# CITY OF CLEVELAND, OHIO

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

**REPORT ON AUDIT OF FINANCIAL STATEMENTS**
**For the year ended December 31, 2020**

# CITY OF CLEVELAND, OHIO

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

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## INDEPENDENT AUDITORS' REPORT

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Division of Parking Facilities, Department of Public Works, City of Cleveland, Ohio (the "Division") as of and for the year ended December 31, 2020 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 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.

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 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, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As described in Note A to the basic financial statements, the financial statements present only the Division and do not purport to, and do not present fairly the financial position of the City of Cleveland as of December 31, 2020, and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of net pension and OPEB liabilities and pension and OPEB contributions, as listed in the table of contents, 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 24, 2021

**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 year ended December 31, 2020. Please read this information in conjunction with the Division's financial statements and footnotes which begin on page 12.

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 2020, the Division's facilities included two parking garages and six surface lots, including West Side Market and Hicks lots.

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

## FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Division exceeded its liabilities and deferred inflows of resources (net position) by $40,135,000 and $40,050,000 at December 31, 2020 and 2019, respectively. Of these amounts, $2,801,000 and $4,673,000 (unrestricted net position) at December 31, 2020 and 2019, respectively, may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's total net position increased by $85,000 during 2020. In 2020, operating revenues decreased $5,746,000 due to significantly reduced usage of the City's parking facilities during the COVID-19 pandemic. Investment income decreased by $268,000 due to the decrease in interest rates and lower cash balances. Capital contributions decreased by $286,000 related to suspended improvements on the Gateway East Garage and Willard Garage during the COVID-19 pandemic.

- The Division's total bonded debt decreased by $3,540,000 (31.6%) during 2020. This amount represents the principal payment made in 2020.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The basic financial statements of the Division can be found on pages 12 – 17 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 – 45 of this report. Required supplementary information can be found on pages 47 – 50 of this report.

## CONDENSED STATEMENT OF NET POSITION INFORMATION

Provided below is a condensed statement of net position information for the Division as of December 31, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| | (Amounts in Thousands) | |
| Assets and deferred outflows of resources: | | |
| Assets: | | |
| Current assets | $ 5,413 | $ 7,705 |
| Restricted assets | 8,945 | 8,919 |
| Capital assets, net | 35,998 | 37,557 |
| Total assets | 50,356 | 54,181 |
| Deferred outflows of resources | 448 | 853 |
| Liabilities, deferred inflows of resources and net position: | | |
| Liabilities: | | |
| Current liabilities | 4,275 | 4,699 |
| Long-term liabilities | 6,001 | 10,243 |
| Total liabilities | 10,276 | 14,942 |
| Deferred inflows of resources | 393 | 42 |
| Net positon: | | |
| Net investment in capital assets | 31,537 | 29,601 |
| Restricted for debt service | 5,797 | 5,776 |
| Unrestricted | 2,801 | 4,673 |
| Total net position | $ 40,135 | $ 40,050 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

## CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

***Assets:***

***Current, Restricted and Other Non-Capital Assets:*** From 2019 to 2020, the Division's current and restricted assets have decreased 13.6%. This decrease is primarily related to a decrease in cash and cash equivalents due to decreased parking revenues during the COVID-19 pandemic.

***Capital Assets****:* The Division's capital assets (net of accumulated depreciation) as of December 31, 2020 amounted to $35,998,000. The total decrease in the Division's investment in net capital assets was $1,559,000 (4.2%) in 2020. The decrease in 2020 was due to depreciation expense exceeding asset additions. During 2020, major projects included Willard Garage Elevators.

A summary of the activity in the Division's capital assets during the year ended December 31, 2020 is as follows:

| | Balance January 1, 2020 | Additions | Deletions | Balance December 31, 2020 |
|---|---|---|---|---|
| | (Amounts in Thousands) | | | |
| Land | $ 5,478 | $ | $ | $ 5,478 |
| Land improvements | 4,374 | | | 4,374 |
| Buildings, structures and improvements | 56,483 | | | 56,483 |
| Furniture, fixtures, equipment and vehicles | 2,213 | | | 2,213 |
| Construction in progress | 4,478 | 162 | | 4,640 |
| Total | 73,026 | 162 | - | 73,188 |
| Less: Accumulated depreciation | (35,469) | (1,721) | | (37,190) |
| Capital assets, net | $ 37,557 | $ (1,559) | $ - | $ 35,998 |

Additional information on the Division's capital assets can be found in Note A – Summary of Significant Accounting Policies and Note E – Capital Assets.

## CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

***Liabilities:***

***Net Pension/Other Postemployment Benefits (OPEB) Liabilities:*** The net pension liability is reported by the Division at December 31, 2020 and is reported pursuant to Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions — an Amendment of GASB Statement No. 27*. In fiscal year 2018, the Division adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revised accounting for costs and liabilities related to OPEB. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Division's actual financial condition by adding deferred inflows of resources related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows of resources related to pension and OPEB.

GASB standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*) and postemployment benefits (GASB Statement No. 45, *Accounting and Financial Reporting By Employers for Postemployment Benefits Other Than Pensions*) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability or net OPEB liability. GASB Statement No. 68 and GASB Statement No. 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB Statement No. 68 and GASB Statement No. 75 require the net pension liability and the net OPEB liability to equal the Division's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the employment exchange – that is, the employee is trading his or her labor in exchange for wages, benefits and the promise of a future pension and OPEB. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Division is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State Statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State Statute. The Ohio Revised Code (the ORC) permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

## CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liabilities of the pension/OPEB plans against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As previously explained, changes in benefits, contribution rates and return on investments affect the balance of these liabilities, but are outside the control of the Division. In the event that contributions, investment returns and other changes are insufficient to keep up with required payments, State Statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB Statement No. 68 and GASB Statement No. 75, the Division's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's change in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows of resources.

