreciated	578,750	-	126,536	(135,033)	570,253
Capital assets, being depreciated:					
Land improvements	95,973		1,762		97,735
Utility plant	1,603,307		117,110	(247)	1,720,170
Buildings, structures and improvements	685,469		3,435	(12,055)	676,849
Furniture, fixtures, equipment and vehicles	700,949		9,118	(5,463)	704,604
Infrastructure	910,907		45,789		956,696
Total capital assets, being depreciated	3,996,605	-	177,214	(17,765)	4,156,054
Less accumulated depreciation for:					
Land improvements	(58,688)	15,951	(1,756)		(44,493)
Utility plant	(710,694)	290,048	(39,515)	247	(459,914)
Buildings, structures and improvements	(360,968)	(69)	(13,772)	5,220	(369,589)
Furniture, fixtures, equipment and vehicles	(214,416)	(305,534)	(37,144)	5,456	(551,638)
Infrastructure	(376,090)	(396)	(38,767)		(415,253)
Total accumulated depreciation	(1,720,856)	-	(130,954)	10,923	(1,840,887)
Total capital assets being depreciated, net	2,275,749	-	46,260	(6,842)	2,315,167
Business-Type activities capital assets, net	$ 2,854,499	$ -	$ 172,796	$ (141,875)	$ 2,885,420

The additions to accumulated depreciation may not match depreciation expense due to assets transferred between Business-Type Activities and Governmental Activities, if the transferred assets have been depreciated prior to this year.

Depreciation: Depreciation expense was charged to functions/programs of the City as follows:

		(Amounts in 000's)
Governmental Activities:		
General Government	$	8,697
Public Service		23,807
Public Safety		9,759
Building and Housing		127
Community Development		1,155
Public Health		346
Parks, Recreation and Properties		7,115
Economic Development		119
Depreciation expense on capital assets held by the City's internal service funds that is charged to the various functions based on their usage of the assets		480
Total depreciation expense charged to governmental activities	$	51,605
Business-Type Activities:		
Water	$	58,796
Electricity		16,576
Airport Facilities		47,775
Nonmajor activities		7,618
Depreciation expense on capital assets held by the City's internal service funds that is charged to the various functions based on their usage of the assets		193
Total depreciation expense charged to business-type activities	$	130,958

Capital Commitments: Significant commitments of the City as of December 31, 2011 are composed of the following:

Project Description		**Spent-to-Date**		**Remaining Commitment**
		(Amounts in 000's)		
Governmental Activities:				
New Police Facility	$		$	9,457
800 MHz System				7,500
Collinwood-Lakeshore		4,494		5,887
Fulton Road Rehabilitation				5,490
League Park Renovations				4,700
E. 152 Recreation Improvements				4,500
New Financial Management System		6,510		4,317
ISG Coke Plant		18,888		3,304
Cleveland Memorial Gardens		1,733		2,694
Zone Recreation Greenspace Plan				2,500
Recycling Expansion		24		2,476
2008 Vehicles Citywide		6,542		2,203
Kamms Streetscape PH III				2,200

Project Description	Spent-to-Date	Remaining Commitment
	(Amounts in 000's)	
Business-Type Activities:		
Lake Road Substation	$ 8,256	$ 24,909
Runway 10/28 Phase IV		22,263
Environmental Requirements - Airports	18,334	17,923
Sound Insulation of Homes	92,465	17,600
Wetland and Stream Mitigation - Airports	21,476	14,025
Crown Water Plant	1,171	13,829
Baldwin Residuals & Fairmount	3,239	13,806
Harvard Substation		13,527
Morgan Chemical Facility	5,164	12,357
Suburban Water Main Renewal Program	18,090	11,910
Warehouse Imp PH 1 & 2	2,257	9,140
Morgan Pretreatment and Residuals	33,364	9,096
Plant Enhancement Program	65,720	7,583

Capital Grant Programs: The City participates in the State Issue 2 program and the Local Transportation Improvement Program. Through these programs, the State of Ohio (State) provides financial assistance to the City for its various road and bridge improvements and storm water detention facilities. The Ohio Public Works Commission (OPWC) is the State agency which oversees the allocation of State bond proceeds and tax revenue to selected projects which have met funding requirements. Upon approval of the OPWC, the City and the State create project agreements establishing each entity's financial contribution toward each project. Through December 31, 2011, the State funded $151,106,000 of road and bridge improvement projects and $6,192,000 for storm water detention facilities.

Capitalized Interest: Interest expense incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest income earned on invested debt proceeds. For 2011, interest expense incurred for the Enterprise Funds was $105,120,000 of which $22,512,000 was capitalized net of $208,000 of interest income capitalized.

***Idle Facilities*:** In April 1977, Cleveland Public Power (CPP) closed its generation plant and since that time, CPP's revenues have been derived primarily from the distribution of purchased power. CPP continued its past practice of depreciating the plant at rates which completed the amortization of the plant in 1999. With the present availability of competitively priced purchased power, management believes the plant will remain idle.

NOTE 16 – SEGMENT INFORMATION

The City has issued revenue bonds and construction loans to finance the activities accounted for in the following Enterprise Funds:

- Division of Water
- Cleveland Public Power
- Department of Port Control
- Municipal Parking Lots

Investors in the revenue bonds rely solely on the revenues generated from the specific enterprise activity to which the debt obligations pertain for repayment.

Shown below is summarized financial information for the City's enterprise activity that has issued long-term obligations and is not reported as a major fund in the proprietary funds financial statements:

Condensed Balance Sheet Information

	Municipal Parking Lots (Amounts in 000's)
Assets:	
Current assets	$ 1,959
Restricted assets	13,188
Other noncurrent assets	1,515
Capital assets, net	37,573
Total assets	$ 54,235
Liabilities:	
Current liabilities	$ 4,066
Long-term liabilities	31,257
Total liabilities	35,323
Net assets:	
Invested in capital assets, net of related debt	7,943
Restricted for debt service	5,578
Unrestricted	5,391
Total net assets	18,912
Total liabilities and net assets	$ 54,235

Condensed Statement of Revenues, Expenses and Changes in Net Assets Information

	Municipal Parking Lots (Amounts in 000's)
Charges for services	$ 8,453
Depreciation (expense)	(1,722)
Other operating (expenses)	(3,756)
Operating income (loss)	2,975
Nonoperating revenues (expenses):	
Investment income	(773)
Interest expense	(8,649)
Other revenue (expenses)	(1,068)
Special items - gain on sale of capital assets	5,125
Change in net assets	(2,390)
Net assets at beginning of year	21,302

Condensed Statement of Cash Flows Information

	Municipal Parking Lots (Amounts in 000's)
Net cash provided by (used for):	
Operating activities	$ 4,434
Capital and related financing activities	(7,503)
Investing activities	(4,092)
Net increase (decrease) in cash and cash equivalents	(7,161)
Beginning cash and cash equivalents	18,016
Ending cash and cash equivalents	$ 10,855

The balances of the restricted asset accounts in the enterprise funds are as follows:

Purpose	Division of Water	Cleveland Public Power	Department of Port Control	Municipal Parking Lots	Cemeteries	Water Pollution Control
			(Amounts in 000's)			
Construction activities	$ 92,739	$ 56,745	$ 120,245	$ 3,237	$	$ 1,081
Debt retirement	93,601	3,894	109,292	5,578		
Accrued passenger facility charges			20,376			
Other	100	322	53,745	4,373	6,546	
Total	$ 186,440	$ 60,961	$ 303,658	$ 13,188	$ 6,546	$ 1,081

NOTE 17 – RESTATEMENT

Based on the implementation of GASB Statement No. 54 several Special Revenue Funds no longer meet the definition to be classified as such, therefore they must be reported as part of the General Fund. These Special Revenue Funds were previously included in Other Governmental Funds on the Modified Accrual Statements.

	General Fund	Total Other Governmental Funds
	(Amounts in 000's)	
Fund balance, January 1, 2011	$ 12,541	$ 359,881
Restatement	18,274	(18,274)
Restated Fund balance, January 1, 2011	$ 30,815	$ 341,607

NOTE 18 – FUND BALANCES / NET ASSETS

Fund Balance Classifications: Fund balance is classified in five categories (1) Nonspendable, (2) Restricted, (3) Committed, (4) Assigned and (5) Unassigned. Nonspendable fund balances include amounts that are not in spendable form or are legally required to remain intact. Restricted fund balances include amounts that have external restrictions by either grantors, debt covenants, laws or other governments. Committed fund balances include amounts that are committed to a specific purpose by council ordinance. Assigned fund balances include amounts that are constrained by management's intent to be used for a specific purpose. Unassigned fund balances include amounts that have not been assigned to any purpose. Fund expenditures and encumbrances are from restricted resources to the extent of the restricted fund reserve and followed by committed then assigned and unassigned resources.

Below are the fund balance classifications for the governmental funds at December 31, 2011:

	General Fund	Other Governmental	Total Governmental
		(Amounts in 000's)	
Fund Balances			
Nonspendable			
Inventory	$ 576	$ 1,172	$ 1,748
Nonspendable Total	576	1,172	1,748
Restricted			
General Government		16,990	16,990
Public Service		1,839	1,839
Public Safety		5,046	5,046
Community Development		5,325	5,325
Public Health		297	297
Parks, Recreation and Properties		23,656	23,656
Economic Development		35,959	35,959
Debt Service		13,384	13,384
Capital Projects		102,094	102,094
Restricted Total	-	204,590	204,590
Committed			
General Government		7,288	7,288
Public Safety		203	203
Community Development		1,180	1,180
Public Health		32	32
Parks, Recreation and Properties		2,309	2,309
Economic Development		94,520	94,520
Capital Projects		92	92
Committed Total	-	105,624	105,624
Assigned			
General Government	4,468		4,468
Public Service	1,312		1,312
Public Safety	1,860		1,860
Public Health	49		49
Parks, Recreation and Properties	4,150		4,150
Building and Housing	94		94
Other	94		94
Debt Service		1	1
Assigned Total	12,027	1	12,028
Unassigned	38,991	(96)	38,895
Total Fund Balances	$ 51,594	$ 311,291	$ 362,885

Net Assets: Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings issued to acquire, construct or improve those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Net assets are restricted for debt service, loans and other purposes. Other purposes include street construction and maintenance, grant programs and debt or capital funding from restricted income tax.

Rainy Day Reserve Fund: The City, in accordance with Section 5705.13(A), Revised Code, has established by ordinance the Rainy Day Reserve Fund (Rainy Day). Rainy Day should accumulate to at least a level equal to two percent of the General Fund expenditures and cannot exceed five percent of the General Fund expenditures. The City funds the Rainy Day through transfers from the General Fund, when funds become available. In order to use the Rainy Day, the City must pass an ordinance. The amount of the Rainy Day is reported within the unassigned fund balance classification in the City's General Fund.

NOTE 19 – 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. The third parking facility, Willard Park Garage, was completed in April 1996.

In 2011, net revenues generated by the two Gateway garages were less than the debt service payments attributed to those garages by $2,546,000. Cumulative debt service payments funded by the City that are due from Gateway totaled $43,356,000 at December 31, 2011. Due to the uncertainty of collecting such amounts, an allowance has been recorded to offset the amounts in full; therefore, these amounts do not appear in the accompanying financial statements.

To enhance the security of the bonds, the City has agreed to pledge annually a percentage of admissions taxes on all events held at the arena to pay debt service if other revenue sources are not sufficient. Any exempted admissions tax not required for debt service will be reimbursed to the City. The City's current admissions tax rate is 8%. For the year ended December 31, 2011, the City pledged $2,519,264.

NOTE 20 – COMPLIANCE AND ACCOUNTABILITY

At December 31, 2011, the Cleveland Stadium Operations had a fund balance deficiency of $96,000. This deficiency will be eliminated through an operating transfer in. In addition, the Telephone Exchange Fund had a net assets deficiency of $436,000. This deficiency will be eliminated by increasing the rates charged to user departments during 2012.

NOTE 21 – SUBSEQUENT EVENTS

On February 23, 2012, the City issued $235,150,000 Airport System Revenue Bonds, Series 2012A (Non-AMT). The bonds were issued to currently refund all of the outstanding Airport System Revenue Bonds, Series 2000A in the aggregate principal amount of $249,445,000 on March 26, 2012 and to pay costs of issuing the bonds. The City obtained an economic gain (the difference between the present values of the old and new debt service payments) of approximately $15.12 million or 6.06% as a result of the refunding.

Effective February 24, 2012, the City issued $15,325,000 Public Power System Revenue Bonds, Series 2012. Proceeds of these bonds were used to refund all of the outstanding $15,980,000 Public Power System Bonds, Series 2001. Net proceeds of the Series 2012 Bonds and amounts on deposit in the 2001 bond fund in the total amount of $16,293,627 were placed in an irrevocable escrow account to pay the principal and interest on the refunded 2001 Bonds on March 26, 2012. The City completed the refunding in order to achieve debt service savings of approximately $1,169,000 or an economic gain (the difference between the present values of the old and new debt service payments) of approximately $1,148,000 or 7.2%. These bonds were purchased by Wells Fargo at a fixed rate of 2.0% and were not resold in a public offering.

Effective May 22, 2012, the City issued $50,245,000 Various Purpose and Refunding General Obligation Bonds, Series 2012. Of this amount, $38,740,000 was issued to fund various public improvements to roads and bridges, cemeteries, public facilities and parks and recreation facilities. The remaining $11,505,000 was issued to refund $11,610,000 of outstanding general obligation bonds issued in 2002, 2003 and 2004. As a result of the refunding , the City achieved debt service savings of $704,000 or an economic gain (the difference between the present values of the old and new debt service payments) of approximately $728,000 or 6.3%.

On June 5, 2012, the City entered into an equipment lease agreement with PNC Equipment Finance LLC in the amount of $6,507,400. The City intends to purchase various police vehicles, heavy duty vehicles and other apparatus. Lease payments will be made from the Restricted Income Tax Fund for a period of seven years.

SUPPLEMENTARY INFORMATION

CITY OF CLEVELAND, OHIO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)- GENERAL FUND-LEGAL APPROPRIATION LEVEL FOR THE YEAR ENDED DECEMBER 31, 2011

(Amounts in 000's)

	Original Budget	Final Budget	Actual	Variance- Positive (Negative)
REVENUES:				
Income taxes	$265,789	$265,789	$275,731	$ 9,942
Property taxes	38,069	37,605	36,618	(987)
State local government funds	47,585	47,710	47,257	(453)
Other taxes and shared revenues	45,413	40,846	42,058	1,212
Licenses and permits	11,104	11,104	14,329	3,225
Charges for services	29,314	29,314	31,601	2,287
Fines, forfeits and settlements	24,209	24,209	23,461	(748)
Investment earnings	170	170	208	38
Grants	3,963	3,963	3,934	(29)
Miscellaneous	31,879	17,838	20,889	3,051
Total revenues	497,495	478,548	496,086	17,538
EXPENDITURES:				
Current:				
General Government:				
Council and clerk of council:				
Personnel	4,653	4,573	4,572	1
Other	1,998	1,936	1,689	247
Total council and clerk of council	6,651	6,509	6,261	248
Office of the mayor:				
Personnel	2,193	2,078	2,058	20
Other	129	129	109	20
Total office of the mayor	2,322	2,207	2,167	40
Office of consumer affairs:				
Personnel	207	207	116	91
Other	21	21	10	11
Total office of consumer affairs	228	228	126	102
Office of personnel:				
Personnel	1,038	1,022	1,022	-
Other	807	732	725	7
Total office of personnel	1,845	1,754	1,747	7
Landmarks commission:				
Personnel	175	175	174	1
Other	5	5	3	2
Total landmarks commission	180	180	177	3
Board of building standards and appeals:				
Personnel	110	110	106	4
Other	10	11	11	-
Total board of building standards and appeals	120	121	117	4

(Continued)

CITY OF CLEVELAND, OHIO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)- GENERAL FUND-LEGAL APPROPRIATION LEVEL FOR THE YEAR ENDED DECEMBER 31, 2011

(Amounts in 000's)

	Original Budget	Final Budget	Actual	Variance- Positive (Negative)
Division of harbors:				
Personnel	$ 96	$ 29	$ 24	$ 5
Other	184	4		4
Total division of harbors	280	33	24	9
Boxing and wrestling commission:				
Personnel	8	8	6	2
Total boxing and wrestling commission	8	8	6	2
Board of zoning appeals:				
Personnel	189	189	183	6
Other	13	17	15	2
Total board of zoning appeals	202	206	198	8
Civil service commission:				
Personnel	553	556	550	6
Other	634	639	638	1
Total civil service commission	1,187	1,195	1,188	7
Community relations board:				
Personnel	1,117	1,117	1,101	16
Other	68	68	35	33
Total community relations board	1,185	1,185	1,136	49
City planning commission:				
Personnel	1,492	1,422	1,414	8
Other	106	76	61	15
Total city planning commission	1,598	1,498	1,475	23
Office of equal opportunity:				
Personnel	564	492	466	26
Other	20	20	17	3
Total office of equal opportunity	584	512	483	29
Municipal court-judicial division:				
Personnel	20,063	18,627	18,505	122
Other	2,543	2,583	2,505	78
Total municipal court-judicial division	22,606	21,210	21,010	200
Municipal court-housing division:				
Personnel	3,313	3,107	3,058	49
Other	144	146	134	12
Total municipal court-housing division	3,457	3,253	3,192	61

(Continued)

CITY OF CLEVELAND, OHIO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-GENERAL FUND-LEGAL APPROPRIATION LEVEL
FOR THE YEAR ENDED DECEMBER 31, 2011
(Amounts in 000's)

	Original Budget	Final Budget	Actual	Variance-Positive (Negative)
Municipal court-clerks division:				
Personnel	$ 9,053	$ 8,636	$ 8,549	$ 87
Other	5,327	5,337	5,123	214
Total municipal court-clerks division	14,380	13,973	13,672	301
Office of budget and management:				
Personnel	759	584	566	18
Other	19	19	5	14
Total office of budget and management	778	603	571	32
Department of aging:				
Personnel	767	732	668	64
Other	126	136	131	5
Total department of aging	893	868	799	69
Department of law:				
Personnel	6,430	6,380	6,378	2
Other	1,826	2,626	2,576	50
Total department of law	8,256	9,006	8,954	52
Finance administration:				
Personnel	796	838	821	17
Other	35	35	28	7
Total finance administration	831	873	849	24
Division of accounts:				
Personnel	1,272	1,247	1,231	16
Other	633	633	423	210
Total division of accounts	1,905	1,880	1,654	226
Division of assessments and licenses:				
Personnel	2,404	1,968	1,895	73
Other	1,246	1,206	624	582
Total division of assessments and licenses	3,650	3,174	2,519	655
Division of treasury:				
Personnel	452	453	451	2
Other	85	89	85	4
Total division of treasury	537	542	536	6
Division of purchases and supplies:				
Personnel	544	505	498	7
Other	34	39	34	5
Total division of purchases and supplies	578	544	532	12

(Continued)

CITY OF CLEVELAND, OHIO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)- GENERAL FUND-LEGAL APPROPRIATION LEVEL FOR THE YEAR ENDED DECEMBER 31, 2011

(Amounts in 000's)

	Original Budget	Final Budget	Actual	Variance- Positive (Negative)
Bureau of internal audit:				
Personnel	$ 524	$ 458	$ 447	$ 11
Other	439	339	314	25
Total bureau of internal audit	963	797	761	36
Division of financial reporting and control:				
Personnel	1,296	1,102	1,081	21
Other	23	23	15	8
Total division of financial reporting and control	1,319	1,125	1,096	29
Office of information and technology planning:				
Personnel	159	161	159	2
Other	6	6	3	3
Total office of information and technology planning:	165	167	162	5
Division of information system services:				
Personnel	2,031	1,789	1,760	29
Other	1,799	1,773	1,472	301
Total division of information system services	3,830	3,562	3,232	330
TOTAL GENERAL GOVERNMENT	80,538	77,213	74,644	2,569
Public Service:				
Public service administration:				
Personnel	386	405	398	7
Other	10	10	10	-
Total public service administration	396	415	408	7
Division of architecture:				
Personnel	434	423	411	12
Other	25	25	10	15
Total division of architecture	459	448	421	27
Division of waste collection and disposal:				
Personnel	14,507	14,027	14,014	13
Other	11,914	11,614	11,353	261
Total division of waste collection and disposal	26,421	25,641	25,367	274
Division of engineering and construction:				
Personnel	4,251	4,292	4,277	15
Other	435	385	369	16
Total division of engineering and construction	4,686	4,677	4,646	31
Division of traffic engineering:				
Personnel	2,938	2,974	2,939	35
Other	879	839	790	49
Total division of traffic engineering	3,817	3,813	3,729	84
TOTAL PUBLIC SERVICE	35,779	34,994	34,571	423

(Continued)

CITY OF CLEVELAND, OHIO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)- GENERAL FUND-LEGAL APPROPRIATION LEVEL FOR THE YEAR ENDED DECEMBER 31, 2011

(Amounts in 000's)

	Original Budget	Final Budget	Actual	Variance- Positive (Negative)
Public Safety:				
Public safety administration:				
Personnel	$ 2,313	$ 2,158	$ 2,157	$ 1
Other	1,095	1,095	1,056	39
Total public safety administration	3,408	3,253	3,213	40
Division of police:				
Personnel	161,892	161,792	161,726	66
Other	9,248	9,608	8,867	741
Total division of police	171,140	171,400	170,593	807
Division of fire:				
Personnel	87,106	85,506	85,484	22
Other	3,114	3,006	2,999	7
Total division of fire	90,220	88,512	88,483	29
Division of emergency medical services:				
Personnel	19,072	18,497	18,031	466
Other	2,641	2,291	2,201	90
Total division of emergency medical services	21,713	20,788	20,232	556
Division of correction:				
Personnel	11,277	10,307	10,283	24
Other	3,453	4,278	3,769	509
Total division of correction	14,730	14,585	14,052	533
Division of animal control services				
Personnel	863	876	866	10
Other	351	351	331	20
Total division of animal control services	1,214	1,227	1,197	30
TOTAL PUBLIC SAFETY	302,425	299,765	297,770	1,995
Building and Housing:				
Director's office:				
Personnel	1,421	1,461	1,434	27
Other	407	458	420	38
Total director's office	1,828	1,919	1,854	65
Division of code enforcement:				
Personnel	5,725	4,950	4,892	58
Other	186	186	174	12
Total division of code enforcement	5,911	5,136	5,066	70
Division of construction permitting:				
Personnel	1,476	1,433	1,373	60
Other	16	16	10	6
Total division of construction permitting	1,492	1,449	1,383	66
TOTAL BUILDING AND HOUSING	9,231	8,504	8,303	201

(Continued)

CITY OF CLEVELAND, OHIO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)- GENERAL FUND-LEGAL APPROPRIATION LEVEL FOR THE YEAR ENDED DECEMBER 31, 2011

(Amounts in 000's)

	Original Budget	Final Budget	Actual	Variance- Positive (Negative)
Public Health:				
Public health administration:				
Personnel	$ 579	$ 559	$ 535	$ 24
Other	315	315	312	3
Total public health administration	894	874	847	27
Division of health:				
Personnel	1,848	1,724	1,683	41
Other	1,226	1,226	919	307
Total division of health	3,074	2,950	2,602	348
Division of environment:				
Personnel	915	800	780	20
Other	157	157	139	18
Total division of environment	1,072	957	919	38
Division of air quality:				
Personnel	121	121	91	30
Other	281	281	278	3
Total division of air quality	402	402	369	33
TOTAL PUBLIC HEALTH	5,442	5,183	4,737	446
Parks, Recreation and Properties:				
Parks, recreation and properties administration:				
Personnel	559	559	558	1
Other	143	145	142	3
Total parks, recreation and properties administration	702	704	700	4
Division of research, planning and development:				
Personnel	579	471	464	7
Other	54	54	17	37
Total division of research, planning and development	633	525	481	44
Division of recreation:				
Personnel	9,499	8,347	8,345	2
Other	3,549	3,874	3,820	54
Total division of recreation	13,048	12,221	12,165	56
Division of parking facilities:				
Personnel	1,228	1,228	1,186	42
Other	61	61	51	10
Total division of parking facilities	1,289	1,289	1,237	52

(Continued)

CITY OF CLEVELAND, OHIO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)- GENERAL FUND-LEGAL APPROPRIATION LEVEL FOR THE YEAR ENDED DECEMBER 31, 2011

(Amounts in 000's)

	Original Budget	Final Budget	Actual	Variance- Positive (Negative)
Division of park maintenance and properties:				
Personnel	$ 8,142	$ 8,020	$ 8,009	$ 11
Other	4,462	4,537	4,537	-
Total division of park maintenance and properties	12,604	12,557	12,546	11
Division of property management:				
Personnel	5,771	5,316	5,294	22
Other	2,813	2,473	2,333	140
Total division of property management	8,584	7,789	7,627	162
TOTAL PARKS, RECREATION AND PROPERTIES	36,860	35,085	34,756	329
Economic Development:				
Economic development administration:				
Personnel	1,475	1,475	1,383	92
Other	29	29	10	19
Total economic development administration	1,504	1,504	1,393	111
TOTAL ECONOMIC DEVELOPMENT	1,504	1,504	1,393	111
Non-Departmental Expenditures:				
Other	21,050	17,220	16,709	511
TOTAL NON-DEPARTMENTAL EXPENDITURES	21,050	17,220	16,709	511
TOTAL EXPENDITURES	492,829	479,468	472,883	6,585
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,666	(920)	23,203	24,123
OTHER FINANCING SOURCES (USES):				
Transfers in	11,654	25,695	5,883	(19,812)
Transfers out	(19,473)	(20,353)	(19,789)	564
Sale of City assets			734	734
TOTAL OTHER FINANCING SOURCES (USES)	(7,819)	5,342	(13,172)	(18,514)
DECERTIFICATION OF PRIOR YEAR ENCUMBRANCES AND PRE-ENCUMBRANCES			686	686
NET CHANGE IN FUND BALANCES	(3,153)	4,422	10,717	6,295
FUND BALANCES AT BEGINNING OF YEAR	6,144	6,144	6,144	-
FUND BALANCES AT END OF YEAR	$ 2,991	$ 10,566	$ 16,861	$ 6,295

(Concluded)

CITY OF CLEVELAND, OHIO

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted or committed by the City to expenditures for particular purposes. The City's Special Revenue Funds are described below:

Division of Streets	To account for motor vehicle license tax and gasoline excise tax used for the repair and building of streets.
Restricted Income Tax	To account for one-ninth of the City's income tax collections. Monies are to be used for capital improvement purposes and repayment of debt.
Cleveland Stadium Operations	To account for the operating activities of Cleveland Browns Stadium.
Community Development Block Grants	To account for revenue from the federal government and expenditures as prescribed under the Community Development Block Grant Program.
Community Development Funds	To account for revenue earmarked for City-wide development.
Building and Housing Funds	To account for revenue earmarked to administer and enforce the provisions of the Cleveland building, housing and zoning codes plus the national electrical code and state building, plumbing and elevator codes.
Urban Development Action Funds	To account for revenue from the federal government under the Urban Development Action Grant Program.
Economic Development Funds	To account for revenue earmarked to revitalize distressed cities by stimulating economic development.
Home Weatherization Grants	To account for revenue from the State of Ohio and expenditures as prescribed under the Home Weatherization Assistance Program.
Work Force Investment Act (WIA)	To account for revenue and expenditures from the State of Ohio under the Work Force Investment Act.
General Government Funds	To account for revenue earmarked for general government activities.
Public Service Funds	To account for revenue earmarked for the public service activity.
Public Safety Funds	To account for revenue earmarked for public safety activities.

SPECIAL REVENUE FUNDS (Continued)

Public Health Funds	To account for revenue earmarked for the improvement of public health.
Parks, Recreation and Properties Funds	To account for revenue earmarked for parks, recreation and properties activities.
Cleveland Stadium Debt Service Fund	To account for the accumulation of resources earmarked for the repayment of debt related to Cleveland Browns Stadium.
Gateway Shared Income Tax Funds	To account for municipal income tax revenue derived from persons employed at the Arena and Progressive Field with 50% of the revenues shared with the other taxing districts in the City.
Neighborhood Development Investment Fund	To account for revenue earmarked for the Neighborhood Development Investment Fund.
Core City Program Funds	To account for revenue earmarked for certain economic and community development projects.
Supplemental Empowerment Zone	To account for revenue from the U.S. Department of Housing and Urban Development Program designed to help rebuild specified urban communities.

SPECIAL REVENUE FUNDS (for budgetary purposes only)
These funds are rolled into the General Fund for Modified Accrual Financial Statements.

Rainy Day Reserve Fund	To account for revenue which is eligible to be used during significant periods of economic downturn.
Schools Recreation and Cultural Activities Fund	To account for revenue from special taxes earmarked for Cleveland Municipal Schools for recreation and cultural activities.

DEBT SERVICE FUNDS

Debt Service Funds are used to account for the accumulation of financial resources for, and the payment of, general long-term debt principal, interest and related costs. The City's Debt Service Funds are described below:

Unvoted Tax Supported Obligations Fund	To account for the accumulation of resources for the payment of General Obligation Bonds of the City. These bonds do not require a vote of the electors, other than self-supporting obligations. They are payable from ad valorem property taxes levied within the limitations provided by law.
Stadium Bond Fund	To account for the accumulation of resources for the payment of the Certificates of Participation (COPS) - Stadium from pledged City taxes.
Subordinated Income Tax Fund	To account for the accumulation of resources for the payment of Subordinated Income Tax Variable Rate Refunding Bonds payable from pledged income taxes.

DEBT SERVICE FUNDS (Continued)

Lower Euclid Avenue TIF	To account for the accumulation of resources for the payment of Economic Development Bonds payable from tax increment financing revenues and a pledge of the non-tax revenue of the City.
Core City Bonds	To account for the accumulation of resources for the payment of taxable Economic and Community Development Bonds payable from non-tax and net project revenues.
Subordinate Lien Income Tax Fund	To account for the accumulation of resources for the payment of Subordinate Lien Income Tax Bonds payable from pledged income taxes.
Urban Renewal Fund	To account for the accumulation of resources for the payment of tax increment Urban Renewal Bonds payable from deposits made in lieu of taxes.
Urban Renewal Reserve Fund	The account is to be maintained at an amount equal to one year's maximum annual debt service on certain Urban Renewal Bonds and can be used to cover any debt insufficiency payable from certain urban renewal bonds.

CAPITAL PROJECT FUNDS

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The City's Capital Project Funds are described below:

Capital/Urban Renewal Bond Construction	To account for all bond proceeds and capital projects costs of bond–funded capital acquisitions, tax increment Urban Renewal Bond issues and construction within the City.
Grant Improvement	To account for capital grant revenues which fund Capital Improvement Projects within the City.
Capital Improvement	To account for miscellaneous revenues which fund capital projects.
Certificates of Participation/Capital Leases	To account for Certificates of Participation (COPS) and capital lease proceeds which fund certain capital funds.
Cleveland Stadium Construction	To account for bond proceeds and capital projects costs of the Cleveland Browns Stadium.

CITY OF CLEVELAND, OHIO

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011
(Amounts in 000's)

	Special Revenue Funds - Budgeted			
	Division of Streets	Restricted Income Tax	Cleveland Stadium Operations	Total Budgeted Funds
ASSETS				
Cash and cash equivalents	$ 765	$	$ 357	$ 1,122
Receivables:				
Taxes		5,437		5,437
Grants				-
Loans				-
Accrued interest				-
Assessments				-
Receivables, net	-	5,437	-	5,437
Due from other funds		8,495		8,495
Due from other governments	6,458			6,458
Inventory of supplies	1,172			1,172
TOTAL ASSETS	$ 8,395	$ 13,932	$ 357	$ 22,684
LIABILITIES				
Accounts payable	$ 179	$ 87	$ 1	$ 267
Accrued wages and benefits	1,570			1,570
Due to other governments			452	452
Deferred revenue	4,408	1,970		6,378
Unearned revenue				-
Due to other funds	552			552
Total liabilities	6,709	2,057	453	9,219
FUND BALANCES				
Reserves for:				
Nonspendable	1,172			1,172
Restricted	514	11,875		12,389
Committed				-
Assigned				-
Unassigned			(96)	(96)
Total fund balances	1,686	11,875	(96)	13,465
TOTAL LIABILITIES AND FUND BALANCES	$ 8,395	$ 13,932	$ 357	$ 22,684

Special Revenue Funds - Non-Budgeted							
Community Development Block Grants	Community Development Funds	Building and Housing Funds	Urban Development Action Funds	Economic Development Funds	Home Weatherization Grants	WIA Grants	General Government Funds
$	$	$	$ 20,545	$ 30,718	$ 1,119	$	$ 13,969
	5,010	2,503		478	311	865	444
9,167	10,178		44,062	35,835			
1,049	513	4,113					
10,216	15,701	6,616	44,062	36,313	311	865	444
1,301		938					89
				2,950		1	91
$ 11,517	$ 15,701	$ 7,554	$ 64,607	$ 69,981	$ 1,430	$ 866	$ 14,593
$ 25	$ 59	$ 525	$	$ 78	$	$ 17	$ 849
394	65				6	79	139
68	2,009			44,750			149
5,936	1,844	2,238		2,788			32
	2,687			802	1,424		900
5,094	2,532	4,791	5			770	121
11,517	9,196	7,554	5	48,418	1,430	866	2,190
	5,325			13,186			5,115
	1,180		64,602	8,377			7,288
-	6,505	-	64,602	21,563	-	-	12,403
$ 11,517	$ 15,701	$ 7,554	$ 64,607	$ 69,981	$ 1,430	$ 866	$ 14,593

(Continued)

CITY OF CLEVELAND, OHIO

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011
(Amounts in 000's)

	Special Revenue Funds - Non-Budgeted					
	Public Service Funds	Public Safety Funds	Public Health Funds	Parks, Recreation and Properties Funds	Cleveland Stadium Debt Service Fund	Gateway Shared Income Tax Funds
ASSETS						
Cash and cash equivalents	$ 1,881	$ 3,580	$ 173	$ 3,303	$ 22,614	$ 1,540
Receivables:						
Taxes						
Grants		6,111	1,726	66		
Loans				65		
Accrued interest					4	
Assessments						
Receivables, net	-	6,111	1,726	131	4	-
Due from other funds			864			
Due from other governments						82
Inventory of supplies						
TOTAL ASSETS	$ 1,881	$ 9,691	$ 2,763	$ 3,434	$ 22,618	$ 1,622
LIABILITIES						
Accounts payable	$ 1	$ 902	$ 21	$ 24	$	$
Accrued wages and benefits		251	487			
Due to other governments		4	86	295		835
Deferred revenue						
Unearned revenue	41	3,285	1,768	282		
Due to other funds			72			787
Total liabilities	42	4,442	2,434	601	-	1,622
FUND BALANCE						
Reserves for:						
Nonspendable						
Restricted	1,839	5,046	297	524	22,618	
Committed		203	32	2,309		
Assigned						
Unassigned						
Total fund balances	1,839	5,249	329	2,833	22,618	-
TOTAL LIABILITIES AND FUND BALANCES	$ 1,881	$ 9,691	$ 2,763	$ 3,434	$ 22,618	$ 1,622

Special Revenue Funds - Non-Budgeted					Debt Service Funds - Budgeted			
Neighborhood Development Investment Fund	Core City Program Funds	Supplemental Empowerment Zone	Total Non-Budgeted Funds	Total Special Revenue Funds	Unvoted Tax Supported Obligations Fund	Stadium Bond Fund	Subordinated Income Tax Fund	Lower Euclid Avenue TIF
$ 3,114	$ 2,712	$ 1,184	$ 106,452	$ 107,574	$ 1,488	$ 1	$ 2,433	$ 255
			-	5,437	31,908			
		1	17,515	17,515				
18,427	20,237	46,688	184,659	184,659				
			4	4				
			5,675	5,675				
18,427	20,237	46,689	207,853	213,290	31,908	-	-	-
			3,192	11,687				
			3,124	9,582	2,103			
			-	1,172				
$ 21,541	$ 22,949	$ 47,873	$ 320,621	$ 343,305	$ 35,499	$ 1	$ 2,433	$ 255
$	$ 176	$	$ 2,677	$ 2,944	$	$	$	$
		1	1,422	2,992				
		47,082	95,278	95,730				
			12,838	19,216	34,011			
		790	11,979	11,979				
			14,172	14,724				
-	176	47,873	138,366	147,585	34,011	-	-	-
			-	1,172				
	22,773		76,723	89,112	1,488		2,433	255
21,541			105,532	105,532				
			-	-		1		
			-	(96)				
21,541	22,773	-	182,255	195,720	1,488	1	2,433	255
$ 21,541	$ 22,949	$ 47,873	$ 320,621	$ 343,305	$ 35,499	$ 1	$ 2,433	$ 255

(Continued)

CITY OF CLEVELAND, OHIO

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011
(Amounts in 000's)

	Debt Service Funds Budgeted			Debt Service Funds Non-Budgeted			
	Core City Bonds	Subordinate Lien Income Tax Fund	Total Budgeted Funds	Urban Renewal Fund	Urban Renewal Reserve Fund	Total Non-Budgeted Funds	Total Debt Service Funds
ASSETS							
Cash and cash equivalents	$ 3,975	$ 2,302	$ 10,454	$ 813	$ 2,200	$ 3,013	$ 13,467
Receivables:							
Taxes			31,908			-	31,908
Grants			-			-	-
Loans			-			-	-
Accrued interest			-			-	-
Assessments			-			-	-
Receivables, net	-	-	31,908	-	-	-	31,908
Due from other funds			-			-	-
Due from other governments			2,103			-	2,103
Inventory of supplies			-			-	-
TOTAL ASSETS	$ 3,975	$ 2,302	$ 44,465	$ 813	$ 2,200	$ 3,013	$ 47,478
LIABILITIES							
Accounts payable	$ 82	$	$ 82	$	$	$ -	$ 82
Accrued wages and benefits			-			-	-
Due to other governments			-			-	-
Deferred revenue			34,011			-	34,011
Unearned revenue			-			-	-
Due to other funds			-			-	-
Total liabilities	82	-	34,093	-	-	-	34,093
FUND BALANCE							
Nonspendable			-			-	-
Restricted	3,893	2,302	10,371	813	2,200	3,013	13,384
Committed			-			-	-
Assigned			1			-	1
Unassigned			-			-	-
Total fund balances	3,893	2,302	10,372	813	2,200	3,013	13,385
TOTAL LIABILITIES AND FUND BALANCES	$ 3,975	$ 2,302	$ 44,465	$ 813	$ 2,200	$ 3,013	$ 47,478

Capital/ Urban Renewal Bond Construction	Grant Improvement	Capital Improvement	Certificates of Participation/ Capital Leases	Cleveland Stadium Construction	Total Capital Projects Funds	Total Nonmajor Governmental Funds
Capital Projects Funds Non-Budgeted						
$ 91,697	$	$ 5,003	$ 6,491	$ 4,144	$ 107,335	$ 228,376
					-	37,345
	6,490				6,490	24,005
					-	184,659
6			1	1	8	12
					-	5,675
6	6,490	-	1	1	6,498	251,696
					-	11,687
					-	11,685
					-	1,172
$ 91,703	$ 6,490	$ 5,003	$ 6,492	$ 4,145	$ 113,833	$ 504,616
$ 1,476	$ 201	$ 2,707	$ 858	$	$ 5,242	$ 8,268
					-	2,992
98					98	95,828
	50				50	53,277
		18			18	11,997
	6,239				6,239	20,963
1,574	6,490	2,725	858	-	11,647	193,325
					-	1,172
90,129		2,186	5,634	4,145	102,094	204,590
		92			92	105,624
					-	1
					-	(96)
90,129	-	2,278	5,634	4,145	102,186	311,291
$ 91,703	$ 6,490	$ 5,003	$ 6,492	$ 4,145	$ 113,833	$ 504,616

(Concluded)

CITY OF CLEVELAND, OHIO

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS YEAR ENDED DECEMBER 31, 2011
(Amounts in 000's)

	Special Revenue Funds - Budgeted			
	Division of Streets	Restricted Income Tax	Cleveland Stadium Operations	Total Budgeted Funds
REVENUES:				
Income taxes	$	$ 34,651	$	$ 34,651
Property taxes				-
Other taxes and shared revenues	13,175		13,129	26,304
Licenses and permits	1,259			1,259
Charges for services	46		250	296
Fines, forfeits and settlements				-
Investment earnings		17	10	27
Grants				-
Contributions				-
Miscellaneous				
Total revenues	14,480	34,668	13,389	62,537
EXPENDITURES:				
Current:				
General Government				-
Public Service	19,449			19,449
Public Safety				-
Community Development				-
Building and Housing				-
Public Health				-
Parks, Recreation and Properties			795	795
Economic Development				-
Capital outlay		5,892		5,892
Debt service:				
Principal retirement		2,707		2,707
Interest		307		307
General Government				-
Other				-
Total expenditures	19,449	8,906	795	29,150
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(4,969)	25,762	12,594	33,387
OTHER FINANCING SOURCES (USES):				
Transfers in	6,130		500	6,630
Transfers out		(25,555)	(13,139)	(38,694)
Issuance of debt				-
Premium on bonds and notes				-
Discount on bonds and notes				-
Sale of City assets				-
Proceeds from capital lease				-
Total other financing sources (uses)	6,130	(25,555)	(12,639)	(32,064)
NET CHANGE IN FUND BALANCES	1,161	207	(45)	1,323
FUND BALANCES AT BEGINNING OF YEAR (as restated)	525	11,668	(51)	12,142
FUND BALANCES AT END OF YEAR	$ 1,686	$ 11,875	$ (96)	$ 13,465

Special Revenue Funds - Non-Budgeted							
Community Development Block Grants	Community Development Funds	Building and Housing Funds	Urban Development Action Funds	Economic Development Funds	Home Weatherization Grants	WIA Grants	General Government Funds
$	$	$	$	$	$	$	$
				1,974			
4,421	284						675
							3,172
	1			23			16
29,296	27,594	5,698		2,088	10,718	2,096	1,505
							22
320			1,566	699			
34,037	27,879	5,698	1,566	4,784	10,718	2,096	5,390
						2,096	5,762
33,447	29,517				10,718		
		5,698					
			7,790	5,734			
590							
34,037	29,517	5,698	7,790	5,734	10,718	2,096	5,762
-	(1,638)	-	(6,224)	(950)	-	-	(372)
							1,616
			(7,929)	(2,378)			
				500			
-	-	-	(7,929)	(1,878)	-	-	1,616
-	(1,638)	-	(14,153)	(2,828)	-	-	1,244
	8,143		78,755	24,391			11,159
$ -	$ 6,505	$ -	$ 64,602	$ 21,563	$ -	$ -	$ 12,403

(Continued)

CITY OF CLEVELAND, OHIO

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2011
(Amounts in 000's)

	Special Revenue Funds - Non-Budgeted					
	Public Service Funds	Public Safety Funds	Public Health Funds	Parks, Recreation and Properties Funds	Cleveland Stadium Debt Service Fund	Gateway Shared Income Tax Funds
REVENUES:						
Income taxes	$	$	$	$	$	$
Property taxes						
Other taxes and shared revenues						117
Licenses and permits			1,357	37		
Charges for services	88					
Fines, forfeits and settlements		1,731				
Investment earnings	3	16	1	1	33	
Grants	20	8,556	13,228	1,338		
Contributions		7				
Miscellaneous		82	8	67		
Total revenues	111	10,392	14,594	1,443	33	117
EXPENDITURES:						
Current:						
General Government						117
Public Service	21					
Public Safety		9,415				
Community Development						
Building and Housing						
Public Health			14,709			
Parks, Recreation and Properties				1,736		
Economic Development						
Capital outlay				5		
Debt service:						
Principal retirement					5,990	
Interest					6,382	
General Government						
Other						
Total expenditures	21	9,415	14,709	1,741	12,372	117
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	90	977	(115)	(298)	(12,339)	-
OTHER FINANCING SOURCES (USES):						
Transfers in					13,139	
Transfers out						
Issuance of debt						
Premium on bonds and notes						
Discount on bonds and notes						
Sale of City assets						
Proceeds from capital lease						
Total other financing sources (uses)	-	-	-	-	13,139	-
NET CHANGE IN FUND BALANCES	90	977	(115)	(298)	800	-
FUND BALANCES AT BEGINNING OF YEAR (as restated)	1,749	4,272	444	3,131	21,818	
FUND BALANCES AT END OF YEAR	$ 1,839	$ 5,249	$ 329	$ 2,833	$ 22,618	$ -

Special Revenue Funds - Non-Budgeted					Debt Service Funds - Budgeted			
Neighborhood Development Investment Fund	Core City Program Funds	Supplemental Empowerment Zone	Total Non-Budgeted Funds	Total Special Revenue Funds	Unvoted Tax Supported Obligations Fund	Stadium Bond Fund	Subordinated Income Tax Fund	Lower Euclid Avenue TIF
$	$	$	$ -	$ 34,651	$	$	$	$
			-	-	19,331			
223			2,314	28,618	5,024			
			1,394	2,653				
			5,468	5,764				
			4,903	4,903				
5	54	1	154	181	9	1	3	
		66	102,203	102,203				
			29	29				
			2,742	2,742				
228	54	67	119,207	181,744	24,364	1	3	-
			7,975	7,975				
			21	19,470				
			9,415	9,415				
			73,682	73,682				
			5,698	5,698				
			14,709	14,709				
			1,736	2,531				
1,251	3,106	67	17,948	17,948				
	300		895	6,787				
			5,990	8,697	29,720	1,055	2,810	764
			6,382	6,689	15,224	577	2,791	144
			-	-				
			-	-				
1,251	3,406	67	144,451	173,601	44,944	1,632	5,601	908
(1,023)	(3,352)	-	(25,244)	8,143	(20,580)	(1,631)	(5,598)	(908)
			14,755	21,385	19,876	1,632	5,674	1,118
	(3,116)		(13,423)	(52,117)				
			-	-				
			-	-				
			-	-				
			500	500				
			-	-				
-	(3,116)	-	1,832	(30,232)	19,876	1,632	5,674	1,118
(1,023)	(6,468)	-	(23,412)	(22,089)	(704)	1	76	210
22,564	29,241		205,667	217,809	2,192		2,357	45
$ 21,541	$ 22,773	$ -	$ 182,255	$ 195,720	$ 1,488	$ 1	$ 2,433	$ 255

(Continued)

CITY OF CLEVELAND, OHIO

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2011
(Amounts in 000's)

	Debt Service Funds Budgeted			Debt Service Funds Non-Budgeted			
	Core City Bonds	Subordinate Lien Income Tax Fund	Total Budgeted Funds	Urban Renewal Fund	Urban Renewal Reserve Fund	Total Non-Budgeted Funds	Total Debt Service Funds
REVENUES:							
Income taxes	$	$	$ -	$	$	$ -	$ -
Property taxes			19,331			-	19,331
Other taxes and shared revenues			5,024			-	5,024
Licenses and permits			-			-	-
Charges for services			-			-	-
Fines, forfeits and settlements			-			-	-
Investment earnings	1	3	17		1	1	18
Grants			-			-	-
Contributions			-			-	-
Miscellaneous		546	546	976		976	1,522
Total revenues	1	549	24,918	976	1	977	25,895
EXPENDITURES:							
Current:							
General Government			-			-	-
Public Service			-			-	-
Public Safety			-			-	-
Community Development			-			-	-
Building and Housing			-			-	-
Public Health			-			-	-
Parks, Recreation and Properties			-			-	-
Economic Development			-			-	-
Capital outlay			-			-	-
Inception of capital lease			-			-	-
Debt service:							
Principal retirement	1,385	2,520	38,254	530		530	38,784
Interest	856	3,747	23,339	344		344	23,683
General Government	396		396	42		42	438
Other			-			-	-
Total expenditures	2,637	6,267	61,989	916	-	916	62,905
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,636)	(5,718)	(37,071)	60	1	61	(37,010)
OTHER FINANCING SOURCES (USES):							
Transfers in	3,416	6,288	38,004			-	38,004
Transfers out			-			-	-
Issuance of debt			-			-	-
Premium on bonds and notes			-			-	-
Discount on bonds and notes			-			-	-
Sale of City assets			-			-	-
Proceeds from capital lease			-			-	-
Total other financing sources (uses)	3,416	6,288	38,004	-	-	-	38,004
NET CHANGE IN FUND BALANCES	780	570	933	60	1	61	994
FUND BALANCES AT BEGINNING OF YEAR (as restated)	3,113	1,732	9,439	753	2,199	2,952	12,391
FUND BALANCES AT END OF YEAR	$ 3,893	$ 2,302	$ 10,372	$ 813	$ 2,200	$ 3,013	$ 13,385

Capital Projects Funds Non-Budgeted						
Capital/ Urban Renewal Bond Construction	Grant Improvement	Capital Improvement	Certificates of Participation/ Capital Leases	Cleveland Stadium Construction	Total Capital Projects Funds	Total Nonmajor Governmental Funds
$	$	$	$	$	$ -	$ 34,651
					-	19,331
					-	33,642
					-	2,653
					-	5,764
					-	4,903
73		3	7	8	91	290
	13,982				13,982	116,185
		23			23	52
		280			280	4,544
73	13,982	306	7	8	14,376	222,015
27					27	8,002
					-	19,470
					-	9,415
					-	73,682
					-	5,698
					-	14,709
					-	2,531
					-	17,948
41,914	13,982	344		1,198	57,438	64,225
			4,566		4,566	4,566
					-	47,481
256					256	30,628
					-	438
315					315	315
42,512	13,982	344	4,566	1,198	62,602	299,108
(42,439)	-	(38)	(4,559)	(1,190)	(48,226)	(77,093)
				850	850	60,239
(608)					(608)	(52,725)
31,260					31,260	31,260
1,105					1,105	1,105
(217)					(217)	(217)
					-	500
			6,615		6,615	6,615
31,540	-	-	6,615	850	39,005	46,777
(10,899)	-	(38)	2,056	(340)	(9,221)	(30,316)
101,028		2,316	3,578	4,485	111,407	341,607
$ 90,129	$ -	$ 2,278	$ 5,634	$ 4,145	$ 102,186	$ 311,291

(Concluded)

CITY OF CLEVELAND, OHIO

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-BUDGETED SPECIAL REVENUE FUNDS-LEGAL APPROPRIATION LEVEL FOR THE YEAR ENDED DECEMBER 31, 2011

(Amounts in 000's)

	Division of Streets				Restricted Income Tax			
	Original Budget	Revised Budget	Actual	Variance-Positive (Negative)	Original Budget	Revised Budget	Actual	Variance-Positive (Negative)
REVENUES:								
Income taxes				$ -	$ 33,223	$ 33,223	$ 34,466	$ 1,243
Other taxes and shared revenues	13,149	13,149	13,242	93				-
Licenses and permits	1,398	1,398	1,368	(30)				-
Charges for services	4,430	4,430	3,098	(1,332)				-
Investment earnings	1	1		(1)	40	40	17	(23)
Miscellaneous			2	2				-
Total revenues	18,978	18,978	17,710	(1,268)	33,263	33,263	34,483	1,220
EXPENDITURES:								
Public Service:								
Personnel	14,445	13,895	13,598	297				-
Other	11,041	11,041	10,147	894				-
Parks, Recreation and Properties:								
Other				-				-
Capital outlay				-	4,941	4,941	4,941	-
Principal retirement				-	2,707	2,707	2,707	-
Interest				-	307	307	307	-
Total expenditures	25,486	24,936	23,745	1,191	7,955	7,955	7,955	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(6,508)	(5,958)	(6,035)	(77)	25,308	25,308	26,528	1,220
OTHER FINANCING SOURCES (USES):								
Transfers in	6,507	6,107	6,130	23				-
Transfers out				-	(25,555)	(25,555)	(25,555)	-
Total other financing sources (uses)	6,507	6,107	6,130	23	(25,555)	(25,555)	(25,555)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(1)	149	95	(54)	(247)	(247)	973	1,220
DECERTIFICATION OF PRIOR YEAR ENCUMBRANCES AND PRE-ENCUMBRANCES			22	22			476	476
FUND BALANCES AT BEGINNING OF YEAR	1	1	1	-	247	247	247	-
FUND BALANCES AT END OF YEAR	$ -	$ 150	$ 118	$ (32)	$ -	$ -	$ 1,696	$ 1,696

Rainy Day Reserve Fund				Schools Recreation and Cultural Activities			
Original Budget	Revised Budget	Actual	Variance- Positive (Negative)	Original Budget	Revised Budget	Actual	Variance- Positive (Negative)
$	$	$	$ -	$	$	$	$ -
			-				-
			-				-
			-				-
		19	19				-
			-				-
-	-	19	19	-	-	-	-
			-				-
			-				-
			-	1,000	1,000	1,000	-
			-				-
			-				-
			-				-
-	-	-	-	1,000	1,000	1,000	-
-	-	19	19	(1,000)	(1,000)	(1,000)	-
		5,000	5,000	1,000	1,000	1,000	-
(7,500)	(7,500)		7,500				-
(7,500)	(7,500)	5,000	12,500	1,000	1,000	1,000	-
(7,500)	(7,500)	5,019	12,519				-
			-				-
8,532	8,532	8,532	-				-
$ 1,032	$ 1,032	$ 13,551	$ 12,519	$ -	$ -	$ -	$ -

(Continued)

CITY OF CLEVELAND, OHIO

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)- BUDGETED SPECIAL REVENUE FUNDS-LEGAL APPROPRIATION LEVEL FOR THE YEAR ENDED DECEMBER 31, 2011

(Amounts in 000's)

	Cleveland Stadium Operations				Totals			
	Original Budget	Revised Budget	Actual	Variance-Positive (Negative)	Original Budget	Revised Budget	Actual	Variance-Positive (Negative)
REVENUES:								
Income taxes	$	$	$	$ -	$ 33,223	$ 33,223	$ 34,466	$ 1,243
Other taxes and shared revenues	13,750	13,750	13,128	(622)	26,899	26,899	26,370	(529)
Licenses and permits				-	1,398	1,398	1,368	(30)
Charges for services	250	250	250	-	4,680	4,680	3,348	(1,332)
Investment earnings			10	10	41	41	46	5
Miscellaneous				-			2	2
Total revenues	14,000	14,000	13,388	(612)	66,241	66,241	65,600	(641)
EXPENDITURES:								
Public Service:								
Personnel				-	14,445	13,895	13,598	297
Other	700	700	568	132	11,741	11,741	10,715	1,026
Parks, Recreation and Properties:								
Other				-	1,000	1,000	1,000	-
Capital outlay				-	4,941	4,941	4,941	-
Principal retirement				-	2,707	2,707	2,707	-
Interest				-	307	307	307	-
Total expenditures	700	700	568	132	35,141	34,591	33,268	1,323
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	13,300	13,300	12,820	(480)	31,100	31,650	32,332	682
OTHER FINANCING SOURCES (USES):								
Transfers in	500	500	500	-	8,007	7,607	12,630	5,023
Transfers out	(13,800)	(13,800)	(13,139)	661	(46,855)	(46,855)	(38,694)	8,161
Total other financing sources (uses)	(13,300)	(13,300)	(12,639)	661	(38,848)	(39,248)	(26,064)	13,184
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES			181	181	(7,748)	(7,598)	6,268	13,866
DECERTIFICATION OF PRIOR YEAR ENCUMBRANCES AND PRE-ENCUMBRANCES			86	86			584	584
FUND BALANCES AT BEGINNING OF YEAR				-	8,780	8,780	8,780	-
FUND BALANCES AT END OF YEAR	$ -	$ -	$ 267	$ 267	$ 1,032	$ 1,182	$ 15,632	$ 14,450

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CITY OF CLEVELAND, OHIO

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) BUDGETED DEBT SERVICE FUNDS-LEGAL APPROPRIATION LEVEL FOR THE YEAR ENDED DECEMBER 31, 2011

(Amounts in 000's)

	Unvoted Tax Supported Obligations Fund				Stadium Bond Fund			
	Original Budget	Revised Budget	Actual	Variance-Positive (Negative)	Original Budget	Revised Budget	Actual	Variance-Positive (Negative)
REVENUES:								
Property taxes	$ 19,865	$ 19,865	$ 19,331	$ (534)	$	$	$	$ -
Other taxes and shared revenues	4,996	4,996	5,024	28				-
Investment earnings	25	25	9	(16)			1	1
Miscellaneous				-				-
Total revenues	24,886	24,886	24,364	(522)	-	-	1	1
EXPENDITURES:								
Principal retirement	29,715	29,715	29,720	(5)	1,055	1,055	1,055	-
Interest	15,400	15,400	15,224	176	577	577	577	-
General Government				-				-
Total expenditures	45,115	45,115	44,944	171	1,632	1,632	1,632	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(20,229)	(20,229)	(20,580)	(351)	(1,632)	(1,632)	(1,631)	1
OTHER FINANCING SOURCES (USES):								
Transfers in:								
From other subfunds			601	601	1,632	1,632	1,632	-
Restricted income tax fund	19,275	19,275	19,275	-				-
Total other financing sources (uses)	19,275	19,275	19,876	601	1,632	1,632	1,632	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(954)	(954)	(704)	250	-	-	1	1
FUND BALANCES AT BEGINNING OF YEAR	2,192	2,192	2,192	-				-
FUND BALANCES AT END OF YEAR	$ 1,238	$ 1,238	$ 1,488	$ 250	$ -	$ -	$ 1	$ 1

Subordinated Income Tax Fund				Lower Euclid Avenue TIF				Core City Bonds			
Original Budget	Revised Budget	Actual	Variance-Positive (Negative)	Original Budget	Revised Budget	Actual	Variance-Positive (Negative)	Original Budget	Revised Budget	Actual	Variance-Positive (Negative)
$	$	$	$ -	$	$	$	$ -	$	$	$	$ -
			-				-				-
		3	3				-			1	1
			-				-				-
-	-	3	3	-	-	-	-	-	-	1	1
2,810	2,810	2,810	-	764	764	764	-	1,385	1,385	1,385	-
2,791	2,791	2,791	-	144	144	144	-	1,307	1,307	856	451
			-				-	388	388	318	70
5,601	5,601	5,601	-	908	908	908	-	3,080	3,080	2,559	521
(5,601)	(5,601)	(5,598)	3	(908)	(908)	(908)	-	(3,080)	(3,080)	(2,558)	522
5,674	5,674	5,674	-	908	908	1,118	210	1,857	1,857	3,416	1,559
			-				-				-
5,674	5,674	5,674	-	908	908	1,118	210	1,857	1,857	3,416	1,559
73	73	76	3	-	-	210	210	(1,223)	(1,223)	858	2,081
2,357	2,357	2,357	-	45	45	45	-	3,117	3,117	3,117	-
$ 2,430	$ 2,430	$ 2,433	$ 3	$ 45	$ 45	$ 255	$ 210	$ 1,894	$ 1,894	$ 3,975	$ 2,081

(Continued)

CITY OF CLEVELAND, OHIO

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) BUDGETED DEBT SERVICE FUNDS-LEGAL APPROPRIATION LEVEL FOR THE YEAR ENDED DECEMBER 31, 2011

(Amounts in 000's)

	Subordinate Lien Income Tax Bonds				Totals			
	Original Budget	Revised Budget	Actual	Variance-Positive (Negative)	Original Budget	Revised Budget	Actual	Variance-Positive (Negative)
REVENUES:								
Property taxes	$	$	$	$ -	$ 19,865	$ 19,865	$ 19,331	$ (534)
Other taxes and shared revenues				-	4,996	4,996	5,024	28
Investment earnings			3	3	25	25	17	(8)
Miscellaneous	546	546	546	-	546	546	546	-
Total revenues	546	546	549	3	25,432	25,432	24,918	(514)
EXPENDITURES:								
Principal retirement	2,520	2,520	2,520	-	38,249	38,249	38,254	(5)
Interest	3,747	3,747	3,747	-	23,966	23,966	23,339	627
General Government				-	388	388	318	70
Total expenditures	6,267	6,267	6,267	-	62,603	62,603	61,911	692
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(5,721)	(5,721)	(5,718)	3	(37,171)	(37,171)	(36,993)	178
OTHER FINANCING SOURCES (USES):								
Transfers in:								
From other subfunds			7	7	10,071	10,071	12,448	2,377
Restricted income tax fund	6,281	6,281	6,281	-	25,556	25,556	25,556	-
Total other financing sources (uses)	6,281	6,281	6,288	7	35,627	35,627	38,004	2,377
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	560	560	570	10	(1,544)	(1,544)	1,011	2,555
FUND BALANCES AT BEGINNING OF YEAR	1,732	1,732	1,732	-	9,443	9,443	9,443	-
FUND BALANCES AT END OF YEAR	$ 2,292	$ 2,292	$ 2,302	$ 10	$ 7,899	$ 7,899	$ 10,454	$ 2,555

(Concluded)

CITY OF CLEVELAND, OHIO

NONMAJOR ENTERPRISE FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private sector businesses where the intent of the governing body is that the expense (including depreciation) of providing goods or services primarily or solely to the general public be financed or recovered primarily through user charges. The City's nonmajor Enterprise Funds are as follows:

Water Pollution Control	The Division of Water Pollution Control is a segment of the Department of Public Utilities of the City. The Division of Water Pollution Control was created for the purpose of providing sewage services to customers and to maintain the local sewer system of the City.
Public Auditorium	The Public Auditorium is a multi-purpose performing arts, entertainment and conference center. It was constructed in the grand opera tradition and features a spacious 21,780 square foot registration lobby, a 10,000 seat auditorium, the 3,000 seat Cleveland Music Hall and 600 seat Little Theater.
West Side Market	The West Side Market provides a public market where Cleveland area residents can purchase a variety of quality foods in a centralized location.
East Side Market	The East Side Market provides a public market where Cleveland area residents can purchase a variety of quality foods in a centralized location.
Municipal Parking Lots	The Division of Parking was established to provide municipal parking within the City's limits.
Cemeteries	The Division of Cemeteries was established to provide interment and cremation services for the City and its neighboring communities.
Golf Courses	The Golf Course Division was established to provide the City and neighboring communities with recreational facilities for golfing and cross country skiing.

