

**CITY OF CLEVELAND
(Federal Entity Identification Number 346000646)**

**REPORT ON EXPENDITURES OF FEDERAL AWARDS IN
ACCORDANCE WITH OMB CIRCULAR A-133**

for the year ended December 31, 1998

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City of Cleveland

Report On Expenditures Of Federal Awards In
Accordance With OMB Circular A-133

for the year ended December 31, 1998

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**REPORTS ON COMPLIANCE AND ON THE
INTERNAL CONTROL STRUCTURE**

**Report Of Independent Accountants On
Compliance And On Internal Control Over
Financial Reporting Based On An Audit Of
Financial Statements Performed In Accordance
With *Government Auditing Standards***

To the Honorable Mayor White
City of Cleveland, Ohio

We have audited the general purpose financial statements of the City of Cleveland (the "City") as of and for the year ended December 31, 1998, and have issued our report thereon dated June 25, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 98-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated June 25, 1999.

This report is intended for the information of the City, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

PricewaterhouseCoopers LLP

June 25, 1999

**Report Of Independent Accountants On
Compliance With Requirements Applicable
To Each Major Program And On Internal
Control Over Compliance In Accordance
With OMB Circular A-133**

To the Honorable Mayor White
City of Cleveland, Ohio

Compliance

We have audited the compliance of the City of Cleveland (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 1998. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

As described in items 98-3 to 98-14 in the accompanying schedule of findings and questioned costs, the City did not comply with several of the compliance requirements that are applicable to its Job Training Partnership Act program. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to the program.

In our opinion, except for the non-compliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 1998. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 98-2 and 98-15.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 98-3 and 98-6 to 98-15.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 98-3 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of the City as of and for the year ended December 31, 1998, and have issued our report thereon dated June 25, 1999. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of the City, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

PricewaterhouseCoopers LLP

June 25, 1999

SUPPLEMENTAL FINANCIAL INFORMATION

CITY OF CLEVELAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 1998

Federal Grant/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Entity Number	Federal Expenditures
Department of Agriculture			
Direct Programs:			
Summer Lunch Program 1997	10.559	-	\$ 7,269
Summer Lunch Program 1998	10.559	-	235,304
		Total	<u>\$ 242,573</u>
Department Of Commerce			
Direct Programs:			
Minority Business Development Center 1997	11.800	-	\$ 67,101
		Total	<u>\$ 67,101</u>
Department of Energy			
Pass Through Programs:			
Ohio Department of Development:			
State Weatherization 1996	81.042	D-96-111	\$ (13,669)
State Weatherization 1997	81.042	D-97-111	205,557
State Weatherization 1998	81.042	D-98-111	645,342
		Total	<u>\$ 837,230</u>
Department of Health and Human Services			
Direct Programs:			
Healthy Family/Healthy Start 1995	93.926	-	\$ 3,094
Healthy Family/Healthy Start 1997	93.926	-	(70,022)
Healthy Family/Healthy Start 1998	93.926	-	1,933,259
Healthy Family/Healthy Start 1999	93.926	-	625,255
		Subtotal	<u>2,491,586</u>
Pass Through Programs:			
Ohio Department of Aging:			
Geriatric Outreach Workers 1996-1997	93.633	-	7,056
Geriatric Outreach Workers 1998	93.633	-	94,280
		Subtotal	<u>101,336</u>

