# CITY OF CLEVELAND, OHIO

Single Audit Reports

Year Ended December 31, 2012

CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

City Council
City of Cleveland
601 Lakeside Avenue
Cleveland, Ohio 44114

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, 2012 through December 31, 2012. 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

August 26, 2013

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**TABLE OF CONTENTS**

# CITY OF CLEVELAND
# CUYAHOGA COUNTY
## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**For The Year Ended December 31, 2012**

| 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 2012 | | 10.559 | $ 294,258 |
| **Total Department of Agriculture** | | | 294,258 |
| Department of Energy | | | |
| Weatherization Assistance for Low-Income Persons 2011 | | 81.042 | 3,506,926 |
| Weatherization Assistance for Low-Income Persons 2012 | | 81.042 | 700,804 |
| ARRA-Weatherization Assistance for Low-Income Persons 2009 | | 81.042 | 715,655 |
| | | | 4,923,385 |
| ARRA-Energy Efficiency Appliance Rebate Program Grant | | 81.127 | 91,337 |
| ARRA-Energy Efficiency And Conservation Block Grant Program (EECBG) | | 81.128 | 1,685,483 |
| **Total Department of Energy** | | | 6,700,205 |
| Department of Health and Human Service | | | |
| Healthy Start Initiative Yr 11 | | 93.926 | 1,140,029 |
| Healthy Start Initiative Yr 12 | | 93.926 | 920,682 |
| **Subtotal** | | | 2,060,711 |
| Family Planning Services Title X FY 2012 | | 93.217 | 176,430 |
| Family Planning Services Title X FY 2013 | | 93.217 | 98,527 |
| **Subtotal** | | | 274,957 |
| Pass Through Programs: | | | |
| Ohio Department of Health: | | | |
| Centers for Disease Control and Prevention - Investigations and Technical Assistance: | | | |
| Substance Abuse and Mental Health Services Administration | 5H79TI019946-02 | 93.243 | 86,248 |
| Substance Abuse and Mental Health Services Administration | 5H79TI019946-03 | 93.243 | 13,703 |
| Substance Abuse and Mental Health Services Administration | 1H79TI023734-01 | 93.243 | 67,974 |
| **Subtotal** | | | 167,925 |
| Ohio Department of Health: | | | |
| Immunization Grants 2010 | 18-100-1-2-IM-0110 | 93.268 | 226 |
| Immunization Grants 2011 | 18-100-1-2-IM-0111 | 93.268 | 93,132 |
| **Subtotal** | | | 93,358 |
| Ohio Department of Health: | | | |
| Childhood Lead Poisoning Prevention 2011/2012 | 18-2-001-1-BD-11 | 93.197 | 47,110 |
| Ohio Department of Health: | | | |
| Centers for Disease Control and Prevention - Investigations and Technical Assistance: | | | |
| City Readiness Initiative 2011 | 18-200-1-2-PI-0211 | 93.069 | 2,085 |
| City Readiness Initiative 2012 | 18-200-1-2-PI-0312 | 93.069 | 440,705 |
| City Readiness Initiative 2013 | 18-200-1-2-PI-0413 | 93.069 | 53,171 |
| Public Health Collaborative 2011 | 18-1-001-2-BI-11 | 93.069 | 346 |
| Public Health Collaborative 2012 | 18-1-001-2-BI-12 | 93.069 | 136,633 |
| Public Health Collaborative 2013 | 18-1-001-2-BI-13 | 93.069 | 67,421 |
| PHER Area 3 2011 | | 93.069 | 5,590 |
| **Subtotal** | | | 705,951 |

(Continued)

# CITY OF CLEVELAND
# CUYAHOGA COUNTY
## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**For The Year Ended December 31, 2012**

| 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 | 5,591 |
| WRAAA Supportive Services | | 93.044 | 9,265 |
| WRAAA OAA/ADRC Project | | 93.044 | 144,092 |
| WRAAA Supportive Services | | 93.044 | 91,778 |
| **Subtotal** | | | 250,726 |
| WRAAA Supportive Services/MIPPA | | 93.779 | 2,995 |
| Ohio Department of Health: | | | |
| Preventive Health Services-Sexually Transmitted Diseases: | | | |
| Sexually Transmitted Diseases Diagnosis & Treatment 2011 | 18-2-001-2-BX-11 | 93.977 | 26,282 |
| Sexually Transmitted Diseases Diagnosis & Treatment 2012 | 18-2-001-2-SD-0112 | 93.977 | 120,649 |
| **Subtotal** | | | 146,931 |
| Ohio Department of Health: | | | |
| HIV Prevention 2010 | 18-2-001-2-AS-10 | 93.940 | 3,381 |
| HIV Prevention 2011 | 18-2-001-2-AS-11 | 93.940 | 72,520 |
| HIV Prevention 2012 | 18-2-001-2-AS-12 | 93.940 | 721,094 |
| **Subtotal** | | | 796,995 |
| Cuyahoga County Board of Health: | | | |
| Block Grants for Prevention and Treatment of Substance Abuse: | | | |
| Student Assistance 2012 Treatment | | 93.959 | 175,275 |
| Student Assistance 2012 Prevention | | 93.959 | 5 |
| **Subtotal** | | | 175,280 |
| Ohio Department of Development: | | | |
| Low-Income Home Energy Assistance-HHS 2011 | 11-111 | 93.568 | 41,407 |
| Low-Income Home Energy Assistance-HHS 2012 | 12-111 | 93.568 | 781,879 |
| Low-Income Home Energy Assistance-HHS 2009 | 10-111 | 93.568 | 998,089 |
| **Subtotal** | | | 1,821,375 |
| **Total Department of Health and Human Services** | | | 6,544,314 |
| Department of Housing & Urban Development | | | |
| Ohio Department of Health: | | | |
| Lead Hazard Reduction Demonstration Grant Program 2010 | OHLHD0188-08 | 14.905 | 695,344 |
| CDBG Yr 30 | | 14.218 | 197,115 |
| CDBG Yr 31 | | 14.218 | 74,592 |
| CDBG Yr 32/33 | | 14.218 | 33,094 |
| CDBG Yr 34 | | 14.218 | 170,313 |
| CDBG Yr 35 | | 14.218 | 567,363 |
| CDBG Yr 36 | | 14.218 | 3,080,150 |
| CDBG Yr 37 | | 14.218 | 13,508,795 |
| CDBG Yr 38 | | 14.218 | 8,793,866 |
| CDBG Neighborhood Stabilization Program | | 14.218 | 4,494,036 |
| NSP 3 | | 14.218 | 2,640,302 |
| SHAP/CHORE 2007-2008 | | 14.218 | 105,563 |
| ARRA-CDBG Entitlement Grants (CDBG-R) (Recovery Act Funded) | | 14.253 | 1,019,087 |
| **Subtotal** | | | 34,684,276 |
| Lead Technical Studies Grants 2009 | OHLHB0400-08 | 14.900 | 258,392 |
| Lead Technical Studies Grants 2010 | OHLHB0400-08 | 14.900 | 587,003 |
| **Subtotal** | | | 845,395 |

(Continued)

# CITY OF CLEVELAND
# CUYAHOGA COUNTY
## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**For The Year Ended December 31, 2012**

| Federal Grant/ Pass Through Grantor/ Program Title | Pass Through Entity Number | Federal CFDA Number | Federal Expenditures |
|---|---|---|---|
| Department of Housing & Urban Development (continued): | | | |
| Healthy Homes Production Program Grant | | 14.913 | 59,431 |
| HOME Investment Partnerships Program 1992 | | 14.239 | 4,185 |
| HOME Investment Partnerships Program 2001 | | 14.239 | 15,712 |
| HOME Investment Partnerships Program 2003 | | 14.239 | 285,000 |
| HOME Investment Partnerships Program 2005 | | 14.239 | 170,000 |
| HOME Investment Partnerships Program 2007 | | 14.239 | 44,568 |
| HOME Investment Partnerships Program 2008 | | 14.239 | 418,259 |
| HOME Investment Partnerships Program 2009 | | 14.239 | 4,623,826 |
| HOME Investment Partnerships Program 2011 | | 14.239 | 2,531,172 |
| HOME Investment Partnerships Program 2012 | | 14.239 | 12,645 |
| **Subtotal** | | | 8,105,367 |
| Emergency Shelter Grants Program 2010 | | 14.231 | 89,872 |
| Emergency Shelter Grants Program 2011 | | 14.231 | 923,129 |
| **Subtotal** | | | 1,013,001 |
| Housing Opportunities for Persons With Aids 2009 | | 14.241 | 92,492 |
| Housing Opportunities for Persons With Aids 2010 | | 14.241 | 337,996 |
| Housing Opportunities for Persons With Aids 2011 | | 14.241 | 937,760 |
| **Subtotal** | | | 1,368,248 |
| Empowerment Zones Program | | 14.244 | 2,168,446 |
| Evergreen HUD 108 | | 14.248 | 25,979 |
| Hemingway HUD 108 | | 14.248 | 399,457 |
| **Subtotal** | | | 425,436 |
| Pass Through Programs: | | | |
| Ohio Department of Development: | | | |
| CDBG - Neighborhood Stabilization Program | A-Z-08-264-1 | 14.228 | 855,278 |
| Ohio Department of Development: | | | |
| ARRA Homeless Prevention | S-09-MY-39-0004 | 14.257 | 2,050,569 |
| ARRA-Neighborhood Stabilization Program NSP HUD | B-09-CN-OH-0032 | 14.256 | 12,151,599 |
| **Total Department of Housing & Urban Development** | | | 64,422,390 |
| Department of Justice | | | |
| Public Safety Partnership and Community Policing Grants: | | | |
| Cleveland Universal Hiring II | | 16.710 | 1,716,018 |
| ARRA Cleveland Universal Hiring II | | 16.710 | 3,678,009 |
| Federal DOJ-COPS Technology GR | | 16.710 | 660,157 |
| **Subtotal** | | | 6,054,184 |
| 2010-Edward Byrne Memorial-JAG | 2010-DJ-BX-0251 | 16.738 | 105,531 |
| ARRA-Recovery Act - Edward Byrne Memorial Justice Assistance Grants to Units of Local Government | 2009-SB-B9-0367 | 16.804 | 226,777 |
| Pass Through Programs: | | | |
| Ohio Department of Public Safety: | | | |
| 2010-Edward Byrne Memorial-NOLETF | 2010-JG-A01-6444 | 16.738 | 392 |
| 2011-Edward Byrne Memorial-NOLETF | 2011-JG-A01-6444 | 16.738 | 140,250 |
| 2011-Edward Byrne Memorial-NOVCC | 2011-JG-A02-6947 | 16.738 | 32,215 |

(Continued)

# CITY OF CLEVELAND
# CUYAHOGA COUNTY
## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**For The Year Ended December 31, 2012**

| Federal Grant/ Pass Through Grantor/ Program Title | Pass Through Entity Number | Federal CFDA Number | Federal Expenditures |
|---|---|---|---|
| Department of Justice (continued): | | | |
| ARRA-Edward Byrne Memorial Justice Assistance Grant Local | 2009-SB-B9-0367 | 16.804 | 12,126 |
| Cuyahoga County - Department of Justice Affairs: | | | |
| Edward Byrne Memorial Justice Assistance Grant Programs (JAG): | | | |
| 2012-Edward Byrne Memorial-JAG | 08-JAG-MUN-01 | 16.738 | 378,828 |
| **Subtotal** | | | 896,119 |
| 2010 Paul Coverdell | 2010-CD-BX-0071 | 16.742 | 16,030 |
| State of Ohio - Office of Criminal Justice Services: | | | |
| Law Enforcement Trust Federal | | 16.000 | 34,719 |
| State of Ohio - Office of Criminal Justice Services: | | | |
| Violence Against Women Formula Grants : | | | |
| Education, Training, and Enhanced Services to End Violence Against and Abuse of Women with Disabilities | 2011-FW-AX-K004 | 16.529 | 5,255 |
| State of Ohio - Office of Criminal Justice Services: | | | |
| Violence Against Women Formula Grants : | | | |
| VAWA Team Approach 2009 Law | 2009-VP-VA2-V041 | 16.588 | 1,375 |
| VAWA Team Approach 2010 Law | 2010-VP-VA2-V041 | 16.588 | 119,001 |
| VAWA Team Approach 2011 Law | 2010-VP-VA2-V041 | 16.588 | 94,153 |
| VAWA Team Approach 2011 Law Court Training Program | 2011-WC-AX-0002 | 16.588 | 11,612 |
| **Subtotal** | | | 226,141 |
| State of Ohio - Office of Criminal Justice Services: | | | |
| VAWA Team Approach 2010 Safety | 2010-VP-VA2-V042 | 16.590 | 153,477 |
| VAWA Team Approach 2010 Safety | 2010-VP-VA2-V042 | 16.590 | 153,571 |
| VAWA Team Approach 2011 Safety | 2010-VP-VA2-V042 | 16.590 | 131,516 |
| **Subtotal** | | | 438,564 |
| State of Ohio - Office of Criminal Justice Services: | | | |
| Juvenile Accountability Incentive Block Grants 2010 | 2010-JB-MUN-1001 | 16.523 | 6,992 |
| Juvenile Accountability Incentive Block Grants 2011 | 2011-JB-MUN-1001 | 16.523 | 45,872 |
| Juvenile Accountability Incentive Block Grants 2012 | 2012-JB-MUN-1001 | 16.523 | 275 |
| **Subtotal** | | | 53,139 |
| Ohio Department of Public Safety: | | | |
| Cleveland V-Grip | 2007-PS-PSN-347A | 16.609 | 11,216 |
| Cleveland V-Grip | 2009-PS-PSN-347A | 16.609 | 18,000 |
| **Subtotal** | | | 29,216 |
| Ohio Department of Public Safety: | | | |
| Anti-Gang Initiative 2006 | 2006-PS-CAG-372 | 16.744 | 119,642 |
| Ohio Department of Public Safety: | | | |
| Gang Resistance Education and Training 2009 | 2009-JV-FX-0001 | 16.737 | 61,234 |
| **Total Department of Justice** | | | 7,934,243 |
| 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 | 3,055,860 |
| **Total Department of Commerce** | | | 3,055,860 |
| Department of Labor | | | |
| Ohio Department of Jobs and Family Services: | | | |
| WIA Adult Program | G-1011-15-0258 | 17.258 | 1,111,779 |
| WIA Youth Program | G-1011-15-0258 | 17.259 | 20,812 |
| WIA Dislocated Worker Program | G-1011-15-0258 | 17.278 | 409,721 |
| **Total Department of Labor** | | | 1,542,312 |

(Continued)

**CITY OF CLEVELAND**
**CUYAHOGA COUNTY**
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For The Year Ended December 31, 2012**

| Federal Grant/ Pass Through Grantor/ Program Title | Pass Through Entity Number | Federal CFDA Number | Federal Expenditures |
|---|---|---|---|
| Department of Transportation | | | |
| Airport Improvement Program | | 20.106 | 3,411,599 |
| Pass Through Programs: | | | |
| Ohio Department of Transportation: | | | |
| Lakes to Lakes Trail/Woodland | PID 90183 | 20.205 | 596,135 |
| SRTS FY 2009 Signals | CUY-SRTS-2009-CLE3 | 20.205 | 5,647 |
| Ohio Department of Transportation: | | | |
| ARRA- East 14th Street | PID 87358 | 20.205 | 99,650 |
| ARRA- Avenue District Ph IV | PID 86251 | 20.205 | 16,896 |
| ARRA- KAMM'S CORNER | PID 86255 | 20.205 | 431,055 |
| Northeast Ohio Areawide Coordinating Agency: | | | |
| Federal NOACA Miles Ave Street | PID 84338 | 20.205 | 55,000 |
| Federal NOACA Kamm's Corner | PID 84338 | 20.205 | 19,044 |
| Federal NOACA East 22 Trans Plan | PID 84338 | 20.205 | 49,383 |
| Federal NOACA League Park Plan | PID 84338 | 20.205 | 40,929 |
| Federal NOACA Westside Market Revival | PID 84338 | 20.205 | 17,200 |
| Federal NOACA Variety Village Study | PID 84339 | 20.205 | 11,680 |
| Federal NOACA UCI Bicycle Network Study | PID 84339 | 20.205 | 17,452 |
| Federal NOACA W. 65 Corridor Study | PID 84339 | 20.205 | 32,592 |
| Federal NOACA E. 55 & Euclid Ave. | PID 84339 | 20.205 | 49,806 |
| Federal NOACA E. 131 St. Corridor Plan | PID 84339 | 20.205 | 43,160 |
| **Subtotal** | | | 1,485,629 |
| **Total Department of Transportation** | | | 4,897,228 |
| Department of Environmental Protection Agency | | | |
| Direct Programs: | | | |
| Air Pollution Control Program Support 2011 | | 66.001 | 104,295 |
| Air Pollution Control Program Support 2012 | | 66.001 | 2,178,494 |
| Air Pollution Control Program Support 2013 | | 66.001 | 430,155 |
| **Subtotal** | | | 2,712,944 |
| Pass Through Programs: | | | |
| Ohio Water Development Authority | | | |
| OWDA Water | 5133 | 66.468 | 817,479 |
| OWDA Water | 6213 | 66.468 | 145,916 |
| **Subtotal** | | | 963,395 |
| Pass Through Programs: | | | |
| Cuyahoga County: | | | |
| ARRA-Warner Swasey Brownfield ASBES | 2B-00E97301-0 | 66.818 | 1,046,401 |
| Warner Swasey Clean Ohio | BL-00E45201-1 | 66.818 | 200,000 |
| **Subtotal** | | | 1,246,401 |
| Brownfield Assessment Grant | | 66.814 | 92,884 |
| Chemical Emergency Preparedness and Prevention: | | | |
| Bio-Watch Program 2011 | | 66.810 | 3,606 |
| Bio-Watch Program 2012 | | 66.810 | 248,113 |
| Bio-Watch Program 2013 | | 66.810 | 119,870 |
| **Subtotal** | | | 371,589 |
| **Total Environmental Protection Agency** | | | 5,387,213 |
| Department of Homeland Security | | | |
| Metropolitan Medical Response System 2004 | | 97.071 | 12,548 |
| Metropolitan Medical Response System 2004-6 | | 97.071 | 6,601 |
| Metropolitan Medical Response System 2006 | | 97.071 | 5,857 |
| Metropolitan Medical Response System 2007 | | 97.071 | 4,250 |
| Metropolitan Medical Response System 2008 | | 97.071 | 150,802 |
| Metropolitan Medical Response System 2009 | | 97.071 | 241,790 |
| Metropolitan Medical Response System 2010 | | 97.071 | 246,205 |
| **Subtotal** | | | 668,053 |

(Continued)

# CITY OF CLEVELAND
# CUYAHOGA COUNTY
## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**For The Year Ended December 31, 2012**

| Federal Grant/ Pass Through Grantor/ Program Title | Pass Through Entity Number | Federal CFDA Number | Federal Expenditures |
|---|---|---|---|
| Department of Homeland Security (continued): | | | |
| Assistance to Firefighters Grant | | 97.044 | 999 |
| Assistance to Firefighters Grant | | 97.044 | 48,497 |
| Assistance to Firefighters Grant | | 97.044 | 42,880 |
| **Subtotal** | | | 92,376 |
| Port Security Grant Program | | 97.056 | 378,808 |
| Port Security Grant Program | | 97.056 | 159,430 |
| **Subtotal** | | | 538,238 |
| National Explosives Detection Canine Team Program | | 97.072 | 122,193 |
| FEMA Diaster Grant Federal Portion | | 97.036 | 1,022,449 |
| 2009 Safer Grant | | 97.083 | 11,473 |
| 2010 Safer Grant | | 97.083 | 1,875,876 |
| **Subtotal** | | | 1,887,349 |
| 2008 (LETPP) Law Enforcement Terrorism Prevention Program | | 97.074 | 9,300 |
| 2009 (LETPP) Law Enforcement Terrorism Prevention Program | | 97.074 | 678,944 |
| **Subtotal** | | | 688,244 |
| Law Enforcement Officer Reimbursement Agreement Program | | 97.090 | 356,788 |
| *Cuyahoga County Department of Justice Affairs* | | | |
| Urban Area Security Initiative 2007 | 2007-GE-T7-0030 | 97.008 | 132,026 |
| Urban Area Security Initiative 2008 | 2008-GE-T8-0025 | 97.008 | 111,745 |
| Urban Area Security Initiative 2009 | 2009-SS-T9-0089 | 97.008 | 726,712 |
| Urban Area Security Initiative 2010 | 2010-SS-T0-0012 | 97.008 | 405,456 |
| Urban Area Security Initiative 2005 | | 97.008 | 9,143 |
| Urban Area Security Initiative 2006 | | 97.008 | 9,785 |
| **Subtotal** | | | 1,394,867 |
| Pass Through Programs: | | | |
| State of Ohio Emergency Management Agency: | | | |
| Public Safety Fire Grants: | | | |
| Buffer Zone Protection FY 05 | 2005-GR-T5-0012 | 97.078 | 2 |
| Buffer Zone Protection FY 07 | 2007-BZ-T7-0048 | 97.078 | 5,768 |
| Buffer Zone Protection FY 09 | 2009-BF-T9-0046 | 97.078 | 102,514 |
| Wind Power Project | | 97.078 | 1,575 |
| **Subtotal** | | | 109,859 |
| **Total Department of Homeland Security** | | | 6,880,416 |
| **Grand Total** | | | $ 107,658,439 |

(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 2012:

| | |
|---|---|
| Beginning loans receivable balance as of January 1, 2012 | $1,713,599 |
| Loans made during 2012 | 1,201,599 |
| Loan principal repaid on loans issued prior to 2012 | (936,105) |
| Loan principal repaid on 2012 loans issued | (39,848) |
| Ending loans receivable balance as of December 31, 2012 | 1,939,245 |

| | |
|---|---|
| Cash balance on hand in the revolving loan fund as of December 31, 2012 | |
| Cash balance, unobligated | 808,774 |
| Revolving loan committed but not disbursed | 647,381 |
| Total unobligated cash and committed but not disbursed cash | 1,456,155 |
| Total value of revolving loan portion of the EDA 11.307 program | 3,395,400 |
| Less: City's matching share | (339,540) |
| Total federal value of revolving loan portion as of December 31, 2012 | 3,055,860 |

**Revolving Loan Fund (Continued)**

| | |
|---|---|
| 4500 LTD | $25,521 |
| Binkowsky-Dougherty Distribution, LLC | $200,000 |
| Bula Forge & Machine Inc. | 70,253 |
| Cardioninsight Tech, INC | 163,879 |
| CEAM Investment Co. | 108,310 |
| Evergreen Cooperative | 22,922 |
| Evergreen Real Estate Corporation | 229,863 |
| Hemingway | 500,000 |
| Jane and Arthur Ellison LTD | 94,824 |
| Northern Ohio Lumber & Timber Co. | 179,448 |
| Ohio Cooperative Solar INC | 48,207 |
| Otto Konigslow Manufacturing Co. | 16,477 |
| Proxy Biomedical | 65,999 |
| Replica Engineering Inc. | 2,891 |
| Sparkbase LLC | 12,892 |
| Unger Company | 90,183 |
| Zen Industries Inc. | 23,244 |
| Northeast Ohio Neighborhood Real Estate | 60,413 |
| Northeast Ohio Neighborhood Real M & E | 23,921 |
| | $1,939,245 |

**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***

**INDEPENDENT AUDITORS' REPORT**

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

We have audited, in accordance with the 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, 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, 2012 and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 25, 2013, wherein we noted the City implemented Governmental Accounting Standards Board Statement No. 60, 62, 63 and 64.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding 2012-1 that we consider to be a significant deficiency.

**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*.

**City's Response to Finding**

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 25, 2013

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

**INDEPENDENT AUDITORS' REPORT**

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

**Report on Compliance for Each Major Federal Program**

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, 2012. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of 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, 2012.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-2, 2012-3 and 2012-4. Our opinion on each major federal program is not modified with respect to these matters.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

**Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of compliance requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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. A *significant deficiency in internal control over compliance* is a deficiency, or a 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.

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 material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2012-2, 2012-3 and 2012-4 that we consider to be significant deficiencies.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the City as of and for the year ended December 31, 2012, and have issued our report thereon dated June 25, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 25, 2013

**CITY OF CLEVELAND, OHIO**
**Schedule of Findings and Questioned Costs**
**Year Ended December 31, 2012**

## Section I – Summary of Auditors' Results

### ***Financial Statements***

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

Identification of major programs:

- 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
- CFDA 16.710 – ARRA – Public Safety Partnership and Community Policing Grants
- CFDA 20.205 – ARRA – Highway Planning and Construction
- CFDA 81.128 – ARRA – Energy Efficiency and Conservation Block Grant Program

| | |
|---|---|
| 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

### Finding 2012-1 – Correction of an Error

During 2012, new fiscal management of the Department of Public Utilities, Division of Water determined the City had not previously reported nearly $165 million of infrastructure capital assets in the City's financial statements. These capital assets were obtained by the City through water service agreements signed over a period of years beginning in 2005 with surrounding cities served by the Division of Water. The agreements specify the City will maintain the water system infrastructure in exchange for ownership of the assets.

The unrecorded capital assets acquired prior to 2012 have been reported in the current year financial statements as a prior period restatement. The Division of Water capitalized assets relating to new water service agreements signed in 2012. We recommend the City develop procedures for future significant contracts and agreements to determine the appropriate accounting and reporting.

*Management Response:* The City recognizes the importance of ensuring Division of Water's financial statements are correct, the Division of Fiscal Control inadvertently did not add the assets as water service agreements were entered into. As part of the Department's reorganization, the process of recognizing all assets in the year they were required has been assigned to our capital assets unit which will work with the Division's engineering unit to make the appropriate updates within the Advantage Accounting system at the time that the agreements are entered into.

## Section III – Federal Award Findings and Questioned Costs

### DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

### Finding 2012-2 – ARRA - Neighborhood Stabilization Program – CFDA 14.256

*Condition:* We performed tests to determine if the City was in compliance with time and effort documentation requirements for payroll charged to the federal program. The City allocates payroll and benefits for certain employees working on the federal program. Employees spending less than 100% of their time on the program do not track actual time spent on the program, instead their time is charged based on a budget estimate.

*Criteria:* 2 CFR 225, Appendix B requires where employees work on multiple activities or cost objectives, a distribution of their salaries and wages to be supported by personnel activity reports or equivalent documentation. Personnel activity reports are required under various circumstances, including when employees work on more than one federal award. Personnel activity reports must reflect after-the-fact distribution of actual activity of each employee, must account for the total activity for which each employee is compensated, must be prepared at least monthly and must be signed by the employee. 2 CFR 225, Appendix B goes on to state, budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards.

*Context:* The City charged $207,891 for payroll costs to the program for employees charging less than 100% of their time to this program. None of these employees prepared personnel activity reports or equivalent documentation.

*Cause:* The Department of Community Development was unaware of time and effort documentation requirements for employees charging less than 100% to the program.

*Effect:* Costs of $207,891 are questioned as a result of not maintaining appropriate time and effort documentation.

*Recommendation:* We recommend the City communicate the importance of maintaining time and effort documentation to all departments and divisions operating federal programs and ensure proper documentation is maintained.

*Views of Responsible Officials:* The NSP-ARRA costs in question ($207,891, 0.82% of the grant) are real, eligible, reasonable, and NSP-related.

In the future, the Department of Community Development agrees to use either timesheets or develop an alternative method pre-approved by HUD. The importance of keeping timesheets reflecting actual time spent on each grant has been communicated to administrative staff and is being maintained for 2013.

**Finding 2012-3 – Neighborhood Stabilization Program – CFDA 14.218**

*Condition:* While testing the ARRA Neighborhood Stabilization program, we noted employees charging time to that program also charged time to the Neighborhood Stabilization Program. Employees spending less than 100% of their time on the program do not track actual time spent on the program, instead their time is charged based on a budget estimate.

*Criteria:* 2 CFR 225, Appendix B requires where employees work on multiple activities or cost objectives, a distribution of their salaries and wages to be supported by personnel activity reports or equivalent documentation. Personnel activity reports are required under various circumstances, including when employees work on more than one federal award. Personnel activity reports must reflect after-the-fact distribution of actual activity of each employee, must account for the total activity for which each employee is compensated, must be prepared at least monthly and must be signed by the employee. 2 CFR 225, Appendix B goes on to state, budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards.

*Context:* The City charged $337,511 of payroll costs for employees charging less than 100% of their time to this program. None of these employees prepared personnel activity reports or equivalent documentation.

*Cause:* The Department of Community Development was unaware of time and effort documentation requirements for employees charging less than 100% to the program.

*Effect:* Costs of $337,511 are questioned as a result of not maintaining appropriate time and effort documentation.

*Recommendation:* We recommend the City communicate the importance of maintaining time and effort documentation to all departments and divisions operating federal programs and ensure proper documentation is maintained.

*Views of Responsible Officials:* The NSP1 costs in question ($336,511, 2.09% of the grant) are real, eligible, reasonable, and NSP-related.

In the future, the Department of Community Development agrees to use either timesheets or develop an alternative method pre-approved by HUD. The importance of keeping timesheets reflecting actual time spent on each grant has been communicated to administrative staff and is being maintained for 2013.

**DEPARTMENT OF ENERGY**

**Finding 2012-4 – ARRA – Energy Efficiency and Conservation Block Grant Program – CFDA 81.128**

*Condition:* We performed tests to determine if the City was in compliance with time and effort requirements for payroll charged to the federal program. The City allocates payroll and benefits for certain employees working on the federal program. Employees spending less than 100% of their time on the program do not track actual time spent on the program, instead their time is charged based on budget estimates.

*Criteria:* 2 CFR 225, Appendix B requires where employees work on multiple activities or cost objectives, a distribution of their salaries and wages to be supported by personnel activity reports or equivalent documentation. Personnel activity reports are required under various circumstances, including when employees work on an unallowable activity and a direct cost activity. Personnel activity reports must reflect after-the-fact distribution of actual activity of each employee, must account for the total activity for which each employee is compensated, must be prepared at least monthly and must be signed by the employee. 2 CFR 225, Appendix B goes on to state, budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards.

*Context:* The City charged $67,286 payroll costs for an employee which represented 90% of the employee's salary even though the City asserts the employee actually spends 100% of his time on the program. For employees that spend 100% of their time on a federal program, a semi-annual certificate should be prepared which indicates the employee fully devotes their time to the program in lieu of preparing personnel activity reports. No such certificates were prepared for the employee nor did the employee prepare personnel activity reports which support the allocation of 90% of their salary to the program.

*Cause:* The Office of Sustainability was unaware of time and effort documentation requirements for employees charging less than 100% to the program.

*Effect:* Costs of $67,286 are questioned as a result of not maintaining appropriate time and effort documentation.

*Recommendation:* We recommend the City communicate the importance of maintaining time and effort documentation to all departments and divisions operating federal programs and ensure proper documentation is maintained.

*Views of Responsible Officials:* We reviewed the importance of the time and effort documentation with personnel who oversee the grant. In addition, all personnel who are charged to the grant part time will submit detailed timesheets weekly to the Utilities CFO office. Any employees who spend 100% of their time on the grant will complete a semi-annual certificate indicating the employee fully devotes their time to the program.

**<u>Finding 2011-1 – Highway Planning and Construction – CFDA 20.205</u>**

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

*Status:* Corrected.

# CITY OF CLEVELAND, OHIO

*COMPREHENSIVE ANNUAL FINANCIAL REPORT*

**For the Fiscal Year Ended December 31, 2012**

# *CITY OF CLEVELAND*

## *Comprehensive Annual Financial Report*

### *For the year ended December 31, 2012*

Issued by the
Department of Finance

Sharon Dumas
Director

James E. Gentile, CPA
City Controller

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# CITY OF CLEVELAND, OHIO

## TABLE OF CONTENTS
## COMPREHENSIVE ANNUAL FINANCIAL REPORT
## FOR THE YEAR ENDED DECEMBER 31, 2012

Page



**Statistical Section**

# INTRODUCTORY SECTION

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June 25, 2013

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, 2012. 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 2012 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, 2012, 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 unmodified opinion that the City's financial statements for the year ended December 31, 2012 are fairly presented in conformity with GAAP. The Independent Auditors' 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 2003 through 2012.

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 28th 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 ninth 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 November of 2010, Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. As required, the City has implemented GASB Statement No. 60 effective for the 2012 fiscal year.

In December of 2010, Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations, (2) Accounting Principles Board Opinions and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. As required, the City has implemented GASB Statement No. 62 effective for the 2012 fiscal year.

In June of 2011, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period and an acquisition of net position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. As required, the City has implemented GASB Statement No. 63 effective for the 2012 fiscal year.

In June of 2011, Governmental Accounting Standards Board (GASB) Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision* was issued. This Statement is effective for fiscal periods beginning after June 15, 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. As required, the City has implemented GASB Statement No. 64 effective for the 2012 fiscal year.

*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 61 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 118.

## 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 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 5.3% in 2012.

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 |
| Accomodation and Food Services | 9.47 |
| Other Services | 3.42 |
| Total | 100.00 % |

*Current Projects and 2012 Accomplishments*

The 2012 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 2012 programmatic goals and projects without an income or property tax increase:

Department of Community Development

- Expended $20,141,000 of Neighborhood Stabilization Program (NSP-1 and NSP-2), $1,019,000 of Community Development Block Grant - American Recovery and Reinvestment Act (CDBG-ARRA) and $716,000 of ARRA Home Weatherization Assistance Program (HWAP) funds to support demolition, land reutilization, housing renovation, home repair and energy efficiency improvements to strengthen the local housing stock.

- The City and the Cuyahoga County Office of Homeless Services successfully completed the $9.8 million Homeless Prevention & Rapid Re-housing stimulus grant designed to help families avoid homelessness as well as helping homeless persons find permanent housing. Under this program:

    - 2,692 households avoided homelessness; and
    - 1,407 homeless households found housing.

- The City, through the Housing First Initiative, completed the Greenbridge Permanent Supportive Housing (PSH) project on the Health Line corridor. Two more PSH projects are under construction: the 65-unit Emerald Alliance VI in the Buckeye-Shaker neighborhood and the 40-unit Winton on Lorain apartments in the Cudell neighborhood.

- Completed the $31 million stimulus funded HWAP by weatherizing 4,236 homes to be energy efficient during the term of the grant, with 1,312 homes completed in 2012. The Department also completed the installation of energy efficiency improvement plans for 103 moderate and middle income homes using low-cost loans from the new Energy Savors Pilot Program, which used stimulus funds from the U.S. Department of Energy.

- In anticipation of and to prepare for a rebound in the housing market, the City has assembled viable land tracts including:
  - Morgana Run, St. Luke's Point, Cliffview, Battery Park and Upper Chester.
  - Coordinated with the Cuyahoga County Land Reutilization Corp. to assemble 1,965 vacant parcels for redevelopment or interim uses.
- Successfully restructured our lead abatement services by completing the final 87 of the 130 units required under the Lead Hazard Control grant.
- Reinforced the City's position as a leader and innovator in urban agriculture by continuing to expand programs for the reuse of vacant land, particularly for urban gardens and agriculture programs, including:
  - Increased community gardening in the City through the Summer Sprout program from 169 to 180 gardens, representing over 40 acres, in all 19 wards of the City, with more than 3,630 gardeners participating.
  - Worked with the Office of Sustainability and the United States Department of Agriculture (USDA) to facilitate the utilization of Environmental Quality Incentives Program funds, through which the USDA made 26 grants, totaling over $135,000, to urban agriculture entrepreneurs and community gardens for the purchase and installation of season extension high tunnels. With the use of these high tunnels, gardeners can nearly double their growing season.

Department of Building and Housing

- Demolished 758 condemned structures. Since January 2006, the Department has inspected, condemned and razed over 6,517 structures.
- Initiated 1,745 court cases against negligent property owners.
- Issued 7,745 violation notices.
- Issued 16,245 construction permits valued at $1.033 billion in new construction.
- Boarded-up and secured 4,854 vacant structures.
- Deconstructed 13 structures to achieve a more sustainable demolition process.
- Issued 4,122 condemnation notices.

Department of Economic Development

- Provided a $4,000,000 Housing & Urban Development (HUD) loan and a $500,000 Economic Development Administration loan to Midtown Tech Park for the third phase of the project. The loans will be used to add 66,000 square feet of high quality office space to the heart of the Health Tech Corridor. Upon completion, the project will create 80 jobs in the City.
- Assisted with securing the new headquarters for Manitowoc/Cleveland Range. The Department coordinated the acquisition of land, street repair, demolition of vacant buildings and financial incentives to offer a more attractive package than competing cities. The company is expected to retain 260 employees and add 120 more.
- The City provided $200,000 to the National Development Council's Grow America Fund (GAF). The GAF operates as a community development leader to support creation of jobs and the expansion of eligible small businesses in underserved areas, particularly minority and women-owned businesses.
- Supplied a $180,000 forgivable loan to the historic Agora complex. The loan will be used to add 56,000 square feet of needed office space in the Health Tech Corridor. The renovation will retain 15 jobs and create at least 25 new ones.

- The City is providing $200,000 to the Economic and Community Development Institute (ECDI) to structure microloans to small businesses that would not be eligible for traditional bank funding. A portion of the funding ($50,000) is specifically geared toward immigrant and refugee businesses. The City's funding will leverage more than $4 for every dollar the City has committed. The ECDI's lending efforts have resulted in $516,500 in loans to Cleveland based businesses, the retention of 6 jobs and the creation of an anticipated 35 jobs in the City.

- Assisted North Coast Media LLC, a start-up business-to-business media company, with a $50,000 grant. The company projects 30 new jobs with an estimated payroll of $1.7 million will be created within the first year of operations.

Department of Health

- Performed 21,118 proactive nuisance inspections in 2012, exceeding the target by 4%.

- Environmental ticketing and summons increased by 26% and 28%, respectively, over 2011.

- Completed 7,674 food shop inspections, an increase from the 7,369 done in 2011. The increase depicts a growing food service industry in Cleveland during 2012.

- Administered 1,208 seasonal influenza vaccinations at the city's health centers and off-site events.

- Helped launch the second phase of the Healthy Cleveland Initiative designed to engage the community in improving the health of Clevelanders. The initiative includes, but is not limited to, the following tasks:

  - Remove all sugar-based drinks and trans-fats from vending machines in all city facilities and replace them with water, 100% juice and trans-fat free foods.

  - Encourage local restaurants to remove trans-fats from their menus.

  - Establish a task force to provide healthier food options within Cleveland Metropolitan School District.

  - Require all new school construction plans to include a full-service kitchen to prepare healthier food.

  - Reincorporate school gardens into every new school plan.

  - Ensure the existence of a community garden within walking distance of every Cleveland citizen by 2020.

- Continued to show considerable improvement in the infant mortality rate (IMR). In 2009, the IMR was 8.5%, declined to 2.6% in 2010 and dropped again to 1.3% in 2011. Rates are on pace to decline again when data is released for the 2012 year. Since MomsFirst participants are reflective of women at the highest risk for poor birth outcomes, the data supports the impact the program is having in reducing infant mortality in our community.

- Conducted 4,220 HIV tests at City health centers during 2012. Additionally, our contractual partners completed 8,031 tests in the community to exceed its target by 34%.

- Received additional Title X funding for the city's health centers to provide expanded medical care to support reproductive health services. This enabled the health centers to screen 40% more patients than in 2011.

- Collected $166,853 in air permit fees and completed 474 Ohio EPA-mandated inspections.

- Distributed 117,470 birth and death certificates to Clevelanders and 34 Cuyahoga County suburbs.

- Conducted a comprehensive marketing campaign using channels 19 and 43, as well as Clear Channel Broadcasting to promote reproductive health and wellness programs. Additional marketing campaigns promoted lead poisoning prevention and the impact of HIV/AIDS on the community. Nearly 500 TV ads on channels 19 and 43 were shown throughout all hours of the day and over 500 radio commercials were heard promoting CDPH programs and services. Additionally, the Department utilized social media as a marketing tool by posting to its Facebook page and Twitter feed.

Department of Aging

- Provided core services to 5,620 clients including senior citizens and adults with disabilities.

- Secured approximately $500,000 of external grants.

- The Annual Senior Day Program held in May 2012 attracted more than 2,000 senior citizens; the Annual Senior Walk attracted over 1,000 senior citizens.

- Provided the following services: 1,424 received Benefit Checkups, 135 units, in which a low income senior or adult with a disability own and reside, received a major home repair(s), 691 received grass cutting services, 717 received assistance with snow removal and 3,802 received other supportive services.

The Office of Equal Opportunity

- Assessed approximately $52,000 in penalties from contractors for non-compliance with the Codified Ordinance 188.
- Under Codified Ordinance 123.08, OEO is assuming a leadership role in coordinating touch points for Prevailing Wage citywide.

- The OEO completed the Citywide Disparity Study (conducted by National Employment Rights Authority) in 2012. In 2013, OEO will review the recommendations and make appropriate legislative and administrative changes.

- Business to Government Now (B2GNow) & Labor Compliance Tracker, OEO's new real-time compliance software, went live in January 2013. OEO will continue internal and external technical assistance sessions in 2013.

- Monitored over 133 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 Works

- The Division of Recreation served 88,102 summer lunches during 2012.

- The Division of Park Maintenance serviced 44,141 vacant properties in 2012.

- The Division of Motor Vehicle Maintenance purchased 256 new vehicles.

- The Division of Urban Forestry trimmed 3,905 trees.

- The Division of Waste Collection collected and disposed of 212,367 tons of debris and recycled 22,318 tons of materials. They expanded the automated waste collection and curbside recycling program to 30,000 additional households, bringing the citywide total to 70,000.

- The Division of Parking reassigned the City's four multi-space electronic parking meters to East 12th Street between Superior and St. Clair.

- The Division of Streets used over 7,276 tons of asphalt for street repairs in 2012. They also resurfaced over 32,356 square yards of roadway.

- The Division of Traffic Engineering painted over 661 miles of lane lines and replaced over 3,535 traffic light bulbs.

Department of Public Safety

- The Violence, Gun Reduction and Interdiction Program (V-GRIP) was expanded in 2012 to combat violent crimes and firearms. Initiatives were conducted in three distinct neighborhoods in 2012, and there were reductions in felonious assaults with firearms in each respective area. Statistics included: 54 firearms confiscated, 3,499 citations issued and 479 arrests.

- 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. Results included 423 felony arrests, 329 misdemeanor arrests, 41 firearms confiscated and 5,673 traffic citations issued.

- Realized an overall reduction in the Part One crimes of 3.89%. Part One crimes include (defined by the Federal Bureau of Investigation Uniform Crime Reporting) homicide, rape, robbery, felonious assault, burglary, theft, auto theft and arson.

- The Division of Fire implemented the Community Risk Reduction program through a grant from the Vision 20/20 Federal Program. The Division installed over 2,200 smoke alarms and 200 carbon monoxide detectors. In addition, the grant provided specialized smoke detectors for the hearing impaired.

- Continued the integration of the Division of Fire and the Division of Emergency Medical Service to create a single division providing all fire, rescue and pre-hospital emergency medical care for the City of Cleveland.

Department of Public Utilities

- The Division of Water (CWD) reliably provides approximately 1.4 million customers throughout the City and more than 69 surrounding suburbs with high quality, safe water. In 2012, CWD pumped more than 82.1 billion gallons of water to customers and invested more than $58.9 million in its infrastructure.

- The Division of Cleveland Public Power (CPP) provided 74,000 residential and business customers in the City with reliable and affordable power. In 2012, CPP continued work on its Capacity Expansion Program, which is designed to upgrade infrastructure, increase customer capacity and improve reliability.

- The Division of Water Pollution Control (WPC) maintains the local sanitary and storm collection system within the boundaries of the City. The system is comprised of 1,434 miles of sewer lines, 127,000 catch basins and 15 pump stations. In 2012, WPC completed the cleaning of 17,034 catch basins and 409,326 linear feet of sewers and the TV inspection of 227,449 linear feet of sewers.

Department of Port Control

- Broke ground on the new U.S. Department of Transportation and Federal Aviation Administration $69 million Air Traffic Control Tower and Terminal Radar Approach Control Facility at Cleveland Hopkins Airport (CLE). The new tower will extend 324 feet to provide a better aerial view of aircraft coming in and out of the airport.

- Received five 2011 Airport Revenue Awards for exceptional designs and concessions program management at CLE for the AIRMALL, which improved the quality, customer service and brand offerings for patrons at the airport. Currently, there are 60 new restaurants, retail and service locations, resulting in more than 325 new jobs at CLE. We anticipate the number of new jobs will increase as new venues continue to open.

- Expanded the CLE Temporary Art Exhibition Program to include 3 dimensional art exhibits in order to increase airport ambiance and enhance travelers' experience. The program is in line with the Mayor's initiative to include *Art in Everything*, inviting travelers and visitors to the airport to take a closer look at the richness of artistic and cultural diversity in Cleveland.

Department of Law

- Drafted approximately 535 contracts and reviewed over 962 contracts for legal form and correctness.

- Prepared 565 pieces of legislation for introduction to City Council; including legislation to implement the Downtown Lakefront Plan.

- Obtained 3,107 search warrants for housing court enforcement actions and helped Building and Housing obtain legal authorization for more than 1,228 demolitions of unsafe structures in the City.

- Responded to 2,519 citizen requests for non-routine public records; provided legal advice as needed in response to almost 8,000 routine requests.

- Processed 726 general claims for property damage and other losses.

- Initiated 1,745 criminal prosecutions in Housing Court for health and safety code violations to ensure that property owners adequately maintain their properties. Successfully prosecuted civil nuisance abatement actions for numerous properties across the City.

**2013 Budget**

During 2012, the City continued to strengthen its financial position through increased efficiencies, streamlining of operations, improving accountability, refinancing debt and increasing revenue. The City is seeing moderate growth in income taxes due to heightened construction activity in the downtown and University Circle areas. The Budget Management Strategy for fiscal 2013 includes, but is not limited to, the following:

- A continuation of additional Public Safety and Public Works services required to support the influx of Horseshoe Casino visitors.

- A new unit of 25 police officers who will focus on violent crimes and guns.

- A 27$^{th}$ pay period at a cost of $13 million for the General Fund.

- An increase in Cleveland Browns Stadium debt service payments by an amount of $9.8 million.

The estimate of receipts and expenditures for all General Fund departments and divisions for the 2013 budget are:

- Revenues and other sources are projected to decrease from $518.0 million in 2012 to $491.8 million in 2013. This decline is primarily attributed to a reduction of $14.2 million of transfers in and a $6.1 million dollar decrease in the local government fund. The change in transfers in is related to the one-time sale of the Convention Center that was transferred in 2012, while the decrease in local government is from State of Ohio cuts.

- Expenditures and other uses are estimated to increase from $486.5 million to $538.9 million in 2013. This increase is primarily related to the previously noted 27$^{th}$ pay occurring in 2013 and an increase of $13.3 million in subsidies to other funds.

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). As part of the goal, the City is scheduled to transfer $5 million into the Rainy Day Reserve Fund in 2013, bringing the balance in the fund to approximately $18.5 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 is near completion on the $465 million Convention Center and Global Center for Health Innovation (previously Medical Mart) in downtown Cleveland. The project is on-time and under-budget and expected to be completed in June 2013.

- Phase one of the Flats East Bank project ($272 million) continued construction in 2012. The development will initially include a state-of-the-art office tower with rooftop deck, a 150-room Aloft hotel by Starwood, restaurants, retail and 1,200-foot riverfront boardwalk.

- The $6 million renovation of League Park that will make Cleveland the only city in the nation to achieve adaptive reuse of an original major league ballpark.

- The $21 million second phase of the Uptown Development broke ground in early 2013. The development comprises residential, retail and cultural attractions on the eastern edge of University Circle.

**Major Initiatives**

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

- *Making Cleveland a City of Choice* – making Cleveland and its neighborhoods "communities of choice" is a principal goal of the administration. A community of choice is a place that residents and businesses and visitors choose because of the exceptional quality of life and amenities that it offers. The Departments of Economic and Community Development are taking the lead role in implementing the recommendations for development and revitalization.

- *Automated Waste Collection Program* – begun in 2009, the program provides automated waste collection and curbside recycling to City residents. The City provides each resident participating in the program with a 96 gallon cart for garbage and a 64 gallon cart for recyclable items. The carts are automatically emptied by vehicles equipped with mechanical arms and semi-automatically by vehicles with a tipper on the back to lift and tip the containers into the truck. This will result in reduced costs, reduced employee injuries, increased productivity, cleaner curbs and increased recycling participation.

- *Connecting Cleveland 2020 Citywide Plan* – a comprehensive plan for the future of Cleveland and its neighborhoods. It seeks to create great neighborhoods by creating "connections" between people and places and opportunities. The plan proposes not only to build houses, but build safe, vibrant neighborhoods. It is a plan that proposes not only to create shopping centers, but to create mixed-use "town centers" that can become the focus of community life. The plan not only seeks to create jobs, but to make job opportunities available to all Clevelanders.

**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, 2012, represents the 32nd 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, 2011. 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 28 years (years ended 1984 – 2011). 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

Sharon Dumas, Director
Department of Finance

James E. Gentile

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

Sharon Dumas .......... Director, Department of Finance

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

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

### 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

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

Natoya J. Walker Minor .......... Interim 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

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

Paul Bender .......... 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, 2011

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.

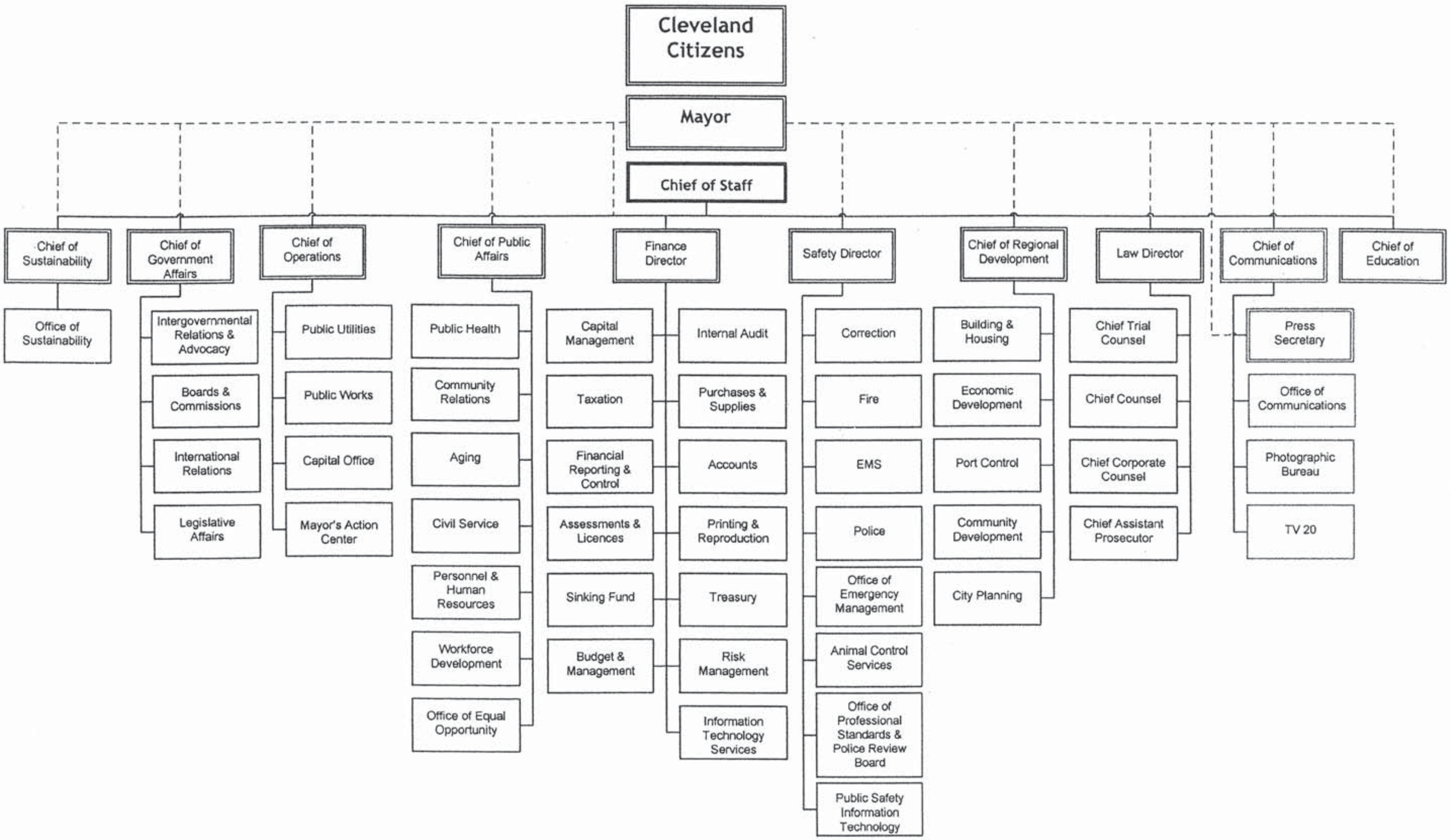
Christopher P Morrill

President

Jeffrey R. Esser

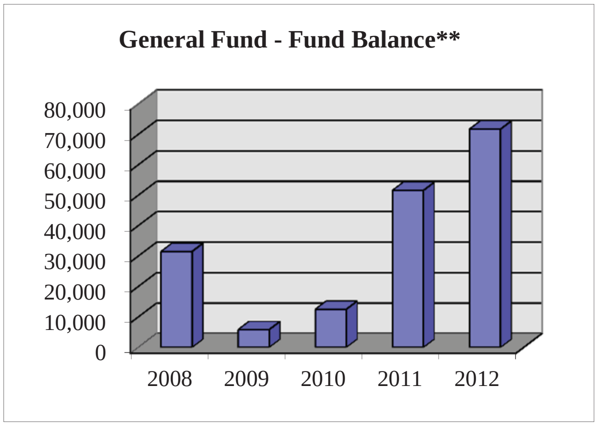
Executive Director

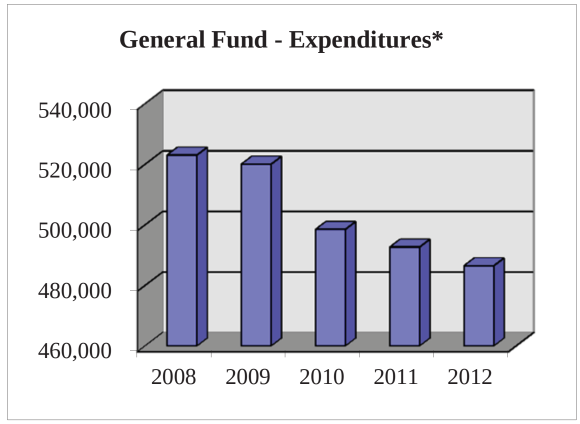
# CITY OF CLEVELAND, OHIO
## ADMINISTRATIVE ORGANIZATION CHART

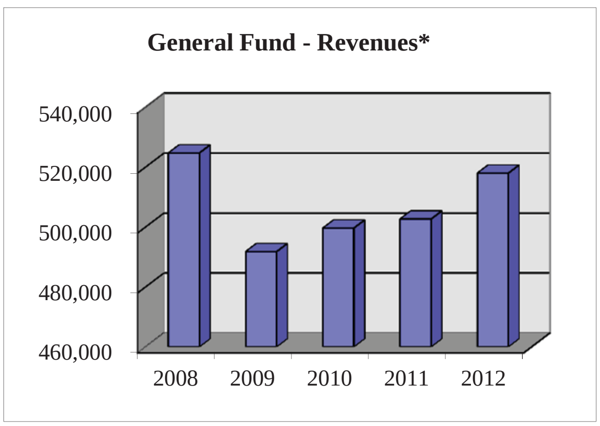


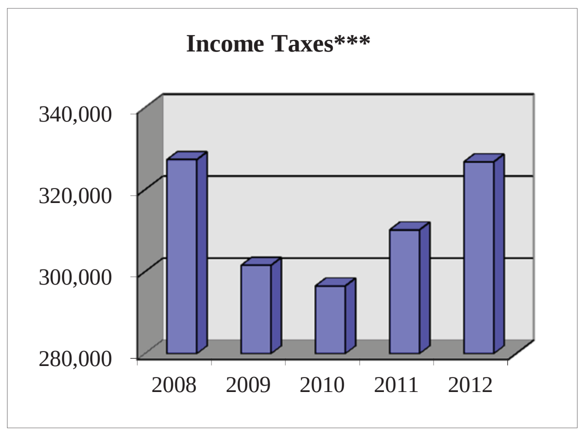
# CITY OF CLEVELAND, OHIO

## FINANCIAL HIGHLIGHTS
**(Amounts in 000's)**




| For Year Ended | General Fund Fund Balance** | General Fund Revenues* | General Fund Expenditures* | Income Taxes*** |
|---|---|---|---|---|
| 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 |
| 2012 | 71,750 | 518,001 | 486,484 | 326,783 |

* *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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**INDEPENDENT AUDITORS' REPORT**

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

**Report on the Financial Statements**

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

***Auditors' Responsibility***
Our responsibility is to express 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 from material misstatement.

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cleveland, Ohio, as of December 31, 2012, 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 accordance with accounting principles generally accepted in the United States of America.

### Effect of Adopting New Accounting Standards

As discussed in Note 2, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision*. Our opinion is not modified with respect to this matter.

### *Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 33 through 51 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.

*Other Information*

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, capital assets schedules, introductory section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules and capital assets schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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 basic financial statements or to the basic 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.

The introductory section and statistical section have 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 them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2013 on our consideration of the City of Cleveland'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 describe 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Cleveland's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 25, 2013

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# 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, 2012. Please read this information in conjunction with the City's financial statements and footnotes that begin on page 54.

### FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at December 31, 2012 by approximately $2.707 billion (net position). Of this amount, $481 million (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- Of the approximately $2.707 billion of net position, governmental activities accounted for approximately $682 million of net position, while business-type activities net position accounted for approximately $2.025 billion.
- The City's net position increased by $97.3 million as compared to 2011. The governmental activities net position increased by $40.9 million and the business-type activities net position increased by $56.4 million.
- At the end of the current year, unassigned fund balance for the General Fund was $61.9 million, which represents the amount available for spending at the City's discretion. The unassigned fund balance equals 12.9% of the total current General Fund expenditures and other financing uses.
- In 2012, the City's total long-term debt and other long-term debt-related obligations, excluding premiums, accreted interest, discounts and unamortized loss on debt refunding, increased by $49.9 million. The increase indicates that the City's new debt issued exceeded debt service payments and debt refunded or defeased in 2012.

### 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 position presents financial information on all of the City's assets, liabilities and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent year. All changes in net position 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 Works; Public Safety; Community Development; Building and Housing; Public Health 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 54 - 57 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 33 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 32 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 58 - 61 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 62 - 66 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 67 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 69 - 116 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

**Summary Statements of Net Position**
**as of December 31, 2012 and 2011**

| | Governmental Activities | | Business-Type Activities (Amounts in 000's) | | Total | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 (restated) | 2012 | 2011 (restated) |
| Assets: | | | | | | |
| Current and other assets | $ 764,488 | $ 728,561 | $ 1,222,723 | $ 1,174,729 | $ 1,987,211 | $ 1,903,290 |
| Capital assets | 929,462 | 915,743 | 3,055,706 | 3,050,381 | 3,985,168 | 3,966,124 |
| Total assets | 1,693,950 | 1,644,304 | 4,278,429 | 4,225,110 | 5,972,379 | 5,869,414 |
| Deferred outflows of resources | | | 27,699 | 27,955 | 27,699 | 27,955 |
| Liabilities: | | | | | | |
| Long-term obligations | 774,706 | 763,056 | 2,065,917 | 2,043,248 | 2,840,623 | 2,806,304 |
| Other liabilities | 236,687 | 239,352 | 187,605 | 213,124 | 424,292 | 452,476 |
| Total liabilities | 1,011,393 | 1,002,408 | 2,253,522 | 2,256,372 | 3,264,915 | 3,258,780 |
| Deferred inflows of resources | 239 | 442 | 28,240 | 28,737 | 28,479 | 29,179 |
| Net position: | | | | | | |
| Net investment in capital assets | 572,213 | 543,460 | 1,303,584 | 1,295,139 | 1,875,797 | 1,838,599 |
| Restricted | 122,488 | 117,765 | 227,826 | 234,050 | 350,314 | 351,815 |
| Unrestricted | (12,383) | (19,771) | 492,956 | 438,767 | 480,573 | 418,996 |
| Total net position | $ 682,318 | $ 641,454 | $ 2,024,366 | $ 1,967,956 | $ 2,706,684 | $ 2,609,410 |

As noted earlier, net position may serve, over time, as a useful indicator of a government's financial position. The City's assets and deferred outflows exceeded liabilities and deferred inflows by approximately $2.707 billion at the close of the most recent fiscal year. This represents an increase of 3.7% in 2012. Of the City's net position, 25.2% represents its governmental net position and 74.8% represents its business-type net position.

Of the net position from governmental activities, $572.2 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 position, $122.5 million, represents resources that are subject to external restrictions on how they may be used. There was an increase in unrestricted net position of $7.4 million.

In 2012, the total assets from governmental activities increased by $49.6 million. This increase is primarily attributed to increases in cash and cash equivalents and investments of $57.5 million and in loans receivable of $6.2 million. The increase in cash and cash equivalents and investments is mainly due to a $19.4 million increase in income taxes collected and a decrease of $11.3 million in public works expenditures. The total increase was partially offset by a decrease of $17.9 million in local government funds.

Also in 2012, the total liabilities from governmental activities increased by $9.0 million. This increase is primarily due to increases of $11.7 million in long-term obligations and $5.3 million in due to other governments. The rise in long-term obligations is predominantly due to a net increase of $11.9 million in Subordinate Lien Income Tax Bonds, while the due to other governments increase is chiefly due to a $4.3 million increase in Economic Development's HUD liability. These increases were offset by a $3.9 million decrease in deferred revenue, mainly caused by a $5.2 million decrease in the City's property tax receivable.

In 2012, business-type total assets and deferred outflows of resources increased by $53.1 million, primarily due to increases in cash and cash equivalents and investments of $61.8 million. The rise is mostly due to a $58.4 million increase in the Divisions' of Water and Water Pollution Control cash and cash equivalents due to increased water rates and customer account collections. The increase is partially offset by a decrease in net accounts receivable of $37.9 million due to increased collection activity and account write-offs in the Department of Utilities.

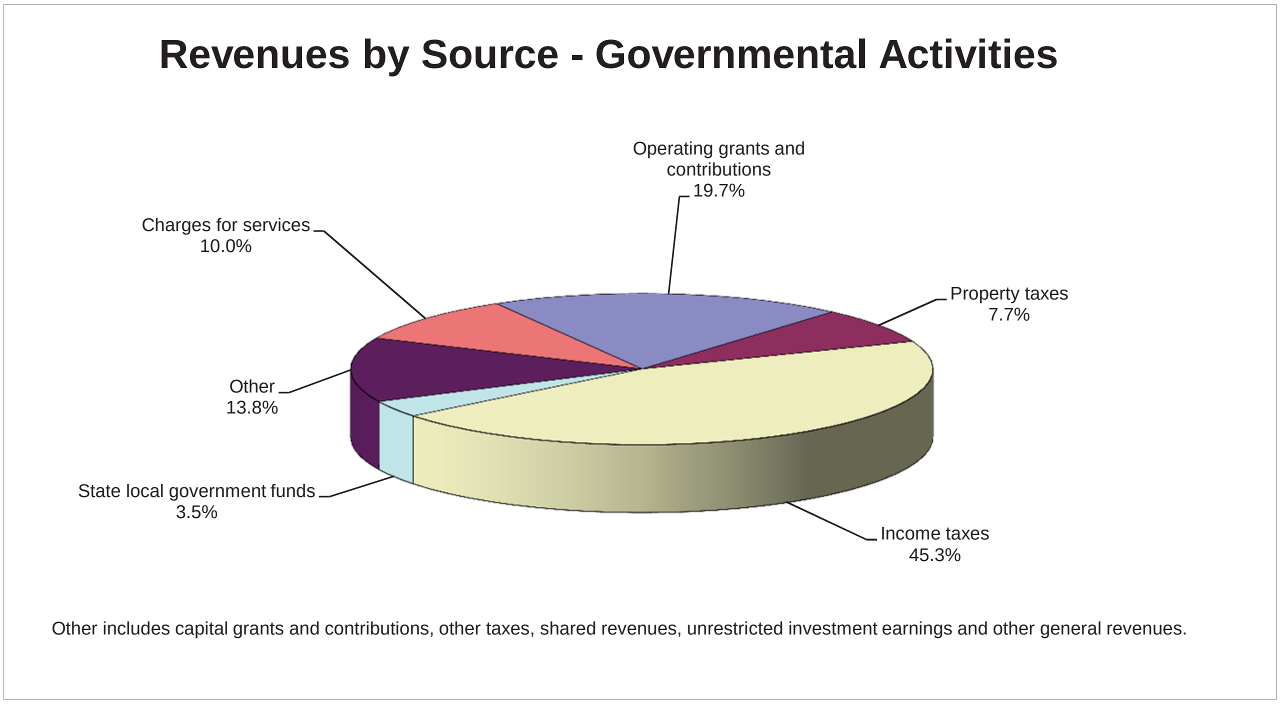
Business-type total liabilities and deferred inflows of resources decreased by $3.3 million primarily due to decreases in amounts due to other governments of $15.6 million and accounts payable of $8.4 million. The due to other governments balance decreased primarily because of increased account write-offs in the Division of Water Pollution Control resulting in a lower liability to the Northeast Regional Sewer District. These decreases were partially offset by an increase in long-term obligations of $22.7 million.

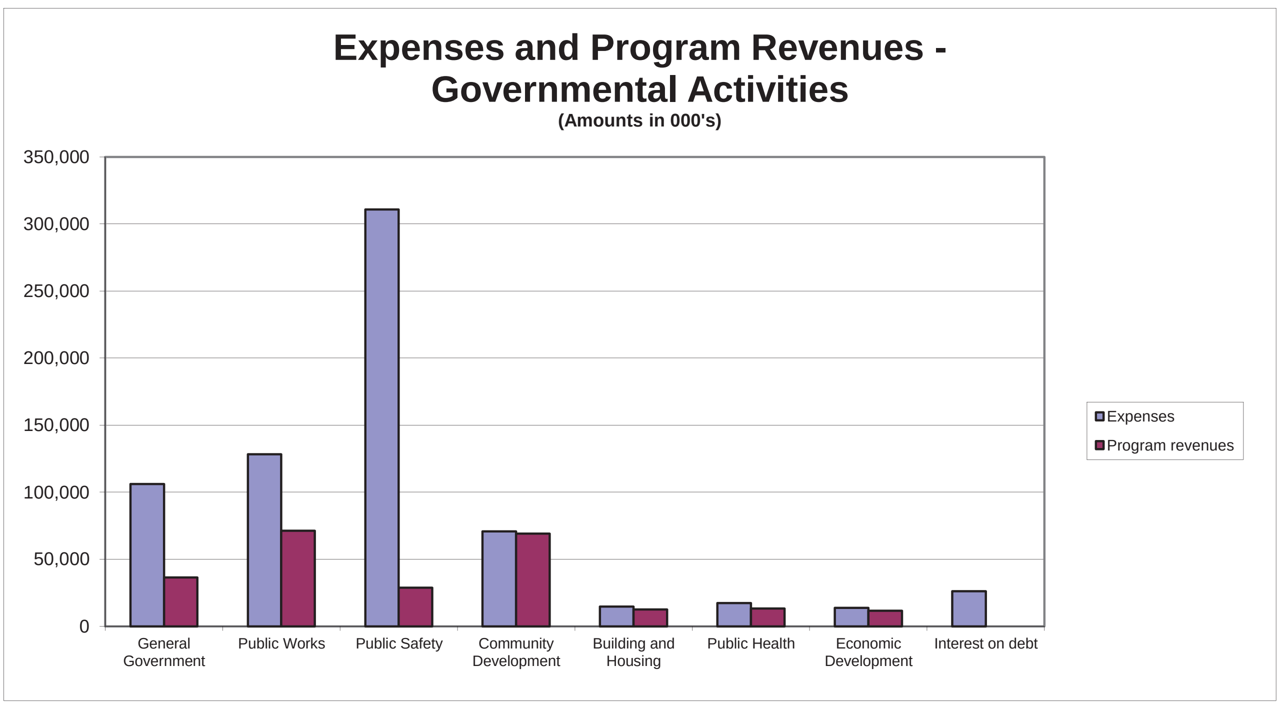
At the end of the current year, the City is able to report positive balances in total net position for both its governmental activities and its business-type activities. Information regarding government-wide changes in net position is provided below:

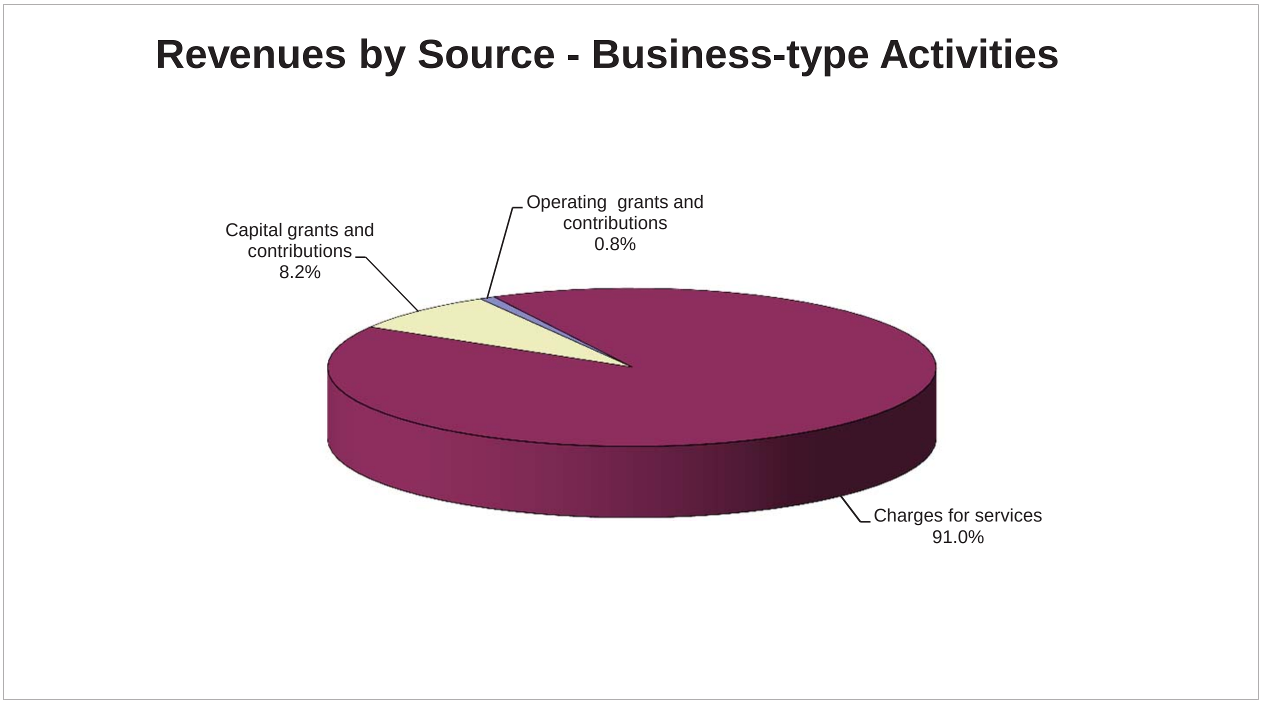
**Changes in Net Position**
**For Fiscal Years Ended December 31, 2012 and 2011**

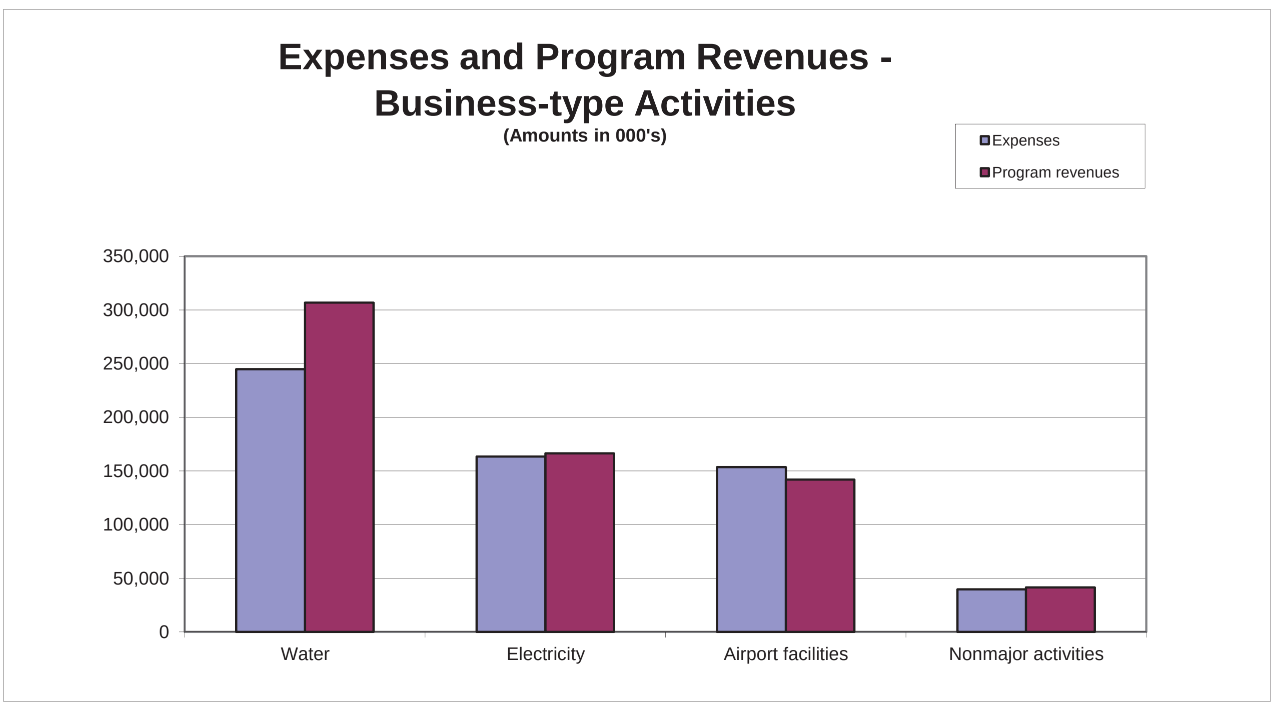
| | Governmental Activities | | Business-Type Activities (Amounts in 000's) | | Total | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 (restated) | 2012 | 2011 (restated) | 2012 | 2011 (restated) |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $ 72,938 | $ 84,681 | $ 597,432 | $ 554,641 | $ 670,370 | $ 639,322 |
| Operating grants and contributions | 143,883 | 135,355 | 5,319 | 4,466 | 149,202 | 139,821 |
| Capital grants and contributions | 25,845 | 14,005 | 53,562 | 64,591 | 79,407 | 78,596 |
| General revenues: | | | | | | |
| Income taxes | 330,863 | 311,492 | | | 330,863 | 311,492 |
| Property taxes | 56,086 | 63,839 | | | 56,086 | 63,839 |
| Other taxes | 28,680 | 27,312 | | | 28,680 | 27,312 |
| Shared revenues | 27,338 | 19,558 | | | 27,338 | 19,558 |
| State local government funds | 25,966 | 43,821 | | | 25,966 | 43,821 |
| Unrestricted investment earnings | 692 | 97 | | 30 | 692 | 127 |
| Other | 18,141 | 19,086 | | | 18,141 | 19,086 |
| Total revenues | 730,432 | 719,246 | 656,313 | 623,728 | 1,386,745 | 1,342,974 |
| Expenses: | | | | | | |
| General Government | 106,141 | 95,833 | | | 106,141 | 95,833 |
| Public Works | 128,276 | 139,577 | | | 128,276 | 139,577 |
| Public Safety | 310,745 | 308,051 | | | 310,745 | 308,051 |
| Community Development | 70,705 | 75,778 | | | 70,705 | 75,778 |
| Building and Housing | 14,729 | 14,098 | | | 14,729 | 14,098 |
| Public Health | 17,385 | 19,596 | | | 17,385 | 19,596 |
| Economic Development | 13,845 | 22,323 | | | 13,845 | 22,323 |
| Interest on debt | 26,153 | 27,686 | | | 26,153 | 27,686 |
| Water | | | 244,647 | 235,313 | 244,647 | 235,313 |
| Electricity | | | 163,547 | 167,799 | 163,547 | 167,799 |
| Airport facilities | | | 153,627 | 167,531 | 153,627 | 167,531 |
| Nonmajor activities | | | 39,671 | 46,302 | 39,671 | 46,302 |
| Total expenses | 687,979 | 702,942 | 601,492 | 616,945 | 1,289,471 | 1,319,887 |
| Changes in net position before special items and transfers | 42,453 | 16,304 | 54,821 | 6,783 | 97,274 | 23,087 |
| Special items - gain on sale of capital assets | | | | 5,125 | - | 5,125 |
| Transfers | (1,589) | (2,031) | 1,589 | 2,031 | - | - |
| Changes in net position | 40,864 | 14,273 | 56,410 | 13,939 | 97,274 | 28,212 |
| Net position at beginning of year (as restated) | 641,454 | 627,181 | 1,967,956 | 1,954,017 | 2,609,410 | 2,581,198 |
| Net position at end of year | $ 682,318 | $ 641,454 | $ 2,024,366 | $ 1,967,956 | $ 2,706,684 | $ 2,609,410 |

Business-type net position increased $56.4 million in 2012. Of the business-type net position, $1.303 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. An additional $228 million of net position is subject to external restrictions on their use. The remaining balance of $493 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 19.7%
Charges for services 10.0%
Property taxes 7.7%
Other 13.8%
State local government funds 3.5%
Income taxes 45.3%
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 Works
Public Safety
Community Development
Building and Housing
Public Health
Economic Development
Interest on debt
Expenses
Program revenues


Revenues by Source - Business-type Activities
Capital grants and contributions 8.2%
Operating grants and contributions 0.8%
Charges for services 91.0%


Expenses and Program Revenues - Business-type Activities
(Amounts in 000's)
Expenses
Program revenues
350,000
300,000
250,000
200,000
150,000
100,000
50,000
0
Water
Electricity
Airport facilities
Nonmajor activities

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, municipal parking lots and public market facilities. The City owns two golf courses whose management and operations are currently leased to outside entities. The operating results of the City's Major 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 eight other communities. They provide water to approximately 417,069 city and suburban accounts in the Cleveland Metropolitan Area. Operating revenue in 2012 increased to $280.3 million from $236.6 million in 2011. The increase is mainly due to increased water rates and more timely billing of customer accounts. Operating expenses, exclusive of depreciation, increased approximately 2.0% to $149.2 million compared to $146.2 million in 2011.