CITY OF CLEVELAND, OHIO

COMBINING BALANCE SHEET - NONMAJOR ENTERPRISE FUNDS
DECEMBER 31, 2011
(Amounts in 000's)

	Water Pollution Control	Public Auditorium	West Side Market	East Side Market
ASSETS				
Current assets:				
Cash and cash equivalents	$ 38,560	$ 87	$ 951	$ 109
Receivables:				
Accounts	115,207	165		
Unbilled revenue	2,949			
Accrued interest				
Less: Allowance for doubtful accounts	(5,932)	(79)		
Receivables, net	112,224	86	-	-
Due from other funds	416			
Inventory of supplies	319			
Total current assets	151,519	173	951	109
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	1,081			
Investments				
Total restricted assets	1,081	-	-	-
Unamortized bond issuance costs				
Capital assets:				
Land	297	4,261	198	414
Land improvements				484
Utility plant	131,132			
Buildings, structures and improvements	8,948	20,166	12,898	2,400
Furniture, fixtures, equipment and vehicles	12,481	1,149	1,647	450
Construction in progress	9,340	1,394	129	
Less: Accumulated depreciation	(93,179)	(21,230)	(6,508)	(2,344)
Total capital assets, net	69,019	5,740	8,364	1,404
Total noncurrent assets	70,100	5,740	8,364	1,404
TOTAL ASSETS	$ 221,619	$ 5,913	$ 9,315	$ 1,513

Municipal Parking Lots	Cemeteries	Golf Courses	Total Nonmajor Enterprise Funds
$ 1,762	$ 76	$ 108	$ 41,653
7	16	5	115,400
			2,949
6	1		7
			(6,011)
13	17	5	112,345
48			464
136	1	6	462
1,959	94	119	154,924
9,093	476		10,650
4,095	6,070		10,165
13,188	6,546	-	20,815
1,515			1,515
5,478	1,259	1,822	13,729
1,256	955	4,033	6,728
			131,132
53,719	6,126	1,815	106,072
1,250	924	584	18,485
	3,676		14,539
(24,130)	(3,358)	(4,634)	(155,383)
37,573	9,582	3,620	135,302
52,276	16,128	3,620	157,632
$ 54,235	$ 16,222	$ 3,739	$ 312,556

(Continued)

CITY OF CLEVELAND, OHIO

COMBINING BALANCE SHEET - NONMAJOR ENTERPRISE FUNDS
DECEMBER 31, 2011
(Amounts in 000's)

	Water Pollution Control	Public Auditorium	West Side Market	East Side Market
LIABILITIES				
Current liabilities:				
Accounts payable	$ 1,429	$ 99	$ 132	$ 9
Accrued wages and benefits	1,562	116	39	
Due to other funds	9,420	43	6	
Due to other governments	105,837			
Accrued interest payable				
Current portion of long-term obligations	505			
Total current liabilities	118,753	258	177	9
Long-term liabilities:				
Accrued wages and benefits	144	16	4	
Construction loans payable	2,338			
Revenue bonds payable				
Derivative instruments-interest rate swaps				
Total liabilities	121,235	274	181	9
NET ASSETS				
Invested in capital assets, net of related debt	66,176	5,740	8,364	1,404
Restricted for debt service				
Unrestricted	34,208	(101)	770	100
Total net assets	100,384	5,639	9,134	1,504
TOTAL LIABILITIES AND NET ASSETS	$ 221,619	$ 5,913	$ 9,315	$ 1,513

Municipal Parking Lots	Cemeteries	Golf Courses	Total Nonmajor Enterprise Funds
$ 753	$ 4	$ 1	$ 2,427
142	136	52	2,047
67	24	1	9,561
185			106,022
499			499
2,420			2,925
4,066	164	54	123,481
28	27	17	236
			2,338
30,447			30,447
782			782
35,323	191	71	157,284
7,943	9,582	3,620	102,829
5,578			5,578
5,391	6,449	48	46,865
18,912	16,031	3,668	155,272
$ 54,235	$ 16,222	$ 3,739	$ 312,556

(Concluded)

CITY OF CLEVELAND, OHIO

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS-NONMAJOR ENTERPRISE FUNDS FOR THE YEAR ENDED DECEMBER 31, 2011
(Amounts in 000's)

	Water Pollution Control	Public Auditorium	West Side Market	East Side Market
OPERATING REVENUES:				
Charges for services	$ 22,199	$ 790	$ 1,287	$
Total operating revenue	22,199	790	1,287	-
OPERATING EXPENSES:				
Operations	9,315	2,612	981	39
Maintenance	8,835	3	15	
Depreciation	4,734	14	681	60
Total operating expenses	22,884	2,629	1,677	99
OPERATING INCOME (LOSS)	(685)	(1,839)	(390)	(99)
NON-OPERATING REVENUE (EXPENSES):				
Investment income	53		1	
Interest expense	(121)			
Loss on disposal of capital assets				
Other revenues (expenses)	53			
Total non-operating revenues (expenses)	(15)	-	1	-
INCOME (LOSS) BEFORE CONTRIBUTIONS, SPECIAL ITEMS AND TRANSFERS	(700)	(1,839)	(389)	(99)
Capital contributions	1,980	1,395	105	
Special items - Gain on Sale of Capital Assets				
Transfers in		1,219		
CHANGE IN NET ASSETS	1,280	775	(284)	(99)
NET ASSETS AT BEGINNING OF YEAR	99,104	4,864	9,418	1,603
NET ASSETS AT END OF YEAR	$ 100,384	$ 5,639	$ 9,134	$ 1,504

Municipal Parking Lots	Cemeteries	Golf Courses	Total Nonmajor Enterprise Funds
$ 8,453	$ 1,393	$ 478	$ 34,600
8,453	1,393	478	34,600
3,729	1,660	1,019	19,355
27	4	26	8,910
1,722	231	176	7,618
5,478	1,895	1,221	35,883
2,975	(502)	(743)	(1,283)
(773)	104		(615)
(8,649)			(8,770)
		(4)	(4)
(1,068)	74	94	(847)
(10,490)	178	90	(10,236)
(7,515)	(324)	(653)	(11,519)
	2,134		5,614
5,125			5,125
	290	522	2,031
(2,390)	2,100	(131)	1,251
21,302	13,931	3,799	154,021
$ 18,912	$ 16,031	$ 3,668	$ 155,272

CITY OF CLEVELAND, OHIO

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Amounts in 000's)

	Water Pollution Control	Public Auditorium	West Side Market	East Side Market
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	$ 22,328	$ 867	$ 1,292	$
Cash payments to suppliers for goods or services	(6,154)	(1,479)	(640)	(37)
Cash payments to employees for services	(10,227)	(1,319)	(355)	
Agency activity on behalf of other sewer authorities	(681)			
Net cash provided by (used for) operating activities	5,266	(1,931)	297	(37)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Cash received through transfers from other funds		1,219		
Cash receipts from various parties				
Net cash provided by (used for) noncapital financing activities	-	1,219	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from the sale of capital assets				
Acquisition and construction of capital assets	(5,750)			
Principal paid on long-term debt	(486)			
Interest paid on long-term debt	(121)			
Cash paid to escrow agent for refunding				
Capital grant proceeds	1,980			
Net cash provided by (used for) capital and related financing activities	(4,377)	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of investment securities				
Interest received on investments	53		1	
Net cash provided by (used for) investing activities	53	-	1	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	942	(712)	298	(37)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	38,699	799	653	146
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 39,641	$ 87	$ 951	$ 109

Municipal Parking Lots	Cemeteries	Golf Courses	Total Nonmajor Enterprise Funds
$ 8,984	$ 1,378	$ 478	$ 35,327
(3,495)	(452)	(466)	(12,723)
(1,055)	(1,228)	(618)	(14,802)
			(681)
4,434	(302)	(606)	7,121
	290	522	2,031
	72	89	161
-	362	611	2,192
20,162			20,162
			(5,750)
(3,425)			(3,911)
(2,695)			(2,816)
(21,545)			(21,545)
			1,980
(7,503)	-	-	(11,880)
(4,095)	(6,022)		(10,117)
3	55		112
(4,092)	(5,967)	-	(10,005)
(7,161)	(5,907)	5	(12,572)
18,016	6,459	103	64,875
$ 10,855	$ 552	$ 108	$ 52,303

(Continued)

CITY OF CLEVELAND, OHIO

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Amounts in 000's)

	Water Pollution Control	Public Auditorium	West Side Market	East Side Market
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Operating income (loss)	$ (685)	$ (1,839)	$ (390)	$ (99)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	4,734	14	681	60
Changes in assets and liabilities:				
Receivables, net	2,113	82	1	
Due from other funds	2	2		
Inventory of supplies	(74)			
Accounts payable	1,058	(92)	5	2
Accrued wages and benefits	(45)	(38)	6	
Due to other funds	571	(60)	(6)	
Due to other governments	(2,408)			
Total adjustments	5,951	(92)	687	62
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 5,266	$ (1,931)	$ 297	$ (37)

Municipal Parking Lots	Cemeteries	Golf Courses	Total Nonmajor Enterprise Funds
$ 2,975	$ (502)	$ (743)	$ (1,283)
1,722	231	176	7,618
13	(15)		2,194
51			55
(105)		23	(156)
(145)	(5)	(13)	810
(1)	(18)	(44)	(140)
(76)	7	(5)	431
			(2,408)
1,459	200	137	8,404
$ 4,434	$ (302)	$ (606)	$ 7,121

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INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department of the City to other departments of the City on a cost-reimbursement basis. The City's Internal Service Funds are described below:

Motor Vehicle Maintenance	The Division of Motor Vehicle Maintenance was established to provide centralized maintenance, repairs and fueling of certain City vehicles.
Printing and Reproduction	The Division of Printing and Reproduction was established to provide printing and reproduction services for all City divisions.
City Storeroom and Warehouse	The City's Storeroom and Warehouse Division provides centralized mailroom service.
Utilities Administration	The Division of Utilities Administration was established to provide administrative assistance to the Department of Public Utilities.
Sinking Fund Administration	The Sinking Fund Administration Fund was established to account for personnel and other operating expenditures related to the administration of the Debt Service Fund.
Municipal Income Tax Administration	The Municipal Income Tax Administration Fund was established to account for operating expenditures related to the collection of municipal income tax for Cleveland and other municipalities.
Telephone Exchange	The Division of Telephone Exchange was established to operate the communications system for the City at minimal cost.
Radio Communications	The Office of Radio Communications was established to operate the 800MHZ radio communication system.
Workers' Compensation Reserve	The Workers' Compensation Reserve was established to account for liabilities related to workers' compensation claims under the retrospective rating policy.

CITY OF CLEVELAND, OHIO

COMBINING BALANCE SHEET - ALL INTERNAL SERVICE FUNDS
DECEMBER 31, 2011
(Amounts in 000's)

	Motor Vehicle Maintenance	Printing and Reproduction	City Storeroom and Warehouse	Utilities Administration
ASSETS				
Current assets:				
Cash and cash equivalents	$ 3,459	$ 501	$ 111	$ 707
Due from other funds	1,705	330	31	
Inventory of supplies	1,079	145		
Total current assets	6,243	976	142	707
Capital assets:				
Land	663			
Land improvements	146			
Buildings, structures and improvements	2,673	884		
Furniture, fixtures, equipment and vehicles	6,244	1,061		1,146
Construction in progress	190			
Less: Accumulated depreciation	(7,486)	(985)		(549)
Total capital assets, net	2,430	960	-	597
Total noncurrent assets	2,430	960	-	597
TOTAL ASSETS	$ 8,673	$ 1,936	$ 142	$ 1,304

Sinking Fund Administration	Municipal Income Tax Administration	Telephone Exchange	Radio Communications	Workers' Compensation Reserve	Total
$ 3	$ 1,272	$ 316	$ 1,002	$ 7,870	$ 15,241
92		376	251	7,488	10,273
					1,224
95	1,272	692	1,253	15,358	26,738
					663
					146
					3,557
	65	117	25		8,658
					190
	(3)	(117)	(15)		(9,155)
-	62	-	10	-	4,059
-	62	-	10	-	4,059
$ 95	$ 1,334	$ 692	$ 1,263	$ 15,358	$ 30,797

(Continued)

CITY OF CLEVELAND, OHIO

COMBINING BALANCE SHEET - ALL INTERNAL SERVICE FUNDS
DECEMBER 31, 2011
(Amounts in 000's)

	Motor Vehicle Maintenance	Printing and Reproduction	City Storeroom and Warehouse	Utilities Administration
LIABILITIES				
Current liabilities				
Accounts payable	$ 810	$ 79	$ 3	$ 25
Accrued wages and benefits	697	104	13	694
Due to other funds	18	24	29	5
Due to other governments				
Total current liabilities	1,525	207	45	724
Long-term liabilities				
Accrued wages and benefits	174	20	2	136
Total liabilities	1,699	227	47	860
NET ASSETS				
Invested in capital assets, net of related debt	2,430	960		597
Unrestricted	4,544	749	95	(153)
Total net assets	6,974	1,709	95	444
TOTAL LIABILITIES AND NET ASSETS	$ 8,673	$ 1,936	$ 142	$ 1,304

Sinking Fund Administration	Municipal Income Tax Administration	Telephone Exchange	Radio Communications	Workers' Compensation Reserve	Total
$ 4	$ 139	$ 922	$ 462	$	$ 2,444
38	654	159	58		2,417
	124		2		202
	317				317
42	1,234	1,081	522	-	5,380
22	100	47	27	15,358	15,886
64	1,334	1,128	549	15,358	21,266
	62		10		4,059
31	(62)	(436)	704		5,472
31	-	(436)	714	-	9,531
$ 95	$ 1,334	$ 692	$ 1,263	$ 15,358	$ 30,797

(Concluded)

CITY OF CLEVELAND, OHIO

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - ALL INTERNAL SERVICE FUNDS FOR THE YEAR ENDED DECEMBER 31, 2011

(Amounts in 000's)

	Motor Vehicle Maintenance	Printing and Reproduction	City Storeroom and Warehouse	Utilities Administration
OPERATING REVENUES:				
Charges for services	$ 19,257	$ 2,226	$ 808	$ 5,428
Total operating revenue	19,257	2,226	808	5,428
OPERATING EXPENSES:				
Operations	17,399	1,999	831	5,644
Maintenance	905	123		64
Depreciation	286	188		193
Total operating expenses	18,590	2,310	831	5,901
OPERATING INCOME (LOSS)	667	(84)	(23)	(473)
NON-OPERATING REVENUES:				
Investment income	4	1		1
Total non-operating revenues	4	1	-	1
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	671	(83)	(23)	(472)
Capital contributions	178			
Transfers in				
CHANGE IN NET ASSETS	849	(83)	(23)	(472)
NET ASSETS AT BEGINNING OF YEAR	6,125	1,792	118	916
NET ASSETS AT END OF YEAR	$ 6,974	$ 1,709	$ 95	$ 444

Sinking Fund Administration	Municipal Income Tax Administration	Telephone Exchange	Radio Communications	Workers' Compensation Reserve	Total
$ 120	$ 7,923	$ 5,343	$ 1,852	$ 1,449	$ 44,406
120	7,923	5,343	1,852	1,449	44,406
921	7,820	5,981	832	1,449	42,876
	107	575	959		2,733
	3		3		673
921	7,930	6,556	1,794	1,449	46,282
(801)	(7)	(1,213)	58	-	(1,876)
	7	1	1		15
-	7	1	1	-	15
(801)	-	(1,212)	59	-	(1,861)
					178
840					840
39	-	(1,212)	59	-	(843)
(8)		776	655		10,374
$ 31	$ -	$ (436)	$ 714	$ -	$ 9,531

CITY OF CLEVELAND, OHIO

COMBINING STATEMENT OF CASH FLOWS-ALL INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Amounts in 000's)

	Motor Vehicle Maintenance	Printing and Reproduction	City Storeroom and Warehouse
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 19,335	$ 2,077	$ 837
Cash payments to suppliers for goods or services	(12,907)	(1,264)	(762)
Cash payments to employees for services	(5,471)	(809)	(69)
Net cash provided by (used for) operating activities	957	4	6
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Cash received through transfers from other funds			
Net cash provided by (used for) noncapital financing activities	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets			
Net cash provided by (used for) capital and related financing activities	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received on investments	4	1	
Net cash provided by investing activities	4	1	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	961	5	6
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,498	496	105
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 3,459	$ 501	$ 111
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:			
Operating income (loss)	$ 667	$ (84)	$ (23)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	286	188	
Change in assets and liabilities:			
Due from other funds	78	(150)	29
Inventory of supplies	37	19	
Accounts payable	(11)	34	1
Accrued wages and benefits	(100)	3	(12)
Due to other funds		(6)	11
Due to other governments			
Total adjustments	290	88	29
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 957	$ 4	$ 6

	Utilities Administration	Sinking Fund Administration	Municipal Income Tax Administration	Telephone Exchange	Radio Communications	Workers' Compensation Reserve	Total
	$ 5,427	$ 88	$ 7,704	$ 5,387	$ 1,734	$	$ 42,589
	(798)	(746)	(3,033)	(4,859)	(1,253)		(25,622)
	(4,899)	(179)	(4,973)	(1,163)	(418)		(17,981)
	(270)	(837)	(302)	(635)	63	-	(1,014)
		840					840
	-	840	-	-	-	-	840
	(6)		(65)				(71)
	(6)	-	(65)	-	-	-	(71)
	1		7		1		14
	1	-	7	-	1	-	14
	(275)	3	(360)	(635)	64	-	(231)
	982		1,632	951	938	7,870	15,472
	$ 707	$ 3	$ 1,272	$ 316	$ 1,002	$ 7,870	$ 15,241
	$ (473)	$ (801)	$ (7)	$ (1,213)	$ 58	$	$ (1,876)
	193		3		3		673
		(32)		44	(118)	(1,449)	(1,598)
							56
	12	(1)	9	543	123		710
	2	(3)	(70)	(9)	(2)	1,449	1,258
	(4)		(17)		(1)		(17)
			(220)				(220)
	203	(36)	(295)	578	5	-	862
	$ (270)	$ (837)	$ (302)	$ (635)	$ 63	$ -	$ (1,014)

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CITY OF CLEVELAND, OHIO

AGENCY FUNDS

Agency Funds are used to account for assets received and held by the City acting in the capacity of an agent or custodian. The City's Agency Funds are described below:

Municipal Courts	To account for assets received and disbursed by the Municipal Courts as agent or custodian related to Civil and Criminal Court matters.
Central Collection Agency	To account for the collection of the Municipal Income Tax for the City of Cleveland and any other municipalities that employ the Central Collection Agency as their agency.
Other Agencies	To account for miscellaneous assets held by the City for governmental units or individuals.

CITY OF CLEVELAND, OHIO

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Amounts in 000's)

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
MUNICIPAL COURTS				
ASSETS				
Cash and cash equivalents	$ 6,857	$ 23,561	$ 25,634	$ 4,784
Total assets	$ 6,857	$ 23,561	$ 25,634	$ 4,784
LIABILITIES				
Due to others	$ 6,857	$ 23,561	$ 25,634	$ 4,784
Total liabilities	$ 6,857	$ 23,561	$ 25,634	$ 4,784
CENTRAL COLLECTION AGENCY				
ASSETS				
Cash and cash equivalents	$ 6,865	$ 6,371	$ 6,865	$ 6,371
Taxes receivable	20,072	19,361	20,072	19,361
Due from other governments	413	721	413	721
Total assets	$ 27,350	$ 26,453	$ 27,350	$ 26,453
LIABILITIES				
Due to other governments	$ 27,350	$ 26,453	$ 27,350	$ 26,453
Total liabilities	$ 27,350	$ 26,453	$ 27,350	$ 26,453

(Continued)

CITY OF CLEVELAND, OHIO

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Amounts in 000's)

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
OTHER AGENCIES				
ASSETS				
Cash and cash equivalents	$ 19,560	$ 316,746	$ 316,765	$ 19,541
Total assets	$ 19,560	$ 316,746	$ 316,765	$ 19,541
LIABILITIES				
Due to others	$ 19,560	$ 316,746	$ 316,765	$ 19,541
Total liabilities	$ 19,560	$ 316,746	$ 316,765	$ 19,541
TOTALS-ALL AGENCY FUNDS				
ASSETS				
Cash and cash equivalents	$ 33,282	$ 346,678	$ 349,264	$ 30,696
Taxes receivable	20,072	19,361	20,072	19,361
Due from other governments	413	721	413	721
Total assets	$ 53,767	$ 366,760	$ 369,749	$ 50,778
LIABILITIES				
Due to other governments	$ 27,350	$ 26,453	$ 27,350	$ 26,453
Due to others	26,417	340,307	342,399	24,325
Total liabilities	$ 53,767	$ 366,760	$ 369,749	$ 50,778

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CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

CITY OF CLEVELAND, OHIO

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY SOURCE*
DECEMBER 31, 2011
(Amounts in 000's)

Governmental Funds Capital Assets:	
Land	$ 65,525
Land improvements	147,626
Buildings, structures and improvements	615,068
Furniture, fixtures, equipment and vehicles	179,007
Infrastructure	543,908
Construction in progress	87,939
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	$ 1,639,073

Investment in Governmental Funds Capital Assets by Source:	
General obligation bonds	$ 752,160
General Fund and other revenues	373,921
Special Revenue Fund revenues:	
Restricted income taxes	146,526
Federal grants	329,345
Certificates of participation	13,695
Gifts	23,426
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	$ 1,639,073

* This schedule presents only the capital asset balances related to governmental funds, excluding accumulated depreciation. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

CITY OF CLEVELAND, OHIO

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY*
DECEMBER 31, 2011
(Amounts in 000's)

	Total	Land	Land Improvements	Buildings, Structures and Improvements	Furniture, Fixtures, Equipment and Vehicles	Infrastructure	Construction In Progress
General Government:							
General government	$ 339,976	$ 208	$ 1,484	$ 305,566	$ 24,452	$ 3,890	$ 4,376
City Hall	26,058	877		22,439			2,742
Justice Center	29,768			28,922	846		
Charles V. Carr Municipal Center	647		15	632			
Total general government	396,449	1,085	1,499	357,559	25,298	3,890	7,118
Public Service:							
Waste collection	28,747	499		8,269	18,368	1,460	151
Engineering and construction	474,048		20,963		2,617	415,168	35,300
Streets	139,293	1,540	11,510	14,393	18,300	92,935	615
Traffic engineering	5,267			813	2,237	2,200	17
Other	49,705	2,669		32,470	949		13,617
Total public service	697,060	4,708	32,473	55,945	42,471	511,763	49,700
Public Safety:							
Police	121,981	4,805	479	59,187	47,003	162	10,345
Fire	62,891	1,663		29,125	31,945		158
Emergency medical service	15,703			1,069	8,999	5,614	21
Correction	7,613	264		6,570	732		47
Dog pound	1,154			868	283		3
Total public safety	209,342	6,732	479	96,819	88,962	5,776	10,574
Public Health:							
Health and environment	13,277	1,112	36	10,309	1,461	56	303
Total public health	13,277	1,112	36	10,309	1,461	56	303
Parks, Recreation and Properties:							
Park maintenance and properties	97,339	36,852	23,388	16,995	16,476	234	3,394
Research, planning and development	53,606	903	39,786	3,162	90	2,997	6,668
Recreation	111,286	976	42,314	64,229	2,447		1,320
Total parks, recreation and properties	262,231	38,731	105,488	84,386	19,013	3,231	11,382
Community Development:							
Community development	45,785	7,130	7,376	8,990	1,364	15,232	5,693
Total community development	45,785	7,130	7,376	8,990	1,364	15,232	5,693
Economic Development:							
Economic development	10,590	6,027	275	740		379	3,169
Total economic development	10,590	6,027	275	740	-	379	3,169
Building and Housing:							
Building and housing	4,339			320	438	3,581	
Total building and housing	4,339	-	-	320	438	3,581	-
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	$ 1,639,073	$ 65,525	$ 147,626	$ 615,068	$ 179,007	$ 543,908	$ 87,939

* This schedule presents only the capital asset balances related to governmental funds, excluding accumulated depreciation. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

CITY OF CLEVELAND, OHIO

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY*
FOR THE YEAR ENDED DECEMBER 31, 2011
(Amounts in 000's)

	Balance January 1, 2011	Additions	Deductions	Transfers	Balance December 31, 2011
General Government:					
General government	$ 337,925	$ 2,102	$ (19)	$ (32)	$ 339,976
City Hall	20,896	5,162			26,058
Justice Center	29,768				29,768
Charles V. Carr Municipal Center	647				647
Total general government	389,236	7,264	(19)	(32)	396,449
Public Service:					
Waste collection	27,701	2,176	(573)	(557)	28,747
Engineering and construction	467,072	6,980	(23)	19	474,048
Streets	136,735	3,646	(1,075)	(13)	139,293
Traffic engineering	5,202	28		37	5,267
Other	49,538	167			49,705
Total public service	686,248	12,997	(1,671)	(514)	697,060
Public Safety:					
Police	109,988	12,530	(265)	(272)	121,981
Fire	62,149	808	(7)	(59)	62,891
Emergency medical service	16,426	104	(774)	(53)	15,703
Correction	7,628	33		(48)	7,613
Dog pound	1,154				1,154
Total public safety	197,345	13,475	(1,046)	(432)	209,342
Public Health:					
Health and environment	12,312	1,020		(55)	13,277
Total public health	12,312	1,020	-	(55)	13,277
Parks, Recreation and Properties:					
Park maintenance and properties	97,658	390	(248)	(461)	97,339
Research, planning and development	59,045			(5,439)	53,606
Recreation	94,148	11,802		5,336	111,286
Total parks, recreation and properties	250,851	12,192	(248)	(564)	262,231
Community Development:					
Community development	38,640	7,155		(10)	45,785
Total community development	38,640	7,155	-	(10)	45,785
Economic Development:					
Economic development	8,705	1,885			10,590
Total economic development	8,705	1,885	-	-	10,590
Building and Housing:					
Building and housing	4,146	207		(14)	4,339
Total building and housing	4,146	207	-	(14)	4,339
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	$ 1,587,483	$ 56,195	$ (2,984)	$ (1,621)	$ 1,639,073

* This schedule presents only the capital asset balances related to governmental funds, excluding accumulated depreciation. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

STATISTICAL SECTION

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CITY OF CLEVELAND, OHIO
Statistical Section

This part of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the City's overall financial health.

<u>**Contents**</u> | <u>**Page**</u>

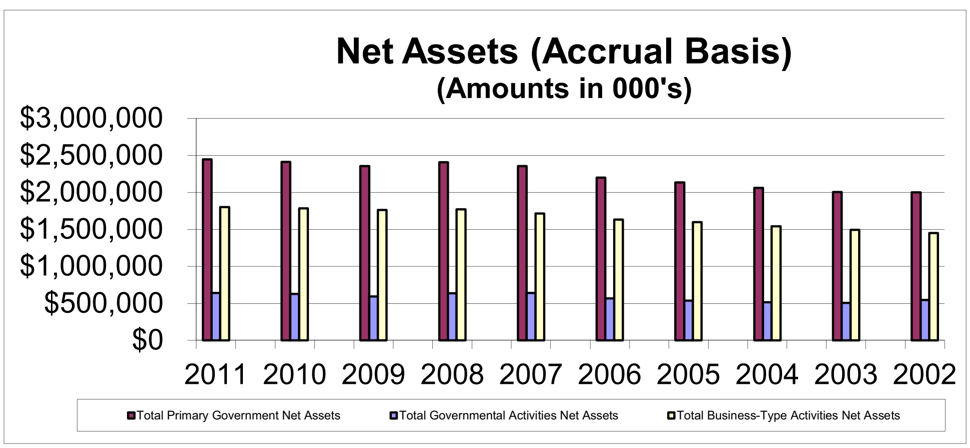
Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

City of Cleveland, Ohio

Net Assets By Component
Last Ten Years
(Accrual Basis of Accounting)
(Amounts in 000's)

	2011	2010	2009	2008
Governmental Activities				
Invested in capital assets,				
net of related debt	$543,460	$557,804	$561,586	$555,076
Restricted	117,765	159,942	166,280	179,318
Unrestricted	(19,771)	(90,565)	(134,033)	(95,968)
Total Governmental Activities Net Assets	$641,454	$627,181	$593,833	$638,426
Business-Type Activities				
Invested in capital assets,				
net of related debt	$1,130,178	$1,080,332	$1,016,182	$985,556
Restricted	234,050	243,511	275,907	272,613
Unrestricted	438,767	462,397	469,010	512,876
Total Business-Type Activities Net Assets	$1,802,995	$1,786,240	$1,761,099	$1,771,045
Primary Government				
Invested in capital assets,				
net of related debt	$1,673,638	$1,638,136	$1,577,768	$1,540,632
Restricted	351,815	403,453	442,187	451,931
Unrestricted	418,996	371,832	334,977	416,908
Total Primary Government Net Assets	$2,444,449	$2,413,421	$2,354,932	$2,409,471

2007	2006	2005	2004	2003	2002
$484,758	$412,430	$395,600	$371,601	$365,946	$373,702
214,811	211,361	193,529	199,038	193,872	185,761
(59,630)	(56,318)	(52,676)	(53,281)	(50,673)	(11,246)
$639,939	$567,473	$536,453	$517,358	$509,145	$548,217
$957,587	$886,978	$838,164	$780,436	$706,207	$677,907
252,514	247,802	287,039	285,256	298,663	291,732
506,745	496,624	474,875	478,229	489,211	481,714
$1,716,846	$1,631,404	$1,600,078	$1,543,921	$1,494,081	$1,451,353
$1,442,345	$1,299,408	$1,233,764	$1,152,037	$1,072,153	$1,051,609
467,325	459,163	480,568	484,294	492,535	477,493
447,115	440,306	422,199	424,948	438,538	470,468
$2,356,785	$2,198,877	$2,136,531	$2,061,279	$2,003,226	$1,999,570



City of Cleveland, Ohio
Changes in Net Assets
Last Ten Years
(Accrual Basis of Accounting)
(Amounts in 000's)

	2011	2010	2009	2008
Program Revenues				
Governmental Activities:				
Charges for Services:				
General Government	$32,248	$31,570	$34,937	$36,824
Public Service	15,665	12,024	5,517	5,517
Public Safety	15,034	13,839	18,296	21,709
Community Development				5,440
Building and Housing	18,072	7,327	13,402	12,323
Public Health	2,931	3,033	3,187	2,893
Parks, Recreation and Properties	694	8,047	1,129	1,351
Economic Development	37	1,469	759	1,057
Subtotal - Charges for Services	84,681	77,309	77,227	87,114
Operating Grants and Contributions:				
General Government	3,673	1,348	1,121	1,789
Public Service	12,897	13,821	13,469	14,317
Public Safety	12,497	8,647	13,192	7,448
Human Resources				
Community Development	68,887	73,563	41,490	42,129
Building and Housing	5,698	9,064	11,857	1,106
Public Health	13,228	12,693	15,048	12,786
Parks, Recreation and Properties	14,467	13,830	14,404	16,417
Economic Development	4,008	8,156	23,984	33,121
Subtotal - Operating Grants and Contributions	135,355	141,122	134,565	129,113
Capital Grants and Contributions:				
General Government	23	41		3,057
Public Service	13,982	11,179	11,680	13,094
Community Development				
Parks, Recreation and Properties				
Subtotal - Capital Grants and Contributions	14,005	11,220	11,680	16,151
Total Governmental Activities Program Revenues	234,041	229,651	223,472	232,378
Business-Type Activities:				
Charges for Services:				
Water	236,626	237,270	228,235	242,872
Electricity	168,448	166,665	155,865	158,237
Airport facilities	114,967	106,696	98,143	111,402
Nonmajor activities	34,600	39,358	43,110	41,950
Subtotal - Charges for Services	554,641	549,989	525,353	554,461
Operating Grants and Contributions:				
Water	3,305	3,553	4,917	8,384
Electricity	883	566	169	2,118
Airport facilities		619	1,232	3,809
Nonmajor activities	278	4,051	3,857	5,557
Subtotal - Operating Grants and Contributions	4,466	8,789	10,175	19,868
Capital Grants and Contributions:				
Water	2,284	7,645	1,677	3,460
Electricity	206	1,035		2,803
Airport facilities	56,385	57,089	44,219	54,646
Nonmajor activities	5,716	19,765	5,429	3,155
Subtotal - Capital Grants and Contributions	64,591	85,534	51,325	64,064
Total Business-Type Activities Program Revenues	623,698	644,312	586,853	638,393
Total Primary Government Program Revenues	$857,739	$873,963	$810,325	$870,771

	2007	2006	2005	2004	2003	2002
	$30,470	$32,311	$22,174	$22,143	$32,878	$26,784
	4,490	5,158	6,208	5,030	4,802	4,259
	21,087	12,773	15,953	16,046	18,822	11,273
	1,203	2				7,081
	10,528	10,701	10,871	11,948	9,673	
	2,979	2,898	2,918	2,262	2,861	2,504
	1,160	746	913	692	1,228	896
	471	4,496	46	118	2,269	107
	72,388	69,085	59,083	58,239	72,533	52,904
	1,994	1,508	1,876	1,865	2,588	1,060
	14,459	14,230	14,234	13,798	12,873	14,832
	5,789	9,364	9,153	7,561	9,677	7,718
						21,545
	50,344	56,882	51,848	59,734	63,295	75,083
	3,353	3,407				
	14,079	13,838	10,963	8,778	7,357	8,323
	16,123	16,232	354	2,427	343	222
	21,077	40,397	42,164	30,704	30,551	20,629
	127,218	155,858	130,592	124,867	126,684	149,412
	5,380	23,839	26,899	14,745	13,203	9,369
	75,871					2
	1,315					
			89	125	66	543
	82,566	23,839	26,988	14,870	13,269	9,914
	282,172	248,782	216,663	197,976	212,486	212,230
	242,014	209,694	222,635	209,622	203,748	215,709
	155,559	146,293	150,263	141,143	139,660	141,690
	105,887	105,711	111,087	110,882	89,958	86,277
	40,614	33,821	33,843	35,079	33,628	33,201
	544,074	495,519	517,828	496,726	466,994	476,877
	11,033	8,242				10,465
	2,589	1,796				1,034
	3,718	2,944	7,726			4,200
	6,399	1,616	100	48	790	76
	23,739	14,598	7,826	48	790	15,775
	7,906	6,817	12,408	5,448	6,687	241
	1,485	1,135	2,285	1,079	1,585	8,633
	73,358	53,280	40,975	50,377	51,211	51,990
	2,591	6,201	5,505	4,698	7,317	4,891
	85,340	67,433	61,173	61,602	66,800	65,755
	653,153	577,550	586,827	558,376	534,584	558,407
	$935,325	$826,332	$803,490	$756,352	$747,070	$770,637

(Continued)

City of Cleveland, Ohio
Changes in Net Assets
Last Ten Years
(Amounts in 000's)

	2011	2010	2009	2008
Expenses				
Governmental Activities:				
General Government	$95,833	$81,898	$90,311	$101,878
Public Service	84,166	93,425	85,947	87,154
Public Safety	308,051	315,900	329,765	329,922
Human Resources				
Community Development	75,778	70,589	59,204	44,550
Building and Housing	14,098	17,445	20,925	15,831
Public Health	19,596	19,740	22,999	20,351
Parks, Recreation and Properties	55,411	46,963	58,799	61,628
Economic Development	22,323	24,729	38,083	53,944
Interest on debt	27,686	47,531	30,448	32,896
Total Governmental Activities Expenses	702,942	718,220	736,481	748,154
Business-Type Activities				
Water	232,497	232,862	224,269	213,335
Electricity	167,799	165,330	158,100	154,426
Airport facilities	167,531	158,262	168,734	172,274
Nonmajor activities	46,302	43,443	46,546	44,507
Total Business-Type Activities Expenses	614,129	599,897	597,649	584,542
Total Primary Government Program Expenses	1,317,071	1,318,117	1,334,130	1,332,696
Net (Expense)/Revenue				
Governmental Activities	(468,901)	(488,569)	(513,009)	(515,776)
Business-Type Activities	9,569	44,415	(10,796)	53,851
Total Primary Government Net Expense	(459,332)	(444,154)	(523,805)	(461,925)
General Revenues and Other Changes in Net Assets				
Governmental Activities				
Taxes:				
Income taxes	311,492	298,209	296,507	329,316
Property taxes	63,839	88,087	63,573	65,398
Other taxes	27,312	28,450	25,053	25,918
Shared revenues	19,558	23,869	28,741	28,587
Grants and contributions not restricted to specific programs				
State and local government funds	43,821	49,266	43,420	52,450
Unrestricted investment earnings	97	654	1,740	3,344
Other	19,086	14,104	10,207	9,556
Transfers	(2,031)	19,278	(825)	(306)
Total Governmental Activities	483,174	521,917	468,416	514,263
Business-Type Activities				
Unrestricted investment earnings	30	4	25	42
Other				
Special items - gain on sale of captial assets	5,125			
Transfers	2,031	(19,278)	825	306
Total Business-Type Activities Expenses	7,186	(19,274)	850	348
Total Primary Government General Revenues and Other Changes in Net Assets	490,360	502,643	469,266	514,611
Change in Net Assets				
Governmental Activities	14,273	33,348	(44,593)	(1,513)
Business-Type Activities	16,755	25,141	(9,946)	54,199
Total Primary Government Change in Net Assets	$31,028	$58,489	($54,539)	$52,686

Note:
Program revenues and expenses previously reported as “Other” program revenues and expenses in Governmental activities on the Statement of Activities are now classified as General Government program revenues and expenses as appropriate.

Business-type activities on the Government-wide Statement of Activities summarizes other Enterprise Funds as Nonmajor activities. These include Sewer, Public Auditorium, West Side Market, East Side Market, Municipal Parking Lots, Cemeteries and Golf Courses.

	2007	2006	2005	2004	2003	2002
	$99,311	$99,187	$97,544	$88,587	$96,757	$94,329
	86,435	81,248	80,888	78,634	80,698	76,100
	322,840	301,208	293,242	281,140	315,811	305,289
						21,545
	54,425	62,701	56,413	65,603	62,543	87,478
	13,999	13,832	10,650	10,703	12,932	
	21,412	27,674	24,950	22,537	22,750	22,137
	54,332	45,546	44,840	42,734	47,725	45,365
	39,168	44,739	41,030	49,372	38,850	28,468
	27,763	32,162	27,557	30,815	29,065	28,535
	719,685	708,297	677,114	670,125	707,131	709,246
	205,470	204,994	192,187	188,118	173,179	170,009
	148,832	141,546	153,676	136,927	134,120	133,182
	167,967	157,976	146,807	145,749	143,147	131,683
	45,762	42,112	41,526	41,333	42,606	42,091
	568,031	546,628	534,196	512,127	493,052	476,965
	1,287,716	1,254,925	1,211,310	1,182,252	1,200,183	1,186,211
	(437,513)	(459,515)	(460,451)	(472,149)	(494,645)	(497,016)
	85,122	30,922	52,631	46,249	41,532	81,442
	(352,391)	(428,593)	(407,820)	(425,900)	(453,113)	(415,574)
	317,268	302,084	288,191	293,387	277,086	275,321
	69,313	66,762	64,390	69,483	63,498	74,229
	28,567	26,492	25,051	22,011	23,266	25,720
	23,805	16,949	22,468	20,470	20,799	7,707
			1	94	101	2,501
	51,164	55,905	55,696	57,072	56,792	54,809
	5,670	4,273	2,989	1,273	1,443	1,207
	14,482	18,460	21,135	18,855	8,855	22,874
	(290)	(390)	(375)	(2,283)	3,733	(502)
	509,979	490,535	479,546	480,362	455,573	463,866
	30	14	2,205	1,215	717	2,136
			946	93	4,212	1,194
	290	390	375	2,283	(3,733)	502
	320	404	3,526	3,591	1,196	3,832
	510,299	490,939	483,072	483,953	456,769	467,698
	72,466	31,020	19,095	8,213	(39,072)	(33,150)
	85,442	31,326	56,157	49,840	42,728	85,274
	$157,908	$62,346	$75,252	$58,053	$3,656	$52,124

(Concluded)

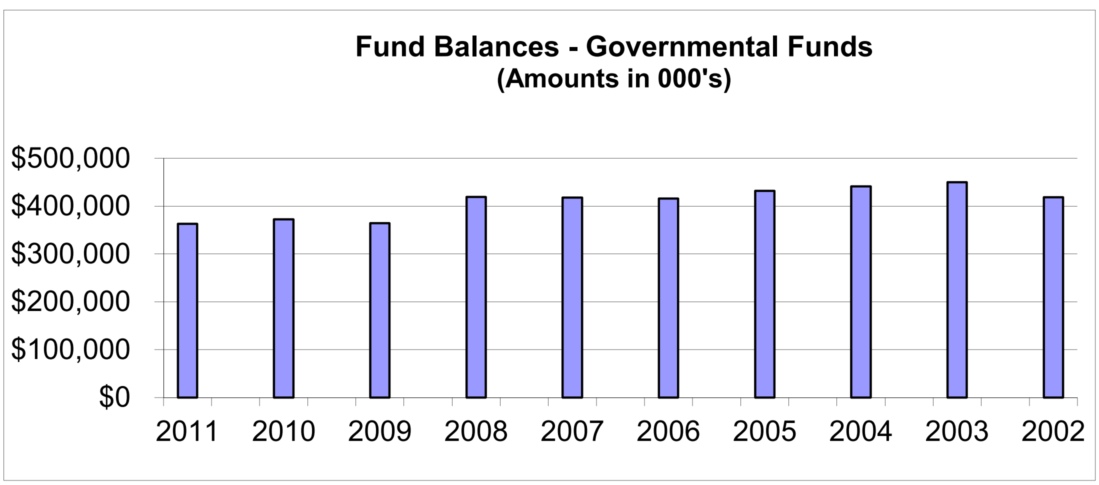
City of Cleveland, Ohio

Fund Balances, Governmental Funds
Last Ten Years (1)
(Modified Accrual Basis of Accounting)
(Amounts in 000's)

	2011	2010	2009	2008
General Fund				
Reserved	$	$15,070	$15,513	$14,689
Unreserved		(2,529)	(9,648)	16,856
Nonspendable	576			
Assigned	12,027			
Unassigned	38,991			
Total General Fund	51,594	12,541	5,865	31,545
All Other Governmental Funds				
Reserved		257,696	263,059	272,039
Unreserved reported in:				
Special Revenue funds		64,432	45,781	72,421
Capital Projects funds		37,753	49,556	43,438
Nonspendable	1,172			
Restricted	204,590			
Committed	105,624			
Assigned	1			
Unassigned	(96)			
Total All Other Governmental Funds	311,291	359,881	358,396	387,898
Total Governmental Funds	$362,885	$372,422	$364,261	$419,443

(1) Fund balance classifications changed in 2011 with the implementation of GASB No.54.

2007	2006	2005	2004	2003	2002
$14,455	$13,029	$11,520	$13,258	$9,719	$17,800
17,399	22,502	24,693	21,376	14,932	32,037
31,854	35,531	36,213	34,634	24,651	49,837
277,669	278,984	280,042	272,122	276,518	258,546
77,223	77,287	65,786	89,325	88,251	53,221
31,136	24,458	49,750	45,522	60,462	57,375
386,028	380,729	395,578	406,969	425,231	369,142
$417,882	$416,260	$431,791	$441,603	$449,882	$418,979



City of Cleveland, Ohio

Changes in Fund Balances, Governmental Funds

Last Ten Years

(Modified Accrual Basis of Accounting)

(Amounts in 000's)

	2011	2010	2009	2008
Revenues				
Income taxes	$312,508	$300,427	$298,546	$326,464
Property taxes	55,949	58,660	63,754	65,258
State and local government funds	45,640	47,972	45,590	52,269
Other taxes and shared revenues	77,636	79,620	81,440	81,200
Licenses and permits	16,877	13,529	17,061	15,047
Charges for services	39,433	33,779	22,136	26,000
Fines, forfeits and settlements	28,376	28,643	32,321	34,763
Investment earnings	518	621	2,691	8,871
Grants	120,119	116,920	112,024	94,769
Contributions	52	72	659	549
Miscellaneous	15,356	16,490	25,811	27,649
Total Revenues	712,464	696,733	702,033	732,839
Expenditures				
Current:				
General Government	77,792	80,865	90,074	91,664
Public Service	53,265	53,567	58,229	60,105
Public Safety	302,009	308,321	319,334	318,339
Human Resources				
Community Development	73,682	70,437	58,101	43,677
Building and Housing	14,031	17,401	20,841	15,691
Public Health	19,160	19,229	22,460	19,724
Parks, Recreation and Properties	38,661	37,822	39,598	42,593
Economic Development	19,348	24,635	36,849	51,921
Other	11,171	11,490	10,446	10,627
Capital outlay	66,575	56,227	66,720	60,513
Inception of capital lease	4,566	3,201		
Debt issuance cost				
Interest expense				
Debt service:				
Principal retirement	47,481	48,223	53,048	51,566
Interest	30,628	28,682	32,942	34,318
General Government	438	18,722	477	5,394
Other	315	795	475	1,868
Total Expenditures	759,122	779,617	809,594	808,000
Excess (Deficiency) of Revenues Over (Under) Expenditures	(46,658)	(82,884)	(107,561)	(75,161)
Other Financing Sources (Uses)				
Transfers in	68,643	106,617	53,414	57,550
Transfers out	(71,514)	(88,152)	(54,525)	(58,243)
Issuance of debt	31,260	171,505	44,580	
Issuance of refunding bonds			13,820	
Proceeds from sale of debt				266,160
Premium on bonds and notes	1,105	1,885	2,289	4,042
Discount on bonds and notes	(217)	(237)		(386)
Payment to refund bonds and notes		(108,390)	(13,767)	(192,675)
Proceeds from sale of general obligation bonds and notes				
Sale of development bonds				
Loan proceeds				
Sale of City assets	1,229	1,127	6,568	274
Proceeds from capital lease	6,615	6,690		
Inception of capital lease				
Premium on interest rate swap agreement				
Total Other Financing Sources (Uses)	37,121	91,045	52,379	76,722
Net Change in Fund Balances	($9,537)	$8,161	($55,182)	$1,561
Debt Service as a Percentage of Noncapital Expenditures	11.1%	10.4%	11.5%	11.3%

2007	2006	2005	2004	2003	2002
$311,784	$303,446	$292,193	$294,200	$278,719	$279,186
69,254	66,787	66,055	67,999	63,353	72,683
53,506	55,908	55,899	55,808	55,462	56,436
80,789	73,810	59,576	57,213	55,030	44,664
13,802	14,520	14,806	16,033	13,727	10,656
24,388	20,973	23,182	18,707	21,345	21,672
31,246	27,877	19,985	19,611	25,689	24,946
16,875	13,809	8,774	3,758	3,634	4,762
167,125	137,278	126,139	118,228	120,379	139,953
549	3,113	3,650	6,131	101	2,500
18,581	18,683	14,394	21,462	17,013	19,099
787,899	736,204	684,653	679,150	654,452	676,557
84,578	74,905	71,107	71,291	74,128	71,551
60,700	58,739	60,049	56,044	56,761	55,939
311,606	293,093	282,684	272,752	302,707	283,172
53,668	62,031	55,688	65,034	61,227	21,545
13,892	13,668	10,472	10,497	11,935	86,641
21,014	26,903	24,121	21,862	21,870	21,176
40,494	37,817	35,503	32,934	37,829	36,088
33,787	44,632	40,446	46,966	33,728	27,245
9,206	9,256	11,212	11,510	14,197	12,973
120,680	65,216	84,438	82,780	64,738	63,171
3,933	3,302	4,130	9,271		
				818	
				228	
44,258	37,648	39,384	40,865	32,949	62,347
30,075	31,462	29,822	32,002	27,400	26,748
2,438	662	2,338	1,778	719	922
830,329	759,334	751,394	755,586	741,234	769,518
(42,430)	(23,130)	(66,741)	(76,436)	(86,782)	(92,961)
61,064	41,853	43,245	47,256	59,368	96,056
(61,894)	(42,665)	(43,697)	(50,271)	(59,773)	(100,365)
					(740)
		121,395	35,115		
3,730		13,306	1,504	7,585	
(18)		(54)	(200)	3,156	2,648
(140,457)		(94,145)			
181,420			16,760	64,100	76,675
				32,315	
			11,365		
207	8,411	8,454			
		8,425	6,628	6,254	
				(419)	
				5,100	
44,052	7,599	56,929	68,157	117,686	74,274
$1,622	($15,531)	($9,812)	($8,279)	$30,904	($18,687)
10.3%	9.8%	10.3%	10.7%	8.7%	12.6%

City of Cleveland, Ohio

Assessed Valuation and Estimated Actual Values of Taxable Property
Last Ten Years
(Amounts in 000's)

	Real Property			Tangible Personal Property	
				Public Utility	
	Assessed Value				
Collection Year	Residential/ Agricultural	Commercial Industrial/PU	Estimated Actual Value	Assessed Value	Estimated Actual Value
2011	$2,675,681	$2,722,417	$15,423,137	$242,172	$275,195
2010	2,693,686	2,585,663	15,083,857	233,870	265,761
2009	3,062,170	2,434,549	15,704,911	220,820	250,932
2008	3,041,791	2,438,801	15,658,834	210,970	239,739
2007	3,056,587	2,532,466	15,968,723	316,899	360,113
2006	2,662,461	2,285,525	14,137,103	314,385	357,256
2005	2,665,935	2,319,194	14,243,226	350,690	398,511
2004	2,666,178	2,232,575	13,996,437	355,889	404,419
2003	2,348,384	2,244,238	13,121,777	358,143	406,981
2002	2,354,757	2,318,510	13,352,191	377,364	428,823

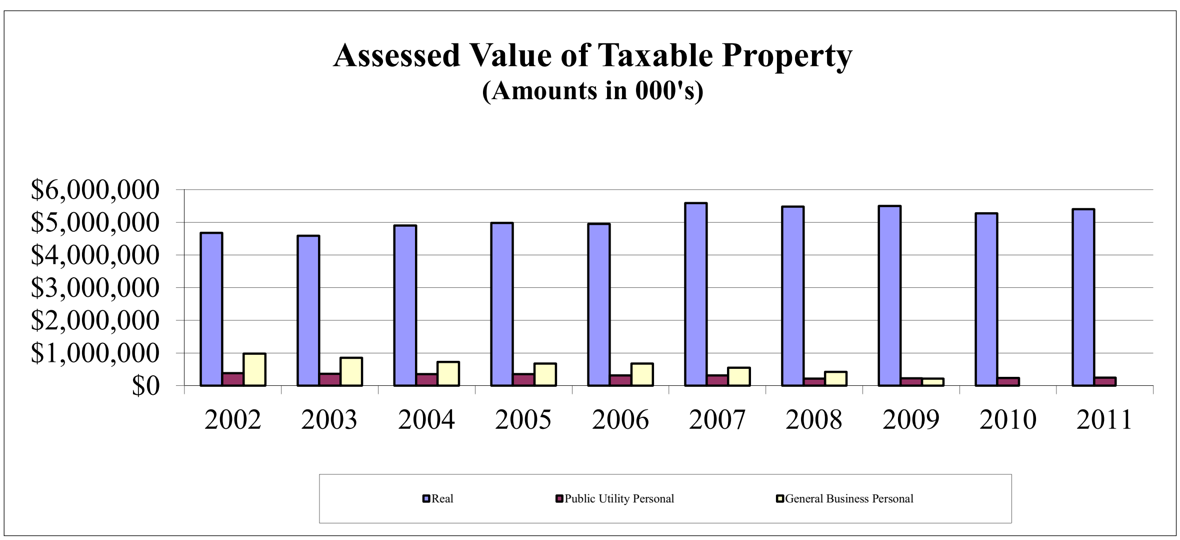
The assessed valuation level for real property in Cuyahoga County is 35% of appraised market value, except for certain agricultural land and public utility property.