The accompanying notes are an integral part of this schedule

CITY OF CLEVELAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 1998

Federal Grant/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Entity Number	Federal Expenditures
Department of Health and Human Services--Continued			
Pass Through Programs--Continued			
Ohio Department of Health:			
Cuyahoga County Health Promotion 1995	93.991	139-N-95	(1,728)
Cuyahoga County Health Promotion 1997	93.991	139-N-97	6,692
Cuyahoga County Health Promotion 1998	93.991	139-N-98	63,175
		Subtotal	<u>68,139</u>
Child Lead Poisoning 1997	93.994	139-M-97	(7,029)
Child Lead Poisoning 1998	93.994	139-M-98	72,615
Child Lead Poisoning 1999	93.994	139-M-99	3,364
Federal Childhood Lead Poisoning 1996	93.994	139-U-96	508
Federal Childhood Lead Poisoning 1997	93.994	139-U-97	(5,853)
Federal Childhood Lead Poisoning 1998	93.994	139-U-98	214,113
Federal Childhood Lead Poisoning 1998-1999	93.994	139-U-99	203,010
		Subtotal	<u>480,728</u>
Sexually Transmitted Diseases Program 1995-1997	93.997	139-H-95-97	1,073
Sexually Transmitted Diseases Program 1998	93.997	139-H-95-98	72,811
		Subtotal	<u>73,884</u>
Ohio Department of Development			
State Weatherization 1996	93.568	H-96-111	(18,715)
State Weatherization 1997	93.568	H-97-111	212,263
State Weatherization 1998	93.568	H-98-111	502,660
		Subtotal	<u>696,208</u>
Federation for Community Planning:			
Infertility Prevention Project	93.977	577-S98	50
		Subtotal	<u>50</u>
Health Services for Residents of CMHA 1997	93.927	CSH-000145-06	33,130
Health Services for Residents of CMHA 1998	93.927	CSH-000145-07	18,023
		Subtotal	<u>51,153</u>

The accompanying notes are an integral part of this schedule

CITY OF CLEVELAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 1998

Federal Grant/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Entity Number	Federal Expenditures
Department of Health and Human Services--Continued			
Pass Through Programs--Continued:			
Ohio Department of Alcohol and Drug Addiction Services:			
Feelings of Children Under Stress 1997	93.992	-	1,842
Feelings of Children Under Stress 1998	93.992	-	47,600
Student Assistance 1996	93.992	-	80
Student Assistance 1998	93.992	-	17,166
Student Assistance 1998-1999	93.992	-	17,566
Focus Continuation 1997	93.992	-	1,696
Focus Continuation 1998	93.992	-	12,485
Focus Continuation 1998-1999	93.992	-	14,176
Drug Management 1996-1997	93.992	-	1,317
Drug Management 1998	93.992	-	19,264
Drug Management 1998-1999	93.992	-	25,939
Centerpoint/Reward 1996-1997	93.992	-	6,218
Centerpoint/Reward 1998	93.992	-	150,074
Centerpoint/Reward 1998-1999	93.992	-	114,692
		Subtotal	<u>430,115</u>
Ohio Department of Health:			
Hepatitis B/Immunization	93.268	139-Y	78
		Subtotal	<u>78</u>
Ohio Department of Alcohol:			
Target Cities	93.196	-	361
		Subtotal	<u>361</u>
Ohio Department of Health:			
Federal Aids Prevention 1997	93.940	139-Z	318,933
Federal Aids Prevention 1998	93.940	139-Z	766,501
State Aids Prevention 1997	93.940	139-A	3,137
		Subtotal	<u>1,088,571</u>
Supplemental Empowerment Zone - Title XX	93.585	G-98-01-244	38,358
		Subtotal	<u>38,358</u>
		Total	<u>\$ 5,520,567</u>

The accompanying notes are an integral part of this schedule

CITY OF CLEVELAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 1998

Federal Grant/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Entity Number	Federal Expenditures
Department of Housing & Urban Development			
Direct Programs:			
Community Development Block Grants:			
CDBG XX	14.218	-	\$ (2,942)
CDBG XXI	14.218	-	4,022,594
CDBG XXII	14.218	-	3,364,760
CDBG XXIII	14.218	-	16,671,208
CDBG XXXIV	14.218	-	8,031,998
CDBG Float Loan	14.218	-	7,523,604
Special Purpose 1993	14.218	-	916,227
Special Purpose 1994	14.218	-	353,842
Supplemental Empowerment Zone	14.218	-	1,305,760
		Subtotal	<u>42,187,051</u>
Federal Home Program 1992	14.239	-	565,808
Federal Home Program 1995	14.239	-	192,135
Federal Home Program 1996	14.239	-	377,817
Federal Home Program 1997	14.239	-	2,257,242
Federal Home Program 1998	14.239	-	469,419
		Subtotal	<u>3,862,421</u>
Emergency Shelter 1995	14.231	-	4,129
Emergency Shelter 1996	14.231	-	82,766
Emergency Shelter 1997	14.231	-	706,653
Emergency Shelter 1998	14.231	-	99
		Subtotal	<u>793,647</u>
Lead Based Paint Abatement	14.900	-	341,104
Lead Based Paint Abatement	14.900	-	1,527,786
Toxic Substance Control	14.900	-	7,055
		Subtotal	<u>1,875,945</u>
Supplemental Empowerment Zone	14.244	-	2,820,574
		Subtotal	<u>2,820,574</u>
Perry - Payne Repayments	14.239	-	155,082
		Subtotal	<u>155,082</u>
		Total	<u>\$ 51,694,720</u>