Also, the Division of Water restated their capital assets balances for 2011. The Division entered into amended Water Service Agreements with 21 member communities prior to 2011. These agreements transferred ownership of the distribution mains from the member communities to the Division of Water. As a result of the restatement the Division increased their capital assets balance $164,961,000 as of 12/31/2011. This is an increase of 11.0% compared to the reported capital assets balance prior to the restatement.

**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 2012 operating revenue decreased 1.9% to $165.2 million from $168.4 million in 2011. Purchased power expense increased 5.9% to $95.8 million in 2012 from $90.5 million in 2011. Operating expenses, exclusive of depreciation and purchased power, decreased 16.6% to $41.2 million compared to $49.4 million in 2011. The decrease is mostly attributed to street light upgrades and higher raw material costs in 2011.

**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, 26 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 income increased $3.4 million in 2012. The increase is generally attributed to minor increases in terminal and concourse rental revenue and a $1.7 million decrease in operating expenses. Also, in 2012 there was a $29.4 million reduction in capital contributions due to the completion of runway 10-28 in 2012, which was partially funded by Federal Aviation Authority grant proceeds.

**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 $409.0 million, an increase of $46.1 million and approximately 12.7% in comparison with the prior year. The components of the governmental fund balances include an unassigned balance of $61.9 million, which indicates the amount available for spending at the City's discretion. An additional $233.8 million of fund balance is available for expenditures that are legally restricted for a particular purpose. The nonspendable portion of fund balance has $1.1 million of items that are not in a spendable form, such as inventory. An additional $102.9 million is committed to fund specific purposes and cannot be reassigned without legislative approval. The remaining assigned balance of $9.3 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 $61.9 million and the total fund balance was $71.8 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 12.9% of total General Fund expenditures and other financing uses, while total fund balance represents approximately 14.9% 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**
**2012 and 2011**
**(Amounts in 000's)**

| | 2012 | Restated 2011 |
|---|---|---|
| Revenues: | | |
| Income taxes | $ 294,648 | $ 277,857 |
| Property taxes | 36,028 | 36,618 |
| State local government funds | 31,821 | 45,640 |
| Other taxes and shared revenues | 50,489 | 43,994 |
| Licenses and permits | 12,314 | 14,224 |
| Charges for services | 34,230 | 33,669 |
| Fines, forfeits and settlements | 21,451 | 23,473 |
| Investment earnings | 277 | 228 |
| Grants | 5,724 | 3,934 |
| Miscellaneous | 10,074 | 10,812 |
| Total revenues | 497,056 | 490,449 |
| Expenditures: | | |
| General Government | 76,966 | 73,103 |
| Public Works | 63,622 | 66,612 |
| Public Safety | 294,955 | 292,594 |
| Building and Housing | 7,836 | 8,333 |
| Public Health | 5,326 | 4,451 |
| Economic Development | 1,407 | 1,400 |
| Community Development | 157 | |
| Other | 10,992 | 11,171 |
| Capital outlay | 2,302 | 2,350 |
| Total expenditures | 463,563 | 460,014 |
| Excess (deficiency) of revenues over (under) expenditures | 33,493 | 30,435 |
| Other financing sources (uses): | | |
| Transfers in | 3,602 | 8,404 |
| Transfers out | (16,941) | (18,789) |
| Sale of City assets | 2 | 729 |
| Net change in fund balance | 20,156 | 20,779 |
| Fund balance at beginning of year | 51,594 | 30,815 |
| Fund balance at end of year | $ 71,750 | $ 51,594 |

### *Analysis of General Fund Revenues*

General Fund revenues and other sources totaled $500.7 million in 2012, an increase of approximately $1.1 million from 2011. 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 2012, 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 revenue increased approximately $16.8 million in 2012 from 2011, 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. 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 |
|---|---|---|---|
| 2012 | $ 5,385,180 | $ 246,081 | $ 5,631,261 |
| 2011 | $ 5,398,098 | $ 242,172 | $ 5,640,270 |

Property tax revenue fell by $590,000 as a result of a decrease in both residential property valuations and lower collection rates.

***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, casino, homestead and rollback, public utility, estate and cigarette taxes as well as liquor fees. State Local Government Funds revenue decreased by $13.8 million or 30.3% due to decreases in the distributions to local governments implemented as part of the State's budget balancing measures. Other Taxes and Shared Revenues increased $6.5 million or 14.8% from 2011 levels primarily as a result of the City beginning to collect revenues from the opening of the new casino in May 2012.

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 $480.5 million in 2012, an increase of 0.4% from 2011. 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 2012 | % of Total | Restated Actual 2011 | % of Total | Increase (Decrease) | % Change |
|---|---|---|---|---|---|---|
| | | | (Amounts in 000's) | | | |
| Current: | | | | | | |
| General Government | $ 76,966 | 16.02 | $ 73,103 | 15.27 | $ 3,863 | 5.28 |
| Public Works | 63,622 | 13.24 | 66,612 | 13.91 | (2,990) | (4.49) |
| Public Safety | 294,955 | 61.38 | 292,594 | 61.11 | 2,361 | 0.81 |
| Building and Housing | 7,836 | 1.63 | 8,333 | 1.74 | (497) | (5.96) |
| Public Health | 5,326 | 1.11 | 4,451 | 0.93 | 875 | 19.66 |
| Economic Development | 1,407 | 0.29 | 1,400 | 0.29 | 7 | 0.50 |
| Community Development | 157 | 0.03 | | | 157 | N/A |
| Other | 10,992 | 2.29 | 11,171 | 2.33 | (179) | (1.60) |
| Capital Outlay | 2,302 | 0.48 | 2,350 | 0.49 | (48) | (2.04) |
| Transfers Out | 16,941 | 3.53 | 18,789 | 3.93 | (1,848) | (9.84) |
| Total Expenditures and Other Financing Uses | $ 480,504 | | $ 478,803 | | $ 1,701 | |

The total expenditures and other financing uses increased by $1.7 million. The growth was primarily caused by a $3.9 million increase in General Government expenditures due to increased costs at Cleveland Municipal Court. This was primarily offset by a decrease of $1.8 million in transfers out which was due to decreases in transfers to service debt and to fund street operations.

**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 position of the Division of Water, Cleveland Public Power and the Department of Port Control Funds amounted to $257.6 million, $52.5 million and $137.3 million, respectively, at December 31, 2012. The change in net position for each of the respective funds amounted to increases of $61.7 million, $2.6 million and a decrease of $11.9 million during 2012. 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, 2012 and 2011, the City had approximately 7,126 and 7,398 full-time employees, respectively. Of the 7,126 full-time employees, approximately 5,359 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 – 1,219 members; Cleveland Police Patrolmen's Association – 1,238 members; the Association of Cleveland Firefighters – 768 members; Municipal Foreman and Laborers Union, Local 1099 – 411 members; and Local 244 – 222 members.

There have been no significant labor disputes or work stoppages in the City within the last 29 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)** |
|---|---|
| 2012 | $ 421,023 |
| 2011 | $ 424,311 |

In 2012, there was a minor decrease in salaries and wages payable due to a small reduction in employee levels.

*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 348,235 actively contributing members and total net position of this pension system approximated $81.4 billion as of December 31, 2012, 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 1965, represents sworn personnel, not civilians, employed in police and fire divisions of Ohio's local governments. As of December 31, 2012, the latest information available, management of the fund indicates membership of 27,623 active members and net position of this pension fund approximated $11.5 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:

| | 2012 | 2011 |
|---|---|---|
| | (Amounts in 000's) | |
| Paid by City to: | | |
| OPERS | $ 35,516 | $ 35,782 |
| OP&F | 32,607 | 32,612 |
| Total paid by City | 68,123 | 68,394 |
| Paid by employees to: | | |
| OPERS | 25,380 | 25,529 |
| OP&F | 15,060 | 15,171 |
| Total paid by employees | 40,440 | 40,700 |
| Total | $ 108,563 | $ 109,094 |

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 2012, the principal difference between the original and the final revenue and other sources budget (see page 61) was a $1.0 million decrease in transfers out. The decline offset minor increases in appropriations to general government and public health.

The major differences between the final amended budget and the actual total revenues were increases of $19.4 million in income taxes and $6.5 million in other taxes and shared revenues. The increase in income taxes is primarily attributed to increased construction activity and an improving local economy, while the other taxes and shared revenue increase resulted from uncertainty regarding the opening date of the Cleveland Horseshoe Casino and associated revenue projections. There were minor decreases of all expenditure components due to increased operating efficiencies and reduced payroll costs.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

***Capital assets*:** The City's capital assets for its governmental and business-type activities as of December 31, 2012, amounts to $4.0 billion (net of accumulated depreciation). This capital assets balance 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 capital assets for the current fiscal year was 0.5% (a 1.5% increase for governmental activities and a 0.2% increase for business-type activities). A summary of the City's capital assets at December 31, 2012 is as follows:

| | Capital Assets, Net of Accumulated Depreciation | | |
|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total |
| | | (Amounts in 000's) | |
| Land | $ 66,188 | $ 191,898 | $ 258,086 |
| Land improvements | 56,209 | 51,431 | 107,640 |
| Utility plant | | 1,534,664 | 1,534,664 |
| Buildings, structures and improvements | 329,817 | 316,913 | 646,730 |
| Furniture, fixtures, equipment and vehicles | 46,788 | 148,218 | 195,006 |
| Infrastructure | 315,080 | 519,489 | 834,569 |
| Construction in progress | 115,380 | 293,093 | 408,473 |
| Total | $ 929,462 | $ 3,055,706 | $ 3,985,168 |

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

- Cleveland Public Power incurred $18.2 million of capital expenditures relating to the Holston Substation (4th interconnect), pole replacements, equipment and building betterments.

- The Division of Water had expenditures for capital improvements totaling $71.5 million. Major expenses were for continuing renovations and enhancements at the Morgan, Baldwin and Nottingham Plants, security enhancements and the automated meter reading system.

- Port Control expenditures for capital improvements totaled approximately $19.4 million. Major initiatives were the Power Distribution Enhancement Project, installation of a new terrazzo floor in the main concourse and the Regional Transportation Authority (RTA) Level Art Gallery, which replaces various interior infrastructure items to allow for the display of wall and floor artwork.

- Water Pollution Control had capital expenditures of $4.4 million. Major components included citywide sewer replacement, Big Creek project and emergency repairs.

- 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, 2012 is summarized below (excluding unamortized discounts, premiums, accreted interest and losses on debt refundings).

| | Balance January 1, 2012 | Debt Issued | Debt Refunded or Defeased | Debt Retired | Balance December 31, 2012 |
|---|---|---|---|---|---|
| | | | (Amounts in 000's) | | |
| **Governmental Activities:** | | | | | |
| General Obligation Bonds | $ 298,660 | $ 67,765 | $ (28,910) | $ (28,815) | $ 308,700 |
| Urban Renewal Bonds | 4,835 | | | (565) | 4,270 |
| Subordinated Income Tax Bonds | 52,975 | | | (2,955) | 50,020 |
| Subordinate Lien Income Tax Bonds | 80,505 | 15,180 | | (3,305) | 92,380 |
| Non-Tax Revenue Bonds | 58,591 | | | (2,697) | 55,894 |
| Annual Appropriation Bonds | 11,000 | | | (235) | 10,765 |
| Certificates of Participation | 129,547 | | | (5,942) | 123,605 |
| Capital Lease Obligations | 12,908 | 6,507 | | (3,179) | 16,236 |
| Gateway Note Payable | 1,250 | | | (250) | 1,000 |
| Total Governmental Activities | 650,271 | 89,452 | (28,910) | (47,943) | 662,870 |
| **Business –Type Activities:** | | | | | |
| Revenue Bonds & Notes | 1,930,163 | 421,595 | (315,425) | (110,130) | 1,926,203 |
| Ohio Water Development Loans | 115,523 | 963 | | (6,744) | 109,742 |
| Deferred Payment Obligation | 6,500 | | | (2,990) | 3,510 |
| Total Business –Type Activities | 2,052,186 | 422,558 | (315,425) | (119,864) | 2,039,455 |
| Total | $ 2,702,457 | $ 512,010 | $ (344,335) | $ (167,807) | $ 2,702,325 |

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 $19.28 million in 2012 which represents approximately 44% 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 56% 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 works 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, 2012:

| | **Moody's Investors Service** | **Standard & Poor's** | **Fitch Ratings** |
|---|---|---|---|
| General Obligation Bonds | A1 | AA | A+ |
| Subordinate Lien Income Tax Bonds | A1 * | AA | N/A |
| Waterworks Revenue Bonds | Aa1 | AA | N/A |
| Second Lien Water Bonds | Aa2 | 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 November 8, 2012, Moody's Investors Service upgraded its rating on the City's Subordinate Lien Income Tax Bonds from A2 to A1 with 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, 2012 was:

| | |
|---|---|
| Net General Bonded Debt: | $302,484,000 |
| Ratio of Net Bonded Debt to Assessed Valuation: | 5.37% |
| Net General Bonded Debt Per Capita: | $762.28 |

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 $591,282,445 and unvoted debt limit (5.50%) is $309,719,376. At December 31, 2012, the City had no capacity under the indirect debt limitation calculation per the Ohio Revised Code to issue additional unvoted debt. However, 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 GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the City has reported a deferred outflow and a liability in the amount of the fair value of the interest rate swaps, which reflect the prevailing interest rate environment at December 31, 2012 and an investment loss or gain 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.

### *Other Impacting Factors*

- On January 17, 2013, Moody's Investors Service lowered its rating on Assured Guaranty Municipal Corporation, the insurer of the Series 2006 Parking Facilities Refunding Revenue Bonds.
- On March 21, 2013, the City completed a conversion of its $69,900,000 2010B Certificates of Participation (Cleveland Stadium Project) to a new index rate for a new index rate period.
- On April 16, 2013, the City entered into a novation agreement with UBS, AG and PNC Bank, National Association (PNC) under which the basis swap associated with the Parking Facilities Refunding Revenue Bonds, Series 2006, was transferred from UBS to PNC effective March 15, 2013.
- Effective April 24, 2013, the City issued $58,000,000 Airport System Revenue Bonds, Series 2013A (Taxable).
- On May 13, 2013, City Council approved legislation authorizing the City to enter into a lease agreement for the purchase of vehicles for various City departments.
- Effective May 30, 2013 the City issued $35,840,000 Subordinate Lien Income Tax Bonds, Series 2013A. The bonds were issued to provide funds for various public facilities, road and bridges, and parks and recreation improvements throughout the City.
- On June 20, 2013, the City entered into a lease agreement with Huntington Public Capital Corporation for the purchase of $6,500,000 of vehicles and heavy equipment for various departments. The lease will be paid for over seven years out of the receipts for Restricted Income Tax.

See Note 21- Subsequent Events 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 POSITION
**DECEMBER 31, 2012**
**(Amounts in 000's)**

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 345,777 | $ 396,119 | $ 741,896 |
| Investments | 9,522 | | 9,522 |
| Receivables: | | | |
| Taxes | 136,030 | | 136,030 |
| Accounts | 28,330 | 179,758 | 208,088 |
| Grants | 12,458 | | 12,458 |
| Loans | 190,860 | | 190,860 |
| Unbilled revenue | | 39,616 | 39,616 |
| Accrued interest | 4 | | 4 |
| Assessments | 2,615 | | 2,615 |
| Less: Allowance for doubtful accounts | (20,967) | (29,757) | (50,724) |
| Receivables, net | 349,330 | 189,617 | 538,947 |
| Internal balances | 1,576 | (1,576) | - |
| Due from other governments | 34,730 | 2,976 | 37,706 |
| Inventory of supplies | 2,348 | 16,384 | 18,732 |
| Prepaid expenses and other assets | | 1,591 | 1,591 |
| Restricted assets: | | | |
| Cash and cash equivalents | | 585,961 | 585,961 |
| Investments | | 3,739 | 3,739 |
| Accrued interest receivable | | 86 | 86 |
| Accrued passenger facility charge | | 2,244 | 2,244 |
| Total restricted assets | - | 592,030 | 592,030 |
| Unamortized bond issuance costs | 21,205 | 25,582 | 46,787 |
| Capital assets: | | | |
| Land and construction in progress | 181,568 | 484,991 | 666,559 |
| Other capital assets, net of accumulated depreciation | 747,894 | 2,570,715 | 3,318,609 |
| Total capital assets | 929,462 | 3,055,706 | 3,985,168 |
| Total assets | 1,693,950 | 4,278,429 | 5,972,379 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Derivative instruments-interest rate swaps | | 27,699 | 27,699 |
| Total deferred outflows of resources | - | 27,699 | 27,699 |

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

# CITY OF CLEVELAND, OHIO

## STATEMENT OF NET POSITION
## DECEMBER 31, 2012
## (Amounts in 000's)

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| **LIABILITIES** | | | |
| Accounts payable | $ 15,238 | $ 23,290 | $ 38,528 |
| Accrued wages and benefits | 44,597 | 13,476 | 58,073 |
| Due to other governments | 102,986 | 96,893 | 199,879 |
| Accrued interest payable | 6,855 | 32,844 | 39,699 |
| Deferred revenue | 55,896 | | 55,896 |
| Unearned revenue | 8,725 | | 8,725 |
| Liabilities payable from restricted assets | | 21,102 | 21,102 |
| Loans payable | 2,390 | | 2,390 |
| Long-term obligations: | | | |
| Due within one year | 78,016 | 80,578 | 158,594 |
| Due in more than one year | 696,690 | 1,985,339 | 2,682,029 |
| Total liabilities | 1,011,393 | 2,253,522 | 3,264,915 |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Derivative instruments-interest rate swaps | 239 | 28,064 | 28,303 |
| Service concession agreements | | 176 | 176 |
| Total deferred inflows of resources | 239 | 28,240 | 28,479 |
| **NET POSITION** | | | |
| Net investment in capital assets | 572,213 | 1,303,584 | 1,875,797 |
| Restricted for: | | | |
| Capital | 18,018 | 1,586 | 19,604 |
| Debt service | 40,097 | 208,570 | 248,667 |
| Loans | 31,448 | | 31,448 |
| Other purposes | 32,925 | 17,670 | 50,595 |
| Unrestricted | (12,383) | 492,956 | 480,573 |
| Total net position | $ 682,318 | $ 2,024,366 | $ 2,706,684 |

CITY OF CLEVELAND, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012
(Amounts in 000's)

| | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions |
|---|---|---|---|
| Functions/Programs: | | | |
| Governmental activities: | | | |
| General Government | $ 106,141 | $ 30,696 | $ 4,345 |
| Public Works | 128,276 | 18,369 | 28,342 |
| Public Safety | 310,745 | 15,049 | 13,805 |
| Community Development | 70,705 | | 69,004 |
| Building and Housing | 14,729 | 5,757 | 6,679 |
| Public Health | 17,385 | 2,967 | 10,321 |
| Economic Development | 13,845 | 100 | 11,387 |
| Interest on debt | 26,153 | | |
| Total governmental activities | 687,979 | 72,938 | 143,883 |
| Business-type activities: | | | |
| Water | 244,647 | 280,323 | 4,567 |
| Electricity | 163,547 | 165,227 | 97 |
| Airport facilities | 153,627 | 116,694 | 177 |
| Nonmajor activities: | | | |
| Sewer | 25,231 | 22,894 | 59 |
| Public Auditorium | 2,435 | 1,226 | |
| Westside Market | 1,739 | 1,302 | 2 |
| Eastside Market | 92 | | |
| Municipal Parking Lots | 7,381 | 7,735 | 417 |
| Cemeteries | 1,821 | 1,495 | |
| Golf Courses | 972 | 536 | |
| Total business-type activities | 601,492 | 597,432 | 5,319 |
| Total | $ 1,289,471 | $ 670,370 | $ 149,202 |

General revenues:
- Income taxes
- Property taxes
- Other taxes
- Shared revenues
- State local government funds
- Unrestricted investment earnings
- Other

Transfers

Total general revenues and transfers

Change in net position

Net position at beginning of year (as restated)

Net position at end of year

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

| | | Net (Expense) Revenue and Changes in Net Positon | | |
|---|---|---|---|---|
| | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| | $ 1,330 | $ (69,770) | $ | $ (69,770) |
| | 24,515 | (57,050) | | (57,050) |
| | | (281,891) | | (281,891) |
| | | (1,701) | | (1,701) |
| | | (2,293) | | (2,293) |
| | | (4,097) | | (4,097) |
| | | (2,358) | | (2,358) |
| | | (26,153) | | (26,153) |
| | 25,845 | (445,313) | - | (445,313) |
| | 21,800 | | 62,043 | 62,043 |
| | 964 | | 2,741 | 2,741 |
| | 25,025 | | (11,731) | (11,731) |
| | 364 | | (1,914) | (1,914) |
| | 3,645 | | 2,436 | 2,436 |
| | 210 | | (225) | (225) |
| | | | (92) | (92) |
| | 496 | | 1,267 | 1,267 |
| | 992 | | 666 | 666 |
| | 66 | | (370) | (370) |
| | 53,562 | - | 54,821 | 54,821 |
| | $ 79,407 | (445,313) | 54,821 | (390,492) |
| | | 330,863 | | 330,863 |
| | | 56,086 | | 56,086 |
| | | 28,680 | | 28,680 |
| | | 27,338 | | 27,338 |
| | | 25,966 | | 25,966 |
| | | 692 | | 692 |
| | | 18,141 | | 18,141 |
| | | (1,589) | 1,589 | - |
| | | 486,177 | 1,589 | 487,766 |
| | | 40,864 | 56,410 | 97,274 |
| | | 641,454 | 1,967,956 | 2,609,410 |
| | | $ 682,318 | $ 2,024,366 | $ 2,706,684 |

# CITY OF CLEVELAND, OHIO

## BALANCE SHEET-GOVERNMENTAL FUNDS
## DECEMBER 31, 2012
## (Amounts in 000's)

| | General | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 84,869 | $ 243,525 | $ 328,394 |
| Investments | | 9,522 | 9,522 |
| Receivables: | | | |
| Taxes | 101,021 | 35,009 | 136,030 |
| Accounts | 28,330 | | 28,330 |
| Grants | | 12,458 | 12,458 |
| Loans | | 190,860 | 190,860 |
| Accrued interest | | 4 | 4 |
| Assessments | | 2,615 | 2,615 |
| Less: Allowance for doubtful accounts | (20,967) | | (20,967) |
| Receivables, net | 108,384 | 240,946 | 349,330 |
| Due from other funds | 1,393 | 12,472 | 13,865 |
| Due from other governments | 21,240 | 13,490 | 34,730 |
| Inventory of supplies | 632 | 495 | 1,127 |
| TOTAL ASSETS | $ 216,518 | $ 520,450 | $ 736,968 |
| **LIABILITIES** | | | |
| Accounts payable | $ 4,795 | $ 8,760 | $ 13,555 |
| Accrued wages and benefits | 40,426 | 3,140 | 43,566 |
| Due to other governments | 3,745 | 98,486 | 102,231 |
| Deferred revenue | 89,117 | 49,502 | 138,619 |
| Unearned revenue | 576 | 8,149 | 8,725 |
| Due to other funds | 6,109 | 15,183 | 21,292 |
| Total liabilities | 144,768 | 183,220 | 327,988 |
| **FUND BALANCES** | | | |
| Nonspendable | 632 | 495 | 1,127 |
| Restricted | | 233,832 | 233,832 |
| Committed | | 102,901 | 102,901 |
| Assigned | 9,239 | 2 | 9,241 |
| Unassigned | 61,879 | | 61,879 |
| Total fund balances | 71,750 | 337,230 | 408,980 |
| TOTAL LIABILITIES AND FUND BALANCES | $ 216,518 | $ 520,450 | |

| | |
|---|---|
| Amounts reported for governmental activities in the statement of net position 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. | 925,547 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | 82,723 |
| 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. | (747,409) |
| The assets and liabilities of most of the internal service funds are included in the governmental activities in the statement of net position. | 12,477 |
| Net position of governmental activities | $ 682,318 |

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, 2012

**(Amounts in 000's)**

| | General | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| REVENUES: | | | |
| Income taxes | $ 294,648 | $ 36,470 | $ 331,118 |
| Property taxes | 36,028 | 19,284 | 55,312 |
| State local government funds | 31,821 | | 31,821 |
| Other taxes and shared revenues | 50,489 | 35,595 | 86,084 |
| Licenses and permits | 12,314 | 2,756 | 15,070 |
| Charges for services | 34,230 | 7,206 | 41,436 |
| Fines, forfeits and settlements | 21,451 | 5,379 | 26,830 |
| Investment earnings | 277 | 191 | 468 |
| Grants | 5,724 | 124,000 | 129,724 |
| Contributions | | 1,364 | 1,364 |
| Miscellaneous | 10,074 | 8,696 | 18,770 |
| Total revenues | 497,056 | 240,941 | 737,997 |
| EXPENDITURES: | | | |
| Current: | | | |
| General Government | 76,966 | 8,159 | 85,125 |
| Public Works | 63,622 | 22,131 | 85,753 |
| Public Safety | 294,955 | 8,812 | 303,767 |
| Community Development | 157 | 69,081 | 69,238 |
| Building and Housing | 7,836 | 6,706 | 14,542 |
| Public Health | 5,326 | 11,660 | 16,986 |
| Economic Development | 1,407 | 11,387 | 12,794 |
| Other | 10,992 | | 10,992 |
| Capital outlay | 2,302 | 67,643 | 69,945 |
| Inception of capital lease | | 5,648 | 5,648 |
| Debt service: | | | |
| Principal retirement | | 48,115 | 48,115 |
| Interest | | 33,741 | 33,741 |
| General Government | | 1,264 | 1,264 |
| Other | | 1,168 | 1,168 |
| Total expenditures | 463,563 | 295,515 | 759,078 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 33,493 | (54,574) | (21,081) |
| OTHER FINANCING SOURCES (USES): | | | |
| Transfers in | 3,602 | 56,228 | 59,830 |
| Transfers out | (16,941) | (45,204) | (62,145) |
| Issuance of debt | | 82,945 | 82,945 |
| Premium on bonds | | 8,770 | 8,770 |
| Discount on bonds | | (145) | (145) |
| Payment to refund bonds | | (28,910) | (28,910) |
| Sale of City assets | 2 | 322 | 324 |
| Proceeds from capital lease | | 6,507 | 6,507 |
| Total other financing sources (uses) | (13,337) | 80,513 | 67,176 |
| NET CHANGE IN FUND BALANCES | 20,156 | 25,939 | 46,095 |
| FUND BALANCES AT BEGINNING OF YEAR | 51,594 | 311,291 | 362,885 |
| FUND BALANCES AT END OF YEAR | $ 71,750 | $ 337,230 | $ 408,980 |

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, 2012

**(Amounts in 000's)**

Amounts reported for governmental activities in the statement of activities (pages 56 and 57) are different because:

| | |
|---|---|
| Net change in fund balances - total governmental funds (page 59) | $ 46,095 |
| 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. | 15,654 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | (9,512) |
| 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 position. 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. | (17,982) |
| 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. | 3,219 |
| The net revenue of certain activities of internal service funds is reported with governmental activities. | 3,390 |
| Change in net position of governmental activities (pages 56 and 57) | $ 40,864 |

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, 2012

**(Amounts in 000's)**

| | Original Budget | Final Budget | Actual* | Variance-Positive (Negative) |
|---|---|---|---|---|
| REVENUES: | | | | |
| Income taxes | $ 271,105 | $ 271,105 | $ 290,474 | $ 19,369 |
| Property taxes | 36,903 | 36,903 | 36,028 | (875) |
| State local government funds | 34,673 | 34,673 | 34,673 | - |
| Other taxes and shared revenues | 40,472 | 40,472 | 46,929 | 6,457 |
| Licenses and permits | 11,785 | 11,785 | 12,372 | 587 |
| Charges for services | 29,994 | 29,994 | 33,837 | 3,843 |
| Fines, forfeits and settlements | 22,737 | 22,737 | 21,626 | (1,111) |
| Investment earnings | 130 | 130 | 250 | 120 |
| Grants | 5,943 | 5,943 | 5,464 | (479) |
| Miscellaneous | 18,264 | 18,264 | 19,365 | 1,101 |
| Total revenues | 472,006 | 472,006 | 501,018 | 29,012 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General Government | 83,655 | 83,820 | 78,496 | 5,324 |
| Public Works | 66,766 | 67,159 | 63,848 | 3,311 |
| Public Safety | 299,409 | 299,409 | 294,746 | 4,663 |
| Community Development | 271 | 271 | 148 | 123 |
| Building and Housing | 9,822 | 9,837 | 8,317 | 1,520 |
| Public Health | 5,299 | 5,653 | 5,346 | 307 |
| Economic Development | 1,525 | 1,525 | 1,413 | 112 |
| Other | 19,436 | 19,541 | 16,229 | 3,312 |
| Total expenditures | 486,183 | 487,215 | 468,543 | 18,672 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (14,177) | (15,209) | 32,475 | 47,684 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | 18,218 | 18,218 | 16,981 | (1,237) |
| Transfers out | (20,873) | (19,841) | (17,941) | 1,900 |
| Sale of City assets | | | 2 | 2 |
| Total other financing sources (uses) | (2,655) | (1,623) | (958) | 665 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCINC SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES | (16,832) | (16,832) | 31,517 | 48,349 |
| DECERTIFICATION OF PRIOR YEAR ENCUMBRANCES AND PRE-ENCUMBRANCES | | | 2,181 | 2,181 |
| NET CHANGE IN FUND BALANCES | (16,832) | (16,832) | 33,698 | 50,530 |
| FUND BALANCES AT BEGINNING OF YEAR | 16,861 | 16,861 | 16,861 | - |
| FUND BALANCES AT END OF YEAR | $ 29 | $ 29 | $ 50,559 | $ 50,530 |

***** 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

## STATEMENT OF NET POSITION - PROPRIETARY FUNDS
**DECEMBER 31, 2012**
**(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 |
| **ASSETS** | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $ 194,377 | $ 58,097 | $ 87,196 | $ 55,679 | $ 395,349 | $ 18,153 |
| Restricted cash and cash equivalents | 12,755 | 1,310 | 7,037 | | 21,102 | |
| Receivables: | | | | | | |
| Accounts | 64,167 | 16,310 | 9,732 | 89,549 | 179,758 | |
| Unbilled revenue | 31,540 | 1,931 | 3,314 | 2,831 | 39,616 | |
| Less: Allowance for doubtful accounts | (15,299) | (9,407) | (2,000) | (3,051) | (29,757) | |
| Receivables, net | 80,408 | 8,834 | 11,046 | 89,329 | 189,617 | - |
| Due from other funds | 14,662 | 3,313 | 34 | 546 | 18,555 | 9,201 |
| Due from other governments | | | 2,976 | | 2,976 | |
| Inventory of supplies | 4,713 | 8,826 | 2,343 | 502 | 16,384 | 1,221 |
| Prepaid expenses and other assets | 1,178 | 90 | 323 | | 1,591 | |
| Total current assets | 308,093 | 80,470 | 110,955 | 146,056 | 645,574 | 28,575 |
| Noncurrent assets: | | | | | | |
| Restricted assets: | | | | | | |
| Cash and cash equivalents | 211,759 | 51,122 | 286,051 | 15,927 | 564,859 | |
| Investments | | 3,739 | | | 3,739 | |
| Accrued interest receivable | 84 | 1 | 1 | | 86 | |
| Accrued passenger facility charges | | | 2,244 | | 2,244 | |
| Total restricted assets | 211,843 | 54,862 | 288,296 | 15,927 | 570,928 | - |
| Unamortized bond issuance costs | 5,151 | 2,646 | 16,497 | 1,288 | 25,582 | |
| Capital assets: | | | | | | |
| Land | 5,463 | 5,249 | 167,457 | 13,729 | 191,898 | 663 |
| Land improvements | 16,549 | 305 | 74,153 | 6,728 | 97,735 | 146 |
| Utility plant | 1,497,878 | 495,234 | | 137,728 | 2,130,840 | |
| Buildings, structures and improvements | 238,532 | 21,413 | 334,242 | 106,213 | 700,400 | 3,557 |
| Furniture, fixtures, equipment and vehicles | 586,549 | 81,036 | 43,819 | 18,903 | 730,307 | 9,513 |
| Infrastructure | | | 975,801 | | 975,801 | |
| Construction in progress | 201,167 | 46,583 | 29,011 | 16,332 | 293,093 | 488 |
| Less: Accumulated depreciation | (859,199) | (314,193) | (729,465) | (161,951) | (2,064,808) | (10,012) |
| Total capital assets, net | 1,686,939 | 335,627 | 895,018 | 137,682 | 3,055,266 | 4,355 |
| Total noncurrent assets | 1,903,933 | 393,135 | 1,199,811 | 154,897 | 3,651,776 | 4,355 |
| TOTAL ASSETS | 2,212,026 | 473,605 | 1,310,766 | 300,953 | 4,297,350 | 32,930 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | | | |
| Derivative instruments-interest rate swaps | 27,699 | | | | 27,699 | |
| Total deferred outflows of resources | 27,699 | - | - | - | 27,699 | - |
| TOTAL ASSETS AND DEFERRED OUTFLOWS | $ 2,239,725 | $ 473,605 | $ 1,310,766 | $ 300,953 | $ 4,325,049 | $ 32,930 |

(Continued)

## CITY OF CLEVELAND, OHIO

### STATEMENT OF NET POSITION - PROPRIETARY FUNDS
### DECEMBER 31, 2012
### (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 | $ 6,721 | $ 10,350 | $ 3,546 | $ 2,870 | $ 23,487 | $ 2,246 |
| Accrued wages and benefits | 10,083 | 3,855 | 4,079 | 2,033 | 20,050 | 2,499 |
| Due to other funds | 2,630 | 4,499 | 1,412 | 11,584 | 20,125 | 204 |
| Due to other governments | | | 5,968 | 90,925 | 96,893 | 755 |
| Accrued interest payable | 13,521 | 1,221 | 17,632 | 470 | 32,844 | |
| Current payable from restricted assets | 12,755 | 1,310 | 7,037 | | 21,102 | |
| Current portion of long-term obligations | 37,804 | 12,710 | 19,515 | 3,045 | 73,074 | |
| Total current liabilities | 83,514 | 33,945 | 59,189 | 110,927 | 287,575 | 5,704 |
| Long-term liabilities: | | | | | | |
| Accrued wages and benefits | 1,365 | 499 | 595 | 206 | 2,665 | 14,409 |
| Construction loans payable | 100,700 | | | 1,813 | 102,513 | |
| Deferred payment obligation | | | 280 | | 280 | |
| Accreted interest payable | | 7,768 | | | 7,768 | |
| Revenue bonds payable | 766,975 | 220,202 | 856,702 | 28,103 | 1,871,982 | |
| Total noncurrent liabilities | 869,040 | 228,469 | 857,577 | 30,122 | 1,985,208 | 14,409 |
| Total liabilities | 952,554 | 262,414 | 916,766 | 141,049 | 2,272,783 | 20,113 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | | |
| Derivative instruments-interest rate swaps | 27,699 | | | 365 | 28,064 | |
| Service concession agreements | | | | 176 | 176 | |
| Total deferred inflows of resources | 27,699 | - | - | 541 | 28,240 | - |
| **NET POSITION** | | | | | | |
| Net investment in capital assets | 914,193 | 153,436 | 127,557 | 107,958 | 1,303,144 | 4,355 |
| Restricted for capital projects | 99 | 1,309 | | 178 | 1,586 | |
| Restricted for debt service | 87,602 | 3,976 | 111,467 | 5,525 | 208,570 | |
| Restricted for passenger facility charges | | | 17,670 | | 17,670 | |
| Unrestricted | 257,578 | 52,470 | 137,306 | 45,702 | 493,056 | 8,462 |
| Total net position | 1,259,472 | 211,191 | 394,000 | 159,363 | 2,024,026 | 12,817 |
| TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION | $ 2,239,725 | $ 473,605 | $ 1,310,766 | $ 300,953 | | $ 32,930 |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | | | | 340 | |
| NET POSITION OF BUSINESS-TYPE ACTIVITIES | | | | | $ 2,024,366 | |

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 POSITION - PROPRIETARY FUNDS
## FOR THE YEAR ENDED DECEMBER 31, 2012
**(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 | $ 280,323 | $ 165,227 | $ 116,694 | $ 35,170 | $ 597,414 | $ 46,969 |
| Total operating revenue | 280,323 | 165,227 | 116,694 | 35,170 | 597,414 | 46,969 |
| OPERATING EXPENSES: | | | | | | |
| Operations | 103,687 | 21,379 | 64,454 | 19,827 | 209,347 | 42,500 |
| Maintenance | 45,482 | 19,820 | 4,401 | 9,217 | 78,920 | 2,095 |
| Purchased power | | 95,788 | | | 95,788 | |
| Depreciation | 67,455 | 16,971 | 50,541 | 7,684 | 142,651 | 649 |
| Total operating expenses | 216,624 | 153,958 | 119,396 | 36,728 | 526,706 | 45,244 |
| OPERATING INCOME (LOSS) | 63,699 | 11,269 | (2,702) | (1,558) | 70,708 | 1,725 |
| NON-OPERATING REVENUES (EXPENSES): | | | | | | |
| Investment income (loss) | 1,965 | 80 | 272 | 484 | 2,801 | 21 |
| Interest expense | (28,322) | (9,677) | (29,571) | (1,955) | (69,525) | |
| Passenger facility charges | | | 15,781 | | 15,781 | |
| Sound insulation program | | | (577) | | (577) | |
| Loss on disposal of capital assets | (15) | | (59) | (8) | (82) | (68) |
| Other revenues (expenses) | 4,284 | (59) | (4,193) | (77) | (45) | |
| Total non-operating revenues (expenses) | (22,088) | (9,656) | (18,347) | (1,556) | (51,647) | (47) |
| INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS | 41,611 | 1,613 | (21,049) | (3,114) | 19,061 | 1,678 |
| Capital contributions | 20,118 | 981 | 9,149 | 5,616 | 35,864 | 882 |
| Transfers in | | | | 1,589 | 1,589 | 726 |
| Change in net position | 61,729 | 2,594 | (11,900) | 4,091 | 56,514 | 3,286 |
| NET POSITION AT BEGINNING OF YEAR (as restated) | 1,197,743 | 208,597 | 405,900 | 155,272 | | 9,531 |
| NET POSITION AT END OF YEAR | $ 1,259,472 | $ 211,191 | $ 394,000 | $ 159,363 | | $ 12,817 |
| Adjustment to reflect consolidation of internal service fund activities related to enterprise funds | | | | | (104) | |
| CHANGE IN NET POSITION OF BUSINESS-TYPE ACTIVITIES | | | | | $ 56,410 | |

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, 2012
## (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 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | | |
| Cash received from customers | $ 264,534 | $ 168,740 | $ 122,327 | $ 35,426 | $ 591,027 | $ 45,578 |
| Cash payments to suppliers for goods or services | (66,921) | (15,640) | (38,839) | (11,655) | (133,055) | (25,549) |
| Cash payments to employees for services | (76,526) | (22,056) | (28,850) | (14,256) | (141,688) | (17,733) |
| Cash payments for purchased power | | (95,152) | | | (95,152) | |
| Agency activity on behalf of other sewer authorities | | | | 6,265 | 6,265 | |
| Other | 140 | (4,813) | | | (4,673) | |
| Net cash provided by (used for) operating activities | 121,227 | 31,079 | 54,638 | 15,780 | 222,724 | 2,296 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | | | | |
| Cash payments for sound insulation of homes | | | (641) | | (641) | |
| Cash received through transfers from other funds | | | | 1,589 | 1,589 | 726 |
| Miscellaneous non-operating revenue (expense) | | 89 | (3,827) | 145 | (3,593) | |
| Net cash provided by (used for) noncapital financing activities | - | 89 | (4,468) | 1,734 | (2,645) | 726 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | | |
| Cash receipts for passenger facility charges | | | 15,816 | | 15,816 | |
| Proceeds from sale of revenue bonds, loans and notes | 192,924 | 15,325 | 252,946 | | 461,195 | |
| Acquisition and construction of capital assets | (67,355) | (16,620) | (22,452) | (3,996) | (110,423) | (131) |
| Principal paid on long-term debt | (90,239) | (10,050) | (13,903) | (2,925) | (117,117) | |
| Interest paid on long-term debt | (34,236) | (9,746) | (32,871) | (1,807) | (78,660) | |
| Cash paid to escrow agent for refunding | (50,000) | (16,294) | (252,379) | | (318,673) | |
| Capital grant proceeds | | | 6,846 | 289 | 7,135 | |
| Net cash provided by (used for) capital and related financing activities | (48,906) | (37,385) | (45,997) | (8,439) | (140,727) | (131) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | | |
| Purchase of investment securities | (99,959) | (28,731) | (105,981) | 6,022 | (228,649) | |
| Proceeds from sale and maturity of investment securities | 112,004 | 30,010 | 185,583 | 4,095 | 331,692 | |
| Interest received on investments | 2,158 | 120 | 449 | 111 | 2,838 | 21 |
| Net cash provided by (used for) investing activities | 14,203 | 1,399 | 80,051 | 10,228 | 105,881 | 21 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 86,524 | (4,818) | 84,224 | 19,303 | 185,233 | 2,912 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 332,367 | 115,347 | 296,060 | 52,303 | 796,077 | 15,241 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 418,891 | $ 110,529 | $ 380,284 | $ 71,606 | $ 981,310 | $ 18,153 |

(Continued)

# CITY OF CLEVELAND, OHIO

## STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
## FOR THE YEAR ENDED DECEMBER 31, 2012
**(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) | $ 63,699 | $ 11,269 | $ (2,702) | $ (1,558) | $ 70,708 | $ 1,725 |
| Adjustment to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | | | | |
| Depreciation | 67,455 | 16,971 | 50,541 | 7,684 | 142,651 | 649 |
| Write-off of bad debt expense | | | | 20,000 | 20,000 | |
| Noncash rental income | | | (3,389) | | (3,389) | |
| Changes in assets and liabilities: | | | | | | |
| Receivables, net | 992 | 3,304 | 10,469 | 3,180 | 17,945 | |
| Due from other funds | (2,213) | (755) | (34) | (82) | (3,084) | 1,072 |
| Inventory of supplies | (991) | 263 | (225) | (40) | (993) | 3 |
| Prepaid expenses and other assets | (40) | 3 | 7 | | (30) | |
| Accounts payable | 81 | 135 | (77) | (284) | (145) | (200) |
| Accrued wages and benefits | (95) | 206 | 124 | (46) | 189 | (1,392) |
| Due to other funds | (140) | (423) | 443 | 2,023 | 1,903 | 1 |
| Due to other governments | | | | (15,097) | (15,097) | 438 |
| Accrued expenses and other liabilities | (7,521) | 106 | (519) | | (7,934) | |
| Total adjustments | 57,528 | 19,810 | 57,340 | 17,338 | 152,016 | 571 |
| NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | $ 121,227 | $ 31,079 | $ 54,638 | $ 15,780 | $ 222,724 | $ 2,296 |
| NONCASH OPERATING ACTIVITY: | | | | | | |
| Rental income | | | $ 3,389 | | | |
| SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | | | |
| Contributions of capital assets | $ 20,044 | | | $ 5,273 | | |

(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, 2012
**(Amounts in 000's)**

| | Agency Funds |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents | $ 23,114 |
| Taxes receivable | 19,699 |
| Due from other governments | 1,171 |
| Total assets | $ 43,984 |
| **LIABILITIES** | |
| Due to other governments | 26,492 |
| Due to others | 17,492 |
| Total liabilities | $ 43,984 |

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, 2012 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 position and a statement of activities. These statements report all of the assets, deferred outflows, liabilities, deferred inflows, 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 position. 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 Works (including waste collection); Public Safety (including police and fire); Building and Housing; Public Health; Community Development; 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, deferred outflows, liabilities, deferred inflows, 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.

***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 four appropriation amendments during 2012 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 2012 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) | $ 31,517 |
| Adjustments: | |
| Revenue Accruals | (17,341) |
| Expenditure Accruals | (2,039) |
| Encumbrances and Pre-Encumbrances | 8,019 |
| Net Change in Fund Balance | $ 20,156 |

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 and Segregated Accounts, consists of 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 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 Governmental 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 Revenue Bonds, Public Power Revenue Bonds and 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 position. 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 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, 2012, 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 as applicable 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.

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

F. ***Accounting Pronouncements***

In November of 2010, Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. As required, the City has implemented GASB Statement No. 60 effective for the 2012 fiscal year.

In December of 2010, Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations, (2) Accounting Principles Board Opinions and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. As required, the City has implemented GASB Statement No. 62 effective for the 2012 fiscal year.

In June of 2011, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. As required, the City has implemented GASB Statement No. 63 effective for the 2012 fiscal year.

In June of 2011, Governmental Accounting Standards Board (GASB) Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision* was issued. This Statement is effective for fiscal periods beginning after June 15, 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. As required, the City has implemented GASB Statement No. 64 effective for the 2012 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 position.

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds and net position – governmental activities* as reported in the government–wide statement of net position. 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 $747.4 million difference are as follows:

| | **(Amounts in 000's)** |
|---|---|
| Bonds payable | $ (637,125) |
| Less: Deferred charge for issuance costs (to be amortized over life of debt) | 21,205 |
| Interest rate swap | (239) |
| Unamortized bond premium | (20,725) |
| Accrued interest payable | (6,855) |
| Capital leases payable | (16,236) |
| Loans payable | (2,390) |
| Claims and adjustments | (3,234) |
| Compensated absences | (81,810) |
| Net adjustments to reduce *fund balance - total governmental funds* to arrive at *net position - governmental activities* | $ (747,409) |

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 position 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 $15.7 million difference are as follows:

| | **(Amounts in 000's)** |
|---|---|
| Capital outlay | $ 68,176 |
| Depreciation expense | (52,007) |
| Capital asset disposal | (515) |
| Net adjustment to increase *net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities* | $ 15,654 |

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 | $ (92,235) |
| Current year deferred revenues | 82,723 |
| Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities* | $ (9,512) |

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 position. 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 $18.0 million which is detailed as follows:

| | | **(Amounts in 000's)** |
|---|---|---|
| Debt issued or incurred: | | |
| Issuance of general obligation bonds and other obligations | $ | (98,077) |
| Accrued interest | | 5,119 |
| Interest rate swap | | 203 |
| Principal repayments: | | |
| General obligation debt and other obligations | | 44,764 |
| Payment on capital lease | | 3,179 |
| Payment on loan | | 85 |
| Refunding of general obligation bonds and other obligations | | 28,910 |
| Amortization of debt issuance cost | | (2,165) |
| Net adjustment to increase *net changes in fund balances - total* governmental funds to arrive at *changes in net position of governmental activities* | $ | (17,982) |

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 $3.2 million difference are as follows:

| | | **(Amounts in 000's)** |
|---|---|---|
| Compensated absences | $ | 4,653 |
| Claims judgements | | (1,434) |
| Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities* | $ | 3,219 |

## NOTE 4 – POOLED AND SEGREGATED CASH AND INVESTMENTS

Monies for the Debt Service Funds, certain Capital Project Funds, certain Agency Funds, 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, Public Auditorium 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 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 $359,177,000 and the actual bank balance totaled $367,398,000. 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*, $367,398,000 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. 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, 2012 include U.S. Treasury Bills, U.S. Treasury Notes, STAROhio, commercial paper, money market mutual funds, guaranteed investment contracts and manuscript debt. The City maintains the highest ratings for its investments. The investments in U.S. Agencies carry a Moody's rating of Aaa. Investments in Dreyfus Government Cash Management, First American Government Obligations Fund, First American Treasury Obligations Fund, 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. Investments in U.S. Bank N.A. Open Commercial Paper carries a Standard & Poor's rating of A-1+. 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:

| | | | Investment Maturities | | |
|---|---|---|---|---|---|
| **Type of Investment** | **Fair Value** | **Cost** | **Less than One Year** | **1 - 5 Years** | **5 Years or More** |
| | | (Amounts in 000's) | | | |
| U.S. Treasury Bills | $ 12,215 | $ 12,214 | $ 12,215 | $ | $ |
| U.S. Treasury Notes | 3,246 | 3,251 | 3,246 | | |
| STAROhio | 283,038 | 283,038 | 283,038 | | |
| Commercial Paper | 141,635 | 141,635 | 141,635 | | |
| Investments in Mutual Funds | 519,186 | 519,186 | 519,186 | | |
| Guaranteed Investment Contracts | 36,850 | 36,850 | | 36,850 | |
| Manuscript Debt | 6,364 | 6,364 | | | 6,364 |
| Other | 2,521 | 2,521 | 2,521 | | |
| Total Investments | 1,005,055 | 1,005,059 | 961,841 | 36,850 | 6,364 |
| Total Deposits | 359,177 | 359,177 | 359,177 | | |
| Total Deposits and Investments | $ 1,364,232 | $ 1,364,236 | $ 1,321,018 | $ 36,850 | $ 6,364 |

Investment type "Other" consist of deposits into collective cash escrow pools managed by either Huntington or US 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, 2012, the investments in U.S. Treasury Bills, U.S. Treasury Notes, STAROhio, commercial paper, mutual funds, guaranteed investment contracts, manuscript debt and other are approximately 1.2%, 0.3%, 28.2%, 14.1%, 51.7%, 3.7%, 0.6% and 0.2%, 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 | $ 741,896 |
| Investments | 9,522 |
| Restricted: | |
| Cash and cash equivalents | 585,961 |
| Investments | 3,739 |
| Total | $ 1,341,118 |

*Fund Financial Statements*

| | | **(Amounts in 000's)** |
|---|---|---|
| Balance Sheet – Governmental Funds: | | |
| Unrestricted: | | |
| Cash and cash equivalents | $ | 328,394 |
| Investments | | 9,522 |
| | | 337,916 |
| Statement of Net Position – Proprietary Funds: | | |
| Enterprise Funds: | | |
| Unrestricted: | | |
| Cash and cash equivalents | | 395,349 |
| Restricted: | | |
| Cash and cash equivalents | | 585,961 |
| Investments | | 3,739 |
| Internal Service Funds: | | |
| Unrestricted: | | |
| Cash and cash equivalents | | 18,153 |
| Subtotal | | 1,003,202 |
| Statement of Fiduciary Assets and Liabilities: | | |
| Unrestricted: | | |
| Cash and cash equivalents | | 23,114 |
| Total | $ | 1,364,232 |

## 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, 2012, are as follows:

| | Balance January 1, 2012 | Additions | (Reductions) | Balance December 31, 2012 | Due Within One Year |
|---|---|---|---|---|---|
| | | (Amounts in 000's) | | | |
| **Governmental Activities** | | | | | |
| General Obligation Bonds due through 2033 | $ 298,660 | $ 67,765 | $ (57,725) | $ 308,700 | $ 26,150 |
| *Other Obligations:* | | | | | |
| Urban Renewal Bonds due through 2018, 6.75% | 4,835 | | (565) | 4,270 | 600 |
| Subordinated Income Tax Refunding Bonds due through 2024, 5.00% to 5.25% | 52,975 | | (2,955) | 50,020 | 3,105 |
| Subordinate Lien Income Tax Bonds due through 2031, 2.00% to 6.34% | 80,505 | 15,180 | (3,305) | 92,380 | 3,730 |
| *Non-Tax Revenue Bonds:* | | | | | |
| Stadium due through 2020, 3.50% to 5.13% | 11,665 | | (1,090) | 10,575 | 1,130 |
| Taxable Economic and Community Dev. (Core City Bonds) due through 2033, 0.15% to 5.40% | 40,395 | | (1,440) | 38,955 | 1,505 |
| Lower Euclid Ave. TIF 2003A due through 2032, 1.00% to 4.00% | 6,531 | | (167) | 6,364 | 151 |
| Annual Appropriation Bonds - Flats East Bank due through 2035, 2.60% to 6.00% | 11,000 | | (235) | 10,765 | 240 |
| Certificates of Participation-Stadium due through 2028, 1.41% to 5.70% | 129,547 | | (5,942) | 123,605 | 5,936 |
| Capital Lease Obligations, due through 2019, 1.41% to 3.22% | 12,908 | 6,507 | (3,179) | 16,236 | 2,899 |
| Gateway Note Payable, due through 2016 | 1,250 | | (250) | 1,000 | 250 |
| Accrued wages and benefits | 51,069 | 16,526 | (19,396) | 48,199 | 27,850 |
| Police and fire overtime | 48,912 | 1,774 | (4,962) | 45,724 | 610 |
| Fire deferred vacation | 2,999 | 637 | (711) | 2,925 | 349 |
| Estimated claims payable | 2,528 | 3,534 | (2,290) | 3,772 | 3,511 |
| | 755,779 | 111,923 | (104,212) | 763,490 | 78,016 |
| Unamortized loss on debt refunding | (8,325) | (2,387) | 1,203 | (9,509) | |
| Unamortized (discount)/premium - net | 15,602 | 8,625 | (3,502) | 20,725 | |
| Total Governmental Activities, Net | $ 763,056 | $ 118,161 | $ (106,511) | $ 774,706 | $ 78,016 |

(Continued)

| | Balance January 1, 2012 | Additions | (Reductions) | Balance December 31, 2012 | 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 | $ | $ (249,445) | $ 149,000 | $ |
| Series 2006 due through 2024, 5.00% to 5.25% | 116,270 | | (1,245) | 115,025 | 1,310 |
| Series 2007B due through 2027, 4.00% to 5.00% | 10,175 | | (530) | 9,645 | 550 |
| Series 2008D&F due through 2033, Variable Rate | 64,925 | | (950) | 63,975 | |
| Series 2009A-B due through 2027, Variable Rate | 37,075 | | (1,215) | 35,860 | 1,255 |
| Series 2009C-D due through 2027, 0.11% to 5.00% | 190,610 | | (9,720) | 180,890 | 10,290 |
| Series 2011A due through 2024, 3.00% to 5.00% | 74,385 | | | 74,385 | 2,880 |
| Series 2012A due through 2031, 5.00% | | 235,150 | | 235,150 | |
| | 891,885 | 235,150 | (263,105) | 863,930 | 16,285 |
| Public Power System Revenue Bonds: | | | | | |
| Series 1994 due through 2013, Zero Coupon | 14,650 | | (7,325) | 7,325 | 7,325 |
| Series 2001 refunded in 2012 | 15,980 | | (15,980) | - | |
| 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 | | (910) | 92,803 | 940 |
| Series 2008 Accreted Interest Payable | 5,948 | 1,820 | | 7,768 | |
| Series 2010 due through 2017, 3.00% to 5.00% | 23,915 | | | 23,915 | 445 |
| Series 2012 due through 2016, 2.00% | | 15,325 | (1,815) | 13,510 | 4,000 |
| | 261,766 | 17,145 | (26,030) | 252,881 | 12,710 |
| Waterworks Improvement Revenue Bonds: | | | | | |
| Series G 1993 due through 2021, 5.50% | 81,225 | | (14,365) | 66,860 | 310 |
| Series N 2005 due through 2023, 3.50% to 5.00% | 33,045 | | (5,030) | 28,015 | 5,280 |
| Series O 2007 due through 2037, 4.25% to 5.00% | 133,315 | | (2,705) | 130,610 | |
| Series P 2007 due through 2028, 4.00% to 5.00% | 119,095 | | (5,815) | 113,280 | |
| Series Q 2008 due through 2033, Variable Rate | 90,800 | | | 90,800 | |
| Series T 2009 due through 2021, 2.00% to 5.00% | 77,415 | | (6,085) | 71,330 | 6,180 |
| 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 | 19,330 |
| Series X 2012 due through 2042, 3.63% to 5.00% | | 44,410 | | 44,410 | |
| Second Lien Series A 2012 due through 2027, 4.00% to 5.00% | | 76,710 | | 76,710 | |
| | 698,415 | 121,120 | (34,000) | 785,535 | 31,100 |
| Ohio Water Development Authority and Public Works Commission Loans due through 2032, 0.00% to 4.18% | 115,523 | 963 | (6,744) | 109,742 | 7,229 |
| Parking Facilities Refunding Revenue Bonds: | | | | | |
| Series 2006 due through 2022, 4.00% to 5.25% | 34,045 | | (2,420) | 31,625 | 2,520 |
| Deferred Payment Obligation | 6,500 | | (2,990) | 3,510 | 3,230 |
| Accrued wages and benefits | 10,400 | 1,112 | (1,434) | 10,078 | 7,283 |
| Estmated claims payable | | 1,180 | (959) | 221 | 221 |
| | 2,018,534 | 376,670 | (337,682) | 2,057,522 | 80,578 |
| Unamortized loss on debt refunding | (68,046) | (8,793) | 7,710 | (69,129) | |
| Unamortized (discount)/premium - net | 42,760 | 39,446 | (4,682) | 77,524 | |
| Total Business-Type Activities, Net | $ 1,993,248 | $ 407,323 | $ (334,654) | $ 2,065,917 | $ 80,578 |
| Total Debt and Other Long-Term Obligations | $ 2,756,304 | $ 525,484 | $ (441,165) | $ 2,840,623 | $ 158,594 |

(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 position. At December 31, 2012, $1,121,460 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, 2012, $470,515 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 principal due for General Obligation Bonds and business-type activities debt by purpose is as follows for 2012:

| | Original Issue Amount | Balance January 1, 2012 | Additions (Amounts in 000's) | (Reductions) | Balance December 31, 2012 |
|---|---|---|---|---|---|
| Governmental Activities Obligations: | | | | | |
| General Obligation Bonds | | | | | |
| Public Facilities | $ 101,670 | $ 47,560 | $ 14,235 | $ (9,770) | $ 52,025 |
| Convention Center | 1,010 | 970 | | (40) | 930 |
| Residential Redevelopment | 25,760 | 13,805 | | (4,330) | 9,475 |
| Bridges and Roadways | 161,005 | 74,260 | 20,025 | (22,905) | 71,380 |
| Parks & Recreation | 63,725 | 30,905 | 4,480 | (7,535) | 27,850 |
| Refunding Bonds | 201,045 | 114,335 | 29,025 | (12,575) | 130,785 |
| Revitalization | 6,020 | 5,440 | | (160) | 5,280 |
| Judgments/Settlements | 18,515 | 11,385 | | (410) | 10,975 |
| Total Governmental Activities | $ 578,750 | $ 298,660 | $ 67,765 | $ (57,725) | $ 308,700 |
| Business-Type Activities Obligations: | | | | | |
| Revenue Bonds / Notes | | | | | |
| Airports | $ 1,274,410 | $ 891,885 | $ 235,150 | $ (263,105) | $ 863,930 |
| Public Power | 501,543 | 255,818 | 15,325 | (26,030) | 245,113 |
| Waterworks | 1,131,695 | 748,415 | 171,120 | (134,000) | 785,535 |
| Parking Facilities | 57,520 | 34,045 | | (2,420) | 31,625 |
| Loans | | | | | |
| Waterworks | 151,625 | 112,680 | 963 | (6,239) | 107,404 |
| Water Pollution Control | 8,378 | 2,843 | | (505) | 2,338 |
| Total Business-Type Activities | $ 3,125,171 | $ 2,045,686 | $ 422,558 | $ (432,299) | $ 2,035,945 |

The following is a summary of the City's future debt service requirements as of December 31, 2012:

| | Governmental Activities | | | | | |
|---|---|---|---|---|---|---|
| | General Obligation Bonds | | Urban Renewal Bonds | | Subordinated Income Tax Bonds | |
| Year Ending December 31 | Principal | Interest | Principal | Interest | Principal | Interest |
| | | | (Amounts in 000's) | | | |
| 2013 | $ 26,150 | $ 14,465 | $ 600 | $ 268 | $ 6,835 | $ 6,513 |
| 2014 | 24,985 | 13,378 | 640 | 226 | 7,165 | 6,334 |
| 2015 | 24,820 | 12,378 | 685 | 181 | 7,435 | 6,055 |
| 2016 | 24,355 | 11,261 | 730 | 134 | 7,740 | 5,761 |
| 2017 | 24,170 | 10,058 | 780 | 83 | 8,060 | 5,426 |
| 2018-2022 | 97,740 | 34,334 | 835 | 28 | 45,105 | 21,035 |
| 2023-2027 | 61,090 | 14,481 | | | 37,855 | 10,059 |
| 2028-2032 | 24,695 | 2,805 | | | 18,060 | 2,666 |
| 2033-2037 | 695 | 36 | | | 4,145 | 439 |
| | $ 308,700 | $ 113,196 | $ 4,270 | $ 920 | $ 142,400 | $ 64,288 |

| | Non-Tax Revenue Bonds | | City Annual Appropriation Bonds | | Certificates of Participation | |
|---|---|---|---|---|---|---|
| Year Ending December 31 | Principal | Interest | Principal | Interest | Principal | Interest |
| | | | (Amounts in 000's) | | | |
| 2013 | $ 2,786 | $ 2,388 | $ 240 | $ 633 | $ 5,936 | $ 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 | 597 | 6,495 | 3,793 |
| 2017 | 3,373 | 1,877 | 290 | 582 | 6,800 | 3,487 |
| 2018-2022 | 16,302 | 7,003 | 1,730 | 2,635 | 38,710 | 12,409 |
| 2023-2027 | 10,410 | 3,807 | 2,305 | 2,057 | 45,240 | 5,404 |
| 2028-2032 | 10,858 | 1,936 | 3,085 | 1,277 | 8,349 | 251 |
| 2033-2037 | 3,110 | 126 | 2,335 | 286 | | |
| | $ 55,894 | $ 23,574 | $ 10,765 | $ 9,305 | $ 123,605 | $ 41,292 |

| | Capital Lease Obligations | | Gateway Note Payable | | Governmental Activities Total | |
|---|---|---|---|---|---|---|
| Year Ending December 31 | Principal | Interest | Principal | Interest | Principal | Interest |
| | | | (Amounts in 000's) | | | |
| 2013 | $ 2,899 | $ 324 | $ 250 | $ | $ 45,696 | $ 32,039 |
| 2014 | 2,967 | 256 | 250 | | 45,037 | 27,492 |
| 2015 | 3,036 | 186 | 250 | | 45,625 | 25,664 |
| 2016 | 3,108 | 114 | 250 | | 46,159 | 23,673 |
| 2017 | 2,100 | 56 | | | 45,573 | 21,569 |
| 2018-2022 | 2,126 | 22 | | | 202,548 | 77,466 |
| 2023-2027 | | | | | 156,900 | 35,808 |
| 2028-2032 | | | | | 65,047 | 8,935 |
| 2033-2037 | | | | | 10,285 | 887 |
| | $ 16,236 | $ 958 | $ 1,000 | $ - | $ 662,870 | $ 253,533 |

| Year Ending December 31 | Business-Type Activities: Revenue Bonds / Notes Principal | Revenue Bonds / Notes Interest | Construction Loans Principal | Construction Loans Interest |
|---|---|---|---|---|
| | (Amounts in 000's) | | | |
| 2013 | $ 62,615 | $ 86,909 | $ 7,229 | $ 3,710 |
| 2014 | 87,870 | 86,058 | 7,465 | 3,475 |
| 2015 | 90,230 | 82,163 | 7,656 | 3,230 |
| 2016 | 92,290 | 77,952 | 7,853 | 2,981 |
| 2017 | 100,920 | 73,216 | 7,787 | 2,725 |
| 2018-2022 | 532,825 | 290,368 | 40,993 | 9,761 |
| 2023-2027 | 484,487 | 177,702 | 34,823 | 3,245 |
| 2028-2032 | 365,619 | 85,701 | 6,745 | 272 |
| 2033-2037 | 90,574 | 39,564 | | |
| 2038-2042 | 18,773 | 7,578 | | |
| | $ 1,926,203 | $ 1,007,211 | $ 120,551 | $ 29,399 |

| Year Ending December 31 | Deferred Payment Obligations (Note 6) Principal | Deferred Payment Obligations (Note 6) Interest | Business-Type Activities Total Principal | Business-Type Activities Total Interest |
|---|---|---|---|---|
| | (Amounts in 000's) | | | |
| 2013 | $ 3,230 | $ 159 | $ 73,074 | $ 90,778 |
| 2014 | 280 | 2 | 95,615 | 89,535 |
| 2015 | | | 97,886 | 85,393 |
| 2016 | | | 100,143 | 80,933 |
| 2017 | | | 108,707 | 75,941 |
| 2018-2022 | | | 573,818 | 300,129 |
| 2023-2027 | | | 519,310 | 180,947 |
| 2028-2032 | | | 372,364 | 85,973 |
| 2033-2037 | | | 90,574 | 39,564 |
| 2038-2042 | | | 18,773 | 7,578 |
| | $ 3,510 | $ 161 | $ 2,050,264 | $ 1,036,771 |

The schedule of minimum principal and interest payments for construction loans includes the amortization on fifteen 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, 2012, 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 $10,809,000.

## 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 $309,719,376 of additional unvoted debt at December 31, 2012.

Effective May 22, 2012, the City issued $50,245,000 Various Purpose and Refunding General Obligation Bonds, Series 2012. From the proceeds of the bonds, $38,337,650 will be used to pay costs of various public improvements to roads and bridges, public facilities, cemeteries and parks and recreation facilities. In addition, $11,505,000 of the proceeds were used to refund $11,610,000 outstanding Series 2002, Series 2003 and Series 2004 Various Purpose General Obligation Bonds. Proceeds in the amount of $12,570,041 were placed in an irrevocable escrow account to be used to pay the principal and interest 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 this refunding to reduce its total debt service by $704,000 and to obtain an economic gain (the difference between the present values of the old and new debt service) of $728,000 or 6.27%.

On November 20, 2012, the City issued $17,520,000 Refunding General Obligation Bonds, Series 2012A to refund $17,300,000 of outstanding Series 2003 and Series 2005A General Obligation Bonds. Proceeds in the amount of $19,360,215 were placed in an irrevocable escrow account to be used to pay the debt service on the refunded bonds. Therefore, the refunded bonds are considered to be defeased and the liability for these bonds has been removed from long-term debt. The City refunded these bonds in order to achieve debt service savings which totaled $824,000 and net present value savings of $885,000 or 5.11%.

## 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 $47,700,000 at December 31, 2012, 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, 2012 as reported by JPM was $239,000 which would be payable by the City.

***Subordinate Lien Income Tax Bonds*:** Effective November 29, 2012, the City issued $15,180,000 of Subordinate Lien Income Tax Bonds, Series 2012. These bonds were issued to provide funds for the construction of a new police station and city-wide communications center. 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 continue paying 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. Currently, only the Series 2003A Bonds remain outstanding.

***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 2011, 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.

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. A 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 for a period of three years, 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) 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 July 2005, the City entered into an equipment lease agreement with Chase Equipment Leasing, Inc. which allowed the City to purchase approximately $8,425,000 of heavy duty vehicles and apparatus. The City entered into another 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 with PNC Equipment Finance LLC. This enabled 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. On June 5, 2012, the City entered into a $6,507,400 vehicle lease agreement with PNC Equipment Finance LLC. The funds will be used to purchase a variety of vehicles including police cars, EMS ambulances and waste collection equipment. 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 2005 lease was made in August 2012.