Beginning in 2003, the assessed valuation of personal property constituting "inventory" was reduced from 25% of true value to 23%, in 2006 it was further reduced to 18.75%, in 2007 to 12.50%, and in 2008 to 6.25%. The percentage decreased to 0% in 2009 and remains at 0% in 2011.

Electric deregulation took place January 1, 2001. Under prior law, an electric company's taxable production equipment was assessed at 100% of true value, while all of its other taxable property was assessed at 88% of true value. Effective in 2002, the valuation on electric utility production equipment was reduced from 100% to 25% of true value, with makeup payments in varying amounts to be made through 2016 to taxing subdivisions by the State of Ohio from State resources. All taxable property remained at 88% true value.

Source: Cuyahoga County Auditor's Office.

Tangible Personal Property					
General Business		Total			
Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Ratio
$0	$0	$5,640,270	$15,698,332	35.9 %
0	0	5,513,219	15,349,618	35.9
219,920	3,518,720	5,937,459	19,474,563	30.5
422,770	6,764,320	6,114,332	22,662,893	27.0
551,296	4,410,368	6,457,248	20,739,204	31.1
677,333	3,612,443	5,939,704	18,106,802	32.8
671,795	2,920,848	6,007,614	17,562,585	34.2
722,499	3,141,300	5,977,141	17,542,156	34.1
853,282	3,709,922	5,804,047	17,238,680	33.7
980,928	3,923,712	6,031,559	17,704,726	34.1



City of Cleveland, Ohio

Property Tax Rates - Direct and Overlapping Governments
(Per $1,000 of Assessed Valuation)
Last Ten Years

	2011	2010	2009	2008
Unvoted Millage				
Debt	4.350000	4.350000	4.350000	4.350000
Fire Pension	0.050000	0.050000	0.050000	0.050000
Total Unvoted Millage	4.400000	4.400000	4.400000	4.400000
Charter Millage				
Operating	7.750000	7.750000	7.750000	7.750000
Fire Pension	0.250000	0.250000	0.250000	0.250000
Police Pension	0.300000	0.300000	0.300000	0.300000
Total Charter Millage	8.300000	8.300000	8.300000	8.300000
Total Millage	12.700000	12.700000	12.700000	12.700000
Overlapping Rates by Taxing District				
City School District				
Residential/Agricultural Real	31.674164	31.506887	31.460074	29.076676
Commercial/Industrial and Public Utility Real	44.235815	44.362102	44.661412	44.661009
General Business and Public Utility Personal	64.800000	64.800000	64.800000	64.800000
County				
Residential/Agricultural Real	13.118223	13.186617	13.178886	12.660733
Commercial/Industrial and Public Utility Real	12.784540	12.841251	12.845700	12.815297
General Business and Public Utility Personal	13.220000	13.320000	13.320000	13.320000
Special Taxing Districts (1)				
Residential/Agricultural Real	11.225159	11.207637	10.723710	10.330071
Commercial/Industrial and Public Utility Real	11.232744	11.236434	10.859248	10.838537
General Business and Public Utility Personal	11.880000	11.880000	11.580000	11.580000

Note:

The rates presented for a particular calendar year are the rates that, when applied to the assessed values presented in the Assessed Value Table, generated the property tax revenue billed in that year. The City's basic property tax rate may be increased only by a majority vote of the City's residents. Charter millage is consistently applied to all types of property. The real property tax rates for the voted levies of the overlapping taxing districts are reduced so that inflationary increases in value do not generate additional revenue. Overlapping rates are those of local and county governments that apply to property owners within the City.

(1) Cleveland Metropolitan Parks District, Cleveland-Cuyahoga County Port Authority, Cleveland Public Library and Cuyahoga Community College. Prior to 2003, Cleveland Metropolitan Parks District and Cleveland Public Library only.

Source: Cuyahoga County Auditor's Office.

2007	2006	2005	2004	2003	2002
4.350000	4.350000	4.350000	4.350000	4.350000	4.350000
0.050000	0.050000	0.050000	0.050000	0.050000	0.050000
4.400000	4.400000	4.400000	4.400000	4.400000	4.400000
7.750000	7.750000	7.750000	7.750000	7.750000	7.750000
0.250000	0.250000	0.250000	0.250000	0.250000	0.250000
0.300000	0.300000	0.300000	0.300000	0.300000	0.300000
8.300000	8.300000	8.300000	8.300000	8.300000	8.300000
12.700000	12.700000	12.700000	12.700000	12.700000	12.700000
29.050497	29.002818	31.588821	31.586780	31.559197	34.359166
44.592555	44.858685	48.826505	48.636211	48.764909	48.821444
64.800000	64.800000	64.800000	64.800000	64.800000	64.800000
11.868868	11.865485	11.722742	10.975355	10.989859	12.460892
12.453559	12.494099	12.588063	11.984633	12.043316	12.876350
13.420000	13.420000	13.520000	13.520000	13.520000	14.650000
9.059500	9.045800	9.853500	9.851200	9.168300	4.306000
10.191700	10.252900	11.084900	11.011300	10.525300	4.886300
11.580000	11.580000	11.580000	11.580000	11.280000	5.550000

City of Cleveland, Ohio

Property Tax Levies and Collections

Last Ten Years

Year	Total Tax Levy	Current Tax Collections (1)	Percent of Current Tax Collections To Tax Levy	Delinquent Tax Collections	Total Tax Collections
2011	$109,926,575	$59,301,577	53.95 %	$5,104,558	$64,406,135
2010	107,119,066	59,078,863	55.15	5,259,959	64,338,822
2009	107,873,764	63,707,028	59.06	5,351,909	69,058,937
2008	107,071,494	66,210,703	61.84	6,416,603	72,627,306
2007	108,161,761	68,823,516	63.63	5,675,616	74,499,132
2006	100,453,000	65,617,000	65.32	5,524,000	71,141,000
2005	100,842,630	67,759,024	67.19	5,428,007	73,187,031
2004	102,396,067	67,571,431	65.99	7,055,068	74,626,499
2003	95,920,068	65,058,362	67.83	5,052,595	70,110,957
2002	96,449,699	64,376,023	66.75	6,680,368	71,056,391

Note:
The County does not identify delinquent collections by the year for which the tax was levied.

(1) State reimbursement of rollback and homestead exemptions are included.

Source: Cuyahoga County Auditor's Office.

Percent of Total Tax Collections To Tax Levy	Accumulated Outstanding Delinquent Taxes	Percentage of Delinquent Taxes to Total Tax Levy
58.59 %	$44,679,192	40.64 %
60.06	39,704,298	37.07
64.02	36,999,445	34.30
67.83	31,984,896	29.87
68.88	22,770,570	21.05
70.82	21,063,000	20.97
72.58	26,330,702	26.11
72.88	24,928,208	24.34
73.09	25,151,032	26.22
73.67	21,966,674	22.78

City of Cleveland, Ohio

Principal Taxpayers - Real Estate Tax

2011 and 2002

	2011	
Taxpayer	Real Property Assessed Valuation (1)	Percentage of Real Assessed Valuation
Cleveland Clinic Foundation	$241,141,560	4.47 %
City of Cleveland, Ohio	87,469,400	1.62
Key Center Properties LLC	83,619,320	1.55
Cleveland Financial Associates	46,967,070	0.87
Board of County Commissioners	39,698,830	0.73
City of Cleveland Executive	36,508,320	0.68
National City Bank	36,391,080	0.67
Hub North Point Properties LLC	33,309,480	0.62
ISG Cleveland West Inc.	26,892,690	0.50
Optima 1375, LLC	25,857,270	0.48
Total	$657,855,020	12.19 %
Total Real Property Assessed Valuation	$5,398,098,000	

	2002	
Taxpayer	Real Property Assessed Valuation (1)	Percentage of Real Assessed Valuation
City of Cleveland, Ohio	$98,121,130	2.10 %
ZML-Cleve Public Sq LLC	47,232,500	1.01
NPW LTD Partnership	36,610,000	0.78
GSA	35,000,000	0.75
ISG Cl;eveland Inc.	33,024,360	0.71
Ohio Bell Telephone	29,917,890	0.64
600 Superior Place Partnership	25,970,770	0.55
CG Erieview	25,202,210	0.54
Bishop James Hickey	22,364,900	0.48
Cleveland Clinic Foundation	18,183,480	0.39
Total	$371,627,240	7.95 %
Total Real Property Assessed Valuation	$4,673,267,000	

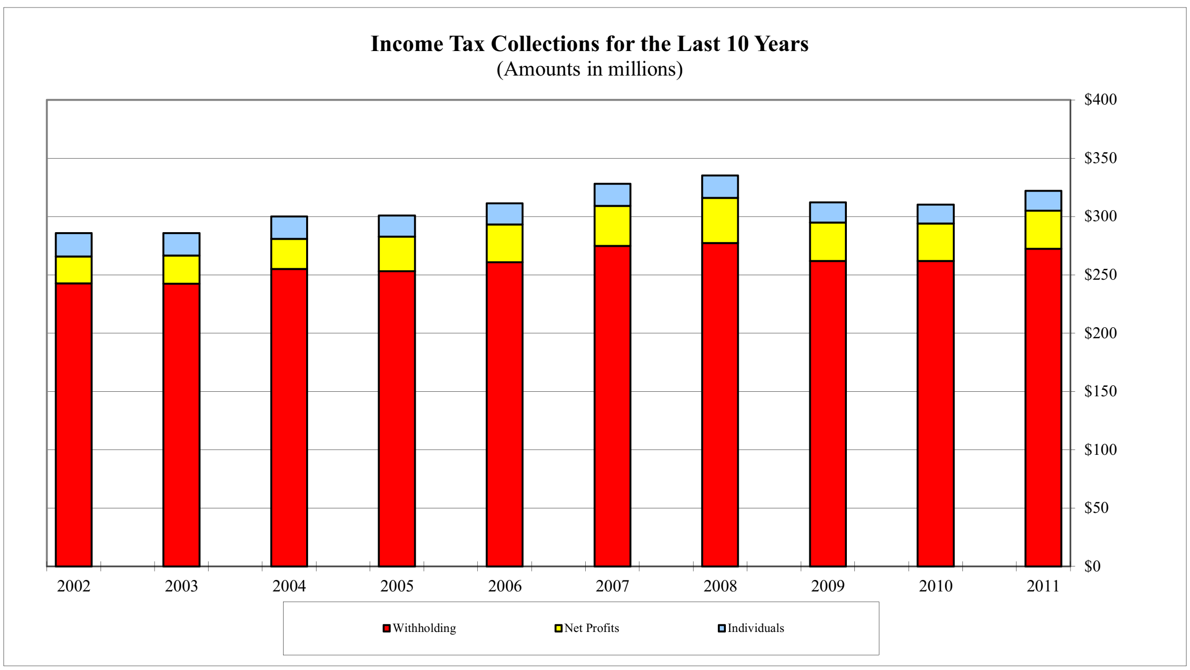
(1) The amounts presented represent the assessed values upon which 2011 and 2002 collections were based.

Source: Cuyahoga County Auditor's Office.

City of Cleveland, Ohio

Income Tax Revenue Base and Collections
Last Ten Years

Tax Year	Tax Rate	Total Tax Collected (1)	Taxes from Withholding	Percentage of Taxes from Withholding	Taxes From Net Profits	Percentage of Taxes from Net Profits	Taxes From Individuals	Percentage of Taxes from Individuals
2011	2.00%	$322,072,689	$272,209,650	84.52%	$32,693,730	10.15%	$17,169,309	5.33%
2010	2.00	310,339,588	261,801,977	84.36	32,095,566	10.34	16,442,045	5.30
2009	2.00	312,129,641	261,878,357	83.90	33,065,140	10.59	17,186,144	5.51
2008	2.00	335,310,894	277,203,932	82.67	38,709,596	11.54	19,397,366	5.78
2007	2.00	328,167,945	274,733,506	83.72	34,314,408	10.46	19,120,031	5.83
2006	2.00	311,254,815	260,697,679	83.76	32,469,591	10.43	18,087,545	5.81
2005	2.00	300,836,796	253,082,844	84.13	29,796,387	9.90	17,957,565	5.97
2004	2.00	300,041,379	255,039,437	85.00	25,919,958	8.64	19,081,984	6.36
2003	2.00	285,904,337	242,321,319	84.76	24,334,618	8.51	19,248,400	6.73
2002	2.00	285,825,834	242,681,101	84.91	22,938,922	8.03	20,205,811	7.07



Note:
The City is prohibited by statute from presenting information regarding individual taxpayers.

(1) Gross collections.

Source: Central Collection Agency.

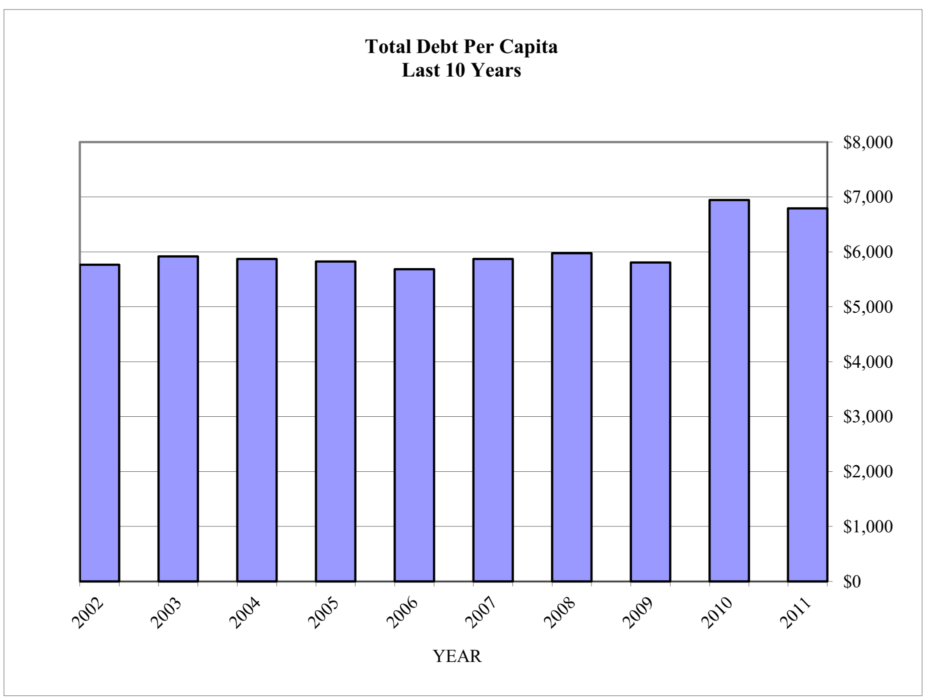
City of Cleveland, Ohio

Ratio of Outstanding Debt to
Total Personal Income and Debt Per Capita
Last Ten Years

	Governmental Activities						
Year	General Obligation Bonds	Urban Renewal Bonds/Notes	Non-Tax Revenue Bonds/Notes	Capital Leases	Subordinated Income Tax Refunding Bonds	Certificates of Participation	Subordinate Lien Income Tax Bonds
2011	$298,660,000	$4,835,000	$58,591,000	$12,908,000	$52,975,000	$129,547,000	$80,505,000
2010	297,115,000	5,365,000	61,795,000	8,937,000	55,785,000	135,537,000	83,025,000
2009	326,230,000	5,860,000	64,956,000	5,320,000	58,460,000	119,016,000	57,630,000
2008	313,630,000	6,325,000	67,617,000	8,604,000	59,960,000	129,949,000	59,560,000
2007	336,990,000	6,760,000	68,091,000	11,786,000	58,900,000	140,714,000	
2006	323,795,000	7,170,000	69,353,000	15,057,000	60,700,000	143,950,000	
2005	353,325,000	7,555,000	70,085,000	18,083,000	62,400,000	146,225,000	
2004	346,700,000	12,215,000	70,715,000	11,750,000	64,000,000	148,485,000	
2003	356,900,000	12,555,000	45,600,000	6,254,000	65,500,000	150,550,000	
2002	319,085,000	8,575,000	10,000,000	238,000	66,900,000	155,494,000	

Note:
Population and Personal Income data are presented on page S20.

	Business-Type Activities				
Annual Appropriation Bonds	Revenue Bonds / Notes	OWDA/ OPWC Loans	Total Debt	Percentage of Personal Income	Per Capita
$11,000,000	$1,930,163,000	$115,523,000	$2,694,707,000	41.66%	$6,791
11,000,000	1,974,828,000	121,335,000	2,754,722,000	48.58	6,942
	2,032,178,000	107,654,000	2,777,304,000	40.62	5,805
	2,100,768,000	112,275,000	2,858,688,000	41.81	5,975
	2,075,755,000	110,070,000	2,809,066,000	41.09	5,872
	1,995,045,000	103,415,000	2,718,485,000	39.76	5,682
	2,049,820,000	78,498,000	2,785,991,000	40.75	5,824
	2,102,986,000	52,616,000	2,809,467,000	41.09	5,873
	2,160,842,000	33,045,000	2,831,246,000	41.41	5,918
	2,181,898,000	16,746,000	2,758,936,000	40.35	5,767



City of Cleveland, Ohio

Ratio of General Obligation Bonded Debt to Assessed Value and Bonded Debt Per Capita
Last Ten Years

Year	Population (1)		Estimated Actual Value of Taxable Property (2) (Amount in 000's)	Net Bonded Debt	Ratio of Net Bonded Debt to Estimated Actual Value of Taxable Property	Net Bonded Debt Per Capita
2011	396,815	(a)	$5,640,270	$297,172,000	5.27 %	$748.89
2010	396,815	(a)	5,513,219	294,923,000	5.35	743.23
2009	478,403	(b)	5,937,459	323,631,000	5.45	676.48
2008	478,403	(b)	6,114,332	311,134,000	5.09	650.36
2007	478,403	(b)	6,457,248	333,823,000	5.17	697.79
2006	478,403	(b)	5,939,704	320,265,000	5.39	669.45
2005	478,403	(b)	6,007,614	348,004,000	5.79	727.43
2004	478,403	(b)	5,977,141	339,209,000	5.68	709.04
2003	478,403	(b)	5,804,047	352,569,000	6.07	736.97
2002	478,403	(b)	6,031,559	316,220,000	5.24	660.99

Note:
Net Bonded Debt includes all general obligation bonded debt less balance in debt service fund.

Sources:

(1) U. S. Bureau of Census, Census of Population:
(a) 2010 Federal Census
(b) 2000 Federal Census
(2) Cuyahoga County Fiscal Officer's Office.

City of Cleveland, Ohio

Computation of Direct and Overlapping Governmental Activities Debt

December 31, 2011

Jurisdiction	Governmental Activities Debt Outstanding	Percentage Applicable to City (1)	Amount Applicable to City
Direct - City of Cleveland			
General Obligation Bonds	$298,660,000	100.00 %	$298,660,000
Revenue Notes/Bonds	1,930,163,000	100.00	1,930,163,000
OWDA/OPWC Loans	115,523,000	100.00	115,523,000
Capital Leases	12,908,000	100.00	12,908,000
Urban Renewal Bonds/Notes	4,835,000	100.00	4,835,000
Subordinated Income Tax Refunding Bonds	52,975,000	100.00	52,975,000
Subordinate Lien Income Tax Bonds	80,505,000	100.00	80,505,000
Non-tax Revenue Bonds	58,591,000	100.00	58,591,000
Annual Appropriation Bonds	11,000,000	100.00	11,000,000
Total Direct Debt	2,565,160,000		2,565,160,000
Overlapping			
Cleveland Municipal School District			
General Obligation Bonds (1)	176,359,412	97.00	171,068,630
Cuyahoga County			
General Obligation Bonds (1)	298,113,842	18.91	56,373,328
Regional			
Transit Authority (1)	142,080,000	18.91	26,867,328
Total Overlapping Debt	616,553,254		254,309,286
Total	$3,181,713,254		$2,819,469,286

(1) Percentages were determined by dividing each overlapping subdivision's assessed valuation within the City by its total assessed valuation.

Source: Cuyahoga County Fiscal Officer's Office.

City of Cleveland, Ohio

Legal Debt Margin

Last Ten Years

	2011	2010	2009	2008
Total Assessed Property Value	$5,640,270,380	$5,513,219,400	$5,937,458,591	$6,114,332,281
Overall Legal Debt Limit				
(10½% of Assessed Valuation)	592,228,390	578,888,037	623,433,152	642,004,890
Debt Outstanding:				
General Obligation Bonds	298,660,000	297,115,000	326,230,000	313,630,000
Revenue Notes/Bonds	1,930,163,000	1,974,828,000	2,032,178,000	2,100,768,000
Urban Renewal Bonds/Notes	4,835,000	5,365,000	5,860,000	6,325,000
Subordinated Income Tax Refunding Bonds	52,975,000	55,785,000	58,460,000	59,960,000
Subordinate Lien Income Tax Bonds	80,505,000	83,025,000	57,630,000	59,560,000
OWDA/OPWC Loans	115,523,000	121,335,000	107,654,000	112,275,000
Non-tax Revenue Bonds	58,591,000	61,795,000	64,956,000	67,617,000
Annual Appropriation Bonds	11,000,000	11,000,000		
Total Gross Indebtedness	2,552,252,000	2,610,248,000	2,652,968,000	2,720,135,000
Less:				
General Obligation Bonds	298,660,000	297,115,000	326,230,000	313,630,000
Revenue Notes/Bonds	1,930,163,000	1,974,828,000	2,032,178,000	2,100,768,000
Urban Renewal Bonds/Notes	4,835,000	5,365,000	5,860,000	6,325,000
Subordinated Income Tax Refunding Bonds	52,975,000	55,785,000	58,460,000	59,960,000
Subordinate Lien Income Tax Bonds	80,505,000	83,025,000	57,630,000	59,560,000
OWDA/OPWC Loans	115,523,000	121,335,000	107,654,000	112,275,000
Non-tax Revenue Bonds	58,591,000	61,795,000	64,950,000	67,617,000
Annual Appropriation Bonds	11,000,000	11,000,000		
General Obligation Bond Retirement Fund Balance	1,488,000	2,192,000	2,599,000	2,496,000
Total Net Debt Applicable to Debt Limit*	-	-	-	-
Legal Debt Margin Within 10½% Limitations	$592,228,390	$578,888,037	$623,433,152	$642,004,890
Legal Debt Margin as a Percentage of the Debt Limit	100.00%	100.00%	100.00%	100.00%
Unvoted Debt Limitation	$310,214,871	$303,227,067	$326,560,223	$336,288,276
(5½% of Assessed Valuation)				
Total Gross Indebtedness	2,552,252,000	2,610,248,000	2,652,968,000	2,720,135,000
Less:				
General Obligation Bonds	298,660,000	297,115,000	326,230,000	313,630,000
Revenue Notes/Bonds	1,930,163,000	1,974,828,000	2,032,178,000	2,100,768,000
Urban Renewal Bonds/Notes	4,835,000	5,365,000	5,860,000	6,325,000
Subordinated Income Tax Refunding Bonds	52,975,000	55,785,000	58,460,000	59,960,000
Subordinate Lien Income Tax Bonds	80,505,000	83,025,000	57,630,000	59,560,000
OWDA/OPWC Loans	115,523,000	121,335,000	107,654,000	112,275,000
Non-tax Revenue Bonds	58,591,000	61,795,000	64,950,000	67,617,000
Annual Appropriation Bonds	11,000,000	11,000,000		
General Obligation Bond Retirement Fund Balance	1,488,000	2,192,000	2,599,000	2,496,000
Net Debt Within 5½% Limitations*	-	-	-	-
Unvoted Legal Debt Margin Within 5½% Limitations	$310,214,871	$303,227,067	$326,560,223	$336,288,276
Unvoted legal Debt Margin as a Percentage of the Unvoted Debt Limitation	100.00%	100.00%	100.00%	100.00%

* The City does not report net debt limits below zero, therefore if the net debt limit is negative it is considered to be equal to zero. The types of Debt issued by the City are exempt from the limitations defined in the Ohio Revised Code.

Source: City Financial Records.

2007	2006	2005	2004	2003	2002
$6,457,247,750	$5,939,704,867	$6,007,616,318	$5,977,142,243	$5,804,048,750	$6,031,560,000
678,011,014	623,669,011	630,799,713	627,599,936	609,425,119	633,313,800
336,990,000	323,795,000	353,325,000	346,700,000	356,900,000	319,085,000
2,075,755,000	1,995,045,000	2,049,820,000	2,102,986,000	2,160,842,000	2,181,898,000
6,760,000	7,170,000	7,555,000	12,215,000	12,555,000	12,825,000
58,900,000	60,700,000	62,400,000	64,000,000	65,500,000	66,900,000
110,070,000	103,415,000	78,498,000	52,616,000	33,045,000	16,746,000
68,091,000	69,353,000	70,085,000	70,715,000	45,600,000	10,000,000
2,656,566,000	2,559,478,000	2,621,683,000	2,649,232,000	2,674,442,000	2,607,454,000
336,990,000	323,795,000	353,325,000	346,700,000	356,900,000	318,340,000
2,075,755,000	1,995,045,000	2,049,820,000	2,102,986,000	2,160,842,000	2,181,898,000
6,760,000	7,170,000	7,555,000	12,215,000	12,555,000	12,825,000
58,900,000	60,700,000	62,400,000	64,000,000	65,500,000	66,900,000
110,070,000	103,415,000	78,498,000	52,616,000	33,045,000	16,746,000
68,091,000	69,353,000	70,085,000	70,715,000	45,600,000	10,000,000
3,167,000	3,530,000	5,321,000	7,491,000	4,331,000	2,865,000
-	-	-	-	-	-
$678,011,014	$623,669,011	$630,799,713	$627,599,936	$609,425,119	$633,313,800
100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
$355,148,626	$326,683,768	$330,418,898	$328,742,823	$319,222,681	$331,735,800
2,656,566,000	2,559,478,000	2,621,683,000	2,649,232,000	2,674,442,000	2,607,454,000
336,990,000	323,795,000	353,325,000	346,700,000	356,900,000	318,340,000
2,075,755,000	1,995,045,000	2,049,820,000	2,102,986,000	2,160,842,000	2,181,898,000
6,760,000	7,170,000	7,555,000	12,215,000	12,555,000	12,825,000
58,900,000	60,700,000	62,400,000	64,000,000	65,500,000	66,900,000
110,070,000	103,415,000	78,498,000	52,616,000	33,045,000	16,746,000
68,091,000	69,353,000	70,085,000	70,715,000	45,600,000	10,000,000
3,167,000	3,530,000	5,321,000	7,491,000	4,331,000	2,865,000
-	-	-	-	-	-
$355,148,626	$326,683,768	$330,418,898	$328,742,823	$319,222,681	$331,735,800
100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

City of Cleveland, Ohio
Pledged Revenue Coverage
Airport Revenue Bonds
Last Ten Years

Year	Gross Revenues (1)	Direct Operating Expenses (2)	Net Revenues Available for Debt Service	Debt Service		Coverage
				Principal	Interest	
2011	$150,112,000	$73,310,000	$76,802,000	$13,660,000	$34,940,285	1.58
2010	152,053,000	70,152,000	81,901,000	14,705,000	36,386,915	1.60
2009	167,358,000	68,432,000	98,926,000	22,450,000	37,622,000	1.65
2008	160,455,000	74,885,000	85,570,000	16,830,000	40,497,264	1.49
2007	151,430,000	69,358,000	82,072,000	20,160,000	34,968,361	1.49
2006	135,883,000	62,426,000	73,457,000	17,775,000	39,565,000	1.28
2005	140,157,000	66,957,000	73,200,000	10,895,000	43,026,000	1.36
2004	135,117,000	58,647,000	76,470,000	9,373,000	35,817,000	1.69
2003	107,758,000	57,845,000	49,913,000	11,104,000	25,128,000	1.38
2002	101,081,000	59,025,000	42,056,000	10,916,000	20,678,000	1.33

(1) Gross revenues include operating revenues plus interest income. Beginning in 2001, a minimum of 40% of passenger facility charges, as well as grant funds from the FAA for the new runway, are dedicated to the payment of debt service charges and are included in gross revenues. Beginning in 2007, the Coverage Account was included in the calculation of debt service coverage

(2) Direct operating expenses are calculated in accordance with the bond indenture

City of Cleveland, Ohio

Pledged Revenue Coverage

Power System Revenue Bonds

Last Ten Years

Year	Gross Revenues (1)	Direct Operating Expenses (2)	Net Revenues Available for Debt Service	Debt Service			Coverage
				Principal	Interest		
2011	$168,599,000	$139,952,000	$28,647,000	$10,495,000	$9,987,500	(3)	1.40
2010	166,761,000	138,030,000	28,731,000	8,045,000	9,871,011		1.60
2009	156,034,000	128,436,000	27,598,000	8,530,000	9,009,810		1.57
2008	160,224,000	124,161,000	36,063,000	8,335,000	9,054,492		2.07
2007	159,232,000	120,415,000	38,817,000	8,045,000	9,368,159		2.23
2006	149,276,000	114,942,000	34,334,000	11,025,000	8,144,118		1.79
2005	152,146,000	125,924,000	26,222,000	4,920,000	9,813,126		1.78
2004	142,148,000	109,275,000	32,873,000	9,410,000	10,447,476		1.66
2003	141,190,000	104,940,000	36,250,000	7,865,000	10,886,836		1.93
2002	143,383,000	103,050,000	40,333,000	6,620,000	11,693,085		2.20

(1) Gross revenues include operating revenues plus interest income.

(2) Direct operating expenses are calculated in accordance with the bond indenture.

(3) Net of capitalized interest per indenture.

City of Cleveland, Ohio

Pledged Revenue Coverage
Water System Mortgage Revenue Bonds
Last Ten Years

Year	Gross Revenues (1)	Direct Operating Expenses (2)	Net Revenues Available for Debt Service	Debt Service Principal	Debt Service Interest		Coverage
2011	$238,975,000	$146,232,000	$92,743,000	$34,000,000	$30,275,641	(3)	1.44
2010	241,277,000	149,513,000	91,764,000	37,150,000	32,447,214		1.32
2009	232,357,000	147,716,000	84,641,000	31,945,000	33,200,509		1.30
2008	252,660,000	143,833,000	108,827,000	27,285,000	38,139,614		1.66
2007	257,992,000	140,210,000	117,782,000	19,660,000	30,660,206		2.34
2006	223,903,000	132,879,000	91,024,000	17,695,000	35,300,322		1.72
2005	230,354,000	123,931,000	106,423,000	15,485,000	36,763,888		2.04
2004	215,012,000	127,021,000	87,991,000	20,748,333	30,184,582		1.73
2003	210,352,000	123,640,000	86,712,000	25,160,000	33,188,434		1.49
2002	226,394,000	119,736,000	106,658,000	23,990,000	33,500,816		1.86

(1) Gross revenues include operating revenues plus interest income.

(2) Direct operating expenses are calculated in accordance with the bond indenture.

(3) Per indenture, interest expense is reduced by amount released from reserve fund at the start of year.

City of Cleveland, Ohio
Principal Employers
Current Year and Nine Years Prior

2011

Employer	Employees	Percentage of Total City Employment
Cleveland Clinic	34,000	20.72%
University Hospitals of Cleveland	13,726	8.36
Cuyahoga County	7,859	4.79
United States Postal Service	7,242	4.41
City of Cleveland	7,089	4.32
KeyCorp	5,827	3.55
The MetroHealth System	5,558	3.39
Case Western Reserve University	4,620	2.82
Sherwin-Williams Co.	3,035	1.85
Lincoln Electric Co.	2,600	1.58
Total	91,556	55.79%
Total Employment within the City	164,100	

2002

Employer	Employees	Percentage of Total City Employment
Cleveland Clinic Health Systems	23,360	12.74%
University Hospitals Health System	14,111	7.70
Cleveland City School District	10,285	5.61
Cuyahoga County	10,019	5.47
City of Cleveland	8,599	4.69
KeyCorp	7,655	4.18
National City Corp.	5,590	3.05
The MetroHealth System	5,267	2.87
United States Postal Service	5,062	2.76
Case Western Reserve University	5,060	2.76
Total	95,008	51.83%
Total Employment within the City	183,300	

Note:
Largest employers headquartered in the City ranked by FTE employees.

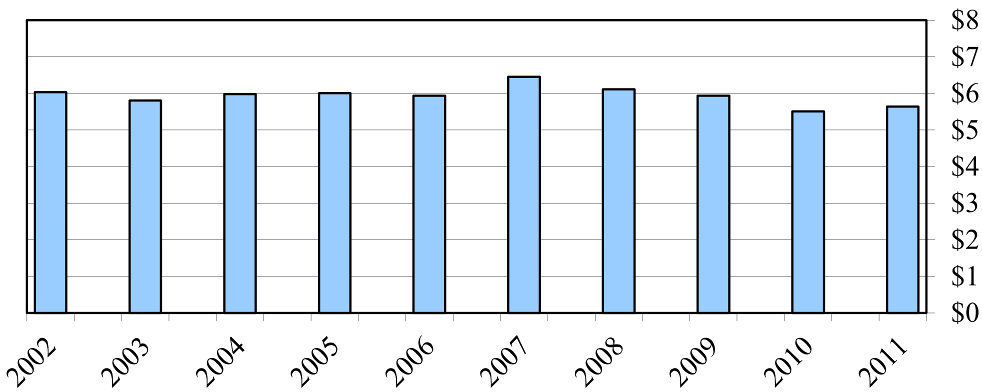
Source: Number of employees from Crain's Cleveland:
Book of Lists 2012, Largest Northeast Ohio Employers; FTEs as of 6/30/2011
Book of Lists 2003, Largest Cuyahoga County Employers; FTEs as of 01/01/2002

City of Cleveland, Ohio

Demographic and Economic Statistics
Last Ten Years

Year	Population		Total Personal Income (6)	Personal Income Per Capita		Median Household Income		Median Age	
2011	396,815	(1)	6,468,878,130	$16,302	(1)	$27,349	(1)	35.7	(1)
2010	396,815	(1)	5,670,883,165	16,302	(1)	27,349	(1)	35.7	(1)
2009	478,403	(2)	6,836,857,273	14,291	(2)	25,928	(2)	33	(2)
2008	478,403	(2)	6,836,857,273	14,291	(2)	25,928	(2)	33	(2)
2007	478,403	(2)	6,836,857,273	14,291	(2)	25,928	(2)	33	(2)
2006	478,403	(2)	6,836,857,273	14,291	(2)	25,928	(2)	33	(2)
2005	478,403	(2)	6,836,857,273	14,291	(2)	25,928	(2)	33	(2)
2004	478,403	(2)	6,836,857,273	14,291	(2)	25,928	(2)	33	(2)
2003	478,403	(2)	6,836,857,273	14,291	(2)	25,928	(2)	33	(2)
2002	478,403	(2)	6,836,857,273	14,291	(2)	25,928	(2)	33	(2)

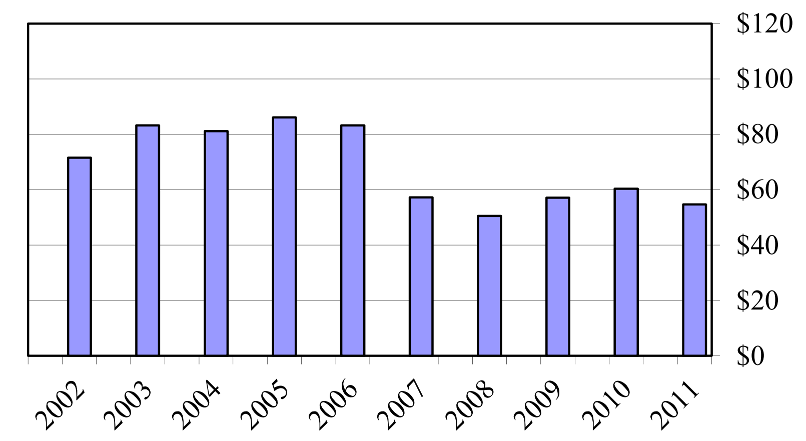
Total Assessed Property Value
(Amounts in billions)



(1) Source: U. S. Census Bureau. 2010 Census
(2) Source: U. S. Census Bureau. 2000 Census
(3) Source: Ohio Department of Education Website: "**http://www.ode.state.oh.us/**".
(4) Source: Ohio Labor Market Info, Website: "**http://lmi.state.oh.us/laus/LAUS.html**".
(5) Source: Cuyahoga County Auditor's Office.
(6) Computation of per capita personal income multiplied by population.

Educational Attainment: Bachelor's Degree or Higher		School Enrollment (3)	City Unemployment Rate (4)	Average Sales Price of Residential Property (5)	Total Assessed Property Value (5) (Amount in 000's)
13.1%	(1)	45,060	10.0%	$54,638	$5,640,270
13.1	(1)	47,615	11.5	60,398	5,513,219
11.4	(2)	74,615	10.6	57,075	5,937,459
11.4	(2)	50,078	8.8	50,515	6,114,332
11.4	(2)	52,769	7.6	57,230	6,457,248
11.4	(2)	59,586	7.1	83,237	5,939,704
11.4	(2)	65,079	7.7	86,142	6,007,614
11.4	(2)	69,655	8.3	81,185	5,977,141
11.4	(2)	71,616	8.3	83,216	5,804,047
11.4	(2)	73,001	10.2	71,562	6,031,559

Average Sales Price of Residential Property
(Amounts in 000's)



City of Cleveland, Ohio
Full-Time Equivalent City Government Employees by Function/Program
Last Eight Years (1)

Function/Program	2011	2010	2009	2008
General Government				
Council	63.00	62.00	65.50	64.50
Mayor's Office	24.50	25.50	25.50	27.50
Landmarks Commission	5.00	5.50	5.50	5.50
Building Standards and Appeals	6.00	5.50	5.50	5.50
Board of Zoning Appeals	4.50	4.00	4.50	4.50
Civil Service Commission	9.50	11.00	10.50	10.00
Community Relations Board	28.00	30.50	29.00	27.50
City Planning Commission	21.50	24.00	24.00	23.00
Equal Employment Opportunity	8.00	10.00	10.00	11.00
Court	479.50	531.00	542.50	541.50
Office of Budget Administration	7.00	7.00	5.50	7.00
Aging	25.00	24.50	21.50	21.00
Personnel and Human Resources	16.00	16.50	15.00	17.00
Consumer Affairs	4.00	3.00	5.00	6.00
Law	76.00	87.00	88.50	86.50
Finance	234.00	241.50	248.50	250.50
Security of Persons and Property				
Administration	36.50	40.00	39.00	39.00
Police	1,869.50	1,983.50	2,079.00	2,095.50
Fire	803.00	875.00	894.00	883.00
EMS	214.00	218.00	236.00	252.00
Dog Pound	15.00	16.00	15.00	14.50
House of Corrections	153.00	170.00	188.00	176.50
Public Health Services	140.50	159.50	168.50	169.50
Leisure Time Activities				
Parks, Recreation and Property Administration	8.00	7.00	7.00	7.00
Research, Planning and Development	5.00	6.00	8.00	9.00
Recreation	189.00	230.00	238.00	233.50
Convention Center, Westside Market and Cleveland Stadium	29.50	27.50	31.00	54.50
Parking Facilities	42.50	42.50	41.00	44.50
Property Management	73.50	81.50	84.50	87.50
Parks Maintenance	126.00	140.00	141.00	151.00
Community Development	76.50	87.00	86.00	77.50
Building and Housing	120.00	134.50	142.00	147.00
Economic Development	28.00	34.00	68.00	73.00
Public Service				
Public Service Administration	5.50	4.50	4.50	5.00
Architecture	5.00	6.00	6.00	7.00
Waste Collection and Disposal	212.50	238.50	253.50	225.50
Engineering and Construction	31.50	59.50	61.50	60.50
Motor Vehicle Maintenance	75.00	81.00	85.00	86.00
Streets	285.00	257.50	271.50	283.50
Traffic Engineering	36.00	38.00	39.00	40.00
Port Control	418.00	446.50	447.50	406.50
Basic Utility Services				
Water	1,157.00	1,164.50	1,179.50	1,215.50
Cleveland Public Power	358.00	345.00	343.00	340.00
Water Pollution Control	148.50	158.00	157.00	150.00
Totals:	7,673.00	8,139.50	8,420.50	8,442.50

Method: Using 1.0 for each full-time employee and 0.50 for each part-time and seasonal employee at year end.

(1) Information prior to 2004 is not available.
(2) Building and Housing was moved from Community Development to its own department in 2005.
(3) House of Corrections was moved from Public Health to Public Safety in 2007.

N/A - Information not available.

Source: City Payroll Department.

2007	2006	2005	2004
62.50	63.50	65.00	66.00
26.00	25.00	29.50	27.00
5.50	5.00	4.50	4.50
5.50	5.00	6.00	6.00
4.50	4.50	5.50	5.50
11.50	10.00	10.50	12.50
27.00	28.50	23.50	24.50
26.00	23.00	26.00	27.00
13.00	13.00	14.00	12.00
551.00	544.00	541.50	534.50
8.00	7.00	7.00	8.00
22.50	20.50	18.00	18.00
20.00	19.00	18.00	91.50
5.00	5.00	3.00	4.00
89.50	88.50	89.00	93.00
255.00	255.00	255.50	245.50
42.50	39.50	39.00	41.50
2,105.00	2,176.50	2,179.00	2,145.50
902.00	915.00	916.00	913.00
288.00	292.00	297.00	298.00
14.50	14.50	13.00	13.00
183.50 (3)	N/A	N/A	N/A
168.50 (3)	260.00	253.00	261.50
8.00	8.00	7.00	9.00
9.00	9.00	10.00	10.00
238.00	165.00	170.50	176.00
59.50	49.50	54.00	49.50
49.00	46.50	47.50	56.00
89.50	93.00	100.00	99.50
164.00	161.00	170.00	167.00
78.50	81.00	87.50 (2)	271.50
161.00	165.00	170.00 (2)	0.00
88.00	94.00	98.00	29.00
5.00	5.00	5.00	6.00
8.00	9.00	9.00	9.00
252.50	244.50	225.50	223.50
65.50	65.50	69.50	70.00
95.00	102.00	100.00	102.00
306.00	288.50	303.00	287.00
41.00	44.00	44.00	3.00
386.00	369.50	377.50	402.00
1,194.00	1,207.00	1,216.00	1,263.50
341.00	337.00	341.00	347.00
157.00	144.00	147.00	147.00
8,632.00	8,502.00	8,565.50	8,579.50

City of Cleveland, Ohio
Operating Indicators by Function/Program
Last Ten Years

Function/Program	2011	2010	2009	2008
General Government				
Council and Clerk				
Number of ordinances passed	723	621	772	771
Number of resolutions passed	647	747	776	304
Number of planning commission docket items (4)	262	298	309	444
Zoning board of appeals docket items	241	274	267	242
Finance Department				
Number of payments issued	38,501	37,944	44,289	47,670
Total amount of payments	$1,311,830,974	$1,276,014,604	$1,307,460,874	$1,251,719,916
Interest earnings for fiscal year (cash basis)	$4,061,090	$7,507,827	$13,219,445	$45,366,880
Number of receiving warrants (8)	30,433	31,497	16,369	16,141
Number of journal entries issued (8)	179,546	192,281	41,238	41,217
Number of budget adjustments issued	6	2	2	5
Agency ratings - Standard & Poor's (1)	AA	AA	AA	AA
Agency ratings - Moody's Financial Services (1)	A1	A1	A2	A2
Health insurance costs vs. General Fund expenditures %	18%	17%	15%	14%
General Fund receipts (cash basis in thousands)	$496,086	$480,724	$487,678	$517,796
General Fund expenditures (cash basis in thousands)	$472,883	$482,227	$501,758	$501,124
General Fund cash balances (in thousands)	$54,888	$16,400	$12,327	$40,685
Income Tax Department				
Number of individual returns	196,457	202,232	211,241	232,210
Number of business returns	26,240	26,881	26,326	29,014
Number of business withholding accounts	14,338	13,835	14,542	14,653
Amount of penalties and interest collected	$2,059,203	$1,754,501	$1,884,453	$2,357,490
Annual number of corporate withholding forms processed	149,537	149,584	144,493	151,256
Annual number of balance due statements forms processed	38,152	36,188	38,610	44,637
Annual number of estimated payment forms processed	41,636	42,767	47,841	51,527
Annual number of reconciliations of withholdings processed	11,376	11,357	12,213	12,198
Engineer Contracted Services				
Dollar amount of construction overseen by engineer (2)	$30,760,000	$34,000,000	$32,000,000	$159,540,000
Municipal Court				
Number of civil cases (10)	11,513	19,280	16,375	19,890
Number of criminal cases (10)	107,711	167,563	120,131	120,077
Vital Statistics				
Certificates filed (3)				
Number of births	16,616	15,528	16,403	16,942
Number of deaths	12,958	12,296	12,101	12,354
Number of fetal deaths	459	454	401	447
Certificates issued (3)				
Number of births	57,542	62,507	69,785	77,967
Number of deaths	61,147	59,689	60,465	65,149
Civil Service				
Number of police entry tests administered	0	0	1	0
Number of fire entry tests administered	0	1	0	0
Number of police promotional tests administered	1	0	0	3
Number of fire promotional tests administered	1	0	0	0
Number of hires of police officers from certified lists	42	0	56	106
Number of hires of fire/medics from certified lists	0	0	22	0
Number of promotions from police certified lists	0	0	20	40
Number of promotions from fire certified lists	0	0	0	10

2007	2006	2005	2004	2003	2002
784	846	899	891	1,028	1,085
363	361	306	292	349	404
441	768	725	669	538	535
263	265	394	337	349	372
47,985	49,533	50,541	48,808	51,922	51,756
$1,287,268,015	$1,284,108,296	$1,266,586,217	$1,211,743,500	$1,211,440,564	$1,271,734,980
$63,335,510	$53,988,258	$42,035,213	$38,154,383	$39,688,080	$48,324,784
15,300	14,799	14,485	14,344	58,967	55,652
43,619	43,186	39,839	41,543	54,095	43,435
2	3	5	4	4	5
A	A	A	A	A	A+
A2	A2	A2	A2	A2	A1
14%	14%	14%	12%	12%	10%
$509,616	$490,927	$471,755	$455,775	$459,365	$460,237
$485,410	$465,162	$451,323	$484,856	$437,964	$468,504
$41,885	$30,957	$29,738	$24,058	$17,676	$27,222
238,319	248,108	267,712	287,904	299,081	315,848
28,335	30,567	25,763	30,584	29,825	27,677
14,469	16,200	14,942	15,503	15,520	15,986
$1,912,554	$1,999,859	$1,990,879	$2,471,464	$2,233,996	$2,727,029
152,334	169,933	136,931	148,779	147,478	148,702
39,767	45,909	47,252	53,458	58,689	63,829
57,092	56,163	55,036	62,115	64,780	64,709
12,488	18,929	9,075	14,723	13,000	11,737
$251,305,000	$141,733,000	$52,741,000	$78,562,000	$49,716,000	$45,905,000
18,569	22,909	21,567	22,418	23,133	19,591
113,661	121,676	121,791	113,822	151,395	166,288
17,235	17,645	17,638	18,191	18,542	18,897
12,086	11,992	12,343	12,296	11,825	12,089
399	312	361	294	477	516
102,140	98,545	101,284	58,452	N/A	N/A
64,436	84,615	66,268	38,684	N/A	N/A
1	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	1
0	0	0	0	0	1
73	0	0	0	0	0
0	0	0	0	0	0
0	0	39	19	23	18
49	0	0	0	0	0

(Continued)

City of Cleveland, Ohio
Operating Indicators by Function/Program
Last Ten Years

Function/Program	2011	2010	2009	2008
Building Department Indicators				
Construction permits issued	15,082	6,829	8,334	10,631
Estimated value of construction	$1,556,000,000	$729,883,689	$919,923,776	$814,646,916
Number of other permits issued	4,164	8,629	8,290	9,710
Amount of revenue generated from permits	$8,306,423	$6,078,922	$7,332,522	$7,364,794
Number of contract registrations issued	2,822	2,895	2,847	2,783
Annual apartment/rooming house license fees	$1,343,457	$1,571,317	$1,281,530	$1,331,940
Security of Persons and Property				
Police				
Number of traffic citations issued	119,371	75,362	77,037	79,089
Number of parking citations issued	42,763	48,691	59,598	49,012
Number of criminal arrests	37,531	39,657	38,613	39,596
Number of accident reports completed	15,444	14,761	14,804	15,525
Part 1 offenses (major offenses)	40,554	38,003	38,586	39,237
DUI arrests	679	729	738	695
Prisoners	37,235	39,156	37,864	38,629
Motor vehicle accidents	15,412	14,761	14,804	15,525
Fatalities from motor vehicle accidents	29	49	38	52
Community diversion program youths	188	196	139	169
Fire				
Fire calls - incoming for services (6)	65,132	60,076	60,306	60,263
Fires	2,714	2,869	2,794	2,790
Fires with loss	1,398	1,266	843	1,095
Fires with losses exceeding $10K	256	219	237	362
Fire losses $	$14,747,291	$12,035,650	$12,312,407	$11,242,477
Fire safety inspections	10,898	13,631	13,982	8,110
Number of times mutual aid given to fire	21	29	17	11
EMS				
EMS calls - incoming for service	94,307	92,230	89,632	88,934
Ambulance billing collections (net)	$11,594,178	$10,832,204	$9,649,887	$12,091,087
Public Health and Welfare				
Number of health inspections				
Barber shops	400	238	219	227
Food	7,369	7,624	8,684	9,611
Hotels/motels	42	36	34	37
Marinas	11	11	11	11
Mobile home parks	12	5	5	5
Laundries	87	69	58	62
Nuisance	19,136	24,130	27,544	17,205
Pools	204	120	142	127
Schools	480	390	349	195
Day care inspections	229	223	209	98
Maternity inspections	4	4	4	4
Abortion inspections	6	6	6	6
Cemetery burials	0	0	3	17
Cemetery cremations	177	169	155	149

2007	2006	2005	2004	2003	2002
8,397	9,163	9,699	10,020	9,471	10,427
$648,592,297	$743,566,106	$652,537,749	$558,278,403	$487,768,588	$382,584,866
8,971	9,157	9,272	9,489	9,767	10,260
$7,112,426	$7,399,513	$7,504,979	$8,661,198	$6,353,990	$4,611,214
2,887	3,077	3,700	2,200	5,492	2,252
$1,427,208	$1,290,830	$1,367,157	$1,433,689	$1,399,415	$1,155,597
62,652	77,003	82,642	77,424	106,970	119,632
49,669	59,311	51,947	54,268	173,185	220,966
39,087	40,678	39,002	38,090	45,205	50,092
16,239	17,374	18,878	20,655	21,898	21,915
41,400	44,018	42,352	39,933	32,198	33,218
847	577	705	660	1,075	1,355
38,142	39,851	38,259	37,426	43,765	47,856
16,239	17,374	18,878	20,655	21,898	21,915
34	39	38	49	42	32
229	177	155	273	263	127
63,403	61,702	65,825	56,236	3,703	3,831
3,343	3,296	3,195	3,202	N/A	N/A
1,807	1,708	1,904	1,641	1,777	1,832
479	362	379	316	261	286
$19,115,824	$21,567,578	$18,292,877	$18,140,355	$12,179,966	$13,819,600
9,764	5,901	6,027	6,198	6,989	7,074
5	0	87	39	92	72
88,506	86,010	91,161	87,009	89,380	87,085
$11,394,837	$10,698,730	$10,075,142	$8,830,211	$7,243,765	$8,412,319
263	251	237	230	199	195
7,914	8,143	8,140	8,175	8,207	8,010
31	31	27	29	24	21
11	11	11	11	11	11
5	5	5	5	5	5
81	68	59	46	46	42
23,402	20,057	18,317	18,299	17,539	16,512
131	129	146	129	129	129
274	235	376	225	225	225
109	104	95	101	113	92
4	3	4	4	4	4
5	5	5	5	5	5
54	27	49	73	77	83
144	83	45	32	19	10

(Continued)

City of Cleveland, Ohio

Operating Indicators by Function/Program

Last Ten Years

Function/Program	2011	2010	2009	2008
Leisure Time Activities				
Recreation men and women leagues receipts	$5,280	$5,145	$5,070	$6,825
Economic Development				
Grant amounts received (Amounts in 000's) (13)	$2,154	$4,564	$12,958	$16,837
Public Works				
Street improvements - asphalt overlay (linear feet) (9)	224,361	0	101,000	113,772
Crackseal coating program (linear feet) (9)	3,263	679,450	200,640	158,400
Street repair (curbs, aprons, berms, asphalt) (hours)	83,212	76,000	80,000	95,000
Guardrail repair (hours) (11)	40	2,500	2,500	3,000
Paint striping				
Lane line (miles)	651	855	936	630
Crosswalks (each)	5,260	5,172	6,950	5,700
Arrows (each)	4,706	4,210	3,716	2,800
Street sweeper (hours) (11)	3,840	46,000	55,000	49,000
Cold patch (hours)	31,345	22,000	24,000	31,000
Snow and ice removal regular hours	128,000	128,000	128,000	132,000
Snow and ice removal overtime hours	23,117	21,139	14,400	15,000
Leaf collection (hours) (12)	0	18,300	18,000	20,000
Holiday lights setup (hours) (7)	0	0	0	4
Equipment repair/body shop (hours)	5,000	5,076	2,663	1,010
Tons of snow melting salt purchased November-March	74,679	53,322	67,000	85,000
Cost of salt purchased	$3,348,606	$2,321,118	$2,700,000	$3,330,000
Refuse disposal per year (in tons) August through July	240,603	232,241	236,225	266,035
Refuse disposal costs per year August through July	$6,556,260	$6,079,532	$6,928,858	$7,790,729
Annual recycling tonnage (excluding leaf, and compost items)	9,197	7,227	6,039	9,000
Percentage of waste recycled	3.68%	3.13%	4.12%	3.39%
Port Control				
Cleveland Hopkins Airport				
Landed weight (in thousands of pounds)	5,912,394	5,907,546	6,265,656	7,256,242
Total operations	188,286	192,683	200,268	235,975
Total passengers	9,202,884	9,492,455	9,715,604	11,106,194
Total enplaned passengers	4,597,697	4,745,308	4,855,129	5,545,205
Burke Lakefront Airport				
Landed weight	N/A	N/A	N/A	N/A
Total operations	65,664	64,358	68,456	69,231
Total passengers	176,096	174,598	166,965	188,171
Total enplaned passengers	87,695	87,012	83,438	93,772
Water Department				
Water rates per 1st 1000 cubic feet of water used (5)	$13.76	$12.58	$11.59	$10.63
Average number of water accounts billed monthly (cubic feet)	138,002	133,626	135,675	137,528
Total water collections annually (including P&I)	$211,302,881	$210,264,218	$221,967,799	$218,285,825
Payments to Cleveland for bulk water purchases	$19,101,723	$20,660,824	$18,093,912	$18,399,096
Wastewater Department				
Sewer and sanitary calls for service	5,489	7,272	8,021	8,275
After hours sewer calls (hours)	204	185	103	147

(1) General obligation bond rating.
(2) Amounts are new construction starts. The majority of engineering and construction projects are multi-year projects.
(3) Includes entire area serviced by the Division of Vital Statistics (i.e., Cleveland + suburbs).
(4) Beginning 2007, administratively approved cases no longer included.
(5) This is the rate for the City of Cleveland residents only.
(6) Fire Calls was changed to "Fire calls-Incoming for service" and all years adjusted beginning 2004 to reflect all calls for service received.
(7) Holiday light setup was contracted to an outside agency in 2009 and 2010.
(8) The City went "live" on a new financial system in January 2010. The new system creates journal entries at the transaction level instead of at the summary level like the prior financial system.
(9) No program was available for asphalt overlay in 2010 and a new program was implemented for crackseal coating. In 2011 this program ended due to state budget cuts and the asphalt overlay program was again funded.
(10) 2010 data has been changed. Figures included cases from prior years.
(11) Street sweeping was limited in 2011 due to state imposed budget cuts.
(12) Beginning in 2011, the City no longer provides an orgainized leaf collection program.
(13) Economic Development grants received were restated in 2011 for all years shown. They Include Neighborhood Development Investment Fund, Supplemental Impowerment Zone, Economic Development Funds, Urban Development Action Funds, WIA Grants and Core City Program Funds. Beginning in 2011 WIA Grants were moved to General Government.
N/A Information not available.