The accompanying notes are an integral part of this schedule

CITY OF CLEVELAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 1998

Federal Grant/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Entity Number	Federal Expenditures
Department of Justice			
Direct Programs:			
COPS Ahead	16.726	-	\$ 458,161
COPS More	16.726	-	416,431
COPS Universal	16.726	-	1,296,650
		Subtotal	<u>2,171,242</u>
 Problem Solving Partnership Program	 16.710	 -	 13,146
		Subtotal	<u>13,146</u>
Pass Through Programs:			
Office of Criminal Justice Services:			
Caribbean Gang Task Force 1994	16.579	94-DG-A01-7424	462
Caribbean Gang Task Force 1995	16.579	95-DG-A01-7424	17,797
Caribbean Gang Task Force 1996	16.579	96-DG-A01-7424	85,787
Caribbean Gang Task Force 1997	16.579	97-DG-A01-7424	74,370
Caribbean Gang Task Force 1998	16.579	98-DG-A01-7424	15,000
		Subtotal	<u>193,416</u>
 Violence Against Women	 16.588	 96-WF-VA2-8670	 76,386
Violence Against Women	16.588	97-WF-VA2-8670	149,910
		Subtotal	<u>226,296</u>
 Curfew Enforcement Sweeps	 16.540	 96-DG-B02-7409	 57,000
Teen Court Program	16.540	97-DG-B01-7458	26,677
		Subtotal	<u>83,677</u>
		Total	<u>\$ 2,687,777</u>

The accompanying notes are an integral part of this schedule

CITY OF CLEVELAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 1998

Federal Grant/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Entity Number	Federal Expenditures
Department of Labor			
Direct Programs:			
JTPA-Title IV Youth Fair Chance Program	17.249	-	\$ 397,499
		Subtotal	<u>397,499</u>
Pass Through Programs:			
Ohio Bureau Of Employment Services:			
JTPA- Title II Part B Summer Youth EMP	17.250	-	216
JTPA- Administrative Cost Pool	17.250	-	57
JTPA- Title II-A 77% PY '95	17.250	O-P5-20-00-00	471,658
JTPA- Title II-C 82% PY '95	17.250	Y-95-20-00-00	17,000
JTPA- Administrative Cost Pool	17.250	-	(30,689)
JTPA- Title IV Quantum Opportunities	17.250	49940	180,000
JTPA- Title II-A 77% Py '96	17.250	0-96-20-00-00	447,930
JTPA- Title II-A 5% PY '96	17.250	1-96-20-00-00	14
JTPA- Title II-C 82% PY '96	17.250	4-96-20-00-00	203,015
JTPA- Title II-A&C 8% PY '96	17.250	4-96-20-00-00	94,084
JTPA- High Unemployment Program	17.250	-	259
JTPA- Jobs for Clevelanders	17.250	-	19,562
JTPA- Administrative Cost Pool	17.250	-	82,131
JTPA- Title II Part B Summer Youth EMP	17.250	-	161,522
JTPA- Title II-A 77% PY '97	17.250	-	598,111
JTPA- Title II-A 5% PY '97	17.250	-	96,102
JTPA- Title III EDWAA	17.250	-	465,382
JTPA- Title II-C 82% PY '97	17.250	-	188,503
JTPA- Title II-A&C 8% PY '97	17.250	-	194,496
JTPA- Jobs for Clevelanders	17.250	-	246,357
JTPA- Administrative Cost Pool	17.250	-	649,860
JTPA- PY '98 Training IIA-77%	17.250	-	512,229
JTPA- PY '98 Services-Older Individuals IIA-5%	17.250	-	1,200
JTPA- PY '98 Assist Dislocated Workers III	17.250	Y-98-20-00-00	591,763
JTPA- PY '98 Syetp IIB	17.250	-	2,972,126
JTPA- PY '98 Youth Training Program IIC-82%	17.250	-	97,528
JTPA- PY '98 State Education Coord IIC-8%	17.250	-	14,401
JTPA- PY '98 Jobs For Clevelanders	17.250	-	273,981
JTPA- '98 Adiminstrative Cost Pool	17.250	-	559,759
JTPA- PY '97 Title III Governor's Reserve	17.250	-	333,709
JTPA- Title II Part A&C 8%	17.250	-	15,749
		Subtotal	<u>9,458,016</u>
		Total	<u>\$ 9,855,515</u>