***Long-Term Debt:*** At the end of 2020, the Division had total bonded debt outstanding of $7,660,000. This is a reduction of approximately 31.6%. This reduction is the result of the annual principal payment 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 2020, 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, 2020 is summarized below:

| | Balance January 1, 2020 | Debt Retired | Balance December 31, 2020 |
|---|---|---|---|
| | (Amounts in Thousands) | | |
| Parking Facilities Refunding Revenue Bonds: | | | |
| Series 2006 | $ 11,200 | $ (3,540) | $ 7,660 |

The bond ratings at December 31, 2020 for the Division's revenue bonds are as follows:

| | Moody's Investors Service | S&P Global |
|---|---|---|
| Parking Facilities Refunding Revenue Bonds: | | |
| Series 2006 | A2 | AA |

The bond ratings indicated above are insured ratings only, reflecting the ratings of Assured Guaranty Municipal Corporation (formerly Financial Security Assurance, Inc.).

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.

The Division has reported deferred inflows of resources in the amount of the fair value of the interest rate swap, which reflects the prevailing interest rate environment at December 31, 2020. The fair value of the swap has been provided by the counterparty and confirmed by the City's financial advisor.

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

***Net Position:*** Net position serves as a useful indicator of a government's financial position. In the case of the Division, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $40,135,000 at December 31, 2020.

Of the Division's net position at December 31, 2020, $5,797,000 represents resources that are classified as restricted since their use is limited by the bond indentures. In addition, the Division had a net balance of $31,537,000 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 $2,801,000 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 2020 increased net position by $85,000. Provided below are key elements of the Division's results of operations as of and for the years ended December 31, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| | (Amounts in Thousands) | |
| Operating revenues | $ 3,875 | $ 9,621 |
| Operating expenses | 5,416 | 6,660 |
| Operating income (loss) | (1,541) | 2,961 |
| Non-operating revenue (expense): | | |
| Investment income (loss) | 63 | 331 |
| Interest expense | (614) | (788) |
| Total non-operating revenue (expense), net | (551) | (457) |
| Income (loss) before capital contributions | (2,092) | 2,504 |
| Capital contributions | 177 | 463 |
| Operating transfers in | 2,000 | - |
| Change in net position | 85 | 2,967 |
| Net position at beginning of year | 40,050 | 37,083 |
| Net position at end of year | $ 40,135 | $ 40,050 |

***Operating Revenues:*** From 2019 to 2020, operating revenues decreased $5,746,000 or 59.7%. This decrease is related to the significant decrease in usage of the City's parking facilities due to the COVID-19 pandemic.

***Operating Expenses***: In 2020, operating and maintenance expenses decreased $1,384,000 or 27.2%. This decrease is due to expenses related to professional services.

***Non-Operating Revenues:*** From 2019 to 2020, investment income decreased by $268,000 or 81.0%. This decrease is related to decreased cash position and lower interest rates.

***Non-Operating Expenses:*** From 2019 to 2020, interest expense decreased by $174,000 or 22.1%; resulting from reduction to outstanding principal in 2020.

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

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

The Division continues to assess their operations to improve efficiencies, identify additional revenue sources and improve existing revenue sources. City Council has the authority to further increase parking fees when deemed necessary to assist the Division in meeting operational and debt commitments as economic circumstances dictate.

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of the pandemic and the ensuing emergency measures will impact subsequent periods of the Division. In addition, the impact on the Division's future operating revenues, expenses, and any recovery from emergency funding cannot be estimated.

## 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 WORKS**
**DIVISION OF PARKING FACILITIES**

**STATEMENT OF NET POSITION**
**December 31, 2020**
**(Amounts in Thousands)**

| | |
|---|---|
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | |
| **CURRENT ASSETS** | |
| Cash and cash equivalents | $ 5,358 |
| Accounts receivable - net of allowance | 28 |
| Due from other City of Cleveland departments, divisions or funds | 19 |
| Prepaid expenses | 8 |
| **TOTAL CURRENT ASSETS** | 5,413 |
| **RESTRICTED ASSETS** | |
| Cash and cash equivalents | 8,945 |
| **TOTAL RESTRICTED ASSETS** | 8,945 |
| **CAPITAL ASSETS** | |
| Land | 5,478 |
| Land improvements | 4,374 |
| Buildings, structures and improvements | 56,483 |
| Furniture, fixtures, equipment and vehicles | 2,213 |
| Construction in progress | 4,640 |
| | 73,188 |
| Less: Accumulated depreciation | (37,190) |
| **CAPITAL ASSETS, NET** | 35,998 |
| **TOTAL ASSETS** | 50,356 |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Loss on refunding | 142 |
| Pension | 177 |
| OPEB | 129 |
| **TOTAL DEFERRED OUTFLOWS OF RESOURCES** | 448 |

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

**STATEMENT OF NET POSITION**
**December 31, 2020**
**(Amounts in Thousands)**

| | |
|---|---|
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION** | |
| **LIABILITIES** | |
| **CURRENT LIABILITIES** | |
| Current portion of long-term debt, due within one year | $ 3,730 |
| Accounts payable | 42 |
| Due to other governments | 261 |
| Due to other City of Cleveland departments, divisions or funds | 27 |
| Accrued interest payable | 118 |
| Accrued wages and benefits | 97 |
| **TOTAL CURRENT LIABILITIES** | 4,275 |
| **LONG-TERM LIABILITIES** | |
| Revenue bonds - excluding amount due within one year | 4,009 |
| Accrued wages and benefits | 16 |
| Net pension liability | 1,165 |
| Net OPEB liability | 811 |
| **TOTAL LONG-TERM LIABILITIES** | 6,001 |
| **TOTAL LIABILITIES** | 10,276 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Derivative instruments-interest rate swaps | 4 |
| Pension | 263 |
| OPEB | 126 |
| **TOTAL DEFERRED INFLOWS OF RESOURCES** | 393 |
| **NET POSITION** | |
| Net investment in capital assets | 31,537 |
| Restricted for debt service | 5,797 |
| Unrestricted | 2,801 |
| **TOTAL NET POSITION** | $ 40,135 |

See notes to financial statements.