The assets recorded by the City under Capital Leases were as follows as of December 31, 2012:

| | Governmental Activities (Amounts in 000's) |
|---|---|
| Furniture, fixtures and equipment | $ 35,325 |
| Less – accumulated depreciation | (14,363) |
| Net book value | $ 20,962 |

***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, 2012, follow:

| | Overtime | | Deferred Vacation | |
|---|---|---|---|---|
| **Division** | **Hours** | **Dollars** | **Hours** | **Dollars** |
| | | **(Amounts in 000's)** | | |
| Police | 1,249 | $ 39,240 | | $ |
| Fire | 200 | 6,484 | 91 | 2,925 |
| Total | 1,449 | $ 45,724 | 91 | $ 2,925 |

**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.

Effective February 23, 2012, the City issued $235,150,000 Airport System Revenue Bonds, Series 2012A. Proceeds of the bonds were used to refund the outstanding $249,445,000 Airport System Revenue Bonds, Series 2000A and to pay the costs of issuing the bonds. Net proceeds of the Series 2012A Bonds, amounts on hand in the Series 2000 interest account and an amount released from the debt service reserve fund totaling $252,378,809 were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds on March 26, 2012. As a result, the refunded bonds were defeased and the liability for the 2000A Bonds has been removed from long-term debt. The City completed the refunding in order to achieve debt service savings of approximately $25.1 million or an economic gain (the difference between the present values of the old and new debt service) of approximately $15.12 million or 6.06%.

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. 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 were defeased and the liability for these bonds removed from long-term debt. The City obtained an economic gain (the difference between the present values of the old and new debt service) of approximately $1.67 million as a result of the refunding.

***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.

Effective February 24, 2012, the City issued $15,325,000 Public Power System Revenue Refunding Bonds, Series 2012, to refund all of the outstanding $15,980,000 Public Power System Refunding Revenue Bonds, Series 2001. Net proceeds of the Series 2012 Bonds and amounts on deposit in the Series 2001 Bond Fund together totaling $16,293,627 were placed in an irrevocable trust account to pay the principal and interest on the refunded Series 2001 Bonds on March 26, 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 $1,169,000 or an economic gain (the difference between the present values of the old and new debt service) of approximately $1,148,000 or 7.18%. These bonds were sold through a private sale to Wells Fargo Bank, National Association.

***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 24, 2012, the City issued $44,410,000 of Senior Lien Water Revenue Bonds, Series X, 2012, and $76,710,000 of Water Revenue Bonds, Second Lien Series A, 2012. Proceeds of the Series X Bonds will be used to pay costs of improvements to the Waterworks System and to pay costs of issuing the bonds. From the proceeds of the Series A Bonds, $42,000,000 will be used to fund the final phase of the automated meter reading project while the remainder was used to refund all of the outstanding $50,000,000 Water Revenue Subordinated Notes, Series 2012, and to pay issuance costs.

In conjunction with the issuance of the Water Revenue Bonds, Second Lien Series A, the City established a Subordinate Bonds indenture for the Division of Water. Bonds issued under this indenture are special obligations of the City payable solely from and secured solely by a pledge of and lien on the Subordinate Pledged Revenues and the Subordinate Pledged funds. The Subordinate Pledged Revenues generally consist of the net revenues of the Division which remain after the payment of all operating expenses and the deposit of all funds required to be made on behalf of the Senior Lien bonds. Bonds issued under this indenture are subordinate to those issued as senior lien bonds under the Division of Water’s Amended and Restated Indenture.

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 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) of approximately $8,955,000 or 9.64%.

*Interest Rate Swap Transactions:*

**Series U and Series V Bonds (previously Series Q, Series R and Series S Bonds):**

When the Water 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 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 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.

*Fair Value:* The fair value of the swaps (including accrued amounts) at December 31, 2012 as reported by JPM and Morgan Stanley totaled $27,699,000, which would be payable by the City.

***Short-term Obligation:*** On July 24, 2012, the City issued $50,000,000 Subordinate Lien Water Revenue Notes, Series 2012. Proceeds of the notes were used to retire the $50,000,000 Subordinate Lien Water Revenue Notes issued in 2011. The Series 2012 Notes were subsequently redeemed on November 1, 2012 from the proceeds of the Second Lien Series A, 2012, Bonds. The original notes, which were issued in 2010, provided a portion of the funds needed for a new automated meter reading system for the Division of Water. At the end of 2012, the Division of Water no longer had any notes outstanding.

| | Balance January 1, 2012 | Increase | Decrease | Balance December 31, 2012 |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Water Revenue Notes:** | | | | |
| Subordinate Lien Revenue Notes, Series 2011 | $ 50,000 | $ | $ (50,000) | $ - |
| Subordinate Lien Revenue Notes, Series 2012 | | 50,000 | (50,000) | - |
| Total revenue notes | $ 50,000 | $ 50,000 | $ (100,000) | $ - |

***Ohio Water Development Authority and Ohio Public Works Commission Loans*:** These loans are payable from net revenues derived from the Water and Water Pollution Control Systems. These obligations do not have a lien on revenues of the Divisions. In 2012, Water expended an additional $817,479 out of $8,304,000 for the Baldwin Residuals and Fairmount Reservoir and $145,916 out of an anticipated $10,954,516 for the Crown Waterworks Chemical Project.

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

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. 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 15, 2006, the City entered into a floating-to-floating rate basis swap agreement with a notional amount equal to the total declining balance of the Series 2006 Bonds. UBS 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 (now Assured Guaranty Municipal Corp.) up to a maximum amount of $8,000,000.

*Fair Value:* The fair value of the swap at December 31, 2012 as reported by UBS totaled $365,000, 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, 2012 is as follows:

| Bond Issue | (Amounts in 000's) | Bond Issue | (Amounts in 000's) |
|---|---|---|---|
| Waterworks Improvement Bonds: | | Unvoted Tax Supported GO: | |
| Series O, 2007 | $ 2,825 | Series 2003 | $ 36,445 |
| Series P, 2007 | 6,075 | Series 2004 | 9,235 |
| | | Series 2005A | 13,275 |

**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 $863,930,000 in various Airport System Revenue Bonds issued in various years since 2001. 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 61% of net revenues. The total principal and interest remaining to be paid on the various Airport System Revenue Bonds is $1,320,472,000. Principal and interest paid for the current year and total net revenues (including other available funds) were $50,051,000 and $83,175,000, respectively.

The City has pledged future power system revenues, net of specified operating expenses, to repay $245,113,000 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 70% of net revenues. The total principal and interest remaining to be paid on the various Power System Revenue Bonds is $405,846,000. Principal and interest paid for the current year and total net revenues were $19,796,000 and $28,320,000, respectively.

The City has pledged future Water System revenues, net of specified operating expenses, to repay $785,535,000 in various Senior Lien Water Revenue Bonds and Subordinate Lien Bonds 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 2042. Annual principal and interest payments on the bonds are expected to require less than 46% of net revenues. The total principal and interest remaining to be paid on the various Senior and Subordinate Lien Water Revenue Bonds is $1,165,786,000. Principal and interest paid for the current year and total net revenues were $60,856,000 and $133,119,000, respectively.

The City has pledged future revenues from certain parking facilities, net of specified operating expenses, and other operating revenues to repay $31,625,000 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 $41,310,000. Principal and interest paid for the current year (including net swap payments) and total net revenues were $4,125,000 and $4,148,000 respectively.

In 2012, no additional pledged revenue was required to meet the debt service on the Parking Facilities Refunding Revenue Bonds. The trust indenture requires, among other things, that the Division will fix parking rates and will charge and collect fees for the use of the parking facilities and will restrict operating expenses. As of December 31, 2012, 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, 2012, classified by type, and the changes in fair value of these derivatives during fiscal year 2012 as reported in the 2012 financial statements. The fair values of the interest rate swaps, which reflect the prevailing interest rate environment at December 31, 2012 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, 2012 | | |
|---|---|---|---|---|---|
| | **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 Revenue | $ 203 (a) | Investment | $ (239) | $ 47,700 |
| **Business-Type Activities:** | | | | | |
| Floating to floating interest rate swap | | | | | |
| 2006 Parking Basis Swap | Investment Revenue | 417 (a) | Investment | (365) | 31,625 |
| **Hedging Derivatives:** | | | | | |
| Floating to fixed interest rate swaps | | | | | |
| 2008 Q Water Swap | Deferred inflow | 592 | Debt | (9,569) | 76,375 |
| 2010 U Water Swap | Deferred outflow | (192) | Debt | (12,096) | 54,735 |
| 2010 V Water Swap | Deferred outflow | (144) | Debt | (6,034) | 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 revenue recognized in 2012 was $203,000 for governmental activities and $417,000 for business-type activities.

The table below presents the objective and significant terms of the City's derivative instruments at December 31, 2012, 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 | $ 47,700,000 | 2/7/2003 | 5/15/2024 | If option is exercised, Receive 4.88%, pay SIFMA | Aa3/A+/A+ |
| Water Series Q | Pay Fixed Interest Rate Swap | Hedge of changes in cash flow on the Series Q Water System Bonds | $ 50,190,000 | 8/10/2004 | 1/1/2021 | Pay 3.553%, receive 61.25% of LIBOR + 28 bps | Aa3/A+/A+ |
| Water Series Q | Pay Fixed Interest Rate Swap | Hedge of changes in cash flow on the Series Q Water System Bonds | $ 26,185,000 | 8/10/2004 | 1/1/2021 | Pay 3.5975%, receive 61.25% of LIBOR + 28 bps | Baa1/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 | Aa3/A+/A+ |
| 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 | Baa1/A-/A |
| 2006 Parking Bonds | Basis Swap - Pay Floating/Receive Floating | Exchange floating rate payments on Series 2006 Parking System Bonds | $ 31,625,000 | 8/15/2006 | 9/15/2022 | Pay SIFMA, receive 67% of LIBOR | 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, 2012. These amounts assume that the interest rates on variable rate bonds and the reference rates in existence as of December 31, 2012 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)** | | |
| 2013 | $ | $ 800 | $ 4,786 | $ 5,586 |
| 2014 | | 800 | 4,522 | 5,322 |
| 2015 | | 799 | 4,244 | 5,043 |
| 2016 | | 801 | 4,186 | 4,987 |
| 2017 | | 800 | 4,147 | 4,947 |
| 2018-2022 | 17,000 | 3,850 | 14,804 | 35,654 |
| 2023-2027 | 81,415 | 1,491 | 3,712 | 86,618 |
| 2028-2032 | 61,730 | 274 | 257 | 62,261 |
| 2033 | 12,085 | 2 | 1 | 12,088 |
| Total | $ 172,230 | $ 9,617 | $ 40,659 | $ 222,506 |

**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 statement of net position.

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 2012. Of this amount $399,000 was offset against interest expense and $2,990,000 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 position. 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, 2012 and 2011 were as follows:

| | 2012 | 2011 |
|---|---|---|
| | (Amounts in 000's) | |
| Estimated claims payable, January 1 | $ 2,528 | $ 4,000 |
| Current year claims (including IBNRs) and changes in estimates | 4,713 | 986 |
| Claim payments | (3,248) | (2,458) |
| Estimated claims payable, December 31 | $ 3,993 | $ 2,528 |

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 Position.

***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 2012. There was no significant decrease in any insurance coverage in 2012. 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, 2012 was $21,786,771. Of this amount, $7,869,615 was recorded as a fund liability within each respective fund. The remaining $13,917,156 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, 2012, the City had $6,500,000 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. AMP has instituted litigation against the EPC contractor to recover costs incurred as a result of the project's cancellation.

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 $13,556,845 plus interest of $79,704. 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 $6,281,771. These credits cut the Division's risk of loss in half. None of these credits have been recorded in the City's financial statements through December 31, 2012.

Cleveland City Council passed legislation in 2011 allowing the City to pass through 50% of any costs that are determined to be the responsibility of the 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 City to pay its remaining share of the costs due to AMP, estimated at $3,677,390, from operating funds over a period of time yet to be determined.

The City has not paid any monies to AMP towards the project's sunk costs. 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 actual amount of incurred costs 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.

HUD Office of the Inspector General has issued three findings against the City regarding the Afford-A-Home program. The City has contested and appealed two of the findings and is in the process of reviewing the third.

## 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, 2012, transfers consisted of the following:

| | Transfers In | | | | | |
|---|---|---|---|---|---|---|
| **Transfers Out** | **Total** | **General Fund** | **Other Govern-mental Funds** | **Total Govern-mental Funds** | **Enterprise Funds** | **Internal Service Funds** |
| | (Amounts in 000's) | | | | | |
| Governmental Funds: | | | | | | |
| General | $ 16,941 | $ | $ 14,626 | $ 14,626 | $ 1,589 | $ 726 |
| Other Governmental | 45,204 | 3,602 | 41,602 | 45,204 | | |
| Total Governmental Funds | 62,145 | 3,602 | 56,228 | 59,830 | 1,589 | 726 |
| Total | $ 62,145 | $ 3,602 | $ 56,228 | $ 59,830 | $ 1,589 | $ 726 |

***Interfund Balances:*** Interfund balances at December 31, 2012 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, 2012 are as follows:

| | | Due From | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Due To | Total | General Fund | Other Governmental Funds | Total Governmental Funds | Division of Water Fund | Cleveland Public Power Fund | Department of Port Control Fund | Other Enterprise Funds | Total Enterprise Funds | Internal Service Funds |
| | | | | | (Amounts in 000's) | | | | | |
| Governmental Funds: | | | | | | | | | | |
| General | $ 6,109 | $ | $ | $ - | $ 9 | $ 1,317 | $ 34 | $ 32 | $ 1,392 | $ 4,717 |
| Other Governmental | 15,183 | 1,013 | 12,451 | 13,464 | 153 | 894 | | 69 | 1,116 | 603 |
| Total Governmental | $ 21,292 | | | | | | | | | |
| Enterprise Funds: | | | | | | | | | | |
| Division of Water | $ 2,630 | 11 | 18 | 29 | | 1,008 | | 205 | 1,213 | 1,388 |
| Cleveland Public Power | 4,499 | 5 | | 5 | 3,856 | | | 8 | 3,864 | 630 |
| Department of Port Control | 1,412 | 269 | | 269 | | 17 | | 227 | 244 | 899 |
| Other Enterprise | 11,584 | 92 | 3 | 95 | 10,644 | 71 | | 1 | 10,716 | 773 |
| Total Enterprise | $ 20,125 | | | | | | | | | |
| Internal Service Funds | 204 | 3 | | 3 | | 6 | | 4 | 10 | 191 |
| Total Due To/Due From | $ 41,621 | $ 1,393 | $ 12,472 | $ 13,865 | $ 14,662 | $ 3,313 | $ 34 | $ 546 | $ 18,555 | $ 9,201 |

## NOTE 10 – INCOME TAXES

During 2012, 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 2012 levy was based upon an assessed valuation of approximately $5.631 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 reappraisal was completed in 2012. 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 24 and July 10 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 revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not all eligibility requirements have been met as unearned revenue.

As of December 31, 2012, 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 | $ 15,503 | $ | $ 15,503 |
| Property taxes receivable | 56,525 | | 56,525 |
| Local government receivable | 8,241 | | 8,241 |
| Estate tax receivable | 307 | | 307 |
| Homestead rollback | 3,413 | | 3,413 |
| Emergency medical service receivable | 146 | | 146 |
| Special assessments receivable | 3,246 | | 3,246 |
| Other taxes receivable | 1,736 | 576 | 2,312 |
| Total General Fund | 89,117 | 576 | 89,693 |
| Other Governmental Funds: | | | |
| Income taxes receivable | 1,938 | | 1,938 |
| Special assessments receivable | 6,817 | | 6,817 |
| Property taxes receivable | 29,447 | | 29,447 |
| Advances received under grants | | 8,147 | 8,147 |
| Motor vehicle taxes receivable | 1,327 | | 1,327 |
| Municipal gas tax receivable | 1,015 | | 1,015 |
| State gasoline tax receivable | 1,996 | | 1,996 |
| Homestead rollback | 1,778 | | 1,778 |
| Grant receivable | 119 | 2 | 121 |
| Other taxes receivable | 298 | | 298 |
| Due from other governments | 4,767 | | 4,767 |
| Total Other Governmental Funds | 49,502 | 8,149 | 57,651 |
| Total Deferred and Unearned Revenue | $ 138,619 | $ 8,725 | $ 147,344 |

## 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 2012, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2012, 2011 and 2010. The employer contribution rates were 14.00% of covered payroll in 2012, 2011 and 2010.

The City's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2012, 2011 and 2010 were $25,369,016, $25,558,982 and $25,698,844 each year, respectively. The required payments due in 2012, 2011 and 2010 have been made.

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

***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, 2012, 2011 and 2010 were $22,183,185, $22,213,372 and $22,678,219, respectively. The required payments due in 2012, 2011 and 2010 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 No. 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, 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 2012, 2011 and 2010. 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 2012 and 2011, 6.05% for members of the Combined Plan in 2012 and 2011 and 5.50% from January 1, 2010 through February 28, 2010 and 5.00% from March 1, 2010 through December 31, 2010 for both plans. Effective January 1, 2013, the portion of employer contributions allocated to health care was lowered to 1.00% for both plans, as recommended by the OPERS Actuary. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's actual contributions to OPERS to fund postemployment benefits were $10,146,896 in 2012, $10,222,877 in 2011 and $14,648,933 in 2010. The required payments due in 2012, 2011 and 2010 have been made.

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

***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. That report is also available on OP&F's website at www.op-f.org.

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, 2012, 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 $10,424,190 for the year ending December 31, 2012, $10,399,050 for 2011 and $10,615,539 for 2010. The required payments due in 2012, 2011 and 2010 have been made.

## NOTE 15 – CAPITAL ASSETS

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

| | Balance January 1, 2012 | Additions | Reductions | Balance December 31, 2012 |
|---|---|---|---|---|
| | | (Amount in 000's) | | |
| Governmental Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $ 66,188 | $ | $ | $ 66,188 |
| Construction in progress | 88,129 | 52,542 | (25,291) | 115,380 |
| Total capital assets, not being depreciated | 154,317 | 52,542 | (25,291) | 181,568 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 147,772 | 9,779 | | 157,551 |
| Buildings, structures and improvements | 618,625 | 4,157 | | 622,782 |
| Furniture, fixtures, equipment and vehicles | 186,519 | 12,031 | (7,321) | 191,229 |
| Infrastructure | 543,908 | 16,690 | (1,134) | 559,464 |
| Total capital assets, being depreciated | 1,496,824 | 42,657 | (8,455) | 1,531,026 |
| Less accumulated depreciation for: | | | | |
| Land improvements | (95,850) | (5,492) | | (101,342) |
| Buildings, structures and improvements | (278,670) | (14,295) | | (292,965) |
| Furniture, fixtures, equipment and vehicles | (136,106) | (13,709) | 5,374 | (144,441) |
| Infrastructure | (224,772) | (20,692) | 1,080 | (244,384) |
| Total accumulated depreciation | (735,398) | (54,188) | 6,454 | (783,132) |
| Total capital assets being depreciated, net | 761,426 | (11,531) | (2,001) | 747,894 |
| Governmental activities capital assets, net | $ 915,743 | $ 41,011 | $ (27,292) | $ 929,462 |

| | Balance January 1, 2012 | Restatement | Additions | Reductions | Balance December 31, 2012 |
|---|---|---|---|---|---|
| | | | (Amount in 000's) | | |
| Business-Type Activities: | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | $ 191,512 | $ | $ 386 | $ | $ 191,898 |
| Construction in progress | 378,741 | | 118,749 | (204,397) | 293,093 |
| Total capital assets, not being depreciated | 570,253 | - | 119,135 | (204,397) | 484,991 |
| Capital assets, being depreciated: | | | | | |
| Land improvements | 97,735 | | | | 97,735 |
| Utility plant | 1,720,170 | 239,074 | 173,085 | (1,489) | 2,130,840 |
| Buildings, structures and improvements | 676,849 | | 23,972 | (421) | 700,400 |
| Furniture, fixtures, equipment and vehicles | 704,604 | | 32,308 | (5,419) | 731,493 |
| Infrastructure | 956,696 | | 19,105 | | 975,801 |
| Total capital assets, being depreciated | 4,156,054 | 239,074 | 248,470 | (7,329) | 4,636,269 |
| Less accumulated depreciation for: | | | | | |
| Land improvements | (44,493) | | (1,811) | | (46,304) |
| Utility plant | (459,914) | (74,113) | (63,638) | 1,489 | (596,176) |
| Buildings, structures and improvements | (369,589) | | (14,319) | 421 | (383,487) |
| Furniture, fixtures, equipment and vehicles | (551,638) | | (36,956) | 5,319 | (583,275) |
| Infrastructure | (415,253) | | (41,059) | | (456,312) |
| Total accumulated depreciation | (1,840,887) | (74,113) | (157,783) | 7,229 | (2,065,554) |
| Total capital assets being depreciated, net | 2,315,167 | 164,961 | 90,687 | (100) | 2,570,715 |
| Business-Type activities capital assets, net | $ 2,885,420 | $ 164,961 | $ 209,822 | $ (204,497) | $ 3,055,706 |

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 | $ | 30,077 |
| Public Works | | 10,893 |
| Public Safety | | 9,121 |
| Building and Housing | | 144 |
| Community Development | | 1,287 |
| Public Health | | 366 |
| 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 | | 452 |
| Total depreciation expense charged to governmental activities | $ | 52,459 |
| | | |
| **Business-Type Activities:** | | |
| Water | $ | 67,455 |
| Electricity | | 16,971 |
| Airport Facilities | | 50,541 |
| Nonmajor activities | | 7,684 |
| 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 | | 197 |
| Total depreciation expense charged to business-type activities | $ | 142,848 |

***Capital Commitments***: Significant commitments of the City as of December 31, 2012 are composed of the following:

| Project Description | | Spent-to-Date | | Remaining Commitment |
|---|---|---|---|---|
| | | (Amounts in 000's) | | |
| **Governmental Activities:** | | | | |
| 3rd District Police Station Design & Construction | $ | 225 | $ | 15,981 |
| 800 MHz Interoperability System | | 1,485 | | 6,515 |
| League Park Renovations | | 19 | | 6,404 |
| East Side Station | | 125 | | 6,301 |
| Fleet Avenue | | | | 6,000 |
| Madison Avenue/W 65 | | 263 | | 5,339 |
| Cedar Avenue (E55 to E89) | | | | 5,281 |
| Woodland East 55 to Buckeye | | 270 | | 4,582 |
| Fire Station #36 Design | | 14 | | 3,925 |
| Cedar Avenue E 89 to MLK | | 268 | | 3,856 |
| New Financial Management System | | 7,272 | | 3,542 |
| Superior Avenue Rehab | | 7,391 | | 3,475 |
| Shoreway West | | | | 3,000 |

| Project Description | Spent-to-Date | Remaining Commitment |
|---|---|---|
| | (Amounts in 000's) | |
| **Business-Type Activities:** | | |
| Lake Road Substation | $ 8,426 | $ 24,023 |
| Meter Automation & Replace Prg | 30,861 | 20,588 |
| Parking Redevelopment Program Phase 1 | | 15,078 |
| Suburban Water Main Renewal Program | | 12,000 |
| Crown Water Plant | 12,668 | 11,912 |
| Harvard Substation | 386 | 7,719 |
| Watermain Renewal 2013 | | 7,000 |
| 13.8 kV Distribution Feeders | 152 | 6,423 |
| Transmission Main Renewal Program | 1,753 | 6,247 |
| MS1/MS2 Tie-In | | 6,000 |
| IT Converged Communications | 2,650 | 5,762 |
| Taxiway L Reconstruction | 1,009 | 5,691 |
| Denison Avenue | | 5,422 |

***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, 2012, the State funded $168,862,000 of road and bridge improvement projects and $6,974,000 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 2012, interest expense incurred for the Enterprise Funds was $86,441,000 of which $16,708,000 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 – SERVICE CONCESSION ARRANGEMENTS

In 2010 the City entered into an agreement with Cleveland Metropolitan Park District (Cleveland Metroparks) under which Cleveland Metroparks will operate and collect user fees from Seneca Golf Course for the next 99 years. Cleveland Metroparks has paid the City $99 for this agreement. They have agreed to complete at least $4,000,000 of capital improvements before December 31, 2015. As completed, all capital improvements performed by Cleveland Metroparks will become an asset of Seneca Golf Course and the City. Upon expiration of the agreement, all improvements will be vest in the City. Cleveland Metroparks is required to operate and maintain the golf course in accordance with the City Contract.

In 2012 the City entered into an agreement with Mark A Nance Golf Ohio, LLC (MAN) under which MAN will operate and collect user fees from the Highland Park Golf Course for the next 10 years. MAN will pay the City installment payments over the course of the arrangement; the present value of these installment payments is $180,000. MAN will also pay 5% of revenues greater than $800,000 in years 2012 through 2017. In years 2018 and beyond, MAN will pay 5% on gross revenues up to $800,000; $10% of gross revenues $801,000 through

$1,000,000; and 15% of gross revenues greater than $1,000,000. In addition to receiving a portion of gross revenues, MAN will also make necessary capital improvements to the golf course. As completed, all capital improvements performed by MAN will become an asset of Highland Park Golf Course and the City. MAN is required to operate and maintain the golf course in accordance with the City Contract. The City reports a receivable and deferred inflow of resources in the amount of $175,500 at year-end pursuant to the service concession arrangement.

The City reports the golf courses and related equipment as a capital asset with a carrying amount of $3,454,013 at year end.

## NOTE 17 – 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 Statement of Net Position Information** | | **Municipal Parking Lots (Amounts in 000's)** |
|---|---|---|
| Assets: | | |
| Current assets | $ | 5,657 |
| Restricted assets | | 8,762 |
| Other noncurrent assets | | 1,288 |
| Capital assets, net | | 36,658 |
| Total assets | $ | 52,365 |
| Liabilities: | | |
| Current liabilities | $ | 3,692 |
| Long-term liabilities | | 28,129 |
| Total liabilities | | 31,821 |
| Deferred inflows of resources: | | |
| Derivative instruments-interest rate swaps | | 365 |
| Total liabilities | | 365 |
| Net position: | | |
| Net investment in capital assets | | 9,272 |
| Restricted for debt service | | 5,525 |
| Unrestricted | | 5,382 |
| Total net position | | 20,179 |
| Total liabilities, deferred inflows and net position | $ | 52,365 |

**Condensed Statement of Revenues, Expenses and Changes in Net Position Information**

| | Municipal Parking Lots (Amounts in 000's) |
|---|---|
| Charges for services | $ 7,735 |
| Depreciation (expense) | (1,405) |
| Other operating (expenses) | (3,896) |
| Operating income (loss) | 2,434 |
| Nonoperating revenues (expenses): | |
| Investment income | 423 |
| Interest expense | (1,853) |
| Other revenue (expenses) | (227) |
| Capital Contibutions | 490 |
| Change in net position | 1,267 |
| Net position at beginning of year | 18,912 |
| Net position at end of year | $ 20,179 |

| **Condensed Statement of Cash Flows Information** | Municipal Parking Lots (Amounts in 000's) |
|---|---|
| Net cash provided by (used for): | |
| Operating activities | $ 3,374 |
| Capital and related financing activities | (4,125) |
| Investing activities | 4,107 |
| Net increase (decrease) in cash and cash equivalents | 3,356 |
| Beginning cash and cash equivalents | 10,855 |
| Ending cash and cash equivalents | $ 14,211 |

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 | $ 136,912 | $ 52,195 | $ 110,949 | $ 3,237 | $ | $ 508 |
| Debt retirement | 87,602 | 3,976 | 111,467 | 5,525 | | |
| Accrued passenger facility charges | | | 17,670 | | | |
| Other | 84 | 1 | 55,247 | | 6,579 | 78 |
| Total | $ 224,598 | $ 56,172 | $ 295,333 | $ 8,762 | $ 6,579 | $ 586 |

## NOTE 18 – RESTATEMENT

The Division of Water entered into amended Water Service Agreements with 21 member communities prior to 2012. As part of the agreements, ownership of distribution mains were transferred to the Division of Water. The City also gained tax sharing agreements with each suburb related to commercial entities relocating in or out of the City. The financial impact of the addition of these assets was not included in the financial statements in the year the agreements were finalized and ownership was officially transferred. As a result, the following restatement is necessary:

| | Water Enterprise Fund | Government-Wide Business - Type |
|---|---|---|
| | (Amounts in 000's) | |
| Net Positon, January 1, 2012 | $ 1,032,782 | $ 1,802,995 |
| Restatement | 164,961 | 164,961 |
| Restated Net Position, January 1, 2012 | $ 1,197,743 | $ 1,967,956 |

In 2012 a departmental reorganization occurred that merged the departments of Public Service with Parks, Recreation and Properties becoming the Department of Public Works. The Office of Capital Projects was created from the Divisions of Architecture, Engineering and Construction and Research, Planning and Development and is reported under General Government. In addition, the Division of Consumer Affairs was merged with Community Development and was moved from General Government. As a result, the following restatements to the special revenue funds are necessary:

| | General Government | Community Development | Public Service | Parks Recreation and Properties | Public Works | Total |
|---|---|---|---|---|---|---|
| | | | (Amounts in 000's) | | | |
| Fund balance, January 1, 2012 | $ 12,403 | $ 6,505 | $ 1,839 | $ 2,833 | $ | $ 23,580 |
| Restatement | 1,831 | 8 | (1,839) | (2,833) | 2,833 | - |
| Restated Fund balance, January 1, 2012 | $ 14,234 | $ 6,513 | $ - | $ - | $ 2,833 | $ 23,580 |

## NOTE 19 – FUND BALANCES / NET POSITION

***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 have an intended use by the Mayor and/or the Director of Finance 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, 2012:

| | General Fund | Other Governmental | Total Governmental |
|---|---|---|---|
| | | (Amounts in 000's) | |
| Fund Balances | | | |
| Nonspendable | | | |
| Inventory | $ 632 | $ 495 | $ 1,127 |
| Nonspendable Total | 632 | 495 | 1,127 |
| Restricted | | | |
| General Government | | 20,607 | 20,607 |
| Public Works | | 20,123 | 20,123 |
| Public Safety | | 6,482 | 6,482 |
| Community Development | | 5,847 | 5,847 |
| Public Health | | 375 | 375 |
| Building and Housing | | 206 | 206 |
| Economic Development | | 35,830 | 35,830 |
| Debt Service | | 18,059 | 18,059 |
| Capital Projects | | 126,303 | 126,303 |
| Restricted Total | - | 233,832 | 233,832 |
| Committed | | | |
| General Government | | 7,594 | 7,594 |
| Public Safety | | 204 | 204 |
| Public Works | | 2,232 | 2,232 |
| Community Development | | 1,358 | 1,358 |
| Public Health | | 41 | 41 |
| Economic Development | | 91,462 | 91,462 |
| Capital Projects | | 10 | 10 |
| Committed Total | - | 102,901 | 102,901 |
| Assigned | | | |
| General Government | 4,119 | | 4,119 |
| Public Works | 2,547 | | 2,547 |
| Public Safety | 1,599 | | 1,599 |
| Public Health | 339 | | 339 |
| Building and Housing | 424 | | 424 |
| Other | 211 | | 211 |
| Debt Service | | 2 | 2 |
| Assigned Total | 9,239 | 2 | 9,241 |
| Unassigned | 61,879 | | 61,879 |
| Total Fund Balances | $ 71,750 | $ 337,230 | $ 408,980 |

***Net Position:*** Net position represent the difference between assets, deferred outflows, liabilities and deferred inflows. Net investment in capital assets 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 position is 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 position are available. Net position 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 20 – 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 2012, net revenues generated by the one remaining Gateway garage was less than the debt service payments attributed to that garage by $1,883,000. Cumulative debt service payments funded by the City that are due from Gateway totaled $45,239,000 at December 31, 2012. 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 issued by the County for the construction of facilities at Gateway, 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, 2012, the City pledged $2,057,811.

## NOTE 21 – SUBSEQUENT EVENTS

On January 17, 2013, Moody's Investors Service lowered its rating on Assured Guaranty Municipal Corporation, the insurer of the Series 2006 Parking Facilities Refunding Revenue Bonds. The rating was lowered to A2 from Aa3. The Division's bonds only carry the insured rating and have no rating on its bonds based solely on its own credit.

On March 21, 2013, the City completed a conversion of its $69,900,000 2010B Certificates of Participation (Cleveland Stadium Project) to a new index rate for a new index rate period. The 2010B COPS were purchased for a period of five years by Wells Fargo Municipal Capital Strategies, LLC as floating rate obligations with the interest reset weekly at a rate 50 basis points lower than the previous index rate.

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

Effective April 24, 2013, the City issued $58,000,000 Airport System Revenue Bonds, Series 2013A (Taxable). These bonds refunded all of the outstanding $58,000,000 Airport System Revenue Bonds, Series 2008F in anticipation of the expiration of the existing letter of credit. The bonds were purchased by U.S. Bank National Association with the City paying an amount equal to one month LIBOR plus a spread of 105 basis points. As a result of this refunding, the City will realize aggregate net present value savings of $3.4 million or 5.87%.

On May 13, 2013, City Council approved legislation authorizing the City to enter into a lease agreement for the purchase of vehicles for various City departments. The City intends to purchase $6.5 million of various police vehicles, heavy duty trucks and other apparatus. Lease payments will be made from the Restricted Income Tax Fund for a period of seven years.

Effective May 30, 2013 the City issued $35,840,000 Subordinate Lien Income Tax Bonds, Series 2013A. The bonds were issued to provide funds for various public facilities, road and bridges, and parks and recreation improvements throughout the City.

Effective May 30, 2013 the City issued $25,360,000 of Taxable Economic and Community Development Refunding Revenue Bonds, Series 2013 (Core City) to refund all of the outstanding $25,360,000 Taxable Economic and Community Development Refunding Revenue Bonds, Series 2008 (Core City). The bonds were purchased by Key Bank for a period of five years.

On June 20, 2013, the City entered into a lease agreement with Huntington Public Capital Corporation for the purchase of $6,500,000 of vehicles and heavy equipment for various departments. The lease will be paid for over seven years out of the receipts for Restricted Income Tax.

# 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, 2012

**(Amounts in 000's)**

| | Original Budget | Final Budget | Actual | Variance- Positive (Negative) |
|---|---|---|---|---|
| REVENUES: | | | | |
| Income taxes | $271,105 | $271,105 | $290,474 | $ 19,369 |
| Property taxes | 36,903 | 36,903 | 36,028 | (875) |
| State local government funds | 34,673 | 34,673 | 34,673 | - |
| Other taxes and shared revenues | 40,472 | 40,472 | 46,929 | 6,457 |
| Licenses and permits | 11,785 | 11,785 | 12,372 | 587 |
| Charges for services | 29,994 | 29,994 | 33,837 | 3,843 |
| Fines, forfeits and settlements | 22,737 | 22,737 | 21,626 | (1,111) |
| Investment earnings | 130 | 130 | 250 | 120 |
| Grants | 5,943 | 5,943 | 5,464 | (479) |
| Miscellaneous | 18,264 | 18,264 | 19,365 | 1,101 |
| TOTAL REVENUES | 472,006 | 472,006 | 501,018 | 29,012 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General Government: | | | | |
| Council and clerk of council: | | | | |
| Personnel | 4,862 | 4,862 | 4,789 | 73 |
| Other | 1,665 | 1,665 | 1,529 | 136 |
| Total council and clerk of council | 6,527 | 6,527 | 6,318 | 209 |
| Municipal court-judicial division: | | | | |
| Personnel | 18,191 | 18,191 | 17,372 | 819 |
| Other | 2,743 | 2,568 | 2,554 | 14 |
| Total municipal court-judicial division | 20,934 | 20,759 | 19,926 | 833 |
| Municipal court-clerks division: | | | | |
| Personnel | 8,704 | 8,604 | 8,449 | 155 |
| Other | 5,349 | 5,449 | 5,364 | 85 |
| Total municipal court-clerks division | 14,053 | 14,053 | 13,813 | 240 |
| Municipal court-housing division: | | | | |
| Personnel | 3,019 | 3,019 | 2,831 | 188 |
| Other | 140 | 140 | 140 | - |
| Total municipal court-housing division | 3,159 | 3,159 | 2,971 | 188 |
| Office of the mayor: | | | | |
| Personnel | 2,305 | 2,305 | 2,139 | 166 |
| Other | 134 | 134 | 99 | 35 |
| Total office of the mayor | 2,439 | 2,439 | 2,238 | 201 |
| Office of capital projects: | | | | |
| Personnel | 3,745 | 3,752 | 3,709 | 43 |
| Other | 541 | 534 | 405 | 129 |
| Total office of capital projects | 4,286 | 4,286 | 4,114 | 172 |

(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, 2012

**(Amounts in 000's)**

| | Original Budget | Final Budget | Actual | Variance- Positive (Negative) |
|---|---|---|---|---|
| Landmarks commission: | | | | |
| Personnel | $ 179 | $ 179 | $ 176 | $ 3 |
| Other | 55 | 55 | 54 | 1 |
| Total landmarks commission | 234 | 234 | 230 | 4 |
| Board of building standards and appeals: | | | | |
| Personnel | 113 | 113 | 108 | 5 |
| Other | 13 | 13 | 9 | 4 |
| Total board of building standards and appeals | 126 | 126 | 117 | 9 |
| Board of zoning appeals: | | | | |
| Personnel | 194 | 194 | 189 | 5 |
| Other | 15 | 15 | 13 | 2 |
| Total board of zoning appeals | 209 | 209 | 202 | 7 |
| Civil service commission: | | | | |
| Personnel | 571 | 571 | 557 | 14 |
| Other | 391 | 391 | 307 | 84 |
| Total civil service commission | 962 | 962 | 864 | 98 |
| Community relations board: | | | | |
| Personnel | 1,127 | 1,127 | 1,101 | 26 |
| Other | 63 | 73 | 55 | 18 |
| Total community relations board | 1,190 | 1,200 | 1,156 | 44 |
| City planning commission: | | | | |
| Personnel | 1,425 | 1,425 | 1,331 | 94 |
| Other | 99 | 99 | 92 | 7 |
| Total city planning commission | 1,524 | 1,524 | 1,423 | 101 |
| Boxing and wrestling commission: | | | | |
| Personnel | 8 | 8 | 6 | 2 |
| Total boxing and wrestling commission | 8 | 8 | 6 | 2 |
| Office of equal opportunity: | | | | |
| Personnel | 446 | 473 | 467 | 6 |
| Other | 22 | 22 | 19 | 3 |
| Total office of equal opportunity | 468 | 495 | 486 | 9 |
| Office of budget and management: | | | | |
| Personnel | 879 | 879 | 650 | 229 |
| Other | 16 | 29 | 19 | 10 |
| Total office of budget and management | 895 | 908 | 669 | 239 |



(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, 2012

**(Amounts in 000's)**

| | Original Budget | Final Budget | Actual | Variance-Positive (Negative) |
|---|---|---|---|---|
| Department of aging: | | | | |
| Personnel | $ 746 | $ 746 | $ 630 | $ 116 |
| Other | 149 | 149 | 139 | 10 |
| Total department of aging | 895 | 895 | 769 | 126 |
| Office of personnel: | | | | |
| Personnel | 1,281 | 1,281 | 1,234 | 47 |
| Other | 695 | 695 | 667 | 28 |
| Total department of personnel | 1,976 | 1,976 | 1,901 | 75 |
| Department of law: | | | | |
| Personnel | 6,335 | 5,835 | 5,741 | 94 |
| Other | 2,878 | 3,578 | 3,302 | 276 |
| Total department of law | 9,213 | 9,413 | 9,043 | 370 |
| Finance administration: | | | | |
| Personnel | 818 | 818 | 791 | 27 |
| Other | 37 | 37 | 29 | 8 |
| Total finance administration | 855 | 855 | 820 | 35 |
| Division of accounts: | | | | |
| Personnel | 1,255 | 1,255 | 1,211 | 44 |
| Other | 662 | 662 | 612 | 50 |
| Total division of accounts | 1,917 | 1,917 | 1,823 | 94 |
| Division of assessments and licenses: | | | | |
| Personnel | 2,241 | 2,241 | 1,986 | 255 |
| Other | 2,291 | 2,381 | 1,844 | 537 |
| Total division of assessments and licenses | 4,532 | 4,622 | 3,830 | 792 |
| Division of treasury: | | | | |
| Personnel | 468 | 468 | 463 | 5 |
| Other | 93 | 93 | 89 | 4 |
| Total division of treasury | 561 | 561 | 552 | 9 |
| Division of purchases and supplies: | | | | |
| Personnel | 563 | 563 | 521 | 42 |
| Other | 39 | 39 | 33 | 6 |
| Total division of purchases and supplies | 602 | 602 | 554 | 48 |
| Bureau of internal audit: | | | | |
| Personnel | 547 | 547 | 395 | 152 |
| Other | 438 | 438 | 211 | 227 |
| Total bureau of internal audit | 985 | 985 | 606 | 379 |



(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, 2012

**(Amounts in 000's)**

| | Original Budget | Final Budget | Actual | Variance- Positive (Negative) |
|---|---|---|---|---|
| Division of financial reporting and control: | | | | |
| Personnel | $ 1,213 | $ 1,213 | $ 1,055 | $ 158 |
| Other | 27 | 27 | 17 | 10 |
| Total division of financial reporting and control | 1,240 | 1,240 | 1,072 | 168 |
| Division of information system services: | | | | |
| Personnel | 1,779 | 1,779 | 1,387 | 392 |
| Other | 1,811 | 1,811 | 1,414 | 397 |
| Total division of information system services | 3,590 | 3,590 | 2,801 | 789 |
| Office of IT planning: | | | | |
| Personnel | 164 | 164 | 163 | 1 |
| Other | 6 | 6 | 3 | 3 |
| Total office of IT planning | 170 | 170 | 166 | 4 |
| Division of harbors: | | | | |
| Personnel | 105 | 105 | 26 | 79 |
| Total division of harbors | 105 | 105 | 26 | 79 |
| TOTAL GENERAL GOVERNMENT | 83,655 | 83,820 | 78,496 | 5,324 |
| Public Health: | | | | |
| Public health administration: | | | | |
| Personnel | 582 | 607 | 576 | 31 |
| Other | 314 | 314 | 311 | 3 |
| Total public health administration | 896 | 921 | 887 | 34 |
| Division of health: | | | | |
| Personnel | 1,805 | 1,830 | 1,721 | 109 |
| Other | 1,257 | 1,557 | 1,452 | 105 |
| Total division of health | 3,062 | 3,387 | 3,173 | 214 |
| Division of environment: | | | | |
| Personnel | 805 | 805 | 753 | 52 |
| Other | 147 | 150 | 147 | 3 |
| Total division of environment | 952 | 955 | 900 | 55 |
| Division of air quality: | | | | |
| Personnel | 108 | 109 | 109 | - |
| Other | 281 | 281 | 277 | 4 |
| Total division of air quality | 389 | 390 | 386 | 4 |
| TOTAL PUBLIC HEALTH | 5,299 | 5,653 | 5,346 | 307 |

(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, 2012

**(Amounts in 000's)**

| | Original Budget | Final Budget | Actual | Variance- Positive (Negative) |
|---|---|---|---|---|
| Public Safety: | | | | |
| Public safety administration: | | | | |
| Personnel | $ 2,720 | $ 2,720 | $ 2,279 | $ 441 |
| Other | 1,160 | 1,335 | 1,275 | 60 |
| Total public safety administration | 3,880 | 4,055 | 3,554 | 501 |
| Division of police: | | | | |
| Personnel | 161,968 | 163,218 | 162,462 | 756 |
| Other | 10,065 | 10,065 | 9,513 | 552 |
| Total division of police | 172,033 | 173,283 | 171,975 | 1,308 |
| Division of fire: | | | | |
| Personnel | 82,307 | 81,307 | 81,069 | 238 |
| Other | 3,357 | 3,357 | 3,220 | 137 |
| Total division of fire | 85,664 | 84,664 | 84,289 | 375 |
| Division of emergency medical services: | | | | |
| Personnel | 19,321 | 18,773 | 18,086 | 687 |
| Other | 2,604 | 2,727 | 2,584 | 143 |
| Total division of emergency medical services | 21,925 | 21,500 | 20,670 | 830 |
| Division of animal control services: | | | | |
| Personnel | 891 | 891 | 885 | 6 |
| Other | 369 | 369 | 291 | 78 |
| Total division of animal control services | 1,260 | 1,260 | 1,176 | 84 |
| Division of correction: | | | | |
| Personnel | 10,589 | 10,589 | 10,024 | 565 |
| Other | 4,058 | 4,058 | 3,058 | 1,000 |
| Total division correction | 14,647 | 14,647 | 13,082 | 1,565 |
| TOTAL PUBLIC SAFETY | 299,409 | 299,409 | 294,746 | 4,663 |

(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, 2012

**(Amounts in 000's)**

| | Original Budget | Final Budget | Actual | Variance- Positive (Negative) |
|---|---|---|---|---|
| Public Works: | | | | |
| Division of public works administration: | | | | |
| Personnel | $ 2,667 | $ 2,612 | $ 2,458 | $ 154 |
| Other | 151 | 206 | 200 | 6 |
| Total division of public works administration | 2,818 | 2,818 | 2,658 | 160 |
| Division of recreation: | | | | |
| Personnel | 8,426 | 8,426 | 7,995 | 431 |
| Other | 3,887 | 4,112 | 3,846 | 266 |
| Total division of recreation | 12,313 | 12,538 | 11,841 | 697 |
| Division of parking facilities: | | | | |
| Personnel | 1,197 | 1,197 | 1,097 | 100 |
| Other | 54 | 127 | 79 | 48 |
| Total division of parking facilities | 1,251 | 1,324 | 1,176 | 148 |
| Division of property management: | | | | |
| Personnel | 5,482 | 5,482 | 5,049 | 433 |
| Other | 3,112 | 3,112 | 2,889 | 223 |
| Total division of property management | 8,594 | 8,594 | 7,938 | 656 |
| Division of park maintenance and properties: | | | | |
| Personnel | 8,063 | 8,063 | 7,761 | 302 |
| Other | 4,859 | 4,954 | 4,861 | 93 |
| Total division of park maintenance and properties | 12,922 | 13,017 | 12,622 | 395 |
| Division of waste collection and disposal: | | | | |
| Personnel | 13,892 | 13,892 | 12,894 | 998 |
| Other | 11,412 | 11,412 | 11,348 | 64 |
| Total division of waste collection and disposal | 25,304 | 25,304 | 24,242 | 1,062 |
| Division of traffic engineering: | | | | |
| Personnel | 2,742 | 2,742 | 2,639 | 103 |
| Other | 822 | 822 | 732 | 90 |
| Total division of traffic engineering | 3,564 | 3,564 | 3,371 | 193 |
| TOTAL PUBLIC WORKS | 66,766 | 67,159 | 63,848 | 3,311 |

(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, 2012

**(Amounts in 000's)**

| | Original Budget | Final Budget | Actual | Variance-Positive (Negative) |
|---|---|---|---|---|
| Community Development: | | | | |
| Director's office: | | | | |
| Personnel | $ 252 | $ 252 | $ 139 | $ 113 |
| Other | 19 | 19 | 9 | 10 |
| Total director's office | 271 | 271 | 148 | 123 |
| TOTAL COMMUNITY DEVELOPMENT | 271 | 271 | 148 | 123 |
| Building and Housing: | | | | |
| Director's office: | | | | |
| Personnel | 1,514 | 1,514 | 1,492 | 22 |
| Other | 480 | 495 | 483 | 12 |
| Total director's office | 1,994 | 2,009 | 1,975 | 34 |
| Division of code enforcement: | | | | |
| Personnel | 5,747 | 5,747 | 4,539 | 1,208 |
| Other | 594 | 594 | 593 | 1 |
| Total division of code enforcement | 6,341 | 6,341 | 5,132 | 1,209 |
| Division of construction permitting: | | | | |
| Personnel | 1,471 | 1,471 | 1,194 | 277 |
| Other | 16 | 16 | 16 | - |
| Total division of construction permitting | 1,487 | 1,487 | 1,210 | 277 |
| TOTAL BUILDING AND HOUSING | 9,822 | 9,837 | 8,317 | 1,520 |
| Economic Development: | | | | |
| Economic development administration: | | | | |
| Personnel | 1,504 | 1,504 | 1,396 | 108 |
| Other | 21 | 21 | 17 | 4 |
| Total economic development administration | 1,525 | 1,525 | 1,413 | 112 |
| TOTAL ECONOMIC DEVELOPMENT | 1,525 | 1,525 | 1,413 | 112 |
| Non-Departmental Expenditures: | | | | |
| Other | 19,436 | 19,541 | 16,229 | 3,312 |
| TOTAL NON-DEPARTMENTAL EXPENDITURES | 19,436 | 19,541 | 16,229 | 3,312 |
| TOTAL EXPENDITURES | 486,183 | 487,215 | 468,543 | 18,672 |

(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, 2012
**(Amounts in 000's)**

| | Original Budget | Final Budget | Actual | Variance-Positive (Negative) |
|---|---|---|---|---|
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (14,177) | (15,209) | 32,475 | 47,684 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | 18,218 | 18,218 | 16,981 | (1,237) |
| Transfers out | (20,873) | (19,841) | (17,941) | 1,900 |
| Sale of City assets | | | 2 | 2 |
| TOTAL OTHER FINANCING SOURCES (USES) | (2,655) | (1,623) | (958) | 665 |
| DECERTIFICATION OF PRIOR YEAR ENCUMBRANCES AND PRE-ENCUMBRANCES | | | 2,181 | 2,181 |
| NET CHANGE IN FUND BALANCES | (16,832) | (16,832) | 33,698 | 50,530 |
| FUND BALANCES AT BEGINNING OF YEAR | 16,861 | 16,861 | 16,861 | - |
| FUND BALANCES AT END OF YEAR | $ 29 | $ 29 | $ 50,559 | $ 50,530 |

(Concluded)

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# 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 Grants (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 Works Funds | To account for revenue earmarked for the public works 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. |
| 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, 2012
## (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 | $ 1,384 | $ 213 | $ 4,792 | $ 6,389 |
| Receivables: | | | | |
| Taxes | | 5,562 | | 5,562 |
| Grants | | | | - |
| Loans | | | | - |
| Accrued interest | | | | - |
| Assessments | | | | - |
| Receivables, net | - | 5,562 | - | 5,562 |
| Due from other funds | 21 | 8,901 | | 8,922 |
| Due from other governments | 6,314 | | | 6,314 |
| Inventory of supplies | 495 | | | 495 |
| TOTAL ASSETS | $ 8,214 | $ 14,676 | $ 4,792 | $ 27,682 |
| **LIABILITIES** | | | | |
| Accounts payable | $ 202 | $ 179 | $ | $ 381 |
| Accrued wages and benefits | 1,716 | | | 1,716 |
| Due to other governments | | | 323 | 323 |
| Deferred revenue | 4,338 | 1,938 | | 6,276 |
| Unearned revenue | | | | - |
| Due to other funds | 599 | 80 | | 679 |
| Total liabilities | 6,855 | 2,197 | 323 | 9,375 |
| **FUND BALANCES** | | | | |
| Reserves for: | | | | |
| Nonspendable | 495 | | | 495 |
| Restricted | 864 | 12,479 | 4,469 | 17,812 |
| Committed | | | | - |
| Assigned | | | | - |
| Total fund balances | 1,359 | 12,479 | 4,469 | 18,307 |
| TOTAL LIABILITIES AND FUND BALANCES | $ 8,214 | $ 14,676 | $ 4,792 | $ 27,682 |

| 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 |
| $ | $ 1,098 | $ | $ 16,955 | $ 22,728 | $ 3 | $ | $ 16,800 |
| 564 | 83 | 779 | | 2,067 | 2 | 211 | 143 |
| 8,057 | 9,445 | | 45,051 | 43,273 | | | |
| 466 | 1,441 | 680 | | | | | 28 |
| 9,087 | 10,969 | 1,459 | 45,051 | 45,340 | 2 | 211 | 171 |
| 475 | | 2,881 | | | | | 114 |
| | | | | 4,230 | | | 770 |
| $ 9,562 | $ 12,067 | $ 4,340 | $ 62,006 | $ 72,298 | $ 5 | $ 211 | $ 17,855 |
| $ 22 | $ 69 | $ 502 | $ 102 | $ 73 | $ | $ 21 | $ 587 |
| 447 | 63 | | | | | 62 | 140 |
| 134 | 1,772 | | 24 | 49,089 | | | 430 |
| 5,386 | 1,431 | 680 | | 4,069 | | | 316 |
| | 1,527 | | | 847 | 5 | | 534 |
| 3,573 | | 2,952 | 3 | | | 128 | 126 |
| 9,562 | 4,862 | 4,134 | 129 | 54,078 | 5 | 211 | 2,133 |
| | 5,847 | 206 | | 10,229 | | | 8,128 |
| | 1,358 | | 61,877 | 7,991 | | | 7,594 |
| - | 7,205 | 206 | 61,877 | 18,220 | - | - | 15,722 |
| $ 9,562 | $ 12,067 | $ 4,340 | $ 62,006 | $ 72,298 | $ 5 | $ 211 | $ 17,855 |

(Continued)

# CITY OF CLEVELAND, OHIO

## COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS
## DECEMBER 31, 2012
## (Amounts in 000's)

| | Special Revenue Funds - Non-Budgeted | | | |
|---|---|---|---|---|
| | Public Works Funds | Public Safety Funds | Public Health Funds | Cleveland Stadium Debt Service Fund |
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 3,544 | $ 8,461 | $ 2,460 | $ 14,101 |
| Receivables: | | | | |
| Taxes | | | | |
| Grants | 66 | 2,492 | 215 | |
| Loans | 45 | | | |
| Accrued interest | | | | 1 |
| Assessments | | | | |
| Receivables, net | 111 | 2,492 | 215 | 1 |
| Due from other funds | 4 | | 76 | |
| Due from other governments | | | | |
| Inventory of supplies | | | | |
| TOTAL ASSETS | $ 3,659 | $ 10,953 | $ 2,751 | $ 14,102 |
| **LIABILITIES** | | | | |
| Accounts payable | $ 43 | $ 674 | $ 55 | $ |
| Accrued wages and benefits | | 275 | 437 | |
| Due to other governments | 277 | | 27 | |
| Deferred revenue | | | | |
| Unearned revenue | 419 | 2,124 | 1,804 | |
| Due to other funds | | 1,194 | 12 | |
| Total liabilities | 739 | 4,267 | 2,335 | - |
| **FUND BALANCE** | | | | |
| Reserves for: | | | | |
| Nonspendable | | | | |
| Restricted | 688 | 6,482 | 375 | 14,102 |
| Committed | 2,232 | 204 | 41 | |
| Assigned | | | | |
| Total fund balances | 2,920 | 6,686 | 416 | 14,102 |
| TOTAL LIABILITIES AND FUND BALANCES | $ 3,659 | $ 10,953 | $ 2,751 | $ 14,102 |

| Special Revenue Funds - Non-Budgeted | | | | | |
|---|---|---|---|---|---|
| Gateway Shared Income Tax Funds | Neighborhood Development Investment Fund | Core City Program Funds | Supplemental Empowerment Zone | Total Non-Budgeted Funds | Total Special Revenue Funds |
| $ 1,229 | $ 4,586 | $ 2,045 | $ 1,509 | $ 95,519 | $ 101,908 |
| | | | | - | 5,562 |
| | | | | 6,622 | 6,622 |
| | 17,008 | 23,556 | 44,425 | 190,860 | 190,860 |
| | | | | 1 | 1 |
| | | | | 2,615 | 2,615 |
| - | 17,008 | 23,556 | 44,425 | 200,098 | 205,660 |
| | | | | 3,550 | 12,472 |
| 398 | | | | 5,398 | 11,712 |
| | | | | - | 495 |
| $ 1,627 | $ 21,594 | $ 25,601 | $ 45,934 | $ 304,565 | $ 332,247 |
| $ | $ | $ | $ | $ 2,148 | $ 2,529 |
| | | | | 1,424 | 3,140 |
| 813 | | | 45,047 | 97,613 | 97,936 |
| | | | | 11,882 | 18,158 |
| | | | 887 | 8,147 | 8,147 |
| 814 | | | | 8,802 | 9,481 |
| 1,627 | - | - | 45,934 | 130,016 | 139,391 |
| | | | | - | 495 |
| | | 25,601 | | 71,658 | 89,470 |
| | 21,594 | | | 102,891 | 102,891 |
| | | | | - | - |
| - | 21,594 | 25,601 | - | 174,549 | 192,856 |
| $ 1,627 | $ 21,594 | $ 25,601 | $ 45,934 | $ 304,565 | $ 332,247 |

(Continued)

# CITY OF CLEVELAND, OHIO

## COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS
## DECEMBER 31, 2012
## (Amounts in 000's)

| | Debt Service Funds - Budgeted | | | |
|---|---|---|---|---|
| | Unvoted Tax Supported Obligations Fund | Stadium Bond Fund | Subordinated Income Tax Fund | Lower Euclid Avenue TIF |
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 2,555 | $ 2 | $ 2,511 | $ 361 |
| Investments | 3,661 | | | |
| Receivables: | | | | |
| Taxes | 29,447 | | | |
| Grants | | | | |
| Loans | | | | |
| Accrued interest | | | | |
| Assessments | | | | |
| Receivables, net | 29,447 | - | - | - |
| Due from other funds | | | | |
| Due from other governments | 1,778 | | | |
| Inventory of supplies | | | | |
| TOTAL ASSETS | $ 37,441 | $ 2 | $ 2,511 | $ 361 |
| **LIABILITIES** | | | | |
| Accounts payable | $ | $ | $ | $ |
| Accrued wages and benefits | | | | |
| Due to other governments | | | | |
| Deferred revenue | 31,225 | | | |
| Unearned revenue | | | | |
| Due to other funds | | | | |
| Total liabilities | 31,225 | - | - | - |
| **FUND BALANCE** | | | | |
| Reserves for: | | | | |
| Nonspendable | | | | |
| Restricted | 6,216 | | 2,511 | 361 |
| Committed | | | | |
| Assigned | | 2 | | |
| Total fund balances | 6,216 | 2 | 2,511 | 361 |
| TOTAL LIABILITIES AND FUND BALANCES | $ 37,441 | $ 2 | $ 2,511 | $ 361 |

| | | | 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 |
| $ 3,713 | $ 2,296 | $ 11,438 | $ 424 | $ 2 | $ 426 | $ 11,864 |
| | | 3,661 | 416 | 2,199 | 2,615 | 6,276 |
| | | 29,447 | | | - | 29,447 |
| | | - | | | - | - |
| | | - | | | - | - |
| | | - | | 1 | 1 | 1 |
| | | - | | | - | - |
| - | - | 29,447 | - | 1 | 1 | 29,448 |
| | | - | | | - | - |
| | | 1,778 | | | - | 1,778 |
| | | - | | | - | - |
| $ 3,713 | $ 2,296 | $ 46,324 | $ 840 | $ 2,202 | $ 3,042 | $ 49,366 |
| $ 80 | $ | $ 80 | $ | $ | $ - | $ 80 |
| | | - | | | - | - |
| | | - | | | - | - |
| | | 31,225 | | | - | 31,225 |
| | | - | | | - | - |
| | | - | | | - | - |
| 80 | - | 31,305 | - | - | - | 31,305 |
| | | - | | | - | - |
| 3,633 | 2,296 | 15,017 | 840 | 2,202 | 3,042 | 18,059 |
| | | - | | | - | - |
| | | 2 | | | - | 2 |
| 3,633 | 2,296 | 15,019 | 840 | 2,202 | 3,042 | 18,061 |
| $ 3,713 | $ 2,296 | $ 46,324 | $ 840 | $ 2,202 | $ 3,042 | $ 49,366 |

(Continued)

# CITY OF CLEVELAND, OHIO

## COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS
## DECEMBER 31, 2012
## (Amounts in 000's)

| | Capital Projects Funds Non-Budgeted | | |
|---|---|---|---|
| | Capital/ Urban Renewal Bond Construction | Grant Improvement | Capital Improvement |
| **ASSETS** | | | |
| Cash and cash equivalents | $ 115,825 | $ | $ 7,111 |
| Investments | | | |
| Receivables: | | | |
| Taxes | | | |
| Grants | | 5,836 | |
| Loans | | | |
| Accrued interest | 2 | | |
| Assessments | | | |
| Receivables, net | 2 | 5,836 | - |
| Due from other funds | | | |
| Due from other governments | | | |
| Inventory of supplies | | | |
| TOTAL ASSETS | $ 115,827 | $ 5,836 | $ 7,111 |
| **LIABILITIES** | | | |
| Accounts payable | $ 1,814 | $ 15 | $ 4,184 |
| Accrued wages and benefits | | | |
| Due to other governments | 550 | | |
| Deferred revenue | | 119 | |
| Unearned revenue | | | 2 |
| Due to other funds | | 5,702 | |
| Total liabilities | 2,364 | 5,836 | 4,186 |
| **FUND BALANCE** | | | |
| Reserve for: | | | |
| Nonspendable | | | |
| Restricted | 113,463 | | 2,915 |
| Committed | | | 10 |
| Assigned | | | |
| Total fund balances | 113,463 | - | 2,925 |
| TOTAL LIABILITIES AND FUND BALANCES | $ 115,827 | $ 5,836 | $ 7,111 |

| Certificates of Participation/ Capital Leases | Cleveland Stadium Construction | Total Capital Projects Funds | Total Nonmajor Governmental Funds |
|---|---|---|---|
| $ 3,135 | $ 3,682 | $ 129,753 | $ 243,525 |
| 3,246 | | 3,246 | 9,522 |
| | | - | 35,009 |
| | | 5,836 | 12,458 |
| | | - | 190,860 |
| | | 2 | 4 |
| | | - | 2,615 |
| - | - | 5,838 | 240,946 |
| | | - | 12,472 |
| | | - | 13,490 |
| | | - | 495 |
| $ 6,381 | $ 3,682 | $ 138,837 | $ 520,450 |
| $ 138 | $ | $ 6,151 | $ 8,760 |
| | | - | 3,140 |
| | | 550 | 98,486 |
| | | 119 | 49,502 |
| | | 2 | 8,149 |
| | | 5,702 | 15,183 |
| 138 | - | 12,524 | 183,220 |
| | | - | 495 |
| 6,243 | 3,682 | 126,303 | 233,832 |
| | | 10 | 102,901 |
| | | - | 2 |
| 6,243 | 3,682 | 126,313 | 337,230 |
| $ 6,381 | $ 3,682 | $ 138,837 | $ 520,450 |

(Concluded)

## CITY OF CLEVELAND, OHIO

### COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS YEAR ENDED DECEMBER 31, 2012

**(Amounts in 000's)**

| | Special Revenue Funds - Budgeted | | | |
|---|---|---|---|---|
| | Division of Streets | Restricted Income Tax | Cleveland Stadium Operations | Total Budgeted Funds |
| REVENUES: | | | | |
| Income taxes | $ | $ 36,470 | $ | $ 36,470 |
| Property taxes | | | | - |
| Other taxes and shared revenues | 12,970 | | 13,571 | 26,541 |
| Licenses and permits | 1,263 | | | 1,263 |
| Charges for services | 22 | | 250 | 272 |
| Fines, forfeits and settlements | | | | - |
| Investment earnings | 1 | 16 | 6 | 23 |
| Grants | | | | - |
| Contributions | | | | - |
| Miscellaneous | | | | - |
| Total revenues | 14,256 | 36,486 | 13,827 | 64,569 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General Government | | | | - |
| Public Works | 19,910 | | 448 | 20,358 |
| Public Safety | | | | - |
| Community Development | | | | - |
| Building and Housing | | | | - |
| Public Health | | | | - |
| Economic Development | | | | - |
| Capital outlay | | 4,000 | | 4,000 |
| Debt service: | | | | |
| Principal retirement | | 3,729 | | 3,729 |
| Interest | | 1,077 | | 1,077 |
| General Government | | | | - |
| Other | | 1,150 | | 1,150 |
| Total expenditures | 19,910 | 9,956 | 448 | 30,314 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (5,654) | 26,530 | 13,379 | 34,255 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | 5,327 | | | 5,327 |
| Transfers out | | (25,926) | (8,814) | (34,740) |
| Issuance of debt | | | | - |
| Premium on bonds | | | | - |
| Discount on bonds | | | | - |
| Payment to refund bonds | | | | - |
| Sale of City assets | | | | - |
| Proceeds from capital lease | | | | - |
| Total other financing sources (uses) | 5,327 | (25,926) | (8,814) | (29,413) |
| NET CHANGE IN FUND BALANCES | (327) | 604 | 4,565 | 4,842 |
| FUND BALANCES AT BEGINNING OF YEAR (as restated) | 1,686 | 11,875 | (96) | 13,465 |
| FUND BALANCES AT END OF YEAR | $ 1,359 | $ 12,479 | $ 4,469 | $ 18,307 |

| | 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 |
| | $ | $ | $ | $ | $ | $ | $ | $ |
| | | | | | 3,082 | | | 901 |
| | 4,775 | 517 | | | | | | 1,642 |
| | | | | | | | | 3,247 |
| | | 1 | | | 10 | | | 21 |
| | 22,798 | 33,748 | 6,706 | | 5,811 | 6,890 | 1,952 | 1,424 |
| | | | | | | | | 19 |
| | 1,044 | | 206 | 147 | 172 | | | |
| | 28,617 | 34,266 | 6,912 | 147 | 9,075 | 6,890 | 1,952 | 7,254 |
| | | | | | | | 1,952 | 6,108 |
| | 28,617 | 33,574 | | | | 6,890 | | |
| | | | 6,706 | | | | | |
| | | | | 1,570 | 8,833 | | | |
| | | | | 26 | 952 | | | 25 |
| | 28,617 | 33,574 | 6,706 | 1,596 | 9,785 | 6,890 | 1,952 | 6,133 |
| | - | 692 | 206 | (1,449) | (710) | - | - | 1,121 |
| | | | | | | | | 367 |
| | | | | (1,276) | (2,718) | | | |
| | | | | | 85 | | | |
| | - | - | - | (1,276) | (2,633) | - | - | 367 |
| | - | 692 | 206 | (2,725) | (3,343) | - | - | 1,488 |
| | | 6,513 | | 64,602 | 21,563 | | | 14,234 |
| | $ - | $ 7,205 | $ 206 | $ 61,877 | $ 18,220 | $ - | $ - | $ 15,722 |

(Continued)

# CITY OF CLEVELAND, OHIO

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS YEAR ENDED DECEMBER 31, 2012

**(Amounts in 000's)**

| | Special Revenue Funds - Non-Budgeted | | | |
|---|---|---|---|---|
| | Public Works Funds | Public Safety Funds | Public Health Funds | Cleveland Stadium Debt Service Fund |
| REVENUES: | | | | |
| Income taxes | $ | $ | $ | $ |
| Property taxes | | | | |
| Other taxes and shared revenues | | | | |
| Licenses and permits | 73 | | 1,420 | |
| Charges for services | | | | |
| Fines, forfeits and settlements | | 2,132 | | |
| Investment earnings | 3 | 13 | 1 | 22 |
| Grants | 1,721 | 8,069 | 10,321 | |
| Contributions | | 15 | | |
| Miscellaneous | 63 | 20 | 5 | |
| Total revenues | 1,860 | 10,249 | 11,747 | 22 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General Government | | | | |
| Public Works | 1,773 | | | |
| Public Safety | | 8,812 | | |
| Community Development | | | | |
| Building and Housing | | | | |
| Public Health | | | 11,660 | |
| Economic Development | | | | |
| Capital outlay | | | | |
| Debt service: | | | | |
| Principal retirement | | | | 5,942 |
| Interest | | | | 6,410 |
| General Government | | | | |
| Other | | | | |
| Total expenditures | 1,773 | 8,812 | 11,660 | 12,352 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 87 | 1,437 | 87 | (12,330) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | | | | 3,814 |
| Transfers out | | | | |
| Issuance of debt | | | | |
| Premium on bonds | | | | |
| Discount on bonds | | | | |
| Payment to refund bonds | | | | |
| Sale of City assets | | | | |
| Proceeds from capital lease | | | | |
| Total other financing sources (uses) | - | - | - | 3,814 |
| NET CHANGE IN FUND BALANCES | 87 | 1,437 | 87 | (8,516) |
| FUND BALANCES AT BEGINNING OF YEAR (as restated) | 2,833 | 5,249 | 329 | 22,618 |
| FUND BALANCES AT END OF YEAR | $ 2,920 | $ 6,686 | $ 416 | $ 14,102 |

| Special Revenue Funds - Non-Budgeted | | | | | |
|---|---|---|---|---|---|
| Gateway Shared Income Tax Funds | Neighborhood Development Investment Fund | Core City Program Funds | Supplemental Empowerment Zone | Total Non-Budgeted Funds | Total Special Revenue Funds |
| $ | $ | $ | $ | $ - | $ 36,470 |
| | | | | - | - |
| 86 | | | | 4,069 | 30,610 |
| | | | | 1,493 | 2,756 |
| | | | | 6,934 | 7,206 |
| | | | | 5,379 | 5,379 |
| | 7 | 3 | | 81 | 104 |
| | | | 45 | 99,485 | 99,485 |
| | | | | 34 | 34 |
| | 797 | 4,330 | | 6,784 | 6,784 |
| 86 | 804 | 4,333 | 45 | 124,259 | 188,828 |
| | | | | | |
| 86 | | | | 8,146 | 8,146 |
| | | | | 1,773 | 22,131 |
| | | | | 8,812 | 8,812 |
| | | | | 69,081 | 69,081 |
| | | | | 6,706 | 6,706 |
| | | | | 11,660 | 11,660 |
| | 751 | 188 | 45 | 11,387 | 11,387 |
| | | | | 1,003 | 5,003 |
| | | | | | |
| | | | | 5,942 | 9,671 |
| | | | | 6,410 | 7,487 |
| | | | | - | - |
| | | | | - | 1,150 |
| 86 | 751 | 188 | 45 | 130,920 | 161,234 |
| | | | | | |
| - | 53 | 4,145 | - | (6,661) | 27,594 |
| | | | | | |
| | | | | 4,181 | 9,508 |
| | | (1,554) | | (5,548) | (40,288) |
| | | | | - | - |
| | | | | - | - |
| | | | | - | - |
| | | | | - | - |
| | | 237 | | 322 | 322 |
| | | | | - | - |
| - | - | (1,317) | - | (1,045) | (30,458) |
| | | | | | |
| - | 53 | 2,828 | - | (7,706) | (2,864) |
| | | | | | |
| | 21,541 | 22,773 | | 182,255 | 195,720 |
| | | | | | |
| $ - | $ 21,594 | $ 25,601 | $ - | $ 174,549 | $ 192,856 |

(Continued)