2007	2006	2005	2004	2003	2002
$6,375	$5,730	$7,140	$10,455	$20,720	$31,290
$16,294	$36,005	$31,625	$29,936	$30,067	$37,374
65,000	40,000	162,800	101,000	135,100	127,500
126,720	79,200	316,800	211,200	264,000	253,440
95,000	95,000	95,000	95,000	95,000	95,000
1,100	1,600	1,000	800	800	2,600
650	650	650	633	630	600
6,000	6,000	6,000	5,900	5,800	5,800
3,000	3,000	3,000	2,800	2,500	2,500
36,000	30,000	30,000	15,000	12,000	12,000
31,000	31,000	31,000	31,000	31,000	31,000
132,000	132,000	132,000	132,000	132,000	132,000
18,000	8,000	30,000	23,000	17,000	16,000
17,000	17,000	17,000	17,000	17,000	17,000
5	5	5	5	5	5
809	1,066	1,179	1,664	1,811	2,606
82,000	64,500	83,000	40,000	95,000	40,000
$2,640,000	$2,128,363	$2,750,034	$1,321,066	$2,819,235	$1,237,889
293,801	303,196	333,497	316,083	296,139	302,969
$7,944,516	$8,662,913	$7,761,318	$7,461,798	$7,135,942	$7,628,883
8,584	16,435	16,088	12,825	14,500	11,176
2.93%	5.42%	4.82%	4.06%	4.90%	3.69%
7,380,384	7,467,746	7,910,706	8,074,843	7,827,776	8,193,727
244,719	249,967	258,926	263,561	258,460	262,108
11,458,898	11,321,050	11,463,391	11,264,937	10,555,387	10,795,270
5,722,338	5,646,470	5,724,440	5,613,255	5,257,224	5,405,497
N/A	N/A	N/A	N/A	N/A	N/A
68,137	77,593	73,064	84,101	94,626	94,462
204,582	214,947	188,381	199,194	215,601	216,406
102,039	107,786	93,941	99,563	107,931	108,940
$9.62	$8.71	$8.71	$8.41	$8.13	$7.85
138,727	139,129	140,166	138,338	138,441	138,002
$214,378,311	$192,386,791	$202,615,763	$190,316,017	$187,482,239	$196,125,873
$20,353,610	$19,632,453	$21,102,439	$19,422,375	$19,041,420	$18,989,684
7,585	6,515	6,188	5,481	7,802	6,684
384	448	526	437	N/A	N/A

(Concluded)

City of Cleveland, Ohio

Capital Assets Statistics by Function/Program
Last Ten Years

Function/Program	2011	2010	2009	2008
General Government				
Square footage occupied (4)	3,690,000	3,700,000	3,700,000	3,700,000
Administrative vehicles	36	26	28	27
Police				
Stations	5	5	5	6
Square footage of buildings (1)	553,100	553,100	553,100	769,536
Vehicles	796	808	830	764
Fire				
Stations	26	26	26	26
Square footage of buildings	313,224	313,224	313,224	313,224
Vehicles	104	120	127	132
EMS				
Stations (headquarters)	1	1	1	1
Square footage of buildings	33,000	33,000	33,000	33,000
Vehicles	45	44	49	46
Port Control (Hopkins)				
Runways	3	3	3	3
Terminal area (approximate square footage)	935,000	935,000	935,000	935,000
Gates	96	96	96	96
Parking spaces (approximately)				
Long term	2,600	2,576	2,647	2,500
Short term	3,900	3,895	4,088	4,200
Surface	1,000	615	390	500
Total parking spaces	7,500	7,086	7,125	7,200
Vehicles	353	324	325	325
Other Public Works				
Streets (miles)	1,290	1,319	1,319	1,319
Service vehicles	868	754	773	741

2007	2006	2005	2004	2003	2002
3,700,000	2,310,732	2,310,732	2,187,420	2,187,420	2,187,420
26	28	26	25	23	21
6	6	6	6	6	6
769,536	769,536	769,536	769,536	769,536	769,536
921	958	979	905	872	897
26	26	26	26	26	26
313,224	313,224	313,224	313,224	313,224	313,224
155	153	152	147	154	135
1	1	1	N/A	N/A	N/A
33,000	33,000	33,000	N/A	N/A	N/A
49	57	53	47	46	44
3	4	4	4	4	4
935,000	935,000	935,000	935,000	935,000	935,000
96	96	96	96	96	96
2,500	2,500	2,500	2,500	2,500	2,500
4,200	4,200	4,200	4,200	4,200	4,200
500	500	0	0	0	0
7,200	7,200	6,700	6,700	6,700	6,700
326	362	345	321	314	299
1,319	1,280	1,280	1,240	1,210	1,210
760	828	842	859	857	931

(Continued)

City of Cleveland, Ohio

Capital Assets Statistics by Function/Program

Last Ten Years

Function/Program	2011	2010	2009	2008
Recreation				
Number of parks	154	154	154	155
Number of playgrounds	109	109	109	110
Number of baseball diamonds	132	133	134	134
Number of tennis courts	111	111	114	114
Number of basketball courts				
Full	110	108	110	110
Half	10	10	10	10
Number of soccer fields	9	7	7	7
Number of recreation centers	20	19	19	19
Number of pools				
Indoor	19	18	18	18
Outdoor	23	23	23	23
Number of aquatic playgrounds	10	9	9	8
Number of golf courses (3)	2	2	2	2
Number of ice rinks	1	1	1	1
Number of roller rinks	1	1	1	1
Number of fine arts centers	1	1	1	1
Number of greenhouses	1	1	1	1
Number of camps	1	1	1	1
Total park acreage	1,495	1,492	1,487	1,491
Vehicles	99	156	160	157
Wastewater				
Sanitary sewers (miles)	170	170	170	156
Storm sewers (miles)	199	199	199	164
Combined sewers (miles)	1,065	1,065	1,065	920
Vehicles	115	108	111	114
Electric Power				
Vehicles	266	252	272	291
Water Department				
Water lines (miles) (2)	2,709	2,704	2,493	2,321
Vehicles	708	744	745	759

(1) Includes Dog Kennels, Inspection Garage and House of Corrections.

(2) This was a calculated total on all trunk mains [20" diameter and larger] (458.55 miles), distribution mains [16" and smaller] within the City of Cleveland (1301.5 mi.), plus distribution mains within certain suburbs with newly defined service agreements (561.1 mi.) where, by definition, Cleveland owns the local distribution main within the suburban corporate boundaries. The included suburbs are: Bedford Heights, Brunswick, East Cleveland, Euclid, Hunting Valley, Orange, Parma Heights, Shaker Heights and University Heights. What is not included in this calculation is distribution mains in any other direct service suburbs and in master meter communities.

(3) In 2010 the City leased one of the golf courses to Cleveland Metropolitan Parks.

(4) Closed Platt Station and Luke Easter Station in 2011.

N/A Information not available.

2007	2006	2005	2004	2003	2002
154	150	150	146	146	145
110	111	112	111	109	111
138	140	140	141	141	142
120	120	120	131	134	136
111	118	120	123	121	N/A
10	12	16	18	18	N/A
7	12	12	12	11	11
19	19	19	19	18	18
18	18	18	18	17	17
23	22	22	22	22	23
8	7	6	6	4	4
2	2	2	2	2	2
1	1	1	1	1	1
1	1	1	1	1	1
1	1	1	1	1	1
1	1	1	1	1	1
1	1	1	1	1	1
1,490	1,477	1,477	1,440	1,444	1,414
161	163	154	145	143	137
156	171	171	171	171	171
164	199	199	199	199	199
920	1,065	1,065	1,065	1,065	1,065
128	83	82	81	81	81
308	306	287	269	276	269
2,321	2,172	2,168	2,042	2,040	2,039
811	832	827	814	801	804

(Concluded)

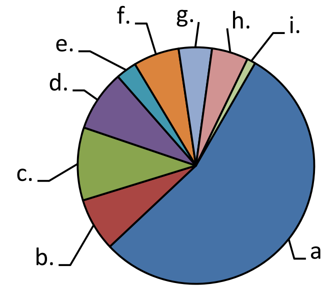
CITY OF CLEVELAND, OHIO

SCHEDULE OF STATISTICS-GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

OPERATING RATIOS: GENERAL FUND-BUDGET BASIS

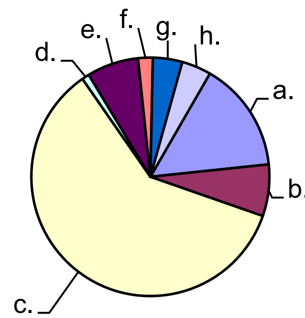
REVENUE DOLLAR BY SOURCE
Where the money came from

a. Income taxes	a.	$0.55
b. Property taxes	b.	0.07
c. State local government funds	c.	0.10
d. Other taxes and shared revenues	d.	0.08
e. Licenses and permits	e.	0.03
f. Charges for services	f.	0.06
g. Fines, forfeits and settlements	g.	0.05
h. Miscellaneous	h.	0.05
i. Transfers in	i.	0.01
		$1.00



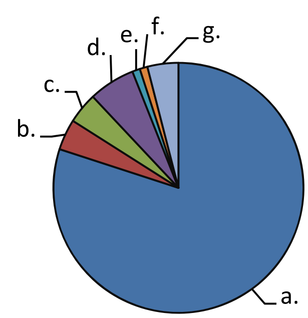
EXPENDITURE DOLLAR BY FUNCTION
Where the money was spent

a. General Government	a.	$0.15
b. Public Service	b.	0.07
c. Public Safety	c.	0.60
d. Public Health	d.	0.01
e. Parks, Recreation and Properties	e.	0.07
f. Building and Housing	f.	0.02
g. Economic Development and other	g.	0.04
h. Transfers out	h.	0.04
		$1.00



EXPENDITURE DOLLAR BY OBJECT
What the money was spent on

a. Salaries, wages and related benefits	a.	$0.80
b. Interdepartmental charges	b.	0.04
c. Utilities	c.	0.04
d. Contractual services	d.	0.06
e. Materials and supplies	e.	0.01
f. Maintenance	f.	0.01
g. Transfers out	g.	0.04
		$1.00



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CITY OF CLEVELAND, OHIO

CENTRAL COLLECTION AGENCY

DEPARTMENT OF FINANCE
DIVISION OF TAXATION

REPORT ON AUDITS OF FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

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CITY OF CLEVELAND, OHIO

CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION

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INDEPENDENT AUDITORS' REPORT

To the Honorable Frank G. Jackson, Mayor, Members of Council and the Audit Committee
Central Collection Agency
Division of Taxation
City of Cleveland, Ohio:

We have audited the accompanying basic financial statements of the Central Collection Agency's Internal Service and Agency Funds, Division of Taxation, City of Cleveland, Ohio (the Agency) as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to 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 described in Note A, the financial statements present only the financial position and the changes in financial position and cash flows of the Agency and do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2011 and 2010, and the respective changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United State of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the Central Collection Agency's Internal Service and Agency Funds, Division of Taxation, City of Cleveland, Ohio as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules on pages 25 through 28 are presented for purpose of additional analysis and are not a required part of the Agency's basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the Agency's basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented in all material respects in relation to the Agency's basic financial statements taken as a whole.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 25, 2012

CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the City) Department of Finance, Division of Taxation, Central Collection Agency (the Agency), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the years ended December 31, 2011 and December 31, 2010. Please read this information in conjunction with the Agency's financial statements and footnotes that begin on page 11.

The Division of Taxation was created in 1966 by the enactment of the City of Cleveland's Income Tax Ordinance providing the City's Income Tax Administrator with the authority to enter into agreements with any other municipal corporation to administer income tax laws and to provide for a central income tax collection facility. The Agency began with 14 member communities and during 2011 provided a full range of tax collection services for 51 member communities throughout 19 Ohio counties. The Agency employs more than 100 individuals to process approximately one million returns, estimated payments and tax assessments. In 2011, the Agency collected approximately $410 million and approximately $404 million and $402 million in 2010 and 2009, respectively.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The assets and the liabilities of the Agency equal $80,568,081, $81,201,634 and $76,665,484, at December 31, 2011, 2010 and 2009, respectively. The Agency's total assets decreased by $633,553 in 2011. The Agency's total assets increased by $4,536,150 in 2010. Its total assets decreased by $7,848,574 in 2009. The minimal decrease in 2011 was due to decreases in cash and cash equivalents, taxes receivable and due from CCA internal service fund.

- During 2011, the Agency upgraded hardware and software for the CCA MITIS™ system. This upgrade resulted in an increase in capital assets, net of accumulated depreciation, of $62,149, at December 31, 2011.

- The agency fund total cash receipts were approximately $410 million, $404 million and $402 million in 2011, 2010 and 2009, respectively. In 2011, cash receipts consisted of $333 million of employer withholding, $40 million of business profits, $32 million of individual payments and $5 million of other payments.

- The Agency's total operational cost was $7,929,898, $7,738,182, and $8,173,716, in 2011, 2010 and 2009, respectively. In 2011, operational costs consisted of $4,852,518 of employee's wages and benefits, $1,263,593 of allocated charges and $1,813,787 of other miscellaneous expenses.

- The Agency provides a mechanism for member municipalities to maximize efficiencies, minimize costs and capitalize from economies of scale. Pooling tax collections and investing at current market rates allows the operational costs of the Agency to be reduced by interest income. The Agency's member municipalities also benefit by printing and mailing large volumes of income tax forms to their taxpayers.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's financial statements. The accompanying financial statements present financial information for the City of Cleveland's Division of Taxation Fund, in which the City of Cleveland accounts for the operations of the Department of Finance, Division of Taxation. 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 Agency operates two funds. The operating fund is considered an internal service proprietary fund because the operations of this fund are similar to a private-sector business enterprise. Accordingly, in accounting for the operating activities within this fund, the economic resources measurement focus and the accrual basis of accounting is used. The second fund is an agency fund, which is used to account for the collection and remittance of income taxes for the member municipalities. For accounting measurement purposes, the agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of operations.

The financial statements of the Agency can be found on pages 11-14 of this report.

The notes to the financial statements and accompanying schedules provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements and accompanying schedules can be found on pages 15-28 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the internal service and agency funds of the Agency as of December 31, 2011, 2010 and 2009:

	2011	2010	2009
Assets:			
Cash and cash equivalents	$ 11,253,433	$ 11,474,868	$ 6,270,426
Capital assets, net of accumulated depreciation	62,149		
Taxes receivable	68,531,863	68,776,540	69,682,853
Due from CCA internal service fund	317,108	536,515	309,028
Due from member municipalities	403,528	413,711	403,177
Total assets	$ 80,568,081	$ 81,201,634	$ 76,665,484
Liabilities:			
Accounts payable	$ 139,472	$ 130,198	$ 114,189
Due to CCA agency fund	317,108	536,515	309,028
Due to the City of Cleveland	54,309,391	52,361,519	49,299,727
Due to member municipalities	25,049,168	27,349,724	26,102,296
Accrued wages and benefits - current	653,504	713,714	721,172
Accrued wages and benefits - long-term	99,438	109,964	119,072
Total liabilities	$ 80,568,081	$ 81,201,634	$ 76,665,484

Assets: The Agency collects and disburses income tax receipts monthly, except for the City of Cleveland which receives collections of tax receipts in advance of the regular monthly distribution date. Assets primarily consist of cash on hand and anticipated income tax receivable. Total assets decreased $633,553 during 2011 and increased $4,536,150 during 2010. In 2011, the minimal decrease in assets is attributable to decreases in cash and cash equivalents, taxes receivable and due from CCA internal service fund. In 2010, the increase in assets is attributable to an increase in cash and cash equivalents due to timing differences in the receipt of cash and distribution to member communities.

CONDENSED BALANCE SHEET INFORMATION (Continued)

Capital assets: The Agency's investment in capital assets as of December 31, 2011 amounted to $62,149 (net of accumulated depreciation). The investment in capital assets include: furniture, fixtures, equipment and vehicles. A summary of the Agency's capital assets during the year ended December 31, 2011 is as follows:

	January 1, 2011	Additions	Reductions	December 31, 2011
Furniture, fixtures, equipment and vehicles	$	$ 65,310	$	$ 65,310
Total	-	65,310	-	65,310
Less: Accumulated depreciation		(3,161)		(3,161)
Total capital assets, net	$ -	$ 62,149	$ -	$ 62,149

Liabilities: Liabilities primarily consist of amounts owed to member municipalities (including the City of Cleveland). During 2011, the decrease in liabilities was primarily due to a net effect decrease in Due to CCA agency fund, Due to the City of Cleveland and Due to member municipalities. During 2010, the increase in liabilities was due to an increase in Due to the City of Cleveland, which reflects the timing differences in the receipt of cash and distribution to the City.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Provided below is statement of revenue, expenses and changes in net assets for the internal service fund of the Agency for the years ended December 31, 2011, 2010 and 2009:

	Internal Service Fund		
	2011	**2010**	**2009**
Operating Revenues			
Charges for services	$ 7,923,161	$ 7,725,279	$ 8,131,635
Total operating revenues	7,923,161	7,725,279	8,131,635
Operating Expenses			
Salaries and wages	3,652,130	3,572,148	3,756,584
Employee benefits	1,200,388	1,348,976	1,289,994
Postage and office supplies	314,709	256,730	347,766
Allocation of City of Cleveland costs	1,263,593	1,115,576	1,322,421
Other administrative expenses	1,495,917	1,444,752	1,456,951
Depreciation	3,161		
Total operating expense	7,929,898	7,738,182	8,173,716
Operating loss	(6,737)	(12,903)	(42,081)
Non-operating Revenue			
Interest income	6,737	12,903	42,081
Change in net assets	-	-	-
Net assets at beginning of year	-	-	-
Net assets at end of year	$ -	$ -	$ -

2011:

The increase in total operating expenses of $191,716 is primarily a result of the increase in printing and telephone expenses.

Due to economic factors and declining interest rates, interest income decreased $6,166 in 2011. This is a decrease of approximately 48%.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (Continued)

2010:

The decrease in postage and office supplies of $91,036 is a result of the decreases of approximately $49,000 in the postage expense and approximately $42,000 in office supply expense.

The decrease in allocation of City of Cleveland costs expense of $206,845 was primarily due to decreases in charges from printing and reproduction and charges from telephone exchange.

Due to economic factors and declining interest rates, interest income decreased $29,178 in 2010. This is a decrease of approximately 69%.

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

The Agency continues to face the challenges of an economic recession. The Agency's most significant task is dealing with the complications of rising basic operating costs. However, the Agency is attempting to reduce the impact of these increasing expenses by continuing to aggressively collect income taxes due, thereby spreading the incremental cost over a larger base. The Agency's collections for the first quarter of 2012 are approximately 5% more than the collections in the same period in 2011. The Agency will continue to strive for increased delinquency collections, while trying to maintain operational expenses at their current level.

The operating budget for the Agency as approved by the Cleveland City Council for 2012 provides for an overall increase in budgeted expenditures of approximately 4%.

ADDITIONAL INFORMATION

This financial report is designed to provide a general overview of the Agency'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.

FINANCIAL STATEMENTS

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CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION

BALANCE SHEETS - ALL FUND TYPES
December 31, 2011 and 2010

	2011		2010	
	Proprietary Fund Type	Fiduciary Fund Type	Proprietary Fund Type	Fiduciary Fund Type
	Internal Service	Agency	Internal Service	Agency
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 1,271,669	$ 9,981,764	$ 1,631,819	$ 9,843,049
Taxes receivable		68,531,863		68,776,540
Due from CCA internal service fund		317,108		536,515
Due from member municipalities		403,528		413,711
TOTAL CURRENT ASSETS	1,271,669	79,234,263	1,631,819	79,569,815
CAPITAL ASSETS:				
Furniture, fixtures, equipment and vehicles	65,310			
Less: Accumulated depreciation	(3,161)			
CAPITAL ASSETS, NET	62,149	-	-	-
TOTAL ASSETS	$ 1,333,818	$ 79,234,263	$ 1,631,819	$ 79,569,815

(Continued)

The notes to the financial statements are an integral part of this statement.

CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION

BALANCE SHEETS - ALL FUND TYPES
December 31, 2011 and 2010

	2011		2010	
	Proprietary Fund Type	Fiduciary Fund Type	Proprietary Fund Type	Fiduciary Fund Type
	Internal Service	Agency	Internal Service	Agency
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	$ 139,472	$	$ 130,198	$
Due to CCA agency fund	317,108		536,515	
Due to the City of Cleveland	124,296	54,185,095	141,428	52,220,091
Due to member municipalities		25,049,168		27,349,724
Accrued wages and benefits - current	653,504		713,714	
TOTAL CURRENT LIABILITIES	1,234,380	79,234,263	1,521,855	79,569,815
LONG-TERM LIABILITIES				
Accrued wages and benefits	99,438		109,964	
TOTAL LONG-TERM LIABILITIES	99,438	-	109,964	-
TOTAL LIABILITIES	1,333,818	79,234,263	1,631,819	79,569,815
NET ASSETS				
Invested in capital assets, net of related debt	62,149			
Unrestricted	(62,149)			
TOTAL NET ASSETS	-	-	-	-
TOTAL LIABILITIES AND NET ASSETS	$ 1,333,818	$ 79,234,263	$ 1,631,819	$ 79,569,815

(Concluded)

The notes to the financial statements are an integral part of this statement.

CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUND
For the Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Charges for services	$ 7,923,161	$ 7,725,279
TOTAL OPERATING REVENUES	7,923,161	7,725,279
OPERATING EXPENSES		
Salaries and wages	3,652,130	3,572,148
Employee benefits	1,200,388	1,348,976
Postage and office supplies	314,709	256,730
Allocation of City of Cleveland costs	1,263,593	1,115,576
Other administrative expenses	1,495,917	1,444,752
Depreciation	3,161	
TOTAL OPERATING EXPENSES	7,929,898	7,738,182
OPERATING LOSS	(6,737)	(12,903)
NON-OPERATING REVENUE		
Interest income	6,737	12,903
CHANGE IN NET ASSETS	-	-
NET ASSETS AT BEGINNING OF YEAR	-	-
NET ASSETS AT END OF YEAR	$ -	$ -

The notes to the financial statements are an integral part of this statement.

CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION

STATEMENTS OF CASH FLOWS - INTERNAL SERVICE FUND
For the Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from member municipalities	$ 7,703,754	$ 7,952,766
Cash payments to suppliers of goods and services	(3,032,164)	(2,754,235)
Cash payments for employee services and benefits	(4,973,167)	(4,887,778)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(301,577)	310,753
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(65,310)	
NET CASH USED FOR CAPITAL AND RELATED ACTIVITIES	(65,310)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments	6,737	12,903
NET CASH PROVIDED BY INVESTING ACTIVITIES	6,737	12,903
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(360,150)	323,656
Cash and cash equivalents at beginning of year	1,631,819	1,308,163
Cash and cash equivalents at end of year	$ 1,271,669	$ 1,631,819
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED FOR) OPERATIONS		
Operating loss	$ (6,737)	$ (12,903)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Depreciation	3,161	
Changes in assets and liabilities:		
Increase in accounts payable	9,274	16,009
Increase (decrease) in due to CCA agency fund	(219,407)	227,487
Increase (decrease) in due to City of Cleveland	(17,132)	96,726
Decrease in accrued wages and benefits	(70,736)	(16,566)
Total adjustments	(294,840)	323,656
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ (301,577)	$ 310,753

The notes to the financial statements are an integral part of this statement.

CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

NOTE A--DESCRIPTION OF OPERATIONS AND BASIS OF PRESENTATION

The Central Collection Agency, Division of Taxation, City of Cleveland, Ohio (the Agency) is reported as part of the City of Cleveland's primary government and was created for the purpose of collecting city income taxes and disbursing those funds to the respective member municipalities (members) after payment of related expenses. Allocations of tax collections to members are based upon information provided by the taxpayers on the returns and supporting data. Such allocations are subject to adjustments in the subsequent year, dependent upon final returns filed by taxpayers and final review by the Agency. Refunds for overpayments are offset against allocated collections as amounts are determined.

Basis of Presentation: The financial statements are presented in accordance with Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification) which requires financial statements by fund type. These financial statements present a columnar total for all fund types included in the statement of assets and liabilities.

The following fund types are used by the Agency:

Proprietary Fund Type--Internal Service Fund: This fund is used to account for the services provided to members on a cost-reimbursement basis.

Fiduciary Fund Type--Agency Fund: This fund is used to account for assets held by the Agency as an agent for others.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and financial reporting practices of the Agency comply with accounting principles generally accepted in the United States of America applicable to governmental units. In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for the year ended December 31, 2010. The Agency has determined that GASB Statement No. 51 has no impact on its financial statements as of December 31, 2011.

The Agency's net assets are accounted for in the accompanying balance sheets and are divided into amounts in capital assets, net of related debt and unrestricted. The negative unrestricted amount will be eliminated as depreciation expense is passed along to members of the Agency.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting: All financial transactions of the Agency are reported on the accrual basis of accounting. Under this accounting method, assets and the related liabilities at the end of the year primarily consist of individual income taxes receivable arising from payroll tax withholdings in December and a receivable for quarterly and annual payments of income taxes pertaining to net profits, self-employment and residents' taxes earned in the prior years. For accounting purposes, the agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of operations. Financial transactions for the internal service fund are reported on the accrual basis of accounting; revenues are recognized when earned and measurable and expenses are recognized as incurred. For accounting purposes, the operations of the internal service fund are similar to a private-sector business enterprise. Accordingly, in accounting for the operating activities, the economic resources measurement focus is used.

With respect to proprietary activities, the Agency has adopted GASB 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Units that Use Proprietary Accounting*. The Agency has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board guidance issued on or before November 30, 1989, unless that guidance conflicts or contradicts GASB pronouncements. The Agency has chosen the option not to apply future FASB guidance (including amendments to earlier guidance).

Supplies: Supplies are expensed when purchased.

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

For purposes of this statement, cash and cash equivalents include highly liquid investments with a maturity of three months or less when purchased and all of the Agency's share of the City of Cleveland's pooled cash accounts.

Allocation of Expenses: The Agency allocates all operating expenses, net of interest income, to members based upon the arithmetic mean of the percentage of each municipality's transactions to total transactions and the percentage of each municipality's revenue to total revenue.

Allocation of Interest Income: Excess funds are invested on a daily basis and interest income earned on such investments is allocated to members based on the percentage of each municipality's revenue to total revenue. The City of Cleveland receives collections of tax receipts in advance of the regular monthly distribution date, and accordingly, interest income is allocated exclusively to the other members.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation: Capital assets are stated on the basis of historical cost, or if contributed, at fair market value as of the date received. Depreciation is computed by allocating the cost of capital assets over the estimated useful lives of the assets using the straight-line method. A capital asset is defined as 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, 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:

Furniture, fixtures, equipment and vehicles	3 to 60 years

Compensated Absences: The Agency 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.

Normally, all vacation time is to be taken in the year available. The Agency 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 C--POOLED AND SEGREGATED CASH AND INVESTMENTS

Deposits: The carrying amount of the Agency's deposits at December 31, 2011 and December 31, 2010 totaled $2,905,987 and $1,196,812, respectively, and the Agency's bank balances were $2,595,620 and $1,894,125, respectively. The differences represent outstanding warrants payable, 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*, $2,595,620 and $1,894,125 of the bank balances at December 31, 2011 and 2010, 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 Agency will not be able to recover deposits or collateral for securities that are in possession of an outside party. At year end, the Agency'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.

NOTE C--POOLED AND SEGREGATED CASH AND INVESTMENTS (Continued)

Investments: The City's investment policies are governed by state statutes and City ordinances which authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; 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.

Under City policy, investments are limited to repurchase agreements, U.S. Government securities, certificates of deposit, investments in certain money market mutual funds, commercial paper, guaranteed investment contracts, manuscript debt 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 Agency, 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, custodial, market and credit. Market values of securities fluctuate based on the magnitude of changing market conditions; significant changes in market conditions could materially affect portfolio value.

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The Agency does not have an investment policy dealing with investment custodial credit risk beyond the requirement in the state statute.

Credit Risk: Investments in STAROhio and 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. The Agency has no investment policy that would further limit its investment choices.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2011 and 2010

NOTE C--POOLED AND SEGREGATED CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk: The Agency places a limitation on the amount it may invest in any one issuer to help minimize the concentration of credit risk. The Agency had the following investments at December 31, 2011 and 2010, which include those classified as cash and cash equivalents in the Statements of Assets and Liabilities in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

Type of Investment	2011 Fair Value	2011 Cost	2010 Fair Value	2010 Cost	Investment Maturities Less Than One Year
STAROhio	$ 1,683,888	$ 1,683,888	$ 4,669,708	$ 4,669,708	$ 1,683,888
Investment in Mutual Funds	6,663,558	6,663,558	5,608,348	5,608,348	6,663,558
Total Investments	8,347,446	8,347,446	10,278,056	10,278,056	8,347,446
Total Deposits	2,905,987	2,905,987	1,196,812	1,196,812	2,905,987
Total Deposits and Investments	$ 11,253,433	$ 11,253,433	$ 11,474,868	$ 11,474,868	$ 11,253,433

These amounts are monies invested by the City Treasurer on behalf of the Agency and are used in daily operations with excess monies invested daily in STAROhio and mutual funds. These investments are carried at cost which approximates market value. Monies due to member agencies are disbursed from these funds on a monthly basis.

As of December 31, 2011, the investments in STAROhio and mutual funds are approximately 20% and 80%, respectively, of the Agency's total investments. As of December 31, 2010, the investments in STAROhio and mutual funds are approximately 45% and 55%, respectively, of the Agency's total investments.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2011 and 2010

NOTE D--CAPITAL ASSETS

Capital Asset Activity: Capital Asset Activity for the year ended December 31, 2011 was as follows:

	January 1, 2011	Additions	Reductions	December 31, 2011
Capital assets, being depreciated:				
Furniture, fixtures, equipment and vehicles	$	$ 65,310	$	$ 65,310
Total capital assets, being depreciated	-	65,310	-	65,310
Less: Total accumulated depreciation		(3,161)		(3,161)
Total capital assets, being depreciated, net	-	62,149	-	62,149
Capital assets, net	$ -	$ 62,149	$ -	$ 62,149

NOTE E--DUE TO AND DUE FROM TRANSACTIONS

During the course of normal operations, the Agency has numerous transactions between its own funds and the municipalities which it serves, including transfers of resources to provide services. Such transactions are generally reflected as due to or due from account balances in the accompanying financial statements.

Individual fund due to and due from and certain payables balances as of December 31, 2011 are as follows:

	Internal Service Fund	Agency Fund	Total
Due from CCA internal service fund	$	$ 317,108	$ 317,108
Due from member municipalities		403,528	403,528
Total Due From	$ -	$ 720,636	$ 720,636
Due to the CCA agency fund	$ 317,108	$	$ 317,108
Due to the City of Cleveland	124,296	54,185,095	54,309,391
Due to member municipalities		25,049,168	25,049,168
Total Due To	$ 441,404	$ 79,234,263	$ 79,675,667

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2011 and 2010

NOTE E--DUE TO AND DUE FROM TRANSACTIONS (Continued)

Individual fund due to and due from and certain payables balances as of December 31, 2010 are as follows:

	Internal Service Fund	Agency Fund	Total
Due from CCA internal service fund	$	$ 536,515	$ 536,515
Due from member municipalities		413,711	413,711
Total Due From	$ -	$ 950,226	$ 950,226
Due to the CCA agency fund	$ 536,515	$	$ 536,515
Due to the City of Cleveland	141,428	52,220,091	52,361,519
Due to member municipalities		27,349,724	27,349,724
Total Due To	$ 677,943	$ 79,569,815	$ 80,247,758

NOTE F--DEFINED BENEFIT PENSION PLAN

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, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

NOTE F--DEFINED BENEFIT PENSION PLAN (Continued)

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2011, 2010 and 2009. The employer contribution rates were 14.00% of covered payroll in 2011, 2010 and 2009.

The Agency's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2011, 2010 and 2009 were $363,000, $364,000 and $327,000 each year, respectively. The required payments due in 2011, 2010 and 2009 have been made.

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 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, 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 2011, 2010 and 2009. 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 4.00% for members of the Traditional Plan in 2 011, 6.05% for members of the Combined Plan in 2011, 5.50% from January 1, 2010

NOTE G-- OTHER POSTEMPLOYMENT BENEFITS (Continued)

through February 28, 2010 and 5.00% from March 1, 2010 through December 31, 2010 and 7.00% from January 1, 2009 through March 31, 2009 and 5.50% from April 1, 2009 through December 31, 2009. The portion of employer contributions allocated to health care beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during 2012. 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 Agency's actual contributions to OPERS to fund postemployment benefits were $145,000 in 2011, $207,000 in 2010 and $237,000 in 2009.

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

NOTE H--RELATED PARTY TRANSACTIONS

The Agency is provided various services by the City of Cleveland. Charges are based on actual use or on a reasonable pro rata basis. These costs, as reported in the statement of revenues and expenses of the internal service fund for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
City administration	$401,050	$425,484
Office rent	393,948	373,948
Telephone	79,230	9,358
Cleveland Public Power	23,258	23,865
Parking Facilities	2,903	2,434
Printing services	351,281	273,231
Motor Vehicle Maintenance	11,923	7,256
Total	$1,263,593	$1,115,576

NOTE I--DUE FROM MEMBER CITIES

The Agency has recorded certain liabilities in the internal service fund related to compensated absences totaling $403,528 at December 31, 2011 and $413,711 at December 31, 2010 as accrued wages and benefits. These amounts are recorded as due from member municipalities in the agency fund.

NOTE J--CONTINGENT LIABILITIES AND RISK MANAGEMENT

Contingent Liabilities: Various claims are pending against the City involving the Agency 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 Agency's financial position, results of operations or cash flows.

Risk Management: The Agency 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 Agency is generally self-insured. No material losses, including incurred but not reported losses, occurred in 2011 or 2010.

The City provides the choice of four separate health insurance plans for its employees. These plans are provided by two different insurers through commercial insurance. Operating funds are charged a monthly rate per employee, by type of coverage. The City participates in the State of Ohio workers' compensation retrospective rating program.

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

CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION

SCHEDULES OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND
For the Years Ended December 31, 2011 and 2010

	Balance 1/1/2011	Additions	Deductions	Balance 12/31/2011
ASSETS				
Cash and cash equivalents	$ 9,843,049	$ 410,127,906	$ (409,989,191)	$ 9,981,764
Taxes receivable	68,776,540	68,531,863	(68,776,540)	68,531,863
Due from the CCA internal service fund	536,515	317,108	(536,515)	317,108
Due from member municipalities	413,711	403,528	(413,711)	403,528
TOTAL ASSETS	$ 79,569,815	$ 479,380,405	$ (479,715,957)	$ 79,234,263
LIABILITIES				
Due to the City of Cleveland	$ 52,220,091	$ 376,688,080	$ (374,723,076)	$ 54,185,095
Due to member municipalities	27,349,724	102,692,325	(104,992,881)	25,049,168
TOTAL LIABILITIES	$ 79,569,815	$ 479,380,405	$ (479,715,957)	$ 79,234,263

	Balance 1/1/2010	Additions	Deductions	Balance 12/31/2010
ASSETS				
Cash and cash equivalents	$ 4,962,263	$ 403,631,775	$ (398,750,989)	$ 9,843,049
Taxes receivable	69,682,853	68,776,540	(69,682,853)	68,776,540
Due from the CCA internal service fund	309,028	536,515	(309,028)	536,515
Due from member municipalities	403,177	413,711	(403,177)	413,711
TOTAL ASSETS	$ 75,357,321	$ 473,358,541	$ (469,146,047)	$ 79,569,815
LIABILITIES				
Due to the City of Cleveland	$ 49,255,025	$ 364,146,169	$ (361,181,103)	$ 52,220,091
Due to member municipalities	26,102,296	109,212,372	(107,964,944)	27,349,724
TOTAL LIABILITIES	$ 75,357,321	$ 473,358,541	$ (469,146,047)	$ 79,569,815

CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DIVISION OF TAXATION

SCHEDULE OF CASH RECEIPTS AND DISTRIBUTION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Members	Balance Collected and Due Members January 1,2011	Cash Receipts Net	Total Cash Receipts	Cash Disbursed	Allocation of Net Operating Expenses	Total Disbursements and Expenses	Balance Collected And Due Members December 31,2011
Ada	$ 69,125.43	$ 1,169,682.73	$ 1,238,808.16	$ 1,081,531.57	$ 42,329.52	$ 1,123,861.09	$ 114,947.07
Alger	(486.20)	40,074.99	39,588.79	35,444.35	5,354.46	40,798.81	(1,210.02)
Antwerp	13,815.73	11,350.67	25,166.40	24,266.40	900.00	25,166.40	-
Barberton	839,640.75	11,727,688.76	12,567,329.51	11,462,758.62	281,340.61	11,744,099.23	823,230.28
Bedford	520.31	18,276.37	18,796.68	17,802.22	1,423.28	19,225.50	(428.82)
Bradner	3,593.26	117,539.21	121,132.47	107,538.48	9,449.93	116,988.41	4,144.06
Bratenahl	191,666.18	1,239,491.30	1,431,157.48	1,134,745.86	34,305.79	1,169,051.65	262,105.83
Burton	28,106.67	464,202.19	492,308.86	429,449.51	25,566.99	455,016.50	37,292.36
Cairo	483.62	2,797.91	3,281.53	2,881.72	399.81	3,281.53	-
Chardon	360,634.83	221,507.99	582,142.82	575,142.82	7,000.00	582,142.82	-
Cleveland	4,285,713.15	317,588,331.23	321,874,044.38	311,777,894.57	5,081,862.30	316,859,756.87	5,014,287.51
Cridersville	13,833.10	298,432.32	312,265.42	279,895.19	21,920.05	301,815.24	10,450.18
Dayton	21,431.89	406,369.72	427,801.61	378,702.59	26,344.81	405,047.40	22,754.21
Elida	20,726.85	428,789.88	449,516.73	405,262.05	28,058.58	433,320.63	16,196.10
Gates Mills	203,351.07	1,617,951.77	1,821,302.84	1,564,634.25	53,248.94	1,617,883.19	203,419.65
Geneva-on-the-Lake	957.59	130,308.11	131,265.70	118,312.79	14,032.21	132,345.00	(1,079.30)
Grand Rapids	10,301.92	211,696.26	221,998.18	203,942.15	18,535.79	222,477.94	(479.76)
Grand River	16,082.02	246,805.31	262,887.33	225,326.53	8,235.59	233,562.12	29,325.21
Highland Hills	242,133.57	3,047,168.36	3,289,301.93	3,013,949.87	47,216.14	3,061,166.01	228,135.92
Huntsville	103.79	52,484.77	52,588.56	46,740.16	5,564.35	52,304.51	284.05
Lakewood	(1,538.22)	17,366.55	15,828.33	14,815.04	992.60	15,807.64	20.69
Liberty Center	1,036.66	172,141.81	173,178.47	157,255.51	13,233.29	170,488.80	2,689.67
Lima		43,888.58	43,888.58	40,027.77	4,641.91	44,669.68	(781.10)
Linndale	6,560.56	79,565.44	86,126.00	77,594.29	2,699.67	80,293.96	5,832.04
Lorain		62,433.23	62,433.23	57,059.00	7,723.72	64,782.72	(2,349.49)
Madison	64,132.06	854,381.26	918,513.32	809,341.95	52,550.16	861,892.11	56,621.21
Medina	845,817.16	12,643,526.96	13,489,344.12	12,144,199.55	447,509.66	12,591,709.21	897,634.91
Mentor-on-the-Lake	74,941.52	919,035.36	993,976.88	894,775.31	43,976.13	938,751.44	55,225.44
Metamora	(395.99)	395.99	-			-	-
Munroe Falls	114,829.18	1,058,501.05	1,173,330.23	1,048,840.82	48,990.46	1,097,831.28	75,498.95
Northfield	56,143.27	972,447.50	1,028,590.77	921,020.25	43,556.02	964,576.27	64,014.50
North Baltimore	32,115.30	658,962.69	691,077.99	609,638.97	31,283.56	640,922.53	50,155.46
North Perry	67,329.54	1,156,169.11	1,223,498.65	1,129,348.02	20,540.46	1,149,888.48	73,610.17
North Randall	49,415.39	939,759.86	989,175.25	871,680.91	26,791.87	898,472.78	90,702.47
Norton	273,662.40	4,539,827.70	4,813,490.10	4,336,416.49	166,595.22	4,503,011.71	310,478.39
Village of Oakwood	984.77	97,691.85	98,676.62	87,022.42	7,704.06	94,726.48	3,950.14
Orwell	53,859.07	20,082.04	73,941.11	73,341.11	600.00	73,941.11	-
Painesville	609,897.01	7,555,170.10	8,165,067.11	7,401,603.21	201,919.20	7,603,522.41	561,544.70
Paulding	7,272.90	404,776.11	412,049.01	366,527.71	38,165.27	404,692.98	7,356.03
Peninsula	17,378.34	279,792.81	297,171.15	264,289.71	16,650.28	280,939.99	16,231.16
Rocky River	581,672.39	8,422,547.07	9,004,219.46	8,075,579.78	333,902.63	8,409,482.41	594,737.05
Russells Point	8,615.94	199,258.20	207,874.14	182,883.04	15,248.14	198,131.18	9,742.96
Seville	64,060.13	953,995.04	1,018,055.17	911,785.10	44,786.70	956,571.80	61,483.37
South Russell	95,084.95	1,181,745.97	1,276,830.92	1,119,233.17	59,699.07	1,178,932.24	97,898.68
Stow	1,389.80	56,894.76	58,284.56	53,479.82	2,436.28	55,916.10	2,368.46
Timberlake	625.62	75,166.96	75,792.58	67,779.10	7,749.32	75,528.42	264.16
Trotwood	(7,321.95)	100,864.27	93,542.32	80,757.08	6,303.10	87,060.18	6,482.14
Troy		49,597.83	49,597.83	46,404.23	5,400.72	51,804.95	(2,207.12)
Wadsworth	482,088.21	6,578,311.03	7,060,399.24	6,264,357.96	289,589.19	6,553,947.15	506,452.09
Warren		180,052.48	180,052.48	166,190.18	15,778.89	181,969.07	(1,916.59)
Warrensville Heights	1,003,467.99	12,671,554.55	13,675,022.54	12,461,549.30	244,998.48	12,706,547.78	968,474.76
Waynesfield	4,941.97	114,453.86	119,395.83	108,991.57	8,055.47	117,047.04	2,348.79
Totals	$ 10,829,801.50	$ 402,101,307.87	$ 412,931,109.37	$ 393,730,010.07	$ 7,923,160.68	$ 401,653,170.75	$ 11,277,938.62

CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DIVISION OF TAXATION

SCHEDULE OF ALLOCATION OF NET OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

Members	Cost Allocation Percent	Interest Allocation Percent	Cost Allocation Before Interest Income	Interest Income of Municipalities Other Than Cleveland	Allocation of Net Operating Expenses
Ada	0.534976%	1.388235%	$ 42,423.05	$ 93.53	$ 42,329.52
Alger	0.067563%	0.047563%	5,357.66	3.20	5,354.46
Antwerp	0.021308%	0.000000%	900.00		900.00
Barberton	3.559673%	13.918975%	282,278.41	937.80	281,340.61
Bedford	0.017967%	0.021691%	1,424.74	1.46	1,423.28
Bradner	0.119287%	0.139501%	9,459.33	9.40	9,449.93
Bratenahl	0.433863%	1.471087%	34,404.91	99.12	34,305.79
Burton	0.322881%	0.550937%	25,604.11	37.12	25,566.99
Cairo	0.005733%	0.000000%	399.81		399.81
Chardon	0.138322%	0.000000%	7,000.00		7,000.00
Cleveland	64.014168%	0.000000%	5,081,862.30		5,081,862.30
Cridersville	0.276724%	0.354194%	21,943.91	23.86	21,920.05
Dayton	0.332631%	0.482299%	26,377.31	32.50	26,344.81
Elida	0.354265%	0.508908%	28,092.87	34.29	28,058.58
Gates Mills	0.673127%	1.920262%	53,378.32	129.38	53,248.94
Geneva-on-the-Lake	0.177085%	0.154656%	14,042.63	10.42	14,032.21
Grand Rapids	0.233959%	0.251251%	18,552.72	16.93	18,535.79
Grand River	0.104104%	0.292920%	8,255.33	19.74	8,235.59
Highland Hills	0.598492%	3.616523%	47,459.81	243.67	47,216.14
Huntsville	0.070222%	0.062291%	5,568.55	4.20	5,564.35
Lakewood	0.012535%	0.020611%	993.99	1.39	992.60
Liberty Center	0.167052%	0.204306%	13,247.06	13.77	13,233.29
Lima	0.058581%	0.052089%	4,645.42	3.51	4,641.91
Linndale	0.034124%	0.094432%	2,706.03	6.36	2,699.67
Lorain	0.097463%	0.074099%	7,728.71	4.99	7,723.72
Madison	0.663545%	1.014020%	52,618.48	68.32	52,550.16
Medina	5.656071%	15.005937%	448,520.69	1,011.03	447,509.66
Mentor-on-the-Lake	0.555488%	1.090755%	44,049.62	73.49	43,976.13
Munroe Falls	0.618862%	1.256279%	49,075.10	84.64	48,990.46
Northfield	0.550244%	1.154147%	43,633.78	77.76	43,556.02
North Baltimore	0.395166%	0.782088%	31,336.25	52.69	31,283.56
North Perry	0.260191%	1.372196%	20,632.91	92.45	20,540.46
North Randall	0.338807%	1.115351%	26,867.02	75.15	26,791.87
Norton	2.105427%	5.388082%	166,958.25	363.03	166,595.22
Village of Oakwood	0.097251%	0.115945%	7,711.87	7.81	7,704.06
Orwell	0.017535%	0.000000%	600.00		600.00
Painesville	2.553921%	8.966833%	202,523.35	604.15	201,919.20
Paulding	0.481691%	0.480407%	38,197.64	32.37	38,165.27
Peninsula	0.210250%	0.332071%	16,672.65	22.37	16,650.28
Rocky River	4.219173%	9.996277%	334,576.14	673.51	333,902.63
Russells Point	0.192488%	0.236489%	15,264.07	15.93	15,248.14
Seville	0.565745%	1.132246%	44,862.99	76.29	44,786.70
South Russell	0.754027%	1.402552%	59,793.57	94.50	59,699.07
Stow	0.030780%	0.067525%	2,440.83	4.55	2,436.28
Timberlake	0.097799%	0.089212%	7,755.33	6.01	7,749.32
Trotwood	0.079587%	0.119710%	6,311.17	8.07	6,303.10
Troy	0.068156%	0.058865%	5,404.69	3.97	5,400.72
Wadsworth	3.658499%	7.807450%	290,115.22	526.03	289,589.19
Warren	0.199161%	0.213695%	15,793.29	14.40	15,778.89
Warrensville Heights	3.102332%	15.039199%	246,011.76	1,013.28	244,998.48
Waynesfield	0.101699%	0.135839%	8,064.62	9.15	8,055.47
Totals	100.000000%	100.000000%	$ 7,929,898.27	$ 6,737.59	$ 7,923,160.68

CITY OF CLEVELAND, OHIO
CENTRAL COLLECTIONS AGENCY
DIVISION OF TAXATION

SCHEDULES OF INCOME TAXES RECEIVABLE
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Income Taxes Receivable Dec. 31, 2011	Income Taxes Receivable Dec. 31, 2010
Ada	$ 217,305.95	$ 189,554.98
Alger	21,022.10	23,774.84
Antwerp		113,663.83
Barberton	1,938,784.65	1,792,199.55
Bedford	2,982.42	2,266.36
Bradner	45,508.92	44,513.32
Bratenahl	542,783.42	635,840.97
Burton	139,101.15	135,865.82
Cairo		16,864.80
Chardon		1,049,999.31
Cleveland	49,170,807.30	48,705,035.77
Cridersville	111,722.14	108,524.12
Dayton	50,548.67	119,843.66
Elida	169,552.09	180,255.19
Gates Mills	631,825.04	576,170.42
Geneva-on-the-Lake	48,416.86	49,239.83
Grand Rapids	77,145.84	66,013.30
Grand River	51,552.69	39,462.13
Highland Hills	438,438.55	408,793.21
Huntsville	16,079.62	17,431.23
Lakewood	1,957.47	2,695.77
Liberty Center	44,530.43	40,694.55
Lima	2,759.83	111.16
Linndale	11,017.73	13,490.38
Lorain	13,497.11	8,766.03
Madison	310,531.44	316,753.31
Medina	3,253,925.84	3,266,555.23
Mentor-on-the-Lake	233,512.32	205,473.57
Munroe Falls	240,165.75	242,214.78
Northfield	260,876.72	257,930.12
North Baltimore	135,053.14	121,042.58
North Perry	125,602.11	99,908.61
North Randall	148,095.83	155,149.61
Norton	1,181,535.00	1,045,515.21
Village of Oakwood	28,907.45	22,309.86
Orwell		89,794.10
Painesville	1,198,473.22	1,209,310.31
Paulding	102,009.38	98,814.40
Peninsula	66,031.55	70,395.69
Rocky River	2,412,346.28	2,264,192.58
Russells Point	77,413.16	78,579.29
Seville	305,018.85	289,054.54
South Russell	424,839.48	376,491.93
Stow	4,327.99	2,823.85
Timberlake	33,621.74	33,113.42
Trotwood	11,156.74	22,582.04
Troy	4,265.06	7,752.45
Wadsworth	1,750,699.83	1,646,650.46
Warren	20,889.22	6,016.91
Warrensville Heights	2,420,485.06	2,470,149.14
Waynesfield	34,739.51	36,895.57
	$ 68,531,862.65	$ 68,776,540.09

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CITY OF CLEVELAND, OHIO

DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES

REPORT ON AUDITS OF FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PARKS, RECREATION & PROPERTIES
DIVISION OF PARKING FACILITIES

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the Division of Parking Facilities, Department of Parks, Recreation and Properties, City of Cleveland, Ohio (the Division) as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to 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 described in Note A, the financial statements present only the financial position and the changes in financial position and cash flows of the Division and do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2011 and 2010, and the respective changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United State of America.

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 Parks, Recreation and Properties, City of Cleveland, Ohio as of December 31, 2011 and December 31, 2010, 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.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 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 25, 2012

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the City) Department of Parks, Recreation and Properties, Division of Parking Facilities (the Division), we offer readers of the Division's financial statements this narrative overview and analysis of the financial activities of the Division for the years ended December 31, 2011 and 2010. Please read this information in conjunction with the Division's financial statements and footnotes which begin on page 13.

The Division was created for the purpose of providing moderately priced off-street parking facilities and on-street metered parking to citizens, visitors and those who work in the City. The Division's operating revenues are derived primarily from charges for parking at its facilities and from parking meter collections. As of December 31, 2011 the Division facilities included three parking garages and four surface lots. In 2010 the Division's facilities included four parking garages and four surface lots.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities (net assets) by $18,912,000, $21,302,000, and $21,312,000 at December 31, 2011, 2010 and 2009, respectively. Of these amounts, $5,391,000, $7,741,000 and $9,082,000 (unrestricted net assets) at December 31, 2011, 2010 and 2009, respectively, may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's total net assets decreased by $2,390,000 during 2011, decreased by $10,000 during 2010 and decreased by $15,000 during 2009. In 2011, operating income decreased by approximately $410,000, and net non-operating expenses increased by $7,095,000. In 2010, operating expenses increased by approximately 6.5%, which resulted in a decrease in net operating income of $346,000. Net non-operating expenses decreased by $351,000 which was mainly attributable to a decrease in interest expense payments and amortization on long-term debt associated with the revenue bonds.

- The Division's total bonded debt decreased by $19,570,000 (36.5%), $3,300,000 (5.8%) and $3,120,000 (5.2%) during 2011, 2010 and 2009, respectively. These amounts represent the principal payments made in 2011, 2010 and 2009. 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 13 - 18 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 20 – 36 of this report.

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Division as of December 31, 2011, 2010 and 2009:

	2011	2010	2009
		(Amounts in 000's)	
Assets:			
Current assets	$ 1,959	$ 2,164	$ 2,420
Restricted assets	13,188	16,002	16,497
Unamortized bond issuance costs	1,515	2,583	2,953
Deferred outflow of resources		1,829	1,544
Capital assets, net	37,573	53,748	55,425
Total assets	54,235	76,326	78,839
Net Assets and Liabilities:			
Liabilities:			
Current liabilities	4,066	4,983	4,635
Long-term liabilities	31,257	50,041	52,892
Total liabilities	35,323	55,024	57,527
Net Assets:			
Invested in capital assets, net of related debt	7,943	5,423	4,088
Restricted for debt service	5,578	8,138	8,142
Unrestricted	5,391	7,741	9,082
Total net assets	18,912	21,302	21,312
Total liabilities and net assets	$ 54,235	$ 76,326	$ 78,839

CONDENSED BALANCE SHEET INFORMATION (Continued)

Assets:

Current, restricted and other non-capital assets: The Division's current, restricted and other non-capital assets have decreased a total of approximately 26.2% from 2010 to 2011. The primary reason for this decrease was a $3.9 million reduction in restricted assets and unamortized bond issuance costs which was caused by the defeasance of $16.1 million in revenue bonds. The decrease from 2009 to 2010 current and restricted assets was moderate over that period. The decrease in current assets in 2010 is primarily due to decreases in cash and cash equivalents at year end due to increased operating expenses and a decrease in the inventory of supplies, which reflects the Division's ongoing attempts to decrease costs by using the supplies on hand rather than incurring additional expenses for supplies. These decreases were partially offset by the increase in the amounts due from other City departments, divisions or funds. There was also a decrease in unamortized bond issuance costs associated with the issuance of the refunding bonds.

Capital assets*:* The Division's investment in capital assets (net of accumulated depreciation) as of December 31, 2011 and 2010 amounted to $37,573,000 and $53,748,000, respectively. The total decrease in the Division's investment in capital assets was $16,175,000 (30.1%) and $1,677,000 (3.0%) in 2011 and 2010, respectively. The decrease in 2010 was due to depreciation expense exceeding asset additions. The decrease in 2011 is primarily due to the sale of the Gateway North Garage.

A summary of the activity in the Division's capital assets during the year ended December 31, 2011 is as follows:

	Balance January 1, 2011	Additions	Deletions	Balance December 31, 2011
	(Amounts in 000's)			
Land	$ 13,095	$	$ (7,617)	$ 5,478
Land improvements	1,256			1,256
Buildings, structures and improvements	65,757		(12,038)	53,719
Furniture, fixtures, equipment and vehicles	1,309		(59)	1,250
Total	81,417	-	(19,714)	61,703
Less: Accumulated depreciation	(27,669)	(1,722)	5,261	(24,130)
Capital assets, net	$ 53,748	$ (1,722)	$ (14,453)	$ 37,573

CONDENSED BALANCE SHEET INFORMATION (Continued)

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

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

The City sold the Gateway North Parking Garage during 2011 for $21,000,000. The gain on the sale of the garage is recorded as a special item on the financial statements. There were no major events during 2010 affecting the Division's capital assets.

Additional information on the Division's capital assets can be found in Note A – Summary of Significant Accounting Policies and Note E – Capital Assets.

Liabilities:

Long-term debt: At the end of 2011 and 2010, the Division had total bonded debt outstanding of $34,045,000 and $53,615,000 respectively. This is a reduction of approximately 36.5%. This reduction is primarily the result of the defeasance of $16.1 million of revenue 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. 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 2011 and 2010, 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 obligations outstanding during the year ended December 31, 2011 is summarized below:

	Balance January 1, 2011	Debt Retired	Balance December 31, 2011
	(Amounts in 000's)		
Parking Facilities Improvement Revenue Bonds	$ 53,615	$ (19,570)	$ 34,045

The activity in the Division's debt obligations outstanding during the year ended December 31, 2010 is summarized below:

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

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

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

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

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

CONDENSED BALANCE SHEET INFORMATION (Continued)

In accordance with the implementation of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the Division has reported an asset and/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, 2011 and December 31, 2010. 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 Assets: Net assets serve as a useful indicator of a government's financial position. In the case of the Division, assets exceeded liabilities by $18,912,000, $21,302,000 and $21,312,000 at December 31, 2011, 2010 and 2009, respectively.