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2020
(Amounts in Thousands)

| | |
|---|---|
| **OPERATING REVENUES** | |
| Charges for services | $ 3,875 |
| **TOTAL OPERATING REVENUES** | 3,875 |
| **OPERATING EXPENSES** | |
| Operations | 3,657 |
| Maintenance | 38 |
| Depreciation | 1,721 |
| **TOTAL OPERATING EXPENSES** | 5,416 |
| **OPERATING INCOME (LOSS)** | (1,541) |
| **NON-OPERATING REVENUE (EXPENSE)** | |
| Investment income (loss) | 63 |
| Interest expense | (614) |
| **TOTAL NON-OPERATING REVENUE (EXPENSE) - NET** | (551) |
| **INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS** | (2,092) |
| Capital contributions | 177 |
| Operating transfers in | 2,000 |
| **INCREASE (DECREASE) IN NET POSITION** | 85 |
| **NET POSITION, beginning of year** | 40,050 |
| **NET POSITION, end of year** | $ 40,135 |

See notes to financial statements.

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

**STATEMENT OF CASH FLOWS**
**For the Year Ended December 31, 2020**
**(Amounts in Thousands)**

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Cash received from customers | $ 3,819 |
| Cash payments to suppliers for goods or services | (2,877) |
| Cash payments to employees for services | (1,134) |
| **NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES** | (192) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| Cash received through transfers from other funds | 2,000 |
| **NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES** | 2,000 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | |
| Principal paid on long-term debt | (3,540) |
| Interest paid on long-term debt | (608) |
| **NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES** | (4,148) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Interest received on investments | 71 |
| **NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES** | 71 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | (2,269) |
| **CASH AND CASH EQUIVALENTS, beginning of year** | 16,572 |
| **CASH AND CASH EQUIVALENTS, end of year** | $ 14,303 |

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

**STATEMENT OF CASH FLOWS**
**For the Year Ended December 31, 2020**
**(Amounts in Thousands)**

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES**

| | |
|---|---|
| Operating Income | $ (1,541) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 1,721 |
| Changes in assets: | |
| Accounts receivable, net | (13) |
| Due from other City of Cleveland departments, divisions or funds | (7) |
| Prepaid expenses | (1) |
| Changes in deferred outflows of resources: | |
| Pension | 330 |
| OPEB | (62) |
| Changes in liabilities: | |
| Accounts payable | (502) |
| Due to other governments | 16 |
| Due to other City of Cleveland departments, divisions or funds | (49) |
| Net pension liability | (479) |
| Net OPEB liability | 34 |
| Changes in deferred inflows of resources: | |
| Pension | 237 |
| OPEB | 124 |
| **TOTAL ADJUSTMENTS** | 1,349 |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | $ (192) |

**SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES**

| | |
|---|---|
| Contributions of capital assets | $ 177 |
| Capital assets added from accounts payable | 15 |

See notes to financial statements.

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# NOTES TO FINANCIAL STATEMENTS
## For the Year Ended December 31, 2020

### 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 2016, GASB Statement No. 83, *Certain Asset Retirement Obligations*, was issued. This Statement is effective for the reporting periods beginning after June 15, 2019. The objective of this Statement is to provide financial statement users with information about asset retirement obligations (ARO) that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. The Division has determined that GASB Statement No. 83 has no impact on its financial statements as of December 31, 2020.

In January of 2017, GASB Statement No. 84, *Fiduciary Activities,* was issued. This Statement is effective for reporting periods beginning after December 15, 2019. The objective of this Statement is to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. This Statement also is intended to improve the usefulness of fiduciary activity information primarily for assessing the accountability of governments in their roles as fiduciaries. The Division has determined that GASB Statement No. 84 has no impact on its financial statements as of December 31, 2020.

In March of 2018, GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements,* was issued. This Statement is effective for reporting periods beginning after June 15, 2019. The objective of this Statement is to improve consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt. As required, the Division has implemented GASB Statement No. 88 as of December 31, 2020.

In August of 2018, GASB Statement No. 90, *Majority Equity Interests an Amendment of GASB Statements No. 14 and No. 61,* was issued. This Statement is effective for reporting periods beginning after December 15, 2019. The objective of this Statement is to improve consistency in the measurement and comparability of the financial statement presentation of majority interests in legally separate organizations and to improve the relevance of financial statement information for certain component units. The Division has determined that GASB Statement No. 90 has no impact on its financial statements as of December 31, 2020.

## 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 debt service
- Remaining unrestricted amount

In addition, certain additional financial information regarding the Division is included in these footnotes.

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

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

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

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

***Investments:*** The Division follows the provisions of GASB Statement No. 72, *Fair Value Measurement and Application,* which requires governmental entities to record their investments at fair value within the fair value hierarchy. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets. Level 2 inputs are significant other observable inputs valued by pricing sources used by the City's investment managers. Level 3 inputs are significant unobservable inputs. The Division's investments in money market mutual funds and State Treasury Reserve of Ohio (STAR Ohio) funds are excluded from fair value measurement requirements under GASB Statement No. 72 and instead are reported at amortized cost.

The Division has invested funds in the STAR Ohio during 2020. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted GASB Statement No. 79, *Certain External Investment Pools and Pool Participants,* for the purpose of measuring the value of shares in STAR Ohio. The Division measures their investment in STAR Ohio at

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

the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV share that approximates fair value.

***Prepaid Expenses and Other Assets***: Payments made to vendors for services that benefit future periods are recorded as prepayments in the financial statements. A current asset for the prepaid amount is recorded at the time of purchase and the expense is reported in the year in which services are consumed.

***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.

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

The estimated useful lives are as follows:

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

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

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

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

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

***Net Pension/OPEB Liabilities*:** For purposes of measuring the net pension/OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB and pension/OPEB expenses, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net positon have been determined on the same basis as they are reported by the pension/OPEB systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB systems report investments at fair value.