# CITY OF CLEVELAND, OHIO

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS
## YEAR ENDED DECEMBER 31, 2012
## (Amounts in 000's)

| | Debt Service Funds - Budgeted | | | | |
|---|---|---|---|---|---|
| | Unvoted Tax Supported Obligations Fund | Stadium Bond Fund | Subordinated Income Tax Fund | Lower Euclid Avenue TIF | Core City Bonds |
| REVENUES: | | | | | |
| Income taxes | $ | $ | $ | $ | $ |
| Property taxes | 19,284 | | | | |
| Other taxes and shared revenues | 4,985 | | | | |
| Licenses and permits | | | | | |
| Charges for services | | | | | |
| Fines, forfeits and settlements | | | | | |
| Investment earnings | 13 | 1 | 3 | | 1 |
| Grants | | | | | |
| Contributions | | | | | |
| Miscellaneous | | | | | |
| Total revenues | 24,282 | 1 | 3 | - | 1 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| General Government | | | | | |
| Public Works | | | | | |
| Public Safety | | | | | |
| Community Development | | | | | |
| Building and Housing | | | | | |
| Public Health | | | | | |
| Economic Development | | | | | |
| Capital outlay | | | | | |
| Debt service: | | | | | |
| Principal retirement | 28,815 | 1,090 | 2,955 | 167 | 1,440 |
| Interest | 15,155 | 541 | 2,647 | 118 | 790 |
| General Government | | | | | 360 |
| Other | | | | | |
| Total expenditures | 43,970 | 1,631 | 5,602 | 285 | 2,590 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (19,688) | (1,630) | (5,599) | (285) | (2,589) |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Transfers in | 24,416 | 1,631 | 5,677 | 391 | 2,329 |
| Transfers out | | | | | |
| Issuance of debt | | | | | |
| Premium on bonds | | | | | |
| Discount on bonds | | | | | |
| Payment to refund bonds | | | | | |
| Sale of City assets | | | | | |
| Proceeds from capital lease | | | | | |
| Total other financing sources (uses) | 24,416 | 1,631 | 5,677 | 391 | 2,329 |
| NET CHANGE IN FUND BALANCES | 4,728 | 1 | 78 | 106 | (260) |
| FUND BALANCES AT BEGINNING OF YEAR (as restated) | 1,488 | 1 | 2,433 | 255 | 3,893 |
| FUND BALANCES AT END OF YEAR | $ 6,216 | $ 2 | $ 2,511 | $ 361 | $ 3,633 |

| | Debt Service Funds Non-Budgeted | | | | |
|---|---|---|---|---|---|
| Subordinate Lien Income Tax **Fund** | Total Budgeted **Funds** | Urban Renewal **Fund** | Urban Renewal Reserve **Fund** | Non-Budgeted **Funds** | Total Debt Service **Funds** |
| $ | $ - | $ | $ | $ - | $ - |
| | 19,284 | | | - | 19,284 |
| | 4,985 | | | - | 4,985 |
| | - | | | - | - |
| | - | | | - | - |
| | - | | | - | - |
| 3 | 21 | 1 | 2 | 3 | 24 |
| | - | | | - | - |
| | - | | | - | - |
| 546 | 546 | 983 | | 983 | 1,529 |
| 549 | 24,836 | 984 | 2 | 986 | 25,822 |
| | - | | | - | - |
| | - | | | - | - |
| | - | | | - | - |
| | - | | | - | - |
| | - | | | - | - |
| | - | | | - | - |
| | - | | | - | - |
| | - | | | - | - |
| 3,305 | 37,772 | 565 | | 565 | 38,337 |
| 3,676 | 22,927 | 307 | | 307 | 23,234 |
| | 360 | 85 | | 85 | 445 |
| | - | | | - | - |
| 6,981 | 61,059 | 957 | - | 957 | 62,016 |
| (6,432) | (36,223) | 27 | 2 | 29 | (36,194) |
| 6,426 | 40,870 | | | - | 40,870 |
| | - | | | - | - |
| | - | | | - | - |
| | - | | | - | - |
| | - | | | - | - |
| | - | | | - | - |
| | - | | | - | - |
| | - | | | - | - |
| 6,426 | 40,870 | - | - | - | 40,870 |
| (6) | 4,647 | 27 | 2 | 29 | 4,676 |
| 2,302 | 10,372 | 813 | 2,200 | 3,013 | 13,385 |
| $ 2,296 | $ 15,019 | $ 840 | $ 2,202 | $ 3,042 | $ 18,061 |

(Continued)

# CITY OF CLEVELAND, OHIO

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS YEAR ENDED DECEMBER 31, 2012

**(Amounts in 000's)**

| | Capital Projects Funds Non-Budgeted | | |
|---|---|---|---|
| | Capital/ Urban Renewal Bond Construction | Grant Improvement | Capital Improvement |
| REVENUES: | | | |
| Income taxes | $ | $ | $ |
| Property taxes | | | |
| Other taxes and shared revenues | | | |
| Licenses and permits | | | |
| Charges for services | | | |
| Fines, forfeits and settlements | | | |
| Investment earnings | 46 | | 4 |
| Grants | | 24,515 | |
| Contributions | | | 1,330 |
| Miscellaneous | | | 383 |
| Total revenues | 46 | 24,515 | 1,717 |
| EXPENDITURES: | | | |
| Current: | | | |
| General Government | 13 | | |
| Public Works | | | |
| Public Safety | | | |
| Community Development | | | |
| Building and Housing | | | |
| Public Health | | | |
| Economic Development | | | |
| Capital outlay | 30,604 | 24,515 | 1,070 |
| Inception of capital lease | | | |
| Debt service: | | | |
| Principal retirement | | | |
| Interest | 3,020 | | |
| General Government | 819 | | |
| Other | | | |
| Total expenditures | 34,456 | 24,515 | 1,070 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (34,410) | - | 647 |
| OTHER FINANCING SOURCES (USES): | | | |
| Transfers in | | | |
| Transfers out | (4,916) | | |
| Issuance of debt | 82,945 | | |
| Premium on bonds | 8,770 | | |
| Discount on bonds | (145) | | |
| Payment to refund bonds | (28,910) | | |
| Sale of City assets | | | |
| Proceeds from capital lease | | | |
| Total other financing sources (uses) | 57,744 | - | - |
| NET CHANGE IN FUND BALANCES | 23,334 | - | 647 |
| FUND BALANCES AT BEGINNING OF YEAR (as restated) | 90,129 | | 2,278 |
| FUND BALANCES AT END OF YEAR | $ 113,463 | $ - | $ 2,925 |

| Certificates of Participation/ Capital Leases | Cleveland Stadium Construction | Total Capital Projects Funds | Total Nonmajor Governmental Funds |
|---|---|---|---|
| $ | $ | $ - | $ 36,470 |
| | | - | 19,284 |
| | | - | 35,595 |
| | | - | 2,756 |
| | | - | 7,206 |
| | | - | 5,379 |
| 5 | 8 | 63 | 191 |
| | | 24,515 | 124,000 |
| | | 1,330 | 1,364 |
| | | 383 | 8,696 |
| 5 | 8 | 26,291 | 240,941 |
| | | 13 | 8,159 |
| | | - | 22,131 |
| | | - | 8,812 |
| | | - | 69,081 |
| | | - | 6,706 |
| | | - | 11,660 |
| | | - | 11,387 |
| 130 | 6,321 | 62,640 | 67,643 |
| 5,648 | | 5,648 | 5,648 |
| 107 | | 107 | 48,115 |
| | | 3,020 | 33,741 |
| | | 819 | 1,264 |
| 18 | | 18 | 1,168 |
| 5,903 | 6,321 | 72,265 | 295,515 |
| (5,898) | (6,313) | (45,974) | (54,574) |
| | 5,850 | 5,850 | 56,228 |
| | | (4,916) | (45,204) |
| | | 82,945 | 82,945 |
| | | 8,770 | 8,770 |
| | | (145) | (145) |
| | | (28,910) | (28,910) |
| | | - | 322 |
| 6,507 | | 6,507 | 6,507 |
| 6,507 | 5,850 | 70,101 | 80,513 |
| 609 | (463) | 24,127 | 25,939 |
| 5,634 | 4,145 | 102,186 | 311,291 |
| $ 6,243 | $ 3,682 | $ 126,313 | $ 337,230 |

(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, 2012

**(Amounts in 000's)**

| | Division of Streets | | | |
|---|---|---|---|---|
| | Original Budget | Revised Budget | Actual | Variance- Positive (Negative) |
| REVENUES: | | | | |
| Income taxes | $ | $ | $ | $ - |
| Other taxes and shared revenues | 12,845 | 12,845 | 13,043 | 198 |
| Licenses and permits | 1,398 | 1,398 | 1,242 | (156) |
| Charges for services | 5,816 | 5,816 | 4,100 | (1,716) |
| Investment earnings | | | 1 | 1 |
| Miscellaneous | | | 4 | 4 |
| Total revenues | 20,059 | 20,059 | 18,390 | (1,669) |
| EXPENDITURES: | | | | |
| Public Works: | | | | |
| Personnel | 15,207 | 15,207 | 14,014 | 1,193 |
| Other | 12,110 | 12,110 | 9,127 | 2,983 |
| Capital outlay | | | | - |
| Principal retirement | | | | - |
| Interest | | | | - |
| Total expenditures | 27,317 | 27,317 | 23,141 | 4,176 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (7,258) | (7,258) | (4,751) | 2,507 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | 7,140 | 5,908 | 5,327 | (581) |
| Transfers out | | | | - |
| Total other financing sources (uses) | 7,140 | 5,908 | 5,327 | (581) |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES | (118) | (1,350) | 576 | 1,926 |
| DECERTIFICATION OF PRIOR YEAR ENCUMBRANCES AND PRE-ENCUMBRANCES | | | 133 | 133 |
| FUND BALANCES AT BEGINNING OF YEAR | 118 | 118 | 118 | - |
| FUND BALANCES AT END OF YEAR | $ - | $ (1,232) | $ 827 | $ 2,059 |

| Restricted Income Tax | | | | Rainy Day Reserve Fund | | | |
|---|---|---|---|---|---|---|---|
| Original Budget | Revised Budget | Actual | Variance-Positive (Negative) | Original Budget | Revised Budget | Actual | Variance-Positive (Negative) |
| $ 33,888 | $ 33,888 | $ 36,309 | $ 2,421 | $ | $ | $ | $ - |
| | | | - | | | | - |
| | | | - | | | | - |
| | | | - | | | | - |
| 15 | 15 | 16 | 1 | | | 25 | 25 |
| | | | - | | | | - |
| 33,903 | 33,903 | 36,325 | 2,422 | - | - | 25 | 25 |
| | | | - | | | | - |
| | | | - | | | | - |
| 3,797 | 3,797 | 3,908 | (111) | | | | - |
| 4,799 | 4,799 | 4,799 | - | | | | - |
| 1,077 | 1,077 | 1,077 | - | | | | - |
| 9,673 | 9,673 | 9,784 | (111) | - | - | - | - |
| 24,230 | 24,230 | 26,541 | 2,311 | - | - | 25 | 25 |
| | | | - | | | | - |
| (25,926) | (25,926) | (25,926) | - | | | | - |
| (25,926) | (25,926) | (25,926) | - | - | - | - | - |
| (1,696) | (1,696) | 615 | 2,311 | | | 25 | 25 |
| | | 45 | 45 | | | | - |
| 1,696 | 1,696 | 1,696 | - | 13,551 | 13,551 | 13,551 | - |
| $ - | $ - | $ 2,356 | $ 2,356 | $ 13,551 | $ 13,551 | $ 13,576 | $ 25 |

(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, 2012

**(Amounts in 000's)**

| | Schools Recreation and Cultural Activities | | | |
|---|---|---|---|---|
| | Original Budget | Revised Budget | Actual | Variance-Positive (Negative) |
| REVENUES: | | | | |
| Income taxes | $ | $ | $ | $ - |
| Other taxes and shared revenues | | | | - |
| Licenses and permits | | | | - |
| Charges for services | | | | - |
| Investment earnings | | | | - |
| Miscellaneous | | | | - |
| Total revenues | - | - | - | - |
| EXPENDITURES: | | | | |
| Public Works: | | | | |
| Personnel | | | | - |
| Other | 1,000 | 1,000 | 1,000 | - |
| Capital outlay | | | | - |
| Principal retirement | | | | - |
| Interest | | | | - |
| Total expenditures | 1,000 | 1,000 | 1,000 | - |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (1,000) | (1,000) | (1,000) | - |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | 1,000 | 1,000 | 1,000 | - |
| Transfers out | | | | - |
| Total other financing sources (uses) | 1,000 | 1,000 | 1,000 | - |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES | | | | - |
| DECERTIFICATION OF PRIOR YEAR ENCUMBRANCES AND PRE-ENCUMBRANCES | | | | - |
| FUND BALANCES AT BEGINNING OF YEAR | | | | - |
| FUND BALANCES AT END OF YEAR | $ - | $ - | $ - | $ - |

| Cleveland Stadium Operations | | | | Totals | | | |
|---|---|---|---|---|---|---|---|
| Original Budget | Revised Budget | Actual | Variance- Positive (Negative) | Original Budget | Revised Budget | Actual | Variance- Positive (Negative) |
| $ | $ | $ | $ - | $ 33,888 | $ 33,888 | $ 36,309 | $ 2,421 |
| 13,500 | 13,500 | 13,570 | 70 | 26,345 | 26,345 | 26,613 | 268 |
| | | | - | 1,398 | 1,398 | 1,242 | (156) |
| 250 | 250 | 250 | - | 6,066 | 6,066 | 4,350 | (1,716) |
| | | 6 | 6 | 15 | 15 | 48 | 33 |
| | | | - | | | 4 | 4 |
| 13,750 | 13,750 | 13,826 | 76 | 67,712 | 67,712 | 68,566 | 854 |
| | | | | | | | |
| | | | - | 15,207 | 15,207 | 14,014 | 1,193 |
| 602 | 602 | 577 | 25 | 13,712 | 13,712 | 10,704 | 3,008 |
| | | | - | 3,797 | 3,797 | 3,908 | (111) |
| | | | - | 4,799 | 4,799 | 4,799 | - |
| | | | - | 1,077 | 1,077 | 1,077 | - |
| 602 | 602 | 577 | 25 | 38,592 | 38,592 | 34,502 | 4,090 |
| | | | | | | | |
| 13,148 | 13,148 | 13,249 | 101 | 29,120 | 29,120 | 34,064 | 4,944 |
| | | | | | | | |
| 85 | 85 | | (85) | 8,225 | 6,993 | 6,327 | (666) |
| (13,500) | (13,500) | (8,814) | 4,686 | (39,426) | (39,426) | (34,740) | 4,686 |
| (13,415) | (13,415) | (8,814) | 4,601 | (31,201) | (32,433) | (28,413) | 4,020 |
| | | | | | | | |
| (267) | (267) | 4,435 | 4,702 | (2,081) | (3,313) | 5,651 | 8,964 |
| | | | | | | | |
| | | | - | | | 178 | 178 |
| | | | | | | | |
| 267 | 267 | 267 | - | 15,632 | 15,632 | 15,632 | - |
| | | | | | | | |
| $ - | $ - | $ 4,702 | $ 4,702 | $ 13,551 | $ 12,319 | $ 21,461 | $ 9,142 |

(Concluded)

## 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, 2012

**(Amounts in 000's)**

| | Unvoted Tax Supported Obligations Fund | | | |
|---|---|---|---|---|
| | Original Budget | Revised Budget | Actual | Variance-Positive (Negative) |
| REVENUES: | | | | |
| Property taxes | $ 19,700 | $ 19,700 | $ 19,284 | $ (416) |
| Other taxes and shared revenues | 5,009 | 5,009 | 4,985 | (24) |
| Investment earnings | 12 | 12 | 13 | 1 |
| Miscellaneous | | | | - |
| Total revenues | 24,721 | 24,721 | 24,282 | (439) |
| EXPENDITURES: | | | | |
| Principal retirement | 28,680 | 28,680 | 28,815 | (135) |
| Interest | 15,303 | 15,303 | 15,155 | 148 |
| General Government | | | | - |
| Total expenditures | 43,983 | 43,983 | 43,970 | 13 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (19,262) | (19,262) | (19,688) | (426) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in: | | | | |
| From other subfunds | | | 4,916 | 4,916 |
| Restricted income tax fund | 19,500 | 19,500 | 19,500 | - |
| Total other financing sources (uses) | 19,500 | 19,500 | 24,416 | 4,916 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES | 238 | 238 | 4,728 | 4,490 |
| FUND BALANCES AT BEGINNING OF YEAR | 1,488 | 1,488 | 1,488 | - |
| FUND BALANCES AT END OF YEAR | $ 1,726 | $ 1,726 | $ 6,216 | $ 4,490 |

| Stadium Bond Fund | | | | Subordinated Income Tax Fund | | | |
|---|---|---|---|---|---|---|---|
| Original Budget | Revised Budget | Actual | Variance- Positive (Negative) | Original Budget | Revised Budget | Actual | Variance- Positive (Negative) |
| $ | $ | $ | $ - | $ | $ | $ | $ - |
| | | | - | | | | - |
| 1 | 1 | 1 | - | 3 | 3 | 3 | - |
| | | | - | | | | - |
| 1 | 1 | 1 | - | 3 | 3 | 3 | - |
| 1,090 | 1,090 | 1,090 | - | 2,955 | 2,955 | 2,955 | - |
| 541 | 541 | 541 | - | 2,647 | 2,647 | 2,647 | - |
| | | | - | | | | - |
| 1,631 | 1,631 | 1,631 | - | 5,602 | 5,602 | 5,602 | - |
| (1,630) | (1,630) | (1,630) | - | (5,599) | (5,599) | (5,599) | - |
| 1,631 | 1,631 | 1,631 | - | 5,677 | 5,677 | 5,677 | - |
| | | | - | | | | - |
| 1,631 | 1,631 | 1,631 | - | 5,677 | 5,677 | 5,677 | - |
| 1 | 1 | 1 | - | 78 | 78 | 78 | - |
| 1 | 1 | 1 | - | 2,433 | 2,433 | 2,433 | - |
| $ 2 | $ 2 | $ 2 | $ - | $ 2,511 | $ 2,511 | $ 2,511 | $ - |

(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, 2012

**(Amounts in 000's)**

| | Lower Euclid Avenue TIF | | | | Core City Bonds | | | |
|---|---|---|---|---|---|---|---|---|
| | Original Budget | Revised Budget | Actual | Variance-Positive (Negative) | Original Budget | Revised Budget | Actual | Variance-Positive (Negative) |
| REVENUES: | | | | | | | | |
| Property taxes | $ | $ | $ | $ - | $ | $ | $ | $ - |
| Other taxes and shared revenues | | | | - | | | | - |
| Investment earnings | | | | - | 2 | 2 | 1 | (1) |
| Miscellaneous | | | | - | | | | - |
| Total revenues | - | - | - | - | 2 | 2 | 1 | (1) |
| EXPENDITURES: | | | | | | | | |
| Principal retirement | 167 | 167 | 167 | - | 1,440 | 1,440 | 1,440 | - |
| Interest | 118 | 118 | 118 | - | 1,001 | 1,001 | 790 | 211 |
| General Government | | | | - | 368 | 368 | 362 | 6 |
| Total expenditures | 285 | 285 | 285 | - | 2,809 | 2,809 | 2,592 | 217 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (285) | (285) | (285) | - | (2,807) | (2,807) | (2,591) | 216 |
| OTHER FINANCING SOURCES (USES): | | | | | | | | |
| Transfers in: | | | | | | | | |
| From other subfunds | 295 | 295 | 391 | 96 | 1,859 | 1,859 | 2,329 | 470 |
| Restricted income tax fund | | | | - | | | | - |
| Total other financing sources (uses) | 295 | 295 | 391 | 96 | 1,859 | 1,859 | 2,329 | 470 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES | 10 | 10 | 106 | 96 | (948) | (948) | (262) | 686 |
| FUND BALANCES AT BEGINNING OF YEAR | 255 | 255 | 255 | - | 3,975 | 3,975 | 3,975 | - |
| FUND BALANCES AT END OF YEAR | $ 265 | $ 265 | $ 361 | $ 96 | $ 3,027 | $ 3,027 | $ 3,713 | $ 686 |

| Subordinate Lien Income Tax Bonds | | | | Totals | | | |
|---|---|---|---|---|---|---|---|
| Original Budget | Revised Budget | Actual | Variance- Positive (Negative) | Original Budget | Revised Budget | Actual | Variance- Positive (Negative) |
| $ | $ | $ | $ - | $ 19,700 | $ 19,700 | $ 19,284 | $ (416) |
| | | | - | 5,009 | 5,009 | 4,985 | (24) |
| 5 | 5 | 3 | (2) | 23 | 23 | 21 | (2) |
| 546 | 546 | 546 | - | 546 | 546 | 546 | - |
| 551 | 551 | 549 | (2) | 25,278 | 25,278 | 24,836 | (442) |
| 3,305 | 3,305 | 3,305 | - | 37,637 | 37,637 | 37,772 | (135) |
| 3,676 | 3,676 | 3,676 | - | 23,286 | 23,286 | 22,927 | 359 |
| | | | - | 368 | 368 | 362 | 6 |
| 6,981 | 6,981 | 6,981 | - | 61,291 | 61,291 | 61,061 | 230 |
| (6,430) | (6,430) | (6,432) | (2) | (36,013) | (36,013) | (36,225) | (212) |
| | | | - | 9,462 | 9,462 | 14,944 | 5,482 |
| 6,426 | 6,426 | 6,426 | - | 25,926 | 25,926 | 25,926 | - |
| 6,426 | 6,426 | 6,426 | - | 35,388 | 35,388 | 40,870 | 5,482 |
| (4) | (4) | (6) | (2) | (625) | (625) | 4,645 | 5,270 |
| 2,302 | 2,302 | 2,302 | - | 10,454 | 10,454 | 10,454 | - |
| $ 2,298 | $ 2,298 | $ 2,296 | $ (2) | $ 9,829 | $ 9,829 | $ 15,099 | $ 5,270 |

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# 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. Currently, both City golf courses are being leased out. Seneca is being leased by Cleveland Metroparks and Highland is leased by Mark A Nance Golf Ohio. |

# CITY OF CLEVELAND, OHIO

## COMBINING STATEMENT OF NET POSITION - NONMAJOR ENTERPRISE FUNDS
## DECEMBER 31, 2012
## (Amounts in 000's)

| | Water Pollution Control | Public Auditorium | West Side Market |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 48,630 | $ 86 | $ 1,232 |
| Receivables: | | | |
| Accounts | 89,141 | 210 | |
| Unbilled revenue | 2,831 | | |
| Less: Allowance for doubtful accounts | (3,007) | (44) | |
| Receivables, net | 88,965 | 166 | - |
| Due from other funds | 495 | | |
| Inventory of supplies | 362 | | |
| Total current assets | 138,452 | 252 | 1,232 |
| Noncurrent assets: | | | |
| Restricted assets: | | | |
| Cash and cash equivalents | 586 | | |
| Total restricted assets | 586 | - | - |
| Unamortized bond issuance costs | | | |
| Capital assets: | | | |
| Land | 297 | 4,261 | 198 |
| Land improvements | | | |
| Utility plant | 137,728 | | |
| Buildings, structures and improvements | 8,963 | 20,166 | 13,002 |
| Furniture, fixtures, equipment and vehicles | 13,046 | 1,112 | 1,707 |
| Construction in progress | 6,143 | 5,040 | 174 |
| Less: Accumulated depreciation | (97,468) | (21,208) | (7,193) |
| Total capital assets, net | 68,709 | 9,371 | 7,888 |
| Total noncurrent assets | 69,295 | 9,371 | 7,888 |
| TOTAL ASSETS | $ 207,747 | $ 9,623 | $ 9,120 |

| East Side Market | Municipal Parking Lots | Cemeteries | Golf Courses | Total Nonmajor Enterprise Funds |
|---|---|---|---|---|
| $ 68 | $ 5,449 | $ 107 | $ 107 | $ 55,679 |
| | 18 | | 180 | 89,549 |
| | | | | 2,831 |
| | | | | (3,051) |
| - | 18 | - | 180 | 89,329 |
| | 51 | | | 546 |
| | 139 | 1 | | 502 |
| 68 | 5,657 | 108 | 287 | 146,056 |
| | 8,762 | 6,579 | | 15,927 |
| - | 8,762 | 6,579 | - | 15,927 |
| | 1,288 | | | 1,288 |
| 414 | 5,478 | 1,259 | 1,822 | 13,729 |
| 484 | 1,256 | 955 | 4,033 | 6,728 |
| | | | | 137,728 |
| 2,400 | 53,719 | 6,148 | 1,815 | 106,213 |
| 450 | 1,290 | 799 | 499 | 18,903 |
| | 440 | 4,535 | | 16,332 |
| (2,404) | (25,525) | (3,438) | (4,715) | (161,951) |
| 1,344 | 36,658 | 10,258 | 3,454 | 137,682 |
| 1,344 | 46,708 | 16,837 | 3,454 | 154,897 |
| $ 1,412 | $ 52,365 | $ 16,945 | $ 3,741 | $ 300,953 |

(Continued)

# CITY OF CLEVELAND, OHIO

## COMBINING STATEMENT OF NET POSITION - NONMAJOR ENTERPRISE FUNDS
## DECEMBER 31, 2012
## (Amounts in 000's)

| | Water Pollution Control | Public Auditorium | West Side Market |
|---|---|---|---|
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Accounts payable | $ 2,409 | $ 88 | $ 151 |
| Accrued wages and benefits | 1,557 | 111 | 39 |
| Due to other funds | 11,399 | 35 | 17 |
| Due to other governments | 90,704 | | |
| Accrued interest payable | | | |
| Current portion of long-term obligations | 525 | | |
| Total current liabilities | 106,594 | 234 | 207 |
| Long-term liabilities: | | | |
| Accrued wages and benefits | 136 | 17 | 4 |
| Construction loans payable | 1,813 | | |
| Revenue bonds payable | | | |
| Total liabilities | 108,543 | 251 | 211 |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Derivative instruments-interest rate swaps | | | |
| Service concession agreements | | | |
| Total deferred inflows of resources | - | - | - |
| **NET POSITION** | | | |
| Net investment in capital assets | 66,371 | 9,371 | 7,888 |
| Restricted for capital projects | 178 | | |
| Restricted for debt service | | | |
| Unrestricted | 32,655 | 1 | 1,021 |
| Total net position | 99,204 | 9,372 | 8,909 |
| TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION | $ 207,747 | $ 9,623 | $ 9,120 |

| East Side Market | Municipal Parking Lots | Cemeteries | Golf Courses | Total Nonmajor Enterprise Funds |
|---|---|---|---|---|
| $ | $ 214 | $ 8 | $ | $ 2,870 |
| | 150 | 147 | 29 | 2,033 |
| | 117 | 10 | 6 | 11,584 |
| | 221 | | | 90,925 |
| | 470 | | | 470 |
| | 2,520 | | | 3,045 |
| - | 3,692 | 165 | 35 | 110,927 |
| | 26 | 23 | | 206 |
| | | | | 1,813 |
| | 28,103 | | | 28,103 |
| - | 31,821 | 188 | 35 | 141,049 |
| | 365 | | | 365 |
| | | | 176 | 176 |
| - | 365 | - | 176 | 541 |
| 1,344 | 9,272 | 10,258 | 3,454 | 107,958 |
| | | | | 178 |
| | 5,525 | | | 5,525 |
| 68 | 5,382 | 6,499 | 76 | 45,702 |
| 1,412 | 20,179 | 16,757 | 3,530 | 159,363 |
| $ 1,412 | $ 52,365 | $ 16,945 | $ 3,741 | $ 300,953 |

(Concluded)

## CITY OF CLEVELAND, OHIO

### COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION-NONMAJOR ENTERPRISE FUNDS FOR THE YEAR ENDED DECEMBER 31, 2012

**(Amounts in 000's)**

| | Water Pollution Control | Public Auditorium | West Side Market |
|---|---|---|---|
| OPERATING REVENUES: | | | |
| Charges for services | $ 22,876 | $ 1,226 | $ 1,302 |
| Total operating revenue | 22,876 | 1,226 | 1,302 |
| OPERATING EXPENSES: | | | |
| Operations | 10,194 | 2,408 | 1,040 |
| Maintenance | 9,075 | 13 | 13 |
| Depreciation | 5,108 | 14 | 685 |
| Total operating expenses | 24,377 | 2,435 | 1,738 |
| OPERATING INCOME (LOSS) | (1,501) | (1,209) | (436) |
| NON-OPERATING REVENUE (EXPENSES): | | | |
| Investment income | 59 | | 2 |
| Interest expense | (102) | | |
| Loss on disposal of capital assets | | | |
| Other revenues (expenses) | 21 | | (1) |
| Total non-operating revenues (expenses) | (22) | - | 1 |
| INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS | (1,523) | (1,209) | (435) |
| Capital contributions | 343 | 3,645 | 210 |
| Transfers in | | 1,297 | |
| CHANGE IN NET POSITION | (1,180) | 3,733 | (225) |
| NET POSITION AT BEGINNING OF YEAR | 100,384 | 5,639 | 9,134 |
| NET POSITION AT END OF YEAR | $ 99,204 | $ 9,372 | $ 8,909 |

| East Side Market | Municipal Parking Lots | Cemeteries | Golf Courses | Total Nonmajor Enterprise Funds |
|---|---|---|---|---|
| $ | $ 7,735 | $ 1,495 | $ 536 | $ 35,170 |
| - | 7,735 | 1,495 | 536 | 35,170 |
| 32 | 3,797 | 1,567 | 789 | 19,827 |
| | 99 | 1 | 16 | 9,217 |
| 60 | 1,405 | 253 | 159 | 7,684 |
| 92 | 5,301 | 1,821 | 964 | 36,728 |
| (92) | 2,434 | (326) | (428) | (1,558) |
| | 423 | | | 484 |
| | (1,853) | | | (1,955) |
| | | | (8) | (8) |
| | (227) | 64 | 66 | (77) |
| - | (1,657) | 64 | 58 | (1,556) |
| (92) | 777 | (262) | (370) | (3,114) |
| | 490 | 928 | | 5,616 |
| | | 60 | 232 | 1,589 |
| (92) | 1,267 | 726 | (138) | 4,091 |
| 1,504 | 18,912 | 16,031 | 3,668 | 155,272 |
| $ 1,412 | $ 20,179 | $ 16,757 | $ 3,530 | $ 159,363 |

# CITY OF CLEVELAND, OHIO

## COMBINING STATEMENT OF CASH FLOWS
## NONMAJOR ENTERPRISE FUNDS
## FOR THE YEAR ENDED DECEMBER 31, 2012
**(Amounts in 000's)**

| | Water Pollution Control | Public Auditorium | West Side Market |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Cash received from customers | $ 22,996 | $ 1,146 | $ 1,302 |
| Cash payments to suppliers for goods or services | (5,484) | (1,186) | (632) |
| Cash payments to employees for services | (9,947) | (1,258) | (391) |
| Agency activity on behalf of other sewer authorities | 6,265 | | |
| Net cash provided by (used for) operating activities | 13,830 | (1,298) | 279 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | |
| Cash received through transfers from other funds | | 1,297 | |
| Miscellaneous non-operating revenue (expense) | | | |
| Net cash provided by (used for) noncapital financing activities | - | 1,297 | - |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Acquisition and construction of capital assets | (3,996) | | |
| Principal paid on long-term debt | (505) | | |
| Interest paid on long-term debt | (102) | | |
| Capital grant proceeds | 289 | | |
| Net cash provided by (used for) capital and related financing activities | (4,314) | - | - |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of investment securities | | | |
| Proceeds from sale and maturity of investment securities | | | |
| Interest received on investments | 59 | | 2 |
| Net cash provided by (used for) investing activities | 59 | - | 2 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 9,575 | (1) | 281 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 39,641 | 87 | 951 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 49,216 | $ 86 | $ 1,232 |

| | East Side Market | Municipal Parking Lots | Cemeteries | Golf Courses | Total Nonmajor Enterprise Funds |
|---|---|---|---|---|---|
| | $ | $ 7,939 | $ 1,511 | $ 532 | $ 35,426 |
| | (41) | (3,474) | (422) | (416) | (11,655) |
| | | (1,091) | (1,150) | (419) | (14,256) |
| | | | | | 6,265 |
| | (41) | 3,374 | (61) | (303) | 15,780 |
| | | | 60 | 232 | 1,589 |
| | | | 75 | 70 | 145 |
| | - | - | 135 | 302 | 1,734 |
| | | | | | (3,996) |
| | | (2,420) | | | (2,925) |
| | | (1,705) | | | (1,807) |
| | | | | | 289 |
| | - | (4,125) | - | - | (8,439) |
| | | | 6,022 | | 6,022 |
| | | 4,095 | | | 4,095 |
| | | 12 | 38 | | 111 |
| | - | 4,107 | 6,060 | - | 10,228 |
| | (41) | 3,356 | 6,134 | (1) | 19,303 |
| | 109 | 10,855 | 552 | 108 | 52,303 |
| | $ 68 | $ 14,211 | $ 6,686 | $ 107 | $ 71,606 |

(Continued)

# CITY OF CLEVELAND, OHIO

## COMBINING STATEMENT OF CASH FLOWS
## NONMAJOR ENTERPRISE FUNDS
## FOR THE YEAR ENDED DECEMBER 31, 2012
**(Amounts in 000's)**

| | Water Pollution Control | Public Auditorium | West Side Market |
|---|---|---|---|
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES: | | | |
| Operating income (loss) | $ (1,501) | $ (1,209) | $ (436) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | |
| Depreciation | 5,108 | 14 | 685 |
| Write-off of bad debt expense | 20,000 | | |
| Changes in assets and liabilities: | | | |
| Receivables, net | 3,259 | (80) | |
| Due from other funds | (79) | | |
| Inventory of supplies | (43) | | |
| Accounts payable | 253 | (11) | 19 |
| Accrued wages and benefits | (13) | (4) | |
| Due to other funds | 1,979 | (8) | 11 |
| Due to other governments | (15,133) | | |
| Total adjustments | 15,331 | (89) | 715 |
| NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | $ 13,830 | $ (1,298) | $ 279 |
| SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Contributions of capital assets | | $ 3,645 | $ 210 |

| | East Side Market | Municipal Parking Lots | Cemeteries | Golf Courses | Total Nonmajor Enterprise Funds |
|---|---|---|---|---|---|
| | $ (92) | $ 2,434 | $ (326) | $ (428) | $ (1,558) |
| | 60 | 1,405 | 253 | 159 | 7,684 |
| | | | | | 20,000 |
| | | (11) | 16 | (4) | 3,180 |
| | | (3) | | | (82) |
| | | (3) | | 6 | (40) |
| | (9) | (539) | 4 | (1) | (284) |
| | | 5 | 6 | (40) | (46) |
| | | 50 | (14) | 5 | 2,023 |
| | | 36 | | | (15,097) |
| | 51 | 940 | 265 | 125 | 17,338 |
| | $ (41) | $ 3,374 | $ (61) | $ (303) | $ 15,780 |
| | | $ 490 | $ 928 | | $ 5,273 |

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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 STATEMENT OF NET POSITION - ALL INTERNAL SERVICE FUNDS
## DECEMBER 31, 2012
## (Amounts in 000's)

| | Motor Vehicle Maintenance | Printing and Reproduction | City Storeroom and Warehouse | Utilities Administration |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 4,756 | $ 598 | $ 44 | $ 770 |
| Due from other funds | 1,690 | 244 | 37 | |
| Inventory of supplies | 1,079 | 142 | | |
| Total current assets | 7,525 | 984 | 81 | 770 |
| Capital assets: | | | | |
| Land | 663 | | | |
| Land improvements | 146 | | | |
| Buildings, structures and improvements | 2,673 | 884 | | |
| Furniture, fixtures, equipment and vehicles | 6,967 | 1,153 | | 1,186 |
| Construction in progress | 488 | | | |
| Less: Accumulated depreciation | (8,004) | (1,113) | | (746) |
| Total capital assets, net | 2,933 | 924 | - | 440 |
| Total noncurrent assets | 2,933 | 924 | - | 440 |
| TOTAL ASSETS | $ 10,458 | $ 1,908 | $ 81 | $ 1,210 |

| Sinking Fund Administration | Municipal Income Tax Administration | Telephone Exchange | Radio Communications | Workers' Compensation Reserve | Total |
|---|---|---|---|---|---|
| $ 43 | $ 1,783 | $ 542 | $ 1,747 | $ 7,870 | $ 18,153 |
| 150 | | 871 | 162 | 6,047 | 9,201 |
| | | | | | 1,221 |
| 193 | 1,783 | 1,413 | 1,909 | 13,917 | 28,575 |
| | | | | | |
| | | | | | 663 |
| | | | | | 146 |
| | | | | | 3,557 |
| | 65 | 117 | 25 | | 9,513 |
| | | | | | 488 |
| | (14) | (117) | (18) | | (10,012) |
| - | 51 | - | 7 | - | 4,355 |
| - | 51 | - | 7 | - | 4,355 |
| $ 193 | $ 1,834 | $ 1,413 | $ 1,916 | $ 13,917 | $ 32,930 |

(Continued)

# CITY OF CLEVELAND, OHIO

## COMBINING STATEMENT OF NET POSITION - ALL INTERNAL SERVICE FUNDS
## DECEMBER 31, 2012
## (Amounts in 000's)

| | Motor Vehicle Maintenance | Printing and Reproduction | City Storeroom and Warehouse | Utilities Administration |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ 867 | $ 187 | $ 1 | $ 24 |
| Accrued wages and benefits | 732 | 101 | 37 | 710 |
| Due to other funds | 57 | 26 | | 6 |
| Due to other governments | | | | |
| Total current liabilities | 1,656 | 314 | 38 | 740 |
| Long-term liabilities: | | | | |
| Accrued wages and benefits | 170 | 20 | 2 | 130 |
| Total liabilities | 1,826 | 334 | 40 | 870 |
| **NET POSITION** | | | | |
| Net investment in capital assets | 2,933 | 924 | | 440 |
| Unrestricted | 5,699 | 650 | 41 | (100) |
| Total net position | 8,632 | 1,574 | 41 | 340 |
| TOTAL LIABILITIES AND NET POSITION | $ 10,458 | $ 1,908 | $ 81 | $ 1,210 |

| Sinking Fund Administration | Municipal Income Tax Administration | Telephone Exchange | Radio Communications | Workers' Compensation Reserve | Total |
|---|---|---|---|---|---|
| $ 17 | $ 162 | $ 651 | $ 337 | $ | $ 2,246 |
| 19 | 718 | 132 | 50 | | 2,499 |
| | 113 | | 2 | | 204 |
| | 736 | | 19 | | 755 |
| 36 | 1,729 | 783 | 408 | - | 5,704 |
| 7 | 105 | 36 | 22 | 13,917 | 14,409 |
| 43 | 1,834 | 819 | 430 | 13,917 | 20,113 |
| | 51 | | 7 | | 4,355 |
| 150 | (51) | 594 | 1,479 | | 8,462 |
| 150 | - | 594 | 1,486 | - | 12,817 |
| $ 193 | $ 1,834 | $ 1,413 | $ 1,916 | $ 13,917 | $ 32,930 |

(Concluded)

# CITY OF CLEVELAND, OHIO

## COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - ALL INTERNAL SERVICE FUNDS FOR THE YEAR ENDED DECEMBER 31, 2012

**(Amounts in 000's)**

| | Motor Vehicle Maintenance | Printing and Reproduction | City Storeroom and Warehouse | Utilities Administration |
|---|---|---|---|---|
| OPERATING REVENUES: | | | | |
| Charges for services | $ 19,779 | $ 2,102 | $ 501 | $ 5,880 |
| Total operating revenue | 19,779 | 2,102 | 501 | 5,880 |
| OPERATING EXPENSES: | | | | |
| Operations | 17,680 | 2,035 | 555 | 5,692 |
| Maintenance | 952 | 76 | | 96 |
| Depreciation | 311 | 127 | | 197 |
| Total operating expenses | 18,943 | 2,238 | 555 | 5,985 |
| OPERATING INCOME (LOSS) | 836 | (136) | (54) | (105) |
| NON-OPERATING REVENUES (EXPENSES): | | | | |
| Investment income | 8 | 1 | | 1 |
| Loss on disposal of capital assets | (68) | | | |
| Total non-operating revenues (expenses) | (60) | 1 | - | 1 |
| INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS | 776 | (135) | (54) | (104) |
| Capital contributions | 882 | | | |
| Transfers in | | | | |
| CHANGE IN NET POSITION | 1,658 | (135) | (54) | (104) |
| NET POSITION AT BEGINNING OF YEAR | 6,974 | 1,709 | 95 | 444 |
| NET POSITION AT END OF YEAR | $ 8,632 | $ 1,574 | $ 41 | $ 340 |

| Sinking Fund Administration | Municipal Income Tax Administration | Telephone Exchange | Radio Communications | Workers' Compensation Reserve | Total |
|---|---|---|---|---|---|
| $ 216 | $ 8,184 | $ 6,361 | $ 2,505 | $ 1,441 | $ 46,969 |
| 216 | 8,184 | 6,361 | 2,505 | 1,441 | 46,969 |
| | | | | | |
| 823 | 8,083 | 5,262 | 929 | 1,441 | 42,500 |
| | 97 | 70 | 804 | | 2,095 |
| | 11 | | 3 | | 649 |
| 823 | 8,191 | 5,332 | 1,736 | 1,441 | 45,244 |
| (607) | (7) | 1,029 | 769 | - | 1,725 |
| | | | | | |
| | 7 | 1 | 3 | | 21 |
| | | | | | (68) |
| - | 7 | 1 | 3 | - | (47) |
| | | | | | |
| (607) | - | 1,030 | 772 | - | 1,678 |
| | | | | | 882 |
| 726 | | | | | 726 |
| 119 | - | 1,030 | 772 | - | 3,286 |
| 31 | | (436) | 714 | | 9,531 |
| $ 150 | $ - | $ 594 | $ 1,486 | $ - | $ 12,817 |

# CITY OF CLEVELAND, OHIO

## COMBINING STATEMENT OF CASH FLOWS-ALL INTERNAL SERVICE FUNDS
## FOR THE YEAR ENDED DECEMBER 31, 2012
**(Amounts in 000's)**

| | Motor Vehicle Maintenance | Printing and Reproduction | City Storeroom and Warehouse |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Cash received from customers | $ 19,795 | $ 2,188 | $ 494 |
| Cash payments to suppliers for goods or services | (13,440) | (1,196) | (504) |
| Cash payments to employees for services | (5,066) | (805) | (57) |
| Net cash provided by (used for) operating activities | 1,289 | 187 | (67) |
| 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 | | (91) | |
| Net cash provided by (used for) capital and related financing activities | - | (91) | - |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Interest received on investments | 8 | 1 | |
| Net cash provided by investing activities | 8 | 1 | - |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1,297 | 97 | (67) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 3,459 | 501 | 111 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 4,756 | $ 598 | $ 44 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES: | | | |
| Operating income (loss) | $ 836 | $ (136) | $ (54) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | |
| Depreciation | 311 | 127 | |
| Change in assets and liabilities: | | | |
| Due from other funds | 15 | 86 | (6) |
| Inventory of supplies | | 3 | |
| Accounts payable | 57 | 108 | (2) |
| Accrued wages and benefits | 32 | (3) | 24 |
| Due to other funds | 38 | 2 | (29) |
| Due to other governments | | | |
| Total adjustments | 453 | 323 | (13) |
| NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | $ 1,289 | $ 187 | $ (67) |

| Utilities Administration | Sinking Fund Administration | Municipal Income Tax Administration | Telephone Exchange | Radio Communications | Workers' Compensation Reserve | Total |
|---|---|---|---|---|---|---|
| $ 5,880 | $ 158 | $ 8,604 | $ 5,865 | $ 2,594 | $ | $ 45,578 |
| (906) | (661) | (2,932) | (4,499) | (1,411) | | (25,549) |
| (4,872) | (183) | (5,168) | (1,141) | (441) | | (17,733) |
| 102 | (686) | 504 | 225 | 742 | - | 2,296 |
| | 726 | | | | | 726 |
| - | 726 | - | - | - | - | 726 |
| (40) | | | | | | (131) |
| (40) | - | - | - | - | - | (131) |
| 1 | | 7 | 1 | 3 | | 21 |
| 1 | - | 7 | 1 | 3 | - | 21 |
| 63 | 40 | 511 | 226 | 745 | - | 2,912 |
| 707 | 3 | 1,272 | 316 | 1,002 | 7,870 | 15,241 |
| $ 770 | $ 43 | $ 1,783 | $ 542 | $ 1,747 | $ 7,870 | $ 18,153 |
| $ (105) | $ (607) | $ (7) | $ 1,029 | $ 769 | $ | $ 1,725 |
| 197 | | 11 | | 3 | | 649 |
| | (58) | | (495) | 89 | 1,441 | 1,072 |
| | | | | | | 3 |
| (1) | 12 | 22 | (271) | (125) | | (200) |
| 10 | (33) | 70 | (38) | (13) | (1,441) | (1,392) |
| 1 | | (11) | | | | 1 |
| | | 419 | | 19 | | 438 |
| 207 | (79) | 511 | (804) | (27) | - | 571 |
| $ 102 | $ (686) | $ 504 | $ 225 | $ 742 | $ - | $ 2,296 |

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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, 2012
## (Amounts in 000's)

| | Balance at Beginning of Year | Additions | Deductions | Balance at End of Year |
|---|---|---|---|---|
| **MUNICIPAL COURTS** | | | | |
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 4,784 | $ 17,984 | $ 19,046 | $ 3,722 |
| Total assets | $ 4,784 | $ 17,984 | $ 19,046 | $ 3,722 |
| **LIABILITIES** | | | | |
| Due to others | $ 4,784 | $ 15,213 | $ 16,275 | $ 3,722 |
| Total liabilities | $ 4,784 | $ 15,213 | $ 16,275 | $ 3,722 |
| **CENTRAL COLLECTION AGENCY** | | | | |
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 6,371 | $ 5,622 | $ 6,371 | $ 5,622 |
| Taxes receivable | 19,361 | 19,699 | 19,361 | 19,699 |
| Due from other governments | 721 | 1,171 | 721 | 1,171 |
| Total assets | $ 26,453 | $ 26,492 | $ 26,453 | $ 26,492 |
| **LIABILITIES** | | | | |
| Due to other governments | $ 26,453 | $ 26,492 | $ 26,453 | $ 26,492 |
| Total liabilities | $ 26,453 | $ 26,492 | $ 26,453 | $ 26,492 |

(Continued)

# CITY OF CLEVELAND, OHIO

## COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - ALL AGENCY FUNDS
## FOR THE YEAR ENDED DECEMBER 31, 2012
## (Amounts in 000's)

| | Balance at Beginning of Year | Additions | Deductions | Balance at End of Year |
|---|---|---|---|---|
| **OTHER AGENCIES** | | | | |
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 19,541 | $ 311,924 | $ 317,695 | $ 13,770 |
| Total assets | $ 19,541 | $ 311,924 | $ 317,695 | $ 13,770 |
| **LIABILITIES** | | | | |
| Due to others | $ 19,541 | $ 311,924 | $ 317,695 | $ 13,770 |
| Total liabilities | $ 19,541 | $ 311,924 | $ 317,695 | $ 13,770 |
| **TOTALS-ALL AGENCY FUNDS** | | | | |
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 30,696 | $ 335,530 | $ 343,112 | $ 23,114 |
| Taxes receivable | 19,361 | 19,699 | 19,361 | 19,699 |
| Due from other governments | 721 | 1,171 | 721 | 1,171 |
| Total assets | $ 50,778 | $ 356,400 | $ 363,194 | $ 43,984 |
| **LIABILITIES** | | | | |
| Due to other governments | $ 26,453 | $ 26,492 | $ 26,453 | $ 26,492 |
| Due to others | 24,325 | 327,137 | 333,970 | 17,492 |
| Total liabilities | $ 50,778 | $ 353,629 | $ 360,423 | $ 43,984 |

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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 TYPE*
## DECEMBER 31, 2012
**(Amounts in 000's)**

| | |
|---|---|
| Governmental Funds Capital Assets: | |
| Land | $ 65,525 |
| Land improvements | 157,405 |
| Buildings, structures and improvements | 619,225 |
| Furniture, fixtures, equipment and vehicles | 182,902 |
| Infrastructure | 559,464 |
| Construction in progress | 114,892 |
| TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS | $ 1,699,413 |

* 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, 2012
**(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 | $ 340,178 | $ 208 | $ 1,484 | $ 305,566 | $ 24,654 | $ 3,890 | $ 4,376 |
| City Hall | 27,360 | 877 | | 22,510 | | | 3,973 |
| Engineering and construction | 506,442 | | 26,647 | | 1,849 | 426,818 | 51,128 |
| Justice Center | 29,768 | | | 28,922 | 846 | | |
| Research, planning and development | 49,025 | 903 | 39,786 | 3,815 | 62 | 2,997 | 1,462 |
| Charles V. Carr Municipal Center | 647 | | 15 | 632 | | | |
| Total general government | 953,420 | 1,988 | 67,932 | 361,445 | 27,411 | 433,705 | 60,939 |
| Public Works: | | | | | | | |
| Waste collection | 30,734 | 499 | | 8,269 | 20,004 | 1,460 | 502 |
| Streets | 149,001 | 1,540 | 11,602 | 14,393 | 19,444 | 96,229 | 5,793 |
| Traffic engineering | 5,208 | | | 813 | 2,178 | 2,200 | 17 |
| Park maintenance and properties | 98,606 | 36,852 | 23,388 | 18,679 | 16,470 | 271 | 2,946 |
| Recreation | 121,656 | 976 | 46,051 | 65,068 | 2,440 | | 7,121 |
| Other | 49,732 | 2,669 | | 32,631 | 929 | | 13,503 |
| Total public works | 454,937 | 42,536 | 81,041 | 139,853 | 61,465 | 100,160 | 29,882 |
| Public Safety: | | | | | | | |
| Police | 125,086 | 4,805 | 573 | 59,187 | 47,958 | 162 | 12,401 |
| Fire | 65,118 | 1,663 | | 29,240 | 32,737 | | 1,478 |
| Emergency medical service | 15,678 | | | 1,090 | 8,930 | 5,614 | 44 |
| Correction | 7,588 | 264 | | 6,570 | 731 | | 23 |
| Dog pound | 1,136 | | | 868 | 265 | | 3 |
| Total public safety | 214,606 | 6,732 | 573 | 96,955 | 90,621 | 5,776 | 13,949 |
| Public Health: | | | | | | | |
| Health and environment | 13,530 | 1,112 | 208 | 10,528 | 1,585 | 56 | 41 |
| Total public health | 13,530 | 1,112 | 208 | 10,528 | 1,585 | 56 | 41 |
| Community Development: | | | | | | | |
| Community development | 45,841 | 7,130 | 7,376 | 9,384 | 1,382 | 15,807 | 4,762 |
| Total community development | 45,841 | 7,130 | 7,376 | 9,384 | 1,382 | 15,807 | 4,762 |
| Economic Development: | | | | | | | |
| Economic development | 12,740 | 6,027 | 275 | 740 | | 379 | 5,319 |
| Total economic development | 12,740 | 6,027 | 275 | 740 | - | 379 | 5,319 |
| 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 | $ 1,699,413 | $ 65,525 | $ 157,405 | $ 619,225 | $ 182,902 | $ 559,464 | $ 114,892 |

* 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, 2012
## (Amounts in 000's)

| | Balance January 1, 2012 | Additions | Deductions | Transfers | Balance December 31, 2012 |
|---|---|---|---|---|---|
| General Government: | | | | | |
| General government | $ 339,976 | $ 219 | $ (41) | $ 24 | $ 340,178 |
| City Hall | 26,058 | 1,302 | | | 27,360 |
| Engineering and construction | 474,048 | 27,553 | (16) | 4,857 | 506,442 |
| Justice Center | 29,768 | | | | 29,768 |
| Research, planning and development | 53,606 | 2,010 | (11) | (6,580) | 49,025 |
| Charles V. Carr Municipal Center | 647 | | | | 647 |
| Total general government | 924,103 | 31,084 | (68) | (1,699) | 953,420 |
| Public Works: | | | | | |
| Waste collection | 28,747 | 3,348 | (1,143) | (218) | 30,734 |
| Streets | 139,293 | 10,271 | (1,619) | 1,056 | 149,001 |
| Traffic engineering | 5,267 | | | (59) | 5,208 |
| Park maintenance and properties | 97,339 | 1,825 | (285) | (273) | 98,606 |
| Recreation | 111,286 | 9,518 | | 852 | 121,656 |
| Other | 49,705 | 47 | (20) | | 49,732 |
| Total public works | 431,637 | 25,009 | (3,067) | 1,358 | 454,937 |
| Public Safety: | | | | | |
| Police | 121,981 | 4,407 | (904) | (398) | 125,086 |
| Fire | 62,891 | 2,303 | | (76) | 65,118 |
| Emergency medical service | 15,703 | 519 | (585) | 41 | 15,678 |
| Correction | 7,613 | 19 | (28) | (16) | 7,588 |
| Dog pound | 1,154 | | | (18) | 1,136 |
| Total public safety | 209,342 | 7,248 | (1,517) | (467) | 214,606 |
| Public Health: | | | | | |
| Health and environment | 13,277 | 209 | (18) | 62 | 13,530 |
| Total public health | 13,277 | 209 | (18) | 62 | 13,530 |
| Community Development: | | | | | |
| Community development | 45,785 | 65 | (9) | | 45,841 |
| Total community development | 45,785 | 65 | (9) | - | 45,841 |
| Economic Development: | | | | | |
| Economic development | 10,590 | 2,150 | | | 12,740 |
| Total economic development | 10,590 | 2,150 | - | - | 12,740 |
| Building and Housing: | | | | | |
| Building and housing | 4,339 | | | | 4,339 |
| Total building and housing | 4,339 | - | - | - | 4,339 |
| TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS | $ 1,639,073 | $ 65,765 | $ (4,679) | $ (746) | $ 1,699,413 |

* 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.



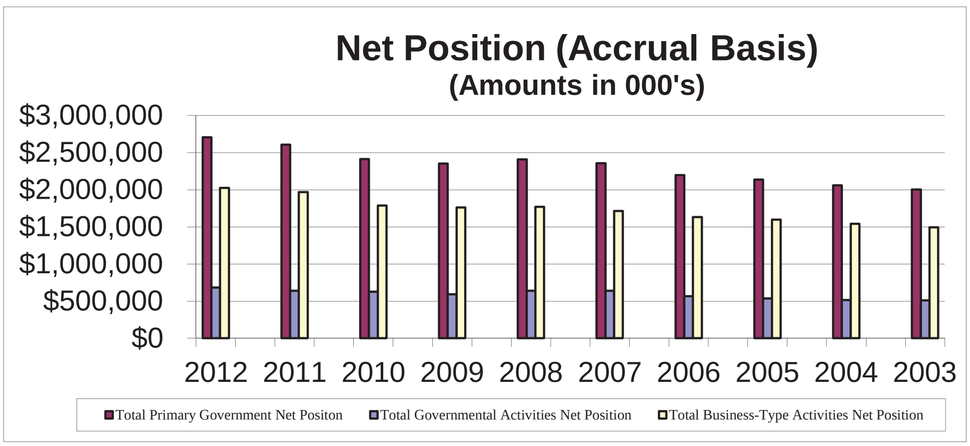
**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

**City of Cleveland, Ohio**

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

| | 2012 | 2011 (Restated) | 2010 | 2009 |
|---|---|---|---|---|
| Governmental Activities | | | | |
| Net investment in capital assets | $572,213 | $543,460 | $557,804 | $561,586 |
| Restricted | 122,488 | 117,765 | 159,942 | 166,280 |
| Unrestricted | (12,383) | (19,771) | (90,565) | (134,033) |
| *Total Governmental Activities Net Position* | $682,318 | $641,454 | $627,181 | $593,833 |
| Business-Type Activities | | | | |
| Net investment in capital assets | $1,303,584 | $1,295,139 | $1,080,332 | $1,016,182 |
| Restricted | 227,826 | 234,050 | 243,511 | 275,907 |
| Unrestricted | 492,956 | 438,767 | 462,397 | 469,010 |
| *Total Business-Type Activities Net Position* | $2,024,366 | $1,967,956 | $1,786,240 | $1,761,099 |
| Primary Government | | | | |
| Net investment in capital assets | $1,875,797 | $1,838,599 | $1,638,136 | $1,577,768 |
| Restricted | 350,314 | 351,815 | 403,453 | 442,187 |
| Unrestricted | 480,573 | 418,996 | 371,832 | 334,977 |
| *Total Primary Government Net Position* | $2,706,684 | $2,609,410 | $2,413,421 | $2,354,932 |

| 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| | | | | | |
| $555,076 | $484,758 | $412,430 | $395,600 | $371,601 | $365,946 |
| 179,318 | 214,811 | 211,361 | 193,529 | 199,038 | 193,872 |
| (95,968) | (59,630) | (56,318) | (52,676) | (53,281) | (50,673) |
| $638,426 | $639,939 | $567,473 | $536,453 | $517,358 | $509,145 |
| | | | | | |
| $985,556 | $957,587 | $886,978 | $838,164 | $780,436 | $706,207 |
| 272,613 | 252,514 | 247,802 | 287,039 | 285,256 | 298,663 |
| 512,876 | 506,745 | 496,624 | 474,875 | 478,229 | 489,211 |
| $1,771,045 | $1,716,846 | $1,631,404 | $1,600,078 | $1,543,921 | $1,494,081 |
| | | | | | |
| $1,540,632 | $1,442,345 | $1,299,408 | $1,233,764 | $1,152,037 | $1,072,153 |
| 451,931 | 467,325 | 459,163 | 480,568 | 484,294 | 492,535 |
| 416,908 | 447,115 | 440,306 | 422,199 | 424,948 | 438,538 |
| $2,409,471 | $2,356,785 | $2,198,877 | $2,136,531 | $2,061,279 | $2,003,226 |



**City of Cleveland, Ohio**

*Changes in Net Position*

*Last Ten Years*

*(Accrual Basis of Accounting)*

*(Amounts in 000's)*

| | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **Program Revenues** | | | | |
| Governmental Activities: | | | | |
| Charges for Services: | | | | |
| General Government (1) | $30,696 | $32,336 | $31,570 | $34,937 |
| Public Works (1) | 18,369 | 16,271 | | |
| Public Service (1) | | | 12,024 | 5,517 |
| Public Safety | 15,049 | 15,034 | 13,839 | 18,296 |
| Community Development (1) | | | | |
| Building and Housing | 5,757 | 18,072 | 7,327 | 13,402 |
| Public Health | 2,967 | 2,931 | 3,033 | 3,187 |
| Parks, Recreation and Properties (1) | | | 8,047 | 1,129 |
| Economic Development | 100 | 37 | 1,469 | 759 |
| Subtotal - Charges for Services | 72,938 | 84,681 | 77,309 | 77,227 |
| Operating Grants and Contributions: | | | | |
| General Government (1) | 4,345 | 3,673 | 1,348 | 1,121 |
| Public Works (1) | 28,342 | 27,364 | | |
| Public Service (1) | | | 13,821 | 13,469 |
| Public Safety | 13,805 | 12,497 | 8,647 | 13,192 |
| Community Development | 69,004 | 68,887 | 73,563 | 41,490 |
| Building and Housing | 6,679 | 5,698 | 9,064 | 11,857 |
| Public Health | 10,321 | 13,228 | 12,693 | 15,048 |
| Parks, Recreation and Properties (1) | | | 13,830 | 14,404 |
| Economic Development | 11,387 | 4,008 | 8,156 | 23,984 |
| Subtotal - Operating Grants and Contributions | 143,883 | 135,355 | 141,122 | 134,565 |
| Capital Grants and Contributions: | | | | |
| General Government | 1,330 | 23 | 41 | |
| Public Works (1) | 24,515 | 13,982 | | |
| Public Service (1) | | | 11,179 | 11,680 |
| Public Safety | | | | |
| Community Development | | | | |
| Parks, Recreation and Properties (1) | | | | |
| Subtotal - Capital Grants and Contributions | 25,845 | 14,005 | 11,220 | 11,680 |
| *Total Governmental Activities Program Revenues* | 242,666 | 234,041 | 229,651 | 223,472 |
| Business-Type Activities: | | | | |
| Charges for Services: | | | | |
| Water | 280,323 | 236,626 | 237,270 | 228,235 |
| Electricity | 165,227 | 168,448 | 166,665 | 155,865 |
| Airport facilities | 116,694 | 114,967 | 106,696 | 98,143 |
| Nonmajor activities | 35,188 | 34,600 | 39,358 | 43,110 |
| Subtotal - Charges for Services | 597,432 | 554,641 | 549,989 | 525,353 |
| Operating Grants and Contributions: | | | | |
| Water | 4,567 | 3,305 | 3,553 | 4,917 |
| Electricity | 97 | 883 | 566 | 169 |
| Airport facilities | 177 | | 619 | 1,232 |
| Nonmajor activities | 478 | 278 | 4,051 | 3,857 |
| Subtotal - Operating Grants and Contributions | 5,319 | 4,466 | 8,789 | 10,175 |
| Capital Grants and Contributions: | | | | |
| Water | 21,800 | 2,284 | 7,645 | 1,677 |
| Electricity | 964 | 206 | 1,035 | |
| Airport facilities | 25,025 | 56,385 | 57,089 | 44,219 |
| Nonmajor activities | 5,773 | 5,716 | 19,765 | 5,429 |
| Subtotal - Capital Grants and Contributions | 53,562 | 64,591 | 85,534 | 51,325 |
| *Total Business-Type Activities Program Revenues* | 656,313 | 623,698 | 644,312 | 586,853 |
| *Total Primary Government Program Revenues* | $898,979 | $857,739 | $873,963 | $810,325 |

| 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| $36,824 | $30,470 | $32,311 | $22,174 | $22,143 | $32,878 |
| 5,517 | 4,490 | 5,158 | 6,208 | 5,030 | 4,802 |
| 21,709 | 21,087 | 12,773 | 15,953 | 16,046 | 18,822 |
| 5,440 | 1,203 | 2 | | | |
| 12,323 | 10,528 | 10,701 | 10,871 | 11,948 | 9,673 |
| 2,893 | 2,979 | 2,898 | 2,918 | 2,262 | 2,861 |
| 1,351 | 1,160 | 746 | 913 | 692 | 1,228 |
| 1,057 | 471 | 4,496 | 46 | 118 | 2,269 |
| 87,114 | 72,388 | 69,085 | 59,083 | 58,239 | 72,533 |
| 1,789 | 1,994 | 1,508 | 1,876 | 1,865 | 2,588 |
| 14,317 | 14,459 | 14,230 | 14,234 | 13,798 | 12,873 |
| 7,448 | 5,789 | 9,364 | 9,153 | 7,561 | 9,677 |
| 42,129 | 50,344 | 56,882 | 51,848 | 59,734 | 63,295 |
| 1,106 | 3,353 | 3,407 | | | |
| 12,786 | 14,079 | 13,838 | 10,963 | 8,778 | 7,357 |
| 16,417 | 16,123 | 16,232 | 354 | 2,427 | 343 |
| 33,121 | 21,077 | 40,397 | 42,164 | 30,704 | 30,551 |
| 129,113 | 127,218 | 155,858 | 130,592 | 124,867 | 126,684 |
| 3,057 | 5,380 | 23,839 | 26,899 | 14,745 | 13,203 |
| 13,094 | 75,871 | | | | |
| | 1,315 | | | | |
| | | | 89 | 125 | 66 |
| 16,151 | 82,566 | 23,839 | 26,988 | 14,870 | 13,269 |
| 232,378 | 282,172 | 248,782 | 216,663 | 197,976 | 212,486 |
| 242,872 | 242,014 | 209,694 | 222,635 | 209,622 | 203,748 |
| 158,237 | 155,559 | 146,293 | 150,263 | 141,143 | 139,660 |
| 111,402 | 105,887 | 105,711 | 111,087 | 110,882 | 89,958 |
| 41,950 | 40,614 | 33,821 | 33,843 | 35,079 | 33,628 |
| 554,461 | 544,074 | 495,519 | 517,828 | 496,726 | 466,994 |
| 8,384 | 11,033 | 8,242 | | | |
| 2,118 | 2,589 | 1,796 | | | |
| 3,809 | 3,718 | 2,944 | 7,726 | | |
| 5,557 | 6,399 | 1,616 | 100 | 48 | 790 |
| 19,868 | 23,739 | 14,598 | 7,826 | 48 | 790 |
| 3,460 | 7,906 | 6,817 | 12,408 | 5,448 | 6,687 |
| 2,803 | 1,485 | 1,135 | 2,285 | 1,079 | 1,585 |
| 54,646 | 73,358 | 53,280 | 40,975 | 50,377 | 51,211 |
| 3,155 | 2,591 | 6,201 | 5,505 | 4,698 | 7,317 |
| 64,064 | 85,340 | 67,433 | 61,173 | 61,602 | 66,800 |
| 638,393 | 653,153 | 577,550 | 586,827 | 558,376 | 534,584 |
| $870,771 | $935,325 | $826,332 | $803,490 | $756,352 | $747,070 |

(Continued)

**City of Cleveland, Ohio**

*Changes in Net Position*

*Last Ten Years*

*(Amounts in 000's)*

| | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **Expenses** | | | | |
| Governmental Activities: | | | | |
| General Government (1) | $106,141 | $95,833 | $81,898 | $90,311 |
| Public Works (1) | 128,276 | 139,577 | | |
| Public Service (1) | | | 93,425 | 85,947 |
| Public Safety | 310,745 | 308,051 | 315,900 | 329,765 |
| Human Resources | | | | |
| Community Development (1) | 70,705 | 75,778 | 70,589 | 59,204 |
| Building and Housing | 14,729 | 14,098 | 17,445 | 20,925 |
| Public Health | 17,385 | 19,596 | 19,740 | 22,999 |
| Parks, Recreation and Properties (1) | | | 46,963 | 58,799 |
| Economic Development | 13,845 | 22,323 | 24,729 | 38,083 |
| Interest on debt | 26,153 | 27,686 | 47,531 | 30,448 |
| *Total Governmental Activities Expenses* | 687,979 | 702,942 | 718,220 | 736,481 |
| Business-Type Activities | | | | |
| Water | 244,647 | 232,497 | 232,862 | 224,269 |
| Electricity | 163,547 | 167,799 | 165,330 | 158,100 |
| Airport facilities | 153,627 | 167,531 | 158,262 | 168,734 |
| Nonmajor activities | 39,671 | 46,302 | 43,443 | 46,546 |
| *Total Business-Type Activities Expenses* | 601,492 | 614,129 | 599,897 | 597,649 |
| *Total Primary Government Program Expenses* | 1,289,471 | 1,317,071 | 1,318,117 | 1,334,130 |
| **Net (Expense)/Revenue** | | | | |
| Governmental Activities | (445,313) | (468,901) | (488,569) | (513,009) |
| Business-Type Activities | 54,821 | 9,569 | 44,415 | (10,796) |
| *Total Primary Government Net Expense* | (390,492) | (459,332) | (444,154) | (523,805) |
| **General Revenues and Other Changes in Net Position** | | | | |
| Governmental Activities | | | | |
| Taxes: | | | | |
| Income taxes | 330,863 | 311,492 | 298,209 | 296,507 |
| Property taxes | 56,086 | 63,839 | 88,087 | 63,573 |
| Other taxes | 28,680 | 27,312 | 28,450 | 25,053 |
| Shared revenues | 27,338 | 19,558 | 23,869 | 28,741 |
| Grants and contributions not restricted to specific programs | | | | |
| State and local government funds | 25,966 | 43,821 | 49,266 | 43,420 |
| Unrestricted investment earnings | 692 | 97 | 654 | 1,740 |
| Other | 18,141 | 19,086 | 14,104 | 10,207 |
| Transfers | (1,589) | (2,031) | 19,278 | (825) |
| *Total Governmental Activities* | 486,177 | 483,174 | 521,917 | 468,416 |
| Business-Type Activities | | | | |
| Unrestricted investment earnings | | 30 | 4 | 25 |
| Other | | | | |
| Special items - gain on sale of captial assets | | 5,125 | | |
| Transfers | 1,589 | 2,031 | (19,278) | 825 |
| *Total Business-Type Activities Expenses* | 1,589 | 7,186 | (19,274) | 850 |
| *Total Primary Government General Revenues and Other Changes in Net Position* | 487,766 | 490,360 | 502,643 | 469,266 |
| **Change in Net Position** | | | | |
| Governmental Activities | 40,864 | 14,273 | 33,348 | (44,593) |
| Business-Type Activities | 56,410 | 16,755 | 25,141 | (9,946) |
| *Total Primary Government Change in Net Position* | $97,274 | $31,028 | $58,489 | ($54,539) |

**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.

(1) In 2012 a departmental reorganization occurred that merged the departments of Public Service with Parks, Recreation and Properties becoming the Department of Public Works. The Office of Capital Projects was created from the Divisions of Architecture, Engineering and Construction and Research, Planning and Development and is reported under General Government. In addition, the Division of Consumer Affairs was merged with Community Development and was moved from General Government.

| 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| $101,878 | $99,311 | $99,187 | $97,544 | $88,587 | $96,757 |
| 87,154 | 86,435 | 81,248 | 80,888 | 78,634 | 80,698 |
| 329,922 | 322,840 | 301,208 | 293,242 | 281,140 | 315,811 |
| 44,550 | 54,425 | 62,701 | 56,413 | 65,603 | 62,543 |
| 15,831 | 13,999 | 13,832 | 10,650 | 10,703 | 12,932 |
| 20,351 | 21,412 | 27,674 | 24,950 | 22,537 | 22,750 |
| 61,628 | 54,332 | 45,546 | 44,840 | 42,734 | 47,725 |
| 53,944 | 39,168 | 44,739 | 41,030 | 49,372 | 38,850 |
| 32,896 | 27,763 | 32,162 | 27,557 | 30,815 | 29,065 |
| 748,154 | 719,685 | 708,297 | 677,114 | 670,125 | 707,131 |
| 213,335 | 205,470 | 204,994 | 192,187 | 188,118 | 173,179 |
| 154,426 | 148,832 | 141,546 | 153,676 | 136,927 | 134,120 |
| 172,274 | 167,967 | 157,976 | 146,807 | 145,749 | 143,147 |
| 44,507 | 45,762 | 42,112 | 41,526 | 41,333 | 42,606 |
| 584,542 | 568,031 | 546,628 | 534,196 | 512,127 | 493,052 |
| 1,332,696 | 1,287,716 | 1,254,925 | 1,211,310 | 1,182,252 | 1,200,183 |
| (515,776) | (437,513) | (459,515) | (460,451) | (472,149) | (494,645) |
| 53,851 | 85,122 | 30,922 | 52,631 | 46,249 | 41,532 |
| (461,925) | (352,391) | (428,593) | (407,820) | (425,900) | (453,113) |
| 329,316 | 317,268 | 302,084 | 288,191 | 293,387 | 277,086 |
| 65,398 | 69,313 | 66,762 | 64,390 | 69,483 | 63,498 |
| 25,918 | 28,567 | 26,492 | 25,051 | 22,011 | 23,266 |
| 28,587 | 23,805 | 16,949 | 22,468 | 20,470 | 20,799 |
|  |  |  | 1 | 94 | 101 |
| 52,450 | 51,164 | 55,905 | 55,696 | 57,072 | 56,792 |
| 3,344 | 5,670 | 4,273 | 2,989 | 1,273 | 1,443 |
| 9,556 | 14,482 | 18,460 | 21,135 | 18,855 | 8,855 |
| (306) | (290) | (390) | (375) | (2,283) | 3,733 |
| 514,263 | 509,979 | 490,535 | 479,546 | 480,362 | 455,573 |
| 42 | 30 | 14 | 2,205 | 1,215 | 717 |
|  |  |  | 946 | 93 | 4,212 |
| 306 | 290 | 390 | 375 | 2,283 | (3,733) |
| 348 | 320 | 404 | 3,526 | 3,591 | 1,196 |
| 514,611 | 510,299 | 490,939 | 483,072 | 483,953 | 456,769 |
| (1,513) | 72,466 | 31,020 | 19,095 | 8,213 | (39,072) |
| 54,199 | 85,442 | 31,326 | 56,157 | 49,840 | 42,728 |
| $52,686 | $157,908 | $62,346 | $75,252 | $58,053 | $3,656 |

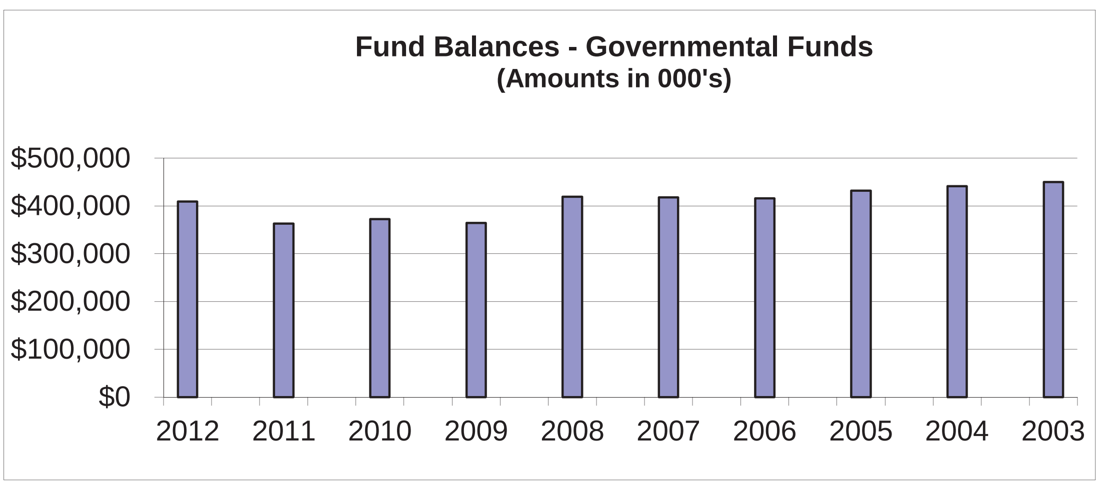
(Concluded)

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

| | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **General Fund** | | | | |
| Reserved | $ | $ | $15,070 | $15,513 |
| Unreserved | | | (2,529) | (9,648) |
| Nonspendable | 632 | 576 | | |
| Assigned | 9,239 | 12,027 | | |
| Unassigned | 61,879 | 38,991 | | |
| Total General Fund | 71,750 | 51,594 | 12,541 | 5,865 |
| **All Other Governmental Funds** | | | | |
| Reserved | | | 257,696 | 263,059 |
| Unreserved reported in: | | | | |
| Special Revenue funds | | | 64,432 | 45,781 |
| Capital Projects funds | | | 37,753 | 49,556 |
| Nonspendable | 495 | 1,172 | | |
| Restricted | 233,832 | 204,590 | | |
| Committed | 102,901 | 105,624 | | |
| Assigned | 2 | 1 | | |
| Unassigned | | (96) | | |
| Total All Other Governmental Funds | 337,230 | 311,291 | 359,881 | 358,396 |
| ***Total Governmental Funds*** | $408,980 | $362,885 | $372,422 | $364,261 |

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

| 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| $14,689 | $14,455 | $13,029 | $11,520 | $13,258 | $9,719 |
| 16,856 | 17,399 | 22,502 | 24,693 | 21,376 | 14,932 |
| 31,545 | 31,854 | 35,531 | 36,213 | 34,634 | 24,651 |
| 272,039 | 277,669 | 278,984 | 280,042 | 272,122 | 276,518 |
| 72,421 | 77,223 | 77,287 | 65,786 | 89,325 | 88,251 |
| 43,438 | 31,136 | 24,458 | 49,750 | 45,522 | 60,462 |
| 387,898 | 386,028 | 380,729 | 395,578 | 406,969 | 425,231 |
| $419,443 | $417,882 | $416,260 | $431,791 | $441,603 | $449,882 |



**City of Cleveland, Ohio**

*Changes in Fund Balances, Governmental Funds*

*Last Ten Years*

*(Modified Accrual Basis of Accounting)*

*(Amounts in 000's)*

| | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **Revenues** | | | | |
| Income taxes | $331,118 | $312,508 | $300,427 | $298,546 |
| Property taxes | 55,312 | 55,949 | 58,660 | 63,754 |
| State and local government funds | 31,821 | 45,640 | 47,972 | 45,590 |
| Other taxes and shared revenues | 86,084 | 77,636 | 79,620 | 81,440 |
| Licenses and permits | 15,070 | 16,877 | 13,529 | 17,061 |
| Charges for services | 41,436 | 39,433 | 33,779 | 22,136 |
| Fines, forfeits and settlements | 26,830 | 28,376 | 28,643 | 32,321 |
| Investment earnings | 468 | 518 | 621 | 2,691 |
| Grants | 129,724 | 120,119 | 116,920 | 112,024 |
| Contributions | 1,364 | 52 | 72 | 659 |
| Miscellaneous | 18,770 | 15,356 | 16,490 | 25,811 |
| *Total Revenues* | 737,997 | 712,464 | 696,733 | 702,033 |
| **Expenditures** | | | | |
| Current: | | | | |
| General Government (1) | 85,125 | 77,792 | 80,865 | 90,074 |
| Public Works (1) | 85,753 | 91,926 | | |
| Public Service (1) | | | 53,567 | 58,229 |
| Public Safety | 303,767 | 302,009 | 308,321 | 319,334 |
| Community Development (1) | 69,238 | 73,682 | 70,437 | 58,101 |
| Building and Housing | 14,542 | 14,031 | 17,401 | 20,841 |
| Public Health | 16,986 | 19,160 | 19,229 | 22,460 |
| Parks, Recreation and Properties (1) | | | 37,822 | 39,598 |
| Economic Development | 12,794 | 19,348 | 24,635 | 36,849 |
| Other | 10,992 | 11,171 | 11,490 | 10,446 |
| Capital outlay | 69,945 | 66,575 | 56,227 | 66,720 |
| Inception of capital lease | 5,648 | 4,566 | 3,201 | |
| Debt issuance cost | | | | |
| Interest expense | | | | |
| Debt service: | | | | |
| Principal retirement | 48,115 | 47,481 | 48,223 | 53,048 |
| Interest | 33,741 | 30,628 | 28,682 | 32,942 |
| General Government | 1,264 | 438 | 18,722 | 477 |
| Other | 1,168 | 315 | 795 | 475 |
| *Total Expenditures* | 759,078 | 759,122 | 779,617 | 809,594 |
| *Excess (Deficiency) of Revenues Over (Under) Expenditures* | (21,081) | (46,658) | (82,884) | (107,561) |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | 59,830 | 68,643 | 106,617 | 53,414 |
| Transfers out | (62,145) | (71,514) | (88,152) | (54,525) |
| Issuance of debt | 82,945 | 31,260 | 171,505 | 44,580 |
| Issuance of refunding bonds | | | | 13,820 |
| Proceeds from sale of debt | | | | |
| Premium on bonds and notes | 8,770 | 1,105 | 1,885 | 2,289 |
| Discount on bonds and notes | (145) | (217) | (237) | |
| Payment to refund bonds and notes | (28,910) | | (108,390) | (13,767) |
| Proceeds from sale of general obligation bonds and notes | | | | |
| Sale of development bonds | | | | |
| Loan proceeds | | | | |
| Sale of City assets | 324 | 1,229 | 1,127 | 6,568 |
| Proceeds from capital lease | 6,507 | 6,615 | 6,690 | |
| Inception of capital lease | | | | |
| Premium on interest rate swap agreement | | | | |
| *Total Other Financing Sources (Uses)* | 67,176 | 37,121 | 91,045 | 52,379 |
| *Net Change in Fund Balances* | $46,095 | ($9,537) | $8,161 | ($55,182) |
| Debt Service as a Percentage of Noncapital Expenditures | 11.8% | 11.1% | 10.4% | 11.5% |

(1) In 2012 a departmental reorganization occurred that merged the departments of Public Service with Parks, Recreation and Properties becoming the Department of Public Works. The Office of Capital Projects was created from the Divisions of Architecture, Engineering and Construction and Research, Planning and Development and is reported under General Government. In addition, the Division of Consumer Affairs was merged with Community Development and was moved from General Government. Data for years prior to 2011 are unavailable.

| 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| $326,464 | $311,784 | $303,446 | $292,193 | $294,200 | $278,719 |
| 65,258 | 69,254 | 66,787 | 66,055 | 67,999 | 63,353 |
| 52,269 | 53,506 | 55,908 | 55,899 | 55,808 | 55,462 |
| 81,200 | 80,789 | 73,810 | 59,576 | 57,213 | 55,030 |
| 15,047 | 13,802 | 14,520 | 14,806 | 16,033 | 13,727 |
| 26,000 | 24,388 | 20,973 | 23,182 | 18,707 | 21,345 |
| 34,763 | 31,246 | 27,877 | 19,985 | 19,611 | 25,689 |
| 8,871 | 16,875 | 13,809 | 8,774 | 3,758 | 3,634 |
| 94,769 | 167,125 | 137,278 | 126,139 | 118,228 | 120,379 |
| 549 | 549 | 3,113 | 3,650 | 6,131 | 101 |
| 27,649 | 18,581 | 18,683 | 14,394 | 21,462 | 17,013 |
| 732,839 | 787,899 | 736,204 | 684,653 | 679,150 | 654,452 |
| 91,664 | 84,578 | 74,905 | 71,107 | 71,291 | 74,128 |
| 60,105 | 60,700 | 58,739 | 60,049 | 56,044 | 56,761 |
| 318,339 | 311,606 | 293,093 | 282,684 | 272,752 | 302,707 |
| 43,677 | 53,668 | 62,031 | 55,688 | 65,034 | 61,227 |
| 15,691 | 13,892 | 13,668 | 10,472 | 10,497 | 11,935 |
| 19,724 | 21,014 | 26,903 | 24,121 | 21,862 | 21,870 |
| 42,593 | 40,494 | 37,817 | 35,503 | 32,934 | 37,829 |
| 51,921 | 33,787 | 44,632 | 40,446 | 46,966 | 33,728 |
| 10,627 | 9,206 | 9,256 | 11,212 | 11,510 | 14,197 |
| 60,513 | 120,680 | 65,216 | 84,438 | 82,780 | 64,738 |
| | 3,933 | 3,302 | 4,130 | 9,271 | |
| | | | | | 818 |
| | | | | | 228 |
| 51,566 | 44,258 | 37,648 | 39,384 | 40,865 | 32,949 |
| 34,318 | 30,075 | 31,462 | 29,822 | 32,002 | 27,400 |
| 5,394 | | | | | |
| 1,868 | 2,438 | 662 | 2,338 | 1,778 | 719 |
| 808,000 | 830,329 | 759,334 | 751,394 | 755,586 | 741,234 |
| (75,161) | (42,430) | (23,130) | (66,741) | (76,436) | (86,782) |
| 57,550 | 61,064 | 41,853 | 43,245 | 47,256 | 59,368 |
| (58,243) | (61,894) | (42,665) | (43,697) | (50,271) | (59,773) |
| 266,160 | | | 121,395 | 35,115 | |
| 4,042 | 3,730 | | 13,306 | 1,504 | 7,585 |
| (386) | (18) | | (54) | (200) | 3,156 |
| (192,675) | (140,457) | | (94,145) | | |
| | 181,420 | | | 16,760 | 64,100 |
| | | | | | 32,315 |
| | | | | 11,365 | |
| 274 | 207 | 8,411 | 8,454 | | |
| | | | 8,425 | 6,628 | 6,254 |
| | | | | | (419) |
| | | | | | 5,100 |
| 76,722 | 44,052 | 7,599 | 56,929 | 68,157 | 117,686 |
| $1,561 | $1,622 | ($15,531) | ($9,812) | ($8,279) | $30,904 |
| 11.3% | 10.3% | 9.8% | 10.3% | 10.7% | 8.7% |

**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 |
| 2012 | $2,641,867 | $2,743,313 | $15,386,229 | $246,081 | $279,638 |
| 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 |

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.