The accompanying notes are an integral part of this schedule

CITY OF CLEVELAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 1998

Federal Grant/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Entity Number	Federal Expenditures
Department of Transportation			
Direct Programs:			
Federal Aviation Administration:			
Airport Improvement Program 39	20.106	-	\$ 176,249
Airport Improvement Program 41	20.106	-	48,576
Airport Improvement Program 42	20.106	-	3,647
Airport Improvement Program 44	20.106	-	947,276
Airport Improvement Program 46	20.106	-	386,633
Airport Improvement Program 88	20.106	-	788,627
		Total	<u>\$ 2,351,008</u>
 Environmental Protection Agency			
Direct Programs:			
Air Pollution Control 1994	66.001	-	\$ 595
Air Pollution Control 1995	66.001	-	240
Air Pollution Control 1997	66.001	-	(3,835)
Air Pollution Control 1998	66.001	-	380,787
Air Pollution Control 1999	66.001	-	111,501
		Subtotal	<u>489,288</u>
Pass Through Programs:			
Ohio Environmental Protection Agency:			
Air Pollution Control 1997	66.001	-	(15,524)
Air Pollution Control 1998	66.001	-	847,585
Air Pollution Control 1999	66.001	-	181,345
		Subtotal	<u>1,013,406</u>
Illegal Dumping - Don't dump Here	66.808	-	13,267
		Subtotal	<u>13,267</u>
		Total	<u>\$ 1,515,961</u>
		Grand Total	<u>\$ 74,772,452</u>

The accompanying notes are an integral part of this schedule

City of Cleveland
Notes to Schedule of Expenditures of Federal Awards
for the year ended December 31, 1998

1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Cleveland (the "City") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

2. Contingencies:

The City's Job Training Partnership Act ("JTPA") program and the Empowerment Zone's One-Stop Career Center program administered by JTPA are currently under special audit by the Auditor of the State of Ohio as a result of certain allegations of misappropriated funds. The results of this audit were not available at the date of the release of this report.

Additionally, the City's Air Pollution Control program was recently audited by the federal government for grant years 1994 to 1998. The results of this audit disclosed questioned costs for these years totaling approximately \$430,000. As a result of this audit, the United States government filed a civil action against the City to recover damages and civil penalties totaling approximately \$1,300,000 relating to alleged false certifications made by the City in requesting payment under air pollution control grants. The City is currently investigating these claims.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Schedule of Findings and Questioned Costs

for the year ended December 31, 1998

Section I - Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued..... unqualified
2. Internal control over financial reporting:
- Material weakness(es) identified? yes no
 - Reportable condition(s) identified not considered to be material weaknesses..... yes none reported
3. Noncompliance material to financial statements noted?..... yes no

Federal Awards:

1. Internal Control over major programs:
- Material weakness(es) identified..... yes no
 - Reportable condition(s) identified not considered to be material weaknesses?..... yes none reported
2. Type of auditor's report issued on compliance for major programs?..... unqualified, except for JTPA
3. Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?..... yes no

4. Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Type</u>	<u>Federal Expenditures</u>
93.926	Healthy Family/Healthy Start	A	\$ 2,491,586
14.218	Community Development Block Grant	A	\$ 42,187,051
14.239	Federal Home Program	A	\$ 3,862,421
14.244	Supplemental Empowerment Zone	A	\$ 2,820,574
17.250	Job Training Partnership Act	A	\$ 9,458,016
20.106	Airport Improvement Program	A	\$ 2,351,008