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

***Transfers:*** During the course of normal operations, the Division received a transfer from the City of Cleveland General Fund to subsidize operations. The transfer was a nonreciprocal transfer and is not required to be repaid.

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

Long-term debt outstanding at December 31, 2020 is as follows:

| | Interest Rate | Original Issuance | 2020 |
|---|---|---|---|
| | (Amounts in Thousands) | | |
| Parking Facilities Refunding Revenue Bonds: | | | |
| Series 2006, due through 2022 | 5.25% | $ 57,520 | $ 7,660 |
| Unamortized (discount) premium | | | 79 |
| Current portion (due within one year) | | | (3,730) |
| Total Long-Term Debt | | | $ 4,009 |

**NOTES TO FINANCIAL STATEMENTS (Continued)**
**For the Year Ended December 31, 2020**

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

***Summary:*** Changes in long-term obligations for the year ended December 31, 2020 are as follows:

| | Balance January 1, 2020 | Increase | Decrease | Balance December 31, 2020 | Due Within One Year |
|---|---|---|---|---|---|
| | (Amounts in Thousands) | | | | |
| Parking Facilities Refunding Revenue Bonds: | | | | | |
| Series 2006, due through 2022 | $ 11,200 | $ | $ (3,540) | $ 7,660 | $ 3,730 |
| Accrued wages and benefits | 113 | 107 | (107) | 113 | 97 |
| Net pension liability | 1,644 | | (479) | 1,165 | |
| Net OPEB liability | 777 | 34 | | 811 | |
| Total | $ 13,734 | $ 141 | $ (4,126) | $ 9,749 | $ 3,827 |

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

| Year | Principal | Interest | Total |
|---|---|---|---|
| | (Amounts in Thousands) | | |
| 2021 | $ 3,730 | $ 402 | $ 4,132 |
| 2022 | 3,930 | 206 | 4,136 |
| Total | $ 7,660 | $ 608 | $ 8,268 |

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 the 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, AG (UBS) which is described below.

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

### *Interest Rate Swap Transaction*

***Terms:*** Simultaneously with the issuance of the City's $57,520,000 Parking Facilities Refunding Revenue Bonds, Series 2006 on August 15, 2006, the City entered into a floating-to-floating rate basis swap agreement with a notional amount equal to the total declining balance of the Series 2006 Bonds. UBS was the counterparty on the transaction. As stated above, the basis swap was transferred to PNC Bank, National Association in 2013. Under the swap agreement for the Series 2006 Bonds, the City is a floating rate payor, paying a floating rate based on the Securities Industry and Financial Markets Association (SIFMA) index. The counterparty is also a floating rate payor, paying the City 67.0% 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.

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

***Basis Risk:*** By entering into the swap based upon the 30 day LIBOR rate of interest, the City has undertaken basis risk associated with a change in tax rates and structure. While the average relationship between the SIFMA (tax-exempt) and LIBOR (taxable) interest rates has been 67.0%, this relationship may not always apply. Since late 2008, this relationship has been significantly higher or lower 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. From 2013 to early 2016, the SIFMA/LIBOR relationship was significantly lower than 67.0%. In this case payments received from the counterparty were greater than the amount owed to the counterparty which resulted in a net decrease in debt service. In addition, a reduction in federal income tax rates such as the one that was approved in late 2017, might increase the percentage relationship between SIFMA and LIBOR and potentially increase the cost of the financing. In 2020, payments owed to the counterparty exceeded payments received from the counterparty by approximately $20,000.

***Counterparty Risk:*** The City selected a highly rated counterparty in order to minimize this risk. However, over the long-term, it is possible that the credit strength of PNC could change and this event could trigger a termination payment on the part of the City.

***Termination Risk:*** The swap agreement may be terminated prior to its stated termination date under certain circumstances. Upon termination, a payment may be owed by the City to PNC, or by PNC to the City, depending upon the prevailing economic circumstances at the time of the termination. The City obtained insurance to mitigate much of the risk associated with termination due to the event of a downgrade of the City's bond rating. An amount due by the City to PNC upon early termination of the agreement is insured by FSA (now Assured Guaranty Municipal Corp.) up to a maximum amount of $8,000,000.

***Fair Value:*** The fair value of the swap at December 31, 2020 as reported by PNC was $4,000, 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 $7,660,000 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 $8,268,000. Principal and interest paid for the current year (including net swap payments) and total net revenues were $4,148,000 and $71,000, respectively. There was a significant drop in net revenues in 2020 due to the COVID-19 pandemic. With most sporting and entertainment venues shut down and a large number of employees working from home, usage of the City's parking facilities was dramatically reduced.

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

In 2020, no additional pledged revenue was required to meet the debt service on the Parking Facilities Refunding Revenue Bonds. However, due to the limited net revenues being generated, funds on hand in the surplus fund were used to meet debt service requirements. 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, 2020, the Division was in compliance with the terms and requirements of the trust indenture.

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.

### *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, 2020. The fair value of the swap has been provided by the counterparty and confirmed by the City's financial advisor. The Division recognized a $10,000 investment revenue pursuant to this swap in 2020.

The following table presents the fair value balance and notional amount of the Division's derivative instrument outstanding at December 31, 2020, classified by type and the change in fair value of this derivative during fiscal year 2020 as reported in the respective financial statements. The fair value of the interest rate swap, which reflects the prevailing interest rate environment at December 31, 2020 and the specific terms and conditions of the swap, have been provided by the counterparty and confirmed by the City's financial advisor.