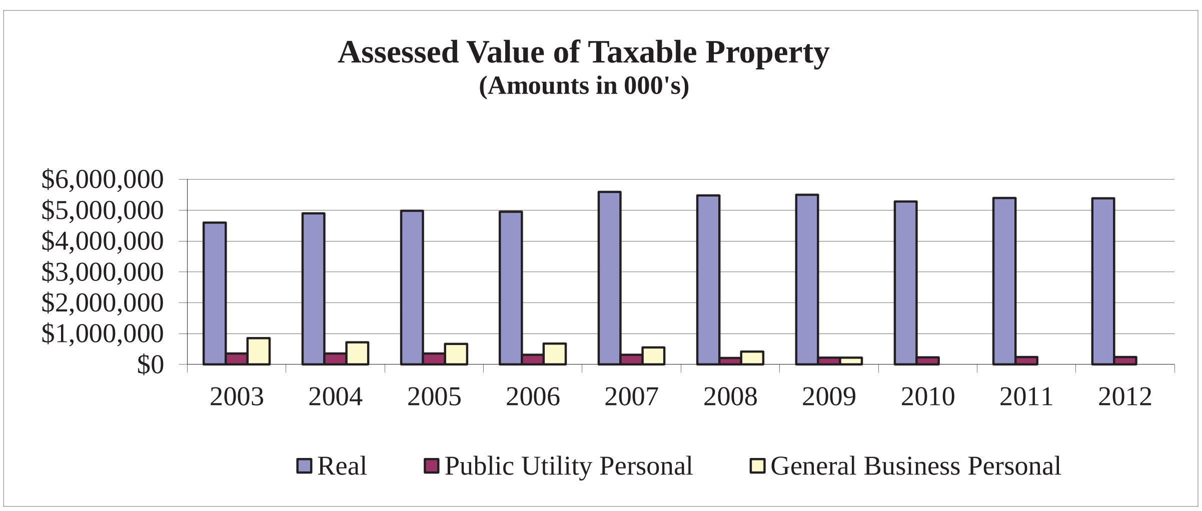
Beginning in 2003, the assessed valuation of personal property constituting "inventory" was reduced from 25% of true value to 23%, in 2006 it was further reduced to 18.75%, in 2007 to 12.50%, and in 2008 to 6.25%. The percentage decreased to 0% in 2009 and remains at 0% in 2012.

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.

The total direct rate is shown per $1,000 of assessed value.

Source: Cuyahoga County Auditor's Office.

| Tangible Personal Property | | | | | | |
|---|---|---|---|---|---|---|
| General Business | | Total | | | | |
| Assessed Value | Estimated Actual Value | Assessed Value | Estimated Actual Value | Total Direct Tax Rate | Ratio | |
| $0 | $0 | $5,631,261 | $15,665,867 | 121.86 | 35.9 | % |
| 0 | 0 | 5,640,270 | 15,698,332 | 121.80 | 35.9 | |
| 0 | 0 | 5,513,219 | 15,349,618 | 121.42 | 35.9 | |
| 219,920 | 3,518,720 | 5,937,459 | 19,474,563 | 120.70 | 30.5 | |
| 422,770 | 6,764,320 | 6,114,332 | 22,662,893 | 121.15 | 27.0 | |
| 551,296 | 4,410,368 | 6,457,248 | 20,739,204 | 119.58 | 31.1 | |
| 677,333 | 3,612,443 | 5,939,704 | 18,106,802 | 115.00 | 32.8 | |
| 671,795 | 2,920,848 | 6,007,614 | 17,562,585 | 115.05 | 34.2 | |
| 722,499 | 3,141,300 | 5,977,141 | 17,542,156 | 115.18 | 34.1 | |
| 853,282 | 3,709,922 | 5,804,047 | 17,238,680 | 115.67 | 33.7 | |



## City of Cleveland, Ohio

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

| | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **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 | 52.116544 | 31.674164 | 31.506887 | 31.460074 |
| Commercial/Industrial and Public Utility Real | 60.128798 | 44.235815 | 44.362102 | 44.661412 |
| General Business and Public Utility Personal | 79.800000 | 64.800000 | 64.800000 | 64.800000 |
| County | | | | |
| Residential/Agricultural Real | 13.220000 | 13.118223 | 13.186617 | 13.178886 |
| Commercial/Industrial and Public Utility Real | 12.996761 | 12.784540 | 12.841251 | 12.845700 |
| General Business and Public Utility Personal | 13.220000 | 13.220000 | 13.320000 | 13.320000 |
| Special Taxing Districts (1) | | | | |
| Residential/Agricultural Real | 11.391842 | 11.225159 | 11.207637 | 10.723710 |
| Commercial/Industrial and Public Utility Real | 11.418198 | 11.232744 | 11.236434 | 10.859248 |
| General Business and Public Utility Personal | 11.880000 | 11.880000 | 11.880000 | 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.

| 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| 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 |
| 29.076676 | 29.050497 | 29.002818 | 31.588821 | 31.586780 | 31.559197 |
| 44.661009 | 44.592555 | 44.858685 | 48.826505 | 48.636211 | 48.764909 |
| 64.800000 | 64.800000 | 64.800000 | 64.800000 | 64.800000 | 64.800000 |
| 12.660733 | 11.868868 | 11.865485 | 11.722742 | 10.975355 | 10.989859 |
| 12.815297 | 12.453559 | 12.494099 | 12.588063 | 11.984633 | 12.043316 |
| 13.320000 | 13.420000 | 13.420000 | 13.520000 | 13.520000 | 13.520000 |
| 10.330071 | 9.059500 | 9.045800 | 9.853500 | 9.851200 | 9.168300 |
| 10.838537 | 10.191700 | 10.252900 | 11.084900 | 11.011300 | 10.525300 |
| 11.580000 | 11.580000 | 11.580000 | 11.580000 | 11.580000 | 11.280000 |

**City of Cleveland, Ohio**

*Property Tax Levies and Collections*

*Last Ten Years*

| Year | Current Tax Levy | Current Tax Collections (1) | Percent of Current Tax Collections To Current Tax Levy | Delinquent Tax Collections | Total Tax Collections |
|---|---|---|---|---|---|
| 2012 | $76,327,893 | $58,664,824 | 76.86 % | $6,972,134 | $65,636,958 |
| 2011 | 74,312,975 | 59,301,577 | 79.80 | 5,104,558 | $64,406,135 |
| 2010 | 73,818,689 | 59,078,863 | 80.03 | 5,259,959 | $64,338,822 |
| 2009 | 76,071,934 | 63,707,028 | 83.75 | 5,351,909 | $69,058,937 |
| 2008 | 77,142,266 | 66,210,703 | 85.83 | 6,416,603 | $72,627,306 |
| 2007 | 79,578,480 | 68,823,516 | 86.49 | 5,675,616 | $74,499,132 |
| 2006 | 74,560,517 | 65,617,123 | 88.01 | 5,523,803 | $71,140,926 |
| 2005 | 77,325,122 | 67,759,024 | 87.63 | 5,428,007 | $73,187,031 |
| 2004 | 76,856,612 | 67,571,431 | 87.92 | 7,055,068 | $74,626,499 |
| 2003 | 73,483,514 | 65,058,362 | 88.53 | 5,052,595 | $70,110,957 |

**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.

| Total Tax Levy | Percent of Total Tax Collections To Total Tax Levy | Accumulated Outstanding Delinquent Taxes | Percentage of Delinquent Taxes to Total Tax Levy |
|---|---|---|---|
| $122,143,372 | 53.74 % | $47,654,232 | 39.01 % |
| 109,926,575 | 58.59 | 44,679,192 | 40.64 |
| 107,119,066 | 60.06 | 39,704,298 | 37.07 |
| 107,873,764 | 64.02 | 36,999,445 | 34.30 |
| 107,071,494 | 67.83 | 31,984,896 | 29.87 |
| 108,161,761 | 68.88 | 22,770,570 | 21.05 |
| 100,452,563 | 70.82 | 21,063,311 | 20.97 |
| 100,842,631 | 72.58 | 26,330,702 | 26.11 |
| 102,396,067 | 72.88 | 24,928,208 | 24.34 |
| 95,920,068 | 73.09 | 25,151,032 | 26.22 |

**City of Cleveland, Ohio**

*Principal Taxpayers - Real Estate Tax*

*2012 and 2003*

| Taxpayer | 2012 Real Property Assessed Valuation (1) | 2012 Percentage of Real Assessed Valuation |
|---|---|---|
| Cleveland Clinic Foundation | $198,799,720 | 3.69 % |
| Cleveland Electric Illuminating Co. | 188,580,610 | 3.50 |
| City of Cleveland, Ohio | 86,018,410 | 1.60 |
| Key Center Properties LLC | 80,559,150 | 1.50 |
| East Ohio Gas Co. | 55,008,190 | 1.02 |
| Cleveland Financial Associates, LLC | 51,485,990 | 0.96 |
| City of Cleveland Executive | 35,139,800 | 0.65 |
| Hub North Point Properties LLC | 35,123,770 | 0.65 |
| National City Bank | 34,413,150 | 0.64 |
| Optima 1375, LLC | 23,054,650 | 0.43 |
| Total | $788,183,440 | 14.64 % |
| Total Real Property Assessed Valuation | $5,385,180,000 | |

| Taxpayer | 2003 Real Property Assessed Valuation (1) | 2003 Percentage of Real Assessed Valuation |
|---|---|---|
| City of Cleveland, Ohio | $138,004,710 | 3.00 % |
| ZML-Cleve Public Sq LLC | 47,232,500 | 1.03 |
| NPW LTD Partnership | 35,560,000 | 0.77 |
| ISG Cleveland Inc. | 34,267,430 | 0.75 |
| Cleveland Clinic Foundation | 29,700,590 | 0.65 |
| Ohio Bell Telephone | 28,464,420 | 0.62 |
| National City Center LLC | 28,000,000 | 0.61 |
| Bishop James Hickey | 22,366,800 | 0.49 |
| 600 Superior Place Partnership | 16,275,000 | 0.35 |
| CG Erieview | 10,500,010 | 0.23 |
| Total | $390,371,460 | 8.50 % |
| Total Real Property Assessed Valuation | $4,592,622,990 | |

(1) The amounts presented represent the assessed values upon which 2012 and 2003 collections were based.

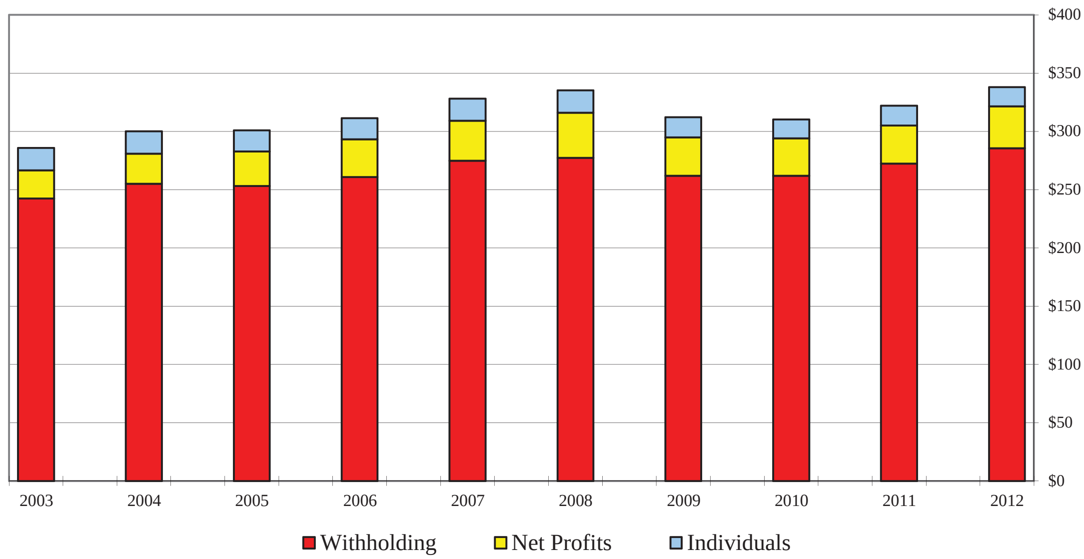
Source: Cuyahoga County Auditor's Office.

## 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 |
|---|---|---|---|---|---|---|---|---|
| 2012 | 2.00% | $338,046,790 | $285,450,129 | 84.44% | $35,946,656 | 10.63% | $16,650,005 | 4.93% |
| 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 |

**Income Tax Collections for the Last 10 Years**
(Amounts in millions)




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

(1) Gross collections.

Source: Central Collection Agency.

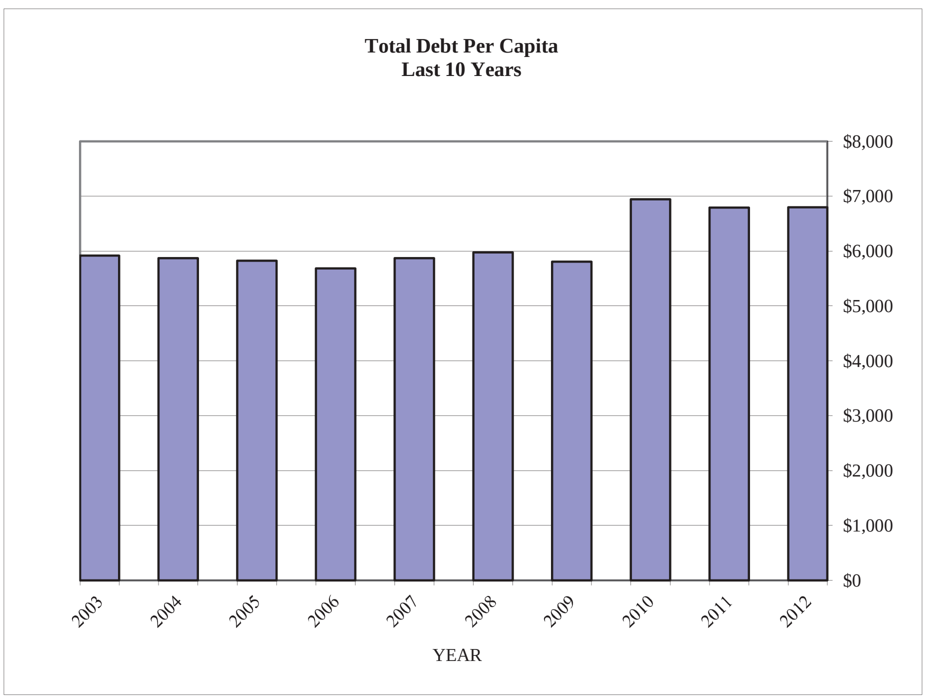
## City of Cleveland, Ohio

*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 |
| 2012 | $308,700,000 | $4,270,000 | $55,894,000 | $16,236,000 | $50,020,000 | $123,605,000 | $92,380,000 |
| 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 | |

**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 |
| $10,765,000 | $1,926,203,000 | $109,742,000 | $2,697,815,000 | 41.70% | $6,799 |
| 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 |



# 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 |
|---|---|---|---|---|---|---|
| 2012 | 396,815 | (a) | $5,631,261 | $302,484,000 | 5.37 % | $762.28 |
| 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 |

**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, 2012*

| Jurisdiction | Governmental Activities Debt Outstanding | Percentage Applicable to City (1) | Amount Applicable to City |
|---|---|---|---|
| **Direct - City of Cleveland** | | | |
| General Obligation Bonds | $308,700,000 | 100.00 % | $308,700,000 |
| Capital Leases | 16,236,000 | 100.00 | 16,236,000 |
| Urban Renewal Bonds | 4,270,000 | 100.00 | 4,270,000 |
| Subordinated Income Tax Refunding Bonds | 50,020,000 | 100.00 | 50,020,000 |
| Subordinate Lien Income Tax Bonds | 92,380,000 | 100.00 | 92,380,000 |
| Non-tax Revenue Bonds | 55,894,000 | 100.00 | 55,894,000 |
| Annual Appropriation Bonds | 10,765,000 | 100.00 | 10,765,000 |
| *Total Direct Debt* | 538,265,000 | | 538,265,000 |
| **Overlapping** | | | |
| Cleveland Municipal School District | | | |
| General Obligation Bonds (1) | 159,744,118 | 97.00 | 154,951,794 |
| Cuyahoga County | | | |
| General Obligation Bonds (1) | 341,075,645 | 18.90 | 64,463,297 |
| Regional | | | |
| Transit Authority (1) | 129,495,000 | 18.90 | 24,474,555 |
| *Total Overlapping Debt* | 630,314,763 | | 243,889,646 |
| Total | $1,168,579,763 | | $782,154,646 |

(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*

| | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| Total Assessed Property Value | $5,631,261,380 | $5,640,270,380 | $5,513,219,400 | $5,937,458,591 |
| Overall Legal Debt Limit | | | | |
| (10½% of Assessed Valuation) | 591,282,445 | 592,228,390 | 578,888,037 | 623,433,152 |
| Debt Outstanding: | | | | |
| General Obligation Bonds | 308,700,000 | 298,660,000 | 297,115,000 | 326,230,000 |
| Revenue Notes/Bonds | 1,926,203,000 | 1,930,163,000 | 1,974,828,000 | 2,032,178,000 |
| Urban Renewal Bonds/Notes | 4,270,000 | 4,835,000 | 5,365,000 | 5,860,000 |
| Subordinated Income Tax Refunding Bonds | 50,020,000 | 52,975,000 | 55,785,000 | 58,460,000 |
| Subordinate Lien Income Tax Bonds | 92,380,000 | 80,505,000 | 83,025,000 | 57,630,000 |
| OWDA/OPWC Loans | 109,742,000 | 115,523,000 | 121,335,000 | 107,654,000 |
| Non-tax Revenue Bonds | 55,894,000 | 58,591,000 | 61,795,000 | 64,956,000 |
| Annual Appropriation Bonds | 10,765,000 | 11,000,000 | 11,000,000 | |
| Total Gross Indebtedness | 2,557,974,000 | 2,552,252,000 | 2,610,248,000 | 2,652,968,000 |
| Less: | | | | |
| General Obligation Bonds | 308,700,000 | 298,660,000 | 297,115,000 | 326,230,000 |
| Revenue Notes/Bonds | 1,926,203,000 | 1,930,163,000 | 1,974,828,000 | 2,032,178,000 |
| Urban Renewal Bonds/Notes | 4,270,000 | 4,835,000 | 5,365,000 | 5,860,000 |
| Subordinated Income Tax Refunding Bonds | 50,020,000 | 52,975,000 | 55,785,000 | 58,460,000 |
| Subordinate Lien Income Tax Bonds | 92,380,000 | 80,505,000 | 83,025,000 | 57,630,000 |
| OWDA/OPWC Loans | 109,742,000 | 115,523,000 | 121,335,000 | 107,654,000 |
| Non-tax Revenue Bonds | 55,894,000 | 58,591,000 | 61,795,000 | 64,950,000 |
| Annual Appropriation Bonds | 10,765,000 | 11,000,000 | 11,000,000 | |
| General Obligation Bond Retirement Fund Balance | 6,216,000 | 1,488,000 | 2,192,000 | 2,599,000 |
| Total Net Debt Applicable to Debt Limit* | - | - | - | - |
| Legal Debt Margin Within 10½% Limitations | $591,282,445 | $592,228,390 | $578,888,037 | $623,433,152 |
| Legal Debt Margin as a Percentage of the Debt Limit | 100.00% | 100.00% | 100.00% | 100.00% |
| Unvoted Debt Limitation | $309,719,376 | $310,214,871 | $303,227,067 | $326,560,223 |
| (5½% of Assessed Valuation) | | | | |
| Total Gross Indebtedness | 2,557,974,000 | 2,552,252,000 | 2,610,248,000 | 2,652,968,000 |
| Less: | | | | |
| General Obligation Bonds | 308,700,000 | 298,660,000 | 297,115,000 | 326,230,000 |
| Revenue Notes/Bonds | 1,926,203,000 | 1,930,163,000 | 1,974,828,000 | 2,032,178,000 |
| Urban Renewal Bonds/Notes | 4,270,000 | 4,835,000 | 5,365,000 | 5,860,000 |
| Subordinated Income Tax Refunding Bonds | 50,020,000 | 52,975,000 | 55,785,000 | 58,460,000 |
| Subordinate Lien Income Tax Bonds | 92,380,000 | 80,505,000 | 83,025,000 | 57,630,000 |
| OWDA/OPWC Loans | 109,742,000 | 115,523,000 | 121,335,000 | 107,654,000 |
| Non-tax Revenue Bonds | 55,894,000 | 58,591,000 | 61,795,000 | 64,950,000 |
| Annual Appropriation Bonds | 10,765,000 | 11,000,000 | 11,000,000 | |
| General Obligation Bond Retirement Fund Balance | 6,216,000 | 1,488,000 | 2,192,000 | 2,599,000 |
| Net Debt Within 5½% Limitations* | - | - | - | - |
| Unvoted Legal Debt Margin Within 5½% Limitations | $309,719,376 | $310,214,871 | $303,227,067 | $326,560,223 |
| 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.

| 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| $6,114,332,281 | $6,457,247,750 | $5,939,704,867 | $6,007,616,318 | $5,977,142,243 | $5,804,048,750 |
| 642,004,890 | 678,011,014 | 623,669,011 | 630,799,713 | 627,599,936 | 609,425,119 |
| 313,630,000 | 336,990,000 | 323,795,000 | 353,325,000 | 346,700,000 | 356,900,000 |
| 2,100,768,000 | 2,075,755,000 | 1,995,045,000 | 2,049,820,000 | 2,102,986,000 | 2,160,842,000 |
| 6,325,000 | 6,760,000 | 7,170,000 | 7,555,000 | 12,215,000 | 12,555,000 |
| 59,960,000 | 58,900,000 | 60,700,000 | 62,400,000 | 64,000,000 | 65,500,000 |
| 59,560,000 | | | | | |
| 112,275,000 | 110,070,000 | 103,415,000 | 78,498,000 | 52,616,000 | 33,045,000 |
| 67,617,000 | 68,091,000 | 69,353,000 | 70,085,000 | 70,715,000 | 45,600,000 |
| 2,720,135,000 | 2,656,566,000 | 2,559,478,000 | 2,621,683,000 | 2,649,232,000 | 2,674,442,000 |
| 313,630,000 | 336,990,000 | 323,795,000 | 353,325,000 | 346,700,000 | 356,900,000 |
| 2,100,768,000 | 2,075,755,000 | 1,995,045,000 | 2,049,820,000 | 2,102,986,000 | 2,160,842,000 |
| 6,325,000 | 6,760,000 | 7,170,000 | 7,555,000 | 12,215,000 | 12,555,000 |
| 59,960,000 | 58,900,000 | 60,700,000 | 62,400,000 | 64,000,000 | 65,500,000 |
| 59,560,000 | | | | | |
| 112,275,000 | 110,070,000 | 103,415,000 | 78,498,000 | 52,616,000 | 33,045,000 |
| 67,617,000 | 68,091,000 | 69,353,000 | 70,085,000 | 70,715,000 | 45,600,000 |
| 2,496,000 | 3,167,000 | 3,530,000 | 5,321,000 | 7,491,000 | 4,331,000 |
| - | - | - | - | - | - |
| $642,004,890 | $678,011,014 | $623,669,011 | $630,799,713 | $627,599,936 | $609,425,119 |
| 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| $336,288,276 | $355,148,626 | $326,683,768 | $330,418,898 | $328,742,823 | $319,222,681 |
| 2,720,135,000 | 2,656,566,000 | 2,559,478,000 | 2,621,683,000 | 2,649,232,000 | 2,674,442,000 |
| 313,630,000 | 336,990,000 | 323,795,000 | 353,325,000 | 346,700,000 | 356,900,000 |
| 2,100,768,000 | 2,075,755,000 | 1,995,045,000 | 2,049,820,000 | 2,102,986,000 | 2,160,842,000 |
| 6,325,000 | 6,760,000 | 7,170,000 | 7,555,000 | 12,215,000 | 12,555,000 |
| 59,960,000 | 58,900,000 | 60,700,000 | 62,400,000 | 64,000,000 | 65,500,000 |
| 59,560,000 | | | | | |
| 112,275,000 | 110,070,000 | 103,415,000 | 78,498,000 | 52,616,000 | 33,045,000 |
| 67,617,000 | 68,091,000 | 69,353,000 | 70,085,000 | 70,715,000 | 45,600,000 |
| 2,496,000 | 3,167,000 | 3,530,000 | 5,321,000 | 7,491,000 | 4,331,000 |
| - | - | - | - | - | - |
| $336,288,276 | $355,148,626 | $326,683,768 | $330,418,898 | $328,742,823 | $319,222,681 |
| 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 | |
| 2012 | $152,030,000 | $68,855,000 | $83,175,000 | $16,285,000 | $33,765,871 | 1.66 |
| 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 |

(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 | | |
| 2012 | $165,307,000 | $136,987,000 | $28,320,000 | $10,050,000 | $9,746,181 | (3) | 1.43 |
| 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 |

(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 Revenue Bonds*
*Last Ten Years*

| Year | Gross Revenues (1) | Direct Operating Expenses (2) | Net Revenues Available for Debt Service | Debt Service | | Coverage |
|---|---|---|---|---|---|---|
| | | | | Principal | Interest (3) | |
| 2012 | $282,288,000 | $149,169,000 | $133,119,000 | $31,100,000 | $26,639,529 | 2.31 |
| 2011 | 238,975,000 | 146,232,000 | 92,743,000 | 34,000,000 | 30,275,641 | 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 |

(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*

*2012 and 2003*

**2012**

| Employer | Employees | Percentage of Total City Employment |
|---|---|---|
| Cleveland Clinic | 33,000 | 22.40% |
| University Hospitals of Cleveland | 15,123 | 10.27 |
| Cuyahoga County | 7,709 | 5.23 |
| United States Postal Service | 7,565 | 5.14 |
| City of Cleveland | 7,061 | 4.79 |
| Cleveland Metropolitan School District | 6,246 | 4.24 |
| KeyCorp | 5,983 | 4.06 |
| The MetroHealth System | 5,238 | 3.56 |
| Case Western Reserve University | 4,636 | 3.15 |
| UPS | 3,168 | 2.15 |
| Total | 95,729 | 64.99% |
| Total Employment within the City | 147,300 | |

**2003**

| Employer | Employees | Percentage of Total City Employment |
|---|---|---|
| Cleveland Clinic Health Systems | 23,567 | 13.10% |
| University Hospitals Health System | 14,270 | 7.93 |
| Cleveland City School District | 10,510 | 5.84 |
| Cuyahoga County | 9,376 | 5.21 |
| City of Cleveland | 8,658 | 4.81 |
| KeyCorp | 7,381 | 4.10 |
| United States Postal Service | 5,548 | 3.09 |
| The MetroHealth System | 5,411 | 3.01 |
| National City Corp. | 5,400 | 3.00 |
| Case Western Reserve University | 5,249 | 2.92 |
| Total | 95,370 | 53.01% |
| Total Employment within the City | 179,900 | |

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

Source: Number of employees from Crain's Cleveland:
Book of Lists 2013, Largest Northeast Ohio Employers; FTEs as of 6/30/2012
Book of Lists 2004, Largest Cuyahoga County Employers; FTEs as of 01/01/2003

**City of Cleveland, Ohio**

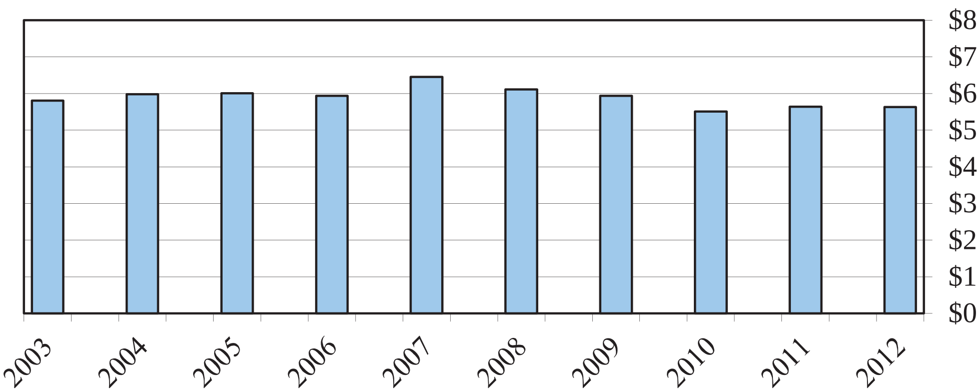
*Demographic and Economic Statistics*

*Last Ten Years*

| Year | Population | | Total Personal Income (6) | Personal Income Per Capita | | Median Household Income | | Median Age | |
|---|---|---|---|---|---|---|---|---|---|
| 2012 | 396,815 | (1) | 6,468,878,130 | $16,302 | (1) | $27,349 | (1) | 35.7 | (1) |
| 2011 | 396,815 | (1) | 6,468,878,130 | 16,302 | (1) | 27,349 | (1) | 35.7 | (1) |
| 2010 | 396,815 | (1) | 6,468,878,130 | 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) |

**Total Assessed Property Value**

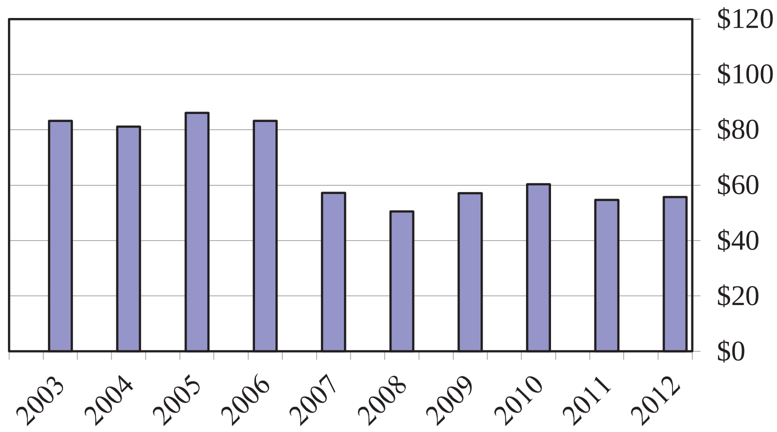
(Amounts in billions)




(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) | 42,883 | 8.5% | $55,774 | $5,631,261 |
| 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 |

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



**City of Cleveland, Ohio**

*Full-Time Equivalent City Government Employees by Function/Program*

*Last Nine Years (1)*

| Function/Program | 2012 | | 2011 | 2010 |
|---|---|---|---|---|
| **General Government** | | | | |
| Council | 61.50 | | 63.00 | 62.00 |
| Mayor's Office | 25.50 | | 24.50 | 25.50 |
| Office of Capital Projects | 46.00 | (4) | | |
| Landmarks Commission | 5.00 | | 5.00 | 5.50 |
| Building Standards and Appeals | 6.00 | | 6.00 | 5.50 |
| Board of Zoning Appeals | 4.50 | | 4.50 | 4.00 |
| Civil Service Commission | 10.00 | | 9.50 | 11.00 |
| Community Relations Board | 24.00 | | 28.00 | 30.50 |
| City Planning Commission | 20.50 | | 21.50 | 24.00 |
| Equal Employment Opportunity | 8.00 | | 8.00 | 10.00 |
| Court | 461.00 | | 479.50 | 531.00 |
| Office of Budget Administration | 7.00 | | 7.00 | 7.00 |
| Aging | 22.00 | | 25.00 | 24.50 |
| Personnel and Human Resources | 18.00 | | 16.00 | 16.50 |
| Consumer Affairs | 0.00 | (4) | 4.00 | 3.00 |
| Law | 72.50 | | 76.00 | 87.00 |
| Finance | 232.00 | | 234.00 | 241.50 |
| **Security of Persons and Property** | | | | |
| Administration | 36.50 | | 36.50 | 40.00 |
| Police | 1,873.00 | | 1,869.50 | 1,983.50 |
| Fire | 729.00 | | 803.00 | 875.00 |
| EMS | 232.00 | | 214.00 | 218.00 |
| Dog Pound | 14.50 | | 15.00 | 16.00 |
| House of Corrections | 133.00 | | 153.00 | 170.00 |
| **Public Health Services** | 125.50 | | 140.50 | 159.50 |
| **Leisure Time Activities** | | | | |
| Parks, Recreation and Property Administration | 0.00 | (4) | 8.00 | 7.00 |
| Research, Planning and Development | 0.00 | (4) | 5.00 | 6.00 |
| Recreation | 190.50 | | 189.00 | 230.00 |
| Convention Center, Westside Market and Cleveland Stadium | 42.50 | | 29.50 | 27.50 |
| Parking Facilities | 39.50 | | 42.50 | 42.50 |
| Property Management | 70.50 | | 73.50 | 81.50 |
| Parks Maintenance | 119.00 | | 126.00 | 140.00 |
| **Community Development** | 78.50 | | 76.50 | 87.00 |
| **Building and Housing** | 113.00 | | 120.00 | 134.50 |
| **Economic Development** | 26.00 | | 28.00 | 34.00 |
| **Public Works** | | | | |
| Public Works Administration | 34.00 | | 5.50 | 4.50 |
| Architecture | 0.00 | (4) | 5.00 | 6.00 |
| Waste Collection and Disposal | 206.50 | | 212.50 | 238.50 |
| Engineering and Construction | 0.00 | (4) | 31.50 | 59.50 |
| Motor Vehicle Maintenance | 68.00 | | 75.00 | 81.00 |
| Streets | 260.00 | | 285.00 | 257.50 |
| Traffic Engineering | 29.00 | | 36.00 | 38.00 |
| **Port Control** | 404.50 | | 418.00 | 446.50 |
| **Basic Utility Services** | | | | |
| Water | 1,093.00 | | 1,157.00 | 1,164.50 |
| Cleveland Public Power | 335.00 | | 358.00 | 345.00 |
| Water Pollution Control | 136.00 | | 148.50 | 158.00 |
| Totals: | 7,412.50 | | 7,673.00 | 8,139.50 |

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.
(4) In 2012 a departmental reorganization occurred that merged the departments of Public Service with Parks, Recreation and Properties becoming the Department of Public Works. The Office of Capital Projects was created from the Divisions of Architecture, Engineering and Construction and Research, Planning and Development and is reported under General Government. In addition, the Division of Consumer Affairs was merged with Community Development and was moved from General Government.

N/A - Information not available.

Source: City Payroll Department.

| 2009 | 2008 | 2007 | | 2006 | 2005 | | 2004 |
|---|---|---|---|---|---|---|---|
| 65.50 | 64.50 | 62.50 | | 63.50 | 65.00 | | 66.00 |
| 25.50 | 27.50 | 26.00 | | 25.00 | 29.50 | | 27.00 |
| | | | | | | | |
| 5.50 | 5.50 | 5.50 | | 5.00 | 4.50 | | 4.50 |
| 5.50 | 5.50 | 5.50 | | 5.00 | 6.00 | | 6.00 |
| 4.50 | 4.50 | 4.50 | | 4.50 | 5.50 | | 5.50 |
| 10.50 | 10.00 | 11.50 | | 10.00 | 10.50 | | 12.50 |
| 29.00 | 27.50 | 27.00 | | 28.50 | 23.50 | | 24.50 |
| 24.00 | 23.00 | 26.00 | | 23.00 | 26.00 | | 27.00 |
| 10.00 | 11.00 | 13.00 | | 13.00 | 14.00 | | 12.00 |
| 542.50 | 541.50 | 551.00 | | 544.00 | 541.50 | | 534.50 |
| 5.50 | 7.00 | 8.00 | | 7.00 | 7.00 | | 8.00 |
| 21.50 | 21.00 | 22.50 | | 20.50 | 18.00 | | 18.00 |
| 15.00 | 17.00 | 20.00 | | 19.00 | 18.00 | | 91.50 |
| 5.00 | 6.00 | 5.00 | | 5.00 | 3.00 | | 4.00 |
| 88.50 | 86.50 | 89.50 | | 88.50 | 89.00 | | 93.00 |
| 248.50 | 250.50 | 255.00 | | 255.00 | 255.50 | | 245.50 |
| | | | | | | | |
| 39.00 | 39.00 | 42.50 | | 39.50 | 39.00 | | 41.50 |
| 2,079.00 | 2,095.50 | 2,105.00 | | 2,176.50 | 2,179.00 | | 2,145.50 |
| 894.00 | 883.00 | 902.00 | | 915.00 | 916.00 | | 913.00 |
| 236.00 | 252.00 | 288.00 | | 292.00 | 297.00 | | 298.00 |
| 15.00 | 14.50 | 14.50 | | 14.50 | 13.00 | | 13.00 |
| 188.00 | 176.50 | 183.50 | (3) | N/A | N/A | | N/A |
| 168.50 | 169.50 | 168.50 | (3) | 260.00 | 253.00 | | 261.50 |
| | | | | | | | |
| 7.00 | 7.00 | 8.00 | | 8.00 | 7.00 | | 9.00 |
| 8.00 | 9.00 | 9.00 | | 9.00 | 10.00 | | 10.00 |
| 238.00 | 233.50 | 238.00 | | 165.00 | 170.50 | | 176.00 |
| 31.00 | 54.50 | 59.50 | | 49.50 | 54.00 | | 49.50 |
| 41.00 | 44.50 | 49.00 | | 46.50 | 47.50 | | 56.00 |
| 84.50 | 87.50 | 89.50 | | 93.00 | 100.00 | | 99.50 |
| 141.00 | 151.00 | 164.00 | | 161.00 | 170.00 | | 167.00 |
| 86.00 | 77.50 | 78.50 | | 81.00 | 87.50 | (2) | 271.50 |
| 142.00 | 147.00 | 161.00 | | 165.00 | 170.00 | (2) | 0.00 |
| 68.00 | 73.00 | 88.00 | | 94.00 | 98.00 | | 29.00 |
| | | | | | | | |
| 4.50 | 5.00 | 5.00 | | 5.00 | 5.00 | | 6.00 |
| 6.00 | 7.00 | 8.00 | | 9.00 | 9.00 | | 9.00 |
| 253.50 | 225.50 | 252.50 | | 244.50 | 225.50 | | 223.50 |
| 61.50 | 60.50 | 65.50 | | 65.50 | 69.50 | | 70.00 |
| 85.00 | 86.00 | 95.00 | | 102.00 | 100.00 | | 102.00 |
| 271.50 | 283.50 | 306.00 | | 288.50 | 303.00 | | 287.00 |
| 39.00 | 40.00 | 41.00 | | 44.00 | 44.00 | | 3.00 |
| 447.50 | 406.50 | 386.00 | | 369.50 | 377.50 | | 402.00 |
| | | | | | | | |
| 1,179.50 | 1,215.50 | 1,194.00 | | 1,207.00 | 1,216.00 | | 1,263.50 |
| 343.00 | 340.00 | 341.00 | | 337.00 | 341.00 | | 347.00 |
| 157.00 | 150.00 | 157.00 | | 144.00 | 147.00 | | 147.00 |
| | | | | | | | |
| 8,420.50 | 8,442.50 | 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 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **General Government** | | | | |
| ***Council and Clerk*** | | | | |
| Number of ordinances passed | 631 | 723 | 621 | 772 |
| Number of resolutions passed | 739 | 647 | 747 | 776 |
| Number of planning commission docket items (4) | 359 | 262 | 298 | 309 |
| Zoning board of appeals docket items | 237 | 241 | 274 | 267 |
| ***Finance Department*** | | | | |
| Number of payments issued | 38,010 | 38,501 | 37,944 | 44,289 |
| Total amount of payments | $1,236,189,641 | $1,311,830,974 | $1,276,014,604 | $1,307,460,874 |
| Interest earnings for fiscal year (cash basis) | $3,283,638 | $4,061,090 | $7,507,827 | $13,219,445 |
| Number of receiving warrants (8) | 32,087 | 30,433 | 31,497 | 16,369 |
| Number of journal entries issued (8) | 190,554 | 179,546 | 192,281 | 41,238 |
| Number of budget adjustments issued | 4 | 6 | 2 | 2 |
| Agency ratings - Standard & Poor's (1) | AA | AA | AA | AA |
| Agency ratings - Moody's Financial Services (1) | A1 | A1 | A1 | A2 |
| Health insurance costs vs. General Fund expenditures % | 15% | 18% | 17% | 15% |
| General Fund receipts (cash basis in thousands) | $501,018 | $496,086 | $480,724 | $487,678 |
| General Fund expenditures (cash basis in thousands) | $468,543 | $472,883 | $482,227 | $501,758 |
| General Fund cash balances (in thousands) | $84,869 | $54,888 | $16,400 | $12,327 |
| ***Income Tax Department*** | | | | |
| Number of individual returns | 192,362 | 196,457 | 202,232 | 211,241 |
| Number of business returns | 25,140 | 26,240 | 26,881 | 26,326 |
| Number of business withholding accounts | 14,414 | 14,338 | 13,835 | 14,542 |
| Amount of penalties and interest collected | $1,771,088 | $2,059,203 | $1,754,501 | $1,884,453 |
| Annual number of corporate withholding forms processed | 147,175 | 149,537 | 149,584 | 144,493 |
| Annual number of balance due statements forms processed | 37,642 | 38,152 | 36,188 | 38,610 |
| Annual number of estimated payment forms processed | 41,813 | 41,636 | 42,767 | 47,841 |
| Annual number of reconciliations of withholdings processed | 11,416 | 11,376 | 11,357 | 12,213 |
| ***Engineer Contracted Services*** | | | | |
| Dollar amount of construction overseen by engineer (2) | $25,400,000 | $30,760,000 | $34,000,000 | $32,000,000 |
| ***Municipal Court*** | | | | |
| Number of civil cases (10) | 9,451 | 11,513 | 19,280 | 16,375 |
| Number of criminal cases (10) | 110,754 | 107,711 | 167,563 | 120,131 |
| ***Vital Statistics*** | | | | |
| Certificates filed (3) | | | | |
| Number of births | 17,264 | 16,616 | 15,528 | 16,403 |
| Number of deaths | 13,016 | 12,958 | 12,296 | 12,101 |
| Number of fetal deaths | 384 | 459 | 454 | 401 |
| Certificates issued (3) | | | | |
| Number of births | 57,297 | 57,542 | 62,507 | 69,785 |
| Number of deaths | 60,173 | 61,147 | 59,689 | 60,465 |
| ***Civil Service*** | | | | |
| Number of police entry tests administered | 0 | 0 | 0 | 1 |
| Number of fire entry tests administered | 0 | 0 | 1 | 0 |
| Number of police promotional tests administered | 0 | 1 | 0 | 0 |
| Number of fire promotional tests administered | 0 | 1 | 0 | 0 |
| Number of hires of police officers from certified lists | 50 | 42 | 0 | 56 |
| Number of hires of fire/medics from certified lists | 0 | 0 | 0 | 22 |
| Number of promotions from police certified lists | 33 | 0 | 0 | 20 |
| Number of promotions from fire certified lists | 42 | 0 | 0 | 0 |

| 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| 771 | 784 | 846 | 899 | 891 | 1,028 |
| 304 | 363 | 361 | 306 | 292 | 349 |
| 444 | 441 | 768 | 725 | 669 | 538 |
| 242 | 263 | 265 | 394 | 337 | 349 |
| | | | | | |
| 47,670 | 47,985 | 49,533 | 50,541 | 48,808 | 51,922 |
| $1,251,719,916 | $1,287,268,015 | $1,284,108,296 | $1,266,586,217 | $1,211,743,500 | $1,211,440,564 |
| $45,366,880 | $63,335,510 | $53,988,258 | $42,035,213 | $38,154,383 | $39,688,080 |
| 16,141 | 15,300 | 14,799 | 14,485 | 14,344 | 58,967 |
| 41,217 | 43,619 | 43,186 | 39,839 | 41,543 | 54,095 |
| 5 | 2 | 3 | 5 | 4 | 4 |
| AA | A | A | A | A | A |
| A2 | A2 | A2 | A2 | A2 | A2 |
| 14% | 14% | 14% | 14% | 12% | 12% |
| $517,796 | $509,616 | $490,927 | $471,755 | $455,775 | $459,365 |
| $501,124 | $485,410 | $465,162 | $451,323 | $484,856 | $437,964 |
| $40,685 | $41,885 | $30,957 | $29,738 | $24,058 | $17,676 |
| | | | | | |
| 232,210 | 238,319 | 248,108 | 267,712 | 287,904 | 299,081 |
| 29,014 | 28,335 | 30,567 | 25,763 | 30,584 | 29,825 |
| 14,653 | 14,469 | 16,200 | 14,942 | 15,503 | 15,520 |
| $2,357,490 | $1,912,554 | $1,999,859 | $1,990,879 | $2,471,464 | $2,233,996 |
| 151,256 | 152,334 | 169,933 | 136,931 | 148,779 | 147,478 |
| 44,637 | 39,767 | 45,909 | 47,252 | 53,458 | 58,689 |
| 51,527 | 57,092 | 56,163 | 55,036 | 62,115 | 64,780 |
| 12,198 | 12,488 | 18,929 | 9,075 | 14,723 | 13,000 |
| | | | | | |
| $159,540,000 | $251,305,000 | $141,733,000 | $52,741,000 | $78,562,000 | $49,716,000 |
| | | | | | |
| 19,890 | 18,569 | 22,909 | 21,567 | 22,418 | 23,133 |
| 120,077 | 113,661 | 121,676 | 121,791 | 113,822 | 151,395 |
| | | | | | |
| 16,942 | 17,235 | 17,645 | 17,638 | 18,191 | 18,542 |
| 12,354 | 12,086 | 11,992 | 12,343 | 12,296 | 11,825 |
| 447 | 399 | 312 | 361 | 294 | 477 |
| | | | | | |
| 77,967 | 102,140 | 98,545 | 101,284 | 58,452 | N/A |
| 65,149 | 64,436 | 84,615 | 66,268 | 38,684 | N/A |
| | | | | | |
| 0 | 1 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 3 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 106 | 73 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 40 | 0 | 0 | 39 | 19 | 23 |
| 10 | 49 | 0 | 0 | 0 | 0 |

(Continued)

**City of Cleveland, Ohio**

*Operating Indicators by Function/Program*

*Last Ten Years*

| Function/Program | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| ***Building Department Indicators*** | | | | |
| Construction permits issued | 16,245 | 15,082 | 6,829 | 8,334 |
| Estimated value of construction | $1,033,330,550 | $1,556,000,000 | $729,883,689 | $919,923,776 |
| Number of other permits issued | 4,854 | 4,164 | 8,629 | 8,290 |
| Amount of revenue generated from permits | $7,867,168 | $8,306,423 | $6,078,922 | $7,332,522 |
| Number of contract registrations issued | 2,802 | 2,822 | 2,895 | 2,847 |
| Annual apartment/rooming house license fees | $1,305,182 | $1,343,457 | $1,571,317 | $1,281,530 |
| **Security of Persons and Property** | | | | |
| ***Police*** | | | | |
| Number of traffic citations issued | 121,474 | 119,371 | 75,362 | 77,037 |
| Number of parking citations issued | 42,404 | 42,763 | 48,691 | 59,598 |
| Number of criminal arrests | 35,730 | 37,531 | 39,657 | 38,613 |
| Number of accident reports completed | 14,549 | 15,444 | 14,761 | 14,804 |
| Part 1 offenses (major offenses) | 39,028 | 40,554 | 38,003 | 38,586 |
| DUI arrests | 790 | 679 | 729 | 738 |
| Prisoners | 35,251 | 37,235 | 39,156 | 37,864 |
| Motor vehicle accidents | 14,549 | 15,412 | 14,761 | 14,804 |
| Fatalities from motor vehicle accidents | 31 | 29 | 49 | 38 |
| Community diversion program youths | 152 | 188 | 196 | 139 |
| ***Fire*** | | | | |
| Fire calls - incoming for services (6) | 65,040 | 65,132 | 60,076 | 60,306 |
| Fires | 2,846 | 2,714 | 2,869 | 2,794 |
| Fires with loss | 1,372 | 1,398 | 1,266 | 843 |
| Fires with losses exceeding $10K | 259 | 256 | 219 | 237 |
| Fire losses $ | $13,128,848 | $14,747,291 | $12,035,650 | $12,312,407 |
| Fire safety inspections | 13,380 | 10,898 | 13,631 | 13,982 |
| Number of times mutual aid given to fire | 30 | 21 | 29 | 17 |
| ***EMS*** | | | | |
| EMS calls - incoming for service | 96,359 | 94,307 | 92,230 | 89,632 |
| Ambulance billing collections (net) | $12,051,964 | $11,594,178 | $10,832,204 | $9,649,887 |
| **Public Health and Welfare** | | | | |
| Number of health inspections | | | | |
| Barber shops | 333 | 400 | 238 | 219 |
| Food | 7,674 | 7,369 | 7,624 | 8,684 |
| Hotels/motels | 38 | 42 | 36 | 34 |
| Marinas | 0 | 11 | 11 | 11 |
| Mobile home parks | 5 | 12 | 5 | 5 |
| Laundries | 62 | 87 | 69 | 58 |
| Nuisance | 21,118 | 19,136 | 24,130 | 27,544 |
| Pools | 161 | 204 | 120 | 142 |
| Schools | 419 | 480 | 390 | 349 |
| Day care inspections | 161 | 229 | 223 | 209 |
| Maternity inspections | 0 | 4 | 4 | 4 |
| Abortion inspections | 5 | 6 | 6 | 6 |
| Cemetery burials | 0 | 0 | 0 | 3 |
| Cemetery cremations | 196 | 177 | 169 | 155 |

| 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| 10,631 | 8,397 | 9,163 | 9,699 | 10,020 | 9,471 |
| $814,646,916 | $648,592,297 | $743,566,106 | $652,537,749 | $558,278,403 | $487,768,588 |
| 9,710 | 8,971 | 9,157 | 9,272 | 9,489 | 9,767 |
| $7,364,794 | $7,112,426 | $7,399,513 | $7,504,979 | $8,661,198 | $6,353,990 |
| 2,783 | 2,887 | 3,077 | 3,700 | 2,200 | 5,492 |
| $1,331,940 | $1,427,208 | $1,290,830 | $1,367,157 | $1,433,689 | $1,399,415 |
| | | | | | |
| 79,089 | 62,652 | 77,003 | 82,642 | 77,424 | 106,970 |
| 49,012 | 49,669 | 59,311 | 51,947 | 54,268 | 173,185 |
| 39,596 | 39,087 | 40,678 | 39,002 | 38,090 | 45,205 |
| 15,525 | 16,239 | 17,374 | 18,878 | 20,655 | 21,898 |
| 39,237 | 41,400 | 44,018 | 42,352 | 39,933 | 32,198 |
| 695 | 847 | 577 | 705 | 660 | 1,075 |
| 38,629 | 38,142 | 39,851 | 38,259 | 37,426 | 43,765 |
| 15,525 | 16,239 | 17,374 | 18,878 | 20,655 | 21,898 |
| 52 | 34 | 39 | 38 | 49 | 42 |
| 169 | 229 | 177 | 155 | 273 | 263 |
| | | | | | |
| 60,263 | 63,403 | 61,702 | 65,825 | 56,236 | 3,703 |
| 2,790 | 3,343 | 3,296 | 3,195 | 3,202 | N/A |
| 1,095 | 1,807 | 1,708 | 1,904 | 1,641 | 1,777 |
| 362 | 479 | 362 | 379 | 316 | 261 |
| $11,242,477 | $19,115,824 | $21,567,578 | $18,292,877 | $18,140,355 | $12,179,966 |
| 8,110 | 9,764 | 5,901 | 6,027 | 6,198 | 6,989 |
| 11 | 5 | 0 | 87 | 39 | 92 |
| | | | | | |
| 88,934 | 88,506 | 86,010 | 91,161 | 87,009 | 89,380 |
| $12,091,087 | $11,394,837 | $10,698,730 | $10,075,142 | $8,830,211 | $7,243,765 |
| | | | | | |
| 227 | 263 | 251 | 237 | 230 | 199 |
| 9,611 | 7,914 | 8,143 | 8,140 | 8,175 | 8,207 |
| 37 | 31 | 31 | 27 | 29 | 24 |
| 11 | 11 | 11 | 11 | 11 | 11 |
| 5 | 5 | 5 | 5 | 5 | 5 |
| 62 | 81 | 68 | 59 | 46 | 46 |
| 17,205 | 23,402 | 20,057 | 18,317 | 18,299 | 17,539 |
| 127 | 131 | 129 | 146 | 129 | 129 |
| 195 | 274 | 235 | 376 | 225 | 225 |
| 98 | 109 | 104 | 95 | 101 | 113 |
| 4 | 4 | 3 | 4 | 4 | 4 |
| 6 | 5 | 5 | 5 | 5 | 5 |
| 17 | 54 | 27 | 49 | 73 | 77 |
| 149 | 144 | 83 | 45 | 32 | 19 |

(Continued)

**City of Cleveland, Ohio**

*Operating Indicators by Function/Program*

*Last Ten Years*

| Function/Program | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **Leisure Time Activities** | | | | |
| Recreation men and women leagues receipts | $9,862 | $5,280 | $5,145 | $5,070 |
| **Economic Development** | | | | |
| Grant amounts received (Amounts in 000's) (13) | $5,856 | $2,154 | $4,564 | $12,958 |
| **Public Works** | | | | |
| Street improvements - asphalt overlay (linear feet) (9) | 212,032 | 224,361 | 0 | 101,000 |
| Crackseal coating program (linear feet) (9) | 0 | 3,263 | 679,450 | 200,640 |
| Street repair (curbs, aprons, berms, asphalt) (hours) | 117,239 | 83,212 | 76,000 | 80,000 |
| Guardrail repair (hours) (11) | 100 | 40 | 2,500 | 2,500 |
| Paint striping | | | | |
| Lane line (miles) | 661 | 651 | 855 | 936 |
| Crosswalks (each) | 4,952 | 5,260 | 5,172 | 6,950 |
| Arrows (each) | 4,273 | 4,706 | 4,210 | 3,716 |
| Street sweeper (hours) (11) | 2,176 | 3,840 | 46,000 | 55,000 |
| Cold patch (hours) | 19,271 | 31,345 | 22,000 | 24,000 |
| Snow and ice removal regular hours | 87,369 | 128,000 | 128,000 | 128,000 |
| Snow and ice removal overtime hours | 18,912 | 23,117 | 21,139 | 14,400 |
| Leaf collection (hours) (12) | 0 | 0 | 18,300 | 18,000 |
| Holiday lights setup (hours) (7) | 500 | 0 | 0 | 0 |
| Equipment repair/body shop (hours) | 4,196 | 5,000 | 5,076 | 2,663 |
| Tons of snow melting salt purchased November-March | 40,236 | 74,679 | 53,322 | 67,000 |
| Cost of salt purchased | $1,834,359 | $3,348,606 | $2,321,118 | $2,700,000 |
| Refuse disposal per year (in tons) August through July | 212,367 | 240,603 | 232,241 | 236,225 |
| Refuse disposal costs per year August through July | $5,723,227 | $6,556,260 | $6,079,532 | $6,928,858 |
| Annual recycling tonnage (excluding leaf, and compost items) | 22,318 | 9,197 | 7,227 | 6,039 |
| Percentage of waste recycled | 10.06% | 3.68% | 3.13% | 4.12% |
| **Port Control** | | | | |
| Cleveland Hopkins Airport | | | | |
| Landed weight (in thousands of pounds) | 5,732,148 | 5,912,394 | 5,907,546 | 6,265,656 |
| Total operations | 180,944 | 188,286 | 192,683 | 200,268 |
| Total passengers | 9,010,077 | 9,203,740 | 9,492,455 | 9,715,604 |
| Total enplaned passengers | 4,495,353 | 4,597,697 | 4,745,308 | 4,855,129 |
| Burke Lakefront Airport | | | | |
| Total operations | 72,916 | 65,664 | 64,358 | 68,456 |
| Total passengers | 184,427 | 176,096 | 174,598 | 166,965 |
| Total enplaned passengers | 92,160 | 87,695 | 87,012 | 83,438 |
| **Water Department** | | | | |
| Water rates per 1st 600 cubic feet of water used (5) | $13.76 | $12.58 | $12.58 | $11.59 |
| Average number of water accounts billed monthly (cubic feet) | 139,023 | 138,002 | 133,626 | 135,675 |
| Total water collections annually (including P&I) | $246,046,531 | $211,302,881 | $210,264,218 | $221,967,799 |
| Payments to Cleveland for bulk water purchases | $21,271,504 | $19,101,723 | $20,660,824 | $18,093,912 |
| **Wastewater Department** | | | | |
| Sewer and sanitary calls for service | 4,035 | 5,489 | 7,272 | 8,021 |
| After hours sewer calls (hours) | 167 | 204 | 185 | 103 |

(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. In 2012 rates changed from per 1000 cubic feet to per 600 cublic feet.
(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, 2010 and 2011
(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 and 2012 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.

| 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| $6,825 | $6,375 | $5,730 | $7,140 | $10,455 | $20,720 |
| $16,837 | $16,294 | $36,005 | $31,625 | $29,936 | $30,067 |
| 113,772 | 65,000 | 40,000 | 162,800 | 101,000 | 135,100 |
| 158,400 | 126,720 | 79,200 | 316,800 | 211,200 | 264,000 |
| 95,000 | 95,000 | 95,000 | 95,000 | 95,000 | 95,000 |
| 3,000 | 1,100 | 1,600 | 1,000 | 800 | 800 |
| 630 | 650 | 650 | 650 | 633 | 630 |
| 5,700 | 6,000 | 6,000 | 6,000 | 5,900 | 5,800 |
| 2,800 | 3,000 | 3,000 | 3,000 | 2,800 | 2,500 |
| 49,000 | 36,000 | 30,000 | 30,000 | 15,000 | 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 |
| 15,000 | 18,000 | 8,000 | 30,000 | 23,000 | 17,000 |
| 20,000 | 17,000 | 17,000 | 17,000 | 17,000 | 17,000 |
| 4 | 5 | 5 | 5 | 5 | 5 |
| 1,010 | 809 | 1,066 | 1,179 | 1,664 | 1,811 |
| 85,000 | 82,000 | 64,500 | 83,000 | 40,000 | 95,000 |
| $3,330,000 | $2,640,000 | $2,128,363 | $2,750,034 | $1,321,066 | $2,819,235 |
| 266,035 | 293,801 | 303,196 | 333,497 | 316,083 | 296,139 |
| $7,790,729 | $7,944,516 | $8,662,913 | $7,761,318 | $7,461,798 | $7,135,942 |
| 9,000 | 8,584 | 16,435 | 16,088 | 12,825 | 14,500 |
| 3.39% | 2.93% | 5.42% | 4.82% | 4.06% | 4.90% |
| 7,256,242 | 7,380,384 | 7,467,746 | 7,910,706 | 8,074,843 | 7,827,776 |
| 235,975 | 244,719 | 249,967 | 258,926 | 263,561 | 258,460 |
| 11,106,194 | 11,458,898 | 11,321,050 | 11,463,391 | 11,264,937 | 10,555,387 |
| 5,545,205 | 5,722,338 | 5,646,470 | 5,724,440 | 5,613,255 | 5,257,224 |
| 69,231 | 68,137 | 77,593 | 73,064 | 84,101 | 94,626 |
| 188,171 | 204,582 | 214,947 | 188,381 | 199,194 | 215,601 |
| 93,772 | 102,039 | 107,786 | 93,941 | 99,563 | 107,931 |
| $10.63 | $9.62 | $8.71 | $8.71 | $8.41 | $8.13 |
| 137,528 | 138,727 | 139,129 | 140,166 | 138,338 | 138,441 |
| $218,285,825 | $214,378,311 | $192,386,791 | $202,615,763 | $190,316,017 | $187,482,239 |
| $18,399,096 | $20,353,610 | $19,632,453 | $21,102,439 | $19,422,375 | $19,041,420 |
| 8,275 | 7,585 | 6,515 | 6,188 | 5,481 | 7,802 |
| 147 | 384 | 448 | 526 | 437 | N/A |

(Concluded)

# City of Cleveland, Ohio

*Capital Assets Statistics by Function/Program*

*Last Ten Years*

| Function/Program | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **General Government** | | | | |
| Square footage occupied (4) | 3,690,000 | 3,690,000 | 3,700,000 | 3,700,000 |
| Administrative vehicles | 37 | 36 | 26 | 28 |
| **Police** | | | | |
| Stations | 5 | 5 | 5 | 5 |
| Square footage of buildings (1) | 553,100 | 553,100 | 553,100 | 553,100 |
| Vehicles | 825 | 796 | 808 | 830 |
| **Fire** | | | | |
| Stations | 26 | 26 | 26 | 26 |
| Square footage of buildings | 313,224 | 313,224 | 313,224 | 313,224 |
| Vehicles | 104 | 104 | 120 | 127 |
| **EMS** | | | | |
| Stations (headquarters) | 1 | 1 | 1 | 1 |
| Square footage of buildings | 33,000 | 33,000 | 33,000 | 33,000 |
| Vehicles | 45 | 45 | 44 | 49 |
| **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 | 2,600 | 2,576 | 2,647 |
| Short term | 3,900 | 3,900 | 3,895 | 4,088 |
| Surface | 640 | 640 | 615 | 390 |
| Total parking spaces | 7,140 | 7,500 | 7,086 | 7,125 |
| Vehicles | 335 | 353 | 324 | 325 |
| **Other Public Works** | | | | |
| Streets (miles) | 1,300 | 1,290 | 1,319 | 1,319 |
| Service vehicles (5) | 1,906 | 868 | 754 | 773 |

| 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| 3,700,000 | 3,700,000 | 2,310,732 | 2,310,732 | 2,187,420 | 2,187,420 |
| 27 | 26 | 28 | 26 | 25 | 23 |
| 6 | 6 | 6 | 6 | 6 | 6 |
| 769,536 | 769,536 | 769,536 | 769,536 | 769,536 | 769,536 |
| 764 | 921 | 958 | 979 | 905 | 872 |
| 26 | 26 | 26 | 26 | 26 | 26 |
| 313,224 | 313,224 | 313,224 | 313,224 | 313,224 | 313,224 |
| 132 | 155 | 153 | 152 | 147 | 154 |
| 1 | 1 | 1 | 1 | N/A | N/A |
| 33,000 | 33,000 | 33,000 | 33,000 | N/A | N/A |
| 46 | 49 | 57 | 53 | 47 | 46 |
| 3 | 3 | 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 | 500 | 0 | 0 | 0 |
| 7,200 | 7,200 | 7,200 | 6,700 | 6,700 | 6,700 |
| 325 | 326 | 362 | 345 | 321 | 314 |
| 1,319 | 1,319 | 1,280 | 1,280 | 1,240 | 1,210 |
| 741 | 760 | 828 | 842 | 859 | 857 |

# City of Cleveland, Ohio

*Capital Assets Statistics by Function/Program*

*Last Ten Years*

| Function/Program | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **Recreation** | | | | |
| Number of parks | 154 | 154 | 154 | 154 |
| Number of playgrounds | 110 | 109 | 109 | 109 |
| Number of baseball diamonds | 138 | 132 | 133 | 134 |
| Number of tennis courts | 119 | 111 | 111 | 114 |
| Number of basketball courts | | | | |
| Full | 103 | 110 | 108 | 110 |
| Half | 10 | 10 | 10 | 10 |
| Number of soccer fields | 3 | 9 | 7 | 7 |
| Number of recreation centers | 21 | 20 | 19 | 19 |
| Number of pools | | | | |
| Indoor | 19 | 19 | 18 | 18 |
| Outdoor | 20 | 23 | 23 | 23 |
| Number of aquatic playgrounds | 10 | 10 | 9 | 9 |
| 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 | 1,489 | 1,495 | 1,492 | 1,487 |
| Vehicles | 97 | 99 | 156 | 160 |
| **Wastewater** | | | | |
| Sanitary sewers (miles) | 170 | 170 | 170 | 170 |
| Storm sewers (miles) | 199 | 199 | 199 | 199 |
| Combined sewers (miles) | 1,065 | 1,065 | 1,065 | 1,065 |
| Vehicles | 116 | 115 | 108 | 111 |
| **Electric Power** | | | | |
| Vehicles | 284 | 266 | 252 | 272 |
| **Water Department** | | | | |
| Water lines (miles) (2) | 2,839 | 2,709 | 2,704 | 2,493 |
| Vehicles | 736 | 708 | 744 | 745 |

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

(2) These are calculated totals of all trunk mains [20" diameter and larger] (439 miles), distribution mains [16" and smaller] within the City of Cleveland (1,266 miles) plus distribution mains within certain suburbs with updated service agreements (1,134 miles) which transferred ownership of the distribution mains within those suburban boundaries to the City of Cleveland. Not included in these totals are the distribution mains in all master meter communities and any direct service suburban community who has not entered into a new service agreement.