5. Dollar threshold used to distinguish between Type A and Type B programs:..... \$ 2,243,173
6. Auditee qualified as low-risk auditee..... yes no

Schedule of Findings and Questioned Costs, Continued

for the year ended December 31, 1998

Section II - Financial Statement Findings

Finding #98-1: Cash Reconciliations - Cash Management (Prior year finding re-issued)

**Type: Reportable Condition - Financial Reporting
(This finding pertains to Section III also)**

Condition

Cash and investment accounts were not reconciled on a timely basis during 1998. Reconciliation of cash and investment accounts were not reviewed by a supervisor.

Cause / Effect

Reconciling items and misapplied cash will not be identified on a timely basis.

Recommendation

All cash and investment accounts should be reconciled on a regular basis and all related reconciling items should be resolved on a timely basis. In addition, all reconciliations should be reviewed by a supervisor.

Management's Response

The Division of Financial Reporting & Control has since established a reconciliation compliance program which replaced the previous method of documenting and reconciling the City's accounts. This program also allows for monitoring and review by the Controller to ensure that reconciliations are completed timely.

All account reconciliations are being performed, at a minimum, on a monthly basis. The description of all reconciling items are documented clearly and any open (uncleared) items are identified and monitored for follow-up. The goal for 1999 is to improve the timing of reconciliations to within 30 days of month end by the end of the year.

Additionally, all reconciliations are initialed and dated by the preparer and the employee clearing the items. The reconciliations are monitored and reviewed by the Cash Management Supervisor who must also sign and date them as evidence of such review.

Schedule of Findings and Questioned Costs, Continued

for the year ended December 31, 1998

Section III - Federal Award Findings and Questioned Costs

Finding #98-2: Subrecipient Monitoring (Prior year finding re-issued)
Program Title: Healthy Family/Healthy Start ("HF/HS")
CFDA #: 92.926
Type: Reportable Condition and Noncompliance - Federal Awards

Criteria / Specific Requirement

Subrecipient Monitoring: If a pass-through entity provides federal awards to subrecipients, the pass-through entity must monitor the subrecipients' activities to provide reasonable assurance that the subrecipients administer federal awards in compliance with federal requirements.

Condition

During 1998, the HF/HS office obtain or review the single audit reports required to be filed by its subrecipients (these reports were obtained once requested as part of our audit).

Cause / Effect

The subrecipients may not be in compliance with the federal requirements. Findings or questioned costs identified in the subrecipients reports may not be followed up with on a timely basis.

Recommendation

The HF/HS office should establish a timetable to perform on-site visits to all its subrecipients. Additionally, single audit reports should be requested by the HF/HS department on a timely basis. HF/HS should establish a tracking system to ensure timely submission of all subrecipient audit reports and to ensure timely completion of on-site visits.

Management's Response

A schedule of fiscal and inventory audits for each Healthy Family/Healthy Start subcontractor was developed by the project staff. We visited NEON Wednesday, September 15 and are revisiting them the week of October 4 to complete the record review. We are tentatively scheduled to visit NCA the week of October 4, Cleveland Municipal Schools the week of November 8 and Case Western Reserve University the week of November 29. At the conclusion of the audit, we will prepare a letter indicating our findings and any corrective action if needed. A follow-up visit will be scheduled if needed to ensure compliance.

The Division requested copies of the A-133 reports within 30 days after the audit is completed. If reports are not received on time, the project staff will follow-up with the sub-contractors.

Schedule of Findings and Questioned Costs, Continued

for the year ended December 31, 1998

Section III - Federal Award Findings and Questioned Costs, Continued

Finding #98-3: Internal Control Weaknesses - Activities Allowed or Unallowed, Allowable Costs, Eligibility, Procurement, and Reporting
Program Title: Job Training Partnership Act ("JTPA")
CFDA #: 17.250
Type: Material Weakness - Federal Awards

Criteria / Specific Requirement

The City should maintain internal control over compliance for federal programs that provides reasonable assurance that the City is managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Condition

The following control weaknesses and non-compliance findings were noted related to the City's JTPA program and Empowerment Zone's One-Stop program (more specific findings are presented after this finding):

Additionally, as noted in the footnotes to the federal awards schedule, the City's JTPA and One-Stop programs are currently under a special audit by the Auditor of the State of Ohio.