Of the Division's net assets at December 31, 2011, $5,578,000 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 $7,943,000 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 $5,391,000 balance of unrestricted net assets may be used to meet the Division's ongoing obligations to customers and creditors.

Of the Division's net assets at December 31, 2010, $8,138,000 represents resources that are classified as restricted since their use is limited by the bond indentures. In addition, the Division has a net balance of $5,423,000 that reflects its investment in capital assets (e.g., land, buildings, furniture) net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. The $7,741,000 balance of unrestricted net assets may be used to meet the Division's ongoing obligations to customers and creditors.

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

The Division's operations during 2011 decreased net assets by $2,390,000 and during 2010 decreased net assets by $10,000. Provided below are key elements of the Division's results of operations as of and for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
	(Amounts in 000's)		
Operating revenues	$ 8,453	$ 9,227	$ 9,214
Operating expenses	5,478	5,842	5,483
Operating income	2,975	3,385	3,731
Non-operating revenue (expense):			
Investment income	(773)	5	16
Interest expense	(8,649)	(3,044)	(3,544)
Other non-operating revenue (expense)		11	(6)
Sale of scrap		3	6
Capital contributions			166
Amortization of bond issuance costs	(1,068)	(370)	(384)
Total non-operating revenue (expense), net	(10,490)	(3,395)	(3,746)
Income (Loss) before special item	(7,515)	(10)	(15)
Speical items - gain on sale of capital assets	5,125		
Decrease in net assets	(2,390)	(10)	(15)
Net assets, beginning of year	21,302	21,312	21,327
Net assets, end of year	$ 18,912	$ 21,302	$ 21,312

Operating revenues: From 2010 to 2011, operating revenues decreased $774,000, or 8.4%. This reduction was primarily due to the sale of the Gateway North Garage.

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

Operating expenses: In 2011, operating expenses decreased $364,000, or 6.2%. This reduction was primarily due to the sale of the Gateway North Garage.

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

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

Non-operating revenues and expenses: From 2010 to 2011, net non-operating expenses increased $7,095,000. This increase was primarily due to the defeasance of $16.1 million of revenue bonds.

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

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

Operating revenues are derived primarily from fees charged to users of City-owned parking garages and facilities operated by the Division including the net income from the Gateway garages and on-street parking meter revenue.

The Division continues to assess their operations to improve efficiencies, identify additional revenue sources and improve existing revenue sources in this time of economic recession. City Council has the authority to further increase parking fees when deemed necessary to assist the Division in meeting operational and debt commitments as economic circumstances dictate.

On October 6, 2011, the City completed the sale of the City-owned Gateway North Parking Garage to Rock Ohio Caesars Gateway LLC. The garage will be used in conjunction with the opening of a new casino being constructed in the Higbee Building adjacent to the garage. The net proceeds of the sale of the garage were placed into an escrow fund to be used to pay the principal and interest as it comes due on $16,145,000 Parking Facilities Refunding Revenue Bonds, Series 2006.

ADDITIONAL INFORMATION

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

BASIC FINANCIAL STATEMENTS

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CITY OF CLEVELAND, OHIO

DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES
BALANCE SHEETS
December 31, 2011 and 2010

	(Amounts in 000's)	
	2011	**2010**
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,762	$ 2,014
Accounts receivable - net of allowance	7	20
Accrued Interest	6	
Due from other City of Cleveland departments, divisions or funds	48	99
Inventory of supplies, at cost	136	31
TOTAL CURRENT ASSETS	1,959	2,164
RESTRICTED ASSETS		
Cash and cash equivalents	9,093	16,002
Investments	4,095	
TOTAL RESTRICTED ASSETS	13,188	16,002
UNAMORTIZED BOND ISSUANCE COSTS	1,515	2,583
DEFERRED OUTFLOW OF RESOURCES		1,829
CAPITAL ASSETS		
Land	5,478	13,095
Land improvements	1,256	1,256
Buildings, structures and improvements	53,719	65,757
Furniture, fixtures, equipment and vehicles	1,250	1,309
	61,703	81,417
Less: Accumulated depreciation	(24,130)	(27,669)
CAPITAL ASSETS, NET	37,573	53,748
TOTAL ASSETS	$ 54,235	$ 76,326

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PARKS, RECREATION & PROPERTIES
DIVISION OF PARKING FACILITIES
BALANCE SHEETS
December 31, 2011 and 2010

	(Amounts in 000's)	
	2011	**2010**
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	$ 2,420	$ 3,425
Accounts payable	753	315
Due to other governments	185	185
Due to other City of Cleveland departments, divisions or funds	67	143
Accrued interest payable	499	775
Accrued wages and benefits	142	140
TOTAL CURRENT LIABILITIES	4,066	4,983
LONG-TERM LIABILITIES		
Revenue bonds - excluding amount due within one year	30,447	48,181
Derivative instruments - interest rate swaps	782	1,829
Accrued wages and benefits	28	31
TOTAL LONG-TERM LIABILITIES	31,257	50,041
TOTAL LIABILITIES	35,323	55,024
NET ASSETS		
Invested in capital assets, net of related debt	7,943	5,423
Restricted for debt service	5,578	8,138
Unrestricted	5,391	7,741
TOTAL NET ASSETS	18,912	21,302
TOTAL LIABILITIES AND NET ASSETS	$ 54,235	$ 76,326

(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, 2011 and 2010

	(Amounts in 000's)	
	2011	**2010**
OPERATING REVENUES		
Charges for services	$ 8,453	$ 9,227
TOTAL OPERATING REVENUES	8,453	9,227
OPERATING EXPENSES		
Operations	3,729	4,087
Maintenance	27	39
Depreciation	1,722	1,716
TOTAL OPERATING EXPENSES	5,478	5,842
OPERATING INCOME	2,975	3,385
NON-OPERATING REVENUE (EXPENSE)		
Investment income (loss)	(773)	5
Interest expense	(8,649)	(3,044)
Other non-operating revenue		11
Sale of scrap		3
Amortization of bond issuance costs	(1,068)	(370)
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	(10,490)	(3,395)
INCOME (LOSS) BEFORE SPECIAL ITEM	(7,515)	(10)
Speical items - gain on sale of capital assets	5,125	
DECREASE IN NET ASSETS	(2,390)	(10)
NET ASSETS, beginning of year	21,302	21,312
NET ASSETS, end of year	$ 18,912	$ 21,302

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, 2011 and 2010

	(Amounts in 000's) 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 8,984	$ 9,743
Cash payments to suppliers for goods or services	(3,495)	(3,080)
Cash payments to employees for services	(1,055)	(1,077)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,434	5,586
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid to escrow agent for refunding	(21,545)	
Proceeds from sale of scrap		3
Proceeds from sale of capital assets	20,162	
Principal paid on long-term debt	(3,425)	(3,300)
Interest paid on long-term debt	(2,695)	(2,823)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(7,503)	(6,120)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(4,095)	
Interest received on investments	3	5
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(4,092)	5
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,161)	(529)
CASH AND CASH EQUIVALENTS, beginning of year	18,016	18,545
CASH AND CASH EQUIVALENTS, end of year	$ 10,855	$ 18,016

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011 and 2010

	(Amounts in 000's) 2011	2010
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$ 2,975	$ 3,385
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,722	1,716
Changes in assets and liabilities:		
Accounts receivable, net	13	62
Due from other City of Cleveland departments, divisions or funds	51	(60)
Inventory of supplies	(105)	220
Accounts payable	(145)	137
Due to other governments		92
Due to other City of Cleveland departments, divisions or funds	(76)	59
Accrued wages and benefits	(1)	(25)
TOTAL ADJUSTMENTS	1,459	2,201
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 4,434	$ 5,586

(Concluded)

See notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Model and Basis of Accounting: The accounting policies and financial reporting practices of the Division comply with accounting principles generally accepted in the United States of America applicable to governmental units. In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for the year ended December 31, 2010. The Division has determined that GASB Statement No. 51 has no impact on its financial statements as of December 31, 2011. In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for the year ended December 31, 2010. The Division has implemented GASB Statement No. 53 and its effects have been included in its financial statements as of December 31, 2011.

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

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

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

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010 (Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2011 and 2010. 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, 2011 and 2010.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation: Capital assets are stated on the basis of historical cost or, if contributed, at fair market value as of the date received. Depreciation is computed by allocating the cost of capital assets over the estimated useful lives of the assets using the straight-line method. A capital asset is defined as 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 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 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.

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

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010 (Continued)

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS

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

	Interest Rate	Original Issuance	2011	2010
			(Amounts in 000's)	
Parking Facilities Refunding Revenue Bonds				
Series 2006, due through 2022	4.00%-5.25%	$ 57,520	$ 34,045	$ 53,615
Unamortized loss on debt refunding			(2,660)	(4,534)
Unamortized discount and premium			1,482	2,525
Current portion			(2,420)	(3,425)
Total Long-Term Debt			$ 30,447	$ 48,181

Summary: Changes in long-term obligations for the year ended December 31, 2011 are as follows:

	Balance January 1, 2011	Increase	Decrease	Balance December 31, 2011	Due Within One Year
			(Amounts in 000's)		
Parking Facilities Refunding Revenue Bonds					
Series 2006, due through 2022	$ 53,615	$	$ (19,570)	$ 34,045	$ 2,420
Accrued wages and benefits	171	139	(140)	170	142
Total	$ 53,786	$ 139	$ (19,710)	$ 34,215	$ 2,562

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

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

	Balance January 1, 2010	Increase	Decrease	Balance December 31, 2010	Due Within One Year
			(Amounts in 000's)		
Parking Facilities Refunding Revenue Bonds					
Series 2006, due through 2022	$ 56,915	$	$ (3,300)	$ 53,615	$ 3,425
Accrued wages and benefits	196	141	(166)	171	140
Total	$ 57,111	$ 141	$ (3,466)	$ 53,786	$ 3,565

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

	Principal	Interest	Total
		(Amounts in 000's)	
2012	$ 2,420	$ 1,710	$ 4,130
2013	2,520	1,613	4,133
2014	2,645	1,487	4,132
2015	2,770	1,354	4,124
2016	2,880	1,244	4,124
2017-2021	16,880	3,780	20,660
2022	3,930	206	4,136
Total	$ 34,045	$ 11,394	$ 45,439

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.

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

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 will be used by the purchaser in conjunction with the opening of a new casino being 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 were 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.

Effective August 15, 2006, the City issued $57,520,000 of Parking Facilities Refunding Revenue Bonds, Series 2006. The bonds were issued to currently refund $56,300,000 of the outstanding Parking Facilities Refunding Revenue Bonds, Series 1996. In addition, proceeds were also used to fund a portion of a payment owed by the City upon early termination under an interest rate swaption agreement entered into in 2003. Net proceeds of $58,709,855 were placed in an irrevocable escrow account which was used to pay the principal, interest and premium on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for these bonds has been removed from long-term debt. The City completed the refunding to reduce its total debt service payments by $1,340,000 and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of approximately $970,000. At the time of the issuance of the Series 2006 Bonds, the City entered into a basis swap agreement with UBS, which is described below.

Interest Rate Swap Transaction

Terms: Simultaneously with the issuance of the City's $57,520,000 Parking Facilities Refunding Revenue Bonds, Series 2006 on August 3, 2006, the City entered into a floating-to-floating rate basis swap agreement with a notional amount equal to the total declining balance of the Series 2006 Bonds. UBS is the counterparty on the transaction. Under the swap agreement for the Series 2006 Bonds, the City is the floating rate payor, paying a floating rate based on the Securities Industry Financial Markets Association (SIFMA) index. The counterparty is also a floating rate payor, paying the City 67% of one month LIBOR. The City also received an upfront payment in the amount of $1,606,000. Net payments are exchanged semi-annually each March 15 and September 15. The obligation of the City to make periodic payments (but not any termination payment) is secured by a pledge of and lien on the parking revenues and additional pledged revenue as defined in the trust indenture securing the Parking Facilities Refunding Revenue Bonds, Series 2006, on parity with the pledge and lien securing the payment of debt service on the bonds.

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

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 been 67%, this relationship may not always apply. Since late 2008, this relationship has been significantly higher due to disruptions in the financial markets. The payments received from the counterparty may be less than the amount owed to the counterparty, resulting in a net increase in debt service. In addition, a reduction in federal income tax rates might increase the percentage relationship between SIFMA and LIBOR and may potentially increase the cost of the financing.

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

Termination Risk: The swap agreement may be terminated prior to its stated termination date under certain circumstances. Upon termination, a payment may be owed by the City to UBS, or by UBS to the City, depending upon the prevailing economic circumstances at the time of the termination.

The City obtained insurance to mitigate much of the risk associated with termination due to the event of a downgrade of the City's bond rating. An amount due by the City to UBS upon early termination of the agreement is insured by FSA up to a maximum amount of $8,000,000.

Fair Value: The fair value of the swap at December 31, 2011 and 2010 reported by UBS was $782,000 and $1,829,000, 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 $34,045,000 of Parking Facilities Refunding Revenue Bonds issued in 2006. Proceeds from the bonds initially issued provided financing for the construction of parking facilities. The bonds are payable from parking facilities net revenues and are payable through 2022. Annual principal and interest payments on the bonds are expected to require the amount of net pledged revenues. The total principal and interest remaining to be paid on the Parking Facilities Refunding Revenue Bonds is $45,439,000. Principal and interest paid for the current year (including net swap payments) and total net revenues were $6,120,000 and $4,558,000, respectively.

In 2011 and 2010, 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, 2011 and 2010, 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, 2011 and December 31, 2010. The fair value of the swap has been provided by the counterparty and confirmed by the City's financial advisor. The Division recognized a $782,000 investment loss pursuant to this swap in 2011.

The tables below present the fair value balances and notional amounts of the Division's derivative instrument outstanding at December 31, 2011 and December 31, 2010, classified by type and the change in fair value of this derivative during fiscal years 2011 and 2010 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, 2011 and December 31, 2010 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, 2011		
	Classification	**Amount**	**Classification**	**Amount**	**Notional**
	(Amounts in 000's)				
Floating to floating interest rate swap					
2006 Parking Basis Swap	Investment Loss	1,047 (a)	Debt	(782)	34,045

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

(a) This was reclassified from a hedging derivative to an investment derivative in 2011 due to the Division's determination that the derivative was not effectively hedged; therefore the loss recognized in 2011 was $782,000.

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, 2011, 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 Bonds	$ 34,045	8/15/2006	9/15/2022	Pay SIFMA, receive 67% of LIBOR	Aa3/A/A

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 2011, net revenues generated by the two Gateway garages were less than the debt service payments attributed to those garages by $2,546,000. Cumulative debt service payments funded by the City that are due from Gateway totaled $43,356,000 at December 31, 2011. 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, 2011 and 2010 totaled $901,000 and $1,307,000, respectively, and the Division's bank balances were $906,000 and $1,435,000, 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*, $906,000 and $1,435,000 of the bank balances at December 31, 2011 and 2010, respectively, were insured or collateralized with securities held by the City or by its agent in the City's name.

NOTE D – DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Division will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The Division does not have an investment policy dealing with investment custodial credit risk beyond the requirement in the state statute.

Credit Risk: The Division's investments at December 31, 2011 and 2010 include U.S. Agencies, STAROhio and mutual funds. The U.S. Agencies are rated AA+ by Standard and Poor's (S&P). Investments in both STAROhio and mutual funds carry a rating of AAAm, which is the highest money market fund rating given by S&P. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Division has no investment policy that would further limit its investment choices.

NOTE D – DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk: The Division places a limitation on the amount it may invest in any one issuer to help minimize the concentration of credit risk. The Division had the following investments at December 31, 2011 and 2010, which include those classified as cash and cash equivalents in the balance sheet in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

Type of Investment	2011 Fair Value	2011 Cost	2010 Fair Value	2010 Cost	Investment Maturities Less than One Year
	(Amounts in 000's)				
US Agency Obligations	$ 4,095	$ 4,095	$	$	$ 4,095
STAROhio	849	849	708	708	849
Investment in Mutual Funds	9,105	9,105	16,001	16,001	9,105
Total Investments	14,049	14,049	16,709	16,709	14,049
Total Deposits	901	901	1,307	1,307	901
Total Deposits and Investments	$ 14,950	$ 14,950	$ 18,016	$ 18,016	$ 14,950

These amounts are monies invested by the City Treasurer on behalf of the Division and are used in daily operations with excess monies invested daily in STAROhio and mutual funds. These investments are carried at cost which approximates market value.

As of December 31, 2011, the investments in US Agency Obligations, STAROhio and mutual funds are approximately 29%, 6% and 65%, respectively, of the Division's total investments. As of December 31, 2010, the investments in STAROhio and in mutual funds are approximately 4% and 96%, respectively, of the Division's total investments.

NOTE E – CAPITAL ASSETS

Capital Asset Activity: Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance January 1, 2011	Additions	Deletions	Balance December 31, 2011
	(Amounts in 000's)			
Capital assets, not being depreciated:				
Land	$ 13,095	$	$ (7,617)	$ 5,478
Total capital assets, not being depreciated	13,095	-	(7,617)	5,478
Capital assets, being depreciated:				
Land improvements	1,256			1,256
Buildings, structures and improvements	65,757		(12,038)	53,719
Furniture, fixtures, equipment and vehicles	1,309		(59)	1,250
Total capital assets, being depreciated	68,322	-	(12,097)	56,225
Less: Accumulated depreciation	(27,669)	(1,722)	5,261	(24,130)
Total capital assets being depreciated, net	40,653	(1,722)	(6,836)	32,095
Capital assets, net	$ 53,748	$ (1,722)	$ (14,453)	$ 37,573

On October 6, 2011, the City completed the sale of the City-owned Gateway North Parking Garage to Rock Ohio Caesars Gateway LLC. The garage will be used in conjunction with the opening of a new casino being constructed in the Higbee Building adjacent to the garage. The Gateway North Parking Garage sold for $21,000,000 with a gain on the sale of capital assets of $5,125,000.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010 (Continued)

NOTE E – CAPITAL ASSETS (Continued)

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

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

NOTE F – PENSION AND RETIREMENT PLANS

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

1) The Traditional Pension Plan – 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 invites 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.

NOTE F – PENSION AND RETIREMENT PLANS (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, 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 2011, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2011, 2010 and 2009. The employer contribution rates were 14.00% of covered payroll in 2011, 2010 and 2009.

The Division's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2011, 2010 and 2009 were $77,000, $77,000 and $67,000 each year, respectively. The required payments due in 2011, 2010 and 2009 have been made.

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 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/invetsments/cafr.shtml, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

NOTE G – OTHER POSTEMPLOYMENT BENEFITS (Continued)

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for funding of post-retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. The employer contribution rates were 14.00% of covered payroll in 2011, 2010 and 2009. 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 4.00% for members of the Traditional Plan in 2011, 6.05% for members of the Combined Plan in 2011, 5.50% from January 1, 2010 through February 28, 2010 and 5.00% from March 1, 2010 through December 31, 2010 and 7.00% from January 1, 2009 through March 31, 2009 and 5.50% from April 1, 2009 through December 31, 2009. The portion of employer contributions allocated to health care beginning January 1, 2012 remained the same, but they are subject to changes based on the Board action. Employers will be notified if the portion allocated to health care changes during 2012. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Division's actual contributions to OPERS to fund postemployment benefits were approximately $31,000 in 2011, $44,000 in 2010 and $49,000 in 2009.

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

NOTE H – RELATED PARTY TRANSACTIONS

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

	2011	2010
	(Amounts in 000's)	
Division of Convention Center and Department of Community Development	$ 36	$ 290

The Convention Center Garage was no longer in operation in 2011.

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, 2011 and 2010 are as follows:

	2011	2010
	(Amounts in 000's)	
Parks Maintenance	$ 73	$ 70
Motor Vehicle Maintenance		29
Cleveland Public Power	187	177
Maintenance	4	15
Telephone	14	18

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 2011 or 2010.

The City provides the choice of four separate health insurance plans for its employees. These plans are provided by two different insurers through commercial insurance. Operating funds are charged a monthly rate per employee, by type of coverage. The City participates in the State of Ohio workers' compensation retrospective rating program.

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

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 2011 and 2010. Future minimum rentals on non-cancelable leases are as follows:

	(Amounts in 000's)
2012	$ 180
2013	180
2014	180
2015	180
2016	180
Thereafter	4,920
	$ 5,820

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS

REPORT ON AUDITS OF FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS

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INDEPENDENT AUDITORS' REPORT

To the Honorable Frank G. Jackson, Mayor, Members of Council and the Audit Committee
Divisions of Cleveland Hopkins International and Burke Lakefront Airports
Department of Port Control
City of Cleveland, Ohio:

We have audited the accompanying basic financial statements of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Ohio (the Divisions) as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Divisions' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to 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 described in Note A, the financial statements present only the financial position and the changes in financial position and cash flows of the Divisions and do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2011 and 2010, and the respective changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United State of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Ohio as of December 31, 2011 and 2010, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of airport revenues and operating expenses as defined in the airline use agreement for the year ended December 31, 2011 is presented for purpose of additional analysis and is not a required part of the Divisions' basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the Divisions' basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented in all material respects in relation to the Divisions' basic financial statements taken as a whole.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 25, 2012

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the City) Department of Port Control, Divisions of Cleveland Hopkins International (CLE) and Burke Lakefront (BKL) Airports (the Divisions), we offer readers of the Divisions' financial statements this narrative overview and analysis of the financial activities of the Divisions for the years ended December 31, 2011 and December 31, 2010. Please read this information in conjunction with the Divisions' basic financial statements and notes that begin on page 16.

The Divisions are charged with the administration and control of, among other facilities, the municipally owned airport of the City. The Divisions operate a major public airport and a reliever airport serving not only the City of Cleveland, but also suburban municipalities in Cuyahoga, Medina, Summit and Geauga counties. In 2011, the Divisions were served by 27 scheduled airlines and four cargo airlines. There were 87,000 scheduled landings with landed weight amounting to 5,912,394,000 pounds. There were 4,598,000 passengers enplaned at Cleveland Hopkins International Airport and 88,000 passengers enplaned at Burke Lakefront Airport during 2011. In 2010, the Divisions were served by 27 scheduled airlines and three cargo airlines. There were 90,000 scheduled landings with landed weight amounting to 5,907,546,000 pounds. There were 4,745,000 passengers enplaned at Cleveland Hopkins International Airport, and 87,000 passengers enplaned at Burke Lakefront Airport during 2010.

COMPARISON OF CURRENT YEAR AND PREVIOUS YEAR DATA

FINANCIAL HIGHLIGHTS

- The assets of the Divisions exceeded its liabilities (net assets) by $405,900,000, $401,879,000 and $395,666,000 at December 31, 2011, 2010 and 2009, respectively. Of these amounts, $128,908,000, $148,100,000 and $136,953,000 (unrestricted net assets) at December 31, 2011, 2010 and 2009, respectively, may be used to meet the Divisions ongoing obligations to customers and creditors.

- The Divisions' total net assets increased by $4,021,000 in 2011 primarily due to an increase in revenues from landing fees. Also in 2011, net assets restricted for passenger facility charges decreased slightly due to an increase in the amount of passenger facility charges expended.

- Additions to construction in progress totaled $19,431,000, $25,497,000 and $41,086,000 in 2011, 2010 and 2009, respectively.

- The major capital expenditures during 2011 were for Runway 10/28 Safety Improvements, the MS1-MS2 Emergency Generator project, the purchase of Snow Removal Equipment and the Riveredge Parking Lot Improvements project.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL HIGHLIGHTS (Continued)

- The Divisions total bonded debt increased by $42,625,000 in 2011, and decreased $52,480,000 and $15,465,000 during 2010 and 2009, respectively. In 2011 the City issued $74,385,000 of Airport System Revenue Bonds Series 2011A which provided funds to pay the costs of improvements to the Airport Systems and refunded a portion of the Series 2008D Bonds. The key factor for the decreases in 2009 and 2010 was the payment of principal on the Series 1997, 2000, 2003, 2006 and 2007 Airport System Revenue Bonds and the accelerated payment of the principal on the Series 2000B Bonds**.**

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Divisions' basic financial statements. The accompanying financial statements present financial information for the City of Cleveland's Divisions of Cleveland Hopkins International and Burke Lakefront Airports Fund, in which the City accounts for the operations of the Department of Port Control. 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 Divisions are considered an Enterprise Fund because the operations of the Divisions are similar to a private sector business enterprise. Accordingly, in accounting for the activities of the Divisions, the economic resources measurement focus and the accrual basis of accounting is used. This is similar to businesses in the private sector.

The basic financial statements of the Divisions can be found on pages 16-21 of this report.

The notes to the financial statements provide additional information that is essential to gain a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 23-45 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Divisions as of December 31, 2011, 2010 and 2009:

	2011	2010	2009
	(Amounts in 000's)		
Assets:			
Current assets	$ 106,763	$ 106,802	$ 98,294
Restricted assets	295,994	262,691	298,372
Unamortized bond issuance costs	17,172	17,453	19,240
Deferred outflows of resources		7,715	6,992
Capital assets, net	921,777	900,508	917,922
Total assets	$ 1,341,706	$ 1,295,169	$ 1,340,820
Net assets and liabilities:			
Liabilities:			
Current liabilities	$ 57,178	$ 53,558	$ 89,227
Long-term obligations	878,628	839,732	855,927
Total liabilities	935,806	893,290	945,154
Net assets:			
Invested in capital assets, net of related debt	147,324	124,506	94,145
Restricted for debt service	109,292	103,701	141,879
Restricted for passenger facility charges	20,376	25,572	22,689
Unrestricted	128,908	148,100	136,953
Total net assets	405,900	401,879	395,666
Total net assets and liabilities	$ 1,341,706	$ 1,295,169	$ 1,340,820

Assets: Total assets increased $46,537,000 in 2011 and decreased $45,651,000 during 2010, respectively. The 2011 increase in total assets is primarily due to an increase in restricted assets. Restricted assets increased due to the proceeds from the issuance of construction bonds in 2011. In 2010 the decrease in capital assets, net of accumulated depreciation, accounted for $17,414,000 or 38.1% of the change in total assets**.** This decrease was primarily due to depreciation recognized in 2010, which was partially offset by capital asset additions.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Capital assets: The Divisions' investment in capital assets as of December 31, 2011 amounted to $921,777,000 (net of accumulated depreciation), which is an increase of 2.4%. The Divisions' investment in capital assets as of December 31, 2010 amounted to $900,508,000 (net of accumulated depreciation), which was a decrease of 1.9%. These investments in capital assets include: land; land improvements; buildings, structures and improvements; furniture, fixtures and equipment; infrastructure; vehicles and construction in progress. A summary of the activity in the Divisions' capital assets during the year ended December 31, 2011 is as follows:

	Balance January 1, 2011	Additions	Reductions	Balance December 31, 2011
	(Amounts in 000's)			
Land	$ 167,457	$	$	$ 167,457
Land improvements	72,568	1,585		74,153
Buildings, structures and improvements	328,738	586		329,324
Furniture, fixtures and equipment	22,815	490		23,305
Infrastructure	910,907	45,789		956,696
Vehicles	13,830	1,163		14,993
Total	1,516,315	49,613	-	1,565,928
Less: Accumulated depreciation	(632,622)	(47,775)		(680,397)
Total	883,693	1,838	-	885,531
Construction in progress	16,815	19,431		36,246
Capital assets, net	$ 900,508	$ 21,269	$ -	$ 921,777

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

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

	Balance January 1, 2010	Additions	Reductions	Balance December 31, 2010
	(Amounts in 000's)			
Land	$ 167,457	$	$	$ 167,457
Land improvements	72,568			72,568
Buildings, structures and improvements	328,738			328,738
Furniture, fixtures and equipment	22,801	14		22,815
Infrastructure	885,928	24,979		910,907
Vehicles	13,534	296		13,830
Total	1,491,026	25,289	-	1,516,315
Less: Accumulated depreciation	(582,623)	(49,999)		(632,622)
Total	908,403	(24,710)	-	883,693
Construction in progress	9,519	25,497	(18,201)	16,815
Capital assets, net	$ 917,922	$ 787	$ (18,201)	$ 900,508

Major events during 2011 and 2010 affecting the Divisions' capital assets included the following:

- Construction Phases II and III of Runway 10/28 Safety Area Improvements were completed in 2011. The Runway 28 end was shifted 600 feet to the East and Engineering Material Arresting System (EMAS) block installation was completed on both ends of the runway. The runway was officially re-opened on December 15, 2011.

- The Power Distribution Enhancement Project, Phase I, was developed to permit the airport to function effectively and to provide an adequate level of operations, safety and security in the event of a power outage. The project components included an engineering design study, assessment of existing conditions of the Airport's emergency generators and associated drawings/infrastructure and identification of potential deficient generator power. As a result of the analysis, a total of four generators were purchased and installed in November 2011.

CONDENSED BALANCE SHEET INFORMATION (Continued)

- The first phase of the Cleveland Hopkins International Airport (CLE) terrazzo floor and artwork installation project began in January 2011. The project consists of removing old flooring and carpet to replace them with terrazzo starting at security checkpoint C, continuing up Concourse C, then proceeding to Concourses A and B. The entire project is expected to be complete in January 2014. As part of the terrazzo flooring project, artwork selected from an airport artist competition will be installed into select floor locations.

- The snow melter procurement project included the purchase and installation of five snow melters to be used on the CLE airfield only. The use of these three portable units and two permanent units mitigates the loss of the old snow disposal area which will be lost due to construction of a new air traffic control tower.

Additional information on the Divisions' capital assets, including commitments made for future capital expenditures can be found in Note A – Summary of Significant Accounting Policies and Note F – Capital Assets to the basic financial statements.

Liabilities: In 2011 and 2010, total liabilities increased $42,516,000 and decreased $51,864,000, respectively. In 2011, the increase in long-term obligations was $38,896,000 or 4.6%. Long-term obligations increased due to the issuance of Airport System Revenue Bonds, Series 2011A. Current liabilities increased $3,620,000 or 6.8% as the construction fund payable from restricted assets increased $4,112,000, which resulted from an increase in retainage withheld on construction project Runway 10/28 Safety Area Improvements payments. This increase was offset by a decrease in accrued interest expense and the current portion of long-term debt. In 2010, the decrease in long-term obligations was $16,195,000 or 1.9%. Current liabilities decreased $35,669,000 or 40.0% as the current portion of long-term debt, which in 2009 resulted from an accelerated debt payment redeeming Airport System Revenue Bonds, Series 2000B with a principal balance of $30,030,000 did not occur in 2010. Long-term obligations decreased due to the payment of principal on the Series 2000, 2006, 2007, 2008 and 2009 Airport System Revenue Bonds.

Long-term debt: At December 31, 2011 and 2010, the Divisions had $891,885,000 and $849,260,000, respectively, in total bonded debt outstanding. The Airport System Revenue Bonds are secured by the pledge of all airport revenues, as defined in the revenue bond indenture.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

The activity in the Divisions' debt obligations outstanding during the year ended December 31, 2011 is summarized below:

	Balance January 1, 2011	Debt Issued	Debt Retired	Balance December 31, 2011
	(Amounts in 000's)			
Airport System Revenue Bonds:				
Series 2000	$ 398,445	$	$	$ 398,445
Series 2006	117,450		(1,180)	116,270
Series 2007	10,680		(505)	10,175
Series 2008	84,160		(19,235)	64,925
Series 2009	238,525		(10,840)	227,685
Series 2011		74,385		74,385
Total	$ 849,260	$ 74,385	$ (31,760)	$ 891,885

The activity in the Divisions' debt obligations outstanding during the year ended December 31, 2010 is summarized below:

	Balance January 1, 2010	Debt Issued	Debt Retired	Balance December 31, 2010
	(Amounts in 000's)			
Airport System Revenue Bonds:				
Series 2000	$ 437,485	$	$ (39,040)	$ 398,445
Series 2006	118,570		(1,120)	117,450
Series 2007	11,175		(495)	10,680
Series 2008	86,230		(2,070)	84,160
Series 2009	248,280		(9,755)	238,525
Total	$ 901,740	$ -	$ (52,480)	$ 849,260

CONDENSED BALANCE SHEET INFORMATION (Continued)

The bond ratings from Moody's Investors Service, Standard & Poor's Rating Service, and Fitch Ratings are as follows:

Moody's Investors Service	Standard & Poor's Rating Service	Fitch Ratings
Baa1	A-	A-

On April 25, 2011, Fitch Ratings lowered its rating on the Airport System Revenue Bonds from A (negative outlook) to A- (stable outlook).

The ratio of net revenue available for debt service to debt service requirements (revenue bond coverage) is a useful indicator of the Divisions' debt position to management, customers and creditors. The Divisions' revenue bond coverage for 2011, 2010 and 2009, was 158%, 160% and 165%, respectively.

In addition, the Divisions entered into two derivative or hedging agreements 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 derivatives, including its terms, objectives, risks and fair value, can be found in Note B – Long-Term Debt and Other Obligations to the basic financial statements.

In accordance with the implementation of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the Divisions have reported a deferred outflow and a liability in the amount of the fair value of the interest rate swaps, which reflects the prevailing interest rate environment at December 31, 2010. The fair values of the swaps were provided by the counterparty and confirmed by the City's financial advisor. These swaps were terminated in 2011.

Additional information on the Divisions' long-term debt can be found in Note B – Long-Term Debt and Other Obligations to the basic financial statements.

Net Assets: Net assets serve as a useful indicator of an entity's financial position. In the case of the Divisions, assets exceed liabilities by $405,900,000, $401,879,000 and $395,666,000 at December 31, 2011, 2010 and 2009, respectively. Of the Divisions' net assets at December 31, 2011 and 2010, $147,324,000 and $124,506,000, respectively, reflects its investment in capital assets (e.g., land, land improvements, buildings, fixtures, equipment, infrastructure and vehicles), net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. The Divisions' use these capital assets to provide services to their customers. Consequently, these assets are not available for future spending.

Although the Divisions' investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources since the capital assets themselves cannot be used to liquidate these liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

An additional portion of the Divisions' net assets represents resources that are subject to external restrictions. At December 31, 2011 and 2010 these restricted net assets amounted to $129,668,000 and $129,273,000, respectively. These restricted net assets include amounts set aside in various fund accounts for payment of revenue bonds, which are limited by the bond indentures, and passenger facility charges imposed and collected at Cleveland Hopkins International Airport based on an approved Federal Aviation Administration application. Passenger facility charges are restricted for designated capital projects and approved debt service. The remaining balance of unrestricted net assets, $128,908,000 and $148,100,000 for December 31, 2011 and 2010, respectively, may be used to meet the Divisions' ongoing obligations to customers and creditors.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

The Divisions' operations during 2011 and 2010 increased its net assets by $4,021,000 and $6,213,000, respectively. Provided below are key elements of the Divisions results of operations as of and for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
		(Amounts in 000's)	
Operating revenues			
Landing fees	$ 37,288	$ 26,356	$ 28,678
Terminal and concourse rentals	50,131	52,670	43,646
Concessions	22,638	21,496	21,535
Utility sales and other	4,910	6,174	4,284
Total operating revenues	114,967	106,696	98,143
Operating expenses	121,085	120,151	120,636
Operating income (loss)	(6,118)	(13,455)	(22,493)
Non-operating revenue (expense):			
Passenger facility charges revenue	17,874	18,820	19,378
Non-operating expense	2,414	(2,299)	(9,062)
Sound insulation program	(689)	(2,545)	(4,215)
Interest income	(9,634)	1,088	1,915
Interest expense	(35,389)	(30,442)	(31,127)
Amortization of bond issuance expense, bond discounts and loss on debt refundings	(2,948)	(2,754)	(3,746)
Total non-operating revenue (expense), net	(28,372)	(18,132)	(26,857)
Capital and other contributions	38,511	37,800	24,158
Increase (decrease) in net assets	4,021	6,213	(25,192)
Net assets, beginning of year	401,879	395,666	420,858
Net assets, end of year	$ 405,900	$ 401,879	$ 395,666

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

***Operating revenues**:* Of the 2011 total operating revenues of $114,967,000, $35,911,000 or 31.2% represented landing fees received from signatory airlines. This is an increase of 43.4% from the prior year due to an increase in the landing fee rate necessary to support airport activities. Signatory terminal rentals accounted for $34,312,000, or 29.8% of total operating revenues. The decrease in signatory terminal rent of 5.7% is a result of a decrease in terminal rates and charges attributed to the signatory airlines enplaned passenger credit. Parking revenues increased 2.9% over the prior year due to an increase in the demand for services such as valet airport parking and economy parking usage. Parking revenues amounted to $12,969,000 or 11.3% of total operating revenues for 2011. The fourth largest airport revenue source, rental cars, accounted for 8.0% of total operating revenues, which is a decrease of 1.0% from 2010.

Of the 2010 total operating revenues of $106,696,000, $25,037,000 or 23.5% represented landing fees received from signatory airlines. This is a decrease of 6.2% from the prior year. Signatory terminal rentals accounted for $36,387,000, or 34.1% of total operating revenues. The increase in signatory terminal rent of 32.7% is a result of an increase in terminal rates and charges attributed to the signatory airlines enplaned passenger credit. Parking revenues increased 6.1% over the prior year due to an increase in the demand for airport parking. Parking revenues amounted to $12,601,000 or 11.8% of total operating revenues for 2010. The fourth largest airport revenue source, rental cars, accounted for 8.7% of total operating revenues, which is an increase of 1.9% from 2009.

***Operating expenses**:* Total operating expenses for 2011 increased $934,000 or 0.8%. The increase is primarily due to a 40.5% increase in maintenance expenses which was the result of the Divisions' increase in the costs related to maintaining aging equipment and the increase in the price of de-icing chemicals and their disposal. These increases were partially offset by modest decreases in costs associated with utility, property taxes and professional fees. Employee salaries, wages and benefits increased $1,216,000 or 4.4% due to increases in employee benefits. Total operating expenses for 2010 decreased $485,000 or 0.4%. The decrease is primarily due to a 21.9% decrease in maintenance expenses which was the result of the Divisions' tightening of budgetary control on spending. In addition, depreciation expense decreased by 4.2%. These decreases were partially offset by modest increases in costs associated with utility, property taxes and professional fees. Employee salaries, wages and benefits increased 0.3% due to increases in employee benefits.

Non-operating revenue and expense: Expenses related to the Sound Insulation Program were $689,000, $2,545,000 and $4,215,000 in 2011, 2010 and 2009, respectively. Passenger Facility Charge revenues decreased 5.0%, from $18,820,000 in 2010 to $17,874,000 in 2011 resulting from a decrease in the number of passenger enplanements.

Capital and other contributions: In 2011, 2010 and 2009, the Divisions received $38,511,000, $37,800,000 and $24,158,000, respectively, in Federal Airport Improvement Grants. Airport Improvement Program Grants received from the Federal Aviation Administration were primarily for the airfield safety improvements, Residential Sound Insulation Program and the acquisition of snow melters.

FACTORS EXPECTED TO IMPACT THE DIVISIONS' FINANCIAL POSITION OR RESULTS OF OPERATIONS

Continental Airlines and United Airlines (collectively "Continental") entered into a Settlement Agreement ("Agreement") with the Office of the Attorney General of the State of Ohio ("AG") effective October 31, 2010 ("Merger Closing Date") to resolve the AG's investigation of the antitrust implications of their proposed merger. Pursuant to the terms of the Agreement Continental agreed to maintain, for a period of 24-months from the Merger Closing Date, average daily departures from the Airport at no less then 90% of average daily departures in the year prior to the Merger Closing Date ("Base Departure Commitment"). In addition the Agreement contains an additional three-year commitment for average daily departures at the Base Departure Commitment level subject to certain metrics based on Airport segment profitability as more fully outlined in the Agreement. The Agreement gives the AG's office the right to audit Airport segment profitability at Continental's expense up to $80,000 per annum. Continental also agreed to maintain its current Airport aircraft maintenance facility at a level of operations commensurate with the 12-month period immediately preceding the merger. Any reduction in the Base Departure Commitment may result in a reduction in aircraft maintenance facility operations. Other commitments include continuation of the Cleveland Air Service Working Group during the effective period of the Agreement and a penalty based on an amount equal to the percentage by which Continental is found to have breached its minimum departure commitments of $20 million. Pursuant to the terms of a separate Memorandum of Understanding between the City and the AG's office any monies collected from Continental pursuant to this penalty will be forwarded to the City. The AG's office has also agreed to inform the City whether, as a result of its audits, any of the metrics outlined in the Agreement have been triggered or are likely to be triggered.

ADDITIONAL INFORMATION

This financial report is designed to provide a general overview of the Divisions 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 PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
BALANCE SHEETS
December 31, 2011 and 2010

	(Amounts in 000's) 2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 64,252	$ 82,872
Restricted cash and cash equivalents	7,664	3,775
Investments	10,117	
Receivables:		
Accounts-net of allowance for doubtful accounts of $2,006,000 in 2011 and $1,986,000 in 2010	14,066	8,421
Unbilled revenue	3,599	4,415
Landing fees - due from airlines	3,850	4,112
Accrued interest receivable	94	
Total receivables	21,609	16,948
Prepaid expenses	330	332
Due from other City of Cleveland departments, divisions or interfund accounts		96
Due from federal government	673	722
Materials and supplies-at cost	2,118	2,057
TOTAL CURRENT ASSETS	106,763	106,802
RESTRICTED ASSETS		
Cash and cash equivalents	224,144	258,114
Investments	69,570	2,029
Accrued interest receivable		25
Bond retirement reserve		53
Accrued passenger facility charges	2,280	2,470
TOTAL RESTRICTED ASSETS	295,994	262,691
UNAMORTIZED BOND ISSUANCE COSTS	17,172	17,453
DEFERRED OUTFLOWS OF RESOURCES		7,715
CAPITAL ASSETS		
Land	167,457	167,457
Land improvements	74,153	72,568
Buildings, structures and improvements	329,324	328,738
Furniture, fixtures and equipment	23,305	22,815
Infrastructure	956,696	910,907
Vehicles	14,993	13,830
	1,565,928	1,516,315
Less: Accumulated depreciation	(680,397)	(632,622)
	885,531	883,693
Construction in progress	36,246	16,815
CAPITAL ASSETS, NET	921,777	900,508
TOTAL ASSETS	$ 1,341,706	$ 1,295,169

(Continued)

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
BALANCE SHEETS
December 31, 2011 and 2010

	(Amounts in 000's) 2011	2010
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	$ 13,660	$ 14,705
Current portion of long-term deferred payment obligation, due within one year	2,989	2,767
Accounts payable	4,457	2,510
Due to other City of Cleveland departments, divisions or interfund accounts	969	1,069
Current portion of accrued wages and benefits	3,972	4,129
Accrued interest payable	16,980	18,111
Accrued property taxes	6,487	6,492
Construction fund payable from restricted assets	6,010	1,898
Other construction accounts payable from restricted assets	1,654	1,877
TOTAL CURRENT LIABILITIES	57,178	53,558
LONG-TERM OBLIGATIONS - excluding amounts due within one year		
Revenue bonds	874,540	824,866
Derivative instruments-interest rate swaps		7,715
Deferred payment obligation	3,510	6,500
Accrued wages and benefits	578	651
TOTAL LONG-TERM OBLIGATIONS	878,628	839,732
TOTAL LIABILITIES	935,806	893,290
NET ASSETS		
Invested in capital assets, net of related debt	147,324	124,506
Restricted for debt service	109,292	103,701
Restricted for passenger facility charges	20,376	25,572
Unrestricted	128,908	148,100
TOTAL NET ASSETS	405,900	401,879
TOTAL LIABILITIES AND NET ASSETS	$ 1,341,706	$ 1,295,169

(Concluded)

See notes to financial statements.

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CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2011 and 2010

	(Amounts in 000's) 2011	2010
OPERATING REVENUES		
Landing fees:		
Scheduled airlines	$ 35,911	$ 25,037
Other	1,377	1,319
	37,288	26,356
Terminal and concourse rentals:		
Scheduled airlines	34,312	36,387
Other	15,819	16,283
	50,131	52,670
Concessions	22,638	21,496
Utility sales and other	4,910	6,174
TOTAL OPERATING REVENUES	114,967	106,696
OPERATING EXPENSES		
Operations	68,094	66,439
Maintenance	5,216	3,713
Depreciation	47,775	49,999
TOTAL OPERATING EXPENSES	121,085	120,151
OPERATING INCOME (LOSS)	(6,118)	(13,455)
NON-OPERATING REVENUE (EXPENSE)		
Passenger facility charges revenue	17,874	18,820
Non-operating revenue (expense)	2,414	(2,299)
Sound insulation program	(689)	(2,545)
Interest income (loss)	(9,634)	1,088
Interest expense	(35,389)	(30,442)
Amortization of bond issuance expense, bond discounts and loss on debt refundings	(2,948)	(2,754)
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	(28,372)	(18,132)
INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	(34,490)	(31,587)
Capital and other contributions	38,511	37,800
INCREASE (DECREASE) IN NET ASSETS	4,021	6,213
NET ASSETS, BEGINNING OF YEAR	401,879	395,666
NET ASSETS, END OF YEAR	$ 405,900	$ 401,879

See notes to financial statements.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011 and 2010

	(Amounts in 000's) 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 104,916	$ 96,848
Cash payments to suppliers for goods and services	(41,575)	(36,896)
Cash payments to employees for services	(28,826)	(27,813)
NET CASH PROVIDED BY OPERATING ACTIVITIES	34,515	32,139
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash payments for sound insulation of homes	(603)	(3,165)
Cash payments for other non-operating costs	(5,163)	(3,154)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(5,766)	(6,319)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(68,589)	(27,416)
Cash receipts for passenger facility charges	18,064	18,798
Proceeds from revenue bonds	79,221	
Transfer to escrow agent for bond refunding	(9,236)	
Principal paid on long-term debt	(22,560)	(52,480)
Interest paid on long-term debt	(36,071)	(36,471)
Capital grant proceeds	38,560	39,092
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(611)	(58,477)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(79,602)	
Proceeds from sale and maturity of investment securities	1,999	9,999
Interest received on investments	764	1,666
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITES	(76,839)	11,665
NET DECREASE IN CASH AND CASH EQUIVALENTS	(48,701)	(20,992)
Cash and cash equivalents, beginning of year	344,761	365,753
Cash and cash equivalents, end of year	$ 296,060	$ 344,761

(Continued)

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011 and 2010

	(Amounts in 000's) 2011	2010
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING LOSS	$ (6,118)	$ (13,455)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	47,775	49,999
Noncash rental income	(3,389)	(3,389)
Changes in assets and liabilities:		
Accounts receivable and accrued interest receivable	(5,646)	(5,112)
Unbilled revenue	816	(673)
Landing fees - due from airlines	262	24
Prepaid expenses	2	251
Due from other City departments, divisions or funds	96	(71)
Materials and supplies, at cost	(62)	102
Accounts payable	1,114	(1,269)
Due to other City departments, divisions or funds	(100)	(105)
Accrued wages and benefits	(230)	(93)
Landing fees - due to airlines		(346)
Accrued property taxes	(5)	6,276
TOTAL ADJUSTMENTS	40,633	45,594
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 34,515	$ 32,139
Noncash operating activities:		
Rental Income	$3,389	$3,389

(Concluded)

See notes to financial statements.

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Divisions of Cleveland Hopkins International and Burke Lakefront Airports (the Divisions) are reported as an Enterprise Fund of the City of Cleveland, Department of Port Control and are part of the City of Cleveland's (the City) primary government. The Divisions were created for the purpose of operating the airports within the Cleveland metropolitan area. 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 Divisions comply with accounting principles generally accepted in the United States of America applicable to governmental units. In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for the year ended December 31, 2010. The Divisions have determined that GASB Statement No. 51 has no impact on its financial statements as of December 31, 2011. In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for the year ended December 31, 2010. The Divisions have determined that GASB Statement No. 53 has no impact on its financial statements as of December 31, 2011.

The Divisions' net assets are accounted for in the accompanying balance sheets and the net assets are divided into the following categories:

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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Statement of Cash Flows: The Divisions utilize 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 all 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 Divisions. Cash equivalents are defined as highly liquid investments with a maturity of three months or less when purchased.

Investments: The Divisions follow 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. The fair market value is based on quoted market values.

The Divisions have invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2011 and 2010. 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, 2011 and 2010.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted for Passenger Facility Charges: These assets are for passenger facility charges imposed and collected at Cleveland Hopkins International Airport based on an approved Federal Aviation Administration application. These are restricted for designated capital projects or debt service.

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, equipment and vehicles and $10,000 for all other assets. When capital assets are disposed, 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 and equipment	3 to 60 years
Infrastructure	3 to 50 years
Vehicles	5 to 35 years

The Divisions' policy is to capitalize interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest is included in the cost of the assets and is depreciated on the straight-line basis over the estimated useful lives of such assets. The Divisions apply Financial Accounting Standards Board guidance pertaining to capitalization of interest cost in situations involving certain tax-exempt borrowings and certain gifts and grants, for its revenue bonds. This guidance requires capitalization of interest cost of eligible borrowings less interest earned on investment of the related bond proceeds from the date of borrowing until the assets constructed from the bond proceeds are ready for their intended use.

For 2011 and 2010, total interest costs incurred amounted to $42,375,000 and $37,226,000, respectively, of which $6,981,000 and $6,778,000, respectively, were capitalized, net of interest income of $5,000 in 2011 and $6,000 in 2010.

Bond Issuance Costs, Discounts and Unamortized Losses on Debt Refundings: Bond issuance expense is carried on the Divisions' books as a deferred expense and deferred bond discounts/premiums are netted against long-term debt. Both are amortized over the lives of the applicable bonds. Unamortized loss on debt refundings is netted against long-term debt and is amortized over the shorter of the defeased bond or the newly issued bond.

Compensated Absences: The Divisions accrue 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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Divisions allow 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.

Environmental Expenses: Environmental expenses consist of costs incurred for remediation efforts to airport property. Environmental expenses that relate to current operations are expensed or capitalized, as appropriate. Environmental expenses that relate to existing conditions caused by past operations and which do not contribute to future revenues are expensed. Liabilities are recorded when remedial efforts are probable and the costs can be reasonably estimated.

Non-operating Expenses: Non-operating expenses relate to expenses of the Divisions incurred for purposes other than the operations of the airports and consist primarily of interest costs incurred on the Divisions' long-term debt. The funding for non-operating expenses is non-operating revenue (passenger facility charges, revenue bonds and federal grants).

Interfund Transactions: During the course of normal operations, the Divisions have numerous transactions between other City divisions and departments. Unpaid amounts at year end are generally reflected as due to or due from in the accompanying financial statements.

Interfund receivables and payables balances at December 31, 2011 and 2010 are as follows:

	2011 Due From	2011 Due To	2010 Due From	2010 Due To
	(Amounts in 000's)			
City of Cleveland General Fund	$	$ 228	$ 96	$ 263
Division of Water Pollution Control		81		81
Division of Cleveland Public Power		18		19
Workers' Compensation Refund Reserve		461		509
Division of Radio Communication		6		6
Division of Printing		6		3
Division of Motor Vehicle Maintenance		95		111
Sinking Fund Administration		30		
Division of Telephone Exchange		44		77
	$ -	$ 969	$ 96	$ 1,069

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS

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

	Interest Rate	Original Issuance	2011	2010
		(Amounts in 000's)		
Airport System Revenue Bonds:				
Series 2000, due through 2031	4.00%-5.00%	$ 573,190	$ 398,445	$ 398,445
Series 2006, due through 2024	5.00%-5.25%	118,760	116,270	117,450
Series 2007, due through 2027	4.00%-5.00%	11,255	10,175	10,680
Series 2008, due through 2033	Variable Rate	88,195	64,925	84,160
Series 2009, due through 2027	.07%-5.00%	248,280	227,685	238,525
Series 2011, due through 2024	3.00%-5.00%	74,385	74,385	
		$ 1,114,065	891,885	849,260
Unamortized (discount) premium			17,569	14,197
Unamortized loss on debt refunding			(21,254)	(23,886)
Current portion (due within one year)			(13,660)	(14,705)
Total Long-Term Debt excluding the deferred payment obligation			$ 874,540	$ 824,866

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010 (Continued)

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

Summary: Changes in long-term obligations for the year ended December 31, 2011 are as follows:

	Balance January 1, 2011	Increase	Decrease	Balance December 31, 2011	Due Within One Year
			(Amounts in 000's)		
Airport System Revenue Bonds:					
Series 2000	$ 398,445	$	$	$ 398,445	$
Series 2006	117,450		(1,180)	116,270	1,245
Series 2007	10,680		(505)	10,175	530
Series 2008	84,160		(19,235)	64,925	950
Series 2009	238,525		(10,840)	227,685	10,935
Series 2011		74,385		74,385	
Total revenue bonds	849,260	74,385	(31,760)	891,885	13,660
Accrued wages and benefits	4,780	3,899	(4,129)	4,550	3,972
Total	$ 854,040	$ 78,284	$ (35,889)	$ 896,435	$ 17,632

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010 (Continued)

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

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

	Balance January 1, 2010	Increase	Decrease	Balance December 31, 2010	Due Within One Year
	(Amounts in 000's)				
Airport System Revenue Bonds:					
Series 2000	$ 437,485	$	$ (39,040)	$ 398,445	$
Series 2006	118,570		(1,120)	117,450	1,180
Series 2007	11,175		(495)	10,680	505
Series 2008	86,230		(2,070)	84,160	2,180
Series 2009	248,280		(9,755)	238,525	10,840
Total revenue bonds	901,740	-	(52,480)	849,260	14,705
Accrued wages and benefits	4,965	4,038	(4,223)	4,780	4,129
Total	$ 906,705	$ 4,038	$ (56,703)	$ 854,040	$ 18,834

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

	Principal	Interest	Total
	(Amounts in 000's)		
2012	$ 13,660	$ 41,313	$ 54,973
2013	16,285	41,973	58,258
2014	32,120	40,942	73,062
2015	33,155	39,522	72,677
2016	34,415	37,979	72,394
2017-2021	218,685	160,631	379,316
2022-2026	238,510	105,195	343,705
2027-2031	294,520	40,983	335,503
2032-2033	10,535	535	11,070
Total	$ 891,885	$ 509,073	$ 1,400,958

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

The Airport System Revenue Bonds are secured by the pledge of all airport revenues, as defined in the revenue bond indenture. Further, the City has assigned to the trustee all its interest in and rights to the airline use agreements under the revenue bond indenture. Amounts held in trust may be invested by the City Treasurer or the trustee in permitted investments. However, the use of funds is limited by the bond indenture and, accordingly, is classified as restricted assets in these financial statements.

As of December 31, 2011 and 2010, the Divisions were in compliance with the terms and requirements of the bond indenture.

The indenture, as amended, requires, among other things, that the Divisions (1) make equal monthly deposits to the Bond Service Fund to have sufficient assets available to meet debt service requirements on the next payment date; (2) maintain the Bond Service Reserve Fund equal in amount to the maximum annual debt service to be paid in any year; and (3) as long as any revenue bonds are outstanding, charge such rates, fees and charges for use of the airport system to produce in each year, together with other available funds, net revenues (as defined) at least equal to the greater of (a) 116% of the annual debt service due in such year on all outstanding revenue bonds and general obligation debt or (b) 125% of the annual debt service due in such year on all outstanding bonds.

From time to time, the Divisions have defeased certain revenue bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on old bonds. However, at December 31, 2011 and 2010 there was no defeased debt outstanding.

The City has pledged future airport revenues to repay $891,885,000 in Airport System Revenue Bonds issued in various years since 2000. Proceeds from the bonds provided financing for airport facilities. The bonds are payable from airport revenues and are payable through 2033. Annual principal and interest payments on the bonds are expected to require less than 63% of net revenues. The total principal and interest remaining to be paid on the various airport system revenue bonds is $1,400,958,000. Principal and interest paid for the current year and total net revenues were $48,600,000 and $76,802,000, respectively.

In June 2011, the Airport System, under its rights to optional redemption, elected to deposit cash on hand into the Series 2008G Bond Fund and into the Series 2008H Bond Fund sufficient to redeem, prior to maturity, all of the outstanding Series 2008G and Series 2008H Bonds. A notice of full redemption of the bonds was issued by the trustee on June 15, 2011. After taking into account the funds on hand in the respective bond funds, other available Airport funds were placed into the accounts to pay on June 22, 2011 principal in the amount of $7,425,000 on the Series 2008G Bonds and $430,000 on the Series 2008H Bonds, plus accrued interest to the redemption date. As a result, these bonds have been defeased and the liability for the bonds has been removed from long-term debt.