(3) In 2011 the City leased Seneca golf course. In 2012 the City leased both golf courses.

(4) Closed Platt Station and Luke Easter Station in 2011.

(5) In 2012 a departmental reorganization occurred that merged the departments of Public Service with Parks, Recreation and Properties becoming the Department of Public Works. The Office of Capital Projects was created from the Divisions of Architecture, Engineering and Construction and Research, Planning and Development and is reported under General Government. In addition, the Division of Consumer Affairs was merged with Community Development and was moved from General Government.

N/A Information not available.

| 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| 155 | 154 | 150 | 150 | 146 | 146 |
| 110 | 110 | 111 | 112 | 111 | 109 |
| 134 | 138 | 140 | 140 | 141 | 141 |
| 114 | 120 | 120 | 120 | 131 | 134 |
| | | | | | |
| 110 | 111 | 118 | 120 | 123 | 121 |
| 10 | 10 | 12 | 16 | 18 | 18 |
| 7 | 7 | 12 | 12 | 12 | 11 |
| 19 | 19 | 19 | 19 | 19 | 18 |
| | | | | | |
| 18 | 18 | 18 | 18 | 18 | 17 |
| 23 | 23 | 22 | 22 | 22 | 22 |
| 8 | 8 | 7 | 6 | 6 | 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 |
| 1,491 | 1,490 | 1,477 | 1,477 | 1,440 | 1,444 |
| 157 | 161 | 163 | 154 | 145 | 143 |
| | | | | | |
| 156 | 156 | 171 | 171 | 171 | 171 |
| 164 | 164 | 199 | 199 | 199 | 199 |
| 920 | 920 | 1,065 | 1,065 | 1,065 | 1,065 |
| 114 | 128 | 83 | 82 | 81 | 81 |
| | | | | | |
| 291 | 308 | 306 | 287 | 269 | 276 |
| | | | | | |
| 2,321 | 2,321 | 2,172 | 2,168 | 2,042 | 2,040 |
| 759 | 811 | 832 | 827 | 814 | 801 |

(Concluded)

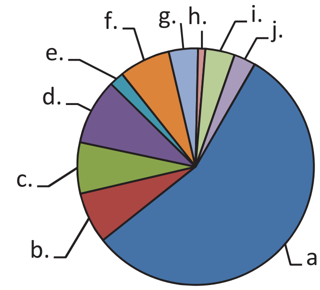
# CITY OF CLEVELAND, OHIO

*SCHEDULE OF STATISTICS-GENERAL FUND*
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**OPERATING RATIOS: GENERAL FUND-BUDGET BASIS**

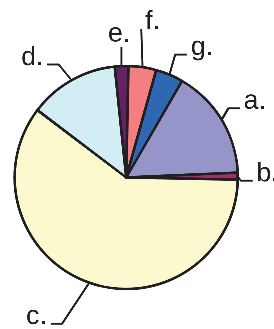
**REVENUE DOLLAR BY SOURCE**
Where the money came from

| | | |
|---|---|---|
| a. Income taxes | a. | $0.56 |
| b. Property taxes | b. | 0.07 |
| c. State local government funds | c. | 0.07 |
| d. Other taxes and shared revenues | d. | 0.09 |
| e. Licenses and permits | e. | 0.02 |
| f. Charges for services | f. | 0.07 |
| g. Fines, forfeits and settlements | g. | 0.04 |
| h. Grant revenue | h. | 0.01 |
| i. Miscellaneous | i. | 0.04 |
| j. Transfers in | j. | 0.03 |
| | | $1.00 |



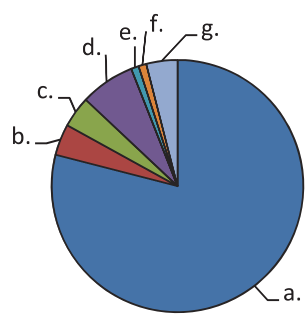

**EXPENDITURE DOLLAR BY FUNCTION**
Where the money was spent

| | | |
|---|---|---|
| a. General Government | a. | $0.16 |
| b. Public Health | b. | 0.01 |
| c. Public Safety | c. | 0.60 |
| d. PublicWorks | d. | 0.13 |
| e. Building and Housing | e. | 0.02 |
| f. Economic and Community Development and other | f. | 0.04 |
| g. Transfers out | g. | 0.04 |
| | | $1.00 |




**EXPENDITURE DOLLAR BY OBJECT**
What the money was spent on

| | | |
|---|---|---|
| a. Salaries, wages and related benefits | a. | $0.79 |
| b. Interdepartmental charges | b. | 0.04 |
| c. Utilities | c. | 0.04 |
| d. Contractual services | d. | 0.07 |
| e. Materials and supplies | e. | 0.01 |
| f. Maintenance | f. | 0.01 |
| g. Transfers out | g. | 0.04 |
| | | $1.00 |



# SPECIAL THANKS TO:

The Division of Financial Reporting and Control

## Accounting and Administrative

Poljona Basho
Lesly Camargo
Donnetta Carter
Shelfie Carter
Kay Cebron
Leigh Ebner
Michael Klein
Monete Morris
Va'Kedia Stiggers
Sharon Teter
Pandora Ward
Sylvia Ware
Kathleen Woidke

## Photography

City of Cleveland
Bureau of Photographic Services

## Cover color separations and printing

City of Cleveland
Division of Printing and Reproduction

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Cleveland, Ohio 44114
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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, 2012 and 2011**

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# CITY OF CLEVELAND, OHIO

## CENTRAL COLLECTION AGENCY
## DEPARTMENT OF FINANCE
## DIVISION OF TAXATION

## TABLE OF CONTENTS

## 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:

**Report on the Financial Statements**

We have audited the accompanying 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, 2012 and 2011 and the related notes to the financial statements, as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

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

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

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

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***Opinions***

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Central Collection Agency's Internal Service and Agency Funds, Division of Taxation, City of Cleveland, Ohio as of December 31, 2012 and 2011, and the changes in financial position and cash flows thereof, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

***Other Matters***

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, 2012 and 2011, and the respective changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.  Our opinion is not modified with respect to this matter.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 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.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules on pages 26 through 29 are presented for purpose of additional analysis and are not a required part of the Agency's basic financial statements.

The schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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, 2013

**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, 2012 and December 31, 2011. 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 2012 provided a full range of tax collection services for 54 member communities throughout 19 Ohio counties. The Agency employs more than 100 individuals to process approximately one million returns, estimated payments and tax assessments.

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

## FINANCIAL HIGHLIGHTS

- The assets and the liabilities of the Agency equal $85,515,911, $80,568,081 and $81,201,634, at December 31, 2012, 2011 and 2010, respectively. The Agency's total assets increased by $4,947,830 in 2012. The Agency's total assets decreased by $633,553 in 2011. Its total assets increased by $4,536,150 in 2010. The increase in 2012 was primarily due to increases in cash and cash equivalents and taxes receivable.

- The agency fund total cash receipts were approximately $430 million, $410 million and $404 million in 2012, 2011 and 2010, respectively. In 2012, cash receipts consisted of $349 million of employer withholding, $43 million of business profits, $34 million of individual payments and $4 million of other payments.

- The Agency's total operational cost was $8,191,396, $7,929,898 and $7,738,182 in 2012, 2011 and 2010, respectively. In 2012, operational costs consisted of $5,241,763 of employee's wages and benefits, $1,214,372 of allocated charges and $1,735,261 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 15-29 of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### CONDENSED STATEMENT OF NET POSITION INFORMATION

Provided below is condensed statement of net position information for the internal service and agency funds of the Agency as of December 31, 2012, 2011 and 2010:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Assets: | | | |
| Cash and cash equivalents | $ 13,993,219 | $ 11,253,433 | $ 11,474,868 |
| Capital assets, net of accumulated depreciation | 51,264 | 62,149 | |
| Taxes receivable | 70,300,395 | 68,531,863 | 68,776,540 |
| Due from CCA internal service fund | 736,482 | 317,108 | 536,515 |
| Due from member municipalities | 434,551 | 403,528 | 413,711 |
| Total assets | $ 85,515,911 | $ 80,568,081 | $ 81,201,634 |
| Liabilities: | | | |
| Accounts payable | $ 161,621 | $ 139,472 | $ 130,198 |
| Due to CCA agency fund | 736,482 | 317,108 | 536,515 |
| Due to the City of Cleveland | 57,407,784 | 54,309,391 | 52,361,519 |
| Due to member municipalities | 26,387,134 | 25,049,168 | 27,349,724 |
| Accrued wages and benefits - current | 717,938 | 653,504 | 713,714 |
| Accrued wages and benefits - long-term | 104,952 | 99,438 | 109,964 |
| Total liabilities | $ 85,515,911 | $ 80,568,081 | $ 81,201,634 |

***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 increased $4,947,830 during 2012, and decreased $633,553 during 2011. In 2012, the increase in assets is primarily attributable to an increase in cash and cash equivalents due to timing differences in the receipt of cash and distribution to member communities and increase in taxes receivable. 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

***Capital assets:*** The Agency's investment in capital assets as of December 31, 2012 amounted to $51,264 (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, 2012 is as follows:

| | Balance January 1, 2012 | Additions | Reductions | Balance December 31, 2012 |
|---|---|---|---|---|
| Furniture, fixtures, equipment and vehicles | $ 65,310 | $ | $ | $ 65,310 |
| Total | 65,310 | - | - | 65,310 |
| Less: Accumulated depreciation | (3,161) | (10,885) | | (14,046) |
| Total capital assets, net | $ 62,149 | $ (10,885) | $ - | $ 51,264 |

| | Balance January 1, 2011 | Additions | Reductions | Balance 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 2012, the increase in liabilities was primarily 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. 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Provided below is statement of revenue, expenses and changes in net position for the internal service fund of the Agency for the years ended December 31, 2012, 2011 and 2010:

| | Internal Service Fund | | |
|---|---|---|---|
| | **2012** | **2011** | **2010** |
| **Operating Revenues** | | | |
| Charges for services | $ 8,183,986 | $ 7,923,161 | $ 7,725,279 |
| Total operating revenues | 8,183,986 | 7,923,161 | 7,725,279 |
| **Operating Expenses** | | | |
| Salaries and wages | 3,904,075 | 3,652,130 | 3,572,148 |
| Employee benefits | 1,337,688 | 1,200,388 | 1,348,976 |
| Postage and office supplies | 316,428 | 314,709 | 256,730 |
| Allocation of City of Cleveland costs | 1,214,372 | 1,263,593 | 1,115,576 |
| Other administrative expenses | 1,388,237 | 1,495,917 | 1,444,752 |
| Property rental | 19,711 | | |
| Depreciation | 10,885 | 3,161 | |
| Total operating expense | 8,191,396 | 7,929,898 | 7,738,182 |
| Operating loss | (7,410) | (6,737) | (12,903) |
| **Non-operating Revenue** | | | |
| Interest income | 7,410 | 6,737 | 12,903 |
| **Change in net position** | - | - | - |
| **Net position at beginning of year** | - | - | - |
| **Net position at end of year** | $ - | $ - | $ - |

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (Continued)

**2012:**

There was an increase in the combined costs for salaries and wages and employee benefits of $389,245 in 2012. This was due to an employee pay increase of 3% and an increase in the cost of benefits.

Other administrative expenses decreased $107,680 in 2012. This was due to a decrease of approximately $100,000 in the professional services account.

**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%.

### 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 2013 are approximately the same as the collections in the same period in 2012. 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 2013, provides for an overall increase in budgeted expenditures of approximately 2.5%.

### 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**

**STATEMENTS OF NET POSITION - ALL FUND TYPES**
**December 31, 2012 and 2011**

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | 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 | $ 1,782,729 | $ 12,210,490 | $ 1,271,669 | $ 9,981,764 |
| Taxes receivable | | 70,300,395 | | 68,531,863 |
| Due from CCA internal service fund | | 736,482 | | 317,108 |
| Due from member municipalities | | 434,551 | | 403,528 |
| **TOTAL CURRENT ASSETS** | 1,782,729 | 83,681,918 | 1,271,669 | 79,234,263 |
| **CAPITAL ASSETS:** | | | | |
| Furniture, fixtures, equipment and vehicles | 65,310 | | 65,310 | |
| Less: Accumulated depreciation | (14,046) | | (3,161) | |
| **CAPITAL ASSETS, NET** | 51,264 | - | 62,149 | - |
| **TOTAL ASSETS** | $ 1,833,993 | $ 83,681,918 | $ 1,333,818 | $ 79,234,263 |

(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**

**STATEMENTS OF NET POSITION - ALL FUND TYPES**
**December 31, 2012 and 2011**

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Proprietary Fund Type | Fiduciary Fund Type | Proprietary Fund Type | Fiduciary Fund Type |
| | Internal Service | Agency | Internal Service | Agency |
| **LIABILITIES** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Accounts payable | $ 161,621 | $ | $ 139,472 | $ |
| Due to CCA agency fund | 736,482 | | 317,108 | |
| Due to the City of Cleveland | 113,000 | 57,294,784 | 124,296 | 54,185,095 |
| Due to member municipalities | | 26,387,134 | | 25,049,168 |
| Accrued wages and benefits - current | 717,938 | | 653,504 | |
| **TOTAL CURRENT LIABILITIES** | 1,729,041 | 83,681,918 | 1,234,380 | 79,234,263 |
| **LONG-TERM LIABILITIES** | | | | |
| Accrued wages and benefits | 104,952 | | 99,438 | |
| **TOTAL LONG-TERM LIABILITIES** | 104,952 | - | 99,438 | - |
| **TOTAL LIABILITIES** | 1,833,993 | 83,681,918 | 1,333,818 | 79,234,263 |
| **NET POSITION** | | | | |
| Net investment in capital assets | 51,264 | | 62,149 | |
| Unrestricted | (51,264) | | (62,149) | |
| **TOTAL NET POSITION** | - | - | - | - |
| **TOTAL LIABILITIES AND NET POSITION** | $ 1,833,993 | $ 83,681,918 | $ 1,333,818 | $ 79,234,263 |

(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 POSITION
## INTERNAL SERVICE FUND
## For the Years Ended December 31, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Charges for services | $ 8,183,986 | $ 7,923,161 |
| **TOTAL OPERATING REVENUES** | 8,183,986 | 7,923,161 |
| **OPERATING EXPENSES** | | |
| Salaries and wages | 3,904,075 | 3,652,130 |
| Employee benefits | 1,337,688 | 1,200,388 |
| Postage and office supplies | 316,428 | 314,709 |
| Allocation of City of Cleveland costs | 1,214,372 | 1,263,593 |
| Other administrative expenses | 1,388,237 | 1,495,917 |
| Property rental | 19,711 | |
| Depreciation | 10,885 | 3,161 |
| **TOTAL OPERATING EXPENSES** | 8,191,396 | 7,929,898 |
| **OPERATING LOSS** | (7,410) | (6,737) |
| **NON-OPERATING REVENUE** | | |
| Interest income | 7,410 | 6,737 |
| **CHANGE IN NET POSITION** | - | - |
| **NET POSITION AT BEGINNING OF YEAR** | | |
| **NET POSITION 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, 2012 and 2011**

| | 2012 | 2011 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash received from member municipalities | $ 8,603,360 | $ 7,703,754 |
| Cash payments to suppliers of goods and services | (2,932,038) | (3,032,164) |
| Cash payments for employee services and benefits | (5,167,672) | (4,973,167) |
| **NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES** | 503,650 | (301,577) |
| **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 | 7,410 | 6,737 |
| **NET CASH PROVIDED BY INVESTING ACTIVITIES** | 7,410 | 6,737 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 511,060 | (360,150) |
| Cash and cash equivalents at beginning of year | 1,271,669 | 1,631,819 |
| Cash and cash equivalents at end of year | $ 1,782,729 | $ 1,271,669 |
| **RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED FOR) OPERATIONS** | | |
| Operating loss | $ (7,410) | $ (6,737) |
| Adjustments to reconcile operating loss to net cash provided by (used for) operating activities: | | |
| Depreciation | 10,885 | 3,161 |
| Changes in assets and liabilities: | | |
| Increase in accounts payable | 22,149 | 9,274 |
| Increase (decrease) in due to CCA agency fund | 419,374 | (219,407) |
| Decrease in due to City of Cleveland | (11,296) | (17,132) |
| Increase (decrease) in accrued wages and benefits | 69,948 | (70,736) |
| Total adjustments | 511,060 | (294,840) |
| **NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES** | $ 503,650 | $ (301,577) |

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

## 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 November of 2010, Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The Agency has determined that GASB Statement No. 60 has no impact on its financial statements as of December 31, 2012.

In December of 2010, Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations, (2) Accounting Principles Board Opinions and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. As required, the Agency has implemented GASB Statement No. 62 effective for the 2012 fiscal year.

**NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In June of 2011, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. As required, the Agency has implemented GASB Statement No. 63 effective for the 2012 fiscal year. The Agency has determined that GASB Statement No. 63 has no impact on its financial statements as of December 31, 2012.

In June of 2011, Governmental Accounting Standards Board (GASB) Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision* was issued. This Statement is effective for fiscal periods beginning after June 15, 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The Agency has determined that GASB Statement No. 64 has no impact on its financial statements as of December 31, 2012.

The Agency's net position is accounted for in the accompanying statements of net position and is divided into amounts in net investment in capital assets and unrestricted. The negative unrestricted amount will be eliminated as depreciation expense is passed along to members of the Agency.

***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.

***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.

## NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***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.

***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 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.

The City has invested funds in STAROhio during years 2012 and 2011. 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 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, 2012 and 2011.

***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 statement of net position.

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, 2012 and December 31, 2011 totaled \$2,967,406 and \$2,905,987, respectively, and the Agency's bank balances were \$2,166,208 and \$2,595,620, 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*, \$2,166,208 and \$2,595,620 of the bank balances at December 31, 2012 and 2011, 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.

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

Generally, investments are recorded 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, 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.

**NOTES TO FINANCIAL STATEMENTS (Continued)**
**For the Years Ended December 31, 2012 and 2011**

**NOTE C--POOLED AND SEGREGATED CASH AND INVESTMENTS (Continued)**

***Credit Risk:*** The Division's investments as of December 31, 2012 and 2011 include STAROhio and mutual funds. Investments in STAROhio and Federated Government Obligation Mutual Fund carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service.

***Concentration of Credit Risk:*** The 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, 2012 and 2011, which include those classified as cash and cash equivalents in the Statements of Net Position in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

| Type of Investment | 2012 Fair Value | 2012 Cost | 2011 Fair Value | 2011 Cost | Investment Maturities Less Than One Year |
|---|---|---|---|---|---|
| STAROhio | $ 10,052,926 | $ 10,052,926 | $ 1,683,888 | $ 1,683,888 | $ 10,052,926 |
| Investment in Mutual Funds | 972,887 | 972,887 | 6,663,558 | 6,663,558 | 972,887 |
| Total Investments | 11,025,813 | 11,025,813 | 8,347,446 | 8,347,446 | 11,025,813 |
| Total Deposits | 2,967,406 | 2,967,406 | 2,905,987 | 2,905,987 | 2,967,406 |
| Total Deposits and Investments | $ 13,993,219 | $ 13,993,219 | $ 11,253,433 | $ 11,253,433 | $ 13,993,219 |

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, 2012, the investments in STAROhio and mutual funds are approximately 91% and 9%, respectively, of the Agency's total investments. As of December 31, 2011, the investments in STAROhio and mutual funds are approximately 20% and 80%, respectively, of the Agency's total investments.

CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION

## NOTES TO FINANCIAL STATEMENTS (Continued)
## For the Years Ended December 31, 2012 and 2011

### NOTE D--CAPITAL ASSETS

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

| | Balance January 1, 2012 | Additions | Reductions | Balance December 31, 2012 |
|---|---|---|---|---|
| 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) | (10,885) | | (14,046) |
| Total capital assets, being depreciated, net | 62,149 | (10,885) | - | 51,264 |
| Capital assets, net | $ 62,149 | $ (10,885) | $ - | $ 51,264 |

***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 |
|---|---|---|---|---|
| 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 |

## CITY OF CLEVELAND, OHIO
## CENTRAL COLLECTION AGENCY
## DEPARTMENT OF FINANCE
## DIVISION OF TAXATION

## NOTES TO FINANCIAL STATEMENTS (Continued)
## For the Years Ended December 31, 2012 and 2011

### 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, 2012 are as follows:

| | Internal Service Fund | Agency Fund | Total |
|---|---|---|---|
| Due from CCA internal service fund | $ | $ 736,482 | $ 736,482 |
| Due from member municipalities | | 434,551 | 434,551 |
| **Total Due From** | $ - | $ 1,171,033 | $ 1,171,033 |
| Due to the CCA agency fund | $ 736,482 | $ | $ 736,482 |
| Due to the City of Cleveland | 113,000 | 57,294,784 | 57,407,784 |
| Due to member municipalities | | 26,387,134 | 26,387,134 |
| **Total Due To** | $ 849,482 | $ 83,681,918 | $ 84,531,400 |

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 |

## 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.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2012, 2011 and 2010. The employer contribution rates were 14.00% of covered payroll in 2012, 2011 and 2010.

The Agency's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2012, 2011 and 2010 were $381,000, $363,000 and $364,000 each year, respectively. The required payments due in 2012, 2011 and 2010 have been made.

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

## NOTE G-- OTHER POSTEMPLOYMENT BENEFITS

***Ohio Public Employees Retirement System*:** All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS maintains a cost-sharing multiple employer defined benefit postemployment health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. In order to qualify for postemployment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, 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 2012, 2011 and 2010. 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 2012 and 2011, 6.05% for members of the Combined Plan in 2012 and 2011 and 5.50% from January 1, 2010 through February 28, 2010 and 5.00% from March 1, 2010 through December 31, 2010 for both plans. Effective January 1, 2013, the portion of employer contributions allocated to health care was lowered to 1.00% for both plans, as recommended by the OPERS Actuary. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Agency's actual contributions to OPERS to fund postemployment benefits were $152,000 in 2012, $145,000 in 2011 and $207,000 in 2010. The required payments due in 2012, 2011 and 2010 have been made.

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

## NOTES TO FINANCIAL STATEMENTS (Continued)
## For the Years Ended December 31, 2012 and 2011

### 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, 2012 and 2011 were as follows:

| | 2012 | 2011 |
|---|---|---|
| City administration | $414,261 | $401,050 |
| Office rent | 425,000 | 393,948 |
| Telephone | 84,184 | 79,230 |
| Cleveland Public Power | 24,743 | 23,258 |
| Parking Facilities | 2,652 | 2,903 |
| Printing services | 247,724 | 351,281 |
| Motor Vehicle Maintenance | 15,808 | 11,923 |
| Total | $1,214,372 | $1,263,593 |

### NOTE I--DUE FROM MEMBER CITIES

The Agency has recorded certain liabilities in the internal service fund related to compensated absences totaling $434,551 at December 31, 2012 and $403,528 at December 31, 2011 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 2012 or 2011.

The City provides the choice of four separate health insurance plans for its employees. These plans are provided by two different insurers through commercial insurance. Operating funds are charged a monthly rate per employee, by type of coverage. The City participates in the State of Ohio workers' compensation retrospective rating program.

**NOTE J--CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)**

In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses, regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Claims liability for the 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, 2012 and 2011**

| | Balance 1/1/2012 | Additions | Deductions | Balance 12/31/2012 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 9,981,764 | $ 430,398,251 | $ (428,169,525) | $ 12,210,490 |
| Taxes receivable | 68,531,863 | 70,300,395 | (68,531,863) | 70,300,395 |
| Due from the CCA internal service fund | 317,108 | 736,482 | (317,108) | 736,482 |
| Due from member municipalities | 403,528 | 434,551 | (403,528) | 434,551 |
| **TOTAL ASSETS** | $ 79,234,263 | $ 501,869,679 | $ (497,422,024) | $ 83,681,918 |
| **LIABILITIES** | | | | |
| Due to the City of Cleveland | $ 54,185,095 | $ 394,567,927 | $ (391,458,238) | $ 57,294,784 |
| Due to member municipalities | 25,049,168 | 107,301,752 | (105,963,786) | 26,387,134 |
| **TOTAL LIABILITIES** | $ 79,234,263 | $ 501,869,679 | $ (497,422,024) | $ 83,681,918 |

| | 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 |

**CITY OF CLEVELAND, OHIO**
**CENTRAL COLLECTION AGENCY**
**DIVISION OF TAXATION**

## SCHEDULE OF CASH RECEIPTS AND DISTRIBUTION OF FUNDS
## FOR THE YEAR ENDED DECEMBER 31, 2012

| Members | Balance Collected and Due Members January 1,2012 | Cash Receipts Net | Total Cash Receipts | Cash Disbursed | Allocation of Net Operating Expenses | Total Disbursements and Expenses | Balance Collected And Due Members December 31,2012 |
|---|---|---|---|---|---|---|---|
| Ada | $ 114,947.07 | $ 1,565,922.50 | $ 1,680,869.57 | $ 1,493,755.01 | $ 48,258.84 | $ 1,542,013.85 | $ 138,855.72 |
| Alger | (1,210.02) | 55,538.09 | 54,328.07 | 48,958.60 | 6,404.78 | 55,363.38 | (1,035.31) |
| Athens | | 665.00 | 665.00 | 625.00 | 49.28 | 674.28 | (9.28) |
| Barberton | 823,230.28 | 10,241,810.10 | 11,065,040.38 | 9,898,035.30 | 275,078.73 | 10,173,114.03 | 891,926.35 |
| Bedford | (428.82) | 12,379.18 | 11,950.36 | 11,395.36 | 869.52 | 12,264.88 | (314.52) |
| Bradner | 4,144.06 | 128,284.32 | 132,428.38 | 116,879.85 | 10,464.95 | 127,344.80 | 5,083.58 |
| Bratenahl | 262,105.83 | 1,466,240.43 | 1,728,346.26 | 1,520,962.81 | 37,001.11 | 1,557,963.92 | 170,382.34 |
| Burton | 37,292.36 | 467,608.71 | 504,901.07 | 450,903.31 | 26,027.13 | 476,930.44 | 27,970.63 |
| Cleveland | 5,014,287.51 | 334,664,097.67 | 339,678,385.18 | 327,762,699.03 | 5,222,006.46 | 332,984,705.49 | 6,693,679.69 |
| Cridersville | 10,450.18 | 304,476.78 | 314,926.96 | 279,413.04 | 22,306.48 | 301,719.52 | 13,207.44 |
| Cuyahoga Falls | | 67,404.68 | 67,404.68 | 60,933.70 | 6,727.76 | 67,661.46 | (256.78) |
| Dayton | 22,754.21 | 228,982.94 | 251,737.15 | 228,417.40 | 23,550.34 | 251,967.74 | (230.59) |
| Eastlake | | 33,659.14 | 33,659.14 | 31,708.07 | 2,113.99 | 33,822.06 | (162.92) |
| Elida | 16,196.10 | 425,905.04 | 442,101.14 | 396,223.94 | 27,852.53 | 424,076.47 | 18,024.67 |
| Englewood | | 18,545.87 | 18,545.87 | 17,522.20 | 2,172.79 | 19,694.99 | (1,149.12) |
| Gates Mills | 203,419.65 | 1,638,569.38 | 1,841,989.03 | 1,592,823.08 | 54,983.26 | 1,647,806.34 | 194,182.69 |
| Geneva-on-the-Lake | (1,079.30) | 167,005.84 | 165,926.54 | 145,646.71 | 16,209.69 | 161,856.40 | 4,070.14 |
| Grand Rapids | (479.76) | 258,554.01 | 258,074.25 | 225,962.29 | 19,817.45 | 245,779.74 | 12,294.51 |
| Grand River | 29,325.21 | 268,667.34 | 297,992.55 | 266,091.45 | 8,744.24 | 274,835.69 | 23,156.86 |
| Hamilton | | 203,052.70 | 203,052.70 | 178,949.90 | 16,485.78 | 195,435.68 | 7,617.02 |
| Highland Hills | 228,135.92 | 3,227,048.28 | 3,455,184.20 | 3,195,515.57 | 47,982.71 | 3,243,498.28 | 211,685.92 |
| Huntsville | 284.05 | 63,143.17 | 63,427.22 | 55,081.43 | 5,920.02 | 61,001.45 | 2,425.77 |
| Lakewood | 20.69 | 12,963.40 | 12,984.09 | 11,404.48 | 1,792.11 | 13,196.59 | (212.50) |
| Lancaster | | 99,510.32 | 99,510.32 | 86,728.54 | 5,968.59 | 92,697.13 | 6,813.19 |
| Liberty Center | 2,689.67 | 183,242.41 | 185,932.08 | 167,595.76 | 13,281.97 | 180,877.73 | 5,054.35 |
| Lima | (781.10) | 16,085.91 | 15,304.81 | 13,831.44 | 2,342.23 | 16,173.67 | (868.86) |
| Linndale | 5,832.04 | 77,717.87 | 83,549.91 | 76,209.97 | 2,804.76 | 79,014.73 | 4,535.18 |
| Lorain | (2,349.49) | 31,579.66 | 29,230.17 | 25,370.54 | 2,142.30 | 27,512.84 | 1,717.33 |
| Madison | 56,621.21 | 863,610.36 | 920,231.57 | 812,486.66 | 52,745.53 | 865,232.19 | 54,999.38 |
| Medina | 897,634.91 | 13,712,781.05 | 14,610,415.96 | 13,048,995.24 | 471,676.10 | 13,520,671.34 | 1,089,744.62 |
| Mentor-on-the-Lake | 55,225.44 | 848,545.59 | 903,771.03 | 803,719.55 | 44,385.56 | 848,105.11 | 55,665.92 |
| Munroe Falls | 75,498.95 | 1,091,824.82 | 1,167,323.77 | 1,026,156.62 | 50,585.71 | 1,076,742.33 | 90,581.44 |
| Northfield | 64,014.50 | 1,062,126.75 | 1,126,141.25 | 980,732.95 | 45,592.48 | 1,026,325.43 | 99,815.82 |
| North Baltimore | 50,155.46 | 686,597.86 | 736,753.32 | 632,309.52 | 33,946.24 | 666,255.76 | 70,497.56 |
| North Perry | 73,610.17 | 1,002,641.95 | 1,076,252.12 | 979,633.97 | 18,793.54 | 998,427.51 | 77,824.61 |
| North Randall | 90,702.47 | 1,007,884.67 | 1,098,587.14 | 991,311.51 | 27,783.23 | 1,019,094.74 | 79,492.40 |
| Norton | 310,478.39 | 4,816,401.81 | 5,126,880.20 | 4,578,014.77 | 172,931.17 | 4,750,945.94 | 375,934.26 |
| Village of Oakwood | 3,950.14 | 85,473.41 | 89,423.55 | 77,598.57 | 8,016.50 | 85,615.07 | 3,808.48 |
| Painesville | 561,544.70 | 8,066,350.08 | 8,627,894.78 | 7,694,763.93 | 192,670.00 | 7,887,433.93 | 740,460.85 |
| Parma Heights | | 1,204.77 | 1,204.77 | 1,144.77 | 60.00 | 1,204.77 | - |
| Paulding | 7,356.03 | 434,657.80 | 442,013.83 | 388,120.01 | 38,490.03 | 426,610.04 | 15,403.79 |
| Peninsula | 16,231.16 | 292,242.09 | 308,473.25 | 273,126.90 | 16,595.95 | 289,722.85 | 18,750.40 |
| Rocky River | 594,737.05 | 8,868,954.44 | 9,463,691.49 | 8,395,345.53 | 353,560.78 | 8,748,906.31 | 714,785.18 |
| Russells Point | 9,742.96 | 230,051.47 | 239,794.43 | 211,437.49 | 17,157.68 | 228,595.17 | 11,199.26 |
| Seville | 61,483.37 | 1,026,007.19 | 1,087,490.56 | 972,100.67 | 47,814.66 | 1,019,915.33 | 67,575.23 |
| South Russell | 97,898.68 | 1,334,853.13 | 1,432,751.81 | 1,271,160.55 | 62,499.95 | 1,333,660.50 | 99,091.31 |
| Stow | 2,368.46 | 24,211.05 | 26,579.51 | 22,561.01 | 2,334.38 | 24,895.39 | 1,684.12 |
| Timberlake | 264.16 | 84,115.64 | 84,379.80 | 73,948.70 | 8,384.21 | 82,332.91 | 2,046.89 |
| Trotwood | 6,482.14 | 36,884.34 | 43,366.48 | 36,139.03 | 2,568.57 | 38,707.60 | 4,658.88 |
| Troy | (2,207.12) | 42,877.54 | 40,670.42 | 24,167.78 | 6,320.87 | 30,488.65 | 10,181.77 |
| Wadsworth | 506,452.09 | 7,596,514.98 | 8,102,967.07 | 7,143,137.89 | 318,166.73 | 7,461,304.62 | 641,662.45 |
| Warren | (1,916.59) | 80,335.99 | 78,419.40 | 67,840.19 | 6,186.84 | 74,027.03 | 4,392.37 |
| Warrensville Heights | 968,474.76 | 13,522,492.73 | 14,490,967.49 | 13,118,549.75 | 266,872.17 | 13,385,421.92 | 1,105,545.57 |
| Waynesfield | 2,348.79 | 129,571.15 | 131,919.94 | 118,666.76 | 8,487.78 | 127,154.54 | 4,765.40 |
| Totals | $ 11,277,938.62 | $ 422,877,873.40 | $ 434,155,812.02 | $ 412,102,814.10 | $ 8,183,986.46 | $ 420,286,800.56 | $ 13,869,011.46 |

**CITY OF CLEVELAND, OHIO**
**CENTRAL COLLECTION AGENCY**
**DIVISION OF TAXATION**

## SCHEDULE OF ALLOCATION OF NET OPERATING EXPENSES
## FOR THE YEAR ENDED DECEMBER 31, 2012

| 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 | 0.590908% | 1.953832% | $ 48,403.62 | $ 144.78 | $ 48,258.84 |
| Alger | 0.078252% | 0.069296% | 6,409.91 | 5.13 | 6,404.78 |
| Athens | 0.000602% | 0.000830% | 49.34 | 0.06 | 49.28 |
| Barberton | 3.369702% | 12.778906% | 276,025.63 | 946.90 | 275,078.73 |
| Bedford | 0.010629% | 0.015446% | 870.66 | 1.14 | 869.52 |
| Bradner | 0.127900% | 0.160063% | 10,476.81 | 11.86 | 10,464.95 |
| Bratenahl | 0.453362% | 1.829457% | 37,136.67 | 135.56 | 37,001.11 |
| Burton | 0.318265% | 0.583444% | 26,070.36 | 43.23 | 26,027.13 |
| Cleveland | 63.508923% | 0.000000% | 5,222,006.46 | | 5,222,006.46 |
| Cridersville | 0.272660% | 0.379902% | 22,334.63 | 28.15 | 22,306.48 |
| Cuyahoga Falls | 0.082208% | 0.084102% | 6,733.99 | 6.23 | 6,727.76 |
| Dayton | 0.287759% | 0.285706% | 23,571.51 | 21.17 | 23,550.34 |
| Eastlake | 0.025845% | 0.041997% | 2,117.10 | 3.11 | 2,113.99 |
| Elida | 0.340503% | 0.531410% | 27,891.91 | 39.38 | 27,852.53 |
| Englewood | 0.026546% | 0.023140% | 2,174.50 | 1.71 | 2,172.79 |
| Gates Mills | 0.673081% | 2.044475% | 55,134.75 | 151.49 | 54,983.26 |
| Geneva-on-the-Lake | 0.198075% | 0.208376% | 16,225.13 | 15.44 | 16,209.69 |
| Grand Rapids | 0.242222% | 0.322603% | 19,841.35 | 23.90 | 19,817.45 |
| Grand River | 0.107052% | 0.335221% | 8,769.08 | 24.84 | 8,744.24 |
| Hamilton | 0.201486% | 0.253353% | 16,504.55 | 18.77 | 16,485.78 |
| Highland Hills | 0.589412% | 4.026451% | 48,281.07 | 298.36 | 47,982.71 |
| Huntsville | 0.072343% | 0.078785% | 5,925.86 | 5.84 | 5,920.02 |
| Lakewood | 0.021893% | 0.016175% | 1,793.31 | 1.20 | 1,792.11 |
| Lancaster | 0.072976% | 0.124161% | 5,977.79 | 9.20 | 5,968.59 |
| Liberty Center | 0.162352% | 0.228635% | 13,298.91 | 16.94 | 13,281.97 |
| Lima | 0.028612% | 0.020071% | 2,343.72 | 1.49 | 2,342.23 |
| Linndale | 0.034328% | 0.096970% | 2,811.95 | 7.19 | 2,804.76 |
| Lorain | 0.026189% | 0.039403% | 2,145.22 | 2.92 | 2,142.30 |
| Madison | 0.644888% | 1.077543% | 52,825.37 | 79.84 | 52,745.53 |
| Medina | 5.773667% | 17.109704% | 472,943.91 | 1,267.81 | 471,676.10 |
| Mentor-on-the-Lake | 0.542814% | 1.058747% | 44,464.01 | 78.45 | 44,385.56 |
| Munroe Falls | 0.618779% | 1.362291% | 50,686.65 | 100.94 | 50,585.71 |
| Northfield | 0.557789% | 1.325236% | 45,690.68 | 98.20 | 45,592.48 |
| North Baltimore | 0.415188% | 0.856682% | 34,009.72 | 63.48 | 33,946.24 |
| North Perry | 0.230562% | 1.251016% | 18,886.24 | 92.70 | 18,793.54 |
| North Randall | 0.340313% | 1.257557% | 27,876.41 | 93.18 | 27,783.23 |
| Norton | 2.116568% | 6.009518% | 173,376.47 | 445.30 | 172,931.17 |
| Village of Oakwood | 0.097961% | 0.106647% | 8,024.40 | 7.90 | 8,016.50 |
| Painesville | 2.589867% | 0.000000% | 192,670.00 | | 192,670.00 |
| Parma Heights | 0.003939% | 0.000000% | 60.00 | | 60.00 |
| Paulding | 0.470374% | 0.542331% | 38,530.22 | 40.19 | 38,490.03 |
| Peninsula | 0.202932% | 0.364636% | 16,622.97 | 27.02 | 16,595.95 |
| Rocky River | 4.326256% | 11.065967% | 354,380.75 | 819.97 | 353,560.78 |
| Russells Point | 0.209719% | 0.287040% | 17,178.95 | 21.27 | 17,157.68 |
| Seville | 0.584876% | 1.280169% | 47,909.52 | 94.86 | 47,814.66 |
| South Russell | 0.764502% | 1.665522% | 62,623.36 | 123.41 | 62,499.95 |
| Stow | 0.028525% | 0.030209% | 2,336.62 | 2.24 | 2,334.38 |
| Timberlake | 0.102449% | 0.104953% | 8,391.99 | 7.78 | 8,384.21 |
| Trotwood | 0.031399% | 0.046021% | 2,571.98 | 3.41 | 2,568.57 |
| Troy | 0.077213% | 0.053499% | 6,324.83 | 3.96 | 6,320.87 |
| Wadsworth | 3.892731% | 9.478320% | 318,869.06 | 702.33 | 318,166.73 |
| Warren | 0.075619% | 0.100237% | 6,194.27 | 7.43 | 6,186.84 |
| Warrensville Heights | 3.273220% | 16.872277% | 268,122.39 | 1,250.22 | 266,872.17 |
| Waynesfield | 0.103765% | 0.161668% | 8,499.76 | 11.98 | 8,487.78 |
| Totals | 100.000000% | 100.000000% | $ 8,191,396.32 | $ 7,409.86 | $ 8,183,986.46 |

**CITY OF CLEVELAND, OHIO**
**CENTRAL COLLECTIONS AGENCY**
**DIVISION OF TAXATION**

**SCHEDULES OF INCOME TAXES RECEIVABLE**
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

| | Income Taxes Receivable Dec. 31, 2012 | Income Taxes Receivable Dec. 31, 2011 |
|---|---|---|
| Ada | $ 287,695.99 | $ 217,305.95 |
| Alger | 29,310.91 | 21,022.10 |
| Athens | 53,599.17 | |
| Barberton | 1,831,823.64 | 1,938,784.65 |
| Bedford | 2,360.56 | 2,982.42 |
| Bradner | 45,933.97 | 45,508.92 |
| Bratenahl | 504,917.23 | 542,783.42 |
| Burton | 130,734.19 | 139,101.15 |
| Cleveland | 50,601,104.01 | 49,170,807.30 |
| Cridersville | 104,407.84 | 111,722.14 |
| Cuyahoga Falls | 1,888.27 | |
| Dayton | 34,425.93 | 50,548.67 |
| Eastlake | 1,727.33 | |
| Elida | 169,972.19 | 169,552.09 |
| Englewood | 1,077.67 | |
| Gates Mills | 674,927.21 | 631,825.04 |
| Geneva-on-the-Lake | 57,603.53 | 48,416.86 |
| Grand Rapids | 99,563.72 | 77,145.84 |
| Grand River | 57,513.97 | 51,552.69 |
| Hamilton | 41,375.15 | |
| Highland Hills | 452,776.23 | 438,438.55 |
| Huntsville | 20,482.71 | 16,079.62 |
| Lakewood | 6,716.89 | 1,957.47 |
| Lancaster | 8,944.21 | |
| Liberty Center | 46,360.77 | 44,530.43 |
| Lima | 3,034.51 | 2,759.83 |
| Linndale | 10,711.15 | 11,017.73 |
| Lorain | 9,708.68 | 13,497.11 |
| Madison | 301,217.06 | 310,531.44 |
| Medina | 3,507,821.88 | 3,253,925.84 |
| Mentor-on-the-Lake | 221,636.88 | 233,512.32 |
| Munroe Falls | 249,824.08 | 240,165.75 |
| Northfield | 267,887.35 | 260,876.72 |
| North Baltimore | 136,744.80 | 135,053.14 |
| North Perry | 104,171.19 | 125,602.11 |
| North Randall | 165,821.85 | 148,095.83 |
| Norton | 1,199,095.38 | 1,181,535.00 |
| Village of Oakwood | 21,827.00 | 28,907.45 |
| Painesville | 503,872.84 | 1,198,473.22 |
| Paulding | 105,130.53 | 102,009.38 |
| Peninsula | 72,324.25 | 66,031.55 |
| Rocky River | 2,558,965.40 | 2,412,346.28 |
| Russells Point | 76,113.73 | 77,413.16 |
| Seville | 317,959.58 | 305,018.85 |
| South Russell | 506,003.88 | 424,839.48 |
| Stow | 5,560.19 | 4,327.99 |
| Timberlake | 34,109.34 | 33,621.74 |
| Trotwood | 2,919.33 | 11,156.74 |
| Troy | 9,096.47 | 4,265.06 |
| Wadsworth | 2,003,237.57 | 1,750,699.83 |
| Warren | 18,819.48 | 20,889.22 |
| Warrensville Heights | 2,582,004.35 | 2,420,485.06 |
| Waynesfield | 37,532.82 | 34,739.51 |
| | $ 70,300,394.86 | $ 68,531,862.65 |

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC WORKS
## DIVISION OF PARKING FACILITIES

**REPORT ON AUDITS OF FINANCIAL STATEMENTS**
**For the years ended December 31, 2012 and 2011**

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC WORKS
## DIVISION OF PARKING FACILITIES

### TABLE OF CONTENTS

**INDEPENDENT AUDITORS' REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Division of Parking Facilities, Department of Public Works, City of Cleveland, Ohio (the "Division") as of and for the years ended December 31, 2012 and 2011 and the related notes to the financial statements, as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

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

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

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

***Opinions***

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Division of Parking Facilities, Department of Public Works, City of Cleveland, Ohio as of December 31, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Effect of Adopting New Accounting Standards**

As discussed in Note A, the Division adopted the provisions of Governmental Accounting Standards Board Statement No. 60 *Accounting and Financial Reporting for Service Concession Arrangements*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision*. Our opinion is not modified with respect to this matter.

***Other Matters***

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, 2012 and 2011, and the respective changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 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, 2013

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

## GENERAL

As management of the City of Cleveland's (the City) Department of Public Works, Division of Parking Facilities (the Division), we offer readers of the Division's financial statements this narrative overview and analysis of the financial activities of the Division for the years ended December 31, 2012 and 2011. Please read this information in conjunction with the Division's financial statements and footnotes which begin on page 13.

The Division was created for the purpose of providing moderately priced off-street parking facilities and on-street metered parking to citizens, visitors and those who work in the City. The Division's operating revenues are derived primarily from charges for parking at its facilities and from parking meter collections. In 2012 the Division facilities included two parking garages and four surface lots. In 2011 the Division facilities included three parking garages and four surface lots until the sale of one garage in October.

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

## FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities (net position) by $20,179,000, $18,912,000 and $21,302,000 at December 31, 2012, 2011 and 2010, respectively. Of these amounts, $5,382,000, $5,391,000 and $7,741,000 (unrestricted net position) at December 31, 2012, 2011 and 2010, respectively, may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's total net position increased by $1,267,000 during 2012, decreased by $2,390,000 during 2011 and decreased by $10,000 during 2010. In 2012, operating income decreased by $541,000 and net non-operating expenses and special items decreased by $3,708,000. In 2011, operating income decreased by $410,000 and net non-operating expenses increased by $7,095,000.

- The Division's total bonded debt decreased by $2,420,000 (7.1%), $19,570,000 (36.5%) and $3,300,000 (5.8%) during 2012, 2011 and 2010, respectively. These amounts represent the principal payments made in 2012, 2011 and 2010. 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 STATEMENT OF NET POSITION INFORMATION

Provided below is condensed statement of net position information for the Division as of December 31, 2012, 2011 and 2010:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | (Amounts in 000's) | | |
| Assets and Deferred Outflows: | | | |
| Assets: | | | |
| Current assets | $ 5,657 | $ 1,959 | $ 2,164 |
| Restricted assets | 8,762 | 13,188 | 16,002 |
| Unamortized bond issuance costs | 1,288 | 1,515 | 2,583 |
| Capital assets, net | 36,658 | 37,573 | 53,748 |
| Total assets | 52,365 | 54,235 | 74,497 |
| Deferred Outflows of Resources: | | | |
| Derivative instruments-interest rate swaps | | | 1,829 |
| Total deferred outflows of resources | - | - | 1,829 |
| Total assets and deferred outflows | 52,365 | 54,235 | 76,326 |
| Liabilities, Deferred Inflows and Net Position: | | | |
| Liabilities: | | | |
| Current liabilities | 3,692 | 4,066 | 4,983 |
| Long-term liabilities | 28,129 | 30,475 | 50,041 |
| Total liabilities | 31,821 | 34,541 | 55,024 |
| Deferred Inflows of Resources: | | | |
| Derivative instruments-interest rate swaps | 365 | 782 | |
| Total deferred inflows of resources | 365 | 782 | - |
| Net Positon: | | | |
| Net investment in capital assets | 9,272 | 7,943 | 5,423 |
| Restricted for debt service | 5,525 | 5,578 | 8,138 |
| Unrestricted | 5,382 | 5,391 | 7,741 |
| Total net position | 20,179 | 18,912 | 21,302 |
| Total liabilities, deferred inflows and net position | $ 52,365 | $ 54,235 | $ 76,326 |

## CONDENSED STATEMENT OF NET POSITION 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 5.7% from 2011 to 2012. This was primarily due to the decrease in restricted assets. The primary reason for the decrease in 2011 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.

***Capital assets****:* The Division's capital assets (net of accumulated depreciation) as of December 31, 2012 and 2011 amounted to $36,658,000 and $37,573,000, respectively. The total decrease in the Division's investment in capital assets was $915,000 (2.4%) and $16,175,000 (30.1%) in 2012 and 2011, respectively. The decrease in 2012 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, 2012 is as follows:

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

## CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

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 |

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.

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 2012 and 2011, the Division had total bonded debt outstanding of $31,625,000 and $34,045,000 respectively. This is a reduction of approximately 7.1%. This reduction is primarily the result of annual principal payments on the Division's outstanding bonds. This current debt was incurred to refund debt previously issued to construct two new parking garages around the Gateway site and a new Willard Park Garage behind City Hall. The City's first garage on the Gateway site was completed in January 1994. The second garage was completed in August 1994 and was subsequently sold in 2011. The Willard Park Garage construction was completed in April 1996. The bonds are backed by the net revenues from these facilities. In addition, the City has pledged additional revenues, which consist of various non-tax revenues, to meet debt service requirements, if necessary. In 2012 and 2011, no additional pledged revenue was required to meet the debt service requirements on the parking bonds.

## CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

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

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

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 bond ratings at December 31, 2012 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 STATEMENT OF NET POSITION 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, 2012 and December 31, 2011. The fair value of the swap has been provided by the counterparty and confirmed by the City’s financial advisor.

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

***Net Position:*** Net position serves as a useful indicator of a government’s financial position. In the case of the Division, assets exceeded liabilities by $20,179,000, $18,912,000 and $21,302,000 at December 31, 2012, 2011 and 2010, respectively.

Of the Division’s net position at December 31, 2012, $5,525,000 represents resources that are classified as restricted since their use is limited by the bond indentures. In addition, the Division has a net balance of $9,272,000 that reflects its investment in capital assets (e.g., land, buildings, furniture) net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. The $5,382,000 balance of unrestricted net position may be used to meet the Division’s ongoing obligations to customers and creditors.

Of the Division’s net position at December 31, 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 position may be used to meet the Division’s ongoing obligations to customers and creditors.

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

The Division's operations during 2012 increased net position by $1,267,000 and during 2011 decreased net position by $2,390,000. Provided below are key elements of the Division's results of operations as of and for the years ended December 31, 2012, 2011 and 2010:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | | (Amounts in 000's) | |
| Operating revenues | $ 7,735 | $ 8,453 | $ 9,227 |
| Operating expenses | 5,301 | 5,478 | 5,842 |
| Operating income | 2,434 | 2,975 | 3,385 |
| Non-operating revenue (expense): | | | |
| Investment income (loss) | 423 | (773) | 5 |
| Interest expense | (1,853) | (8,649) | (3,044) |
| Other non-operating revenue (expense) | | | 11 |
| Sale of scrap | | | 3 |
| Amortization of bond issuance costs | (227) | (1,068) | (370) |
| Total non-operating revenue (expense), net | (1,657) | (10,490) | (3,395) |
| Income (Loss) before capital contributions and special item | 777 | (7,515) | (10) |
| Capital contributions | 490 | | |
| Special items - gain on sale of capital assets | | 5,125 | |
| Increase (Decrease) in net position | 1,267 | (2,390) | (10) |
| Net position, beginning of year | 18,912 | 21,302 | 21,312 |
| Net position, end of year | $ 20,179 | $ 18,912 | $ 21,302 |

***Operating revenues:*** From 2011 to 2012, operating revenues decreased $718,000, or 8.5%. From 2010 to 2011, operating revenues decreased $774,000, or 8.4%. These reductions were primarily due to the sale of the Gateway North Garage. The Gateway North Garage was owned by the Division for all of 2010 and was sold in October of 2011.

***Operating expenses***: In 2012, operating expenses decreased $177,000, or 3.2%. This reduction was primarily due to the decrease in professional service fees associated with the operators of the Gateway North Garage.

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

***Non-operating revenues and expenses:*** From 2011 to 2012, net non-operating expenses decreased $8,833,000. This decrease was primarily due to the reduction of interest expense, due to the defeasance of revenue bonds associated with the Gateway North Garage.

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.

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

Operating revenues are derived primarily from fees charged to users of City-owned parking garages and facilities operated by the Division including the net income from the Gateway garage and on-street parking meter revenue.

The Division continues to assess their operations to improve efficiencies, identify additional revenue sources and improve existing revenue sources 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.

## 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 PUBLIC WORKS
DIVISION OF PARKING FACILITIES
STATEMENTS OF NET POSITION
December 31, 2012 and 2011

| | (Amounts in 000's) 2012 | 2011 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 5,449 | $ 1,762 |
| Accounts receivable - net of allowance | 18 | 7 |
| Accrued Interest | | 6 |
| Due from other City of Cleveland departments, divisions or funds | 51 | 48 |
| Inventory of supplies, at cost | 139 | 136 |
| **TOTAL CURRENT ASSETS** | 5,657 | 1,959 |
| **RESTRICTED ASSETS** | | |
| Cash and cash equivalents | 8,762 | 9,093 |
| Investments | | 4,095 |
| **TOTAL RESTRICTED ASSETS** | 8,762 | 13,188 |
| **UNAMORTIZED BOND ISSUANCE COSTS** | 1,288 | 1,515 |
| **CAPITAL ASSETS** | | |
| Land | 5,478 | 5,478 |
| Land improvements | 1,256 | 1,256 |
| Buildings, structures and improvements | 53,719 | 53,719 |
| Furniture, fixtures, equipment and vehicles | 1,290 | 1,250 |
| Construction in progress | 440 | |
| | 62,183 | 61,703 |
| Less: Accumulated depreciation | (25,525) | (24,130) |
| **CAPITAL ASSETS, NET** | 36,658 | 37,573 |
| **TOTAL ASSETS** | $ 52,365 | $ 54,235 |

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES
STATEMENTS OF NET POSITION
December 31, 2012 and 2011

| | (Amounts in 000's) 2012 | 2011 |
|---|---|---|
| **LIABILITIES, DEFERRED INFLOWS AND NET POSITON** | | |
| **LIABILITIES** | | |
| **CURRENT LIABILITIES** | | |
| Current portion of long-term debt, due within one year | $ 2,520 | $ 2,420 |
| Accounts payable | 214 | 753 |
| Due to other governments | 221 | 185 |
| Due to other City of Cleveland departments, divisions or funds | 117 | 67 |
| Accrued interest payable | 470 | 499 |
| Accrued wages and benefits | 150 | 142 |
| **TOTAL CURRENT LIABILITIES** | 3,692 | 4,066 |
| **LONG-TERM LIABILITIES** | | |
| Revenue bonds - excluding amount due within one year | 28,103 | 30,447 |
| Accrued wages and benefits | 26 | 28 |
| **TOTAL LONG-TERM LIABILITIES** | 28,129 | 30,475 |
| **TOTAL LIABILITIES** | 31,821 | 34,541 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Derivative instruments - interest rate swaps | 365 | 782 |
| **TOTAL DEFERRED INFLOWS** | 365 | 782 |
| **NET POSITION** | | |
| Net investment in capital assets | 9,272 | 7,943 |
| Restricted for debt service | 5,525 | 5,578 |
| Unrestricted | 5,382 | 5,391 |
| **TOTAL NET POSITION** | 20,179 | 18,912 |
| **TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITON** | $ 52,365 | $ 54,235 |

(Concluded)

See notes to financial statements.

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# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC WORKS
## DIVISION OF PARKING FACILITIES
## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
## For the Years Ended December 31, 2012 and 2011

| | (Amounts in 000's) 2012 | 2011 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Charges for services | $ 7,735 | $ 8,453 |
| **TOTAL OPERATING REVENUES** | 7,735 | 8,453 |
| **OPERATING EXPENSES** | | |
| Operations | 3,797 | 3,729 |
| Maintenance | 99 | 27 |
| Depreciation | 1,405 | 1,722 |
| **TOTAL OPERATING EXPENSES** | 5,301 | 5,478 |
| **OPERATING INCOME** | 2,434 | 2,975 |
| **NON-OPERATING REVENUE (EXPENSE)** | | |
| Investment income (loss) | 423 | (773) |
| Interest expense | (1,853) | (8,649) |
| Amortization of bond issuance costs | (227) | (1,068) |
| **TOTAL NON-OPERATING REVENUE (EXPENSE) - NET** | (1,657) | (10,490) |
| **INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND SPECIAL ITEM** | 777 | (7,515) |
| Capital contributions | 490 | |
| Special items - gain on sale of capital assets | | 5,125 |
| **INCREASE (DECREASE) IN NET POSITION** | 1,267 | (2,390) |
| **NET POSITION, beginning of year** | 18,912 | 21,302 |
| **NET POSITION, end of year** | $ 20,179 | $ 18,912 |

See notes to financial statements.

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC WORKS
## DIVISION OF PARKING FACILITIES
## STATEMENTS OF CASH FLOWS
**For the Years Ended December 31, 2012 and 2011**

| | (Amounts in 000's) 2012 | 2011 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash received from customers | $ 7,939 | $ 8,984 |
| Cash payments to suppliers for goods or services | (3,474) | (3,495) |
| Cash payments to employees for services | (1,091) | (1,055) |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | 3,374 | 4,434 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Cash paid to escrow agent for refunding | | (21,545) |
| Proceeds from sale of capital assets | | 20,162 |
| Principal paid on long-term debt | (2,420) | (3,425) |
| Interest paid on long-term debt | (1,705) | (2,695) |
| **NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES** | (4,125) | (7,503) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of investment securities | | (4,095) |
| Proceeds from sale and maturity of investment securities | 4,095 | |
| Interest received on investments | 12 | 3 |
| **NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES** | 4,107 | (4,092) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 3,356 | (7,161) |
| **CASH AND CASH EQUIVALENTS, beginning of year** | 10,855 | 18,016 |
| **CASH AND CASH EQUIVALENTS, end of year** | $ 14,211 | $ 10,855 |

(Continued)

## CITY OF CLEVELAND, OHIO

### DEPARTMENT OF PUBLIC WORKS
### DIVISION OF PARKING FACILITIES
### STATEMENTS OF CASH FLOWS
### For the Years Ended December 31, 2012 and 2011

| | (Amounts in 000's) 2012 | 2011 |
|---|---|---|
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | |
| Operating Income | $ 2,434 | $ 2,975 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 1,405 | 1,722 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | (11) | 13 |
| Due from other City of Cleveland departments, divisions or funds | (3) | 51 |
| Inventory of supplies | (3) | (105) |
| Accounts payable | (539) | (145) |
| Due to other governments | 36 | |
| Due to other City of Cleveland departments, divisions or funds | 50 | (76) |
| Accrued wages and benefits | 5 | (1) |
| **TOTAL ADJUSTMENTS** | 940 | 1,459 |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | $ 3,374 | $ 4,434 |
| **SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Contributions of capital assets | $ 490 | |

(Concluded)

See notes to financial statements.

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# NOTES TO FINANCIAL STATEMENTS
## For the Years Ended December 31, 2012 and 2011

### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

***Reporting Model and Basis of Accounting:*** The accounting policies and financial reporting practices of the Division comply with accounting principles generally accepted in the United States of America applicable to governmental units.

In November of 2010, Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The Division has determined that GASB Statement No. 60 has no impact on its financial statements as of December 31, 2012.

In December of 2010, Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations, (2) Accounting Principles Board Opinions and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. As required, the Division has implemented GASB Statement No. 62 effective for the 2012 fiscal year.

In June of 2011, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. As required, the Division has implemented GASB Statement No. 63 effective for the 2012 fiscal year.

In June of 2011, Governmental Accounting Standards Board (GASB) Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision* was issued. This Statement is effective for fiscal periods beginning after June 15, 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. As required, the Division has implemented GASB Statement No. 64 effective for the 2012 fiscal year.

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

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

- Net investment in capital assets
- Amount restricted for debt service
- Remaining unrestricted amount

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

***Basis of Accounting:*** The Division's financial statements are prepared under the accrual basis of accounting. Under this method, revenues are recognized when earned and measurable and expenses are recognized as incurred.

***Revenues:*** Revenues are derived primarily from fees charged to users of City-owned parking garages and facilities operated by the Division including the Gateway 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 2012 and 2011. 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, 2012 and 2011.

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

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

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

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

The estimated useful lives are as follows:

| | |
|---|---|
| Land improvements | 15 to 100 years |
| Buildings, structures and improvements | 5 to 60 years |
| Furniture, fixtures, equipment and vehicles | 3 to 60 years |

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

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

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

**NOTES TO FINANCIAL STATEMENTS**
**For the Years Ended December 31, 2012 and 2011 (Continued)**

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

***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.

## NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS

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

| | Interest Rate | Original Issuance | 2012 | 2011 |
|---|---|---|---|---|
| | | | (Amounts in 000's) | |
| Parking Facilities Refunding Revenue Bonds | | | | |
| Series 2006, due through 2022 | 4.00%-5.25% | $ 57,520 | $ 31,625 | $ 34,045 |
| Unamortized loss on debt refunding | | | (2,261) | (2,660) |
| Unamortized discount and premium | | | 1,259 | 1,482 |
| Current portion | | | (2,520) | (2,420) |
| Total Long-Term Debt | | | $ 28,103 | $ 30,447 |

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

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

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

***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 |

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

| | Principal | Interest | Total |
|---|---|---|---|
| | | (Amounts in 000's) | |
| 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 | 3,040 | 1,093 | 4,133 |
| 2018-2022 | 17,770 | 2,894 | 20,664 |
| Total | $ 31,625 | $ 9,685 | $ 41,310 |

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

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 15, 2006, the City entered into a floating-to-floating rate basis swap agreement with a notional amount equal to the total declining balance of the Series 2006 Bonds. UBS is the counterparty on the transaction. Under the swap agreement for the Series 2006 Bonds, the City is a floating rate payor, paying a floating rate based on the Securities Industry Financial Markets Association (SIFMA) index. The counterparty is also a floating rate payor, paying the City 67% of one month LIBOR. The City also received an upfront payment in the amount of $1,606,000. Net payments are exchanged semi-annually each March 15 and September 15. The obligation of the City to make periodic payments (but not any termination payment) is secured by a pledge of and lien on the parking revenues and additional pledged revenue as defined in the trust indenture securing the Parking Facilities Refunding Revenue Bonds, Series 2006, on parity with the pledge and lien securing the payment of debt service on the bonds.

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

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

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

***Counterparty Risk:*** The City selected a highly rated counterparty in order to minimize this risk. However, over the long-term, it is possible that the credit strength of 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 (now Assured Guaranty Municipal Corp.) up to a maximum amount of $8,000,000.

***Fair Value:*** The fair value of the swap at December 31, 2012 and 2011 reported by UBS was $365,000 and $782,000, 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 $31,625,000 of Parking Facilities Refunding Revenue Bonds issued in 2006. Proceeds from the bonds initially issued provided financing for the construction of parking facilities. The bonds are payable from parking facilities net revenues and are payable through 2022. Annual principal and interest payments on the bonds are expected to require the full amount of net operating revenues. The total principal and interest remaining to be paid on the Parking Facilities Refunding Revenue Bonds is $41,310,000. Principal and interest paid for the current year (including net swap payments) and total net revenues were $4,125,000 and $4,148,000, respectively.

In 2012 and 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, 2012 and 2011, 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, 2012 and December 31, 2011. The fair value of the swap has been provided by the counterparty and confirmed by the City's financial advisor. The Division recognized a $417,000 investment income pursuant to this swap in 2012.

The tables below present the fair value balances and notional amounts of the Division's derivative instrument outstanding at December 31, 2012 and December 31, 2011, classified by type and the change in fair value of this derivative during fiscal years 2012 and 2011 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, 2012 and December 31, 2011 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, 2012 | | |
|---|---|---|---|---|---|
| | **Classification** | **Amount** | **Classification** | **Amount** | **Notional** |
| | | (Amounts in 000's) | | | |
| Floating to floating interest rate swap | | | | | |
| 2006 Parking Basis Swap | Investment Revenue | $ 417 | Investment | $ (365) | $ 31,625 |

| | 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) | Investment | $ (782) | $ 34,045 |

(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, 2012, along with the credit rating of the swap counterparty.

| Bonds | Type | Objective | Amount (Amounts in 000's) | Date | Date | Terms | Credit Rating |
|---|---|---|---|---|---|---|---|
| 2006 Parking Bonds | Basis Swap - Pay Floating/ Receive Floating | Exchange floating rate payments on Series 2006 Parking System Bonds | $ 31,625 | 8/15/2006 | 9/15/2022 | Pay SIFMA, receive 67% of LIBOR | A2/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 2012, net revenues generated by the remaining Gateway garage were less than the debt service payments attributed to that garage by $1,883,000. Cumulative debt service payments funded by the City that are due from Gateway totaled $45,239,000 at December 31, 2012. 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, 2012 and 2011 totaled $778,000 and $901,000, respectively, and the Division's bank balances were $787,000 and $906,000, 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*, $787,000 and $906,000 of the bank balances at December 31, 2012 and 2011, 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; 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 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 as of December 31, 2012 and 2011 include US Agency Obligations, STAROhio and investments in mutual funds. The Division maintains the highest ratings for their investments. Investments in Victory Money Market Fund 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.

## 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, 2012 and 2011, 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 | 2012 Fair Value | 2012 Cost | 2011 Fair Value | 2011 Cost | Investment Maturities Less than One Year |
|---|---|---|---|---|---|
| | (Amounts in 000's) | | | | |
| US Agency Obligations | $ | $ | $ 4,095 | $ 4,095 | $ |
| STAROhio | 969 | 969 | 849 | 849 | 969 |
| Investment in Mutual Funds | 12,464 | 12,464 | 9,105 | 9,105 | 12,464 |
| Total Investments | 13,433 | 13,433 | 14,049 | 14,049 | 13,433 |
| Total Deposits | 778 | 778 | 901 | 901 | 778 |
| Total Deposits and Investments | $ 14,211 | $ 14,211 | $ 14,950 | $ 14,950 | $ 14,211 |

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, 2012, the investments in STAROhio and mutual funds are approximately 7% and 93%, respectively, of the Division's total investments. As of December 31, 2011, the investments in US Agency Obligations, STAROhio and in mutual funds are approximately 29%, 6% and 65%, respectively, of the Division's total investments.

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

**NOTES TO FINANCIAL STATEMENTS**
**For the Years Ended December 31, 2012 and 2011 (Continued)**

## NOTE E – CAPITAL ASSETS

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

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

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

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2012 and 2011 (Continued)

## NOTE E – CAPITAL ASSETS (Continued)

***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.

## NOTE F – DEFINED BENEFIT PENSION PLANS

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

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

2) The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.

3) The Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, 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 2012, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2012, 2011 and 2010. The employer contribution rates were 14.00% of covered payroll in 2012, 2011 and 2010.

The Division's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2012, 2011 and 2010 were $81,000, $77,000 and $77,000 each year, respectively. The required payments due in 2012, 2011 and 2010 have been made.

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

## NOTE G – OTHER POSTEMPLOYMENT BENEFITS

***Ohio Public Employees Retirement System*:** All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS maintains a cost-sharing multiple employer defined benefit postemployment health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. In order to qualify for postemployment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, 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 2012, 2011 and 2010. 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 2012 and 2011, 6.05% for members of the Combined Plan in 2012 and 2011 and 5.50% from January 1, 2010 through February 28, 2010 and 5.00% from March 1, 2010 through December 31, 2010 for both plans. Effective January 1, 2013, the portion of employer contributions allocated to health care was lowered to 1.00% for both plans, as recommended by the OPERS Actuary. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Division's actual contributions to OPERS to fund postemployment benefits were $32,000 in 2012, $31,000 in 2011 and $44,000 in 2010. The required payments due in 2012, 2011 and 2010 have been made.

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

## NOTE H – RELATED PARTY TRANSACTIONS

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

| | 2012 | 2011 |
|---|---|---|
| | (Amounts in 000's) | |
| Department of Community Development | $ 41 | $ 36 |

***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, 2012 and 2011 are as follows:

| | 2012 | 2011 |
|---|---|---|
| | (Amounts in 000's) | |
| Parks Maintenance | $ 74 | $ 73 |
| Motor Vehicle Maintenance | 9 | |
| Cleveland Public Power | 178 | 187 |
| Maintenance | | 4 |
| Telephone | 17 | 14 |

## 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 2012 or 2011.

The City provides the choice of four separate health insurance plans for its employees. These plans are provided by two different insurers through commercial insurance. Operating funds are charged a monthly rate per employee, by type of coverage. The City participates in the State of Ohio workers' compensation retrospective rating program.

## NOTE I – CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

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

## NOTE J – LEASES

The Division leases the land for various parking facilities to management companies under non-cancelable lease agreements, which expire at various times through the year 2056. Revenues generated from such leases totaled $180,000 in 2012 and 2011. Future minimum rentals on non-cancelable leases are as follows:

| | (Amounts in 000's) |
|---|---|
| 2013 | $ 180 |
| 2014 | 180 |
| 2015 | 180 |
| 2016 | 180 |
| 2017 | 180 |
| Thereafter | 4,740 |
| | $ 5,640 |

## NOTE K – SUBSEQUENT EVENTS

On January 17, 2013, Moody's Investors Service lowered its rating on Assured Guaranty Municipal Corporation, the insurer of the Series 2006 Parking Facilities Refunding Revenue Bonds. The rating was lowered to A2 from Aa3. The Division's bonds only carry the insured rating and have no ratings on its bonds based solely on its own credit.

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

# 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, 2012 and 2011**

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PORT CONTROL
## DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
## AND BURKE LAKEFRONT AIRPORTS

## TABLE OF CONTENTS

**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:

**Report on the Financial Statements**

We have audited the accompanying 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, 2012 and 2011 and the related notes to the financial statements, as listed in the table of contents.

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

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

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

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

***Opinions***
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, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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**Effect of Adopting New Accounting Standards**

As discussed in Note A, the Divisions adopted the provisions of Governmental Accounting Standards Board Statement No. 60 *Accounting and Financial Reporting for Service Concession Arrangements*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision*. Our opinion is not modified with respect to this matter.

***Other Matters***

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, 2012 and 2011, and the respective changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 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.

*Other Information*

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, 2012 is presented for purpose of additional analysis and is not a required part of the Divisions' basic financial statements. The schedule of airport revenues and operating expenses 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. Such 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, 2013

# 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, 2012 and December 31, 2011. Please read this information in conjunction with the Divisions' basic financial statements and notes that begin on page 18.

The Divisions are charged with the administration and control of, among other facilities, the municipally owned airports 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 2012, the Divisions were served by 26 scheduled airlines and four cargo airlines. There were 83,000 scheduled landings with landed weight amounting to 5,732,148,000 pounds. There were 4,495,000 passengers enplaned at Cleveland Hopkins International Airport and 92,000 passengers enplaned at Burke Lakefront Airport during 2012. 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.

### COMPARISON OF CURRENT YEAR AND PREVIOUS YEAR DATA

### FINANCIAL HIGHLIGHTS

- The assets of the Divisions exceeded its liabilities (net position) by $394,000,000, $405,900,000 and $401,879,000 at December 31, 2012, 2011 and 2010, respectively. Of these amounts, $137,306,000, $128,908,000 and $148,100,000 (unrestricted net position) at December 31, 2012, 2011 and 2010, respectively, may be used to meet the Divisions' ongoing obligations to customers and creditors.

- The Divisions' total net position decreased by $11,900,000 in 2012. This is due to a significant decrease in net investment in capital assets relating to principal payment on bond debt, a decrease in bond proceeds related to the use of bond funds to finance capital projects and an increase in accumulated depreciation resulting from capital assets placed into operation after completion.

- Additions to construction in progress totaled $19,434,000, $19,431,000 and $25,497,000 in 2012, 2011 and 2010, respectively.

- The major capital expenditures during 2012 were for the Power Distribution Enhancement Project, the Terminal Terrazzo Flooring project, the BKL Runway 6L-24R Safety Area Improvement project, the Regional Transit Authority (RTA) Level Art Gallery project and the Converged Communications project.