General/Approval

- Contract and voucher approval procedures were not clearly documented or consistently applied by the Department. In a few instances we noted contracts were not signed by the Director and vouchers were not signed by appropriate parties.
- In a few situations, we noted that the director and commissioner approval boxes on vouchers were signed by the same person.
- Verbal modifications to contracts were executed by the Department.

Documentation

- Supporting documentation submitted by the contracted agency did not agree directly to the agency's request for reimbursement or the amount per the voucher (\$1,280 difference - see Finding #98-14).
- The Department reimbursed a contracted agency for payroll for one individual for \$599 whose pay was voided (see Finding #98-11).

Schedule of Findings and Questioned Costs, Continued

for the year ended December 31, 1998

Section III - Federal Award Findings and Questioned Costs, Continued

- ♦ The Department reimbursed a contracted agency for payroll in excess of the amount allowable per the contract by approximately \$9,000.
- ♦ In a few situations, payroll was reimbursed to a contracted agency which was supported by agency created documents rather than 3rd party documents. Additionally, we noted other situations where items such as computers, books and tools were reimbursed by the Department without 3rd party documents evidencing purchase by the agency.
- ♦ The support provided by a contracted agency was \$19,000 less than the amount the Department reimbursed the agency (see Finding #98-4).
- ♦ A project under a contract which is advance funded by the Department appears to have been overpaid by \$43,932. No formal reconciliation was completed to reconcile the advance to the supporting documentation which was subsequently received (see Finding #98-5).
- ♦ A contracted agency requested tuition reimbursement for one individual twice and was reimbursed both times for \$3,000. The Department subsequently was reimbursed by the agency (see Finding #98-13).
- ♦ The Department reimbursed a contracted agency for an amount which exceeded the allowable expenditure budget per the contract by \$40.

Cause / Effect

Inappropriate expenditures could be made.

Recommendations

General / Approvals

- ♦ The structure and staffing of the Department should be reviewed to ensure adequate personnel are in place.
- ♦ The Department should establish more stringent review and sign-off procedures for reimbursements.
- ♦ Contracts should be signed by all required parties. In a few situations, we noted the absence of required signatures.
- ♦ Written policies should be established for the approval of vouchers in the absence of the commissioner or director, including the names of alternate signatories. The same individuals should never sign as director and commissioner. Vouchers without proper signatures should be held.

Schedule of Findings and Questioned Costs, Continued

for the year ended December 31, 1998

Section III - Federal Award Findings and Questioned Costs, Continued

Documentation

- ♦ The supporting documentation attached to the voucher should be organized in a logical and orderly manner.
- ♦ Contracted agencies should be required to submit documentation which supports the exact amount of the requested reimbursement. In numerous situations, the support was in excess of the requested reimbursement with no explanation or reconciliation of the amounts.
- ♦ Contracted agencies receiving funds from more than one grant should be required to submit allocations which show how supporting documentation is being allocated across grants.
- ♦ Original 3rd party receipts should be required as supporting documentation rather than agency created invoices. In numerous situations, reimbursements were made to agencies based on summary documentation created by the agency.
- ♦ Agencies should be required to provide written explanations for requested reimbursements if the support provided does not clearly indicate the nature of the expense.
- ♦ An invoice specialist should review contracts when approving payment to ensure all required documentation per the contract is submitted and also to ensure the budgeted expenditures per the contract are not exceeded.
- ♦ Supporting documentation submitted by contracted agencies that is in excess of 3 months old should be questioned. Based on our review of a 1996 contract, we noted 1996 expenditures submitted for reimbursement in 1998. In this situation, it is difficult for JTPA to determine if the invoices were previously paid.
- ♦ A more in-depth review of supporting documentation should be performed by the invoice specialist. Additionally, a detailed independent review of the voucher package and underlying detail summarized by the invoice specialist should be performed by a supervisor.

All of the above should be incorporated into a detailed procedural manual. Additionally, some of these procedures should be incorporated into the contract.

Reimbursement requests which do not meet the documentation requirements should be rejected.