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

Effective November 16, 2011, the City issued $74,385,000 Airport System Revenue Bonds, Series 2011A (Non-AMT). Of this amount, $64,515,000 of the proceeds was issued to pay a portion of the costs of improvements to the Airport System, to fund deposits to the bond reserve fund and the Renewal and Replacement Fund and to pay issuance costs. The remaining $9,870,000 was used to refund a portion of the outstanding Airport System Revenue Bonds, Series 2008D in the aggregate principal amount of $9,200,000 on November 28, 2011 and to pay costs of issuing the bonds. As a result, the refunded bonds have been defeased and the liability for these bonds has been removed from long-term debt. The City obtained an economic gain (the difference between the present values of the old and new debt service payments) of approximately $1.67 million as a result of the refunding.

Interest Rate Swap Transactions:
On November 2, 2011, the City, at its option, terminated the four interest rate exchange agreements originally entered into in 2003 and most recently identified as hedges for the Series 2008D Bonds and the Series 2009D Bonds. The City owed a payment to the counterparty, JP Morgan Chase Bank, National Association, under each hedge agreement in connection with the early terminations. Those termination payments totaled $10,515,000 and were paid on November 16, 2011 from available Airport funds. The City has no remaining interest rate swap agreements in place with respect to any Airport System Revenue Bonds.

Series 2008D and Series 2009D Bonds (Previously Series 2003A and Series 2008E Bonds):
In conjunction with the refunding of the Series 2003A, Series 2003B and the Series 2003C bonds, the interest rate exchange agreements associated with the Series 2003A and Series 2003B bonds became identified by the City to relate to the Series 2008D and the Series 2009D bonds.

Terms: Simultaneously with the issuance of the City's $140,600,000 Airport System Revenue Bonds, Series 2003A-C on October 23, 2003 the City entered into floating-to-fixed rate swap agreements on the declining notional amount of the $20,650,000 Series 2003A Bonds and the $56,200,000 Series 2003B Bonds. Bear Stearns Financial Products Inc. (Bear Stearns) was the counterparty on a five-eighths pro rata share of the notional amount of each Series 2003 A&B Bonds while JPMorgan Chase Bank, N.A. (JPM) was the counterparty on the remaining three-eighths of the notional amount.

In 2008, Bear Stearns was acquired by JPM and the Bear Stearns swaps were assumed by JPM. In conjunction with the refunding of the Series 2003A&B Bonds, the interest rate exchange agreements associated with the 2003A&B Bonds became identified by the City to relate to the Series 2008D and Series 2009D Bonds. Under the swap agreement identified with the Series 2008D Bonds, the Airport System was the fixed rate payor, paying a fixed rate of 4.17% semiannually, while the counterparty paid the Airport System at the SIFMA index every 35 days. The swap agreement identified with the Series 2009D Bonds required the Airport System to pay a fixed rate of 4.27% semiannually and the counterparty to pay the Airport System the SIFMA index plus 10 basis points every 35 days. The obligation of the Airport System to make periodic

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

fixed rate payments (but not any termination payment) was secured by a pledge of airport revenues. The periodic swap payments were insured by Ambac.

Objective: The City entered into the swaps in order to minimize the costs associated with the refunding of the Series 1994A Bonds. Because all debt service charges of the Airport System are ultimately paid by the various airlines utilizing the City's airports, it was important to reduce the debt related costs as much as possible and the synthetic fixed rate debt provided the greatest debt service relief to the airlines.

Basis Risk: By entering into swaps based upon the SIFMA index, the City sought to minimize this risk. Since both the underlying bonds and the swap payments were based on the tax-exempt market, any potential difference between the rate paid by the City on the bonds and the amount received by the City from the counterparties was reduced. The amount received on the Series 2009D Bonds incorporated an additional 10 basis points to take into account the fact that the originally issued underlying bonds had been subject to the "Alternative Minimum Tax". The Series 2009D Bonds were issued as Non-AMT bonds pursuant to the American Recovery and Reinvestment Act of 2009.

Counterparty Risk: The City selected highly rated counterparties in order to minimize this risk. However, in the wake of the subprime mortgage crisis, Bear Stearns was acquired by JPM. The City's swap was then assumed by JPM. Over the long-term it was possible that the credit strength of JPM could change and this event could have triggered a termination payment on the part of the City.

Termination Risk: The swap agreement could be terminated prior to its stated termination date under certain circumstances. Upon termination, a payment may have been owed by the City to JPM, or by JPM to the City, depending upon the prevailing economic circumstances at the time of the termination. The City obtained insurance to mitigate much of the risk associated with termination due to the event of a rating downgrade of the City.

Fair Value: The fair value of the swaps, including accrued amounts, at December 31, 2010 as reported by JPM was $2,054,000 relating to the Series 2008D Bonds and $5,661,000 relating to the Series 2009D Bonds which would both be payable by the City. The swaps were terminated on November 2, 2011 at a value of $10,515,000 which was payable to the counterparty .

Derivative Instruments: On November 2, 2011 the City terminated all remaining interest rate swap agreements relating to the Airport System Revenue Bonds. 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 Divisions entered into derivative or hedging agreements in 2003. A detailed description of each derivative outstanding during 2011 and 2010, including its terms, objectives, risks and fair value, can be found in the section below.

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

The Divisions reported a deferred outflow and a liability in the amount of the fair value of the interest rate swaps, which reflected the prevailing interest rate environment at December 31, 2010. The specific terms and conditions of each swap were provided by the counterparty and confirmed by the City's financial advisor.

The following tables present the fair value balances and notional amounts of the Divisions' derivative instruments outstanding at December 31, 2010, classified by type and the changes in fair value of these derivatives during fiscal year 2010 as reported in the financial statements. The fair values of the interest rate swaps, which reflect the prevailing interest rate environment at December 31, 2010 and the specific terms and conditions of the swaps, have been provided by the counterparty and confirmed by the City's financial advisor.

	Changes in Fair Value		Fair Value at December 31, 2010		
	Classification	Amount	Classification	Amount	Notional
			(Amounts in 000's)		
Hedging Derivatives					
Floating to fixed interest rate swaps					
2008D Airport Swap	Deferred Outflow	($159)	Debt	($2,054)	$17,025
2009D Airport Swap	Deferred Outflow	(564)	Debt	(5,661)	46,600

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

Bonds	Type	Objective	Amount	Date	Date	Terms	Credit Rating
			(Amounts in 000's)				
Airport 2008D	Pay Fixed Interest Rate Swap	Hedge of changes in cash flow on the Series 2008D Airport System Bonds	$ 17,025	10/23/2003	1/01/2024	Pay 4.169%, receive SIFMA	Aa1/AA-/AA-
Airport 2009D	Pay Fixed Interest Rate Swap	Hedge of changes in cash flow on the Series 2009D Airport System Bonds	$ 46,600	10/23/2003	1/01/2024	Pay 4.273%, receive SIFMA + 10 BPS	Aa1/AA-/AA-

NOTE C – SPECIAL FACILITY REVENUE BONDS

Airport Special Revenue Bonds, Series 1990, totaling $76,320,000 were issued to finance the acquisition and construction of a terminal, hangar and other support facilities of Continental Airlines at Cleveland Hopkins International Airport. These bonds were refunded in 1999 by the issuance of Airport Special Revenue Refunding Bonds, Series 1999, totaling $71,440,000. Airport Special Revenue Bonds, Series 1998, totaling $75,120,000 were issued in 1998 to finance the design and construction of certain airport facilities leased to Continental Airlines, including a new regional jet concourse. Because all principal and interest on these bonds is unconditionally guaranteed by Continental Airlines and paid directly by Continental Airlines, these bonds do not constitute a debt, liability or general obligation of the City or a pledge of the City's revenues. As such, no liabilities relating to these bonds are included in the accompanying financial statements.

NOTE D – DEFERRED PAYMENT OBLIGATION / I-X CENTER

In January 1999, the City purchased the International Exposition (I-X) Center and the land on and around it for $66.5 million as part of its master plan to expand Cleveland Hopkins International Airport. As part of the purchase agreement, the City leased the building back to the former owner for 15 years, after which the City may demolish the building to make way for airport development. Of the $66.5 million purchase price, $36.5 million was paid in cash in 1999. The remaining $30.0 million, including interest at 7.75%, is being deferred by the seller and will be offset by future lease payments owed to the City over the 15 year lease period. The future lease payments are equal to the remaining purchase price plus interest at 7.75%, and as such, no cash will be exchanged between the City and the lessee over the term of the lease. The deferred payment is reported as "Deferred Payment Obligation" in the accompanying balance sheet.

In the event that either a similar facility is developed that exceeds a specified size, or there is an expansion of an existing facility that exceeds specified size within the municipal boundary of the City of Cleveland, the lessee has the right to terminate the lease. Such termination would require the City to pay the lessee the remaining portion of the deferred purchase price.

NOTE D – DEFERRED PAYMENT OBLIGATION / I-X CENTER (Continued)

Minimum principal and interest payments due by the City on the deferred payment obligation and future minimum lease rentals due to the City under this lease for the next three years are as follows:

	Deferred Payment Obligation			
	Principal	Interest	Total	Future Minimum Rentals
		(Amounts in 000's)		
2012	$ 2,989	$ 400	$ 3,389	$ 3,389
2013	3,230	159	3,389	3,389
2014	281	1	282	282
	$ 6,500	$ 560	$ 7,060	$ 7,060

Rental income recognized by the Divisions under this agreement totaled $3,389,000 in 2011 and 2010. Of these amounts in 2011, $621,000 was offset against interest expense and $2,768,000 was offset against the principal balance of the deferred obligation. Of these amounts in 2010, $827,000 was offset against interest expense and $2,562,000 was offset against the principal balance of the deferred obligation.

NOTE E – DEPOSITS AND INVESTMENTS

Deposits: The Divisions' carrying amount of deposits at December 31, 2011 and 2010 totaled approximately $52,284,000 and ($20,443,000), respectively, and the Divisions' bank balance was approximately $60,243,000 and $20,572,000, 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*, $60,243,000 and $20,572,000 of the bank balances 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 Divisions will not be able to recover deposits or collateral for securities that are in possession of an outside party. At year end, the Divisions' 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.

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

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

Under City policy, investments are limited to repurchase agreements, U.S. Government securities, certificates of deposit, investments in certain money market mutual funds, STAROhio and guaranteed investment contracts. 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 risk. Market values of securities fluctuate based on the magnitude of changing market conditions; significant changes in market conditions could materially affect portfolio value.

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

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

Credit Risk: The Divisions' investments as of December 31, 2011 and 2010 include U.S. Agencies, STAROhio, mutual funds and guaranteed investment contracts. The U.S. Agencies are rated AA+ by Standard & Poor's (S&P). The investments in both STAROhio and mutual funds carry a rating of AAAm, which is the highest money market fund rating given by S&P. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Divisions have no investment policy that would further limit its investment choices.

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

The Divisions have the following investments at December 31, 2011 and 2010, which include those classified as cash and cash equivalents in the balance sheet in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

Type of Investment	2011 Fair Value	2011 Cost	2010 Fair Value	2010 Cost	Investment Maturities Less than One Year
			(Amounts in 000's)		
U.S. Agency Obligations	$ 79,687	$ 79,602	$ 2,029	$ 2,000	$ 79,687
STAROhio	66,444	66,444	168,406	168,406	66,444
Investment in Mutual Funds	177,332	177,332	181,798	181,798	177,332
Guaranteed Investment Contracts			15,000	15,000	
Total Investments	323,463	323,378	367,233	367,204	323,463
Total Deposits	52,284	52,284	(20,443)	(20,443)	52,284
Total Deposits and Investments	$ 375,747	$ 375,662	$ 346,790	$ 346,761	$ 375,747

These amounts are monies invested by the City Treasurer on behalf of the Divisions and are used in daily operations with excess monies invested daily in STAROhio and mutual funds.

Concentration of Credit Risk The Divisions place a limitation on the amount that may be invested in any one issuer to help minimize the concentration of credit risk. As of December 31, 2011, the investments in U.S. Agency Obligations, STAROhio, and mutual funds are approximately 25%, 20%, and 55%, respectively, of the Divisions' total investments. As of December 31, 2010, the investments in U.S. Agency Obligations, STAROhio, mutual funds and guaranteed investment contracts are approximately 1%, 46%, 49% and 4%, respectively, of the Divisions' total investments.

NOTE F – CAPITAL ASSETS

Capital Asset Activity: Capital Asset Activity for the year ended December 31, 2011 was as follows:

	January 1, 2011	Additions	Reductions	December 31, 2011
	(Amounts in 000's)			
Capital Assets, not being depreciated:				
Land	$ 167,457	$	$	$ 167,457
Construction in progress	16,815	19,431		36,246
Total capital assets, not being depreciated	184,272	19,431	-	203,703
Capital assets, being depreciated:				
Land improvements	72,568	1,585		74,153
Buildings, structures and improvements	328,738	586		329,324
Furniture, fixtures and equipment	22,815	490		23,305
Infrastructure	910,907	45,789		956,696
Vehicles	13,830	1,163		14,993
Total capital assets, being depreciated	1,348,858	49,613	-	1,398,471
Less: Total accumulated depreciation	(632,622)	(47,775)		(680,397)
Total capital assets being depreciated, net	716,236	1,838	-	718,074
Capital assets, net	$ 900,508	$ 21,269	$ -	$ 921,777

NOTE F – CAPITAL ASSETS (Continued)

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

	January 1, 2010	Additions	Reductions	December 31, 2010
	(Amounts in 000's)			
Capital Assets, not being depreciated:				
Land	$ 167,457	$	$	$ 167,457
Construction in progress	9,519	25,497	(18,201)	16,815
Total capital assets, not being depreciated	176,976	25,497	(18,201)	184,272
Capital assets, being depreciated:				
Land improvements	72,568			72,568
Buildings, structures and improvements	328,738			328,738
Furniture, fixtures and equipment	22,801	14		22,815
Infrastructure	885,928	24,979		910,907
Vehicles	13,534	296		13,830
Total capital assets, being depreciated	1,323,569	25,289	-	1,348,858
Less: Total accumulated depreciation	(582,623)	(49,999)		(632,622)
Total capital assets being depreciated, net	740,946	(24,710)	-	716,236
Capital assets, net	$ 917,922	$ 787	$ (18,201)	$ 900,508

Commitments: As of December 31, 2011 and 2010, the Divisions had capital expenditure purchase commitments outstanding of approximately $37,136,000 and $46,344,000, respectively.

NOTE G – LEASES AND CONCESSIONS

The Divisions lease specific terminal and concourse areas to the various airlines under terms and conditions of the airline use agreements. These agreements remain in effect until December 31, 2015 and, under the terms of the agreements, rental payments and landing fees paid by the airlines are adjusted annually to provide airport revenues sufficient to meet the financial requirements of the airport system. Other areas are leased to various occupants under separate agreements.

NOTE G – LEASES AND CONCESSIONS (Continued)

The Divisions have various concession agreements that permit the concessionaires and certain others to operate on airport property. These agreements usually provide for payments based on a percentage of the revenues, with an annual minimum payment guarantee and in certain circumstances for the offset of percentage rents to the extent of certain improvements made to the leased property. Portions of the building costs in the balance sheet are held by the Divisions for the purpose of rental use. The net book value of property held for operating leases as of December 31, 2011 and 2010 is approximately $190,348,000 and $194,872,000, respectively.

Minimum future rental on non-cancelable operating leases to be received is as follows:

	(Amounts in 000's)
2012	$ 13,750
2013	11,669
2014	10,889
2015	5,367
2016	4,933
Thereafter	6,410
	$ 53,018

Under the Master Lease and Use Agreement, which leases space in the terminal building and other areas, the Divisions are subject to fluctuating rates.

Contingent operating revenues aggregated approximately $14,464,000 and $13,040,000, respectively, in 2011 and 2010.

NOTE H – CONTINGENT LIABILITIES AND RISK MANAGEMENT

Contingent Liabilities: Various claims are pending against the City involving the Divisions for personal injuries, property damage and other matters. The City is responsible for the suits. The City's management is of the opinion that ultimate settlement of such claims will not result in a material adverse effect on the Divisions' financial position, results of operations or cash flows.

Risk Management: The Divisions are 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 Divisions carry insurance to cover particular liabilities and property protection. Otherwise, the Divisions are generally self-insured. No material losses, including incurred but not reported losses, occurred in 2011 or 2010. There was no significant decrease in any insurance coverage in 2011 or 2010. In addition, there were no material insurance settlements in excess of insurance coverage during the past three years.

NOTE H – CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

The City provides the choice of four separate health insurance plans for its employees. These plans are provided by two different insurers through commercial insurance. Operating funds are charged a monthly rate per employee, by type of coverage. The City participates in the State of Ohio workers' compensation retrospective rating program.

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

NOTE I – DEFINED BENEFIT PENSION PLAN

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

NOTE I – DEFINED BENEFIT PENSION PLAN (Continued)

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, 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 2011, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2011, 2010 and 2009. The employer contribution rates were 14.00% of covered payroll in 2011, 2010 and 2009.

The Divisions' required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2011, 2010 and 2009 were $2,048,000, $1,918,000 and $1,676,000 each year, respectively. The required payments due in 2011, 2010 and 2009 have been made.

NOTE J – 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 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, 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

NOTE J – OTHER POSTEMPLOYMENT BENEFITS (Continued)

contribution to OPERS is set aside for funding of post-retirement health care benefits. Employer contribution rates are expressed as a percentage of covered payroll of active members. The employer contribution rates were 14.00% of covered payroll in 2011, 2010 and 2009. 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 4.00% for members of the Traditional Plan in 2011, 6.05% for members of the Combined Plan in 2011, 5.50% from January 1, 2010 through February 28, 2010 and 5.00% from March 1, 2010 through December 31, 2010 and 7.00% from January 1, 2009 through March 31, 2009 and 5.50% from April 1, 2009 through December 31, 2009. The portion of employer contributions allocated to health care beginning January 1, 2012 remained the same, but they are subject to changed based on Board action. Employers will be notified if the portion allocated to health care changes during 2012. 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 Divisions' actual contributions to OPERS to fund postemployment benefits were $819,000 in 2011, $1,093,000 in 2010 and $1,212,000 in 2009.

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

NOTE K – RELATED PARTY TRANSACTIONS

The Divisions are provided various intra-city services. Charges are based on actual use or on a reasonable pro-rata basis. The more significant costs for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
	(Amounts in 000's)	
City Central Services, including police	$ 8,218	$ 8,263
Electricity purchased	243	245
Motor vehicle maintenance	654	518

NOTE L – LANDING FEE ADJUSTMENT AND INCENTIVE COMPENSATION

Under the terms of the airline use agreements, if the annual statement for the preceding term demonstrates that airport revenues over expenses (both as defined) is greater or less than that used in calculating the landing fee for the then current term, such difference shall be charged or credited to the airlines over the remaining billing periods in the current term. The landing fee adjustment for 2011 was payable to the City from the Airlines in the amount of $3,850,000. The landing fee adjustment for 2010 was payable to the City from the Airlines in the amount of $4,112,000.

The airline use agreements also provide an incentive for the City to provide the highest quality management for the airport system. There was no incentive compensation expense in 2011 and 2010.

NOTE M – PASSENGER FACILITY CHARGES

On November 1, 1992, Cleveland Hopkins International Airport began collecting passenger facility charges (PFC) subject to title 14, Code of Federal Regulations, Part 158. PFC are fees imposed on passengers enplaned by public agencies controlling commercial service airports for the strict purpose of supporting airport planning and development projects. The charge is collected by the airlines and remitted to the airport operator net of an administrative fee to be retained by the airline and refunds to passengers.

As of December 31, 2011, Cleveland Hopkins International Airport had authority from the Federal Aviation Administration to collect approximately $562 million, of which an estimated 16.1% will be spent on noise abatement for the residents of communities surrounding the airport, 55.6% on runway expansion and 28.3% on airport development. PFC revenues and related interest earnings are recorded as non-operating revenues, and non-capitalized expenses funded by PFC revenues are recorded as non-operating expenses.

NOTE N – MAJOR CUSTOMER

In 2011 and 2010, operating revenues from one airline group for landing fees, rental and other charges amounted to approximately 45% and 35% respectively, of total operating revenue.

NOTE O – SUBSEQUENT EVENTS

Continental Airlines and United Airlines (collectively “Continental”) entered into a Settlement Agreement (“Agreement”) with the Office of the Attorney General of the State of Ohio (“AG”) effective October 31, 2010 (“Merger Closing Date”) to resolve the AG’s investigation of the antitrust implications of their proposed merger. Pursuant to the terms of the Agreement Continental agreed to maintain, for a period of 24-months from the Merger Closing Date, average daily departures from the Airport at no less then ninety (90%) percent of average daily departures in the year prior to the Merger Closing Date (“Base Departure Commitment”). In addition the Agreement contains an additional three-year commitment for average daily departures at the Base Departure Commitment level subject to certain metrics based on Airport segment profitability as more fully outlined in the Agreement. The Agreement gives the AG’s office the right to audit Airport segment profitability at Continental’s expense up to $80,000 per annum. Continental also agreed to maintain its current Airport aircraft maintenance facility at a level of operations commensurate with the 12-month period immediately preceding the merger. Any reduction in the Base Departure Commitment may result in a reduction in aircraft maintenance facility operations. Other commitments include continuation of the Cleveland Air Service Working Group during the effective period of the Agreement and a penalty based on an amount equal to the percentage by which Continental is found to have breached its minimum departure commitments of $20 million. Pursuant to the terms of a separate Memorandum of Understanding between the City and the AG’s office any monies collected from Continental pursuant to this penalty will be forwarded to the City. The AG’s office has also agreed to inform the City whether, as a result of its audits any of the metrics outlined in the Agreement have been triggered or are likely to be triggered.

On February 23, 2012, the City issued $235,150,000 Airport System Revenue Bonds, Series 2012A (Non-AMT). The bonds were issued to currently refund all of the outstanding Airport System Revenue Bonds, Series 2000A in the aggregate principal amount of $249,445,000 on March 26, 2012 and to pay costs of issuing the bonds. The City obtained an economic gain (the difference between the present values of the old and new debt service payments) of approximately $15.12 million or 6.06% as a result of the refunding.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS

SCHEDULE OF AIRPORT REVENUES AND OPERATING EXPENSES
AS DEFINED IN THE AIRLINE USE AGREEMENTS
For the Year Ended December 31, 2011

	Cleveland Hopkins International	Burke Lakefront	Total
		(Amounts in 000's)	
REVENUE			
Airline revenue:			
Landing fees	$ 35,911	$	$ 35,911
Terminal rental	34,312		34,312
Other	3,647		3,647
	73,870	-	73,870
Operating revenues from other sources:			
Concessions	22,352	286	22,638
Rentals	10,484	152	10,636
Landing fees	1,269	108	1,377
Other	2,957	100	3,057
	37,062	646	37,708
Non-operating revenue:			
Interest income	160		160
TOTAL REVENUE	$ 111,092	$ 646	$ 111,738
OPERATING EXPENSES			
Salaries and wages	$ 19,636	$ 1,005	$ 20,641
Employee benefits	7,535	422	7,957
City Central Services, including police	8,645	223	8,868
Materials and supplies	10,941	275	11,216
Contractual services	24,374	254	24,628
TOTAL OPERATING EXPENSES	$ 71,131	$ 2,179	$ 73,310

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CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE PASSENGER FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH 14 CFR PART 158

To the Honorable Frank G. Jackson, Mayor, Members of Council and the Audit Committee
Divisions of Cleveland Hopkins International and Burke Lakefront Airports
Department of Port Control
City of Cleveland, Ohio:

Compliance

We have audited the Divisions' of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Ohio (the Divisions) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (the Guide), for its passenger facility charge program for the year ended December 31, 2011. Compliance with requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Divisions' management. Our responsibility is to express an opinion on the Divisions' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Divisions' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Divisions' compliance with those requirements.

In our opinion, the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Ohio complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended December 31, 2011.

Internal Control Over Compliance

Management of the Divisions is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the Divisions' internal control over compliance with the requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Divisions' internal control over compliance.

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A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the passenger facility charge program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the passenger facility charge program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Passenger Facility Charges

We have audited the financial statements of the Divisions as of and for the year ended December 31, 2011, and have issued our report thereon dated June 25, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming our opinion on the Divisions' basic financial statements. The accompanying schedule of expenditures of passenger facility charges is presented for purposes of additional analysis as required by the Guide and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of passenger facility charges is fairly stated in all material respects in relation to the Divisions' basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Honorable Mayor, Members of Council, the Audit Committee, and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 25, 2012

City of Cleveland - Department of Port Control
Cleveland Hopkins International Airport
Schedule of Expenditures of PFCs
For the Year Ending December 31, 2011

Projects	Approved Project Budget	Cumulative Expenditures 2010	2011 1st Quarter Expenditures	2011 2nd Quarter Expenditures	2011 3rd Quarter Expenditures	2011 4th Quarter Expenditures	2011 YTD Expenditures	Cumulative Expenditures 2011
Insulate Residences - Full Program Phase I	$ 16,960,400	$ 16,960,400	$	$	$	$	$	$ 16,960,400
Taxiway "L" Shoulders								
Extension of Taxiway "Q"	2,155,743	2,155,743						2,155,743
Land Acquisition-Resident Relocation								
Land Acquisition-Resident Relocation	14,689,459	14,689,459						14,689,459
Asbestos Removal in Terminal CHIA	729,842	729,842						729,842
Acquisition of Analex Office Bldg & Vacant Land	13,025,000	13,025,000						13,025,000
Passenger Jetways (BKL)								
Baggage Claim/Security Improvements (BKL)								
Waste Water - Glycol Collection System Construction	5,835,921	5,835,921						5,835,921
NASA Feasibility & Pre-Engineering Study	355,000	355,000						355,000
Sewers for Confined Disposal Facility-BKL (app 1)	5,500,000	5,500,000						5,500,000
Sound Insulation	8,675,000	8,595,641						8,595,641
Land Acquisition - Midvale, Brysdale, Forestwood, Rocky River	30,360,000	25,282,298						25,282,298
Environmental Assessment / Impact Studies	1,725,000	1,725,000						1,725,000
Part 150 Noise Compatibility Program Update	584,570	584,570						584,570
Terminal Passenger Flow & Security Study	300,000							
Roadway System / Vehicular Ingress-Egress Study	200,000							
Runway 5R Extension Preliminary								
Runway 5R Extension Design								
Runway 5R Extension Construction								
FIS Facility Construction								
FIS Facility Design								
Brook Park Land Transfer	8,750,000	8,750,000						8,750,000
Analex Demolition	1,229,000	852,439				38,475	38,475	890,914
Sound Insulation	20,000,000	20,000,000						20,000,000
Baggage Claim/Expansion	9,526,087	9,526,087						9,526,087
Tug Road Replacement	1,019,000	668,553						668,553
Interim Commuter Ramp	5,560,338	4,961,313				61,205	61,205	5,022,518
Concourse D Ramp/Site Utilities	51,305,804	45,782,028				564,385	564,385	46,346,413
Burke Runway Overlay 6L/24R	530,286	530,286						530,286
Burke ILS	2,181,400	1,673,353				51,909	51,909	1,725,262
Runway 6L/23R	270,550,360	98,382,534				17,591,027	17,591,027	115,973,561
Runway 6R/24L Uncoupling	2,148,000	2,148,000						2,148,000
Runway 28 Safety Improvements	2,200,000	1,999,456				10,998	10,998	2,010,454
Midfield Deicing Pad	39,100,000	39,100,000						39,100,000
Taxiway M Improvements	10,000,000	9,579,060						9,579,060
Doan Brook Restoration	870,000							
Deicing Environmental Upgrades	1,410,000							
Main Terminal Roof Replacement	500,000							
Main Terminal Boiler Replacement	1,510,000							
Roadway Expansion Joint Repair/Replacement	1,000,000							
Airport-wide Flight Information Display System (FIDS)/Baggage Information Display System (BIDS) and Signage Replacement	3,868,000							
Airport-wide In-line Baggage System Design	850,000							
Airport Master Plan Update	2,100,000							
Runway 10/28- Runway Safety Area Imporvements	11,659,300				2,629,246	4,165,174	6,794,420	6,794,420
South Cargo Ramp Rehabilitation	3,000,000							
Taxiway N Rehabilitation	4,400,000							
SIDA Security System Enhancements	1,000,000							
Interactive Part 139 Airport Operations Training Program	250,000							
Main Substation (MS1 & MS2) Redundant Electrical Power Feed & Emergency Generators	4,160,000							
Total	$ 561,773,510	$ 339,391,983	$ -	$ -	$ 2,629,246	$ 22,483,173	$ 25,112,419	$ 364,504,402

Divisions of Cleveland Hopkins Airport and Burke Lakefront Airport
Department of Port Control
City of Cleveland

Notes to Schedule of Expenditures of Passenger Facility Charges
For the Year Ended December 31, 2011

General

The accompanying schedule presents all activity of the Airport's Passenger Facility Charge (PFC) program. The Airport's reporting entity is defined in Note A – Summary of Significant Accounting Policies to the Airports' financial statement.

Basis of Presentation

The accompanying schedule is presented on the cash basis of accounting.

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CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER

REPORT ON AUDITS OF FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER

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CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

INDEPENDENT AUDITORS' REPORT

To the Honorable Frank G. Jackson, Mayor, Members of Council and the Audit Committee
Division of Cleveland Public Power
Department of Public Utilities
City of Cleveland, Ohio:

We have audited the accompanying basic financial statements of the Division of Cleveland Public Power, Department of Public Utilities, City of Cleveland, Ohio (the Division) as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to 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 described in Note A, the financial statements present only the financial position and the changes in financial position and cash flows of the Division and do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2011 and 2010, and the respective changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United State of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Division of Cleveland Public Power, Department of Public Utilities, City of Cleveland, Ohio as of December 31, 2011 and 2010, 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.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 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 25, 2012

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the City) Department of Public Utilities, Division of Cleveland Public Power (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, 2011 and 2010. Please read this information in conjunction with the Division's financial statements and footnotes that begin on page 15.

The Division was created in 1906 and charged with the responsibility of the distribution of electricity and related electric service to customers within its service areas. The Division operates a municipal electric system that is the largest in the State of Ohio and the thirty-ninth largest in the United States. The Division serves an area that is bound by the City limits and presently serves approximately 74,000 customers.

The Division is one of the very few municipal electric companies in the United States that competes with an investor-owned utility, in this case First Energy Corporation's Cleveland Electric Illuminating Company (CEI).

According to the 2010 census reports, the City's population is 397,000 people. There are approximately 208,000 residential dwelling units and 11,000 commercial units. The Division has distribution facilities in about 60% of the geographical area of the City, primarily on the east side.

The Division obtains substantially all of its power and energy requirements through agreements with various regional utilities and other power suppliers for power delivered through CEI interconnections. The balance of the Division's power and energy requirements are satisfied with production from the Division's three combustion turbine generating units and various arrangements for the exchange of short-term power and energy. To reduce its reliance on the wholesale market, the Division has entered into contracts with American Municipal Power (AMP), a non-profit corporation comprised of municipal utilities, to participate in five AMP hydroelectric projects on the Ohio River. These plants, if constructed, are expected to be completed and operational by 2014.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities (net assets) by $208,597,000, $206,758,000 and $203,679,000 at December 31, 2011, 2010 and 2009, respectively. Of these amounts, $58,236,000, $58,291,000 and $59,902,000 are unrestricted net assets at December 31, 2011, 2010 and 2009, respectively, that may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's total net assets increased by $1,839,000 and $3,079,000 in 2011 and 2010, respectively. Operating revenue increased by $1,783,000, or 1.1%. Purchased power decreased by $4,105,000, or 4.3% and total operating expenses increased by $2,307,000 or 1.5% for 2011. In addition, investment income increased by $55,000, or 57.3%, interest expense increased by $204,000, or 1.9%, and amortization of bond issuance costs and discounts decreased by $513,000, or 69.4%.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL HIGHLIGHTS (Continued)

- During 2011, the Division had a decrease in capital assets, net of accumulated depreciation of $2,443,000 or 0.7%. The principal capital expenditures in 2011 were for Lake Road project, engineering and overhead related to duct line underground project, 138 KV loop circuit installation, new vehicles, transformers, pole replacements, Flats East Bank, Southern Service Center and system expansion. These additions were offset by current year depreciation.

- The Division's total long-term bonded debt decreased by $10,495,000 and $10,555,000 for the years ended December 31, 2011 and 2010, respectively. The decrease in 2011 and 2010 is attributed to scheduled debt service payments made to bondholders.

- In 2005, the Division was impacted by the introduction of Seams Elimination Cost Adjustment (SECA), which was mandated by the Federal Energy Regulatory Commission (FERC). For additional information see Note L. The Division paid SECA charges totaling $10,800,000 to Midwest Independent System Operator from December 2004 to March 2006 and has been refunded $5,655,000 as of December 31, 2011.

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's Division of Cleveland Public Power Fund, in which the City accounts for the operations of the Department of Public Utilities, Division of Cleveland Public Power. 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 Cleveland Public Power 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 accrual basis of accounting are used. This is similar to businesses in the private sector.

The basic financial statements of the Division can be found on pages 15 – 20 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 financial statements can be found on pages 21 - 39 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Division as of December 31, 2011, 2010 and 2009.

	2011	2010	2009
		(In thousands)	
Assets:			
Capital assets, net of accumulated depreciation	$ 332,052	$ 334,495	$ 326,225
Restricted assets	59,031	63,448	72,717
Unamortized bond issuance costs	2,947	3,293	3,485
Current assets	85,253	83,389	81,065
Total assets	479,283	484,625	483,492
Net Assets and Liabilities:			
Net Assets:			
Invested in capital assets, net of related debt	145,158	144,257	139,260
Restricted for capital projects	1,309		
Restricted for debt service	3,894	4,210	4,517
Unrestricted	58,236	58,291	59,902
Total net assets	208,597	206,758	203,679
Liabilities:			
Long-term obligations	231,203	240,565	247,572
Current liabilities	39,483	37,302	32,241
Total liabilities	270,686	277,867	279,813
Total net assets and liabilities	$ 479,283	$ 484,625	$ 483,492

***Restricted assets**:* The Division's restricted assets decreased by $4,417,000 and $9,269,000 in 2011 and 2010 respectively. The decreases for both years are primarily related to reductions in revenue bond funds for capital project expenditures.

Current assets: The Division's current assets increased by $1,864,000 and $2,324,000 in 2011 and 2010 respectively. The increase in 2011 is mainly due to an investment of $5,059,000, an increase in cash and cash equivalents of $174,000 and an increase of restricted cash and cash equivalents of $659,000; offset by a decrease in accounts receivable of $3,600,000 as a result of increased billings and collections.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Capital assets: The Division's investment in capital assets as of December 31, 2011 amounted to $332,052,000 (net of accumulated depreciation). The total decrease in the Division's net capital assets for the current year was $2,443,000. A summary of the activity in the Division's capital assets during the year ended December 31, 2011 is as follows:

	Balance January 1, 2011	Additions	Reductions	Balance December 31, 2011
	(In thousands)			
Land	$ 4,863	$	$	$ 4,863
Land improvements	305			305
Utility plant	472,178	1,743		473,921
Buildings, structures and improvements	18,699	1,381		20,080
Furniture, fixtures, equipment and vehicles	78,502	1,602	(108)	79,996
Construction in progress	42,642	14,132	(4,725)	52,049
Total	617,189	18,858	(4,833)	631,214
Less: Accumulated depreciation	(282,694)	(16,576)	108	(299,162)
Capital assets, net	$ 334,495	$ 2,282	$ (4,725)	$ 332,052

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

	Balance January 1, 2010	Recategor-ization *	Additions	Reductions	Balance December 31, 2010
	(In thousands)				
Land	$ 4,875	$ (12)	$	$	$ 4,863
Land improvements	2,759	(2,454)			305
Utility plant	466,242	(129)	6,065		472,178
Buildings, structures and improvements	43,335	(24,636)			18,699
Furniture, fixtures, equipment and vehicles	46,781	27,231	4,512	(22)	78,502
Construction in progress	28,759		24,226	(10,343)	42,642
Total	592,751	-	34,803	(10,365)	617,189
Less: Accumulated depreciation	(266,526)		(16,191)	23	(282,694)
Capital assets, net	$ 326,225	$ -	$ 18,612	$ (10,342)	$ 334,495

* Some Capital Assets were moved to more exact categories when assets were entered into the City's new Advantage Accounting System as of January 1, 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

The principal capital expenditures during 2011 included the following:

- Lake Road - $10,801,000
- Engineering and overhead expense - $4,634,000
- Duct Line Underground Project - $840,000
- 138 KV Loop Circuit Installation - $672,000
- Vehicles - $518,000
- Transformers - $438,000
- Pole replacements - $400,000
- Flats East Bank - $385,000
- Southern Service Center - $286,000
- System expansion - $181,000

Additional information on the Division's capital assets, including commitments made for future capital expenditures, can be found in Note D to the basic financial statements.

Current liabilities: The increase in current liabilities of $2,181,000 in 2011 is mainly due to the increase of $1,145,000 in the current portion of long-term debt due in one year according to predetermined schedules and an increase of $1,703,000 in accrued interest payable. Accrued interest payable will increase every year until 2025, mainly due to scheduled interest payments related to the Division's 2008B Capital Appreciation Bonds (CABs).

Long-term obligations: The long-term obligation decrease of $9,362,000 in 2011 is mainly attributed to scheduled debt service payments.

At December 31, 2011, the Division had total debt outstanding of $255,818,000. All bonds are backed by the revenues generated by the Division.

The Division issued revenue bonds in the public capital markets in the late 1980's and early 1990's to finance a substantial expansion to its service territory. The Division also issued bonds in April 2008 for system expansion and in 2006 and 2010 to refinance a portion of its long-term debt. This outstanding debt is being retired in accordance with repayment schedules through 2038.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

The activity in the Division's debt obligations outstanding during the year ended December 31, 2011 is summarized in the following table (excluding unamortized discounts, premiums and losses on debt refundings):

	Balance January 1, 2011	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2011
			(In thousands)		
Revenue Bonds:					
Mortgage Revenue Bonds 1994 A	$ 21,185	$	$	$ (6,535)	$ 14,650
Mortgage Revenue Bonds 1996	1,050			(1,050)	-
Revenue Bonds 2001	18,890			(2,910)	15,980
Revenue Bonds 2006 A-1	95,265				95,265
Revenue Bonds 2006 A-2	12,295				12,295
Revenue Bonds 2008 A	21,105				21,105
Revenue Bonds 2008 B-1	44,705				44,705
Revenue Bonds 2008 B-2	27,903				27,903
Revenue Bonds 2010	23,915				23,915
Total	$ 266,313	$ -	$ -	$ (10,495)	$ 255,818

The activity in the Division's debt obligations outstanding during the year ended December 31, 2010 is summarized in the following table (excluding unamortized discounts, premiums and losses on debt refundings):

	Balance January 1, 2010	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2010
			(In thousands)		
Revenue Bonds:					
Mortgage Revenue Bonds 1994 A	$ 25,095	$	$	$ (3,910)	$ 21,185
Mortgage Revenue Bonds 1996	2,045			(995)	1,050
Revenue Bonds 1998	26,425		(26,425)		-
Revenue Bonds 2001	22,030			(3,140)	18,890
Revenue Bonds 2006 A-1	95,265				95,265
Revenue Bonds 2006 A-2	12,295				12,295
Revenue Bonds 2008 A	21,105				21,105
Revenue Bonds 2008 B-1	44,705				44,705
Revenue Bonds 2008 B-2	27,903				27,903
Revenue Bonds 2010		23,915			23,915
Total	$ 276,868	$ 23,915	$ (26,425)	$ (8,045)	$ 266,313

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

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

Moody's Investors Service	Standard & Poor's
A2	A-

The ratio of net revenue available for debt service to debt service requirements (revenue bond coverage) is a useful indicator of the Division's debt position to management, customers and creditors. The Division's revenue bond coverage for 2011, 2010 and 2009 was 140%, 160%, and 157%, respectively. Additional information on the Division's long-term debt can be found in Note B to the basic financial statements on pages 24 - 29.

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 $208,597,000, $206,758,000 and $203,679,000 at December 31, 2011, 2010 and 2009, respectively.

Of the Division's net assets at December 31, 2011, $145,158,000 reflects the Division's investment in capital assets (e.g., land, buildings, utility plant, furniture, fixtures, vehicles and equipment), net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. In addition, $1,309,000 denotes funds restricted for use in capital projects and $3,894,000 represents resources subject to debt service restrictions. The remaining $58,236,000 reflects unrestricted funds available to meet the Division's ongoing obligations to customers and creditors.

Of the Division's net assets at December 31, 2010, $144,257,000 reflects the Division's investment in capital assets (e.g., land, buildings, utility plant, furniture, fixtures, vehicles and equipment), net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. In addition, $4,210,000 represents resources subject to external restrictions. The remaining $58,291,000 reflects unrestricted funds available to meet the Division's ongoing obligations to customers and creditors.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

The Division's operations during 2011 increased its net assets by $1,839,000 as compared to an increase in net assets of $3,079,000 in 2010. Provided below are key elements of the Division's results of operations as of and for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
		(In thousands)	
Operating revenues	$ 168,448	$ 166,665	$ 155,865
Operating expenses	156,528	154,221	146,221
Operating income (loss)	11,920	12,444	9,644
Non-operating revenue (expense):			
Investment income	151	96	169
Interest expense	(11,170)	(10,966)	(11,579)
Amortization of bond issuance costs and discount	(226)	(739)	(947)
Workers' compensation refund			4
Other	1,006	1,223	609
Total non-operating revenue (expense), net	(10,239)	(10,386)	(11,744)
Income (loss) before other contributions	1,681	2,058	(2,100)
Capital and other contributions	158	1,021	
Increase (decrease) in net assets	1,839	3,079	(2,100)
Net assets, beginning of year	206,758	203,679	205,779
Net assets, end of year	$ 208,597	$ 206,758	$ 203,679

- In 2011, operating revenues increased by $1,783,000. This increase is related to warmer than normal summer weather, as the City experienced its second warmest July on record. As a result the Division recorded its highest system peak along with increased seasonal electric sales.

- In 2010, operating revenues increased by $10,800,000. The increase was related to a very hot summer that resulted in more power consumption.

- In 2011, operating expenses increased by $2,307,000. This increase is mainly related to the rises in operations and maintenance expenses offset by a decrease in cost of purchased power.

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

In 2010, operating expenses increased by $8,000,000. The increase was mainly related to rises in purchased power costs, allowance for bad debts, professional services and electricity costs paid to CEI for CEI supplied street lights.

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

As a municipally-owned utility, the Division's mission is to improve the quality of life in the City of Cleveland by providing reliable, affordable energy and energy services to the residents and businesses of the City. In December 2006, the Division finalized its 5-year Strategic Business Plan (SBP). The SBP was prepared with the assistance of an independent consultant and addressed factors likely to impact the Division over the 2007-2012 period. The Division and the consultant analyzed federal and state regulatory and legislative developments, forecasted power costs, considered competitive factors as affected by the local regional transmission organization developments, and analyzed internal organization structure, strengths, weaknesses, threats and opportunities. The consultant made ten recommendations that were intended to improve the Division's processes and strategically position the Division to address the major competitive factors likely to impact the Division. All of the ten initial SBP recommendations have been addressed, and the Division has begun developing a new 5-year Strategic Business Plan.

The Capacity Expansion Program includes three major components. It is designed to support and improve the Division's electric system reliability and provide for future load growth opportunities.

> Fourth Interconnect: The first component is the addition of the fourth 138kV interconnection with the FirstEnergy transmission system. Increased capacity from the new distribution substations and their distribution circuits will allow the Division to transfer load from the existing distribution system to new circuits and provide electric service to future customers. Construction activities began in October 2009 and the interconnection was completed and energized in January 2011.

> Southern Project: The second component of the Capacity Expansion Program includes the extension of the southern 138kV transmission system and the addition of a 138/13.8 kV substation (the Southern Project). The proposed extension will complete a continuous transmission ring around the Division's system. The Southern Project also includes the construction of a new distribution substation. It will allow the Division to extend its electric service to serve potential customers in parts of the southern and western areas of the City that are outside the Division's current footprint as well as areas that are within the Division's current footprint but presently lack sufficient capacity. The substation and transmission line are currently in final design phase with an anticipated in-service date of the 4th quarter of 2014.

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

Lake Road Project: The third component of the Capacity Expansion Program is the expansion of the Lake Road 11.5kV Substation and the 11.5kV system downtown (the Lake Road Project). The proposed expansion will allow the Division to serve new customers throughout the downtown areas including the Quadrangle, Flats and Warehouse districts. Construction on the Lake Road Project is 50% complete with an anticipated in-service date of 2013.

The Division is focusing its marketing efforts on those sections of the City that were part of its earlier system expansion to increase the density of customers served. As the Division competes with CEI in these areas, density is measured as the number of the Division's customers on a given street versus the total customers available on that street. New customers can be added with little additional expense.

The Division purchases most of its power requirements via contracts in the power markets. The Division intends to reduce its dependence on the purchased power market by acquiring interests in certain generating facilities. The Division's long-term base load supply will include a mix of power provided by participation in AMP Inc. hydroelectric projects, the Prairie State Energy Campus project, and new/emerging alternative energy technologies. The Division is currently scheduled to purchase a total of about 50 MW from the AMP Inc.'s hydroelectric projects, which are expected to be in operation by 2014. The Division will also purchase up to 25 MW from AMP Inc.'s share of the Prairie State Energy Campus project, an Illinois coal-fired generating plant that is projected to be on-line in 2012. In 2011, AMP purchased the Fremont Energy Center, a 707 MW natural gas-fired generating plant, construction of which was nearly complete. The plant is scheduled to be in commercial operation early in 2012 and the Division has contracted to receive 60 MW of the plant's output. The Division's payments for the Prairie State and Fremont project power will be an operating expense for CPP, the cost of which will be passed through to its customers via an Energy Adjustment Charge on its bills. As power costs rise, sales revenue will also increase commensurately.

The Division owns and operates approximately 67,000 street lights, including 18,000 that were purchased in 2008 from CEI for $4,000,000. The Division provides street lighting service to its customer, the City of Cleveland, under a published rate schedule. CEI will continue to provide the power to street lights where the Division lacks distribution facilities but will charge an energy-based rate under CEI's tariff for municipally-owned street lights. The Division intends to continue to charge the City the current CEI rate for the newly acquired lights for a transition period, after which the lights will be billed at the Division's then-current standard rate. In addition to adding a new revenue stream, the transfer will enable the City to avoid CEI's proposed new street lighting tariff charges, potentially affecting the General Fund and will allow for improved maintenance of the new lights by increasing responsiveness.

In early 2001, Ohio Electric Choice legislation created a new kilowatt-hour excise tax on electric power distributed to end users of electricity in the State by both investor-owned and municipal utilities. For municipal utilities, the state law requires the utility to remit the tax receipts to the municipality's General Fund. Under Ordinance No. 1768-07 passed in late 2007, the General Fund transferred annually 50% of the kWh tax receipts to the Division beginning in 2008. However, per Ordinance No. 1248-09 passed in 2009, the General Fund retained 100% of the tax remittances collected during calendar years 2009 and 2010. In accordance to Ordinance No. 1560-10 passed in November 2010, the General Fund retained 100% of the tax remittance in 2011 and will also retain 100% during the calendar year 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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 PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
BALANCE SHEETS
December 31, 2011 and 2010

	(In thousands) 2011	2010
ASSETS		
CAPITAL ASSETS		
Land	$ 4,863	$ 4,863
Land improvements	305	305
Utility plant	473,921	472,178
Buildings, structures and improvements	20,080	18,699
Furniture, fixtures, equipment and vehicles	79,996	78,502
	579,165	574,547
Less: Accumulated depreciation	(299,162)	(282,694)
	280,003	291,853
Construction in progress	52,049	42,642
CAPITAL ASSETS, NET	332,052	334,495
RESTRICTED ASSETS		
Cash and cash equivalents	59,031	59,876
Investments		3,572
TOTAL RESTRICTED ASSETS	59,031	63,448
UNAMORTIZED BOND ISSUANCE COSTS	2,947	3,293
CURRENT ASSETS		
Cash and cash equivalents	54,386	54,212
Restricted cash and cash equivalents	1,930	1,271
Investments	5,059	
Receivables:		
Accounts receivable - net of allowance for doubtful accounts of $6,889,000 in 2011 and $4,647,000 in 2010	10,058	13,658
Unbilled revenue	2,080	2,492
Due from other City of Cleveland departments, divisions or funds	2,558	2,505
Materials and supplies - at average cost	9,089	9,135
Prepaid expenses	93	116
TOTAL CURRENT ASSETS	85,253	83,389
TOTAL ASSETS	$ 479,283	$ 484,625

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
BALANCE SHEETS
December 31, 2011 and 2010

	(In thousands)	
	2011	**2010**
NET ASSETS AND LIABILITIES		
NET ASSETS		
Invested in capital assets, net of related debt	$ 145,158	$ 144,257
Restricted for capital projects	1,309	
Restricted for debt service	3,894	4,210
Unrestricted	58,236	58,291
TOTAL NET ASSETS	208,597	206,758
LIABILITIES		
LONG-TERM OBLIGATIONS-excluding amounts due within one year		
Revenue bonds	230,690	240,005
Accrued wages and benefits	513	560
TOTAL LONG-TERM OBLIGATIONS	231,203	240,565
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	11,640	10,495
Accounts payable	8,598	9,544
Current payable from restricted assets	1,930	1,271
Due to other City of Cleveland departments, divisions or funds	4,922	5,164
Accrued interest payable	7,246	5,543
Current portion of accrued wages and benefits	3,635	3,781
Other accrued expenses	420	452
Customer deposits and other liabilities	1,092	1,052
TOTAL CURRENT LIABILITIES	39,483	37,302
TOTAL LIABILITIES	270,686	277,867
TOTAL NET ASSETS AND LIABILITIES	$ 479,283	$ 484,625

See notes to financial statements. (Concluded)

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CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2011 and 2010

	(In thousands)	
	2011	**2010**
OPERATING REVENUES		
Charges for services	$ 168,448	$ 166,665
TOTAL OPERATING REVENUES	168,448	166,665
OPERATING EXPENSES		
Purchased power	90,514	94,619
Operations	29,542	24,199
Maintenance	19,896	19,212
Depreciation	16,576	16,191
TOTAL OPERATING EXPENSES	156,528	154,221
OPERATING INCOME (LOSS)	11,920	12,444
NON-OPERATING REVENUE (EXPENSE)		
Investment income	151	96
Interest expense	(11,170)	(10,966)
Amortization of bond issuance costs and discounts	(226)	(739)
Other	1,006	1,223
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	(10,239)	(10,386)
INCOME (LOSS) BEFORE OTHER CONTRIBUTIONS	1,681	2,058
Capital and other contributions	158	1,021
INCREASE (DECREASE) IN NET ASSETS	1,839	3,079
NET ASSETS, BEGINNING OF YEAR	206,758	203,679
NET ASSETS, END OF YEAR	$ 208,597	$ 206,758

See notes to financial statements.

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011 and 2010

	(In thousands) 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 172,078	$ 166,981
Cash payments to suppliers for goods or services	(20,615)	(15,862)
Cash payments to employees for services	(24,018)	(21,825)
Cash payments for purchased power	(90,960)	(95,227)
Electric excise tax payments to agency fund	(5,334)	(5,205)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	31,151	28,862
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grants	158	1,021
Other	689	1,136
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	847	2,157
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds		27,243
Acquisition and construction of capital assets	(9,618)	(20,343)
Principal paid on long-term debt	(10,495)	(8,045)
Interest paid on long-term debt	(10,573)	(10,456)
Cash paid to escrow agent for refunding		(27,081)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(30,686)	(38,682)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(5,019)	(8,572)
Proceeds from sale and maturity of investment securities	3,572	8,163
Interest received on investments	123	106
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(1,324)	(303)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12)	(7,966)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	115,359	123,325
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 115,347	$ 115,359

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2011 and 2010

	(In thousands) 2011	2010
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$ 11,920	$ 12,444
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	16,576	16,191
Changes in assets and liabilities:		
Accounts receivable, net	3,600	15
Unbilled revenue	412	(195)
Due from other City of Cleveland departments, divisions or funds	(53)	47
Materials and supplies, net	46	(471)
Prepaid expenses	23	(7)
Accounts payable	(946)	618
Due to other City of Cleveland departments, divisions or funds	(242)	777
Accrued wages and benefits	(193)	(552)
Other accrued expenses	(32)	(15)
Customer deposits and other liabilities	40	10
TOTAL ADJUSTMENTS	19,231	16,418
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 31,151	$ 28,862

See notes to financial statements. (Concluded)

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Division of Cleveland Public Power (the Division) is reported as an Enterprise Fund of the City of Cleveland's (the City) Department of Public Utilities and is a part of the City's primary government. The Division was created for the purpose of supplying electrical services to customers within 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 June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for the year ended December 31, 2010. The City has determined that GASB Statement No. 51 has no impact on its financial statements as of December 31, 2011. GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* was issued in June 2008. The City has determined that GASB Statement No. 53 has no impact on its financial statements as of December 31, 2011.

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

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

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

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

Revenues: Revenues are derived primarily from sales of electricity to residential, commercial and industrial customers based upon actual consumption. Electricity rates are authorized by City Council and billings are made on a cyclical basis. Estimates for services between the end of the various cycles and the end of the year are recorded as unbilled revenue.

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 a 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 maturity of three months or less when purchased and include certificates of deposit, U.S. Treasury Bills, State Treasury Asset Reserve of Ohio (STAROhio), commercial paper, mutual funds and repurchase agreements. The City's policy is to enter into repurchase agreements with local commercial banks and to obtain confirmation of securities pledged.

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. The fair value is based on quoted market prices.

The City has invested funds in STAROhio during fiscal year 2011 and 2010. 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, 2011 and 2010.

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

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, 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:

Utility plant	5 to 100 years
Land improvements	15 to 100 years
Buildings, structures and improvements	5 to 60 years
Furniture, fixtures, equipment and vehicles	3 to 60 years

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Division's policy is to capitalize interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest is included in the cost of the assets and is depreciated on the straight-line basis over the estimated useful lives of such assets. The Division applies FASB guidance pertaining to capitalization of interest cost for its revenue bonds. This guidance requires capitalization of interest cost of eligible borrowings less interest earned on investment of the related bond proceeds from the date of borrowing until the assets constructed from the bond proceeds are ready for their intended use.

For 2011 and 2010 total interest costs incurred amounted to $14,715,000 and $14,429,000 respectively, of which $3,533,000 and $3,452,000, respectively, was capitalized, net of interest income of $12,000 in 2011 and $11,000 in 2010.

Bond Issuance Costs, Discounts and Unamortized Losses on Debt Refundings: 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 losses on debt refundings are netted against long-term debt and are amortized over the shorter of the remaining life of the defeased bond or the newly issued bond.

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 out 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 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 base salary rate, with the balance being forfeited.