The derivative instrument is classified as a Level 2 input of the fair value hierarchy and is considered to be a significant other observable input. The derivative instrument is calculated using the zero-coupon discounting method which takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and assumes that the current forward rate implied by the yield curve are the market's best estimate of future spot interest rates. The income approach is then used to obtain the fair value of the swap, where future amounts are converted to a single current (discounted) amount, using a rate of return that takes into account the relative risk of nonperformance associated with the cash flows and time value of money.

| | Changes in Fair Value | | Fair Value at December 31, 2020 | | |
|---|---|---|---|---|---|
| | **Classification** | **Amount** | **Classification** | **Amount** | **Notional** |
| | | (Amounts in Thousands) | | | |
| Floating to floating interest rate swap | | | | | |
| 2006 Parking Basis Swap | Investment Revenue | $ 10 | Debt | $ (4) | $ 7,660 |

## 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, 2020, along with the credit rating of the swap counterparty.

| Bonds | Type | Objective | Notional Amount | Effective Date | Maturity Date | Terms | Counterparty Credit Rating |
|---|---|---|---|---|---|---|---|
| | | | (Amounts in Thousands) | | | | |
| 2006 Parking Bonds | Basis Swap - Pay Floating / Receive Floating | Exchange floating rate payments on Series 2006 Parking System Revenue Bonds | $ 7,660 | 8/15/2006 | 9/15/2022 | Pay SIFMA, receive 67% of LIBOR | A2/A/A+ |

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

In conjunction with the sale of the Gateway North Garage, the Division defeased some of the Parking Facilities Refunding Revenue Bonds, Series 2006, by placing a portion of the proceeds of the sale into an irrevocable trust to provide for all future debt service payments on the defeased bonds. The Division had $3,625,000 of defeased debt outstanding at December 31, 2020.

## NOTE C – 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 2020, net revenues generated by the remaining Gateway garage were less than the debt service payments attributed to that garage by $2,785,000. Cumulative debt service payments funded by the City that are due from Gateway totaled $57,071,000 at December 31, 2020. 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, 2020 totaled $1,873,000 and the Division's bank balances were $1,871,000. 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*, $1,871,000 of the bank balances at December 31, 2020 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 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 110.0% of the carrying value of the deposits being secured.

***Investments:*** In accordance with GASB Statement No. 72, the City reports its investments at fair value based on quoted market values, where applicable and recognized the corresponding change in the fair value of the investments recorded in investment earnings in the year in which the change occurs. 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; STAR Ohio, 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 or registered broker/dealers. Repurchase transactions are not to exceed a period of one year and confirmation of securities pledged must be obtained.

Generally, investments are recorded and are kept at the Federal Reserve Bank in the depository institutions' separate custodial account for the City, apart from the assets of the depository institution. Ohio statutes prohibit the use of reverse repurchase agreements.

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

***Interest Rate Risk:*** As a means of limiting its exposure to fair value losses caused by rising interest rates, the Division invests primarily in both short and long-term investments maturing within five years from the date of purchase. The intent is to avoid the need to sell securities prior to maturity. Investment maturities are disclosed in the Concentration of Credit Risk section.

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

## NOTE D – DEPOSITS AND INVESTMENTS (Continued)

***Credit Risk:*** The Division's investments as of December 31, 2020 include STAR Ohio and money market mutual funds. The Division maintains the highest ratings for their investments. Investments in STAR Ohio, Dreyfus Government Cash Management Mutual Fund and Morgan Stanley Government Institutional Mutual Funds carry a rating of AAAm, which is the highest money market fund rating given by S&P Global. Ohio law requires that STAR Ohio 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, 2020, 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 | 2020 Value | 2020 Cost | Investment Maturities Less than One Year |
|---|---|---|---|
| | (Amounts in Thousands) | | |
| STAR Ohio | $ 2 | $ 2 | $ 2 |
| Money Market Mutual Funds | 12,428 | 12,428 | 12,428 |
| Total Investments | 12,430 | 12,430 | 12,430 |
| Total Deposits | 1,873 | 1,873 | 1,873 |
| Total Deposits and Investments | $ 14,303 | $ 14,303 | $ 14,303 |

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 STAR Ohio and money market mutual funds. These investments are carried at cost which approximates fair value.

As of December 31, 2020, the investments in STAR Ohio and money market mutual funds are approximately < 0.1% and 100.0%, respectively, of the Division's total investments.

**NOTES TO FINANCIAL STATEMENTS (Continued)**
**For the Year Ended December 31, 2020**

## NOTE E – CAPITAL ASSETS

***Capital Asset Activity:*** Capital asset activity for the year ended December 31, 2020 was as follows:

| | Balance January 1, 2020 | Additions | Deletions | Balance December 31, 2020 |
|---|---|---|---|---|
| | (Amounts in Thousands) | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $ 5,478 | $ | $ | $ 5,478 |
| Construction in progress | 4,478 | 162 | | 4,640 |
| Total capital assets, not being depreciated | 9,956 | 162 | - | 10,118 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 4,374 | | | 4,374 |
| Buildings, structures and improvements | 56,483 | | | 56,483 |
| Furniture, fixtures, equipment and vehicles | 2,213 | | | 2,213 |
| Total capital assets, being depreciated | 63,070 | - | - | 63,070 |
| Less: Accumulated depreciation | (35,469) | (1,721) | | (37,190) |
| Total capital assets being depreciated, net | 27,601 | (1,721) | - | 25,880 |
| Capital assets, net | $ 37,557 | $ (1,559) | $ - | $ 35,998 |

## NOTE F – DEFINED BENEFIT PENSION PLANS

***Net Pension Liability:*** The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions - between an employer and its employees - of salaries and benefits for employee services. Pensions are provided to an employee - on a deferred-payment basis - as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Division's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments (COLA) and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

## NOTE F – DEFINED BENEFIT PENSION PLANS (Continued)

The ORC limits the Division's obligation for this liability to annually required payments. The Division cannot control benefit terms or the manner in which pensions are financed; however, the Division does receive the benefit of employees' services in exchange for compensation including pension.

GASB Statement No. 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State Statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State Statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in accrued wages and benefits on both the accrual and modified accrual bases of accounting.

***Ohio Public Employees Retirement System (OPERS):*** The Division's employees, other than full-time police and firefighters, participate in the OPERS. OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Division's employees) may elect the Member-Directed Plan and the Combined Plan, substantially all employee members are in OPERS' Traditional Plan; therefore, the following disclosure focuses on the Traditional Pension Plan.