Other

- ♦ Contracts should be written to allow for recovery of advances immediately.
- ♦ Procedures for reconciling and recovering advances should be documented and consistently applied.
- ♦ All changes to contracts should be documented in writing with the same contract approval procedures followed.

Schedule of Findings and Questioned Costs, Continued

for the year ended December 31, 1998

Section III - Federal Award Findings and Questioned Costs, Continued

- A control should be established by the Department to ensure tuition costs are not paid twice. Currently, the Department reimburses the contracted agency if the enrollee appears on the State of Ohio roster of eligible enrollees, which is accessed via modem by the Department. However, the State system does not track the paid status of enrollees, thus it is possible for an agency to request reimbursement for the same enrollee twice. We noted one instance of this.

Management's Response

In late 1998 the City began in internal review of the JTPA program. Based upon the results of that review, the City asked its outside auditors to conduct a special, detailed review of the JTPA program. The Findings noted here are the result of these City-initiated reviews. Upon completion of the reviews, the City made a number of personnel changes and process improvements.

Neither the Director of Personnel nor the Administrator of Human Resources will sign in both slots on a voucher. In absence of the Director, the Executive Assistant of Administration will sign and with the absence of the Administrator, the Director will sign the office voucher.

Additionally, the Manager of Human Resources-Planning & Programming was assigned to supervise the Contract Unit. Also, the Division hired an Attorney to oversee and review the contract process and a Division Controller was hired to oversee the Fiscal and Monitoring Unit.

Procedures related to the documentation, processing and proper filing of vouchers are now formally documented and are available for review.

Other

- a. Contract will be written to allow for recovery of advances immediately. Contracts now contain language that provides for recovery of advances within the first three months of a year long contract.
- b. All changes to contracts must be documented in writing with the same contract approval procedures followed. All changes to contracts are documented and approved.
- c. Controls will be established by the Department to ensure tuition costs are not paid twice. A new spreadsheet solution is under consideration and development that will track program participants by name and enrollment/termination date, which will be compared against billing dates. When complete, the new spreadsheet should provide the invoice specialists with the ability to track and identify duplicate billing submissions.

Schedule of Findings and Questioned Costs, Continued

for the year ended December 31, 1998

Section III - Federal Award Findings and Questioned Costs, Continued

Finding #98-4: Expenditure Support - Allowable Costs/Cost Principles
Program Title: Job Training Partnership Act ("JTPA")
CFDA #: 17.250
Type: Questioned Cost

Criteria / Specific Requirement

All JTPA reimbursements should have adequate support.

Condition

Office voucher 21914B on August 25, 1998 was a payment to a center for training in the amount of \$40,690. Underlying support submitted by the center did not agree to office voucher by \$19,000.

Cause / Effect

JTPA reimbursed in excess of the support provided in the amount of \$19,000.

Recommendation

JTPA should obtain reimbursement from the training center in the amount of \$19,000. More diligent effort should be made to substantiate support before reimbursement.

Management's Response

This finding is also a result of the City initiated review of the JTPA program. If this condition is confirmed through additional fiscal reconciliation, efforts will be initiated to settle any outstanding amounts due to the City from the center. Additionally, all future reimbursements must include a detailed explanation of the reimbursement before vouchers will be processed. Written procedures will be drafted.

Schedule of Findings and Questioned Costs, Continued

for the year ended December 31, 1998

Section III - Federal Award Findings and Questioned Costs, Continued

Finding #98-5: Expenditure Support - Allowable Costs/Costs Principles

Program Title: Job Training Partnership Act ("JTPA")

CFDA #: 17.250

Type: Questioned Cost

Criteria / Specific Requirement

JTPA should not pay any voucher unless supporting documentation is presented by the agency.

Condition

For contract (OV21768A) dated July 1, 1998 to August 31, 1998, JTPA paid out \$346,535 before obtaining support because of the urgency of paying the payroll costs of this program (the support is received about one month later). Supporting documentation subsequently presented by the agency totalled only \$302,603.

Cause / Effect

JTPA reimbursed the agency \$43,932 in excess of the supporting documentation.

Recommendation

JTPA should either obtain additional support from the agency or attempt to obtain reimbursement.