NOTE B - DEBT AND OTHER LONG-TERM OBLIGATIONS

Long-term debt outstanding at December 31, 2011 and 2010 is as follows:

	Interest Rate	Original Issuance	2011	2010
			(In thousands)	
Revenue Bonds:				
Series 1994 A, due through 2013	Zero Coupon	$ 219,105	$ 14,650	$ 21,185
Series 1996, due through 2011	6.00%	123,720		1,050
Series 2001, due through 2016	4.25%-5.50%	41,925	15,980	18,890
Series 2006 A-1, due through 2024	4.25%-5.00%	95,265	95,265	95,265
Series 2006 A-2, due through 2017	5.00%	12,295	12,295	12,295
Series 2008 A, due through 2024	4.00%-4.50%	21,105	21,105	21,105
Series 2008 B-1, due through 2038	3.00%-5.00%	44,705	44,705	44,705
Series 2008 B-2, due through 2038	5.13%-5.40%	27,903	27,903	27,903
Series 2010 , due through 2017	3.00%-5.00%	23,915	23,915	23,915
		$ 609,938	255,818	266,313
Less:				
Unamortized discount-zero coupon bonds			(2,612)	(3,534)
Unamortized premium-current interest bonds (net)			4,764	5,800
Unamortized loss on debt refunding			(15,640)	(18,079)
Current portion			(11,640)	(10,495)
Total Long-Term Debt			$ 230,690	$ 240,005

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

Summary: Changes in long-term obligations for the year ended December 31, 2011 are as follows:

	Balance January 1, 2011	Increase	Decrease	Balance December 31, 2011	Due Within One Year
			(In thousands)		
Revenue Bonds:					
Series 1994 A, due through 2013	$ 21,185	$	$ (6,535)	$ 14,650	$ 7,325
Series 1996, due through 2011	1,050		(1,050)	-	
Series 2001, due through 2016	18,890		(2,910)	15,980	3,405
Series 2006 A-1, due through 2024	95,265			95,265	
Series 2006 A-2, due through 2017	12,295			12,295	
Series 2008 A, due through 2024	21,105			21,105	
Series 2008 B-1, due through 2038	44,705			44,705	910
Series 2008 B-2, due through 2038	27,903			27,903	
Series 2010, due through 2017	23,915			23,915	
Total revenue bonds	266,313	-	(10,495)	255,818	11,640
Accrued wages and benefits	4,341	3,588	(3,781)	4,148	3,635
Total	$ 270,654	$ 3,588	$ (14,276)	$ 259,966	$ 15,275

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2011 and 2010

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

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

	Balance January 1, 2010	Increase	Decrease	Balance December 31, 2010	Due Within One Year
			(In thousands)		
Revenue Bonds:					
Series 1994 A, due through 2013	$ 25,095	$	$ (3,910)	$ 21,185	$ 6,535
Series 1996, due through 2011	2,045		(995)	1,050	1,050
Series 1998, due through 2017	26,425		(26,425)	-	
Series 2001, due through 2016	22,030		(3,140)	18,890	2,910
Series 2006 A-1, due through 2024	95,265			95,265	
Series 2006 A-2, due through 2017	12,295			12,295	
Series 2008 A, due through 2024	21,105			21,105	
Series 2008 B-1, due through 2038	44,705			44,705	
Series 2008 B-2, due through 2038	27,903			27,903	
Series 2010 , due through 2017		23,915		23,915	
Total revenue bonds	276,868	23,915	(34,470)	266,313	10,495
Accrued wages and benefits	4,893	3,667	(4,219)	4,341	3,781
Total	$ 281,761	$ 27,582	$ (38,689)	$ 270,654	$ 14,276

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

	Principal	Interest	Total
		(In thousands)	
2012	$ 11,640	$ 10,386	$ 22,026
2013	12,290	10,188	22,478
2014	12,895	9,943	22,838
2015	12,930	9,289	22,219
2016	13,670	8,632	22,302
2017 - 2021	78,645	32,716	111,361
2022 - 2026	64,771	21,164	85,935
2027 - 2031	20,415	29,050	49,465
2032 - 2036	20,207	29,263	49,470
2037 - 2038	8,355	11,434	19,789
Total	$ 255,818	$ 172,065	$ 427,883

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

The City has pledged future power system revenues, net of specified operating expenses, to repay \$255,818,000 in various Public Power System Revenue Bonds issued in various years since 1994. Proceeds from the bonds provided financing for Public Power System improvements. The bonds are payable from Public Power System net revenues and are payable through 2038. Annual principal and interest payments on the bonds are expected to require less than 72 percent of net revenues. The total principal and interest remaining to be paid on the various Power System Revenue Bonds is \$427,883,000. Principal and interest paid for the current year and total net revenues were \$21,068,000 and \$28,647,000, respectively.

On September 8, 2010, the City issued \$23,915,000 of Public Power System Revenue Bonds, Series 2010. Proceeds of these bonds were used to refund all of the outstanding \$26,425,000 Public Power System Bonds, Series 1998. Net proceeds of the Series 2010 Bonds in the amount of \$27,081,033 were placed in an irrevocable escrow account to pay the principal and interest on the refunded 1998 Bonds on October 8, 2010. As a result, the refunded bonds were defeased and the liability for these bonds has been removed from long-term debt. The City completed the refunding in order to achieve debt service savings of approximately \$3,138,000 or an economic gain (the difference between the present values of the old and new debt service payments) of approximately \$3,055,000.

The City entered into a basis swap on a portion of the Series 2006A-1 Bonds when the bonds were issued.

***Interest Rate Swap Transaction*:**

Terms: Simultaneously with the issuance of the City's \$95,265,000 Public Power System Refunding Revenue Bonds, Series 2006A-1, on August 17, 2006, the City entered into a floating-to-floating rate basis swap agreement on an initial notional amount of \$70,455,000 which was equal to a portion of the total declining balance of the Series 2006A-1 Bonds. Lehman Brothers Special Financing, Inc. (Lehman Brothers) was the counterparty on the transaction. Under the swap agreement for the Series 2006A-1 Bonds, the City paid the counterparty a floating rate based on the Securities Industry and Financial Markets Association (SIFMA) index. The counterparty was also a floating rate payor, paying the City 67% of three month LIBOR plus a spread of 46.25 basis points. Net payments were exchanged quarterly on each February 15, May 15, August 15 and November 15. The obligation of the City to make periodic payments (but not any termination payment) was secured by a pledge of and lien on the net revenues of the Public Power System 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. The actual overall savings to be realized by the Public Power System was dependent upon the net payments received under the swap agreement.

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

Basis Risk: By entering into a swap based upon the three month LIBOR rate of interest, the City undertook basis risk associated with a change in tax rates and structure. While the average relationship between SIFMA (tax-exempt) and LIBOR (taxable) interest rates has been 67%, this relationship may not always apply. As a result of the turmoil in the financial markets since 2008, the SIFMA/LIBOR ratio has been significantly higher than 67% for extended periods. The payments received from the counterparty could have been less than the amount owed to the counterparty, resulting in an increase in debt service over the fixed rate on the bonds. A reduction in federal income tax rates might also have increased the percentage relationship between SIFMA and LIBOR and may have potentially increased the cost of the financing.

Counterparty Risk: The City selected a highly rated counterparty in order to minimize this risk. However, in September 2008, Lehman Brothers filed for Chapter 11 bankruptcy protection. This event did not trigger an automatic termination which would have required a payment on the part of the City. Throughout 2009 and part of 2010, at the City's option, Lehman Brothers and the City were negotiating either the assignment of the swap to another highly rated counterparty or the termination of the swap.

Termination Risk: The swap agreement may have been terminated prior to its stated termination date under certain circumstances. Upon termination, a payment may have been owed by the Division to Lehman Brothers or by Lehman Brothers to the Division, depending upon the prevailing economic circumstances at the time of the termination.

On September 15, 2008, Lehman Brothers instituted bankruptcy proceedings. Under the hedge agreement, the City had the right to terminate the swap. The City chose to exercise its right to terminate. After more than a year of negotiations with the Lehman bankruptcy estate, the City and Lehman Brothers consensually agreed to terminate the swap on April 6, 2010. No payments were exchanged as part of the termination and the City agreed to withdraw its claim on the bankruptcy estate.

Fair Value: As stated above, the swap was terminated effective April 6, 2010, with no payment required by either party.

The Division has defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Division's financial statements. The division has no defeased debt outstanding at December 31, 2011.

Revenue bonds are payable from the revenues derived from operations of the Public Power System, after the payment of all operating and maintenance expenses (net revenues). The bonds are collateralized by a pledge of and lien on such net revenues and the special funds described below.

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

The indenture requires that, at all times, the Division will charge rates and fees for the products and services of the Public Power System. Revenues will be at least sufficient to provide funds for the payment in each year of the necessary operating and maintenance expenses of the power system and in an amount equal to 1.25 times the payments of principal and interest on the revenue bonds then outstanding and due in that year. As of December 31, 2011 and 2010, the Division was in compliance with the terms and requirements of the bond indenture. The indenture establishes the following fund accounts for the application of revenues:

Revenue Fund**:** All revenues will be deposited into this fund and will be used for payment of current operating expenses and deposits into other funds.

Debt Service Fund**:** Monthly deposits will be made from the revenue fund to cover succeeding principal and interest payments as they become due on the revenue bonds.

Debt Service Reserve Fund**:** Deposits will be made to this fund if the amount in the debt service fund at any time is less than the debt service reserve requirement. However, the Division has elected, pursuant to provisions of the indenture governing the Division's bonds, to satisfy the bond reserve requirement with a surety bond in an aggregate amount at least equal to the bond reserve requirement.

Renewal and Replacement Fund**:** The balance in this fund is maintained at $1,000,000 and is to be applied against the cost of repair or replacement of capital assets in order to maintain the system.

Construction Fund**:** The proceeds from Series 1991, Series 1994 and Series 2008 Bonds of $12,050,000, $79,386,000, and $72,608,000, respectively, were deposited into this fund to be used, along with earnings from investments of amounts held therein, for the payment of capital costs. As of December 31, 2011 and 2010, the Division had $47,456,000 and $25,689,000, respectively, of outstanding commitments for future constructions that will be funded by available bond proceeds and operating revenue. Capital costs include all costs of additions, extensions, renewals, replacements, alterations, betterments and any other capital improvements to the system. Amounts held in this fund are subject to a lien in favor of bondholders and may be used to pay principal of outstanding bonds to the extent that amounts in all other funds are insufficient. No payment needs to be made into a fund if the amounts in such fund are equal to the required fund balance, if any.

Amounts held in trust may be invested by the City Treasurer or the trustee in permitted investments. However, the use of funds is limited by the bond indenture and, accordingly, the amounts are classified as restricted assets in the financial statements.

NOTE C - DEPOSITS AND INVESTMENTS

Deposits: At December 31, 2011 and 2010, the Division’s carrying amount of deposits totaled $17,695,000 and $7,169,000, respectively, and the Division’s bank balances totaled $18,132,000 and $7,905,000, respectively. The differences represent positions in pooled bank accounts and normal reconciling items. These amounts were insured or collateralized with securities held by the City or by its agent in the City’s name.

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

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.

Under City policy, investments are limited to repurchase agreements, U.S. Government securities, certificates of deposit, commercial paper, 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 the portfolio value.

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Division will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The Division does not have an investment policy dealing with investment custodial credit risk beyond the requirement in the State statute.

Credit Risk: The Division's investments as of December 31, 2011 and 2010 include U.S. Agency Obligations, U.S. Treasury Bills, STAROhio, commercial paper and mutual funds. The U.S. Agency Obligations and U.S. Treasury Bills are rated AA+ by Standard and Poor's (S&P). Investments in both STAROhio and mutual funds carry a rating of AAAm, which is the highest money market fund rating given by S&P. The investment in commercial paper is rated A-1 by S&P.

Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Division has no investment policy that would further limit its investment choices.

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk: The Division places a limitation on the amount it may invest in any one issuer to help minimize the concentration of credit risk. The Division had the following investments at December 31, 2011 and 2010, which include those classified as cash and cash equivalents in the balance sheet in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

Type of Investment	2011 Fair Value	2011 Cost	2010 Fair Value	2010 Cost	Investment Maturities Less than One Year
			(In thousands)		
U.S. Agency Obligations	$ 5,059	$ 5,019	$	$	$ 5,059
U.S. Treasury Bills			3,572	3,571	
STAROhio	38,322	38,322	48,461	48,461	38,322
Commercial Paper	1,131	1,131			1,131
Investment in Mutual Funds	58,199	58,199	59,729	59,729	58,199
Total Investments	102,711	102,671	111,762	111,761	102,711
Total Deposits	17,695	17,695	7,169	7,169	17,695
Total Deposits and Investments	$ 120,406	$ 120,366	$ 118,931	$ 118,930	$ 120,406

As of December 31, 2011, the investments in U.S. Agency Obligations, STAROhio, commercial paper and mutual funds are approximately 5%, 37%, 1% and 57%, respectively, of the Division's total investments. As of December 31, 2010, the investments in U.S. Treasury Bills, STAROhio and mutual funds are approximately 3%, 43% and 54%, respectively, of the Division's total investments.

NOTE D - CAPITAL ASSETS

Capital Asset Activity: Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance January 1, 2011	Additions	Reductions	Balance December 31, 2011
	(In thousands)			
Capital assets, not being depreciated:				
Land	$ 4,863	$	$	$ 4,863
Construction in progress	42,642	14,132	(4,725)	52,049
Total capital assets, not being depreciated	47,505	14,132	(4,725)	56,912
Capital assets, being depreciated:				
Land improvements	305			305
Utility plant	472,178	1,743		473,921
Buildings, structures and improvements	18,699	1,381		20,080
Furniture, fixtures, equipment and vehicles	78,502	1,602	(108)	79,996
Total capital assets, being depreciated	569,684	4,726	(108)	574,302
Less: Accumulated depreciation	(282,694)	(16,576)	108	(299,162)
Total capital assets being depreciated, net	286,990	(11,850)	-	275,140
Capital assets, net	$ 334,495	$ 2,282	$ (4,725)	$ 332,052

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NOTE D - CAPITAL ASSETS (Continued)

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

	Balance January 1, 2010	Recategorization *	Additions	Reductions	Balance December 31, 2010
			(In thousands)		
Capital assets, not being depreciated:					
Land	$ 4,875	$ (12)	$	$	$ 4,863
Construction in progress	28,759		24,226	(10,343)	42,642
Total capital assets, not being depreciated	33,634	(12)	24,226	(10,343)	47,505
Capital assets, being depreciated:					
Land improvements	2,759	(2,454)			305
Utility plant	466,242	(129)	6,065		472,178
Buildings, structures and improvements	43,335	(24,636)			18,699
Furniture, fixtures, equipment and vehicles	46,781	27,231	4,512	(22)	78,502
Total capital assets, being depreciated	559,117	12	10,577	(22)	569,684
Less: Accumulated depreciation	(266,526)		(16,191)	23	(282,694)
Total capital assets being depreciated, net	292,591	12	(5,614)	1	286,990
Capital assets, net	$ 326,225	$ -	$ 18,612	$ (10,342)	$ 334,495

* Some Capital Assets were moved to more exact categories when assets were entered into the City's new Advantage Accounting System as of January 1, 2010.

Commitments: The Division has outstanding commitments of approximately $51,775,000 and $38,954,000 for future capital expenditures at December 31, 2011 and 2010, respectively. It is anticipated that these commitments will be financed from the Division's cash balances; however, at the discretion of the Division, additional long-term debt may be issued in the future to finance a portion of the costs.

NOTE E - DEFINED BENEFIT PENSION PLAN

***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, 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 2011, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2011, 2010 and 2009. The employer contribution rates were 14.00% of covered payroll in 2011, 2010 and 2009.

The Division's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2011, 2010 and 2009 were $2,012,000, $1,939,000 and $1,789,000 each year, respectively. The required payments due in 2011, 2010 and 2009 have been made.

NOTE F - OTHER POST-EMPLOYMENT 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 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, 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 2011, 2010 and 2009. 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 4.00% for members of the Traditional Plan in 2011, 6.05% for members of the Combined Plan in 2011, 5.50% from January 1, 2010 through February 28, 2010 and 5.00% from March 1, 2010 through December 31, 2010 and 7.00% from January 1, 2009 through March 31, 2009 and 5.50% from April 1, 2009 through December 31, 2009. The portion of employer contributions allocated to health care beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during 2012. 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 $804,000 in 2011, $1,105,000 in 2010 and $1,294,000 in 2009.

NOTE F - OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT

Contingent Liabilities: In November 2009, participants in the American Municipal Power Generating Station (AMP) voted to terminate development of the 1,000 MW coal-fired generating station that was to be located on the Ohio River in Meigs County, Ohio. The Division was one of 81 member participants in the project and had committed to receive an 80 MW share of the project's output.

The Division and the other members participated in the project through "take or pay" contracts with AMP and are obligated to pay for the project's sunk costs based on each member's allocation. The Division's share of the incurred project costs is $13,084,418. AMP anticipates that any such costs that are not recovered through participation in a replacement project will be financed by AMP and recovered from the AMP participants over a period of time yet to be determined. AMP has rolled over a portion of the Meigs County facility cost into the Fremont Energy Center (Fremont), a new natural gas generating station that AMP purchased in July 2011. AMP has provided the Division a Development Cost Credit of $6,281,769. These credits cut the Division's risk of loss in half. None of these credits have been recorded in the Division's financial statements through December 31, 2011.

Cleveland City Council passed legislation in 2011 allowing the Division to pass through 50% of the costs to customers in their monthly electricity bills over time. Through this legislation, the Division will purchase power from the Fremont project, pay about half of its allocable share in AMP costs as power costs purchased from Fremont and include the costs in bills to customers over time. The legislation directs the Division to pay its remaining share of the costs due to AMP, estimated at $3,401,325, from operating funds over a period of time yet to be determined.

The Division has not paid any monies to AMP towards the project's sunk costs. Furthermore, the Division has not reported the stranded costs in the financial statements as the Division's communication received from AMP to date is that the actual amount of incurred costs that are not recoverable from the vendor is undeterminable.

In addition, 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 carries insurance to cover particular liabilities and property protection. Otherwise, the Division is generally self-insured. No material losses, including incurred but not reported losses, occurred in 2011 or 2010. There were no significant decreases in any insurance coverage in 2011. In addition, there were no insurance settlements in excess of insurance coverage during the past three years.

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

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's workers' compensation retrospective rating program.

In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs) and other economic and social factors.

The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses, regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Claims liability for the Division is reported as part of accounts payable on the balance sheet and is immaterial.

NOTE H - RELATED PARTY TRANSACTIONS

Revenues and Accounts Receivable: The Division provides services to the City, including its various departments and divisions. The usual and customary rates are charged to all City departments and divisions.

Operating Expenses: The Division is provided various intra-city services. Charges are based on actual use or on a reasonable pro-rata basis. The more significant costs for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
	(In thousands)	
City Administration	$ 1,054	$ 1,119
Telephone Exchange	565	604
Division of Water	427	334
Utilities Administration and Fiscal Control	871	780
Motor Vehicle Maintenance	630	367

NOTE I - CUYAHOGA COUNTY REAL PROPERTY TAXES

The Division is required by ordinance to keep records of the estimated property taxes which would be payable to Cuyahoga County were it subject to such taxes. The estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately $746,000 and $1,159,000 for the years ended December 31, 2011 and 2010, respectively.

NOTE J - KILOWATT PER HOUR TAX

In May 2001, the Division started billing its customers the electric deregulation kilowatt-hour tax according to the laws of the State of Ohio. This law requires the Division to remit the proceeds to the City's General Fund, except for any proceeds attributable to sales outside the City which are remitted to the State of Ohio. The Division billed $5,308,000 and $5,221,000 for this tax in 2011 and in 2010 respectively, of which $5,131 and $5,372 was remitted to the State. As noted previously, City Council passed Ordinance No. 1768-07, which required the General Fund to remit 50% of the proceeds back to the Division in 2008. However, City Council subsequently passed Ordinance No. 1248-09, which allocated 100% of the proceeds to the General Fund in 2009 and 2010. In accordance to Ordinance No. 1560-10 passed in November 2010, the General Fund retained 100% of the tax remittance during calendar year 2011 and will also retain 100% during 2012.

NOTE K – INCREMENTAL CHARGES

In 2000, Cleveland City Council passed Ordinance No. 910-98, which increased rates to CPP customers. The rate increase was originally scheduled to expire December 31, 2005, but was extended through legislation several times, most recently to June 30, 2012. The legislation originally restricted the use of the rate increase proceeds to the payment of bonded indebtedness. In recent years, City Council authorized additional uses and in December 2005, Council removed the restriction related to bond indebtedness. The Division retained a rates consultant in 2011 to support the Division's request to make the incremental charge permanent. The incremental charges billed were $13,670,000 and $13,125,000 in 2011 and 2010, respectively.

NOTE L – SEAMS ELIMINATION COST ADJUSTMENT (SECA) PAYMENTS

Between December 2004 and March 2006, the Division was required by the FERC to pay SECA payments totaling $10,800,000. The payments arose from a transmission restructuring effort aimed at reducing transmission costs by allowing users such as Cleveland Public Power to pay a single rate for transmission across a regional system consisting of multiple utilities. These payments, made subject to refund and the outcome of litigation proceedings, were intended as a temporary replacement for revenues previously received by transmission owners in neighboring regional systems for transmission access across their systems.

Through December 31, 2011, the Division received $5,655,000 as reimbursements for SECA payments. The Division is also pursuing an additional reimbursement of $1,600,000 from MISO TOs and another $1,200,000 from BG&E and PJM, which they are contesting.

The FERC has issued a SECA order requiring compliance filing that the Division did, but so far it has not acted on the compliance filings. There have been appeals of the SECA orders and the parties involved have been negotiating the briefing schedule.

NOTE M – SUBSEQUENT EVENT

Effective February 24, 2012, the City issued $15,325,000 Public Power System Revenue Bonds, Series 2012. Proceeds of these bonds were used to refund all of the outstanding $15,980,000 Public Power System Bonds, Series 2001. Net proceeds of the Series 2012 Bonds and amounts on deposit in the 2001 bond fund in the total amount of $16,293,627 were placed in an irrevocable escrow account to pay the principal and interest on the refunded 2001 Bonds on March 26, 2012. The City completed the refunding in order to achieve debt service savings of approximately $1,169,000 or an economic gain (the difference between the present values of the old and new debt service payments) of approximately $1,148,000 or 7.2%. These bonds were purchased by Wells Fargo at a fixed rate of 2% and were not resold in a public offering.

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CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER

REPORT ON AUDITS OF FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER

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INDEPENDENT AUDITORS' REPORT

To the Honorable Frank G. Jackson, Mayor, Members of Council and the Audit Committee
Division of Water
Department of Public Utilities
City of Cleveland, Ohio:

We have audited the accompanying basic financial statements of the Division of Water, Department of Public Utilities, City of Cleveland, Ohio (the Division) as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to 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 described in Note A, the financial statements present only the financial position and the changes in financial position and cash flows of the Division and do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2011 and 2010, and the respective changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United State of America

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Division of Water, Department of Public Utilities, City of Cleveland, Ohio as of December 31, 2011 and 2010, 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.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15 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 25, 2012

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the City) Department of Public Utilities, Division of Water (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, 2011 and 2010. Please read this information in conjunction with the Division's financial statements and footnotes that begin on page 17.

The Division was created in 1853 and charged with the responsibility of collecting, treating, pumping and distributing potable water and providing related water service to customers within its service areas. The Division operates a major public water supply system, the ninth largest in the United States based on the number of accounts served within the City and 69 suburban municipalities in Cuyahoga, Medina, Summit and Geauga counties. The Division is an emergency standby provider for systems in three other counties. The present service area covers over 640 square miles and serves over 1.5 million people. In 2011, the aggregate metered consumption of water in the City constituted 32% of the total metered consumption in the service area, while consumption in the direct service communities and master meter communities constituted 57% and 11%, respectively.

The Division services the City of Cleveland and 69 other surrounding suburbs including six master meter suburbs. In addition to selling water directly to customers the Division is also the emergency standby provider for systems in eight municipalities which span three counties. They provide water to 414,006 city and suburban accounts in the Cleveland metropolitan area. They also sell water for resale to master meter municipalities that operate their own distribution systems, and provide billing and payment services for the Northeast Ohio Regional Sewer District and other sewer municipalities. During 2011, the Division provided services to approximately 123,554 accounts located within Cleveland and approximately 290,452 accounts located in direct service municipalities. Water provided to each master meter municipality is metered at each municipality's boundary. Consumers within the City of Cleveland accounted for 21% of the Division's metered sales revenue, while the direct service and master meter municipalities accounted for 69% and 10% of metered sales revenue, respectively.

The Division, along with Division of Utilities Fiscal Control, provides a complete array of processing services including billing, processing payments, mailing delinquency notices, terminating water service on delinquent accounts and distributing the money collected to the municipalities. The Division processes approximately 5,000 payments daily, which include payments for water, water and sewer, waste collection fee, final notices and delinquent notices.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities (net assets) by $1,032,782,000, $1,022,666,000 and $1,006,836,000 at December 31, 2011, 2010 and 2009, respectively. Of these amounts, $204,911,000, $207,491,000 and $225,340,000 (unrestricted net assets) at December 31, 2011, 2010 and 2009, respectively, may be used to meet the Division's ongoing obligations to customers and creditors.

FINANCIAL HIGHLIGHTS (Continued)

- In 2011, the operating revenues of the Division decreased by $644,000. In 2010, the operating revenues of the Division increased by $9,035,000.

- In 2011 the Division had an increase in water pumpage of 0.2%. The major users of water consumption were ISG-Cleveland, Cuyahoga Metropolitan Housing Authority, Nestle Inc., Alcoa Inc., Cleveland Clinic Foundation, Pepsi Inc., North East Ohio Regional Sewer District and NASA Lewis Research Center. In 2010 the Division had an increase in water pumpage of 2.1%. The major users of water consumption were Forest City, ISG-Cleveland, Ford Motor Company, Aurora Commerce, Cuyahoga Metropolitan Housing Authority, Cleveland Clinic Foundation, NASA Lewis Research Center, Alcoa Inc. and North East Ohio Regional Sewer District.

- The Division's overall net assets increased by $10,116,000, $15,830,000 and $10,544,000 in 2011, 2010 and 2009, respectively.

- The Division had increases in capital assets, net of accumulated depreciation, of $26,134,000, $53,749,000 and $54,920,000 in 2011, 2010 and 2009, respectively. The major additions during these years were related to the continuing renovation projects at the Morgan, Baldwin and Nottingham sites.

- The total long-term debt of the Division decreased $62,551,000 in 2011. This decrease is attributed to $43,407,000 of debt retired and $101,800,000 of debt defeased, which was offset by the issuance of $82,090,000 of revenue bonds and receipt of one Ohio Water Development Authority loan totaling $566,000. The total long-term debt of the Division decreased $26,867,000 in 2010. This decrease is attributed to $36,528,000 of debt retired and $90,500,000 of debt defeased, which was offset by the issuance of $81,430,000 of revenue bonds and receipts on two Ohio Water Development Authority loans totaling $18,731,000.

- In July 2011 the Division issued $50,000,000 of Water Revenue Subordinated, Series 2011 Lien Notes in order to refund notes issued in 2010 to fund a portion of the automated meter reading program.

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's Division of Water Fund, in which the City accounts for the operations of the Department of Public Utilities Division of Water.

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.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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

The basic financial statements of the Division can be found on pages 17 - 22 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 financial statements can be found on pages 23 - 44 of this report.

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Division as of December 31, 2011, 2010 and 2009:

	2011	2010	2009
		(In thousands)	
Assets:			
Capital assets, net	$ 1,495,692	$ 1,469,558	$ 1,415,809
Restricted assets	171,598	240,993	238,324
Unamortized bond issuance costs	4,517	4,911	5,612
Deferred outflows of resources	27,955	17,664	13,077
Current assets	271,720	276,285	291,679
Total assets	1,971,482	2,009,411	1,964,501
Net Assets and Liabilities:			
Net Assets:			
Invested in capital assets, net of related debt	734,270	713,285	682,816
Restricted for debt service	93,601	101,890	98,680
Unrestricted	204,911	207,491	225,340
Total net assets	1,032,782	1,022,666	1,006,836
Liabilities:			
Long-term obligations	765,540	819,238	852,303
Derivative instruments - interest rate swaps	27,955	17,664	13,077
Current liabilities	145,205	149,843	92,285
Total liabilities	938,700	986,745	957,665
Total net assets and liabilities	$ 1,971,482	$ 2,009,411	$ 1,964,501

CONDENSED BALANCE SHEET INFORMATION (Continued)

Total Assets: The Division's investment in capital assets as of December 31, 2011 amounted to $1,495,692,000 (net of accumulated depreciation) which is an increase of $26,134,000. The Division's plant enhancements continue to be the primary reason for the increase in capital assets. Utility plant had additions of $112,795,000, buildings, structures and improvements had additions $1,437,000 and furniture, fixtures, equipment and vehicles had additions of $5,709,000. Also, construction in progress decreased by $35,012,000 due to the completion of several major projects: Kirtland Pump Station Rehab, Fairmount Pump Station Rehab, Morgan Pretreatment and Residuals, Water Tank Rehabilitation and Water and Aurora Road Water Main Improvement, offset by several ongoing major projects: Meter Automation and Replacement Program Warehouse Improvements Phase 1 and 2, Crown Water Plant Improvements, Suburban Water Main Renewal, Morgan Chemical Facility Improvements, plant enhancement program improvements.

The Division's investment in capital assets as of December 31, 2010 amounted to $1,469,558,000 (net of accumulated depreciation) which is an increase of $53,749,000. The Division's plant enhancements continue to be the primary reason for the increase in capital assets. Utility plant had additions of $121,556,000, buildings, structures and improvements had additions $1,018,000 and furniture, fixtures, equipment and vehicles had additions of $7,490,000. Also, construction in progress decreased by $20,600,000 due to the completion of several major projects: Baldwin Chemical Project, Voice and Data Project, Morgan East Reservoir Project and Water Main Rehab 2008, offset by several ongoing major projects: Morgan filter improvements, Fairmount pump improvements, Kirtland pump improvements, plant enhancement program improvements and Baldwin plant improvements.

The decrease in restricted assets of $69,395,000 as of December 31, 2011 is mainly attributed to decreased cash balances in the debt service fund and restricted funds for revenue bonds Notes K, N, O and T.

The increase in restricted assets of $2,669,000 as of December 31, 2010 is mainly attributed to increased cash balances in the debt service fund.

The deferred outflow of resources related to the Division's interest rate swap agreements increased from $17,664,000 in 2010 to $27,955,000 million in 2011. The fair value of the swaps is determined by the taxable LIBOR rate as of December 31, 2011.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Capital Assets: The Division's investment in capital assets, as of December 31, 2011 amounted to $1,495,692,000 (net of accumulated depreciation). The total increase in the Division's investment in net capital assets for the current year was approximately 1.8%. The Division's investment in capital assets, as of December 31, 2010 amounted to $1,469,558,000 (net of accumulated depreciation). The total increase in the Division's investment in net capital assets for 2010 was approximately 3.8%. A summary of the activity in the Division's capital assets during the years ended December 31, 2011 and 2010 is as follows:

	Balance January 1, 2011	Additions	Reductions	Balance December 31, 2011
	(In thousands)			
Land	$ 5,463	$	$	$ 5,463
Land improvements	16,549			16,549
Utility plant	1,002,569	112,795	(247)	1,115,117
Buildings, structures and improvements	219,953	1,437	(17)	221,373
Furniture, fixtures, equipment and vehicles	565,014	5,709	(4,044)	566,679
Construction in progress	310,919	84,929	(119,941)	275,907
Total	2,120,467	204,870	(124,249)	2,201,088
Less: Accumulated depreciation	(650,909)	(58,795)	4,308	(705,396)
Capital assets, net	$ 1,469,558	$ 146,075	$ (119,941)	$ 1,495,692

	Balance January 1, 2010	Recategor-izations *	Additions	Reductions	Balance December 31, 2010
	(In thousands)				
Land	$ 5,463	$	$	$	$ 5,463
Land improvements	17,061	(512)			16,549
Utility plant	1,152,834	(271,821)	121,556		1,002,569
Buildings, structures and improvements	218,420	515	1,018		219,953
Furniture, fixtures, equipment and vehicles	285,706	271,818	7,490		565,014
Construction in progress	331,519		108,712	(129,312)	310,919
Total	2,011,003	-	238,776	(129,312)	2,120,467
Less: Accumulated depreciation	(595,194)		(55,715)		(650,909)
Capital assets, net	$ 1,415,809	$ -	$ 183,061	$ (129,312)	$ 1,469,558

* Some Capital Assets were moved to more exact categories when assets were entered into the City's new Advantage Accounting System as of January 1, 2010.

CONDENSED BALANCE SHEET INFORMATION (Continued)

Major events during 2011 affecting the Division's capital assets included the following:

- The construction, renovations, and plant enhancements on the Morgan, Baldwin and Nottingham facilities, the rehabilitation of the Fairmount and Kirtland pump stations and the rehabilitation of water mains and water tanks amounted to $135,070,000. The major programs totaling $124,645,000 are: Security Enhancements Program, Plant Enhancement Program, Pump Station Enhancement Program, Water Tank Rehabilitation, Meter Automation and Replacement and the purchase of office equipment and vehicles. Other smaller programs, such as the Electrical Power Reliability program comprises the remaining $10,425,000.

Major events during 2010 affecting the Division's capital assets included the following:

- The construction, renovations, and plant enhancements on the Morgan, Baldwin and Nottingham facilities, the rehabilitation of the Fairmount and Kirtland pump stations and the rehabilitation of water mains amounted to $101,000,000. The major programs totaling $96,250,000 are: Security Enhancements Program, Plant Enhancement Program, Pump Station Enhancement Program, the Customer Information System, Meter Automation and Replacement and the purchase of office equipment and vehicles. The water main rehabilitation comprises the remaining $4,750,000.

Additional information on the Division's capital assets, including commitments made for future capital expenditures, can be found in Note D to the basic financial statements.

***Liabilities*:** In 2011, the factors for the Division's net decrease in long-term obligations of $53,698,000 is attributed to additional Ohio Water Development Authority Loans of $566,000, the issuance of $132,090,000 of new bonds and notes and an increase in the unamortized discount and premium of $3,829,000. These amounts were offset by $93,407,000 of debt retirement, $101,800,000 of debt defeased, a decrease in unamortized loss on debt refunding of $1,857,000 and a decrease in accrued wages and benefits of $499,000.

In 2010, the factors for the Division's net decrease in long-term obligations of $33,065,000 is attributed to additional Ohio Water Development Authority Loans of $18,731,000, the issuance of $131,430,000 of new bonds and notes and a decrease in the unamortized discount and premium of $2,297,000. These amounts were offset by $36,528,000 of debt retirement, $90,500,000 of debt defeased, a decrease in unamortized loss on debt refunding of $2,648,000 and a decrease in accrued wages and benefits of $1,210,000.

Current Liabilities: In 2011, total current liabilities decreased by $4,638,000. The significant components of the change were increases to payable from accounts payable of $565,000, due to other City of Cleveland departments, divisions or funds of $547,000 and customer deposits and other liabilities of $1,669,000. These increases were offset by reductions to the current portion of long-term debt obligations and short-term notes of $3,322,000, current payable from restricted assets of $885,000, of accrued interest of $2,870,000 and current portion of accrued wages and benefits of $344,000.

In 2010, total current liabilities increased by $57,558,000. The significant components of the change were increases to the current portion of long-term debt obligations and short-term notes of $56,223,000, payable from restricted assets of $670,000, accounts payable of $802,000 and customer deposits and other liabilities of $1,703,000. These increases were offset by reductions of accrued interest of $658,000, current portion of accrued wages and benefits of $884,000 and $298,000 due to other City of Cleveland departments, divisions or funds.

CONDENSED BALANCE SHEET INFORMATION (Continued)

Long-term Debt: At the end of 2011, the Division had total long-term debt outstanding of $811,095,000. All bonds are backed by the revenues generated by the Division. The Ohio Water Development Authority (OWDA) loans do not have a lien on revenues of the Division.

At the end of 2010, the Division had total long-term debt outstanding of $873,646,000. All bonds are backed by the revenues generated by the Division. The Ohio Water Development Authority (OWDA) loans do not have a lien on revenues of the Division.

Short-term Debt: In 2010 the Division issued $50,000,000 Subordinated Lien Revenue Notes which were due on July 28, 2011. These notes were reissued in 2011.

At the end of 2011, the Division had $50,000,000 of Water Revenue Subordinated Revenue Notes outstanding. The notes, which are subordinate to the Division’s outstanding revenue bonds, are due on July 26, 2012 and are backed by the revenues generated by the Division.

CONDENSED BALANCE SHEET INFORMATION (Continued)

The activity in the Division's debt obligations outstanding during the year ended December 31, 2011 is summarized below (excluding unamortized discounts, premiums and losses on debt refundings):

	Balance January 1, 2011	Debt Issued	Debt Defeased	Debt Retired	Balance December 31, 2011
			(In thousands)		
Water Revenue Bonds:					
Series G, 1993	$ 94,830	$	$	$ (13,605)	$ 81,225
Series H, 1996	2,020		(1,940)	(80)	-
Series J, 2001	43,230		(42,865)	(365)	-
Series K, 2002	52,810		(48,095)	(4,715)	-
Series N, 2005	33,045				33,045
Series O, 2007	138,725		(2,825)	(2,585)	133,315
Series P, 2007	135,410		(6,075)	(10,240)	119,095
Series Q, 2008	90,800				90,800
Series T, 2009	83,340			(5,925)	77,415
Series U, 2010	54,935				54,935
Series V, 2010	26,495				26,495
Series W, 2011		82,090			82,090
Ohio Water Development Authority Loans	118,006	566		(5,892)	112,680
Total	$ 873,646	$ 82,656	$ (101,800)	$ (43,407)	$ 811,095

	Balance January 1, 2011	Debt Issued	Debt Defeased	Debt Retired	Balance December 31, 2011
			(In thousands)		
Water Revenue Notes:					
Sub. Lien Revenue Notes, 2010	$ 50,000	$	$	$ (50,000)	$ -
Sub. Lien Revenue Notes, 2011		50,000			50,000
Total	$ 50,000	$ 50,000	$ -	$ (50,000)	$ 50,000

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

The activity in the Division's debt obligations outstanding during the year ended December 31, 2010 is summarized below (excluding unamortized discounts, premiums and losses on debt refundings):

	Balance January 1, 2010	Debt Issued	Debt Defeased (In thousands)	Debt Retired	Balance December 31, 2010
Water Revenue Bonds:					
Series G, 1993	$ 107,760	$	$	$ (12,930)	$ 94,830
Series H, 1996	2,095			(75)	2,020
Series J, 2001	53,050		(9,470)	(350)	43,230
Series K, 2002	57,305			(4,495)	52,810
Series N, 2005	45,855			(12,810)	33,045
Series O, 2007	138,725				138,725
Series P, 2007	135,410				135,410
Series Q, 2008	90,800				90,800
Series R, 2009	54,735		(54,735)		-
Series S, 2009	26,295		(26,295)		-
Series T, 2009	84,625			(1,285)	83,340
Series U, 2010		54,935			54,935
Series V, 2010		26,495			26,495
Ohio Water Development Authority Loans	103,858	18,731		(4,583)	118,006
Total	$ 900,513	$ 100,161	$ (90,500)	$ (36,528)	$ 873,646

	Balance January 1, 2010	Debt Issued	Debt Defeased (In thousands)	Debt Retired	Balance December 31, 2010
Water Revenue Notes:					
Sub. Lien Revenue Notes, 2010	$	$ 50,000	$	$	$ 50,000
Total	$ -	$ 50,000	$ -	$ -	$ 50,000

CONDENSED BALANCE SHEET INFORMATION (Continued)

The bond ratings for the Division's outstanding revenue bonds as of December 31, 2011 are as follows:

Moody's Investors Service	Standard & Poor's
Aa1	AA

The ratio of net revenue available for debt service to debt service requirements (revenue bond coverage) is a useful indicator of the Division's debt position to management, customers and creditors. The Division's revenue bond coverage for 2011, 2010 and 2009 was 144%, 132% and 130%, respectively.

Additional information on the Division's long-term debt can be found in Note B on pages 26 - 36.

Net Assets: Net assets serve as a useful indicator of a government's financial position. In the case of the Division, assets exceed liabilities by $1,032,782,000, $1,022,666,000, and $1,006,836,000 at December 31, 2011, 2010 and 2009, respectively.

Of the Division's net assets, $734,270,000, or 71.1% and $713,285,000, or 69.7% at December 31, 2011 and 2010, respectively, reflects its investment in capital assets (e.g., land, buildings, utility plant, machinery and equipment), net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. The Division uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the Division's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Division's net assets, $93,601,000, or 9.1%, and $101,890,000, or 10.0%, at December 31, 2011 and 2010, respectively, represents resources that are subject to external restrictions. These funds are set aside for the payment of revenue bonds. The remaining balance of unrestricted net assets, $204,911,000, or 19.8%, and $207,491,000, or 20.3%, at December 31, 2011 and 2010, respectively, 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 net assets increased during 2011 and 2010 by $10,116,000 and $15,830,000, respectively. The following table identifies the key elements of the Division's results of operations as of and for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
		(In thousands)	
Operating revenues	$ 236,626	$ 237,270	$ 228,235
Operating expenses	205,028	205,228	197,498
Operating income (loss)	31,598	32,042	30,737
Non-operating revenue (expense):			
Investment income	2,349	4,007	4,122
Interest expense	(27,071)	(27,410)	(26,787)
Amortization of bond issuance costs, premiums and discounts	2,682	2,189	1,937
Workers' compensation refund			10
Gain (Loss) on disposal of capital assets		1	65
Total non-operating revenue (expense), net	(22,040)	(21,213)	(20,653)
Income (loss) before other contributions	9,558	10,829	10,084
Capital and other contributions	558	5,001	460
Increase (decrease) in net assets	10,116	15,830	10,544
Net assets, beginning of year	1,022,666	1,006,836	996,292
Net assets, end of year	$ 1,032,782	$ 1,022,666	$ 1,006,836

Operating revenue: In 2011, total operating revenues decreased by $644,000. The Division of Water had a minor increase in pumpage of 0.2%. The major users of water were as follows: ISG-Cleveland, Cuyahoga Metropolitan Housing Authority, Nestle Inc., Alcoa Inc., Cleveland Clinic Foundation, Pepsi Inc., North East Ohio Regional Sewer District and NASA Lewis Research Center.

In 2010, total operating revenues increased by $9,035,000. The Division of Water had an increase in pumpage of 2.1%. The major users of water were as follows: Forest City, ISG-Cleveland, Ford Motor Company, Aurora Commerce, Cuyahoga Metropolitan Housing Authority, Cleveland Clinic Foundation, NASA Lewis Research Center, Alcoa Inc. and North East Ohio Regional Sewer District.

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

Operating expenses: In 2011, the overall decrease in operating expenses of $200,000 was due to a $611,000 increase in operations expense and a $3,081,000 increase for depreciation expense. These increases were offset by a decrease of $3,892,000 in maintenance expenses. Operations expense increases were identified in the following areas: contractual services and electricity. The decrease in maintenance expenses were noted in the following areas: computer hardware maintenance and PERS. Salary and benefit costs also decreased as a result of retirements, reductions in overtime costs, hospitalization and workers compensation costs.

In 2010, the overall increase in operating expenses of $7,730,000 was due to a $6,705,000 increase in operations expense and a $5,933,000 increase for depreciation expense. These increases were offset by a decrease of $4,908,000 in maintenance expenses. Operations expense increases were identified in the following areas: professional services, contractual services, credit card processing fees, bad debt expense and debt service costs. The decrease in maintenance expenses were noted in the following areas: computer hardware maintenance, maintenance of utility system and building, and street construction maintenance repair. Salary and benefit costs also decreased as a result of retirements, reductions in overtime costs, hospitalization and workers compensation costs.

Non-operating revenue (expense): The major changes in 2011 were a decrease of $1,658,000 in investment income (attributed to declining interest rates), decrease of $339,000 in interest expense and an increase of $493,000 in amortization expense.

The major changes in 2010 were a decrease of $115,000 in investment income (attributed to declining interest rates) and an increase of $623,000 in interest expense.

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

Water rate increases will continue to have a positive impact on the financial position of the Division:

CLEVELAND - PER 1st 1/3 MCF (Thousand cubic feet)			CLEVELAND - PER ADDITIONAL MCF (Thousand cubic feet)	
EFFECTIVE	**REGULAR**	**HOMESTEAD**	**REGULAR**	**HOMESTEAD**
January 1, 2012	$13.76	$6.88	$27.52	$6.88
January 1, 2013	$15.51	$8.53	$29.48	$8.53
January 1, 2014	$17.34	$10.41	$31.22	$10.41
January 1, 2015	$19.26	$12.52	$32.74	$12.52

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

DIRECT SERVICE SUBURBS - PER 1st 1/3 MCF (Thousand cubic feet)			DIRECT SERVICE SUBURBS-PER ADDITIONAL MCF (Thousand cubic feet)	
EFFECTIVE	REGULAR	HOMESTEAD	REGULAR	HOMESTEAD
January 1, 2012	$20.47-$27.62	$10.23-$13.81	$41.70-$55.41	$10.23-$13.81
January 1, 2013	$22.11-$30.33	$12.16-$16.68	$42.01-$57.63	$12.16-$16.68
January 1, 2014	$23.63-$33.00	$14.18-$19.80	$42.53-$59.39	$14.18-$19.80
January 1, 2015	$25.04-$35.63	$16.27-$23.16	$42.56-$60.57	$16.27-$23.16

These increases in rates, fixed customer charges and recommended modifications to the Division's water rate structure were adopted by the Cleveland City Council on May 23, 2011. The fixed customer charges change became effective October 16, 2011. The new fixed customer charges are based on meter size. The first increase in a series of annual increases in water consumption charges became effective January 1, 2012. The annual rate increases are expected to increase operating revenues to adequately cover anticipated operating expenses.

As outlined in the Comprehensive Financial Plan for the years 2011 through 2015, which set rates that were subsequently approved by Cleveland City Council, the Division intends to go forward with additional revenue bond financing in the third quarter of 2012 in the approximate amount of $50,000,000, to continue its capital improvement program.

Also at that time the Division intends to replace the $50,000,000 AMR Subordinated Notes with water revenue subordinated bonds. An additional $40,000,000 will also be added to this subordinated bond issue to provide the balance of funds needed for the completion of the AMR project.

Effective July 26, 2011, the Division issued $50,000,000 of Water Revenue Subordinated Notes Series 2011. The notes, which mature on July 26, 2012, refunded the Series 2010 Subordinate Lien Water Revenue Notes which were issued to provide a portion of the funds needed for the acquisition and installation of a new Automated Meter Reading system.

On October 6, 2011, the Division issued $82,090,000 Water Revenue Bonds, Series W. Proceeds of these bonds were used to refund the outstanding Water Revenue Bonds, Series H, 1996, the outstanding Waterworks Refunding Revenue Bonds, Series J, 2001 and the outstanding Water Revenue Bonds, Series K, 2002.

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 PUBLIC UTILITIES
DIVISION OF WATER

BALANCE SHEETS

December 31, 2011 and 2010

	2011	2010
	(In thousands)	
ASSETS		
CAPITAL ASSETS		
Land	$ 5,463	$ 5,463
Land improvements	16,549	16,549
Utility plant	1,115,117	1,002,569
Buildings, structures and improvements	221,373	219,953
Furniture, fixtures, equipment and vehicles	566,679	565,014
	1,925,181	1,809,548
Less: Accumulated depreciation	(705,396)	(650,909)
	1,219,785	1,158,639
Construction in progress	275,907	310,919
CAPITAL ASSETS, NET	1,495,692	1,469,558
RESTRICTED ASSETS		
Cash and cash equivalents	171,498	240,916
Accrued interest receivable	100	77
TOTAL RESTRICTED ASSETS	171,598	240,993
UNAMORTIZED BOND ISSUANCE COSTS	4,517	4,911
DEFERRED OUTFLOWS OF RESOURCES	27,955	17,664
CURRENT ASSETS		
Cash and cash equivalents	146,027	158,473
Restricted cash and cash equivalents	14,842	15,727
Investments	12,141	7,102
Receivables:		
Accounts receivable - net of allowance for doubtful accounts of $23,401,000 in 2011 and $19,611,000 in 2010	54,175	49,341
Unbilled revenue	27,225	28,700
Due from other City of Cleveland departments, divisions or funds	12,449	11,864
Accrued interest receivable	1	65
Materials and supplies - at average cost, net of allowance for obsolescence of $126,500 in 2011 and $125,500 in 2010	3,722	3,940
Prepaid expenses	1,138	1,073
TOTAL CURRENT ASSETS	271,720	276,285
TOTAL ASSETS	$ 1,971,482	$ 2,009,411

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
BALANCE SHEETS
December 31, 2011 and 2010

	(In thousands) 2011	2010
NET ASSETS AND LIABILITIES		
NET ASSETS		
Invested in capital assets, net of related debt	$ 734,270	$ 713,285
Restricted for debt service	93,601	101,890
Unrestricted	204,911	207,491
TOTAL NET ASSETS	1,032,782	1,022,666
LIABILITIES		
LONG-TERM OBLIGATIONS-excluding amounts due within one year		
Revenue bonds	657,481	705,505
OWDA loans	106,595	112,114
Accrued wages and benefits	1,464	1,619
TOTAL LONG-TERM OBLIGATIONS	765,540	819,238
DERIVATIVE INSTRUMENTS - INTEREST RATE SWAPS	27,955	17,664
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year and short-term notes	90,085	93,407
Accounts payable	4,870	4,305
Current payable from restricted assets	14,842	15,727
Due to other City of Cleveland departments, divisions or funds	2,770	2,223
Accrued interest	12,727	15,597
Current portion of accrued wages and benefits	10,079	10,423
Other accrued expenses	395	393
Customer deposits and other liabilities	9,437	7,768
TOTAL CURRENT LIABILITIES	145,205	149,843
TOTAL LIABILITIES	938,700	986,745
TOTAL NET ASSETS AND LIABILITIES	$ 1,971,482	$ 2,009,411

See notes to financial statements. (Concluded)

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CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2011 and 2010

	(In thousands) 2011	2010
OPERATING REVENUES		
Charges for services	$ 236,626	$ 237,270
TOTAL OPERATING REVENUES	236,626	237,270
OPERATING EXPENSES		
Operations	100,221	99,610
Maintenance	46,011	49,903
Depreciation	58,796	55,715
TOTAL OPERATING EXPENSES	205,028	205,228
OPERATING INCOME (LOSS)	31,598	32,042
NON-OPERATING REVENUE (EXPENSE)		
Investment income	2,349	4,007
Interest expense	(27,071)	(27,410)
Amortization of bond issuance costs, premiums, and discounts	2,682	2,189
Gain (loss) on disposal of capital assets		1
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	(22,040)	(21,213)
INCOME (LOSS) BEFORE OTHER CONTRIBUTIONS	9,558	10,829
CAPITAL AND OTHER CONTRIBUTIONS	558	5,001
INCREASE (DECREASE) IN NET ASSETS	10,116	15,830
NET ASSETS, beginning of year	1,022,666	1,006,836
NET ASSETS, end of year	$ 1,032,782	$ 1,022,666

See notes to financial statements.

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011 and 2010

	(In thousands) 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 229,625	$ 226,973
Cash payments to suppliers for goods or services	(64,085)	(65,037)
Cash payments to employees for services	(75,905)	(75,207)
Other	(226)	
NET CASH PROVIDED BY(USED FOR) OPERATING ACTIVITIES	89,409	86,729
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(89,005)	(82,684)
Capital grant proceeds	558	5,001
Proceeds of OWDA loan	1,362	17,367
Principal paid on long-term debt	(93,407)	(36,191)
Interest paid on long-term debt	(39,158)	(40,324)
Cash paid to escrow agent for refunding	(104,676)	(91,009)
Proceeds of bonds, premiums and discounts	104,626	71,487
Proceeds from sale of notes	50,000	50,000
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(169,700)	(106,353)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(12,044)	
Proceeds from sale and maturity of investment securities	6,998	21,000
Interest received on investments	2,588	5,070
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(2,458)	26,070
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(82,749)	6,446
CASH AND CASH EQUIVALENTS, beginning of year	415,116	408,670
CASH AND CASH EQUIVALENTS, end of year	$ 332,367	$ 415,116

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011 and 2010

	(In thousands) 2011	2010
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$ 31,598	$ 32,042
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	58,796	55,715
Changes in assets and liabilities:		
Accounts receivable, net	(4,834)	1,885
Unbilled revenue	1,475	(4,690)
Due from other City of Cleveland departments, divisions or funds	(585)	(1,052)
Materials and supplies, net	218	169
Prepaid expenses	(65)	828
Accounts payable	565	802
Due to other City of Cleveland departments, divisions or funds	547	(298)
Accrued Liabilities	2	
Accrued wages and benefits	(499)	(1,210)
Customer deposits and other liabilities	2,191	2,538
TOTAL ADJUSTMENTS	57,811	54,687
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 89,409	$ 86,729

(Concluded)

See notes to financial statements.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Division of Water (the Division) is reported as an Enterprise Fund of the City of Cleveland's Department of Public Utilities and is a part of the City of Cleveland's (the City) primary government. The Division was created for the purpose of supplying water services to customers within the metropolitan area. 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 June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for the year ended December 31, 2010. The City has determined that GASB Statement No. 51 has no impact on its financial statements as of December 31, 2011. GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* was issued in June 2008. This statement requires governments to measure most derivative instruments at fair value in financial statements using the accrual basis of accounting. Specific criteria are used to determine whether a derivative instrument results in an effective hedge. Changes in fair value for effective hedges are to be recognized in the reporting period to which they relate and are reported as deferrals in the statement of net assets or the balance sheet. Derivative instruments that either do not meet the criteria for an effective hedge or are associated with investments that are already reported at fair value are to be classified as investment derivative instruments for financial reporting purposes with the change in fair value reported as part of investment revenue in the current period. As required, the City has implemented GASB Statement No. 53 effective for the 2010 fiscal year.

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

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

In addition, certain 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) guidance issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB guidance, or 2) continuing to follow new FASB guidance (unless they conflict with GASB pronouncements). The City has chosen not to apply future FASB guidance.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues: Revenues are derived primarily from sales of water to residential, commercial and industrial customers based upon actual water consumption. Water rates are authorized by City Council and billings are made on a cyclical basis. Estimates for services between the ends of the various cycles and the end of the year are recorded as unbilled revenue.

Statement of Cash Flows: The Division utilizes the direct method of reporting for the statement of cash flows as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. In a statement of cash flows, cash receipts and cash payments are classified according to operating, noncapital 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 and include certificates of deposit, U.S. Treasury bills, State Treasury Asset Reserve of Ohio (STAROhio) and repurchase agreements. The City's policy is to enter into repurchase agreements with local commercial banks and to obtain confirmation of securities pledged.

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. The fair value is based on quoted market prices.

The City has invested funds in STAROhio during 2011 and 2010. 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, 2011 and 2010.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation: Capital assets are stated on the basis of historical cost, or if contributed, at fair market value as of the date received. Depreciation is computed by allocating the cost of capital assets over the estimated useful lives of the assets using the straight-line method. A capital asset is defined as 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, 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:

Utility plant	5 to 100 years
Land improvements	15 to 100 years
Buildings, structures and improvements	5 to 60 years
Furniture, fixtures, equipment and vehicles	3 to 60 years

The Division's policy is to capitalize interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest is included in the cost of the assets and is depreciated on the straight-line basis over the estimated useful lives of such assets. The Division applies FASB guidance pertaining to capitalization of interest costs for its revenue bonds. This statement requires capitalization of interest cost of eligible borrowings, less interest earned on investment of the related bond proceeds from the date of borrowing until the assets constructed from the bond proceeds are ready for their intended use.

For 2011 and 2010, total interest costs incurred amounted to $39,260,000 and $43,139,000, respectively, of which $11,998,000 and $15,699,000, respectively, was capitalized, net of interest income of $191,000 in 2011 and $30,000 in 2010.

Bond Issuance Costs, Discounts and Unamortized Losses on Debt Refundings: Bond issuance costs are 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 losses on debt refundings are netted against long-term debt and are amortized over the shorter of the remaining life of the defeased bond or the newly issued bond.