## FINANCIAL HIGHLIGHTS (Continued)

- The Divisions' total bonded debt decreased by $27,955,000 in 2012, increased $42,625,000 in 2011 and decreased $52,480,000 during 2010. In 2012, the City issued $235,150,000 of Airport System Revenue Bonds, Series 2012A, to refund all of the outstanding Airport System Revenue Bonds, Series 2000A. 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 part of the Series 2008D Bonds. The key factors for the decrease in 2012 were the scheduled principal payments on the Divisions' outstanding Bonds and the refunding of the Series 2000A Bonds. The reason for the increase in 2011 was the issuance of the Series 2011A 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 18-23 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 25-45 of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### CONDENSED STATEMENT OF NET POSTION INFORMATION

Provided below is condensed statement of net position information for the Divisions as of December 31, 2012, 2011 and 2010:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | | (Amounts in 000's) | |
| Assets and Deferred Outflows: | | | |
| Assets: | | | |
| Current assets | $ 110,955 | $ 106,763 | $ 106,802 |
| Restricted assets | 288,296 | 295,994 | 262,691 |
| Unamortized bond issuance costs | 16,497 | 17,172 | 17,453 |
| Capital assets, net | 895,018 | 921,777 | 900,508 |
| Total assets | 1,310,766 | 1,341,706 | 1,287,454 |
| Deferred outflows of resources: | | | |
| Derivative instruments-interest rate swaps | | | 7,715 |
| Total deferred outflows of resources | - | - | 7,715 |
| Total assets and deferred outflows | $ 1,310,766 | $ 1,341,706 | $ 1,295,169 |
| Liabilities and net position: | | | |
| Liabilities: | | | |
| Current liabilities | $ 59,189 | $ 57,178 | $ 53,558 |
| Long-term obligations | 857,577 | 878,628 | 839,732 |
| Total liabilities | 916,766 | 935,806 | 893,290 |
| Net position: | | | |
| Net investment in capital assets | 127,557 | 147,324 | 124,506 |
| Restricted for debt service | 111,467 | 109,292 | 103,701 |
| Restricted for passenger facility charges | 17,670 | 20,376 | 25,572 |
| Unrestricted | 137,306 | 128,908 | 148,100 |
| Total net position | 394,000 | 405,900 | 401,879 |
| Total liabilities and net position | $ 1,310,766 | $ 1,341,706 | $ 1,295,169 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

***Assets:*** Total assets decreased $30,940,000 in 2012 and increased $46,537,000 during 2011. The decrease in capital assets, net of accumulated depreciation, accounted for $26,759,000 or 86.5% of this change**.** This decrease was primarily due to the increase in accumulated depreciation. In 2011 the 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.

***Capital assets:*** The Divisions' investment in capital assets as of December 31, 2012 amounted to $895,018,000 (net of accumulated depreciation), which is a decrease of 2.9%. The Divisions' investment in capital assets as of December 31, 2011 amounted to $921,777,000 (net of accumulated depreciation), which was an increase of 2.4%. 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, 2012 is as follows:

| | Balance January 1, 2012 | Additions | Reductions | Balance December 31, 2012 |
|---|---|---|---|---|
| | (Amounts in 000's) | | | |
| Land | $ 167,457 | $ | $ | $ 167,457 |
| Land improvements | 74,153 | | | 74,153 |
| Buildings, structures and improvements | 329,324 | 5,339 | (421) | 334,242 |
| Furniture, fixtures and equipment | 23,305 | 6,470 | (607) | 29,168 |
| Infrastructure | 956,696 | 19,105 | | 975,801 |
| Vehicles | 14,993 | 162 | (504) | 14,651 |
| Total | 1,565,928 | 31,076 | (1,532) | 1,595,472 |
| Less: Accumulated depreciation | (680,397) | (50,541) | 1,473 | (729,465) |
| Total | 885,531 | (19,465) | (59) | 866,007 |
| Construction in progress | 36,246 | 19,434 | (26,669) | 29,011 |
| Capital assets, net | $ 921,777 | $ (31) | $ (26,728) | $ 895,018 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

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 |

Major events during 2012 and 2011 affecting the Divisions' capital assets included the following:

- The Power Distribution Enhancement Project was initiated 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. Phase I involved the purchase and installation of four generators in 2011. Phase II calls for a redundant feeder system between MS1 and MS2 that will allow power to be supplied to the terminal uninterrupted from either substation. The project design began in late 2012 and construction is expected to be completed in 2013.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

- The first phase of the CLE terrazzo floor and artwork installation project began in January 2011 and continued throughout 2012. The project consisted 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 art competition will be installed into select floor locations. Five of the seven selected art pieces have been installed.

- The BKL Runway 6L-24R Safety Area Improvement project includes the installation of an Engineered Materials Arresting System (EMAS) bed in the extended safety area of Runway 6L, a runway extension on 24R, a displacement of the Runway 6L threshold, new entrance taxiways, vehicle service road modifications, and navigation aid (NAVAID) modifications and improvements. In 2012, an Environmental Assessment (EA) was completed as well as the final project design. Construction is scheduled to commence in Spring 2013.

- Construction for the RTA Level Art Gallery commenced at the end of 2011 and involved the transformation of the CLE RTA level interior from a standard passageway into a formal art gallery. The effort included replacement of all flooring, walls, stair treads and columns to allow wall and floor artwork to be shown. The space will also hold cultural exhibits and performances as required. The project was substantially completed in April 2012.

- The Converged Communications project which commenced in September 2012, integrates six disparate communications systems and functions to deliver critical information for Cleveland Airport System personnel and travelers at CLE. The project supports the informational needs of CLE travelers with a new flight and baggage information system to more easily track and monitor travel itineraries and personal belongings; integrated audio and visual messaging providing synchronized public address messaging for all travelers, which has been helpful to the hearing-impaired; and an expanded, free Wi-Fi system that extends and improves public access to the Internet. The project also supports the information needs of the Airport System with a new, private Wi-Fi system that covers the entire CLE campus and a unified communications infrastructure that provides access to email, voice mail, fax, instant messaging, online presence and videoconferencing all through a unified interface. These improvements not only provide new functionality to Airport System personnel, but also enable mobile access to mission-critical systems and functions.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Additional information on the Divisions' capital assets, including commitments made for future capital expenses can be found in Note A – Summary of Significant Accounting Policies and Note F – Capital Assets to the basic financial statements.

***Liabilities:*** In 2012 total liabilities decreased $19,040,000. In 2012, the decrease in long-term obligations was $21,051,000 or 2.4%. Current liabilities increased $2,011,000 or 3.5% as a result of increases in the current portion of long-term debt, due to other funds and interest payable offset by a decrease in accounts payable and accrued property taxes. In 2011 the increase in total liabilities was $42,516,000. The increase in long term obligations in 2011 was $38,896,000 or 4.6%. In 2011, 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 Improvement payments.

***Long-term debt:*** At December 31, 2012 and 2011, the Divisions' had $863,930,000 and $891,885,000, 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.

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

| | Balance January 1, 2012 | Debt Issued | Debt Retired | Balance December 31, 2012 |
|---|---|---|---|---|
| | (Amounts in 000's) | | | |
| Airport System Revenue Bonds: | | | | |
| Series 2000 | $ 398,445 | $ | $ (249,445) | $ 149,000 |
| Series 2006 | 116,270 | | (1,245) | 115,025 |
| Series 2007 | 10,175 | | (530) | 9,645 |
| Series 2008 | 64,925 | | (950) | 63,975 |
| Series 2009 | 227,685 | | (10,935) | 216,750 |
| Series 2011 | 74,385 | | | 74,385 |
| Series 2012 | | 235,150 | | 235,150 |
| Total | $ 891,885 | $ 235,150 | $ (263,105) | $ 863,930 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### CONDENSED STATEMENT OF NET POSITION 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 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). These ratings were reaffirmed in 2012.

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 2012, 2011 and 2010, was 166%, 158% and 160%, respectively.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

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 Position:*** Net position serves as a useful indicator of an entity's financial position. In the case of the Divisions, assets exceed liabilities by $394,000,000, $405,900,000 and $401,879,000 at December 31, 2012, 2011 and 2010, respectively. Of the Divisions' net position at December 31, 2012 and 2011, $127,557,000 and $147,324,000, respectively, reflects its investment in capital assets (e.g., construction in progress; land; land improvements; buildings, structures, and improvements; furniture, fixtures and equipment; vehicles; and infrastructure), 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.

An additional portion of the Divisions' net position represents resources that are subject to external restrictions. At December 31, 2012 and 2011 the restricted net position amounted to $129,137,000 and $129,668,000, respectively. The restricted net position 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 position, $137,306,000 and $128,908,000 for December 31, 2012 and 2011, 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 POSITION INFORMATION

The Divisions' operations during 2012 decreased its net position by $11,900,000 and increased by $4,021,000 in 2011. Provided below are key elements of the Divisions' results of operations as of and for the years ended December 31, 2012, 2011 and 2010:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | (Amounts in 000's) | | |
| Operating revenues: | | | |
| Landing fees | $ 36,676 | $ 37,288 | $ 26,356 |
| Terminal and concourse rentals | 52,133 | 50,131 | 52,670 |
| Concessions | 21,960 | 22,638 | 21,496 |
| Utility sales and other | 5,925 | 4,910 | 6,174 |
| Total operating revenues | 116,694 | 114,967 | 106,696 |
| Operating expenses | 119,396 | 121,085 | 120,151 |
| Operating income (loss) | (2,702) | (6,118) | (13,455) |
| Non-operating revenue (expense): | | | |
| Passenger facility charges revenue | 15,781 | 17,874 | 18,820 |
| Non-operating expense | (3,437) | 2,414 | (2,299) |
| Sound insulation program | (577) | (689) | (2,545) |
| Loss on disposal of capital asset | (59) | | |
| Investment income (loss) | 272 | (9,634) | 1,088 |
| Interest expense | (29,571) | (35,389) | (30,442) |
| Amortization of bond issuance expense, bond discounts and loss on debt refundings | (756) | (2,948) | (2,754) |
| Total non-operating revenue (expense), net | (18,347) | (28,372) | (18,132) |
| Capital and other contributions | 9,149 | 38,511 | 37,800 |
| Increase (decrease) in net position | (11,900) | 4,021 | 6,213 |
| Net position, beginning of year | 405,900 | 401,879 | 395,666 |
| Net position, end of year | $ 394,000 | $ 405,900 | $ 401,879 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

***Operating revenues****:* Of the 2012 operating revenues of $116,694,000, $34,923,000 or 29.9% represented landing fees received from signatory airlines. This is a decrease in landing fees of 2.8% from the prior year due to a decrease in the both the number of landings and landed weights. Signatory terminal rentals accounted for $36,280,000, or 31.1% of total operating revenues. The increase in signatory terminal rent of 5.7% is a result of an increase in square footage rates for terminal and concourse leased areas. Parking revenues increased 5.2% 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 $13,649,000 or 11.7% of total operating revenues for 2012. The fourth largest airport revenue source, rental cars, accounted for 7.9% of total operating revenues.

Of the 2011 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. 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.

***Operating expenses****:* Total operating expenses for 2012 decreased $1,689,000 or 1.4%. The decrease is primarily due to a milder winter season which resulted in a decreased usage of de-icing chemicals and related waste disposal. These decreases were partially offset by modest increases in costs associated with property taxes and professional fees. Employee salaries, wages and benefits increased $609,000 or 2.1% due to increases in employee wages. 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.

***Non-operating revenue and expense:*** Expenses related to the Sound Insulation Program were $577,000, $689,000, and $2,545,000 in 2012, 2011 and 2010, respectively. Passenger facility charge revenues decreased 11.7%, from $17,874,000 in 2011 to $15,781,000 in 2012 resulting from a decrease in the scheduled airline enplanements.

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

***Capital and other contributions:*** In 2012, 2011 and 2010, the Divisions' received $9,149,000, $38,511,000 and $37,800,000, respectively, in Federal Airport Improvement Grants. Airport Improvement Program Grants received from the Federal Aviation Administration were primarily for the Burke RSA project, 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 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 13, 2013, American Airlines and US Airways announced a proposed merger agreement with the "new" American Airlines remaining as the largest airline in the world. Although this business combination is not expected to occur before the end of 2013, looking towards the future, there will likely be an impact on the Divisions' operations. Both airlines expect that the regional carriers they own – AMR Corporation's American Eagle and US Airways' Piedmont and PSA – will continue to operate as distinct entities, providing seamless service to the combined airline. American Airlines and US Airways enplaned 5.6% and 4.3% of total passengers at the Airport, respectively, in 2012. It is not known at this time whether the impact will have a negative or positive effect on CLE.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### FACTORS EXPECTED TO IMPACT THE DIVISIONS' FINANCIAL POSITION OR RESULTS OF OPERATIONS (Continued)

Federal Sequestration has had a direct impact on Cleveland Airport System (CAS) federally-funded projects such as the CLE Airport Surface Surveillance Capability (ASSC) Project currently placed on hold. In addition, CAS has been advised by the Federal Aviation Administration (FAA) Airport District Office that there is no funding for an Environmental Assessment (EA) of the CLE airfield due to Sequestration. The EA would have focused on specific areas of the airfield that require either rehabilitation (due to age and deterioration) and/or are planned for development. Long-term, not being able to implement the aforementioned projects due to Sequestration may compromise airfield system preservation (i.e., ability to improve existing infrastructure), airfield capacity, safety and funding for future Airport Improvement Program (AIP)-eligible projects.

Effective April 24, 2013, the City issued $58,000,000 Airport System Revenue Bonds, Series 2013A (Taxable). These bonds refunded all of the outstanding $58,000,000 Airport System Revenue Bonds, Series 2008F in anticipation of the expiration of the existing letter of credit. The bonds were purchased by U.S. Bank National Association with the City paying an amount equal to one month LIBOR plus a spread of 105 basis points. As a result of this refunding, the City will realize aggregate net present value savings of $3.4 million or 5.87%.

### 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.

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# BASIC FINANCIAL STATEMENTS

**CITY OF CLEVELAND, OHIO**
**DEPARTMENT OF PORT CONTROL**
**DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL**
**AND BURKE LAKEFRONT AIRPORTS**
**STATEMENTS OF NET POSITION**
**December 31, 2012 and 2011**

| | (Amounts in 000's) 2012 | 2011 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 87,196 | $ 64,252 |
| Restricted cash and cash equivalents | 7,037 | 7,664 |
| Investments | | 10,117 |
| Receivables: | | |
| Accounts-net of allowance for doubtful accounts of $2,000,000 in 2012 and $2,006,000 in 2011 | 7,732 | 14,066 |
| Unbilled revenue | 3,314 | 3,599 |
| Landing fees - due from airlines | | 3,850 |
| Accrued interest receivable | | 94 |
| Total receivables | 11,046 | 21,609 |
| Prepaid expenses | 323 | 330 |
| Due from other funds | 34 | |
| Due from other governments | 2,976 | 673 |
| Materials and supplies-at cost | 2,343 | 2,118 |
| **TOTAL CURRENT ASSETS** | 110,955 | 106,763 |
| **RESTRICTED ASSETS** | | |
| Cash and cash equivalents | 286,051 | 224,144 |
| Investments | | 69,570 |
| Accrued interest receivable | 1 | |
| Accrued passenger facility charges | 2,244 | 2,280 |
| **TOTAL RESTRICTED ASSETS** | 288,296 | 295,994 |
| **UNAMORTIZED BOND ISSUANCE COSTS** | 16,497 | 17,172 |
| **CAPITAL ASSETS** | | |
| Land | 167,457 | 167,457 |
| Land improvements | 74,153 | 74,153 |
| Buildings, structures and improvements | 334,242 | 329,324 |
| Furniture, fixtures and equipment | 29,168 | 23,305 |
| Infrastructure | 975,801 | 956,696 |
| Vehicles | 14,651 | 14,993 |
| | 1,595,472 | 1,565,928 |
| Less: Accumulated depreciation | (729,465) | (680,397) |
| | 866,007 | 885,531 |
| Construction in progress | 29,011 | 36,246 |
| **CAPITAL ASSETS, NET** | 895,018 | 921,777 |
| **TOTAL ASSETS** | $ 1,310,766 | $ 1,341,706 |

(Continued)

**CITY OF CLEVELAND, OHIO**
**DEPARTMENT OF PORT CONTROL**
**DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL**
**AND BURKE LAKEFRONT AIRPORTS**
**STATEMENTS OF NET POSITION**
**December 31, 2012 and 2011**

| | (Amounts in 000's) 2012 | 2011 |
|---|---|---|
| **LIABILITIES AND NET POSITION** | | |
| **LIABILITIES** | | |
| **CURRENT LIABILITIES** | | |
| Current portion of long-term debt, due within one year | $ 16,285 | $ 13,660 |
| Current portion of long-term deferred payment obligation, due within one year | 3,230 | 2,989 |
| Accounts payable | 3,246 | 4,457 |
| Landing fee settlement payable to airlines | 300 | |
| Due to other funds | 1,412 | 969 |
| Current portion of accrued wages and benefits | 4,079 | 3,972 |
| Accrued interest payable | 17,632 | 16,980 |
| Accrued property taxes | 5,968 | 6,487 |
| Construction fund payable from restricted assets | 1,913 | 6,010 |
| Other construction accounts payable from restricted assets | 5,124 | 1,654 |
| **TOTAL CURRENT LIABILITIES** | 59,189 | 57,178 |
| **LONG-TERM OBLIGATIONS** - excluding amounts due within one year | | |
| Revenue bonds | 856,702 | 874,540 |
| Deferred payment obligation | 280 | 3,510 |
| Accrued wages and benefits | 595 | 578 |
| **TOTAL LONG-TERM OBLIGATIONS** | 857,577 | 878,628 |
| **TOTAL LIABILITIES** | 916,766 | 935,806 |
| **NET POSITION** | | |
| Net investment in capital assets | 127,557 | 147,324 |
| Restricted for debt service | 111,467 | 109,292 |
| Restricted for passenger facility charges | 17,670 | 20,376 |
| Unrestricted | 137,306 | 128,908 |
| **TOTAL NET POSITION** | 394,000 | 405,900 |
| **TOTAL LIABILITIES AND NET POSITION** | $ 1,310,766 | $ 1,341,706 |

(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 POSITION**
**For the Years Ended December 31, 2012 and 2011**

| | (Amounts in 000's) 2012 | 2011 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Landing fees: | | |
| Scheduled airlines | $ 34,923 | $ 35,911 |
| Other | 1,753 | 1,377 |
| | 36,676 | 37,288 |
| Terminal and concourse rentals: | | |
| Scheduled airlines | 36,280 | 34,312 |
| Other | 15,853 | 15,819 |
| | 52,133 | 50,131 |
| Concessions | 21,960 | 22,638 |
| Utility sales and other | 5,925 | 4,910 |
| **TOTAL OPERATING REVENUES** | 116,694 | 114,967 |
| **OPERATING EXPENSES** | | |
| Operations | 64,454 | 68,094 |
| Maintenance | 4,401 | 5,216 |
| Depreciation | 50,541 | 47,775 |
| **TOTAL OPERATING EXPENSES** | 119,396 | 121,085 |
| **OPERATING INCOME (LOSS)** | (2,702) | (6,118) |
| **NON-OPERATING REVENUE (EXPENSE)** | | |
| Passenger facility charges revenue | 15,781 | 17,874 |
| Non-operating revenue (expense) | (3,437) | 2,414 |
| Sound insulation program | (577) | (689) |
| Loss on disposal of capital asset | (59) | |
| Rebate arbitrage expense | | |
| Investment income (loss) | 272 | (9,634) |
| Interest expense | (29,571) | (35,389) |
| Amortization of bond issuance expense, bond discounts and loss on debt refundings | (756) | (2,948) |
| **TOTAL NON-OPERATING REVENUE (EXPENSE) - NET** | (18,347) | (28,372) |
| **INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS** | (21,049) | (34,490) |
| Capital and other contributions | 9,149 | 38,511 |
| **INCREASE (DECREASE) IN NET POSITION** | (11,900) | 4,021 |
| **NET POSITION, BEGINNING OF YEAR** | 405,900 | 401,879 |
| **NET POSITION, END OF YEAR** | $ 394,000 | $ 405,900 |

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, 2012 and 2011**

| | (Amounts in 000's) | |
|---|---|---|
| | 2012 | 2011 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash received from customers | $ 122,327 | $ 104,916 |
| Cash payments to suppliers for goods and services | (38,839) | (41,575) |
| Cash payments to employees for services | (28,850) | (28,826) |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | 54,638 | 34,515 |
| **CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES** | | |
| Cash payments for sound insulation of homes | (641) | (603) |
| Cash payments for other non-operating costs | (3,827) | (5,163) |
| **NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES** | (4,468) | (5,766) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Acquisition and construction of capital assets | (22,452) | (68,589) |
| Cash receipts for passenger facility charges | 15,816 | 18,064 |
| Proceeds from revenue bonds | 252,946 | 79,221 |
| Transfer to escrow agent for bond refunding | (252,379) | (9,236) |
| Principal paid on long-term debt | (13,903) | (22,560) |
| Interest paid on long-term debt | (32,871) | (36,071) |
| Capital grant proceeds | 6,846 | 38,560 |
| **NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES** | (45,997) | (611) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of investment securities | (105,981) | (79,602) |
| Proceeds from sale and maturity of investment securities | 185,583 | 1,999 |
| Interest received on investments | 449 | 764 |
| **NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITES** | 80,051 | (76,839) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 84,224 | (48,701) |
| Cash and cash equivalents, beginning of year | 296,060 | 344,761 |
| Cash and cash equivalents, end of year | $ 380,284 | $ 296,060 |

(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, 2012 and 2011**

| | (Amounts in 000's) 2012 | 2011 |
|---|---|---|
| **RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | |
| **OPERATING INCOME (LOSS)** | $ (2,702) | $ (6,118) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 50,541 | 47,775 |
| Noncash rental income | (3,389) | (3,389) |
| **Changes in assets and liabilities:** | | |
| Accounts receivable, net | 6,334 | (5,646) |
| Unbilled revenue | 285 | 816 |
| Landing fees - due from airlines | 3,850 | 262 |
| Prepaid expenses | 7 | 2 |
| Due from other funds | (34) | 96 |
| Materials and supplies, at cost | (225) | (62) |
| Accounts payable | (377) | 1,114 |
| Due to other funds | 443 | (100) |
| Accrued wages and benefits | 124 | (230) |
| Landing fees - due to airlines | 300 | |
| Accrued property taxes | (519) | (5) |
| **TOTAL ADJUSTMENTS** | 57,340 | 40,633 |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | $54,638 | $ 34,515 |
| Noncash operating activities: | | |
| Rental Income | $3,389 | $3,389 |

(Concluded)

See notes to financial statements.

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**NOTES TO FINANCIAL STATEMENTS**
**For the Years Ended December 31, 2012 and 2011**

## 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 November of 2010, Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The Divisions have determined that GASB Statement No. 60 has no impact on its financial statements as of December 31, 2012.

In December of 2010, Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations, (2) Accounting Principles Board Opinions and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. As required, the Divisions have implemented GASB Statement No. 62 effective for the 2012 fiscal year.

In June of 2011, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. As required, the Divisions have implemented GASB Statement No. 63 effective for the 2012 fiscal year.

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

In June of 2011, Governmental Accounting Standards Board (GASB) Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision* was issued. This Statement is effective for fiscal periods beginning after June 15, 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The Divisions have determined that GASB Statement No. 64 has no impact on its financial statements as of December 31, 2012.

The Divisions' net position is accounted for in the accompanying statement of net position and the net position is divided into the following categories:

- Net investment in capital assets
- 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 position as previously reported.

***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.

***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.

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

***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 2012 and 2011. 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, 2012 and 2011.

***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.

***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 35 years |
| Infrastructure | 3 to 50 years |
| Vehicles | 3 to 35 years |

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

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 Governmental 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 2012 and 2011, total interest costs incurred amounted to $34,165,000 and $42,375,000, respectively, of which $4,594,000 and $6,981,000 respectively, was capitalized, net of interest income of $0 in 2012 and $5,000 in 2011.

***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 statements of net position. The portion of the compensated absence liability that is not expected to be paid or utilized within one year is reported as a long-term liability.

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

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

***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, 2012 and 2011 are as follows:

| | 2012 Due From | 2012 Due To | 2011 Due From | 2011 Due To |
|---|---|---|---|---|
| | (Amounts in 000's) | | | |
| City of Cleveland General Fund | $ 34 | $ 269 | $ | $ 228 |
| Division of Water Pollution Control | | 227 | | 81 |
| Division of Cleveland Public Power | | 17 | | 18 |
| Workers' Compensation Refund Reserve | | 674 | | 461 |
| Division of Radio Communication | | 4 | | 6 |
| Division of Printing | | 5 | | 6 |
| Division of Motor Vehicle Maintenance | | 86 | | 95 |
| Sinking Fund Administration | | 34 | | 30 |
| Division of Telephone Exchange | | 96 | | 44 |
| | $ 34 | $ 1,412 | $ - | $ 969 |

## NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS

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

| | Interest Rate | Original Issuance | 2012 | 2011 |
|---|---|---|---|---|
| | | | (Amounts in 000's) | |
| Airport System Revenue Bonds: | | | | |
| Series 2000, due through 2031 | 4.00%-5.00% | $ 509,880 | $ 149,000 | $ 398,445 |
| Series 2006, due through 2024 | 5.00%-5.25% | 118,760 | 115,025 | 116,270 |
| Series 2007, due through 2027 | 4.00%-5.00% | 11,255 | 9,645 | 10,175 |
| Series 2008, due through 2033 | Variable Rate | 76,700 | 63,975 | 64,925 |
| Series 2009, due through 2027 | .11%-5.00% | 248,280 | 216,750 | 227,685 |
| Series 2011, due through 2024 | 3.00%-5.00% | 74,385 | 74,385 | 74,385 |
| Series 2012, due through 2031 | 5.00% | 235,150 | 235,150 | |
| | | $ 1,274,410 | 863,930 | 891,885 |
| Unamortized (discount) premium | | | 36,033 | 17,569 |
| Unamortized loss on debt refunding | | | (26,976) | (21,254) |
| Current portion (due within one year) | | | (16,285) | (13,660) |
| Total Long-Term Debt excluding the deferred payment obligation | | | $ 856,702 | $ 874,540 |

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

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

| | Balance January 1, 2012 | Increase | Decrease | Balance December 31, 2012 | Due Within One Year |
|---|---|---|---|---|---|
| | | | (Amounts in 000's) | | |
| Airport System Revenue Bonds: | | | | | |
| Series 2000 | $ 398,445 | $ | $ (249,445) | $ 149,000 | $ |
| Series 2006 | 116,270 | | (1,245) | 115,025 | 1,310 |
| Series 2007 | 10,175 | | (530) | 9,645 | 550 |
| Series 2008 | 64,925 | | (950) | 63,975 | |
| Series 2009 | 227,685 | | (10,935) | 216,750 | 11,545 |
| Series 2011 | 74,385 | | | 74,385 | 2,880 |
| Series 2012 | | 235,150 | | 235,150 | |
| Total revenue bonds | 891,885 | 235,150 | (263,105) | 863,930 | 16,285 |
| Accrued wages and benefits | 4,550 | 4,096 | (3,972) | 4,674 | 4,079 |
| Total | $ 896,435 | $ 239,246 | $ (267,077) | $ 868,604 | $ 20,364 |

**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 |

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

| | Principal | Interest | Total |
|---|---|---|---|
| | | (Amounts in 000's) | |
| 2013 | $ 16,285 | $ 41,258 | $ 57,543 |
| 2014 | 32,120 | 40,228 | 72,348 |
| 2015 | 33,155 | 38,807 | 71,962 |
| 2016 | 34,415 | 37,265 | 71,680 |
| 2017 | 39,765 | 35,466 | 75,231 |
| 2018-2022 | 228,545 | 146,398 | 374,943 |
| 2023-2027 | 235,865 | 90,420 | 326,285 |
| 2028-2032 | 238,335 | 26,564 | 264,899 |
| 2033 | 5,445 | 136 | 5,581 |
| Total | $ 863,930 | $ 456,542 | $ 1,320,472 |

**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, 2012 and 2011, 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, 2012 and 2011 there was no defeased debt outstanding.

The City has pledged future airport revenues to repay $863,930,000 in Airport System Revenue Bonds issued in various years since 2001. 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 61% of net revenues. The total principal and interest remaining to be paid on the various airport system revenue bonds is $1,320,472,000. Principal and interest paid for the current year and total net revenues (including other available funds) were $50,051,000 and $83,175,000, respectively.

Effective February 23, 2012, the City issued $235,150,000 Airport System Revenue Bonds, Series 2012A. Proceeds of the bonds were used to refund the outstanding $249,445,000 Airport System Revenue Bonds, Series 2000A and to pay the costs of issuing the bonds. Net proceeds of the Series 2012A Bonds, amounts on hand in the Series 2000 interest account and an amount released from the debt service reserve fund totaling $252,378,809 were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds on March 26, 2012. As a result, the refunded bonds were defeased and the liability for the 2000A Bonds has been removed from long-term debt. The City completed the refunding in order to achieve debt service savings of approximately $25.1 million or 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%.

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

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 H 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 currently 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.

## 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

## NOTE C – SPECIAL FACILITY REVENUE BONDS (Continued)

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 statement of net position.

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.

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 two years are as follows:

| | Deferred Payment Obligation | | | |
|---|---|---|---|---|
| | **Principal** | **Interest** | **Total** | **Future Minimum Rentals** |
| | | (Amounts in 000's) | | |
| 2013 | $ 3,230 | $ 159 | $ 3,389 | $ 3,389 |
| 2014 | 280 | 2 | 282 | 282 |
| | $ 3,510 | $ 161 | $ 3,671 | $ 3,671 |

Rental income recognized by the Divisions under this agreement totaled $3,389,000 in 2012 and 2011. Of these amounts in 2012, $399,000 was offset against interest expense and $2,990,000 was offset against the principal balance of the deferred obligation. Of these amounts in 2011,

## NOTE D – DEFERRED PAYMENT OBLIGATION / I-X CENTER (Continued)

$621,000 was offset against interest expense and $2,768,000 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, 2012 and 2011 totaled approximately $50,562,000 and $52,284,000, respectively, and the Divisions' bank balance was approximately $53,754,000 and $60,243,000, 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*, $53,754,000 and $60,243,000 of the bank balances at December 31, 2012 and 2011, 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 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.

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

Generally, investments are recorded and are kept at the Federal Reserve Bank in the depository institutions' separate custodial account for the City, apart from the assets of the depository institution. Ohio statutes prohibit the use of reverse repurchase agreements.

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

## NOTE E – DEPOSITS AND INVESTMENTS (Continued)

***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 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 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, 2012 and 2011 include U.S. Agencies, STAROhio and mutual funds. The Divisions maintain the highest ratings for their investments. Investments in STAROhio, Federated Government Obligations and Dreyfus Government Cash Management Mutual Funds carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service**.**

***Concentration of Credit Risk:*** The Divisions place a limitation on the amount that may be invested in any one issuer to help minimize the concentration of credit risk. The Divisions had the following investments at December 31, 2012 and 2011, which include those classified as cash and cash equivalents in the statement of net position in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

| Type of Investment | 2012 Fair Value | 2012 Cost | 2011 Fair Value | 2011 Cost | Investment Maturities Less than One Year |
|---|---|---|---|---|---|
| | | (Amount in 000's) | | | |
| U.S. Agency Obligations | $ | $ | $ 79,687 | $ 79,602 | $ |
| STAROhio | 84,113 | 84,113 | 66,444 | 66,444 | 84,113 |
| Investment in Mutual Funds | 245,609 | 245,609 | 177,332 | 177,332 | 245,609 |
| Total Investments | 329,722 | 329,722 | 323,463 | 323,378 | 329,722 |
| Total Deposits | 50,562 | 50,562 | 52,284 | 52,284 | 50,562 |
| Total Deposits and Investments | $ 380,284 | $ 380,284 | $ 375,747 | $ 375,662 | $ 380,284 |

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.

## NOTE E – DEPOSITS AND INVESTMENTS (Continued)

As of December 31, 2012, the investments in STAROhio and mutual funds are approximately 26% and 74%, respectively, of the Divisions' total investments. 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.

## NOTE F – CAPITAL ASSETS

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

| | January 1, 2012 | Additions | Reductions | December 31, 2012 |
|---|---|---|---|---|
| | (Amounts in 000's) | | | |
| Capital Assets, not being depreciated: | | | | |
| Land | $ 167,457 | $ | $ | $ 167,457 |
| Construction in progress | 36,246 | 19,434 | (26,669) | 29,011 |
| Total capital assets, not being depreciated | 203,703 | 19,434 | (26,669) | 196,468 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 74,153 | | | 74,153 |
| Buildings, structures and improvements | 329,324 | 5,339 | (421) | 334,242 |
| Furniture, fixtures and equipment | 23,305 | 6,470 | (607) | 29,168 |
| Infrastructure | 956,696 | 19,105 | | 975,801 |
| Vehicles | 14,993 | 162 | (504) | 14,651 |
| Total capital assets, being depreciated | 1,398,471 | 31,076 | (1,532) | 1,428,015 |
| Less: Total accumulated depreciation | (680,397) | (50,541) | 1,473 | (729,465) |
| Total capital assets being depreciated, net | 718,074 | (19,465) | (59) | 698,550 |
| Capital assets, net | $ 921,777 | $ (31) | $ (26,728) | $ 895,018 |

## NOTE F – CAPITAL ASSETS (Continued)

***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 |

***Commitments:*** As of December 31, 2012 and 2011, the Divisions had capital expenditure purchase commitments outstanding of approximately $59,877,000 and $37,136,000, 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 statement of net position 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, 2012 and 2011 is approximately $183,059,000 and $190,348,000, respectively.

Minimum future rental on non-cancelable operating leases to be received is as follows:

| | (Amounts in 000's) |
|---|---|
| 2013 | $ 13,781 |
| 2014 | 12,834 |
| 2015 | 7,256 |
| 2016 | 6,809 |
| 2017 | 5,823 |
| Thereafter | 14,232 |
| | $ 60,735 |

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 $15,711,000 and $14,464,000, respectively, in 2012 and 2011.

## 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 2012 or 2011. There was no significant decrease in any insurance coverage in 2012 or 2011. 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.

## NOTE I – DEFINED BENEFIT PENSION PLAN (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 2012, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2012, 2011 and 2010. The employer contribution rates were 14.00% of covered payroll in 2012, 2011 and 2010.

The Divisions' required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2012, 2011 and 2010 were $2,095,000, $2,048,000 and $1,918,000 each year, respectively. The required payments due in 2012, 2011 and 2010 have been made.

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

## NOTE 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 No. 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-

**NOTE J – OTHER POSTEMPLOYMENT BENEFITS (Continued)**

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 2012, 2011 and 2010. 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 2012 and 2011, 6.05% for members of the Combined Plan in 2012 and 2011 and 5.50% from January 1, 2010 through February 28, 2010 and 5.00% from March 1, 2010 through December 31, 2010 for both plans. Effective January 1, 2013, the portion of employer contributions allocated to health care was lowered to 1.00% for both plans, as recommended by the OPERS Actuary. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Divisions' actual contributions to OPERS to fund postemployment benefits were $838,000 in 2012, $819,000 in 2011 and $1,093,000 in 2010. The required payments due in 2012, 2011 and 2010 have been made.

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

## NOTE 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, 2012 and 2011 were as follows:

| | 2012 | 2011 |
|---|---|---|
| | (Amounts in 000's) | |
| City Central Services, including police | $ 8,306 | $ 8,218 |
| Electricity purchased | 239 | 243 |
| Motor vehicle maintenance | 577 | 654 |

## 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 2012 was payable to the Airlines from the City in the amount of $300,000. The landing fee adjustment for 2011 was payable to the City from the Airlines in the amount of $3,850,000.

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 2012 and 2011.

## NOTE M – PASSENGER FACILITY CHARGES

On November 1, 1992, Cleveland Hopkins International Airport began collecting Passenger Facility Charges (PFC's) subject to title 14, Code of Federal Regulations, Part 158. PFC's 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, 2012, Cleveland Hopkins International Airport had the authority from the Federal Aviation Administration to collect approximately $556 million, of which an estimated 15.1% will be spent on noise abatement for the residents of communities surrounding the airport, 56.3% on runway expansion and 28.6% 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 2012 and 2011, operating revenues from one airline group for landing fees, rental and other charges amounted to approximately 45% and 45% respectively, of total operating revenue.

## NOTE O – SUBSEQUENT EVENTS

On February 13, 2013, American Airlines and US Airways announced a proposed merger agreement with the “new” American Airlines remaining as the largest airline in the world. Although this business combination is not expected to occur before the end of 2013, looking towards the future, there will likely be an impact on the Divisions’ operations. Both airlines expect that the regional carriers they own – AMR Corporation’s American Eagle and US Airways’ Piedmont and PSA – will continue to operate as distinct entities, providing seamless service to the combined airline. American Airlines and US Airways enplaned 5.6% and 4.3% of total passengers at the Airport, respectively, in 2012. It is not known at this time whether the impact will have a negative or positive effect on CLE.

Federal Sequestration has had a direct impact on Cleveland Airport System (CAS) federally-funded projects such as the CLE Airport Surface Surveillance Capability (ASSC) Project currently placed on hold. In addition, CAS has been advised by the FAA Airport District Office that there is no funding for an Environmental Assessment (EA) of the CLE airfield due to Sequestration. The EA would have focused on specific areas of the airfield that require either rehabilitation (due to age and deterioration) and/or are planned for development. Long-term, not being able to implement the aforementioned projects due to Sequestration may compromise airfield system preservation (i.e., ability to improve existing infrastructure), airfield capacity, safety and funding for future AIP-eligible projects.

Effective April 24, 2013, the City issued $58,000,000 Airport System Revenue Bonds, Series 2013A (Taxable). These bonds refunded all of the outstanding $58,000,000 Airport System Revenue Bonds, Series 2008F in anticipation of the expiration of the existing letter of credit. The bonds were purchased by U.S. Bank National Association with the City paying an amount equal to one month LIBOR plus a spread of 105 basis points. As a result of this refunding, the City will realize aggregate net present value savings of $3.4 million or 5.87%.

**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, 2012**

| | Cleveland Hopkins International | Burke Lakefront | Total |
|---|---|---|---|
| | | (Amounts in 000's) | |
| **REVENUE** | | | |
| Airline revenue: | | | |
| Landing fees | $ 34,923 | $ | $ 34,923 |
| Terminal rental | 36,280 | | 36,280 |
| Other | 3,663 | | 3,663 |
| | 74,866 | - | 74,866 |
| Operating revenues from other sources: | | | |
| Concessions | $ 21,582 | $ 378 | $ 21,960 |
| Rentals | 10,247 | 308 | 10,555 |
| Landing fees | 1,646 | 107 | 1,753 |
| Other | 4,062 | 109 | 4,171 |
| | 37,537 | 902 | 38,439 |
| Non-operating revenue: | | | |
| Interest income | 90 | | 90 |
| **TOTAL REVENUE** | $ 112,493 | $ 902 | $ 113,395 |
| **OPERATING EXPENSES** | | | |
| Salaries and wages | $ 20,211 | $ 1,038 | $ 21,249 |
| Employee benefits | 7,535 | 423 | 7,958 |
| City Central Services, including police | 8,606 | 265 | 8,871 |
| Materials and supplies | 7,855 | 343 | 8,198 |
| Contractual services | 22,397 | 182 | 22,579 |
| **TOTAL OPERATING EXPENSES** | $ 66,604 | $ 2,251 | $ 68,855 |

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE PASSENGER FACILITY CHARGE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES IN ACCORDANCE WITH 14 CFR PART 158**

**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:

**Report on Compliance for the Passenger Facility Charge Program**

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, 2012.

***Management's Responsibility***
Management is responsible for compliance with the compliance requirements applicable to the passenger facility charge program.

***Auditors' Responsibility***
Our responsibility is to express an opinion on compliance with the passenger facility charge program based on our audit of the compliance requirements referred to above. 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 on compliance for the passenger facility charge program. However, our audit does not provide a legal determination of the Divisions' compliance.

***Opinion on the Passenger Facility Charge Program***
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, 2012.

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cincinnati | columbus | dayton | middletown | springfield

**Report on 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 of compliance, 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 that are appropriate in the circumstances for the purpose of expressing an 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 the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Divisions' internal control over compliance.

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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the passenger facility charge 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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

**Report on 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, 2012, and have issued our report thereon dated June 25, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an 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 as a whole. 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 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 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.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 25, 2013

**City of Cleveland - Department of Port Control**
**Cleveland Hopkins International Airport**
**Schedule of Expenditures of Passenger Facility Charges**
**For the Period Ending December 31, 2012**

| Projects | Approved Project Budget | Cumulative Expenditures 2011 | 2012 1st Quarter Expenditures | 2012 2nd Quarter Expenditures | 2012 3rd Quarter Expenditures | 2012 4th Quarter Expenditures | 2012 YTD Expenditures | Cumulative Expenditures through 2012 |
|---|---|---|---|---|---|---|---|---|
| Insulate Residences - Full Program Phase I | $ 16,960,400 | $ 16,960,400 | $ | $ | $ | $ | $ - | $ 16,960,400 |
| Extension of Taxiway "Q" | 2,155,743 | 2,155,743 | | | | | - | 2,155,743 |
| 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 |
| 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 | 8,595,641 | 8,595,641 | | | | | - | 8,595,641 |
| Land Acquisition - Midvale, Brysdale, Forestwood, Rocky River | 25,282,298 | 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 |
| Brook Park Land Transfer | 8,750,000 | 8,750,000 | | | | | - | 8,750,000 |
| Analex Demolition | 1,229,000 | 890,914 | | | | 38,479 | 38,479 | 929,393 |
| 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 | 5,022,518 | | | | 61,211 | 61,211 | 5,083,729 |
| Concourse D Ramp/Site Utilities | 51,305,804 | 46,346,413 | | | | 564,447 | 564,447 | 46,910,860 |
| Burke Runway Overlay 6L/24R | 530,286 | 530,286 | | | | | - | 530,286 |
| Burke ILS | 2,181,400 | 1,725,262 | | | | 51,914 | 51,914 | 1,777,176 |
| Runway 6L/23R | 270,550,360 | 115,973,561 | | | | 17,592,948 | 17,592,948 | 133,566,509 |
| Runway 6R/24L Uncoupling | 2,148,000 | 2,148,000 | | | | | - | 2,148,000 |
| Runway 28 Safety Improvements | 2,200,000 | 2,010,454 | | | | | - | 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) | 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 | 6,794,420 | 79,049 | 120,877 | | 95,362 | 295,288 | 7,089,708 |
| 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** | $ 556,116,449 | $ 364,504,402 | $ 79,049 | $ 120,877 | $ - | $ 18,404,361 | $ 18,604,287 | $ 383,108,689 |

**CITY OF CLEVELAND, OHIO**
**DEPARTMENT OF PORT CONTROL**
**DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL**
**AND BURKE LAKEFRONT AIRPORTS**

**NOTES TO SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES**
**For the Year Ended December 31, 2012**

## 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.

# 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, 2012 and 2011**

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC UTILITIES
## DIVISION OF CLEVELAND PUBLIC POWER

### TABLE OF CONTENTS

## 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:

### Report on the Financial Statements

We have audited the accompanying 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, 2012 and 2011 and the related notes to the financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

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***Opinions***

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, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Effect of Adopting New Accounting Standards**

As discussed in Note A, the Division adopted the provisions of Governmental Accounting Standards Board Statement No. 60 *Accounting and Financial Reporting for Service Concession Arrangements*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision*. Our opinion is not modified with respect to this matter.

***Other Matters***

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, 2012 and 2011, and the respective changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 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, 2013

# 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, 2012 and 2011. Please read this information in conjunction with the Division's financial statements and footnotes that begin on page 14.

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's long-term base load supply will include a mix of power provided by participation in American Municipal Power (AMP) Inc. hydroelectric projects, the Prairie State Energy Campus project and new/emerging alternative energy technologies.

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

### FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities (net position) by $211,191,000, $208,597,000 and $206,758,000 at December 31, 2012, 2011 and 2010, respectively. Of these amounts, $52,470,000, $58,236,000 and $58,291,000 are unrestricted net position at December 31, 2012, 2011 and 2010, respectively, that may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's total net position increased by $2,594,000 and $1,839,000 in 2012 and 2011, respectively. Operating revenue decreased by $3,221,000 or 1.9%. Purchased power increased by $5,274,000 or 5.8% and total operating expenses decreased by $2,570,000 or 1.6% for 2012. In addition, investment income decreased by $71,000 or 47.0%, interest expense decreased by $1,493,000 or 13.4% and amortization of bond issuance costs, premiums and discounts increased by $50,000 or 22.1%.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### FINANCIAL HIGHLIGHTS (Continued)

- During 2012, the Division had an increase in capital assets, net of accumulated depreciation of $3,575,000 or 1.1%. The principal capital expenditures in 2012 were for the Holton Substation (Fourth Interconnect), Pole Replacement, New Vehicles, Transformers, Building Betterments and Flats East Bank Distribution. These additions were offset by current year depreciation.

- The Division's total long-term bonded debt decreased by $10,705,000 and $10,495,000 for the years ended December 31, 2012 and 2011, respectively. The decrease in both years is attributed mainly to scheduled debt service payments made to bondholders. Also, in 2012, the Division refinanced the 2001 bonds for a net decrease of $655,000 in long-term debt.

- 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, 2012.

### 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 14 – 19 of this report. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 20 - 36 of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### CONDENSED STATEMENT OF NET POSITION INFORMATION

Provided below is condensed statement of net position information for the Division as of December 31, 2012, 2011 and 2010.

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | | (In thousands) | |
| Assets: | | | |
| Capital assets, net of accumulated depreciation | $ 335,627 | $ 332,052 | $ 334,495 |
| Restricted assets | 54,862 | 59,031 | 63,448 |
| Unamortized bond issuance costs | 2,646 | 2,947 | 3,293 |
| Current assets | 80,470 | 85,253 | 83,389 |
| Total assets | 473,605 | 479,283 | 484,625 |
| Net Position and Liabilities: | | | |
| Net Position: | | | |
| Net investment in capital assets | 153,436 | 145,158 | 144,257 |
| Restricted for capital projects | 1,309 | 1,309 | |
| Restricted for debt service | 3,976 | 3,894 | 4,210 |
| Unrestricted | 52,470 | 58,236 | 58,291 |
| Total net position | 211,191 | 208,597 | 206,758 |
| Liabilities: | | | |
| Long-term obligations | 228,469 | 237,151 | 240,565 |
| Current liabilities | 33,945 | 33,535 | 37,302 |
| Total liabilities | 262,414 | 270,686 | 277,867 |
| Total net position and liabilities | $ 473,605 | $ 479,283 | $ 484,625 |

***Restricted assets**:* The Division's restricted assets decreased by $4,169,000 and $4,417,000 in 2012 and 2011 respectively. The decreases for both years are primarily related to use of revenue bond funds for capital project expenditures.

***Current assets:*** The Division's current assets decreased by $4,783,000 in 2012, compared to an increase of $1,864,000 in 2011. The decrease in 2012 is mainly due to a decrease in net accounts receivable of $3,155,000 as a result of decreased billings. There was also a net decrease of $1,348,000 in cash and cash equivalents and investments as well as a decrease of restricted cash and cash equivalents of $620,000. These items were offset by a $755,000 increase in due from other City of Cleveland departments, divisions and funds.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

***Capital assets:*** The Division's capital assets as of December 31, 2012 amounted to $335,627,000 (net of accumulated depreciation). The total increase in the Division's net capital assets for the current year was $3,575,000. A summary of the activity in the Division's capital assets during the year ended December 31, 2012 is as follows:

| | Balance January 1, 2012 | Additions | Reductions | Balance December 31, 2012 |
|---|---|---|---|---|
| | (In thousands) | | | |
| Land | $ 4,863 | $ 386 | $ | $ 5,249 |
| Land improvements | 305 | | | 305 |
| Utility plant | 473,921 | 21,313 | | 495,234 |
| Buildings, structures and improvements | 20,080 | 1,333 | | 21,413 |
| Furniture, fixtures, equipment and vehicles | 79,996 | 2,980 | (1,940) | 81,036 |
| Construction in progress | 52,049 | 18,246 | (23,712) | 46,583 |
| Total | 631,214 | 44,258 | (25,652) | 649,820 |
| Less: Accumulated depreciation | (299,162) | (16,971) | 1,940 | (314,193) |
| Capital assets, net | $ 332,052 | $ 27,287 | $ (23,712) | $ 335,627 |

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 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

The principal capital expenditures during 2012 included the following:

- Holton Substation (4th Interconnect) - $8,838,000
- Engineering and Overhead expense - $5,637,000
- Pole Replacement - $1,399,000
- New Vehicles - $1,615,000
- Transformers - $913,000
- Building Betterments - garage at W 41st - $768,000
- Flats East Bank - $633,000
- Retaining Wall W 41st - $594,000
- 800 MGHz Radio System - $420,000

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 $410,000 in 2012 is mainly due to the increase of $1,070,000 in the current portion of long-term debt due in one year according to predetermined schedules, offset by a $620,000 decrease in current payable from restricted assets.

***Long-term obligations:*** The long-term obligation decrease of $8,682,000 in 2012 is mainly attributed to scheduled debt service payments.

At December 31, 2012, the Division had total debt outstanding of $245,113,000. 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. In 2006, 2010 and 2012, the Division issued bonds to refinance a portion of its long-term debt. This outstanding debt is being retired in accordance with repayment schedules through 2038.

Accreted interest payable will increase every year until 2025, mainly due to interest accruing on the Division's 2008B Capital Appreciation Bonds (CABs). Payments of the accreted amount will begin in 2025.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

The activity in the Division's debt obligations outstanding during the year ended December 31, 2012 is summarized in the following table (excluding unamortized discounts, premiums and losses on debt refundings):

| | Balance January 1, 2012 | Debt Issued | Debt Refunded | Debt Retired | Balance December 31, 2012 |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Revenue Bonds: | | | | | |
| Mortgage Revenue Bonds 1994 A | $ 14,650 | $ | $ | $ (7,325) | $ 7,325 |
| Revenue Bonds 2001 | 15,980 | | (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 | | | (910) | 43,795 |
| Revenue Bonds 2008 B-2 | 27,903 | | | | 27,903 |
| Revenue Bonds 2010 | 23,915 | | | | 23,915 |
| Revenue Bonds 2012 | | 15,325 | | (1,815) | 13,510 |
| Total | $ 255,818 | $ 15,325 | $ (15,980) | $ (10,050) | $ 245,113 |

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 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### CONDENSED STATEMENT OF NET POSITION 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 2012, 2011 and 2010 was 143%, 140% and 160%, respectively. Additional information on the Division's long-term debt can be found in Note B to the basic financial statements on pages 23 - 27.

***Net Position:*** Net position serves as a useful indicator of a government's financial position. In the case of the Division, assets exceeded liabilities by $211,191,000, $208,597,000 and $206,758,000 at December 31, 2012, 2011 and 2010, respectively.

Of the Division's net position at December 31, 2012, $153,436,000 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 $3,976,000 represents resources subject to debt service restrictions. The remaining $52,470,000 reflects unrestricted funds available to meet the Division's ongoing obligations to customers and creditors.

Of the Division's net position 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

The Division increased its net position by $2,594,000 in 2012, while the 2011 increase in net position amounted to $1,839,000. Provided below are key elements of the Division's results of operations as of and for the years ended December 31, 2012, 2011 and 2010:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | | (In thousands) | |
| Operating revenues | $ 165,227 | $ 168,448 | $ 166,665 |
| Operating expenses | 153,958 | 156,528 | 154,221 |
| Operating income (loss) | 11,269 | 11,920 | 12,444 |
| Non-operating revenue (expense): | | | |
| Investment income | 80 | 151 | 96 |
| Interest expense | (9,677) | (11,170) | (10,966) |
| Amortization of bond issuance costs and discount | (276) | (226) | (739) |
| Other | 217 | 1,006 | 1,223 |
| Total non-operating revenue (expense), net | (9,656) | (10,239) | (10,386) |
| Income (loss) before capital and other contributions | 1,613 | 1,681 | 2,058 |
| Capital and other contributions | 981 | 158 | 1,021 |
| Increase (decrease) in net position | 2,594 | 1,839 | 3,079 |
| Net position, beginning of year | 208,597 | 206,758 | 203,679 |
| Net position, end of year | $ 211,191 | $ 208,597 | $ 206,758 |

- In 2012, operating revenues decreased by $3,221,000. This decrease is related to cooler summer weather. The summer of 2011 was the second warmest summer on record. The weather normalized in 2012.

- In 2011, operating revenues increased by $1,783,000. The increase was 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 2012, operating expenses decreased by $2,570,000. This decrease is mainly related to street light upgrades and higher raw materials costs that occurred in 2011.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

- In 2012, the cost of purchased power increased $5,274,000 due to the increase price of purchased power on the market. This increase in the cost of purchased power is passed through to customers via an Energy Adjustment Charge.

- In 2011, operating expenses increased by $2,307,000. The increase was mainly related to the rise in operations and maintenance expenses offset by a decrease in cost of purchased power.

### 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. The Division has concluded its 5-year Strategic Business Plan (SBP) for the period of 2007 – 2012 and is currently in the process of finalizing a new 5-year SBP that will identify and address competitive factors likely to impact the division over the period of 2013-2018.

The Capacity Expansion Program has been an ongoing project for the Division. Two major components remain and are expected to be completed in the future. The Capacity Expansion Program is designed to support and improve the Division's electric system reliability and provide for future load growth opportunities.

> Southern Project: This component of the Capacity Expansion Program includes the extension of the southern 138kV transmission system and the addition of a 138/13.8kV 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.
>
> Lake Road Project: This 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 1st quarter 2014.

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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### FACTORS EXPECTED TO IMPACT THE DIVISION'S FUTURE FINANCIAL POSITION OR RESULTS OF OPERATIONS (Continued)

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 approximately 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 came on-line in November 2012, and has also contracted to receive 60 MW of the Fremont Energy Center, a 707 MW natural gas-fired generating plant, which came on-line in January 2012. 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 through the Energy Adjustment Charge.

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. In accordance to Ordinance No. 1560-10 passed in November 2010, the General Fund retained 100% of the tax remittance in 2011 and also retained 100% during the calendar year 2012. Under Ordinance No. 193-13 passed in March 2013, the General Fund will retain 100% of the tax remittance in 2013 and will also retain 50% during the calendar year 2014.

### 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
## STATEMENTS OF NET POSITION
## December 31, 2012 and 2011

| | (*In thousands*) 2012 | 2011 |
|---|---|---|
| **ASSETS** | | |
| **CAPITAL ASSETS** | | |
| Land | $ 5,249 | $ 4,863 |
| Land improvements | 305 | 305 |
| Utility plant | 495,234 | 473,921 |
| Buildings, structures and improvements | 21,413 | 20,080 |
| Furniture, fixtures, equipment and vehicles | 81,036 | 79,996 |
| | 603,237 | 579,165 |
| Less: Accumulated depreciation | (314,193) | (299,162) |
| | 289,044 | 280,003 |
| Construction in progress | 46,583 | 52,049 |
| **CAPITAL ASSETS, NET** | 335,627 | 332,052 |
| **RESTRICTED ASSETS** | | |
| Cash and cash equivalents | 51,122 | 59,031 |
| Investments | 3,739 | |
| Accrued interest receivable | 1 | |
| **TOTAL RESTRICTED ASSETS** | 54,862 | 59,031 |
| **UNAMORTIZED BOND ISSUANCE COSTS** | 2,646 | 2,947 |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | 58,097 | 54,386 |
| Restricted cash and cash equivalents | 1,310 | 1,930 |
| Investments | | 5,059 |
| Receivables: | | |
| Accounts receivable - net of allowance for doubtful accounts of $9,407,000 in 2012 and $6,889,000 in 2011 | 6,903 | 10,058 |
| Unbilled revenue | 1,931 | 2,080 |
| Due from other City of Cleveland departments, divisions or funds | 3,313 | 2,558 |
| Materials and supplies - at average cost | 8,826 | 9,089 |
| Prepaid expenses | 90 | 93 |
| **TOTAL CURRENT ASSETS** | 80,470 | 85,253 |
| **TOTAL ASSETS** | $ 473,605 | $ 479,283 |

(Continued)

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC UTILITIES
## DIVISION OF CLEVELAND PUBLIC POWER
## STATEMENTS OF NET POSITION
## December 31, 2012 and 2011

| | (*In thousands*) 2012 | 2011 |
|---|---|---|
| **NET POSITION AND LIABILITIES** | | |
| **NET POSITION** | | |
| Net investment in capital assets | $ 153,436 | $ 145,158 |
| Restricted for capital projects | 1,309 | 1,309 |
| Restricted for debt service | 3,976 | 3,894 |
| Unrestricted | 52,470 | 58,236 |
| **TOTAL NET POSITION** | 211,191 | 208,597 |
| **LIABILITIES** | | |
| **LONG-TERM OBLIGATIONS-excluding amounts due within one year** | | |
| Revenue bonds | 220,202 | 230,690 |
| Accreted interest payable | 7,768 | 5,948 |
| Accrued wages and benefits | 499 | 513 |
| **TOTAL LONG-TERM OBLIGATIONS** | 228,469 | 237,151 |
| **CURRENT LIABILITIES** | | |
| Current portion of long-term debt, due within one year | 12,710 | 11,640 |
| Accounts payable | 8,732 | 8,598 |
| Current payable from restricted assets | 1,310 | 1,930 |
| Due to other City of Cleveland departments, divisions or funds | 4,499 | 4,922 |
| Accrued interest payable | 1,221 | 1,298 |
| Current portion of accrued wages and benefits | 3,855 | 3,635 |
| Other accrued expenses | 507 | 420 |
| Customer deposits and other liabilities | 1,111 | 1,092 |
| **TOTAL CURRENT LIABILITIES** | 33,945 | 33,535 |
| **TOTAL LIABILITIES** | 262,414 | 270,686 |
| **TOTAL NET POSITION AND LIABILITIES** | $ 473,605 | $ 479,283 |

See notes to financial statements.

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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 POSITION
## For the Years Ended December 31, 2012 and 2011

| | *(In thousands)* | |
|---|---|---|
| | **2012** | **2011** |
| **OPERATING REVENUES** | | |
| Charges for services | $ 165,227 | $ 168,448 |
| **TOTAL OPERATING REVENUES** | 165,227 | 168,448 |
| **OPERATING EXPENSES** | | |
| Purchased power | 95,788 | 90,514 |
| Operations | 21,379 | 29,542 |
| Maintenance | 19,820 | 19,896 |
| Depreciation | 16,971 | 16,576 |
| **TOTAL OPERATING EXPENSES** | 153,958 | 156,528 |
| **OPERATING INCOME (LOSS)** | 11,269 | 11,920 |
| **NON-OPERATING REVENUE (EXPENSE)** | | |
| Investment income | 80 | 151 |
| Interest expense | (9,677) | (11,170) |
| Amortization of bond issuance costs and discounts | (276) | (226) |
| Other | 217 | 1,006 |
| **TOTAL NON-OPERATING REVENUE (EXPENSE), NET** | (9,656) | (10,239) |
| **INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS** | 1,613 | 1,681 |
| Capital and other contributions | 981 | 158 |
| **INCREASE (DECREASE) IN NET POSITION** | 2,594 | 1,839 |
| **NET POSITION, BEGINNING OF YEAR** | 208,597 | 206,758 |
| **NET POSITION, END OF YEAR** | $ 211,191 | $ 208,597 |

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, 2012 and 2011

| | *(In thousands)* 2012 | 2011 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash received from customers | $ 168,740 | $ 172,078 |
| Cash payments to suppliers for goods or services | (15,640) | (20,615) |
| Cash payments to employees for services | (22,056) | (24,018) |
| Cash payments for purchased power | (95,152) | (90,960) |
| Electric excise tax payments to agency fund and other | (4,813) | (5,334) |
| **NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES** | 31,079 | 31,151 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| Grants | 89 | 158 |
| Other | | 689 |
| **NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES** | 89 | 847 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Proceeds from sale of revenue bonds | 15,325 | |
| Acquisition and construction of capital assets | (16,620) | (9,618) |
| Principal paid on long-term debt | (10,050) | (10,495) |
| Interest paid on long-term debt | (9,746) | (10,573) |
| Cash paid to escrow agent for refunding | (16,294) | |
| **NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES** | (37,385) | (30,686) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of investment securities | (28,731) | (5,019) |
| Proceeds from sale and maturity of investment securities | 30,010 | 3,572 |
| Interest received on investments | 120 | 123 |
| **NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES** | 1,399 | (1,324) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | (4,818) | (12) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 115,347 | 115,359 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ 110,529 | $ 115,347 |

(Continued)

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC UTILITIES
## DIVISION OF CLEVELAND PUBLIC POWER
## STATEMENTS OF CASH FLOWS
## For the Years Ended December 31, 2012 and 2011

| | *(In thousands)* 2012 | 2011 |
|---|---|---|
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | |
| **OPERATING INCOME** | $ 11,269 | $ 11,920 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 16,971 | 16,576 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | 3,155 | 3,600 |
| Unbilled revenue | 149 | 412 |
| Due from other City of Cleveland departments, divisions or funds | (755) | (53) |
| Materials and supplies, net | 263 | 46 |
| Prepaid expenses | 3 | 23 |
| Accounts payable | 135 | (946) |
| Due to other City of Cleveland departments, divisions or funds | (423) | (242) |
| Accrued wages and benefits | 206 | (193) |
| Other accrued expenses | 87 | (32) |
| Customer deposits and other liabilities | 19 | 40 |
| **TOTAL ADJUSTMENTS** | 19,810 | 19,231 |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | $ 31,079 | $ 31,151 |

See notes to financial statements. (Concluded)

# NOTES TO FINANCIAL STATEMENTS
## For the Years Ended December 31, 2012 and 2011

### 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 November of 2010, Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The Division has determined that GASB Statement No. 60 has no impact on its financial statements as of December 31, 2012.

In December of 2010, Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations, (2) Accounting Principles Board Opinions and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. As required, the Division has implemented GASB Statement No. 62 effective for the 2012 fiscal year.

In June of 2011, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. As required, the Division has implemented GASB Statement No. 63 effective for the 2012 fiscal year.

In June of 2011, Governmental Accounting Standards Board (GASB) Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision* was issued. This Statement is effective for fiscal periods beginning after June 15, 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The Division has determined that GASB Statement No. 64 has no impact on its financial statements as of December 31, 2012. 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 position/equity balance as previously reported.

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- Net investment in capital assets
- Amount restricted for capital projects
- Amount restricted for debt service
- Remaining unrestricted amount

***Basis of Accounting:*** The Division's financial statements are prepared under the accrual basis of accounting. Under this method, revenues are recognized when earned and measurable and expenses are recognized as incurred.

***Revenues:*** Revenues are derived primarily from 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.

***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 Fund 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 2012 and 2011. 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, 2012 and 2011.

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***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 |

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 2012 and 2011 total interest costs incurred amounted to $13,227,000 and $14,715,000 respectively, of which $3,533,000 and $3,533,000, respectively, was capitalized, net of interest income of $17,000 in 2012 and $12,000 in 2011.

***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 statement of net position. 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.

**NOTES TO FINANCIAL STATEMENTS (Continued)**
**For the Years Ended December 31, 2012 and 2011**

## NOTE B - DEBT AND OTHER LONG-TERM OBLIGATIONS

Long-term debt outstanding at December 31, 2012 and 2011 is as follows:

| | Interest Rate | Original Issuance | 2012 | 2011 |
|---|---|---|---|---|
| | | | (In thousands) | |
| **Revenue Bonds:** | | | | |
| Series 1994 A, due through 2013 | Zero Coupon | $ 219,105 | $ 7,325 | $ 14,650 |
| Series 2001, refunded in 2012 | 5.00%-5.50% | 41,925 | | 15,980 |
| 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 | 43,795 | 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 |
| Series 2012 , due through 2016 | 2.00% | 15,325 | 13,510 | |
| | | $ 501,543 | 245,113 | 255,818 |
| Less: | | | | |
| Unamortized discount-zero coupon bonds | | | (1,690) | (2,612) |
| Unamortized premium (discount)-current interest bonds (net) | | | 3,678 | 4,764 |
| Unamortized loss on debt refunding | | | (14,189) | (15,640) |
| Current portion | | | (12,710) | (11,640) |
| Total Long-Term Debt | | | $ 220,202 | $ 230,690 |

## NOTES TO FINANCIAL STATEMENTS (Continued)
## For the Years Ended December 31, 2012 and 2011

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

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

| | Balance January 1, 2012 | Increase | Decrease | Balance December 31, 2012 | Due Within One Year |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **Revenue Bonds:** | | | | | |
| Series 1994 A, due through 2013 | $ 14,650 | $ | $ (7,325) | $ 7,325 | $ 7,325 |
| Series 2001, refunded in 2012 | 15,980 | | (15,980) | - | |
| 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 | | (910) | 43,795 | 940 |
| Series 2008 B-2, due through 2038 | 27,903 | | | 27,903 | |
| Series 2010, due through 2017 | 23,915 | | | 23,915 | 445 |
| Series 2012, due through 2016 | | 15,325 | (1,815) | 13,510 | 4,000 |
| Total revenue bonds | 255,818 | 15,325 | (26,030) | 245,113 | 12,710 |
| Accrued wages and benefits | 4,148 | 3,841 | (3,635) | 4,354 | 3,855 |
| Total | $ 259,966 | $ 19,166 | $ (29,665) | $ 249,467 | $ 16,565 |

## NOTES TO FINANCIAL STATEMENTS (Continued)
## For the Years Ended December 31, 2012 and 2011

### 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 |

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

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

| | Principal | Interest | Total |
|---|---|---|---|
| | (In thousands) | | |
| 2013 | $ 12,710 | $ 9,767 | $ 22,477 |
| 2014 | 13,195 | 9,638 | 22,833 |
| 2015 | 13,105 | 9,111 | 22,216 |
| 2016 | 13,710 | 8,591 | 22,301 |
| 2017 | 14,325 | 7,974 | 22,299 |
| 2018 - 2022 | 82,235 | 28,952 | 111,187 |
| 2023 - 2027 | 51,032 | 22,671 | 73,703 |
| 2028 - 2032 | 20,249 | 29,214 | 49,463 |
| 2033 - 2037 | 20,344 | 29,130 | 49,474 |
| 2038 | 4,208 | 5,685 | 9,893 |
| Total | $ 245,113 | $ 160,733 | $ 405,846 |

The City has pledged future power system revenues, net of specified operating expenses, to repay $245,113,000 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 70 percent of net revenues. The total principal and interest remaining to be paid on the various Power System Revenue Bonds is $405,846,000. Principal and interest paid for the current year and total net revenues were $19,796,000 and $28,320,000, respectively.

Effective February 24, 2012, the City issued $15,325,000 Public Power System Revenue Refunding Bonds, Series 2012, to refund all of the outstanding $15,980,000 Public Power System Refunding Revenue Bonds, Series 2001. Net proceeds of the Series 2012 Bonds and amounts on deposit in the Series 2001 Bond Fund together totaling $16,293,627 were placed in an irrevocable trust account to pay the principal and interest on the refunded Series 2001 Bonds on March 26, 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 $1,169,000 or an economic gain (the difference between the present values of the old and new debt service) of approximately $1,148,000 or 7.18%. These bonds were sold through a private sale to Wells Fargo Bank, National Association.

The Division has, at various times, 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, 2012.

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

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.

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, 2012 and 2011, 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 a minimum of $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, 2012 and 2011, the Division had $46,195,000 and $47,456,000, 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, 2012 and 2011, the Division's carrying amount of deposits totaled $14,096,000 and $17,695,000, respectively, and the Division's bank balances totaled $14,002,000 and $18,132,000, 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*, $14,002,000 and $18,132,000 of the bank balances at December 31, 2012 and 2011, respectively, were insured or collateralized with securities held by the City or by its agent in the City's name.

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

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

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

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

## NOTE C - DEPOSITS AND INVESTMENTS (Continued)

***Credit Risk***: The Division's investments as of December 31, 2012 and 2011 include U.S. Treasury Bills, U.S. Agency Obligations, STAROhio, commercial paper and mutual funds. The Division maintains the highest ratings for its investments. Investments in STAROhio and First American Government Obligations mutual funds carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's. The Division's investment in U.S. Bank N.A. Open Commercial Paper carries a Standard & Poor's rating of A-1+. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service.

***Concentration of Credit Risk***: The Division places a limitation on the amount it may invest in any one issuer to help minimize the concentration of credit risk. The Division had the following investments at December 31, 2012 and 2011, which include those classified as cash and cash equivalents in the statement of net position in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

| Type of Investment | 2012 Fair Value | 2012 Cost | 2011 Fair Value | 2011 Cost | Investment Maturities Less than One Year |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| U.S. Treasury Bills | $ 3,739 | $ 3,739 | $ | $ | $ 3,739 |
| U.S. Agency Obligations | | | 5,059 | 5,019 | |
| STAROhio | 45,475 | 45,475 | 38,322 | 38,322 | 45,475 |
| Commercial Paper | 1,133 | 1,133 | 1,131 | 1,131 | 1,133 |
| Investment in Mutual Funds | 49,825 | 49,825 | 58,199 | 58,199 | 49,825 |
| Total Investments | 100,172 | 100,172 | 102,711 | 102,671 | 100,172 |
| Total Deposits | 14,096 | 14,096 | 17,695 | 17,695 | 14,096 |
| Total Deposits and Investments | $ 114,268 | $ 114,268 | $ 120,406 | $ 120,366 | $ 114,268 |

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, 2012, the investments in U.S. Treasury Bills, STAROhio, commercial paper and mutual funds are approximately 4%, 45%, 1% and 50%, respectively, of the Division's total investments. 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.

## NOTE D - CAPITAL ASSETS

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

| | Balance January 1, 2012 | Additions | Reductions | Balance December 31, 2012 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Capital assets, not being depreciated: | | | | |
| Land | $ 4,863 | $ 386 | $ | $ 5,249 |
| Construction in progress | 52,049 | 18,246 | (23,712) | 46,583 |
| Total capital assets, not being depreciated | 56,912 | 18,632 | (23,712) | 51,832 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 305 | | | 305 |
| Utility plant | 473,921 | 21,313 | | 495,234 |
| Buildings, structures and improvements | 20,080 | 1,333 | | 21,413 |
| Furniture, fixtures, equipment and vehicles | 79,996 | 2,980 | (1,940) | 81,036 |
| Total capital assets, being depreciated | 574,302 | 25,626 | (1,940) | 597,988 |
| Less: Accumulated depreciation | (299,162) | (16,971) | 1,940 | (314,193) |
| Total capital assets being depreciated, net | 275,140 | 8,655 | - | 283,795 |
| Capital assets, net | $ 332,052 | $ 27,287 | $ (23,712) | $ 335,627 |

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**NOTES TO FINANCIAL STATEMENTS (Continued)**
**For the Years Ended December 31, 2012 and 2011**

## NOTE D - CAPITAL ASSETS (Continued)

***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 |

***Commitments:*** The Division has outstanding commitments of approximately $59,544,000 and $51,775,000 for future capital expenditures at December 31, 2012 and 2011, 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 2012, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2012, 2011 and 2010. The employer contribution rates were 14.00% of covered payroll in 2012, 2011 and 2010.

The Division's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2012, 2011 and 2010 were $2,037,000, $2,012,000 and $1,939,000 each year, respectively. The required payments due in 2012, 2011 and 2010 have been made.

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

## NOTE 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 No. 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, 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 2012, 2011 and 2010. 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 2012 and 2011, 6.05% for members of the Combined Plan in 2012 and 2011 and 5.50% from January 1, 2010 through February 28, 2010 and 5.00% from March 1, 2010 through December 31, 2010 for both plans. Effective January 1, 2013, the portion of employer contributions allocated to health care was lowered to 1.00% for both plans, as recommended by the OPERS Actuary. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Division's actual contributions to OPERS to fund postemployment benefits were $815,000 in 2012, $804,000 in 2011 and $1,105,000 in 2010. The required payments due in 2012, 2011, and 2010 have been made.

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

## NOTE 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. AMP has instituted litigation against the EPC contractor to recover costs incurred as a result of the project's cancellation.

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 $13,556,845 plus interest of $79,704. 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 $6,281,771. 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, 2012.

Cleveland City Council passed legislation in 2011 allowing the Division to pass through 50% of any costs for which CPP is determined to be responsible 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 $3,677,390, 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 2012 or 2011. There were no significant decreases in any insurance coverage in 2012. 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. The City participates in the State of Ohio's workers' compensation retrospective rating program.

## NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs) and other economic and social factors.

The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses, regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Claims liability for the Division is reported as part of accounts payable on the statement of net position and is immaterial.

The Division suffered a loss of a transformer amounting to $1,120,000 in 2012. After the insurance claim, the Division’s loss is expected to be $250,000.

## 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, 2012 and 2011 are as follows:

| | 2012 | 2011 |
|---|---|---|
| | (In thousands) | |
| City Administration | $ 1,092 | $ 1,054 |
| Telephone Exchange | 727 | 565 |
| Division of Water | 435 | 427 |
| Utilities Administration and Fiscal Control | 947 | 871 |
| Motor Vehicle Maintenance | 700 | 630 |

## 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 $1,023,000 and $746,000 for the years ended December 31, 2012 and 2011, 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 $5,284,000 and $5,308,000 for this tax in 2012 and in 2011 respectively, of which $6,563 and $5,131 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 years 2011 and 2012. In accordance with Ordinance No. 193-13 passed in March 2013, the General Fund will retain 100% of the tax remittance in 2013 and will also retain 50% during the calendar year 2014.