OPERS provides retirement, disability, survivor and death benefits and annual COLA to members of the Traditional Plan. Authority to establish and amend benefits is provided by Chapter 145 of the ORC. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting https://www.opers.org/financial/reports.shtml, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

## NOTE F – DEFINED BENEFIT PENSION PLANS (Continued)

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the Traditional Plan as per the reduced benefits adopted by SB 343 (see OPERS Comprehensive Annual Financial Report referenced above for additional information):

| Group A | Group B | Group C |
|---|---|---|
| Eligible to retire prior to January 7, 2013 or five years after January 7, 2013 | 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013 | Members not in other Groups and members hired on or after January 7, 2013 |
| **State and Local** | **State and Local** | **State and Local** |
| **Age and Service Requirements:** Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | **Age and Service Requirements:** Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | **Age and Service Requirements:** Age 57 with 25 years of service credit or Age 62 with 5 years of service credit |
| **Formula:** 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | **Formula:** 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | **Formula:** 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35 |

FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual COLA is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3.0% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3.0%.

***Funding Policy:*** The ORC provides statutory authority for member and employer contributions. For 2020, member contribution rates were 10.0% and employer contribution rates were 14.0%.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Division's contractually required contribution was $109,000 for 2020. All required payments have been made.

## NOTE F – DEFINED BENEFIT PENSION PLANS (Continued)

***Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:*** The net pension liability for OPERS was measured as of December 31, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Division's proportion of the net pension liability was based on the Division's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

| | OPERS (Amounts in Thousands) | |
|---|---|---|
| Proportionate Share of the Net Pension Liability | $ | 1,165 |
| Proportion of the Net Pension Liability | | 0.005957% |
| Change in Proportion | | (0.000070)% |
| Pension Expense | $ | 193 |

At December 31, 2020, the Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | OPERS (Amounts in Thousands) | |
|---|---|---|
| **Deferred Outflows of Resources** | | |
| Change in assumptions | $ | 64 |
| Change in proportionate share | | 4 |
| Division's contributions subsequent to the measurement date | | 109 |
| **Total Deferred Outflows of Resources** | $ | 177 |
| **Deferred Inflows of Resources** | | |
| Differences between expected and actual economic experience | $ | 18 |
| Differences in projected and actual investment earnings | | 236 |
| Change in Division's proportionate share | | 9 |
| **Total Deferred Inflows of Resources** | $ | 263 |

## NOTE F – DEFINED BENEFIT PENSION PLANS (Continued)

The $109,000 reported as deferred outflows of resources related to pension resulting from the Division's contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ending December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| Year Ending December 31: | OPERS (Amounts in Thousands) | |
|---|---|---|
| 2021 | $ | (29) |
| 2022 | | (79) |
| 2023 | | 9 |
| 2024 | | (94) |
| 2025 | | (1) |
| Thereafter | | (1) |
| Total | $ | (195) |

***Actuarial Assumptions – OPERS:*** Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Valuation Date | December 31, 2019 |
| Wage Inflation | 3.25% |
| Future Salary Increases, including wage inflation | 3.25 to 10.75 % |
| COLA or Ad Hoc COLA | 3.25%, simple |
| | Pre 1/7/2013 retirees: 3%, simple |
| | Post 1/7/2013 retirees: 1.4%, simple |
| | through 2020, then 2.15%, simple |
| Investment Rate of Return | 7.2% |
| Actuarial Cost Method | Individual Entry Age |
| Mortality Tables | RP-2014 |

## NOTE F – DEFINED BENEFIT PENSION PLANS (Continued)

Pre-retirement mortality rates are based on the RP-2014 Employees Mortality Table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant Mortality Table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled Mortality Table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 Mortality Improvement Scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2019, OPERS managed investments in three investment portfolios: the Defined Benefit Portfolio, the Health Care Portfolio and the Defined Contribution Portfolio. The Defined Benefit Portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit Portfolio, contributions into the plans are all recorded at the same time and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the Defined Benefit Portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit Portfolio was 17.2% for 2019.

## NOTE F – DEFINED BENEFIT PENSION PLANS (Continued)

The allocation of investment assets with the Defined Benefit Portfolio is approved by the Board of Trustees (the Board) as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2019 and the long-term expected real rates of return:

| Asset Class | Target Allocation | Weighted Average Long-Term Expected Real Rate of Return (Arithmetic) |
|---|---|---|
| Fixed Income | 25.00 % | 1.83 % |
| Domestic Equities | 19.00 | 5.75 |
| Real Estate | 10.00 | 5.20 |
| Private Equity | 12.00 | 10.70 |
| International Equities | 21.00 | 7.66 |
| Other Investments | 13.00 | 4.98 |
| Total | 100.00 % | 5.61 % |

***Discount Rate:*** The discount rate used to measure the total pension liability was 7.2%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the Division's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:*** The following table presents the Division's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.2%, as well as what the Division's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.2%) or one-percentage-point higher (8.2%) than the current rate:

| | 1% Decrease 6.20% | Current Discount Rate 7.20% | 1% Increase 8.20% |
|---|---|---|---|
| | | (Amounts in Thousands) | |
| Division's proportionate share of the net pension liability | $ 1,733 | $ 1,165 | $ 693 |

## NOTE G – DEFINED BENEFIT OPEB PLANS

***Net OPEB Liability:*** The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions between an employer and its employees of salaries and benefits for employee services. OPEB are provided to an employee on a deferred-payment basis as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the Division's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, COLA and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

The ORC limits the Division's obligation for this liability to annually required payments. The Division cannot control benefit terms or the manner in which OPEB are financed; however, the Division does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB Statement No. 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The ORC permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term net OPEB liability on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in accrued wages and benefits on both the accrual and modified accrual bases of accounting.

***Plan Description – 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.

**NOTE G – DEFINED BENEFIT OPEB PLANS (Continued)**

OPERS maintains a cost-sharing, multiple-employer defined benefit postemployment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined Plans. This trust is also used to fund health care for Member-Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have twenty 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 OPEB as described in GASB Statement No. 75. See OPERS Comprehensive Annual Financial Report referenced below for additional information.