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. 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 highest year average base salary rate, with the balance being forfeited.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2011 and 2010

NOTE B – DEBT AND OTHER LONG-TERM OBLIGATIONS

Debt outstanding at December 31, 2011 and 2010 is as follows:

	Interest Rate	Issuance	2011	2010
			(In thousands)	
Water Revenue Bonds:				
Series G, 1993, due through 2021	5.50%	$ 228,170	$ 81,225	$ 94,830
Series H, 1996, due through 2026	5.50%-5.75%	204,885		2,020
Series J, 2001, due through 2016	4.25%-5.38%	92,595		43,230
Series K, 2002, due through 2021	4.00%-5.25%	138,050		52,810
Series N, 2005, due through 2023	3.50%-5.00%	64,480	33,045	33,045
Series O, 2007, due through 2037	4.25%-5.00%	143,570	133,315	138,725
Series P, 2007, due through 2028	4.00%-5.00%	135,410	119,095	135,410
Series Q, 2008, due through 2033	Variable	90,800	90,800	90,800
Series T, 2009, due through 2021	2.00%-5.00%	84,625	77,415	83,340
Series U, 2010, due through 2033	Variable	54,935	54,935	54,935
Series V, 2010, due through 2033	Variable	26,495	26,495	26,495
Series W, 2011, due through 2026	2.00%-5.00%	82,090	82,090	
Ohio Water Development Authority Loans payable annually through 2031	0.00%-4.14%	141,367	112,680	118,006
		$ 1,487,472	811,095	873,646
Adjustments:				
Unamortized discount and premium			21,558	17,729
Unamortized loss on debt refunding			(28,492)	(30,349)
Current portion			(40,085)	(43,407)
Total Long-Term Debt			$ 764,076	$ 817,619

	Interest Rate	Issuance	2011	2010
			(In thousands)	
Water Revenue Notes:				
Subordinate Lien Revenue Notes, due 2011	2.00%	$ 50,000	$	$ 50,000
Subordinate Lien Revenue Notes, due 2012	1.00%	50,000	50,000	
Total Short-Term Debt		$ 100,000	$ 50,000	$ 50,000

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2011 and 2010

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

Summary: Changes in long and short-term obligations for the year ended December 31, 2011 are as follows:

	Balance January 1, 2011	Increase	Decrease	Balance December 31, 2011	Due Within One Year
			(In thousands)		
Water Revenue Bonds:					
Series G, 1993, due through 2021	$ 94,830	$	$ (13,605)	$ 81,225	$ 14,365
Series H, 1996, due through 2026	2,020		(2,020)		
Series J, 2001, due through 2016	43,230		(43,230)		
Series K, 2002, due through 2021	52,810		(52,810)		
Series N, 2005, due through 2023	33,045			33,045	5,030
Series O, 2007, due through 2037	138,725		(5,410)	133,315	2,705
Series P, 2007, due through 2028	135,410		(16,315)	119,095	5,815
Series Q, 2008, due through 2033	90,800			90,800	
Series T, 2009, due through 2021	83,340		(5,925)	77,415	6,085
Series U, 2010, due through 2033	54,935			54,935	
Series V, 2010, due through 2033	26,495			26,495	
Series W, 2011, due through 2026		82,090		82,090	
Ohio Water Development Authority Loans payable annually through 2031	118,006	566	(5,892)	112,680	6,085
Total revenue bonds/loans	873,646	82,656	(145,207)	811,095	40,085
Accrued wages and benefits	12,042	9,924	(10,423)	11,543	10,079
Total	$ 885,688	$ 92,580	$ (155,630)	$ 822,638	$ 50,164

	Balance January 1, 2011	Increase	Decrease	Balance December 31, 2011	Due Within One Year
			(In thousands)		
Water Revenue Notes:					
Subordinate Lien Revenue Notes, due 2011	$ 50,000	$	$ (50,000)	$	$
Subordinate Lien Revenue Notes, due 2012		50,000		50,000	50,000
Total revenue notes	$ 50,000	$ 50,000	$ (50,000)	$ 50,000	$ 50,000

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

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

	Balance January 1, 2010	Increase	Decrease	Balance December 31, 2010	Due Within One Year
			(In thousands)		
Water Revenue Bonds:					
Series G, 1993, due through 2021	$ 107,760	$	$ (12,930)	$ 94,830	$ 13,605
Series H, 1996, due through 2026	2,095		(75)	2,020	80
Series J, 2001, due through 2016	53,050		(9,820)	43,230	365
Series K, 2002, due through 2021	57,305		(4,495)	52,810	4,715
Series N, 2005, due through 2023	45,855		(12,810)	33,045	
Series O, 2007, due through 2037	138,725			138,725	2,585
Series P, 2007, due through 2028	135,410			135,410	10,240
Series Q, 2008, due through 2033	90,800			90,800	
Series R, 2009, due through 2033	54,735		(54,735)		
Series S, 2009, due through 2033	26,295		(26,295)		
Series T, 2009, due through 2021	84,625		(1,285)	83,340	5,925
Series U, 2010, due through 2033		54,935		54,935	
Series V, 2010, due through 2033		26,495		26,495	
Ohio Water Development Authority Loans payable annually through 2031	103,858	18,731	(4,583)	118,006	5,892
Total revenue bonds/loans	900,513	100,161	(127,028)	873,646	43,407
Accrued wages and benefits	13,252	10,097	(11,307)	12,042	10,423
Total	$ 913,765	$ 110,258	$ (138,335)	$ 885,688	$ 53,830

	January 1, 2010	Increase	Decrease	December 31, 2010	Within One Year
			(In thousands)		
Water Revenue Notes:					
Subordinate Lien Revenue Notes, due 2011	$	$ 50,000	$	$ 50,000	$ 50,000
Total revenue notes	$ -	$ 50,000	$ -	$ 50,000	$ 50,000

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

Minimum principal and interest payments on long-term debt for the next five years and thereafter are as follows:

	Principal	Interest (In thousands)	Total
2012	$ 40,085	$ 34,525	$ 74,610
2013	37,383	33,709	71,092
2014	46,400	32,118	78,518
2015	47,903	30,090	77,993
2016	48,209	27,831	76,040
2017-2021	223,437	106,328	329,765
2022-2026	187,747	60,534	248,281
2027-2031	109,330	27,558	136,888
2032-2036	63,100	8,287	71,387
2037	9,015	225	9,240
Total	$ 812,609	$ 361,205	$ 1,173,814

Note: The table above does not include principal or interest payments due on short term debt. The Division has $50,000,000 principal and $500,000 interest due in July 2012 on its Subordinated Lien Revenue Notes.

The above schedule of minimum principal and interest payments on long-term debt includes the amortization on nine loans provided to the City of Cleveland by the Ohio Water Development Authority (OWDA).

OWDA provided the City with the amount expected to be financed, the interest rate, initial repayment date and other significant items(s) for each of the nine loans. From the information received, the City prepared a detailed amortization schedule for each loan based upon the amount expected to be financed. However, the amortization schedule is tentative and will be adjusted if, and when, OWDA revises the amount to be financed.

Further, OWDA requires the City to begin making semi-annual payments for each loan based on the agreed upon initial repayment date, regardless of whether the City has received all loan proceeds or has completed the project(s).

In 2011, the Division expended another $566,000 for the Baldwin Residuals and Fairmount Reservoir. The OWDA loan associated with this project is a zero percent loan for the face value of $9,000,000 which matures January 2031.

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

Therefore, at December 31, 2011, the amount financed on these nine loan projects, less principal payments made, totaled $114,194,000 and is reflected in the debt service payment schedule. However, the total on the actual loan balances received by the City was $112,680,000 as reflected on the schedules of long-term debt outstanding and changes in long-term debt obligations as of December 31, 2011. The difference of $1,514,000 will be received or accrued in future year(s).

The Division has defeased certain Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. In 2011, the Division deposited cash in the amount of $9,327,000 in an escrow account for the payment of future debt service requirements. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Division's financial statements. The aggregate amount of defeased debt outstanding at December 31, 2011 and 2010 is as follows:

Bond Issue	**2011**	**2010**
	(In thousands)	
Series H, 1996	$ 1,940	$
Series J, 2001	52,335	9,470
Series K, 2002	116,420	68,325
Series N, 2005		8,815
Series O, 2007	2,825	
Series P, 2007	6,075	
Total	$ 179,595	$ 86,610

In 1996, the City authorized the adoption of the eighth supplemental indenture to amend and restate the existing indenture, subject to the receipt of consent of the requisite number of bondholders. With the issuance of the Series J bonds, the City reached the 66.7% consent required to enact the Amended and Restated Indenture. Effective October 5, 2001, all outstanding bonds and any future bonds are secured by the Amended and Restated Indenture. Under the new indenture, the bonds are no longer secured by a mortgage lien. All bonds are secured by the Division's net revenues and by the pledged funds.

The Division's indentures have certain restrictive covenants and principally require that bond reserve funds be maintained and charges for fees to customers be in sufficient amounts, as defined, to satisfy the obligations under the indenture agreements. In addition, special provisions exist regarding covenant violations, redemption of principal and maintenance of properties in good condition.

The indenture requires that at all times the Division will charge rates and fees for the products and services of the waterworks system, so that revenues will be at least sufficient to provide funds for the payment in each year of the necessary operating and maintenance expenses of the waterworks system and the greater of (1) an amount equal to 1.25 times the payments of principal, premium, if any, and interest on the revenue bonds then outstanding due in that year or (2) an amount sufficient to maintain the required balances in all funds and accounts created under the indenture. As of December 31, 2011 and 2010, the Division was in compliance with the terms and requirements of the bond indenture.

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

The indenture establishes the following fund accounts for the application of revenues:

Revenue Fund: All revenues will be deposited into this fund and will be used for payment of current operating expenses and deposits into other funds. An amount equal to one-sixth of the operating expenses, before depreciation, for the preceding fiscal year must be maintained in this fund.

Debt Service Fund: Deposits will be made from the revenue fund to cover succeeding principal and interest payments as they become due on the revenue bonds.

Debt Service Reserve Fund: Deposits will be made to this fund if the amount in the debt service fund at any time is less than the debt service reserve requirement. Amounts in the fund were deposited from the proceeds of the revenue bonds and represent the maximum annual debt service requirement of these bonds.

Contingency Fund: The balance in this fund must be maintained at $3,500,000.

Construction Fund: Proceeds from the revenue bonds were deposited into this fund to be used, along with earnings from investments of amounts held therein, for the payment of capital costs. Capital costs include all costs of additions, extensions, renewals, replacements, alterations, betterments and any other capital improvements to the waterworks system. Amounts held in this fund are subject to a lien in favor of bondholders and may be used to pay principal of outstanding revenue bonds to the extent that amounts in all other funds are insufficient. No payment need be made into a fund if the amounts in such fund are equal to the required fund balance, if any.

Amounts held in any fund may be invested by the City Treasurer or the trustee in permitted investments. However, the use of funds is limited by the bond indenture and accordingly, the funds are classified as restricted assets in the accompanying financial statements.

In December 2011, the Division utilized cash on hand to defease $2,825,000 principal amount of outstanding Series O bonds and $6,075,000 principal amount of outstanding Series P bonds. The Division placed $9,327,000 in an irrevocable trust account which will be used to pay principal and interest on the defeased bonds. As a result the bonds are considered defeased and the liability for the bonds has been removed from long-term debt.

Effective July 26, 2011, the Division issued $50,000,000 of Subordinate Lien Water Revenue Notes. The notes, which mature on July 26, 2012, refunded $50,000,000 Subordinate Lien Water Revenue Notes issued in 2010 to provide a portion of the funds needed for the acquisition and installation of a new Automated Meter Reading system.

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

Effective October 6, 2011, the City issued $82,090,000 Water Revenue Bonds, Series W, 2011. Proceeds of these bonds were used to refund all of 1) the outstanding $1,940,000 Waterworks Improvement and Refunding First Mortgage Revenue Bonds, Series H, 1996, 2) the outstanding $42,865,000 Waterworks Refunding Revenue Bonds, Series J, 2001 and 3) the outstanding $48,095,000 Water Revenue Bonds, Series K, 2002 and to pay issuance costs. Net proceeds of the Series W Bonds, amounts then on deposit in the Series H, J and K bond funds and an amount released from the debt service reserve fund all totaling $95,349,171 were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds on January 1, 2012. As a result, the refunded bonds were defeased and the liability for these bonds has been removed from long-term debt. The City completed the refunding to order to achieve debt service savings of approximately $9,527,000 or an economic gain (the difference between the present values of the old and new debt service payments) of approximately $8,955,000 or 9.6%.

Effective December 30, 2010, the Division issued $54,935,000 Water Revenue Bonds, Series U, and $26,495,000 Water Revenue Bonds, Series V. Proceeds of these bonds were used to refund the outstanding Water Revenue Bonds, Series R, 2009 and Water Revenue Bonds, Series S, 2009. The Series U bonds were issued in order to eliminate high letter of credit fees and the Series V Bonds were issued to address higher than expected interest rates caused by the downgrade of the letter of credit bank. The City negotiated a direct purchase of all of the Series U Bonds by U.S. Bank at an index rate of 75% of LIBOR plus 63.75 basis points. The City negotiated a direct purchase of the Series V Bonds by PNC Bank at an index rate of 65% of LIBOR plus 81.25 basis points. Both rates will be reset monthly and the bonds can be tendered for purchase after three years. The City obtained an economic gain (the difference between the present values of the old and new debt service payments) of approximately $2.7 million or 3.329% as a result of the refundings.

The City has pledged future Water System revenues, net of specified operating expenses, to repay $748,415,000 in various Water Improvement Revenue Bonds and notes issued in various years since 1993. Proceeds from the bonds provided financing for Water System improvements. The bonds are payable from water system net revenues and are payable through 2037. Annual principal and interest payments on the bonds are expected to require less than 70% of net revenues. The total principal and interest remaining to be paid on the various Water Improvement Revenue Bonds Notes is $1,079,593,000. Principal and interest paid for the current year and total net revenues were $65,668,000 and $92,743,000, respectively.

Interest Rate Swap Transactions:

Upon the refunding of the Series M Bonds in 2009, the Division's swap became associated with the Series Q , Series R and Series S Bonds. When the Series R and Series S Bonds were refunded in 2010, the swap associated with these bonds was transferred to a portion of the new Series U and Series V bonds.

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

Terms: Simultaneously with the issuance of the City's $175,000,000 Water Revenue Bonds, Series M, on August 10, 2004, the City entered into floating to fixed rate swap agreements with notional amounts equal to the total declining balance of the Series M Bonds. Bear Stearns Financial Products Inc. (Bear Stearns), (which has since been acquired by JPMorgan Chase Bank, N.A. (JPM)), was the counterparty on a two-thirds pro-rata share of the transaction and Morgan Stanley Capital Services Inc. (Morgan Stanley) is the counterparty on a one-third pro-rata share of the transaction.

Under the original swap agreements for the Series M Bonds, the Water System was the fixed rate payor, paying a fixed rate of 3.533%. Each counterparty was a floating rate payor, with each paying the Water System 61.25% of one month LIBOR plus a spread of 28 basis points. Net payments were exchanged semiannually on January 1 and July 1. The obligation of the Water System to make periodic payments (but not any termination payment) was secured by a pledge of and lien on the net revenues of the Water System on a parity with the pledge and lien securing the payment of debt service on the bonds. Both the bond debt service payments on the Series M bonds and the periodic swap payments were insured by Financial Security Assurance (FSA). As part of the refunding of the Series M Bonds, the City amended and restated the original swap agreements to (a) eliminate the swap insurance and related insurer rights, (b) modify the payment frequency, (c) transfer the original swap agreement from Bear Stearns to JPM and (d) split each original swap agreement into two separate interest rate swaps in order to hedge separate series of bonds. The original Bear Stearns swap which has been assumed by JPM hedged the entire principal amount of Series R and certain maturities of the Series Q Bonds. The original Morgan Stanley swap hedged the entire principal amount of Series S and a portion of the Series Q Bonds. The floating rate received by the City was not altered. However, the fixed rate paid by the City was adjusted to 3.553% for the JPM swap and 3.5975% for the Morgan Stanley swap. The termination date for the swaps associated with the Series Q Bonds is January 1, 2021 while the termination date for the Series R and Series S swaps is January 1, 2033. Net payments are now exchanged monthly. With the refunding of the Series R and Series S Bonds, the JPM swap now hedges all but $200,000 of the Series U Bonds and the Morgan Stanley Swap hedges all but $200,000 of the Series V Bonds.

Objective: The City entered into the swaps in order to maximize the savings associated with the refunding of the bonds. The actual savings to be realized by the Water System will depend upon the payments made on the variable rate bonds and the payments received under the swap agreement.

Basis Risk: By entering into swaps based upon the 30 day LIBOR rate of interest, the City has undertaken basis risk associated with a change in tax rates and structure. While the average relationship between Securities Industry Financial Markets Association (SIFMA) (tax-exempt) and LIBOR (taxable) interest rates has been 67%, this relationship may not always apply. If the payments received from the counterparties are less than the amount paid on the variable rate bonds, the Water System must make up the difference in addition to paying the fixed rate resulting from the swap. As a result of the turmoil in the financial markets since 2008, the SIFMA/LIBOR ratio has been significantly higher than 67% for large periods of time. 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.

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

Counterparty Risk: The City selected highly rated counterparties in order to minimize this risk. However, in the wake of the subprime mortgage crisis, Bear Stearns was acquired by JPM. The portion of the City's swap with Bears Stearns as the counterparty has been assumed by JPM. Over the long-term it is possible that the credit strength of JPM and/or Morgan Stanley 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 JPM and Morgan Stanley, or by JPM and Morgan Stanley to the City, depending upon the prevailing economic circumstances at the time of the termination. The City obtained insurance to mitigate much of the risk associated with termination due to the event of a rating downgrade of the Water System.

Fair Value: The fair value of the swaps (including accrued amounts) at December 31, 2011 and December 31, 2010 as reported by JPM and Morgan Stanley totaled $27,955,000 and $17,664,000, respectively, which would be payable by the City.

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 City has entered into various derivative or hedging agreements since 1999. A detailed description of each outstanding derivative, including its terms, objectives, risks and fair value, can be found in the section discussing the bonds to which the derivative relates.

	Changes in Fair Value		**Fair Value at December 31, 2011**		
	Classification	**Amount**	**Classification**	**Amount**	**Notional**
			(In thousands)		
Hedging Derivatives:					
Floating to fixed interest rate swaps					
2008 Q Water Swap	Deferred outflow	$ (2,210)	Debt	$ (10,161)	$ 82,625
2010 U Water Swap	Deferred outflow	(5,467)	Debt	(11,904)	54,735
2010 V Water Swap	Deferred outflow	(2,614)	Debt	(5,890)	26,295

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

	Changes in Fair Value		Fair Value at December 31, 2010		
	Classification	Amount	Classification	Amount	Notional
			(In thousands)		
Cash flow hedges:					
Floating to fixed interest rate swaps					
2008 Q Water Swap	Deferred outflow	$ (1,510)	Debt	$ (7,951)	$ 88,640
2010 U Water Swap	Deferred outflow	(2,054)	Debt	(6,437)	54,735
2010 V Water Swap	Deferred outflow	(1,023)	Debt	(3,276)	26,295

The following table presents the objective and significant terms of the City's derivative instruments at December 31, 2011, along with the credit rating of each swap counterparty.

Bonds	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
Water Series Q	Pay Fixed Interest Rate Swap	Hedge of changes in cash flow on the Series Q Water System Bonds	$ 54,355,000	8/10/2004	1/1/2021	Pay 3.553%, receive 61.25% of LIBOR + 28 bps	Aa1/A+/AA-
Water Series Q	Pay Fixed Interest Rate Swap	Hedge of changes in cash flow on the Series Q Water System Bonds	$ 28,270,000	8/10/2004	1/1/2021	Pay 3.5975%, receive 61.25% of LIBOR + 28 bps	A2/A/A
Water Series U	Pay Fixed Interest Rate Swap	Hedge in changes in cash flow on the Series U Water System Bonds	$ 54,735,000	2/12/2009	1/1/2033	Pay 3.553%, receive 61.25% of LIBOR + 28 bps	Aa1/A+/AA-
Water Series V	Pay Fixed Interest Rate Swap	Hedge in changes in cash flow on the Series V Water System Bonds	$ 26,295,000	2/12/2009	1/1/2033	Pay 3.5975%, receive 61.25% of LIBOR + 28 bps	A2/A/A

The following table presents the aggregate debt service requirements on the City's hedged debt and net receipts/payments on the associated hedging derivative instruments as of December 31, 2011. These amounts assume that the interest rates on variable rate bonds and the reference rates in existence as of December 31, 2011 remain the same for the life of the hedging agreement. However, these rates will vary over time and the actual interest payments on the variable rate bonds and the net receipts/payments on the hedging derivative instruments will deviate from the numbers presented below.

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

Fiscal Year Ending December 31	Principal	Interest	Hedging Derivatives, Net	Total
		(In thousands)		
2012	$	$ 860	$ 4,879	$ 5,739
2013		860	4,680	5,540
2014		860	4,422	5,282
2015		860	4,150	5,010
2016		860	4,093	4,953
2017-2021	2,170	4,282	16,515	22,967
2022-2026	82,300	2,253	5,458	90,011
2027-2031	63,685	483	422	64,590
2032-2033	24,075	26	18	24,119
Total	$ 172,230	$ 11,344	$ 44,637	$ 228,211

Ohio Water Development Authority (OWDA) Loans: These loans are payable from net revenues derived from the Waterworks System. These obligations do not have a lien on revenues of the Division. The Division received an increase in OWDA loans in the amount of $566,000 and $18,731,000 during 2011 and 2010, respectively. The current loans are being paid directly to the contractor by the State of Ohio, but accounted for as if the Division received and disbursed those monies.

NOTE C – DEPOSITS AND INVESTMENTS

Deposits: The carrying amount of the Division's deposits at December 31, 2011 and 2010 totaled $126,903,000 and $155,335,000, respectively, and the Division's bank balances were $128,025,000 and $154,818,000, 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*, $128,025,000 and $154,818,000 of the bank balances at December 31, 2011 and 2010, respectively, were insured or collateralized with securities held by the City or by its agent in the City's name.

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 and are not to exceed a period of one year and confirmation of securities pledged must be obtained.

NOTE C – DEPOSITS AND INVESTMENTS (Continued)

Under City policy, investments are limited to repurchase agreements, U.S. Government securities, STAROhio, certificates of deposit, commercial paper and investments in certain money market mutual funds. Generally, investments are recorded in segregated accounts by way of book entry through the bank's commercial or trust department and are kept at the Federal Reserve Bank in the depository institution's 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.

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Division will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The Division does not have an investment policy dealing with investment custodial credit risk beyond the requirement in the State statute.

Credit Risk: The Division's investments as of December 31, 2011 and 2010 include U.S. Agencies, STAROhio, commercial paper, mutual funds and guaranteed investment contracts. The U.S. Agencies are rated AA+ by Standard and Poor's (S&P). The investment in commercial paper is rated A-1 by S&P. Investments in both STAROhio and mutual funds carry a rating of AAAm, which is the highest money market fund rating given by S&P. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Division has no investment policy that would further limit its investment choices.

NOTE C – DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk: The Division places a limitation on the amount it may invest in any one issuer to help minimize the concentration of credit risk. The Division had the following investments at December 31, 2011 and 2010, which include those classified as cash and cash equivalents in the balance sheet in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

Type of Investment	2011 Fair Value	2011 Cost	2010 Fair Value	2010 Cost	Investment Maturities: Less than One Year	Investment Maturities: 1 - 5 Years
			(In thousands)			
U.S. Agency Obligations	$ 12,141	$ 12,045	$ 7,102	$ 6,998	$ 12,141	$
STAROhio	32,134	32,134	23,926	23,926	32,134	
Commercial Paper	135,521	135,521			135,521	
Investment in Mutual Funds	959	959	199,005	199,005	959	
Guaranteed Investment Contracts	36,850	36,850	36,850	36,850		36,850
Total Investments	217,605	217,509	266,883	266,779	180,755	36,850
Total Deposits	126,903	126,903	155,335	155,335	126,903	
Total Deposits and Investments	$ 344,508	$344,412	$422,218	$422,114	$ 307,658	$ 36,850

As of December 31, 2011, the investments in U.S. Agency Obligations, STAROhio, commercial paper and mutual funds, and guaranteed investment contracts are approximately 6%, 15%, 62%, <1% and 17%, respectively, of the Division's total investments. As of December 31, 2010, the investments in U.S. Agency Obligations, STAROhio, mutual funds and guaranteed investment contracts are approximately 3%, 9%, 74%, and 14%, respectively, of the Division's total investments.

The City's current guaranteed investment contracts are not categorized as investments on the financial statements because they are reserved against future debt service requirements and may need to be liquidated prior to maturity.

NOTE D – CAPITAL ASSETS

Capital Asset Activity: Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance January 1, 2011	Additions	Deletions	Balance December 31, 2011
	(In thousands)			
Capital assets, not being depreciated:				
Land	$ 5,463	$	$	$ 5,463
Construction in progress	310,919	84,929	(119,941)	275,907
Total capital assets, not being depreciated	316,382	84,929	(119,941)	281,370
Capital assets, being depreciated:				
Land improvements	16,549			16,549
Utility plant	1,002,569	112,795	(247)	1,115,117
Buildings, structures and improvements	219,953	1,437	(17)	221,373
Furniture, fixtures, equipment and vehicles	565,014	5,709	(4,044)	566,679
Total capital assets, being depreciated	1,804,085	119,941	(4,308)	1,919,718
Less: Accumulated depreciation	(650,909)	(58,795)	4,308	(705,396)
Total capital assets being depreciated, net	1,153,176	61,146	-	1,214,322
Capital assets, net	$ 1,469,558	$ 146,075	$ (119,941)	$ 1,495,692

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2011 and 2010

NOTE D – CAPITAL ASSETS (Continued)

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

	Balance January 1, 2010	Recategor-izations *	Additions	Deletions	Balance December 31, 2010
			(In thousands)		
Capital assets, not being depreciated:					
Land	$ 5,463	$	$	$	$ 5,463
Construction in progress	331,519		108,712	(129,312)	310,919
Total capital assets, not being depreciated	336,982	-	108,712	(129,312)	316,382
Capital assets, being depreciated:					
Land improvements	17,061	(512)			16,549
Utility plant	1,152,834	(271,821)	121,556		1,002,569
Buildings, structures and improvements	218,420	515	1,018		219,953
Furniture, fixtures, equipment and vehicles	285,706	271,818	7,490		565,014
Total capital assets, being depreciated	1,674,021	-	130,064	-	1,804,085
Less: Accumulated depreciation	(595,194)		(55,715)		(650,909)
Total capital assets being depreciated, net	1,078,827	-	74,349	-	1,153,176
Capital assets, net	$ 1,415,809	$ -	$ 183,061	$ (129,312)	$ 1,469,558

* Some Capital Assets were moved to more exact categories when assets were entered into the City's new Advantage Accounting System as of January 1, 2010.

Commitments: The Division has outstanding commitments at December 31, 2011 and 2010 of approximately $84,911,000 and $185,209,000, respectively, for future capital expenditures, respectively. It is anticipated that these commitments will be financed from the Division's cash balances; however, at the discretion of the Division, additional long-term debt may be issued in the future to finance a portion of the costs.

NOTE E – DEFINED BENEFIT PENSION PLAN

***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, 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 2011, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2011, 2010 and 2009. The employer contribution rates were 14.00% of covered payroll in 2011, 2010 and 2009.

The Division’s required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2011, 2010 and 2009 were $5,406,000, $5,286,000 and $4,975,000 each year, respectively. The required payments due in 2011, 2010 and 2009 have been made.

NOTE F – 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 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, 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 2011, 2010 and 2009. 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 4.00% for members of the Traditional Plan in 2011, 6.05% for members of the Combined Plan in 2011, 5.50% from January 1, 2010 through February 28, 2010 and 5.00% from March 1, 2010 through December 31, 2010 and 7.00% from January 1, 2009 through March 31, 2009 and 5.50% from April 1, 2009 through December 31, 2009. The portion of employer contributions allocated to health care beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during 2012. 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 $2,162,000 in 2011, $3,013,000 in 2010 and $3,597,000 in 2009.

NOTE F – OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

NOTE G – 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 suits. 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 2011or 2010.

The City provides the choice of four separate health insurance plans for its employees. These plans are provided by two different insurers through commercial insurance. Operating funds are charged a monthly rate per employee, by type of coverage. The City participates in the State of Ohio workers' compensation retrospective rating program.

In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported.

The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors.

The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses, regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Claims liability for the Division is immaterial.

NOTE H – RELATED PARTY TRANSACTIONS

Revenues and Accounts Receivable: The Division provides water services to the City of Cleveland, including its various departments and divisions. Standard consumption rates are charged, except for the Division of Fire, public buildings and certain other facilities owned by the City of Cleveland, which by ordinance are provided free water services.

NOTE H – RELATED PARTY TRANSACTIONS (Continued)

The Division performs billing and collection services for the Division of Water Pollution Control for a fee. This fee is based on the number of billings made on behalf of that division during the year at the same rates as charged to other users of the billing system. Revenue realized from the Division of Water Pollution Control for such services was approximately $2,414,000 and $2,350,000 in 2011 and 2010, respectively. The Division also provides miscellaneous services to other departments and divisions of the City. Revenue realized from such services was approximately $3,716,000 and $2,191,000 in 2011 and 2010, respectively.

Operating Expenses: The Division is provided various intra-city services. Charges are based on actual use or on a reasonable pro-rata basis. The more significant costs for the years ended December 31 were as follows:

	2011	2010
	(In thousands)	
Electricity purchases	$ 13,147	$ 12,697
City administration	2,549	2,739
Motor Vehicle Maintenance	3,699	2,353
Telephone exchange	865	861
Utilities Administration and Utilities Fiscal Control	3,119	2,727
Street construction	578	598

NOTE I – CUYAHOGA COUNTY REAL PROPERTY TAXES

The Division is required by ordinance to keep records of the estimated property taxes which would be payable to Cuyahoga County were it subject to such taxes. The estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately $4,045,000 and $4,141,000 for the years ended December 31, 2011 and 2010, respectively.

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL

REPORT ON AUDITS OF FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL

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CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

INDEPENDENT AUDITORS' REPORT

To the Honorable Frank G. Jackson, Mayor, Members of Council and the Audit Committee
Division of Water Pollution Control
Department of Public Utilities
City of Cleveland, Ohio:

We have audited the accompanying basic financial statements of the Division of Water Pollution Control, Department of Public Utilities, City of Cleveland, Ohio (the Division) as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to 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 described in Note A, the financial statements present only the financial position and the changes in financial position and cash flows of the Division and do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2011 and 2010, and the respective changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United State of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Division of Water Pollution Control, Department of Public Utilities, City of Cleveland, Ohio as of December 31, 2011 and 2010, 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.

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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 25, 2012

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the City) Department of Public Utilities, Division of Water Pollution Control (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, 2011 and 2010. Please read this information in conjunction with the Division's basic financial statements and footnotes that begin on page 13.

The Division was created for the purpose of supplying sewer services to customers within the Cleveland metropolitan area. Embarking with a rudimentary system in the late 1800's, the Cleveland Sewer System developed as the City itself expanded. Until the early 1970's, the City operated the entire system and managed all aspects of sewage treatment and disposal.

In 1972, a court order created the Northeast Ohio Regional Sewer District (NEORSD) and transferred the operation of all wastewater treatment plants and interceptors to the NEORSD during December 1973.

The City retained responsibility for the sewer collector system in Cleveland. The Division serves a significant portion of the entire metropolitan area by managing the sanitary sewage and storm water drainage collection system. The sewer collection system transfers sanitary and storm sewage from its point of origin to an interceptor sewer or treatment plant for processing. The system is comprised of 1,200 miles of sewer lines with attendant catch basins and includes 15 pump/lift stations. The Division is also responsible for the cleaning of 127,000 catch basins and for maintaining two storm detention basins.

The Division currently has 125,209 customer accounts in the City of Cleveland of which 96.2% are residential and 3.8% commercial. Also, in 2011, the Division's sewers transported 1,777,391 Mcf's (thousand cubic feet) of water.

The Division's capital improvement program is supported by a "pay as you go" system funded by its operating revenue and loans. The Division has a low debt burden. The Division maintains an unencumbered cash balance that allows its current debts to be paid. Maintaining this approach helps the Division stabilize the rates charged to its customers.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities (net assets) by $100,384,000, $99,104,000 and $97,615,000 at December 31, 2011, 2010 and 2009, respectively. Of these amounts, $34,208,000, $33,267,000 and $30,948,000 are unrestricted net assets at December 31, 2011, 2010 and 2009, respectively and may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's net assets increased by $1,280,000. The main components of the change were a decrease in operating revenues of $2,911,000, offset by a $1,042,000 decrease in operating expenses and a $1,590,000 increase in capital and other contributions.

FINANCIAL HIGHLIGHTS (Continued)

- Regular sewage rate was $12.53 per thousand cubic feet in 2010 and 2011. Also, homestead sewage rate was $7.43 per thousand cubic feet in 2010 and 2011.

- During 2011, the Division's net capital assets decreased by $147,000. In 2010, the Division's net capital assets decreased by $1,297,000. The major additions during 2011 were for emergency sewer repairs. In 2010, the major additions were for sewer line replacements and buildings improvements.

- The Division's total debt decreased in 2011 and 2010 by $486,000 and $467,000, respectively, due to the continuing scheduled debt payments made during the year.

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's Division of Water Pollution Control Fund, in which the City accounts for the operations of the Department of Public Utilities, Division of Water Pollution Control. 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 Water Pollution Control 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 13 - 18 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 19 - 32 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION

Provided below is the condensed balance sheet information for the Division as of December 31, 2011, 2010 and 2009:

	2011	2010 (In thousands)	2009
Assets:			
Capital assets, net	$ 69,019	$ 69,166	$ 70,463
Restricted assets	1,081	1,250	1,602
Current assets	151,519	152,449	132,820
Total assets	221,619	222,865	204,885
Net Assets and Liabilities:			
Net assets:			
Invested in capital assets, net of related debt	66,176	65,837	66,667
Unrestricted	34,208	33,267	30,948
Total net assets	100,384	99,104	97,615
Liabilities:			
Long-term obligations	2,482	3,010	3,520
Current liabilities	118,753	120,751	103,750
Total liabilities	121,235	123,761	107,270
Total net assets and liabilities	$ 221,619	$ 222,865	$ 204,885

Current Assets: In 2011, there was a decrease of $930,000 in current assets due to the decrease in net accounts receivable of $2,765,000, which was the result of increased collection activity. There were also increases in current cash and cash equivalents and unbilled revenue of $1,111,000 and $652,000, respectively. In 2010, there was an increase of $19,629,000 in current assets due to the increase in net accounts receivable of $11,913,000, which is the result of a rate increase in the current year and slower collections due to the economy. There were also increases in current cash and cash equivalents and unbilled revenue of $7,229,000 and $458,000, respectively.

CONDENSED BALANCE SHEET INFORMATION (Continued)

Capital Assets: In 2011, the Division's investment in net capital assets amounted to $69,019,000. This was a decrease of $147,000 from the prior year. The change is primarily the result of a $2,572,000 increase in utility plant, offset by a $4,163,000 net increase in accumulated depreciation. During 2010, the Division's investment in net capital assets amounted to $69,166,000. A summary of the activity in the Division's capital assets during the years ended December 31, 2011 and 2010 is as follows:

	Balance January 1, 2011	Additions	Reductions	Balance December 31, 2011
		(In thousands)		
Land	$ 297	$	$	$ 297
Utility plant	128,560	2,572		131,132
Buildings, structures and improvments	8,948			8,948
Furniture, fixture, equipment and vehicles	12,974	78	(571)	12,481
Construction in progress	7,403	4,563	(2,626)	9,340
Total	158,182	7,213	(3,197)	162,198
Less: Accumulated depreciation	(89,016)	(4,734)	571	(93,179)
Capital assets, net	$ 69,166	$ 2,479	$ (2,626)	$ 69,019

CONDENSED BALANCE SHEET INFORMATION (Continued)

	Balance January 1, 2010	Recategor-izations *	Additions	Reductions	Balance December 31, 2010
	(In thousands)				
Land	$ 297	$	$	$	$ 297
Utility plant	125,614	(35)	2,981		128,560
Buildings, structures and improvments	2,658		6,290		8,948
Furniture, fixture, equipment and vehicles	12,221	35	718		12,974
Construction in progress	13,688		3,032	(9,317)	7,403
Total	154,478	-	13,021	(9,317)	158,182
Less: Accumulated depreciation	(84,015)		(5,001)		(89,016)
Capital assets, net	$ 70,463	$ -	$ 8,020	$ (9,317)	$ 69,166

During 2011, the capital additions of emergency sewer repairs were $925,000. There were several projects in 2011 within construction in progress that are expected to be completed in the next few years. The major capital projects/expenses for the year included:

- Emergency Sewer Repairs
- Henninger Avenue Sewer Replacement
- Catch Basin and Manhole Repairs

During 2010, the capital additions of building improvements were $6,290,000. The major capital projects/expenses for the year included:

- Kirby Avenue Building Improvement
- Big Creek Sewer Replacement
- Henninger Avenue Sewer Replacement

Additional information on the Division's capital assets, including commitments made for future capital expenditures, can be found in Note D.

CONDENSED BALANCE SHEET INFORMATION (Continued)

Current Liabilities: Total current liabilities decreased by $1,998,000. The major component was a decrease of $2,408,000 in amounts due for billings on behalf of others. During 2010, total current liabilities increased by $17,001,000. The major component was an increase of $15,637,000 in amounts due for billings on behalf of others.

Long-Term Debt: At the end of the current year, the Division had total debt outstanding of $2,843,000 associated with five OWDA construction loans and two OPWC construction loans. At the end of the 2010, the Division had total debt outstanding of $3,329,000 associated with these loans. These loans are payable by revenues generated by the Division.

The activity in the Division's debt obligations outstanding during the year ended December 31, 2011 is summarized below:

	Balance January 1, 2011	Debt Issued	Debt Retired	Balance December 31, 2011
	(In thousands)			
Ohio Water Development Authority Loans (OWDA)	$ 3,066	$	$ (462)	$ 2,604
Ohio Public Works Commission Loans (OPWC)	263		(24)	239
Total	$ 3,329	$ -	$ (486)	$ 2,843

The activity in the Division's debt obligations outstanding during the year ended December 31, 2010 is summarized below:

	Balance January 1, 2010	Debt Issued	Debt Retired	Balance December 31, 2010
	(In thousands)			
Ohio Water Development Authority Loans (OWDA)	$ 3,509	$	$ (443)	$ 3,066
Ohio Public Works Commission Loans (OPWC)	287		(24)	263
Total	$ 3,796	$ -	$ (467)	$ 3,329

Additional information on the Division's long-term debt can be found in Note B on pages 22 - 24.

CONDENSED BALANCE SHEET INFORMATION (Continued)

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 $100,384,000, $99,104,000 and $97,615,000 at December 31, 2011, 2010 and 2009, respectively.

By far, the largest portion of the Division's net assets, $66,176,000 and $65,837,000, at December 31, 2011 and 2010, respectively, reflects its investment in capital assets (e.g., land, buildings, utility plant, machinery and equipment), net of accumulated depreciation, less any related outstanding debt used to acquire those assets. The Division uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although the Division's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of net assets, $34,208,000 and $33,267,000, at December 31, 2011 and 2010, respectively, are unrestricted and 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 during 2011 increased its net assets by $1,280,000 and during 2010 increased its net assets by $1,489,000, respectively. Provided below are the key elements of the Division's results of operations for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
		(In thousands)	
Operating revenues	$ 22,199	$ 25,110	$ 27,700
Operating expenses	22,884	23,926	23,888
Operating income (loss)	(685)	1,184	3,812
Non-operating revenue (expense):			
Investment income	53	41	124
Interest expense	(121)	(139)	(157)
Other	53	13	22
Total non-operating revenue (expense), net	(15)	(85)	(11)
Income (loss) before other contributions	(700)	1,099	3,801
Capital and other contributions	1,980	390	
Increase (decrease) in net assets	1,280	1,489	3,801
Net assets, beginning of year	99,104	97,615	93,814
Net assets, end of year	$ 100,384	$ 99,104	$ 97,615

Operating revenues: Total operating revenues amounted to $22,199,000 in 2011. This was a decrease of $2,911,000 from the prior year, mainly due to decreasing consumption. In 2010, total operating revenues amounted to $25,110,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

Operating expenses: In 2011, total operating expenses decreased by $1,042,000. There was a decrease in operations costs of $683,000. In 2010, total operating expenses increased by $38,000. However, there was a decrease in maintenance costs by $874,000.

Non-operating revenues and expenses: Investment income increased by $12,000. In 2010, investment income decreased by $83,000. The decrease was due to lower interest rates and significantly fewer long-term investments.

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 PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
BALANCE SHEETS
December 31, 2011 and 2010

	2011	2010
	(In thousands)	
ASSETS		
CAPITAL ASSETS		
Land	$ 297	$ 297
Utility plant	131,132	128,560
Buildings, structures and improvements	8,948	8,948
Furniture, fixtures, equipment and vehicles	12,481	12,974
	152,858	150,779
Less: Accumulated depreciation	(93,179)	(89,016)
	59,679	61,763
Construction in progress	9,340	7,403
CAPITAL ASSETS, NET	69,019	69,166
RESTRICTED ASSETS		
Cash and cash equivalents	1,081	1,250
CURRENT ASSETS		
Cash and cash equivalents	38,560	37,449
Receivables:		
Accounts receivable - net of allowance for doubtful accounts of $5,932,000 in 2011 and $5,250,000 in 2010	109,275	112,040
Unbilled revenue	2,949	2,297
Due from other City of Cleveland departments, divisions or funds	416	418
Materials and supplies - at average cost	319	245
TOTAL CURRENT ASSETS	151,519	152,449
TOTAL ASSETS	$ 221,619	$ 222,865

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
BALANCE SHEETS
December 31, 2011 and 2010

	(In thousands) 2011	2010
NET ASSETS AND LIABILITIES		
NET ASSETS		
Invested in capital assets, net of related debt	$ 66,176	$ 65,837
Unrestricted	34,208	33,267
TOTAL NET ASSETS	100,384	99,104
LIABILITIES		
LONG-TERM OBLIGATIONS-excluding amounts due within one year:		
OWDA loans	2,123	2,604
OPWC loans	215	239
Accrued wages and benefits	144	167
TOTAL LONG-TERM OBLIGATIONS	2,482	3,010
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	505	486
Accounts payable	704	437
Construction payable	518	994
Amounts due for billing on behalf of others	105,837	108,245
Due to other City of Cleveland departments, divisions or funds	9,420	8,849
Current portion of accrued wages and benefits	1,562	1,584
Other accrued expenses	60	65
Customer deposits and other liabilities	147	91
TOTAL CURRENT LIABILITIES	118,753	120,751
TOTAL LIABILITIES	121,235	123,761
TOTAL NET ASSETS AND LIABILITIES	$ 221,619	$ 222,865

(Concluded)

See notes to financial statements.

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CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2011 and 2010

	(*In thousands*) 2011	2010
OPERATING REVENUES		
Charges for services	$ 22,199	$ 25,110
TOTAL OPERATING REVENUES	22,199	25,110
OPERATING EXPENSES		
Operations	9,315	9,998
Maintenance	8,835	8,927
Depreciation	4,734	5,001
TOTAL OPERATING EXPENSES	22,884	23,926
OPERATING INCOME (LOSS)	(685)	1,184
NON-OPERATING REVENUE (EXPENSE)		
Investment income	53	41
Interest expense	(121)	(139)
Other	53	13
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	(15)	(85)
INCOME (LOSS) BEFORE OTHER CONTRIBUTIONS	(700)	1,099
Capital and other contributions	1,980	390
INCREASE (DECREASE) IN NET ASSETS	1,280	1,489
NET ASSETS, BEGINNING OF YEAR	99,104	97,615
NET ASSETS, END OF YEAR	$ 100,384	$ 99,104

See notes to financial statements.

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011 and 2010

	(In thousands) 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 22,328	$ 21,275
Cash payments to suppliers for goods or services	(6,154)	(6,074)
Cash payments to employees for services	(10,227)	(10,352)
Agency activity on behalf of other sewer authorities	(681)	6,298
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	5,266	11,147
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(5,750)	(4,094)
Principal paid on long-term debt	(486)	(467)
Interest paid on long-term debt	(121)	(140)
Capital grant proceeds	1,980	390
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(4,377)	(4,311)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	53	41
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	53	41
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	942	6,877
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	38,699	31,822
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 39,641	$ 38,699

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011 and 2010

	2011 (In thousands)	2010
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$ (685)	$ 1,184
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	4,734	5,001
Changes in assets and liabilities:		
Accounts receivable, net	2,765	(11,913)
Accrued and unbilled revenue	(652)	(458)
Due from other City of Cleveland departments, divisions or funds	2	25
Materials and supplies, net	(74)	(54)
Accounts payable	267	292
Other accrued expenses	(5)	
Amounts due for billings on behalf of others	(2,408)	15,637
Due to other City of Cleveland departments, divisions or funds	571	938
Accrued wages and benefits	(45)	(195)
Customer deposits and other liabilities	796	690
TOTAL ADJUSTMENTS	5,951	9,963
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 5,266	$ 11,147

(Concluded)

NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Division of Water Pollution Control (the Division) is reported as an Enterprise Fund of the City of Cleveland's Department of Public Utilities and is a part of the City of Cleveland's (the City) primary government. The Division was created for the purpose of supplying sewer services to customers within the metropolitan area. 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 June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for the year ended December 31, 2010. The City has determined that GASB Statement No. 51 has no impact on its financial statements as of December 31, 2011. GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* was issued in June 2008. The City has determined that GASB Statement No. 53 has no impact on its financial statements as of December 31, 2011.

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

- Amount invested in capital assets, net of related debt.

- 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) guidance issued on or before November 30, 1989. However, from that date forward, Proprietary Funds will have the option of either 1) choosing not to apply future FASB guidance or 2) continuing to follow new FASB guidance (unless they conflict with GASB pronouncements). The City has chosen not to apply future FASB guidance.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues: Revenues are derived primarily from sales of sewer services to residential, commercial and industrial customers based upon actual water consumption. Sewer rates are authorized by City Council and billings are made on a cyclical basis. Estimates for services between the end of the various cycles and the end of the year are recorded as unbilled revenue.

Accounts Receivables: The Division's share of the accounts receivable balance is $13,229,000 and $13,980,000, net of allowance for doubtful accounts of $5,932,000 and $5,250,000, for 2011 and 2010, respectively. The remaining accounts receivable balances of $96,046,000 and $98,060,000 for 2011 and 2010, respectively, belong to the Northeast Ohio Regional Sewer District and other municipalities in the Greater Cleveland Region and are offset by the corresponding amounts due for billings on behalf of others.

Statement of Cash Flows: The Division utilizes the direct method of reporting for the statement of cash flows as defined by the Governmental Accounting Standards Board (GASB) Statement No. 9, *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. In a statement of cash flows, cash receipts and cash payments are classified according to operating, noncapital 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 maturity of three months or less when purchased and include certificates of deposit, U.S. Treasury bills, State Treasury Asset Reserve of Ohio (STAROhio), mutual funds and repurchase agreements. The City's policy is to enter into repurchase agreements with local commercial banks and to obtain confirmation of securities pledged.

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. The fair value is based on quoted market rates.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City has invested funds in STAROhio during years' 2011 and 2010. 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, 2011 and 2010.

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 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:

Utility plant	5 to 100 years
Building, 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 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. 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 B - LONG-TERM OBLIGATIONS

Long-term obligations outstanding at December 31, 2011 and 2010 as follows:

	Interest Rate	Original Issuance	2011	2010
			(In thousands)	
Ohio Water Development Authority (OWDA) Loans payable annually through 2017	4.04% - 4.18%	$ 7,897	$ 2,604	$ 3,066
Ohio Public Works Commission (OPWC) Loans payable annually through 2022	0%	481	239	263
		$ 8,378	2,843	3,329
Less:				
Current portion			(505)	(486)
Total Long-Term Debt			$ 2,338	$ 2,843

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2011 and 2010

NOTE B - LONG-TERM OBLIGATIONS (Continued)

Summary: Changes in long-term obligations for the year ended December 31, 2011 are as follows:

	Balance January 1, 2011	Increase	Decrease	Balance December 31, 2011	Due Within One Year
			(In thousands)		
Ohio Water Development Authority (OWDA) Loans payable annually through 2017	$ 3,066	$	$ (462)	$ 2,604	$ 481
Ohio Public Works Commission (OPWC) Loans payable annually through 2022	263		(24)	239	24
Total loans	3,329	-	(486)	2,843	505
Accrued wages and benefits	1,751	1,539	(1,584)	1,706	1,562
Total	$ 5,080	$ 1,539	$ (2,070)	$ 4,549	$ 2,067

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

	Balance January 1, 2010	Increase	Decrease	Balance December 31, 2010	Due Within One Year
			(In thousands)		
Ohio Water Development Authority (OWDA) Loans payable annually through 2017	$ 3,509	$	$ (443)	$ 3,066	$ 462
Ohio Public Works Commission (OPWC) Loans payable annually through 2022	287		(24)	263	24
Total loans	3,796	-	(467)	3,329	486
Accrued wages and benefits	1,946	1,560	(1,755)	1,751	1,584
Total	$ 5,742	$ 1,560	$ (2,222)	$ 5,080	$ 2,070

NOTE B - LONG-TERM OBLIGATIONS (Continued)

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

	Principal	Interest	Total
		(In thousands)	
2012	$ 505	$ 102	$ 607
2013	525	82	607
2014	546	61	607
2015	515	40	555
2016	481	20	501
2017-2021	260	3	263
2022	11		11
Total	$ 2,843	$ 308	$ 3,151

The Ohio Water Development Authority and Ohio Public Works Commission Loans are being paid from the revenues derived from operations of the Division.

Water Pollution Control Loans: Under Title VI of the Clean Water Act, Congress created the State Revolving Fund (SRF). The SRF program provides federal capitalization grants to states, in addition to the 20% state matching funds, in order to capitalize state level revolving loan funds. Besides the traditional types of municipal wastewater treatment projects, Congress expanded the potential use of SRF funds to include correction of combined sewer overflows, major sewer rehabilitation and new collector sewers.

In Ohio, this SRF program is known as the Water Pollution Control Loan Fund and is jointly administered by the Ohio EPA and the Ohio Water Development Authority. Principal balances on loans increase as project costs are incurred. Interest accrues on principal amounts outstanding during the construction period and is combined with the principal balance upon completion of the project. The repayment period for each loan commences no later than the 1st of January or July following the expected completion date of the project to which it relates utilizing an estimate of total eligible project costs as the preliminary loan amount. Construction loans and design loans are to be repaid in semi-annual payments of principal and interest over a period of twenty years and five years, respectively. The Division had five SRF loan awards related to projects as of December 31, 2011.

In addition, the Division had two OPWC loan awards as of December 31, 2011. The loan related projects are for sewer repair and replacement at the Hamlet and Adolpha Streets intersection, and a storm water detention basin project at Kerruish Park. Both loans are interest-free and principal repayment will be made from the Division's operating revenues.

NOTE C - DEPOSITS AND INVESTMENTS

Deposits: The Division's carrying amount of deposits at years ended December 31, 2011 and December 31, 2010 totaled $21,617,000 and $13,770,000, respectively, and the Division's bank balances were approximately $25,909,000 and $14,800,000, 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*, the entire bank balances for both years were insured or collateralized with securities held by the City or by its agent in the City's name.

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

Investments: The City's investment policies are governed by State statutes and City ordinances which authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; bonds and other State 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. 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.

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Division will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The Division does not have an investment policy dealing with investment custodial credit risk beyond the requirement in the State statute.

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

Credit Risk: The Division's investments as of December 31, 2011 and 2010 include STAROhio and mutual funds. The Division maintains the highest ratings for their investments. Investments in both STAROhio and 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. The Division has no investment policy that would further limit its investment choices.

Concentration of Credit Risk: The Division places a limitation on the amount it may invest in any one issuer to minimize the concentration of credit risk. The Division had the following investments at December 31, 2011 and 2010, which include those classified as cash and cash equivalents in the balance sheet in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

Type of Investment	2011 Fair Value	2011 Cost	2010 Fair Value	2010 Cost	Investment Maturities Less than One Year
			(In thousands)		
STAROhio	$ 6,135	$ 6,135	$ 10,048	$ 10,048	$ 6,135
Investment in Mutual Funds	11,889	11,889	14,881	14,881	11,889
Total Investments	18,024	18,024	24,929	24,929	18,024
Total Deposits	21,617	21,617	13,770	13,770	21,617
Total Deposits and Investments	$ 39,641	$ 39,641	$ 38,699	$ 38,699	$ 39,641

As of December 31, 2011, the investments in STAROhio and mutual funds are 34% and 66%, respectively, of the Division's total investments. As of December 31, 2010, the investments in STAROhio and mutual funds are 40% and 60%, respectively, of the Division's total investments.

NOTE D - CAPITAL ASSETS

Capital Asset Activity: Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance January 1, 2011	Additions	Reductions	Balance December 31, 2011
	(In thousands)			
Capital assets, not being depreciated:				
Land	$ 297	$	$	$ 297
Construction in progress	7,403	4,563	(2,626)	9,340
Total capital assets, not being depreciated	7,700	4,563	(2,626)	9,637
Capital assets, being depreciated:				
Utility plant	128,560	2,572		131,132
Buildings, structures and improvements	8,948			8,948
Furniture, fixtures, equipment and vehicles	12,974	78	(571)	12,481
Total capital assets, being depreciated	150,482	2,650	(571)	152,561
Less: Accumulated depreciation	(89,016)	(4,734)	571	(93,179)
Total capital assets being depreciated, net	61,466	(2,084)	-	59,382
Capital assets, net	$ 69,166	$ 2,479	$ (2,626)	$ 69,019

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2011 and 2010

NOTE D - CAPITAL ASSETS (Continued)

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

	Balance January 1, 2010	Recategor-izations *	Additions	Reductions	Balance December 31, 2010
			(In thousands)		
Capital assets, not being depreciated:					
Land	$ 297	$	$	$	$ 297
Construction in progress	13,688		3,032	(9,317)	7,403
Total capital assets, not being depreciated	13,985	-	3,032	(9,317)	7,700
Capital assets, being depreciated:					
Utility plant	125,614	(35)	2,981		128,560
Buildings, structures and improvements	2,658		6,290		8,948
Furniture, fixtures, equipment and vehicles	12,221	35	718		12,974
Total capital assets, being depreciated	140,493	-	9,989	-	150,482
Less: Accumulated depreciation	(84,015)		(5,001)		(89,016)
Total capital assets being depreciated, net	56,478	-	4,988	-	61,466
Capital assets, net	$ 70,463	$ -	$ 8,020	$ (9,317)	$ 69,166

***** Some Capital Assets were moved to more exact categories when assets were entered into the City's new Advantage Accounting System as of January 1, 2010**.**

Commitments: The Division had outstanding commitments of approximately $4,796,000 and $15,634,000 for future capital expenditures at December 31, 2011 and 2010, respectively. It is anticipated that these commitments will be financed from the Division's cash balances. However, at the discretion of the Division, additional long-term debt may be issued in the future to finance a portion of the costs.

NOTE E – DEFINED BENEFIT PENSION PLAN

***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, 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 2011, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2011, 2010 and 2009. The employer contribution rates were 14.00% of covered payroll in 2011, 2010 and 2009.

The Division's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2011, 2010 and 2009 were $704,000, $691,000 and $612,000 each year, respectively. The required payments due in 2011, 2010 and 2009 have been made.

NOTE F – 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 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, 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 2011, 2010 and 2009. 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 4.00% for members of the Traditional Plan in 2011, 6.05% for members of the Combined Plan in 2011, 5.50% from January 1, 2010 through February 28, 2010 and 5.00% from March 1, 2010 through December 31, 2010 and 7.00% from January 1, 2009 through March 31, 2009 and 5.50% from April 1, 2009 through December 31, 2009. The portion of employer contributions allocated to health care beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during 2012. 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 $281,000 in 2011, $394,000 in 2010 and $443,000 in 2009.

NOTE F – OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

NOTE G - 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 suits. 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 2011 or 2010.

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 Division participates in the State of Ohio workers' compensation retrospective rating program.

In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors.

The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses, regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Claims liability for the Division is immaterial.

NOTE H - RELATED PARTY TRANSACTIONS

Revenues and Accounts Receivable: The Division provides sewer services to the City, including its various departments and divisions. Standard consumption rates are charged, except for the Division of Fire, public buildings and certain other facilities owned by the City, which by ordinance are provided free sewer services.

Billing and collection services for the Division are performed by the Division of Water for a fee. This fee is based on the number of billings made on behalf of the Division during the year at the same rates as charged to other users of the billing system. Fees incurred to the Division of Water for such services were approximately $2,414,000 and $2,350,000 in 2011 and 2010, respectively.

NOTE H - RELATED PARTY TRANSACTIONS (Continued)

***Operating Expenses**:* The Division is provided various intra-city services. Charges are based on actual use or on a reasonable pro-rata basis. The more significant costs for the years ended December 31, 2011 and 2010 were as follows:

	(In thousands)	
	2011	**2010**
Electricity purchases	$ 204	$ 152
Street construction and maintenance	199	193
City Administration	456	469
Motor Vehicle Maintenance	458	324
Utilities Administration and Utilities Fiscal Control	477	390
Services provided by the Division of Water	467	584

NOTE I - CUYAHOGA COUNTY REAL PROPERTY TAXES

The Division is required by ordinance to keep records of the estimated property taxes which would be payable to Cuyahoga County were it subject to such taxes. The estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately $21,181 and $22,010 for the years ended December 31, 2011 and 2010, respectively.

CITY OF CLEVELAND

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
SEPTEMBER 6, 2012