## 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 $13,448,000 and $13,670,000 in 2012 and 2011, 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, 2012, the Division received $5,655,000 as reimbursements for SECA payments. CPP's trade association, American Municipal Power, is pursuing an additional reimbursement on behalf of its members for $1,600,000 from transmission owners in the Midwest ISO and another $1,200,000 from Baltimore Gas & Electric, which they are contesting. If AMP is successful, CPP will receive some portion of these recoveries but the amount is unknown.

The FERC has issued a SECA order requiring compliance filing, which the Division has filed, 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.

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC UTILITIES
## DIVISION OF WATER

**REPORT ON AUDITS OF FINANCIAL STATEMENTS**
**For the years ended December 31, 2012 and 2011**

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC UTILITIES
## DIVISION OF WATER

## TABLE OF CONTENTS

**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:

**Report on the Financial Statements**

We have audited the accompanying 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, 2012 and 2011 and the related notes to the financial statements, as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

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

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

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

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***Opinions***

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, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Effect of Adopting New Accounting Standards**

As discussed in Note A, the Division adopted the provisions of Governmental Accounting Standards Board Statement No. 60 *Accounting and Financial Reporting for Service Concession Arrangements*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision*. Our opinion is not modified with respect to this matter.

***Other Matters***

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, 2012 and 2011, and the respective changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 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, 2013

**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, 2012 and 2011. Please read this information in conjunction with the Division's financial statements and footnotes that begin on page 17.

The Division services not only the City, but also 69 surrounding communities, six master meter communities, and eight emergency standby communities. They provide water to approximately 417,069 city and suburban accounts in the Cleveland metropolitan area. They also sell water to master meter communities that operate their own distribution systems, and they provide billing and payment services for the Northeast Ohio Regional Sewer District and other communities.

During 2012, the Division provided services to approximately 124,520 accounts located within Cleveland and approximately 292,549 accounts located in direct service communities. Water provided to each master meter community is metered at each community'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 communities accounted for 70% and 9% of metered sales revenue, respectively.

The Division, along with Division of Utilities Fiscal Control (UFC), provides a complete array of processing services including billing, payment processing, mailing delinquency notices, terminating water service on delinquent accounts and distributing the money collected to the communities. UFC processes approximately 5,000 bills daily, which include bills for water only, sewer only, water and sewer, final notices and delinquent bills.

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

## FINANCIAL HIGHLIGHTS

- The Division restated its 2011 beginning capital assets due to the acquisition of $167,777,000, net of accumulated depreciation, of suburban distribution water mains by agreements signed with 21 suburbs from 2005 through 2010.

- The Division's net position was $1,259,472,000, $1,197,743,000 and $1,190,443,000 at December 31, 2012, 2011 and 2010, respectively. Of these amounts, $257,578,000, $204,911,000 and $207,491,000 are unrestricted net position at December 31, 2012, 2011 and 2010, respectively, and may be used to meet the Division's ongoing obligations to customers and creditors.

- In 2012, the operating revenues of the Division increased by $43,697,000 mainly due to a water rate increase. In 2011, the operating revenues of the Division decreased by $644,000.

- In 2012 the Division had a decrease in water pumpage of 0.16%. The major users of water consumption were ISG-Cleveland, Cuyahoga Metropolitan Housing Authority, Nestle Inc., Cleveland Clinic Foundation, Alcoa Inc., Northeast Ohio Regional Sewer District, Pepsi Inc. and Case Western Reserve University. 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., Northeast Ohio Regional Sewer District and NASA Lewis Research Center.

## FINANCIAL HIGHLIGHTS (Continued)

- The Division's overall net position increased by $61,729,000 and $7,300,000 in 2012 and 2011 respectively.

- The Division had increases in capital assets, net of accumulated depreciation, of $26,286,000 and $23,318,000 in 2012 and 2011, respectively. The major additions during these years were related to the continuing renovation projects for plant enhancements at the Morgan, Baldwin, Crown and Nottingham sites, suburban water main renewal and the meter reading program. The Division added the water mains for three suburbs in 2012 for $20,044,000. The major projects that were closed in construction in progress and moved to assets were Cleveland Security Contracts, Keller II Water Tower, Warehouse Improvements, Baldwin Residuals and Fairmount, Morgan Chemical Facility and the Plant Enhancements Program.

- The total long-term revenue bonds and loans payable of the Division increased $81,844,000 in 2012. This increase is primarily attributed to the issuance of $44,410,000 of Senior Lien, Series X Bonds and $76,710,000 Second Lien, Series A Bonds, which was offset by $40,239,000 of debt retired. 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.

- In July, 2012 the Division issued $50,000,000 of Water Revenue Subordinate Lien Notes Series 2012 in order to refund notes issued in 2011 to fund a portion of the Automated Meter Reading program. The 2012 Notes were redeemed in November 2012 with a portion of the proceeds from Second Lien Series A 2012 Bonds.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Division's basic financial statements. The accompanying financial statements present financial information for the City'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.

The Division 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.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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 - 45 of this report.

## CONDENSED STATEMENT OF NET POSITION INFORMATION

Provided below is condensed statement of net position information for the Division as of December 31, 2012, 2011 and 2010:

| | 2012 | Restated 2011 | Restated 2010 |
|---|---|---|---|
| | | (In thousands) | |
| Assets: | | | |
| Capital assets, net | $ 1,686,939 | $ 1,660,653 | $ 1,637,335 |
| Restricted assets | 211,843 | 171,598 | 240,993 |
| Unamortized bond issuance costs | 5,151 | 4,517 | 4,911 |
| Current assets | 308,093 | 271,720 | 276,285 |
| Total assets | 2,212,026 | 2,108,488 | 2,159,524 |
| Deferred outflows of resources: | | | |
| Derivative instruments-interest rate swaps | 27,699 | 27,955 | 17,664 |
| Total deferred outflows of resources | 27,699 | 27,955 | 17,664 |
| Total assets and deferred outflows | 2,239,725 | 2,136,443 | 2,177,188 |
| Net Position, Deferred Inflows and Liabilities: | | | |
| Net position: | | | |
| Net Investment in capital assets | 914,193 | 899,231 | 881,062 |
| Restricted for capital projects | 99 | | |
| Restricted for debt service | 87,602 | 93,601 | 101,890 |
| Unrestricted | 257,578 | 204,911 | 207,491 |
| Total net positon | 1,259,472 | 1,197,743 | 1,190,443 |
| Deferred inflows of resources: | | | |
| Derivative instruments-interest rate swaps | 27,699 | 27,955 | 17,664 |
| Total deferred inflows of resources | 27,699 | 27,955 | 17,664 |
| Liabilities: | | | |
| Long-term obligations | 869,040 | 765,540 | 819,238 |
| Current liabilities | 83,514 | 145,205 | 149,843 |
| Total liabilities | 952,554 | 910,745 | 969,081 |
| Total net position, deferred inflows and liabilities | $ 2,239,725 | $ 2,136,443 | $ 2,177,188 |

## CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

***Total Assets and Deferred Outflows:*** The Division's investment in total assets and deferred outflows as of December 31, 2012 amounted to $2,239,725,000, which is an increase of $103,282,000 from 2011. The Division had an increase in restricted assets and current assets of $40,245,000 and $36,373,000 respectively, due primarily to the issuance of revenue bonds of $44,410,000 and second lien water bonds of $76,710,000, and an increase of $634,000 in unamortized bond issuance costs. The division had a decrease in deferred outflows of resources of $256,000. The Division's capital assets as of December 31, 2012 amounted to $1,686,939,000, which is an increase of $26,286,000.

The Division's plant enhancements continue to be the primary reason for the increase in capital assets. Utility plant had additions of $145,112,000, buildings, structures and improvements had additions $17,159,000 and furniture, fixtures, equipment and vehicles had additions of $21,158,000. Included in these additions is $20,044,000, net of accumulated depreciation, of distribution mains acquired from three suburbs.

Also, construction in progress had deletions of $146,245,000 due to the completion of several major projects: Kirtland Pump Station Rehab, Fairmount Pump Station Rehab, Morgan Pretreatment and Residuals, Warehouse Rehabilitation and Baldwin Residuals and Fairmount offset by several ongoing major projects: Automated Meter Reading program, Crown Water Plant Improvements, Suburban Water Main Renewal, Morgan Chemical Facility Improvements, plant enhancement program improvements and 800MHz radio system renewal.

The Division's investment in total assets and deferred outflows as of December 31, 2011 amounted to $2,136,443,000 which is a decrease of $40,745,000 from 2010. The Division had decreases in restricted assets of $69,395,000, current assets of $4,565,000 and unamortized bond issuance costs of $394,000. The Division had an increase in deferred outflows of resources of $10,291,000.

The Division's capital assets as of December 31, 2011 amounted to $1,660,653,000 which is an increase of $23,318,000. 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: Automated Meter Reading program, Warehouse Improvements Phase 1 and 2, Crown Water Plant Improvements, Suburban Water Main Renewal, Morgan Chemical Facility Improvements and plant enhancement program improvements.

The increase in restricted assets of $40,245,000 as of December 31, 2012 is mainly attributed to increased cash balances in the debt service fund and restricted funds mainly due to the sale of the new Series X and the Second Lien Series A 2012 bonds.

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 Series K, N, O and T.

The deferred outflow of resources related to the Division's interest rate swap agreements decreased from $27,955,000 in 2011 to $27,699,000 in 2012. The fair value of the swaps is determined by the taxable LIBOR rate as of December 31, 2012.

## CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

***Capital Assets:*** The Division of Water restated their capital assets balances for 2011. The Division entered into amended Water Service Agreements with 21 member communities prior to 2011. These Agreements transferred ownership of the distribution mains from the member communities to the Division of Water. The Division's increase in their capital assets balance as a result of the restatement is $167,777,000 as of January 1, 2011. This is an increase of 11.4% compared to the reported capital assets balance prior to the restatement.

In 2012, the Division of Water entered into amended Water Service Agreements with three member communities. The amended Water Service Agreements transferred the ownership of the distribution mains to the Division. These new assets account for $20,044,000, net of accumulated depreciation, or 7.8% of the additions recorded in 2012.

The Division's investment in capital assets, as of December 31, 2012 amounted to $1,686,939,000 (net of accumulated depreciation). The total increase in the Division's investment in net capital assets for the current year was approximately 1.6%. The Division's investment in capital assets, as of December 31, 2011 amounted to $1,660,653,000 (net of accumulated depreciation). The total increase in the Division's investment in net capital assets for 2011 was approximately 1.4%. A summary of the activity in the Division's capital assets during the years ended December 31, 2012 and 2011 is as follows:

| | Balance January 1, 2012 | Additions | Reductions | Balance December 31, 2012 |
|---|---|---|---|---|
| | (In thousands) | | | |
| Land | $ 5,463 | $ | $ | $ 5,463 |
| Land improvements | 16,549 | | | 16,549 |
| Utility plant | 1,354,191 | 145,112 | (1,425) | 1,497,878 |
| Buildings, structures and improvements | 221,373 | 17,159 | | 238,532 |
| Furniture, fixtures, equipment and vehicles | 566,679 | 21,158 | (1,288) | 586,549 |
| Construction in progress | 275,907 | 71,505 | (146,245) | 201,167 |
| Total | 2,440,162 | 254,934 | (148,958) | 2,546,138 |
| Less: Accumulated depreciation | (779,509) | (82,370) | 2,680 | (859,199) |
| Capital assets, net | $ 1,660,653 | $ 172,564 | $ (146,278) | $ 1,686,939 |

## CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

| | Restated 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 | 1,241,644 | 112,795 | (248) | 1,354,191 |
| 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 | 2,359,542 | 204,870 | (124,250) | 2,440,162 |
| Less: Accumulated depreciation | (722,207) | (61,611) | 4,309 | (779,509) |
| Capital assets, net | $ 1,637,335 | $ 143,259 | $ (119,941) | $ 1,660,653 |

Major events during 2012 affecting the Division’s capital assets included the following:

- The construction, renovations and plant enhancements were completed 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 $148,401,000 in 2012. The major projects still under construction include: Security Enhancements Program, Plant Enhancement Program, Pump Station Enhancement Program, Water Tank Rehabilitation and Automated Meter Reading program.

- Three cities signed asset transfer agreements that turned over their distribution water mains in the amount of $20,044,000, net of accumulated depreciation.

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, Automated Meter Reading program and the purchase of office equipment and vehicles. Other smaller programs, such as the Electrical Power Reliability program comprise the remaining $10,425,000.

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.

## CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

***Liabilities*****:** In 2012, the factors for the Division's net increase in long-term obligations of $103,500,000 is primarily attributed the issuance of $122,283,000 of new bonds and loans and an increase in the unamortized discount and premium of $16,686,000, a decrease in unamortized loss on debt refunding of $2,788,000, offset by $40,239,000 of debt retirement. The increase in long-term obligations occurred due to the Division issuing bonds in order to refinance the $50,000,000 Series 2012 Notes with the balance of the proceeds used to fund the Automated Meter Reading program.

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.

***Current Liabilities:*** In 2012, total current liabilities decreased by $61,691,000. The significant component of the change was a reduction to the current portion of long-term debt obligations and short-term notes of $52,281,000, which was primarily due to the retirement of the $50,000,000 Series 2011 short-term notes. Other decreases included customer deposits and other liabilities of $8,062,000, which was due to recognizing completed construction deposits and current payable from restricted assets of $2,087,000. These reductions were offset by a minor increase in accrued interest payable of $794,000.

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 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.

***Long-term Debt:*** At the end of 2012, the Division had total long-term debt outstanding of $892,939,000. 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 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.

***Short-term Debt:*** The Division had no short-term debt outstanding at the end of 2012.

The City issued $50,000,000 Subordinate Lien Water Revenue Notes, Series 2012 in July 2012 to retire the Series 2011 Notes. The Series 2012 Notes were then redeemed on November 1, 2012 from the proceeds of the Second Lien Series A, 2012 Bonds.

At the end of 2011, the Division had $50,000,000 of Water Revenue Subordinate Revenue Notes outstanding. The Notes, which are subordinate to the Division's outstanding revenue bonds, were redeemed on July 26, 2012 with the proceeds of Series 2012 Notes and were backed by the revenues generated by the Division.

## CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

The activity in the Division's debt obligations outstanding during the year ended December 31, 2012 is summarized below (excluding unamortized discounts, premiums and losses on debt refundings):

| | Balance January 1, 2012 | Debt Issued | Debt Retired | Balance December 31, 2012 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Long-Term Debt | | | | |
| Water Revenue Bonds: | | | | |
| Series G, 1993 | $ 81,225 | $ | $ (14,365) | $ 66,860 |
| Series N, 2005 | 33,045 | | (5,030) | 28,015 |
| Series O, 2007 | 133,315 | | (2,705) | 130,610 |
| Series P, 2007 | 119,095 | | (5,815) | 113,280 |
| Series Q, 2008 | 90,800 | | | 90,800 |
| Series T, 2009 | 77,415 | | (6,085) | 71,330 |
| Series U, 2010 | 54,935 | | | 54,935 |
| Series V, 2010 | 26,495 | | | 26,495 |
| Series W, 2011 | 82,090 | | | 82,090 |
| Series X, 2012 | | 44,410 | | 44,410 |
| Second Lien, Series A 2012 | | 76,710 | | 76,710 |
| Ohio Water Development Authority Loans | 112,680 | 963 | (6,239) | 107,404 |
| Total | $ 811,095 | $ 122,083 | $ (40,239) | $ 892,939 |

| | Balance January 1, 2012 | Debt Issued | Debt Retired | Balance December 31, 2012 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Short-Term Debt | | | | |
| Water Revenue Notes: | | | | |
| Sub. Lien Revenue Notes, 2011 | $ 50,000 | $ | $ (50,000) | $ - |
| Sub. Lien Revenue Notes, 2012 | | 50,000 | (50,000) | - |
| Total | $ 50,000 | $ 50,000 | $ (100,000) | $ - |

## CONDENSED STATEMENT OF NET POSITION 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) | | |
| Long-Term Debt | | | | | |
| 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 Retired | Balance December 31, 2011 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Short-Term Debt | | | | |
| 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 |

## CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

The bond ratings for the Division's outstanding revenue bonds as of December 31, 2012 are as follows:

| | Moody's Investors Service | Standard & Poor's |
|---|---|---|
| Waterworks Revenue Bonds | Aa1 | AA |
| Second Lien Water Revenue Bonds | Aa2 | 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 2012, 2011 and 2010 was 231%, 144% and 132%, respectively.

Additional information on the Division's long-term debt can be found in Note B on pages 27 - 37.

***Net Position:*** Net position serves as a useful indicator of a government's financial position. In the case of the Division, assets and deferred outflows exceed liabilities and deferred inflows by $1,259,472,000, $1,197,743,000 and $1,190,443,000 at December 31, 2012, 2011 and 2010, respectively.

Of the Division's net position, $914,193,000 or 72.6% and $899,231,000 or 75.1% at December 31, 2012 and 2011, respectively, reflects its investment in capital assets, 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 position, $87,701,000 or 7.0%, and $93,601,000 or 7.8%, at December 31, 2012 and 2011, respectively, represents resources that are subject to external restrictions. These funds are set aside for the payment of revenue bonds and capital projects. The remaining balance of unrestricted net position, $257,578,000 or 20.4% and $204,911,000 or 17.1%, at December 31, 2012 and 2011, respectively, may be used to meet the Division's ongoing obligations to customers and creditors.

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

The Division's net position increased during 2012 and 2011 by $61,729,000 and $7,300,000, respectively. The following table identifies the key elements of the Division's results of operations as of and for the years ended December 31, 2012, 2011 and 2010:

| | 2012 | Restated 2011 | Restated 2010 |
|---|---|---|---|
| | | (In thousands) | |
| Operating revenues | $ 280,323 | $ 236,626 | $ 237,270 |
| Operating expenses | 216,624 | 207,844 | 208,016 |
| Operating income (loss) | 63,699 | 28,782 | 29,254 |
| Non-operating revenue (expense): | | | |
| Investment income | 1,965 | 2,349 | 4,007 |
| Interest expense | (28,322) | (27,071) | (27,410) |
| Amortization of bond issuance costs, premiums and discounts | 4,284 | 2,682 | 2,189 |
| Gain (Loss) on disposal of capital assets | (15) | | 1 |
| Total non-operating revenue (expense), net | (22,088) | (22,040) | (21,213) |
| Income (loss) before capital and other contributions | 41,611 | 6,742 | 8,041 |
| Capital and other contributions | 20,118 | 558 | 5,001 |
| Increase (decrease) in net position | 61,729 | 7,300 | 13,042 |
| Net position, beginning of year (as restated) | 1,197,743 | 1,190,443 | 1,177,401 |
| Net position, end of year | $ 1,259,472 | $ 1,197,743 | $ 1,190,443 |

***Operating revenue:*** In 2012, total operating revenues increased by $43,697,000. The Division of Water had a minor decrease in pumpage of 0.16% and an increase in new rates and a full year of the fixed rate fee in 2012. The major users of water were as follows: ISG-Cleveland, Cuyahoga Metropolitan Housing Authority, Nestle Inc., Alcoa Inc., Cleveland Clinic Foundation, Pepsi Inc., Northeast Ohio Regional Sewer District and Case Western Reserve University.

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., Northeast Ohio Regional Sewer District and NASA Lewis Research Center.

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

***Operating expenses:*** In 2012, the overall increase in operating expenses of $8,780,000 was primarily due to a $3,466,000 increase in operations expense and a $5,844,000 increase in depreciation expense. Operations expense increases were identified in the following areas: bad debt expense and professional services. Depreciation increased because several assets were brought into service during the year.

In 2011, the overall decrease in operating expenses of $172,000 was due to a $611,000 increase in operations expense and a $3,109,000 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 Ohio Public Employee Retirement System. 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 2012 were an increase of $1,251,000 in interest expense and an increase of $1,602,000 in amortization of bond costs, premiums and discounts.

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.

***Capital and other contributions:*** In 2012, there was a $19,560,000 rise in capital and other contributions as compared to 2011. The increase is primarily attributed to the Division acquiring suburban distribution mains totaling $20,044,000 throughout the year.

## 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:

| WATER RATES | | | | |
|---|---|---|---|---|
| CLEVELAND - PER 1st .6 MCF (Thousand cubic feet) | | | CLEVELAND - PER ADDITIONAL MCF (Thousand cubic feet) | |
| EFFECTIVE | REGULAR | HOMESTEAD | REGULAR | HOMESTEAD |
| 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)

| WATER RATES | | | | |
|---|---|---|---|---|
| DIRECT SERVICE SUBURBS - PER 1st .6 MCF (Thousand cubic feet) | | | DIRECT SERVICE SUBURBS-PER ADDITIONAL MCF (Thousand cubic feet) | |
| EFFECTIVE | REGULAR | HOMESTEAD | REGULAR | HOMESTEAD |
| 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 increase 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 July 16, 2011 and was first billed on 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 for the years 2013 through 2015 are expected to increase operating revenues to adequately cover anticipated operating expenses. The increases in rates within the City of Cleveland average 12.7%, 11.8% and 11.1% for the first .6 MCF and 7.1%, 5.9% and 4.9% for each additional MCF for the years 2013, 2014 and 2015, respectively. The increases in rates within the suburbs average 8.0%, 6.9% and 6.0% for the first .6 MCF and 0.7%, 1.2% and 0.1% for each additional MCF for the years 2013, 2014 and 2015, respectively. The increases for fixed customer charges for Cleveland and suburbs average 16.7%, 14.3% and 12.5% for the years 2013, 2014 and 2015, respectively.

On July 24, 2012, the City issued $50,000,000 Subordinate Lien Water Revenue Notes, Series 2012. Proceeds of the notes were used to retire the $50,000,000 Subordinate Lien Water Revenue Notes issued in 2011. The Series 2012 Notes were redeemed on November 1, 2012 from the proceeds of the Second Lien Series A 2012 Bonds. The original notes, which were issued in 2010, provided a portion of the funds needed for a new Automated Meter Reading program for the Division.

Effective October 24, 2012, the Division issued $44,410,000 of Senior Lien Water Revenue Bonds Series X 2012 and $76,710,000 of Second Lien Water Revenue Bonds Series A 2012. Proceeds of the Series X Bonds will be used to pay costs of improvements to the Waterworks System and to pay costs of issuing the bonds. From the proceeds of the Series A 2012 Bonds, $42,000,000 will be used to fund the rest of the Automated Meter Reading program and the remainder was used to refund all of the outstanding $50,000,000 Water Revenue Subordinate Notes Series 2012 and to pay issuance costs.

## 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
STATEMENTS OF NET POSITION
December 31, 2012 and 2011

| | 2012 | Restated 2011 |
|---|---|---|
| | *(In thousands)* | |
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | | |
| **CAPITAL ASSETS** | | |
| Land | $ 5,463 | $ 5,463 |
| Land improvements | 16,549 | 16,549 |
| Utility plant | 1,497,878 | 1,354,191 |
| Buildings, structures and improvements | 238,532 | 221,373 |
| Furniture, fixtures, equipment and vehicles | 586,549 | 566,679 |
| | 2,344,971 | 2,164,255 |
| Less: Accumulated depreciation | (859,199) | (779,509) |
| | 1,485,772 | 1,384,746 |
| Construction in progress | 201,167 | 275,907 |
| **CAPITAL ASSETS, NET** | 1,686,939 | 1,660,653 |
| **RESTRICTED ASSETS** | | |
| Cash and cash equivalents | 211,759 | 171,498 |
| Accrued interest receivable | 84 | 100 |
| **TOTAL RESTRICTED ASSETS** | 211,843 | 171,598 |
| **UNAMORTIZED BOND ISSUANCE COSTS** | 5,151 | 4,517 |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | 194,377 | 146,027 |
| Restricted cash and cash equivalents | 12,755 | 14,842 |
| Investments | | 12,141 |
| Receivables: | | |
| Accounts receivable - net of allowance for doubtful accounts of $15,299,000 in 2012 and $23,401,000 in 2011 | 48,868 | 54,175 |
| Unbilled revenue | 31,540 | 27,225 |
| Due from other City of Cleveland departments, divisions or funds | 14,662 | 12,449 |
| Accrued interest receivable | | 1 |
| Materials and supplies - at average cost, net of allowance for obsolescence of $127,200 in 2012 and $126,500 in 2011 | 4,713 | 3,722 |
| Prepaid expenses | 1,178 | 1,138 |
| **TOTAL CURRENT ASSETS** | 308,093 | 271,720 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Derivative instruments-interest rate swaps | 27,699 | 27,955 |
| **TOTAL DEFERRED OUTFLOWS OF RESOURCES** | 27,699 | 27,955 |
| **TOTAL ASSETS AND DEFERRED OUTFLOWS** | $ 2,239,725 | $ 2,136,443 |

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
STATEMENTS OF NET POSITION
December 31, 2012 and 2011

| | (In thousands) 2012 | Restated 2011 |
|---|---|---|
| **NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES** | | |
| **NET POSITION** | | |
| Net investment in capital assets | $ 914,193 | $ 899,231 |
| Restricted for capital projects | 99 | |
| Restricted for debt service | 87,602 | 93,601 |
| Unrestricted | 257,578 | 204,911 |
| **TOTAL NET POSITION** | 1,259,472 | 1,197,743 |
| **LIABILITIES** | | |
| **LONG-TERM OBLIGATIONS-excluding amounts due within one year** | | |
| Revenue bonds | 766,975 | 657,481 |
| OWDA loans | 100,700 | 106,595 |
| Accrued wages and benefits | 1,365 | 1,464 |
| **TOTAL LONG-TERM OBLIGATIONS** | 869,040 | 765,540 |
| **CURRENT LIABILITIES** | | |
| Current portion of long-term debt, due within one year and short-term notes | 37,804 | 90,085 |
| Accounts payable | 4,951 | 4,870 |
| Current payable from restricted assets | 12,755 | 14,842 |
| Due to other City of Cleveland departments, divisions or funds | 2,630 | 2,770 |
| Accrued interest payable | 13,521 | 12,727 |
| Current portion of accrued wages and benefits | 10,083 | 10,079 |
| Other accrued expenses | 395 | 395 |
| Customer deposits and other liabilities | 1,375 | 9,437 |
| **TOTAL CURRENT LIABILITIES** | 83,514 | 145,205 |
| **TOTAL LIABILITIES** | 952,554 | 910,745 |
| **DEFERRED INFLOW OF RESOURCES** | | |
| Derivative instruments-interest rate swaps | 27,699 | 27,955 |
| **TOTAL DEFERRED INFLOWS OF RESOURCES** | 27,699 | 27,955 |
| **TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS** | $ 2,239,725 | $ 2,136,443 |

See notes to financial statements.

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# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC UTILITIES
## DIVISION OF WATER
## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
### For the Years Ended December 31, 2012 and 2011

| | (*In thousands*) 2012 | Restated 2011 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Charges for services | $ 280,323 | $ 236,626 |
| **TOTAL OPERATING REVENUES** | 280,323 | 236,626 |
| **OPERATING EXPENSES** | | |
| Operations | 103,687 | 100,221 |
| Maintenance | 45,482 | 46,012 |
| Depreciation | 67,455 | 61,611 |
| **TOTAL OPERATING EXPENSES** | 216,624 | 207,844 |
| **OPERATING INCOME (LOSS)** | 63,699 | 28,782 |
| **NON-OPERATING REVENUE (EXPENSE)** | | |
| Investment income | 1,965 | 2,349 |
| Interest expense | (28,322) | (27,071) |
| Amortization of bond issuance costs, premiums, and discounts | 4,284 | 2,682 |
| Gain (loss) on disposal of capital assets | (15) | |
| **TOTAL NON-OPERATING REVENUE (EXPENSE), NET** | (22,088) | (22,040) |
| **INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS** | 41,611 | 6,742 |
| **CAPITAL AND OTHER CONTRIBUTIONS** | 20,118 | 558 |
| **INCREASE (DECREASE) IN NET POSITION** | 61,729 | 7,300 |
| **NET POSITION, beginning of year (as restated)** | 1,197,743 | 1,190,443 |
| **NET POSITION, end of year** | $ 1,259,472 | $ 1,197,743 |

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, 2012 and 2011

| | *(In thousands)* 2012 | 2011 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash received from customers | $ 264,534 | $ 229,625 |
| Cash payments to suppliers for goods or services | (66,921) | (64,085) |
| Cash payments to employees for services | (76,526) | (75,905) |
| Other | 140 | (226) |
| **NET CASH PROVIDED BY(USED FOR) OPERATING ACTIVITIES** | 121,227 | 89,409 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Acquisition and construction of capital assets | (67,355) | (89,005) |
| Capital grant proceeds | | 558 |
| Proceeds of OWDA loan | | 1,362 |
| Principal paid on long-term debt | (90,239) | (93,407) |
| Interest paid on long-term debt | (34,236) | (39,158) |
| Cash paid to escrow agent for refunding | (50,000) | (104,676) |
| Proceeds of bonds, premiums and discounts | 142,924 | 104,626 |
| Proceeds from sale of notes | 50,000 | 50,000 |
| **NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES** | (48,906) | (169,700) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of investment securities | (99,959) | (12,044) |
| Proceeds from sale and maturity of investment securities | 112,004 | 6,998 |
| Interest received on investments | 2,158 | 2,588 |
| **NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES** | 14,203 | (2,458) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 86,524 | (82,749) |
| **CASH AND CASH EQUIVALENTS, beginning of year** | 332,367 | 415,116 |
| **CASH AND CASH EQUIVALENTS, end of year** | $ 418,891 | $ 332,367 |

(Continued)

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC UTILITIES
## DIVISION OF WATER
## STATEMENTS OF CASH FLOWS
## For the Years Ended December 31, 2012 and 2011

| | 2012 | Restated 2011 |
|---|---|---|
| | *(In thousands)* | |
| **RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | |
| **OPERATING INCOME (LOSS)** | $ 63,699 | $ 28,782 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 67,455 | 61,611 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | 5,307 | (4,834) |
| Unbilled revenue | (4,315) | 1,475 |
| Due from other City of Cleveland departments, divisions or funds | (2,213) | (585) |
| Materials and supplies, net | (991) | 218 |
| Prepaid expenses | (40) | (65) |
| Accounts payable | 81 | 565 |
| Due to other City of Cleveland departments, divisions or funds | (140) | 547 |
| Accrued liabilities | | 2 |
| Accrued wages and benefits | (95) | (499) |
| Customer deposits and other liabilities | (7,521) | 2,192 |
| **TOTAL ADJUSTMENTS** | 57,528 | 60,627 |
| **NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES** | $ 121,227 | $ 89,409 |
| | | |
| **SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Contribution of capital assets | $ 20,044 | |

See notes to financial statements. (Concluded)

## NOTES TO FINANCIAL STATEMENTS
## For the Years Ended December 31, 2012 and 2011

### 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 November of 2010, Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The Division has determined that GASB Statement No. 60 has no impact on its financial statements as of December 31, 2012.

In December of 2010, Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations, (2) Accounting Principles Board Opinions and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. As required, the Division has implemented GASB Statement No. 62 effective for the 2012 fiscal year.

In June of 2011, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. As required, the Division has implemented GASB Statement No. 63 effective for the 2012 fiscal year.

In June of 2011, Governmental Accounting Standards Board (GASB) Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision* was issued. This Statement is effective for fiscal periods beginning after June 15, 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. As required, the Division has implemented GASB Statement No. 64 effective for the 2012 fiscal year.

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

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

- Net investment in capital assets
- Amount restricted for capital projects
- 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 position/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.

***Revenues:*** Revenues are derived primarily from sales of water to residential, commercial and industrial customers based upon actual water consumption and from a fixed charge based upon meter size. 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.

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

The City has invested funds in STAROhio during 2012 and 2011. 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, 2012 and 2011.

***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 |

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 General Accounting Standards Board 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 2012 and 2011, total interest costs incurred amounted to $37,094,000 and $39,260,000, respectively, of which $8,581,000 and $11,998,000, respectively, was capitalized, net of interest income of $191,000 in 2012 and $191,000 in 2011.

***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.

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

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

Normally, all vacation time is to be taken in the year available. The Division allows employees to carryover vacation 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 highest year average base salary rate, with the balance being forfeited.

***Interfund Transactions:*** During the course of normal operations the Division has 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.

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will *not* be recognized as an inflow of resources (revenues) until that time.

## NOTE B – DEBT AND OTHER LONG-TERM OBLIGATIONS

Debt outstanding at December 31, 2012 and 2011 is as follows:

| | Interest Rate | Original Issuance | 2012 | 2011 |
|---|---|---|---|---|
| | | | (In thousands) | |
| **Water Revenue Bonds:** | | | | |
| Series G, 1993, due through 2021 | 5.50% | $ 228,170 | $ 66,860 | $ 81,225 |
| Series N, 2005, due through 2023 | 3.50%-5.00% | 64,480 | 28,015 | 33,045 |
| Series O, 2007, due through 2037 | 4.25%-5.00% | 143,570 | 130,610 | 133,315 |
| Series P, 2007, due through 2028 | 4.00%-5.00% | 135,410 | 113,280 | 119,095 |
| 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 | 71,330 | 77,415 |
| 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 | 82,090 |
| Series X, 2012, due through 2042 | 3.63%-5.00% | 44,410 | 44,410 | |
| Second Lien Series A, 2012, due 2027 | 4.00%-5.00% | 76,710 | 76,710 | |
| Ohio Water Development Authority Loans payable annually through 2032 | 0.00%-4.14% | 151,625 | 107,404 | 112,680 |
| | | $ 1,183,320 | 892,939 | 811,095 |
| Adjustments: | | | | |
| Unamortized discount and premium | | | 38,244 | 21,558 |
| Unamortized loss on debt refunding | | | (25,704) | (28,492) |
| Current portion | | | (37,804) | (40,085) |
| Total Long-Term Debt | | | $ 867,675 | $ 764,076 |

| | Interest Rate | Original Issuance | 2012 | 2011 |
|---|---|---|---|---|
| | | | (In thousands) | |
| **Water Revenue Notes:** | | | | |
| Subordinate Lien Revenue Notes, due 2012 | 1.00% | $ 50,000 | $ | $ 50,000 |
| Total Short-Term Debt | | $ 50,000 | $ - | $ 50,000 |

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

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

| | Balance January 1, 2012 | Increase | Decrease | Balance December 31, 2012 | Due Within One Year |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **Water Revenue Bonds:** | | | | | |
| Series G, 1993, due through 2021 | $ 81,225 | $ | $ (14,365) | $ 66,860 | $ 310 |
| Series N, 2005, due through 2023 | 33,045 | | (5,030) | 28,015 | 5,280 |
| Series O, 2007, due through 2037 | 133,315 | | (2,705) | 130,610 | |
| Series P, 2007, due through 2028 | 119,095 | | (5,815) | 113,280 | |
| Series Q, 2008, due through 2033 | 90,800 | | | 90,800 | |
| Series T, 2009, due through 2021 | 77,415 | | (6,085) | 71,330 | 6,180 |
| 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 | 19,330 |
| Series X, 2012, due through 2042 | | 44,410 | | 44,410 | |
| Second Lien Series A 2012, due through 2027 | | 76,710 | | 76,710 | |
| Ohio Water Development Authority Loans payable annually through 2032 | 112,680 | 963 | (6,239) | 107,404 | 6,704 |
| Total revenue bonds/loans | 811,095 | 122,083 | (40,239) | 892,939 | 37,804 |
| Accrued wages and benefits | 11,543 | 9,984 | (10,079) | 11,448 | 10,083 |
| Total | $ 822,638 | $ 132,067 | $ (50,318) | $ 904,387 | $ 47,887 |

| | Balance January 1, 2012 | Increase | Decrease | Balance December 31, 2012 | Due Within One Year |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **Water Revenue Notes:** | | | | | |
| Subordinate Lien Revenue Notes, due 2012 | $ 50,000 | $ | $ (50,000) | $ - | $ |
| Subordinate Lien Revenue Notes, due 2013 | | 50,000 | (50,000) | - | |
| Total revenue notes | $ 50,000 | $ 50,000 | $ (100,000) | $ - | $ - |

**NOTES TO FINANCIAL STATEMENTS (Continued)**
**For the Years Ended December 31, 2012 and 2011**

## 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) | | |
| **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 |

| | January 1, 2011 | Increase | Decrease | December 31, 2011 | 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 |

**NOTES TO FINANCIAL STATEMENTS (Continued)**
**For the Years Ended December 31, 2012 and 2011**

## 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 | Total |
|---|---|---|---|
| | | (In thousands) | |
| 2013 | $ 37,804 | $ 37,900 | $ 75,704 |
| 2014 | 46,829 | 38,119 | 84,948 |
| 2015 | 48,341 | 36,082 | 84,423 |
| 2016 | 48,657 | 33,813 | 82,470 |
| 2017 | 51,400 | 31,405 | 82,805 |
| 2018-2022 | 245,174 | 121,885 | 367,059 |
| 2023-2027 | 232,413 | 67,856 | 300,269 |
| 2028-2032 | 113,780 | 30,193 | 143,973 |
| 2033-2037 | 64,785 | 10,298 | 75,083 |
| 2038-2042 | 14,565 | 1,893 | 16,458 |
| Total | $ 903,748 | $ 409,444 | $ 1,313,192 |

The above schedule of minimum principal and interest payments on long-term debt includes the amortization on ten loans provided to the City 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 ten 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 2012, the Division expended another $817,000 for the Baldwin Residuals and Fairmount Reservoir. The OWDA loan associated with this project is a zero percent loan for the face value of $8,304,000 which matures January 1, 2031. The Division also expended $146,000 on the Crown Chemical project which is funded by a 2.0% OWDA loan maturing in July 2032.

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

At December 31, 2012, the amount financed on these ten loan projects, less principal payments made, totaled \$118,213,000 and is reflected in the debt service payment schedule. However, the total of the actual loan balances received by the City was \$107,404,000 as reflected on the schedules of long-term debt outstanding and changes in long-term debt obligations as of December 31, 2012. The difference of \$10,809,000 will be received or accrued in future years.

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, 2012 and 2011 is as follows:

| Bond Issue | 2012 | 2011 |
|---|---|---|
| | (In thousands) | |
| Series H, 1996 | $ | $ 1,940 |
| Series J, 2001 | | 52,335 |
| Series K, 2002 | | 116,420 |
| Series O, 2007 | 2,825 | 2,825 |
| Series P, 2007 | 6,075 | 6,075 |
| Total | $ 8,900 | $ 179,595 |

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 are 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, 2012 and 2011, 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 payments 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.

Effective October 24, 2012, the City issued $44,410,000 of Senior Lien Water Revenue Bonds, Series X, 2012 and $76,710,000 of, Second Lien Water Revenue Bonds, Series A, 2012. Proceeds of the Series X Bonds will be used to pay costs of improvements to the Waterworks System and to pay costs of issuing the bonds. From the proceeds of the Series A 2012 Bonds, $42,000,000 will be used to fund the rest of the Automated Meter Reading program and the remainder was used to refund all of the outstanding $50,000,000 Water Revenue Subordinate Notes, Series 2012 and to pay issuance costs.

In conjunction with the issuance of the Second Lien Water Revenue Bonds, Series A, 2012 in October 2012, the Division established a Subordinate Bonds indenture. Bonds issued under this indenture are special obligations of the City payable solely from and secured solely by a pledge of and lien on the Subordinate Pledged Revenues and the Subordinate Pledged funds. The Subordinate Pledged Revenues generally consist of the net revenues of the Division which remain after the payment of all operating expenses and the deposit of all funds required to be made on the Senior Bonds. Bonds issued under this indenture are subordinate to those issued as senior lien bonds under the Amended and Restated Indenture.

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

On July 24, 2012, the City issued $50,000,000 Subordinate Lien Water Revenue Notes, Series 2012. Proceeds of the notes were used to retire the $50,000,000 Subordinate Lien Water Revenue Notes issued in 2011. The Series 2012 Notes were subsequently redeemed on November 1, 2012 from the proceeds of the Second Lien Series A, 2012 Bonds. The original notes, which were issued in 2010, provided a portion of the funds needed for a new automated meter reading system for the Division. At the end of 2012, the Division no longer had any notes outstanding.

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.

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 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%.

The City has pledged future water system revenues, net of specified operating expenses, to repay $785,535,000 in various Senior Lien Water Revenue Bonds and Subordinate Lien Bonds 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 2042. Annual principal and interest payments on the bonds are expected to require less than 46% of net revenues. The total principal and interest remaining to be paid on the various Water Revenue Bonds is $1,165,786,000. Principal and interest requirements for the current year and total net revenues were $60,856,000 and $133,119,000, 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.

Fair Value: The fair value of the swaps (including accrued amounts) at December 31, 2012 and December 31, 2011 as reported by JPM and Morgan Stanley totaled $27,699,000 and $27,955,000, 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, 2012** | | |
|---|---|---|---|---|---|
| | **Classification** | **Amount** | **Classification** | **Amount** | **Notional** |
| | | | ***(In thousands)*** | | |
| Hedging Derivatives: | | | | | |
| Floating to fixed interest rate swaps | | | | | |
| 2008 Q Water Swap | Deferred inflow | $ 592 | Debt | $ (9,569) | $ 76,375 |
| 2010 U Water Swap | Deferred outflow | (192) | Debt | (12,096) | 54,735 |
| 2010 V Water Swap | Deferred outflow | (144) | Debt | (6,034) | 26,295 |

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

| | 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 |

The following table presents the objective and significant terms of the City's derivative instruments at December 31, 2012, 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 | $ 50,190,000 | 8/10/2004 | 1/1/2021 | Pay 3.553%, receive 61.25% of LIBOR + 28 bps | Aa3/A+/A+ |
| Water Series Q | Pay Fixed Interest Rate Swap | Hedge of changes in cash flow on the Series Q Water System Bonds | $ 26,185,000 | 8/10/2004 | 1/1/2021 | Pay 3.5975%, receive 61.25% of LIBOR + 28 bps | Baa1/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 | Aa3/A+/A+ |
| 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 | Baa1/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, 2012. These amounts assume that the interest rates on variable rate bonds and the reference rates in existence as of December 31, 2012 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.

## NOTES TO FINANCIAL STATEMENTS (Continued)
## For the Years Ended December 31, 2012 and 2011

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

| Fiscal Year Ending December 31 | Principal | Interest | Hedging Derivatives, Net | Total |
|---|---|---|---|---|
| | | *(In thousands)* | | |
| 2013 | $ | $ 800 | $ 4,786 | $ 5,586 |
| 2014 | | 800 | 4,522 | 5,322 |
| 2015 | | 799 | 4,244 | 5,043 |
| 2016 | | 801 | 4,186 | 4,987 |
| 2017 | | 800 | 4,147 | 4,947 |
| 2018-2022 | 17,000 | 3,850 | 14,804 | 35,654 |
| 2023-2027 | 81,415 | 1,491 | 3,712 | 86,618 |
| 2028-2032 | 61,730 | 274 | 257 | 62,261 |
| 2033 | 12,085 | 2 | 1 | 12,088 |
| Total | $ 172,230 | $ 9,617 | $ 40,659 | $ 222,506 |

***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 $963,000 and $566,000 during 2012 and 2011, 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, 2012 and 2011 totaled $133,643,000 and $126,903,000, respectively, and the Division's bank balances were $134,956,000 and $128,025,000, 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, $134,956,000 and $128,025,000 of the bank balances at December 31, 2012 and 2011, 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 Divisions 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.

## NOTE C – DEPOSITS 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 and 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, 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, 2012 and 2011 include U.S. Agencies, STAROhio, commercial paper, mutual funds, guaranteed investment contracts and other investments. The Division maintains the highest ratings for their investments. Investments in STAROhio and Allegiant Government Money Market Funds carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's. The Division's investment in U.S. Bank N.A. Open Commercial Paper carries a Standard & Poor's rating of A-1+. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service.

## 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, 2012 and 2011, which include those classified as cash and cash equivalents in the statement of net position in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

| Type of Investment | 2012 Fair Value | 2012 Cost | 2011 Fair Value | 2011 Cost | Investment Maturities Less than One Year | Investment Maturities 1 - 5 Years |
|---|---|---|---|---|---|---|
| | (In thousands) | | | | | |
| U.S. Agency Obligations | $ | $ | $ 12,141 | $ 12,045 | $ | $ |
| STAROhio | 63,604 | 63,604 | 32,134 | 32,134 | 63,604 | |
| Commercial Paper | 89,164 | 89,164 | 135,521 | 135,521 | 89,164 | |
| Investment in Mutual Funds | 94,252 | 94,252 | 959 | 959 | 94,252 | |
| Guaranteed Investment Contracts | 36,850 | 36,850 | 36,850 | 36,850 | | 36,850 |
| Other Investments | 1,378 | 1,378 | | | 1,378 | |
| Total Investments | 285,248 | 285,248 | 217,605 | 217,509 | 248,398 | 36,850 |
| Total Deposits | 133,643 | 133,643 | 126,903 | 126,903 | 133,643 | |
| Total Deposits and Investments | $ 418,891 | $ 418,891 | $ 344,508 | $ 344,412 | $ 382,041 | $ 36,850 |

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, 2012, the investments in STAROhio, commercial paper, mutual funds, guaranteed investment contracts and escrow are approximately 22%, 31%, 33%, 13% and 1%, respectively, of the Division's total investments. As of December 31, 2011, the investments in U.S. Agency Obligations, STAROhio, commercial paper, mutual funds, and guaranteed investment contracts are approximately 6%, 15%, 62%, <1% and 17%, 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.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2012 and 2011

## NOTE D – CAPITAL ASSETS

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

| | Balance January 1, 2012 | Additions | Deletions | Balance December 31, 2012 |
|---|---|---|---|---|
| | (In thousands) | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $ 5,463 | $ | $ | $ 5,463 |
| Construction in progress | 275,907 | 71,505 | (146,245) | 201,167 |
| Total capital assets, not being depreciated | 281,370 | 71,505 | (146,245) | 206,630 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 16,549 | | | 16,549 |
| Utility plant | 1,354,191 | 145,112 | (1,425) | 1,497,878 |
| Buildings, structures and improvements | 221,373 | 17,159 | | 238,532 |
| Furniture, fixtures, equipment and vehicles | 566,679 | 21,158 | (1,288) | 586,549 |
| Total capital assets, being depreciated | 2,158,792 | 183,429 | (2,713) | 2,339,508 |
| Less: Accumulated depreciation | (779,509) | (82,370) | 2,680 | (859,199) |
| Total capital assets being depreciated, net | 1,379,283 | 101,059 | (33) | 1,480,309 |
| Capital assets, net | $ 1,660,653 | $ 172,564 | $ (146,278) | $ 1,686,939 |

## NOTE D – CAPITAL ASSETS (Continued)

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

| | Restated 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 | 1,241,644 | 112,795 | (248) | 1,354,191 |
| 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 | 2,043,160 | 119,941 | (4,309) | 2,158,792 |
| Less: Accumulated depreciation | (722,207) | (61,611) | 4,309 | (779,509) |
| Total capital assets being depreciated, net | 1,320,953 | 58,330 | - | 1,379,283 |
| Capital assets, net | $ 1,637,335 | $ 143,259 | $ (119,941) | $ 1,660,653 |

Capital assets were restated for 2011 due to the Division entering into amended Water Service Agreements with 21 member communities prior to 2011. Additional information is provided in Note J on page 45.

***Commitments:*** The Division has outstanding commitments at December 31, 2012 and 2011 of approximately $93,395,000 and $84,911,000, respectively, for future capital expenditures. 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 2012, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2012, 2011 and 2010. The employer contribution rates were 14.00% of covered payroll in 2012, 2011 and 2010.

The Division's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2012, 2011 and 2010 were $5,452,000, $5,406,000 and $5,286,000 each year, respectively. The required payments due in 2012, 2011 and 2010 have been made.

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

## NOTE 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 No. 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, 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 2012, 2011 and 2010. 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 2012 and 2011, 6.05% for members of the Combined Plan in 2012 and 2011 and 5.50% from January 1, 2010 through February 28, 2010 and 5.00% from March 1, 2010 through December 31, 2010 for both plans. Effective January 1, 2013, the portion of employer contributions allocated to health care was lowered to 1.00% for both plans, as recommended by the OPERS Actuary. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Division's actual contributions to OPERS to fund postemployment benefits were $2,180,000 in 2012, $2,162,000 in 2011 and $3,013,000 in 2010. The required payments due in 2012, 2011, and 2010 have been made.

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

## NOTE 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 2012 or 2011.

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, 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 water services.

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 $2,421,000 and $2,414,000 in 2012 and 2011, respectively. The Division also provides miscellaneous services to other departments and divisions of the City. Revenue realized from such services was approximately $3,586,000 and $3,716,000 in 2012 and 2011, 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 were as follows:

| | 2012 | 2011 |
|---|---|---|
| | (In thousands) | |
| Electricity purchases | $ 12,988 | $ 13,147 |
| City administration | 2,612 | 2,549 |
| Motor Vehicle Maintenance | 3,572 | 3,699 |
| Telephone exchange | 955 | 865 |
| Utilities Administration and Utilities Fiscal Control | 3,313 | 3,119 |
| Street construction | 451 | 578 |

## 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 $5,258,000 and $4,045,000 for the years ended December 31, 2012 and 2011, respectively.

## NOTE J – RESTATEMENT

The Division of Water entered into amended Water Service Agreements with 21 member communities prior to 2011. As part of the Agreements, ownership of distribution mains was transferred to the Division of Water. The City also gained tax sharing agreements with each suburb related to commercial entities relocating in or out of the City. The financial impact of the addition of these assets was not included in the financial statements in the year the Agreements were finalized and ownership was officially transferred. As a result, the following restatements are necessary:

| | January 1, 2011 | Restatment | Restated January 1, 2011 |
|---|---|---|---|
| | | (In thousands) | |
| Capital assets | $ 2,120,467 | $ 239,075 | $ 2,359,542 |
| Accumulated depreciation | (650,909) | (71,298) | (722,207) |
| Net Position | 1,022,666 | 167,777 | 1,190,443 |

Depreciation expense was restated for the 2011 fiscal year from $58,796,000 to $61,611,000.

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# 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, 2012 and 2011**

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC UTILITIES
## DIVISION OF WATER POLLUTION CONTROL

### TABLE OF CONTENTS

## 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:

### Report on the Financial Statements

We have audited the accompanying 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, 2012 and 2011 and the related notes to the financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

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

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

***Opinions***

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, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Effect of Adopting New Accounting Standards**

As discussed in Note A, the Division adopted the provisions of Governmental Accounting Standards Board Statement No. 60 *Accounting and Financial Reporting for Service Concession Arrangements*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision*. Our opinion is not modified with respect to this matter.

***Other Matters***

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, 2012 and 2011, and the respective changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Required Supplementary Information*

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

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 25, 2013

## 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, 2012 and 2011. 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. Prior till 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 over 1,400 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 125,577 customer accounts in the City of Cleveland of which 96.4% are residential and 3.6% commercial. Also, in 2012, the Division's sewers transported 1,858,142 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 position) by $99,204,000, $100,384,000 and $99,104,000 at December 31, 2012, 2011 and 2010, respectively. Of these amounts, $32,655,000, $34,208,000 and $33,267,000 are unrestricted net position at December 31, 2012, 2011 and 2010, respectively and may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's net position decreased by $1,180,000. The main components of the change were an increase in operating revenues of $677,000, offset by an increase of $1,493,000 in operating expenses and a decrease of $1,637,000 in capital and other contributions.

## FINANCIAL HIGHLIGHTS (Continued)

- The regular sewage rate was $12.53 per thousand cubic feet in 2011 and 2012. Also, the homestead sewage rate was $7.43 per thousand cubic feet in 2011 and 2012.

- During 2012, the Division's current assets decreased by $13,067,000. The primary component was a decrease of $23,141,000 in net accounts receivable as a result of collection of accounts and accounts written-off, offset by a $10,070,000 increase in cash and cash equivalents. In 2011, the Division's current assets decreased by $930,000.

- The Division's total debt decreased in 2012 and 2011 by $505,000 and $486,000, 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 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 STATEMENT OF NET POSITION INFORMATION

Provided below are the statements of net position information for the Division as of December 31, 2012, 2011 and 2010:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | | (In thousands) | |
| Assets: | | | |
| Capital assets, net | $ 68,709 | $ 69,019 | $ 69,166 |
| Restricted assets | 586 | 1,081 | 1,250 |
| Current assets | 138,452 | 151,519 | 152,449 |
| Total assets | 207,747 | 221,619 | 222,865 |
| Net Positon and Liabilities: | | | |
| Net position: | | | |
| Net investment in capital assets | 66,371 | 66,176 | 65,837 |
| Restricted for capital projects | 178 | | |
| Unrestricted | 32,655 | 34,208 | 33,267 |
| Total net position | 99,204 | 100,384 | 99,104 |
| Liabilities: | | | |
| Long-term obligations | 1,949 | 2,482 | 3,010 |
| Current liabilities | 106,594 | 118,753 | 120,751 |
| Total liabilities | 108,543 | 121,235 | 123,761 |
| Total net position and liabilities | $ 207,747 | $ 221,619 | $ 222,865 |

***Current Assets:*** In 2012, there was a decrease of $13,067,000 in current assets due to the increase in current cash and cash equivalents of $10,070,000, which was the product of increased collection activity, offset by a decrease in net accounts receivable of $23,141,000, which was the result of increased write-offs. 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.

## CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

***Capital Assets:*** In 2012, the Division's net capital assets amounted to $68,709,000. This was a decrease of $310,000 from 2011. The change is primarily due to scheduled depreciation. In 2011, the Division's 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. A summary of the activity in the Division's capital assets during the years ended December 31, 2012 and 2011 is as follows:

| | Balance January 1, 2012 | Additions | Reductions | Balance December 31, 2012 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Land | $ 297 | $ | $ | $ 297 |
| Utility plant | 131,132 | 6,660 | (64) | 137,728 |
| Buildings, structures and improvments | 8,948 | 15 | | 8,963 |
| Furniture, fixture, equipment and vehicles | 12,481 | 1,320 | (755) | 13,046 |
| Construction in progress | 9,340 | 4,368 | (7,565) | 6,143 |
| Total | 162,198 | 12,363 | (8,384) | 166,177 |
| Less: Accumulated depreciation | (93,179) | (5,108) | 819 | (97,468) |
| Capital assets, net | $ 69,019 | $ 7,255 | $ (7,565) | $ 68,709 |

## CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

| | 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 |

During 2012, the two largest capital additions were the 800MHZ System Upgrade for $1,281,000 and the Rehabilitating and Relining Sewers for $651,000. The major capital projects/expenses for the year included:

- Big Creek Project
- Sewer Replacement City Wide
- Storm Water Management Initiative
- Emergency Sewer Repairs

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

Additional information on the Division's capital assets, including commitments made for future capital expenditures, can be found in Note D.

## CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

***Current Liabilities:*** Total current liabilities decreased by $12,159,000. The major component was a decrease of $15,133,000 in amounts due for billings on behalf of others, which was the result of $20,000,000 in write-offs, offset by a $1,979,000 increase in due to other City departments, divisions or funds . During 2011, 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.

***Long-Term Debt:*** At the end of the current year, the Division had total debt outstanding of $2,338,000 associated with five OWDA construction loans and two OPWC construction loans. At the end of the 2011, the Division had total debt outstanding of $2,843,000 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, 2012 is summarized below:

| | Balance January 1, 2012 | Debt Issued | Debt Retired | Balance December 31, 2012 |
|---|---|---|---|---|
| | (In thousands) | | | |
| Ohio Water Development Authority Loans (OWDA) | $ 2,604 | $ | $ (481) | $ 2,123 |
| Ohio Public Works Commission Loans (OPWC) | 239 | | (24) | 215 |
| Total | $ 2,843 | $ - | $ (505) | $ 2,338 |

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 |

Additional information on the Division's long-term debt can be found in Note B on pages 22 - 24.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

***Net Position:*** Net position serves as a useful indicator of a government's financial position. In the case of the Division, assets exceeded liabilities by $99,204,000, $100,384,000 and $99,104,000 at December 31, 2012, 2011 and 2010, respectively.

The largest portion of the Division's net position, $66,371,000 and $66,176,000, at December 31, 2012 and 2011, 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.

An additional portion of the Division's net position, $178,000 and $0, at December 31, 2012 and 2011, respectively, represents resources that are subject to external restrictions. These funds are set aside for the payment of capital projects.

The remaining balance of net position, $32,655,000 and $34,208,000, at December 31, 2012 and 2011, 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 POSITION INFORMATION

The Division's operations for 2012 had decreased net position of $1,180,000 and during 2011, net position increased by $1,280,000. Provided below are the key elements of the Division's results of operations for the years ended December 31, 2012, 2011 and 2010:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | | (In thousands) | |
| Operating revenues | $ 22,876 | $ 22,199 | $ 25,110 |
| Operating expenses | 24,377 | 22,884 | 23,926 |
| Operating income (loss) | (1,501) | (685) | 1,184 |
| Non-operating revenue (expense): | | | |
| Investment income | 59 | 53 | 41 |
| Interest expense | (102) | (121) | (139) |
| Other | 21 | 53 | 13 |
| Total non-operating revenue (expense), net | (22) | (15) | (85) |
| Income (loss) before other contributions | (1,523) | (700) | 1,099 |
| Capital and other contributions | 343 | 1,980 | 390 |
| Increase (decrease) in net position | (1,180) | 1,280 | 1,489 |
| Net position, beginning of year | 100,384 | 99,104 | 97,615 |
| Net position, end of year | $ 99,204 | $ 100,384 | $ 99,104 |

***Operating revenues***: Total operating revenues amounted to $22,876,000 in 2012. This was an increase of $677,000 from the prior year, mainly due to increased consumption. In 2011, total operating revenues amounted to $22,199,000.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

***Operating expenses:*** In 2012, total operating expenses increased by $1,493,000. There was an increase in operations costs of $879,000. The major component was accrued bad debt expense, which increased by $1,061,000. In 2011, total operating expenses decreased by $1,042,000. The main component was a decrease in operations costs of $683,000.

***Non-operating revenues and expenses:*** Other revenues decreased by $32,000 in 2012. In 2011, investment income increased by $12,000.

### 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
## STATEMENTS OF NET POSITION
## December 31, 2012 and 2011

| | (*In thousands*) 2012 | 2011 |
|---|---|---|
| **ASSETS** | | |
| **CAPITAL ASSETS** | | |
| Land | $ 297 | $ 297 |
| Utility plant | 137,728 | 131,132 |
| Buildings, structures and improvements | 8,963 | 8,948 |
| Furniture, fixtures, equipment and vehicles | 13,046 | 12,481 |
| | 160,034 | 152,858 |
| Less: Accumulated depreciation | (97,468) | (93,179) |
| | 62,566 | 59,679 |
| Construction in progress | 6,143 | 9,340 |
| **CAPITAL ASSETS, NET** | 68,709 | 69,019 |
| **RESTRICTED ASSETS** | | |
| Cash and cash equivalents | 586 | 1,081 |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | 48,630 | 38,560 |
| Receivables: | | |
| Accounts receivable - net of allowance for doubtful accounts of $3,007,000 in 2012 and $5,932,000 in 2011 | 86,134 | 109,275 |
| Unbilled revenue | 2,831 | 2,949 |
| Due from other City of Cleveland departments, divisions or funds | 495 | 416 |
| Materials and supplies - at average cost | 362 | 319 |
| **TOTAL CURRENT ASSETS** | 138,452 | 151,519 |
| **TOTAL ASSETS** | $ 207,747 | $ 221,619 |

(Continued)

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC UTILITIES
## DIVISION OF WATER POLLUTION CONTROL
## STATEMENTS OF NET POSITION
## December 31, 2012 and 2011

| | (*In thousands*) 2012 | 2011 |
|---|---|---|
| **NET POSITION AND LIABILITIES** | | |
| **NET POSITION** | | |
| Net investment in capital assets | $ 66,371 | $ 66,176 |
| Restricted for capital projects | 178 | |
| Unrestricted | 32,655 | 34,208 |
| **TOTAL NET POSITION** | 99,204 | 100,384 |
| **LIABILITIES** | | |
| **LONG-TERM OBLIGATIONS-excluding amounts due within one year:** | | |
| OWDA loans | 1,622 | 2,123 |
| OPWC loans | 191 | 215 |
| Accrued wages and benefits | 136 | 144 |
| **TOTAL LONG-TERM OBLIGATIONS** | 1,949 | 2,482 |
| **CURRENT LIABILITIES** | | |
| Current portion of long-term debt, due within one year | 525 | 505 |
| Accounts payable | 171 | 704 |
| Construction payable | 2,050 | 518 |
| Amounts due for billing on behalf of others | 90,704 | 105,837 |
| Due to other City of Cleveland departments, divisions or funds | 11,399 | 9,420 |
| Current portion of accrued wages and benefits | 1,557 | 1,562 |
| Other accrued expenses | 55 | 60 |
| Customer deposits and other liabilities | 133 | 147 |
| **TOTAL CURRENT LIABILITIES** | 106,594 | 118,753 |
| **TOTAL LIABILITIES** | 108,543 | 121,235 |
| **TOTAL NET POSITION AND LIABILITIES** | $ 207,747 | $ 221,619 |

(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 POSITION
### For the Years Ended December 31, 2012 and 2011

| | (*In thousands*) 2012 | 2011 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Charges for services | $ 22,876 | $ 22,199 |
| **TOTAL OPERATING REVENUES** | 22,876 | 22,199 |
| **OPERATING EXPENSES** | | |
| Operations | 10,194 | 9,315 |
| Maintenance | 9,075 | 8,835 |
| Depreciation | 5,108 | 4,734 |
| **TOTAL OPERATING EXPENSES** | 24,377 | 22,884 |
| **OPERATING INCOME (LOSS)** | (1,501) | (685) |
| **NON-OPERATING REVENUE (EXPENSE)** | | |
| Investment income | 59 | 53 |
| Interest expense | (102) | (121) |
| Other | 21 | 53 |
| **TOTAL NON-OPERATING REVENUE (EXPENSE), NET** | (22) | (15) |
| **INCOME (LOSS) BEFORE OTHER CONTRIBUTIONS** | (1,523) | (700) |
| Capital and other contributions | 343 | 1,980 |
| **INCREASE (DECREASE) IN NET POSITION** | (1,180) | 1,280 |
| **NET POSITION, BEGINNING OF YEAR** | 100,384 | 99,104 |
| **NET POSITION, END OF YEAR** | $ 99,204 | $ 100,384 |

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, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| | *(In thousands)* | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash received from customers | $ 22,996 | $ 22,328 |
| Cash payments to suppliers for goods or services | (5,484) | (6,154) |
| Cash payments to employees for services | (9,947) | (10,227) |
| Agency activity on behalf of other sewer authorities | 6,265 | (681) |
| **NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES** | 13,830 | 5,266 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Acquisition and construction of capital assets | (3,996) | (5,750) |
| Principal paid on long-term debt | (505) | (486) |
| Interest paid on long-term debt | (102) | (121) |
| Capital grant proceeds | 289 | 1,980 |
| **NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES** | (4,314) | (4,377) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest received on investments | 59 | 53 |
| **NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES** | 59 | 53 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 9,575 | 942 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 39,641 | 38,699 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ 49,216 | $ 39,641 |

(Continued)

## CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC UTILITIES
## DIVISION OF WATER POLLUTION CONTROL
## STATEMENTS OF CASH FLOWS
**For the Years Ended December 31, 2012 and 2011**

| | *(In thousands)* 2012 | 2011 |
|---|---|---|
| **RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | |
| **OPERATING INCOME (LOSS)** | $ (1,501) | $ (685) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | |
| Depreciation | 5,108 | 4,734 |
| Write-off of bad debt expense | 20,000 | |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | 3,141 | 2,765 |
| Accrued and unbilled revenue | 118 | (652) |
| Due from other City of Cleveland departments, divisions or funds | (79) | 2 |
| Materials and supplies, net | (43) | (74) |
| Accounts payable | (533) | 267 |
| Other accrued expenses | (5) | (5) |
| Amounts due for billings on behalf of others | (15,133) | (2,408) |
| Due to other City of Cleveland departments, divisions or funds | 1,979 | 571 |
| Accrued wages and benefits | (13) | (45) |
| Customer deposits and other liabilities | 791 | 796 |
| **TOTAL ADJUSTMENTS** | 15,331 | 5,951 |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | $ 13,830 | $ 5,266 |

(Concluded)

See notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS**
**For the Years Ended December 31, 2012 and 2011**

## 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 November of 2010, Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The Division has determined that GASB Statement No. 60 has no impact on its financial statements as of December 31, 2012.

In December of 2010, Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations, (2) Accounting Principles Board Opinions and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. As required, the Division has implemented GASB Statement No. 62 effective for the 2012 fiscal year.

In June of 2011, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* was issued. This Statement is effective for fiscal periods beginning after December 15, 2011. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. As required, the Division has implemented GASB Statement No. 63 effective for the 2012 fiscal year.

In June of 2011, Governmental Accounting Standards Board (GASB) Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision* was issued. This Statement is effective for fiscal periods beginning after June 15, 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The Division has determined that GASB Statement No. 64 has no impact on its financial statements as of December 31, 2012.

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- Net investment in capital assets.
- Restricted for capital projects.
- 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 position/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.

***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 $12,112,000 and $13,229,000, net of allowance for doubtful accounts of $3,007,000 and $5,932,000, for 2012 and 2011, respectively. The remaining accounts receivable balances of $74,022,000 and $96,046,000 for 2012 and 2011, 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.

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***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 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.

The City has invested funds in STAROhio during years 2012 and 2011. 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, 2012 and 2011.

***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 statement of net position. The portion of the compensated absence liability that is not expected to be paid or utilized within one year is reported as a long-term liability.

Normally, all vacation time is to be taken in the year available. The Division allows employees to carryover sick leave 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 B - LONG-TERM OBLIGATIONS

Long-term obligations outstanding at December 31, 2012 and 2011 as follows:

| | Interest Rate | Original Issuance | 2012 | 2011 |
|---|---|---|---|---|
| | | | (In thousands) | |
| Ohio Water Development Authority (OWDA) | | | | |
| Loans payable annually through 2017 | 4.04% - 4.18% | $ 7,897 | $ 2,123 | $ 2,604 |
| Ohio Public Works Commission (OPWC) Loans | | | | |
| payable annually through 2022 | 0.00% | 481 | 215 | 239 |
| | | $ 8,378 | 2,338 | 2,843 |
| Less: | | | | |
| Current portion | | | (525) | (505) |
| Total Long-Term Debt | | | $ 1,813 | $ 2,338 |

**NOTE B - LONG-TERM OBLIGATIONS (Continued)**

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

| | Balance January 1, 2012 | Increase | Decrease | Balance December 31, 2012 | Due Within One Year |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Ohio Water Development Authority (OWDA) Loans payable annually through 2017 | $ 2,604 | $ | $ (481) | $ 2,123 | $ 501 |
| Ohio Public Works Commission (OPWC) Loans payable annually through 2022 | 239 | | (24) | 215 | 24 |
| Total loans | 2,843 | - | (505) | 2,338 | 525 |
| Accrued wages and benefits | 1,706 | 1,549 | (1,562) | 1,693 | 1,557 |
| Total | $ 4,549 | $ 1,549 | $ (2,067) | $ 4,031 | $ 2,082 |

***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 |

**NOTE B - LONG-TERM OBLIGATIONS (Continued)**

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

| | Principal | Interest | Total |
|---|---|---|---|
| | | (In thousands) | |
| 2013 | $ 525 | $ 82 | $ 607 |
| 2014 | 546 | 61 | 607 |
| 2015 | 515 | 40 | 555 |
| 2016 | 481 | 20 | 501 |
| 2017 | 177 | 3 | 180 |
| 2018-2022 | 94 | | 94 |
| Total | $ 2,338 | $ 206 | $ 2,544 |

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 1$^{st}$ 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, 2012.

In addition, the Division had two OPWC loan awards as of December 31, 2012. 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, 2012 and December 31, 2011 totaled $26,347,000 and $21,617,000, and the Division's bank balances were approximately $26,752,000 and $25,909,000, 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,* $26,752,000 and $25,909,000 of the bank balances at December 31, 2012 and 2011, respectively, were insured or collateralized with securities held by the City or by its agent in the City's name.

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

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

Generally, investments are recorded 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, 2012 and 2011 include STAROhio and mutual funds. The Division maintains the highest ratings for their investments. Investments in STAROhio and the Allegiant Government Money Market Fund carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service.

***Concentration of Credit Risk*:** The Division places a limitation on the amount it may invest in any one issuer to minimize the concentration of credit risk. The Division had the following investments at December 31, 2012 and 2011, which include those classified as cash and cash equivalents in the statement of net position in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

| Type of Investment | 2012 Fair Value | 2012 Cost | 2011 Fair Value | 2011 Cost | Investment Maturities Less than One Year |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| STAROhio | $ 21,815 | $ 21,815 | $ 6,135 | $ 6,135 | $ 21,815 |
| Investment in Mutual Funds | 1,054 | 1,054 | 11,889 | 11,889 | 1,054 |
| Total Investments | 22,869 | 22,869 | 18,024 | 18,024 | 22,869 |
| Total Deposits | 26,347 | 26,347 | 21,617 | 21,617 | 26,347 |
| Total Deposits and Investments | $ 49,216 | $ 49,216 | $ 39,641 | $ 39,641 | $ 49,216 |

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, 2012, the investments in STAROhio and mutual funds are 95% and 5%, respectively, of the Division's total investments. As of December 31, 2011, the investments in STAROhio and mutual funds were 34% and 66%, respectively, of the Division's total investments.

## NOTE D - CAPITAL ASSETS

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

| | Balance January 1, 2012 | Additions | Reductions | Balance December 31, 2012 |
|---|---|---|---|---|
| | (In thousands) | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $ 297 | $ | $ | $ 297 |
| Construction in progress | 9,340 | 4,368 | (7,565) | 6,143 |
| Total capital assets, not being depreciated | 9,637 | 4,368 | (7,565) | 6,440 |
| Capital assets, being depreciated: | | | | |
| Utility plant | 131,132 | 6,660 | (64) | 137,728 |
| Buildings, structures and improvements | 8,948 | 15 | | 8,963 |
| Furniture, fixtures, equipment and vehicles | 12,481 | 1,320 | (755) | 13,046 |
| Total capital assets, being depreciated | 152,561 | 7,995 | (819) | 159,737 |
| Less: Accumulated depreciation | (93,179) | (5,108) | 819 | (97,468) |
| Total capital assets being depreciated, net | 59,382 | 2,887 | - | 62,269 |
| Capital assets, net | $ 69,019 | $ 7,255 | $ (7,565) | $ 68,709 |

## NOTES TO FINANCIAL STATEMENTS (Continued)
## For the Years Ended December 31, 2012 and 2011

### NOTE D - CAPITAL ASSETS (Continued)

***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 |

***Commitments:*** The Division had outstanding commitments of approximately $11,744,000 and $4,796,000 for future capital expenses at December 31, 2012 and 2011, 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 2012, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2012, 2011 and 2010. The employer contribution rates were 14.00% of covered payroll in 2012, 2011 and 2010.

The Division's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2012, 2011 and 2010 were $686,000, $704,000 and $691,000, respectively. The required payments due in 2012, 2011 and 2010 have been made.

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

## NOTE 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 2012, 2011 and 2010. 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 2012 and 2011, 6.05% for members of the Combined Plan in 2012 and 2011 and 5.50% from January 1, 2010 through February 28, 2010 and 5.00% from March 1, 2010 through December 31, 2010 for both plans. Effective January 1, 2013, the portion of employer contributions allocated to health care was lowered to 1.00% for both plans, as recommended by the OPERS Actuary. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Division's actual contributions to OPERS to fund postemployment benefits were $274,000 in 2012, $281,000 in 2011 and $394,000 in 2010. The required payments due in 2012, 2011, and 2010 have been made.

## NOTE F – OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

## NOTE 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 2012 or 2011.

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. These fees were approximately $2,421,000 and $2,414,000 in 2012 and 2011, 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, 2012 and 2011 were as follows:

| | (In thousands) 2012 | 2011 |
|---|---|---|
| Electricity purchases | $ 198 | $ 204 |
| Street construction and maintenance | 134 | 199 |
| City Administration | 469 | 456 |
| Motor Vehicle Maintenance | 472 | 458 |
| Utilities Administration and Utilities Fiscal Control | 473 | 477 |
| Services provided by the Division of Water | 315 | 467 |

## 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 $24,552 and $21,181 for the years ended December 31, 2012 and 2011, respectively.

Dave Yost • Auditor of State

**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 5, 2013**