The ORC permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board in Chapter 145 of the ORC.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting https://www.opers.org/financial/reports.shtml, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

***Funding Policy:*** The ORC provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by the Board, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2020, state and local employers contributed at a rate of 14.0% of earnable salary. This is the maximum employer contribution rates permitted by the ORC. Active member contributions do not fund health care.

Each year, the Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 0.0% for both plans in 2020. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the member-directed plan for 2019 was 4.0%.

For the year ended December 31, 2020, OPERS did not allocate any employer contributions to the OPEB plan.

## NOTE G – DEFINED BENEFIT OPEB PLANS (Continued)

***OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***: The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2018, rolled forward to the measurement date of December 31, 2019, by incorporating the expected value of health care cost accruals, the actual health care payment and interest accruals during the year. The Division's proportion of the net OPEB liability was based on the Division's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

| | OPERS | |
|---|---|---|
| Proportion of the Net OPEB Liability: | | |
| Current measurement date | | 0.005874% |
| Prior measurement date | | 0.005957% |
| Change in Proportionate Share | | (0.000083)% |
| | **(Amounts in Thousands)** | |
| Proportionate Share of the Net OPEB Liability | $ | 811 |
| OPEB Expense | $ | 97 |

At December 31, 2020, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | OPERS (Amounts in Thousands) | |
|---|---|---|
| **Deferred Outflows of Resources** | | |
| Changes of assumptions | $ | 128 |
| Changes in proportion and differences between Division contributions and proportionate share of contributions | | 1 |
| **Total Deferred Outflows of Resources** | $ | 129 |
| **Deferred Inflows of Resources** | | |
| Differences between expected and actual experience | $ | 74 |
| Net difference between projected and actual earnings on OPEB plan investments | | 42 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | | 10 |
| **Total Deferred Inflows of Resources** | $ | 126 |

## NOTE G – DEFINED BENEFIT OPEB PLANS (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year Ending December 31: | OPERS (Amounts in Thousands) | |
|---|---|---|
| 2021 | $ | 14 |
| 2022 | | 7 |
| 2023 | | 0 |
| 2024 | | (18) |
| Total | $ | 3 |

***Actuarial Assumptions – OPERS:*** Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2018, rolled forward to the measurement date as of December 31, 2019. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB Statement No. 74, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*:

| | |
|---|---|
| Wage Inflation | 3.25% |
| Projected Salary Increases, including wage inflation | 3.25% to 10.75% |
| Single Discount Rate: | |
| Current Measurement Date | 3.16% |
| Prior Measurement Date | 3.96% |
| Investment Rate of Return | 6.00% |
| Municipal Bond Rate: | |
| Current Measurement Date | 2.75% |
| Prior Measurement Date | 3.71% |
| Health Care Cost Trend Rate: | |
| Current Measurement Date | 10.50%, initial<br>3.50%, ultimate in 2030 |
| Prior Measurement Date | 10.00%, initial<br>3.25%, ultimate in 2029 |
| Actuarial Cost Method | Individual Entry Age |

**NOTE G – DEFINED BENEFIT OPEB PLANS (Continued)**

Pre-retirement mortality rates are based on the RP-2014 Employees Mortality Table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant Mortality Table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled Mortality Table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 Mortality Improvement Scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2019, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, if any contributions are made into the plans, the contributions are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made. Health-care related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested for the Health Care portfolio was 19.7% for 2019.

## NOTE G – DEFINED BENEFIT OPEB PLANS (Continued)

The allocation of investment assets with the Health Care Portfolio is approved by the Board as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2019 and the long-term expected real rates of return:

| Asset Class | Target Allocation | Weighted Average Long-Term Expected Real Rate of Return (Arithmetic) |
|---|---|---|
| Fixed Income | 36.00 % | 1.53 % |
| Domestic Equities | 21.00 | 5.75 |
| Real Estate Investment Trust | 6.00 | 5.69 |
| International Equities | 23.00 | 7.66 |
| Other Investments | 14.00 | 4.90 |
| Total | 100.00 % | 4.55 % |

***Discount Rate:*** A single discount rate of 3.16% was used to measure the OPEB liability on the measurement date of December 31, 2019. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on the actuarial assumed rate of return on the health care investment portfolio of 6.00% and a municipal bond rate of 2.75%. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through the year 2034. As a result, the actuarial assumed long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

## NOTE G – DEFINED BENEFIT OPEB PLANS (Continued)

***Sensitivity of the Division's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate***: The following table presents the Division's proportionate share of the net OPEB liability calculated using the single discount rate of 3.16%, as well as what the Division's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.16%) or one-percentage-point higher (4.16%) than the current rate:

| | 1% Decrease (2.16%) | Current Discount Rate (3.16%) | 1% Increase (4.16%) |
|---|---|---|---|
| | (Amounts in Thousands) | | |
| Division's proportionate share of the net OPEB liability | $ 1,062 | $ 811 | $ 611 |

***Sensitivity of the Division's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate:*** Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates and the expected net OPEB liability if it were calculated using a health care cost trend rate that is one-percentage-point lower or one-percentage-point higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2020 is 10.50%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.50% in the most recent valuation.

| | 1% Decrease (2.50%) | Current Health Care Cost Trend Rate Assumption (3.50%) | 1% Increase (4.50%) |
|---|---|---|---|
| | (Amounts in Thousands) | | |
| Division's proportionate share of the net OPEB liability | $ 788 | $ 811 | $ 836 |

## NOTE H – RELATED PARTY TRANSACTIONS

***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 year ended December 31, 2020 is as follows:

| Division | Amount (Amounts in Thousands) |
|---|---|
| Telephone | $ 23 |
| Motor Vehicle Maintenance | 13 |
| Waste Collection | 1 |
| Printing | 5 |
| Light and Power | 5 |
| | $ 47 |

## 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, which the City is responsible for. 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 2020.

The City provides the choice of two separate health insurance plans to its employees. The Division is 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, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, 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 2020. Future minimum rentals on non-cancelable leases are as follows:

| Year | Amount |
|---|---|
| | (Amounts in Thousands) |
| 2021 | $ 180 |
| 2022 | 180 |
| 2023 | 180 |
| 2024 | 180 |
| 2025 | 180 |
| Thereafter | 3,120 |
| | $ 4,020 |

## NOTE K – COVID-19

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of the pandemic and the ensuing emergency measures will impact subsequent periods of the Division. In addition, the impact on the Division's future operating revenues, expenses, and any recovery from emergency funding cannot be estimated.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE DIVISION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**
**OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM**
**LAST SEVEN YEARS (1), (2)**

| | Division's Proportion of the Net Pension Liability | Division's Proportionate Share of the Net Pension Liability | Division's Covered Payroll | Division's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| | | **(Amounts in Thousands)** | | | |
| 2014 | 0.006017% | $ 708 | $ 685 | 103.36% | 86.36% |
| 2015 | 0.006017 | 723 | 750 | 96.40 | 86.45 |
| 2016 | 0.005975 | 1,032 | 758 | 136.15 | 81.08 |
| 2017 | 0.005756 | 1,304 | 767 | 170.01 | 77.25 |
| 2018 | 0.005965 | 928 | 715 | 129.79 | 84.66 |
| 2019 | 0.006027 | 1,644 | 764 | 215.18 | 74.70 |
| 2020 | 0.005957 | 1,165 | 800 | 145.63 | 82.17 |

(1) Information presented for each year was determined as of the Division's measurement date, which is the prior year-end.

(2) Information prior to 2014 is not available. The Division will continue to present information for years available until a full ten-year trend is compiled.

**Note to Schedule:**

*Change in assumptions.* There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. For 2017, the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 8.0% down to 7.5% (b) for defined benefit investments, decreasing the wage inflation from 3.75% to 3.25% and (c) changing the future salary increases from a range of 4.25%-10.05% to 3.25%-10.75%. There were no changes in assumptions for 2018. For 2019, the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date: (a) the assumed rate of return and discount rate were reduced from 7.5% down to 7.2%. There were no changes in assumptions in 2020.

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

**REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)**

**SCHEDULE OF CONTRIBUTIONS - NET PENSION LIABILITY**
**OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM**
**LAST EIGHT YEARS (1)**

| | Contractually Required Contributions | Contributions in Relation to the Contractually Required Contributions | Contribution Deficiency (Excess) | Division's Covered Payroll | Contributions as a Percentage of Covered Payroll |
|---|---|---|---|---|---|
| | **(Amounts in Thousands)** | | | | |
| 2013 | $ 89 | $ (89) | $ - | $ 685 | 13.00% |
| 2014 | 90 | (90) | - | 750 | 12.00 |
| 2015 | 91 | (91) | - | 758 | 12.00 |
| 2016 | 92 | (92) | - | 767 | 12.00 |
| 2017 | 93 | (93) | - | 715 | 13.00 |
| 2018 | 107 | (107) | - | 764 | 14.00 |
| 2019 | 112 | (112) | - | 800 | 14.00 |
| 2020 | 109 | (109) | - | 779 | 14.00 |

(1) Represents Division's calendar year. Information prior to 2013 is not available. The Division will continue to present information for years available until a full ten-year trend is compiled.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE DIVISION'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**
**OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM**
**LAST FOUR YEARS (1), (2)**

| | Division's Proportion of the Net OPEB Liability | Division's Proportionate Share of the Net OPEB Liability | Division's Covered Payroll | Division's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability |
|---|---|---|---|---|---|
| | | **(Amounts in Thousands)** | | | |
| 2017 | 0.005654% | $ 571 | $ 767 | 74.45% | 54.04% |
| 2018 | 0.005868 | 637 | 715 | 89.09 | 54.14 |
| 2019 | 0.005957 | 777 | 764 | 101.70 | 46.33 |
| 2020 | 0.005874 | 811 | 800 | 101.38 | 47.80 |

(1) Information presented for each year was determined as of the Division's measurement date, which is the prior year end.

(2) Information prior to 2017 is not available. The Division will continue to present information for years available until a full ten-year trend is compiled.

**Note to Schedule:**

In 2018, the single discount rate changed from 4.23% to 3.85%. In 2019, the single discount rate changed from 3.85% to 3.96%, the investment rate of return changed from 6.50% to 6.00% and the health care cost trend rate changed from 7.5% initial to 10.0% initial. In 2020, the single discount rate changed from 3.96% to 3.16% and the health care cost trend rate changed from 10.0% initial, 3.25% ultimate in 2029 to 10.5% initial, 3.50% ultimate in 2030.

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

**REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)**

**SCHEDULE OF CONTRIBUTIONS - NET OPEB LIABILITY**
**OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM**
**LAST FIVE YEARS (1), (2), (3)**

| | Contractually Required Contributions | Contributions in Relation to the Contractually Required Contributions | Contribution Deficiency (Excess) | Division's Covered Payroll | Contributions as a Percentage of Covered Payroll |
|---|---|---|---|---|---|
| | | **(Amounts in Thousands)** | | | |
| 2016 | $ 15 | $ (15) | $ - | $ 767 | 2.00% |
| 2017 | 7 | (7) | - | 715 | 1.00 |
| 2018 | - | - | - | 764 | 0.00 |
| 2019 | - | - | - | 800 | 0.00 |
| 2020 | - | - | - | 779 | 0.00 |

(1) Beginning in 2016, OPERS used one trust as the funding vehicle for all health care plans; therefore, information prior to 2016 is not presented.

(2) The OPEB plan includes the members from the Traditional Plan, the Combined Plan and the Member-Directed Plan.

(3) Represents Division's calendar year. Information prior to 2016 is not available. The Division will continue to present information for years available until a full ten-year trend is compiled.