Management's Response

This finding is also a result of the City initiated review of the JTPA program. If this condition is confirmed through additional fiscal reconciliation, efforts will be initiated to settle any outstanding amounts due from the agency. Additionally, all future reimbursements must include a detailed explanation of the reimbursement before vouchers will be processed. Written procedures will be drafted.

Schedule of Findings and Questioned Costs, Continued

for the year ended December 31, 1998

Section III - Federal Award Findings and Questioned Costs, Continued

Finding #98-6: Procurement - Execution of Contracts (Prior year finding re-issued)

Program Title: Job Training Partnership Act ("JTPA")

CFDA #: 17.250

Type: Reportable Condition - Federal Awards

Criteria / Specific Requirement

Procurement: Contracts between the City and its subrecipients should be executed before the contract period begins.

Condition

Contracts between the City and various subrecipients relating to the JTPA program were executed after the contract period had commenced.

Cause / Effect

Payments made without a contract could lead to potential disagreements.

Recommendation

The City should establish formal procedures for entering into contracts with its subrecipients requiring that contracts be executed and finalized before contract period begins. This would alleviate the potential for disagreements that could arise from not having signed contracts.

Management's Response

The request for proposal establishes the basic contractual relationship between the City and subrecipients. Formal procedures have been implemented in completing contract development. Finalization of contracts may occur in the contract period when services are critical. However, all contractual elements are formally agreed upon through a letter of intent before the contract period begins. In the future, a new procedure will be established whereby a pre-award agreement will be completed prior to the execution of the formal contract. This will serve as a binding contract until the establishment of the formal contract.

Schedule of Findings and Questioned Costs, Continued

for the year ended December 31, 1998

Section III - Federal Award Findings and Questioned Costs, Continued

Finding #98-7: Procurement - Contract Procurement Files Incomplete

Program Title: Job Training Partnership Act ("JTPA")

CFDA #: 17.250

Type: Reportable Condition and Questioned Cost - Federal Awards

Criteria / Specific Requirement

The City is required to maintain all documents relating to the procurement of contracts.

Condition

In testing for compliance with contract requirements, the City could not locate several documents relating to the procurement of some contracts for the JTPA program. Additionally, a contract totaling \$62,000 dated October 19, 1998 could not be located.

Cause / Effect

Documents were not readily available for review. Missing documents would make it difficult to support the City's position in a contract dispute.

Recommendation

The City should file all contract procurement information together.

Management's Response

In fiscal 1999, the City will begin to file all contract procurement information together.

Schedule of Findings and Questioned Costs, Continued

for the year ended December 31, 1998

Section III - Federal Award Findings and Questioned Costs, Continued

Finding #98-8: Subrecipient Monitoring (Prior year finding re-issued)
Program Title: Job Training Partnership Act ("JTPA")
CFDA #: 17.250
Type: Reportable Condition and Noncompliance - Federal Awards

Criteria / Specific Requirement

Subrecipient Monitoring: If a pass-through entity provides federal awards to subrecipients, the pass-through entity must monitor the subrecipients' activities to provide reasonable assurance that the subrecipients administer federal awards in compliance with federal requirements.

Condition

During 1998, the JTPA office did not review the single audit reports filed by its subrecipients.

Cause / Effect

The subrecipients may not be in compliance with the federal requirements. Findings or questioned costs identified in the subrecipients reports may not be followed up with on a timely basis.

Recommendation

The JTPA office should review all single audit reports submitted by its subrecipients. This review should be performed in conjunction with the site visits currently performed.

Management's Response

We contracted with a CPA practitioner to provide monitoring of all subrecipients and external monitoring of fiscal operations. Also, a Monitor was hired and a unit was established to monitor programmatic issues of vendors. In addition, we will maintain an audit log of all subrecipients' audit performance and any subsequent findings will be monitored to ensure corrective actions.

Schedule of Findings and Questioned Costs, Continued

for the year ended December 31, 1998

Section III - Federal Award Findings and Questioned Costs, Continued

Finding #98-9: Expenditure Support - Allowable Costs/Costs Principles
Program Title: Job Training Partnership Act ("JTPA")
CFDA #: 17.250
Type: Non-compliance - Federal Awards

Criteria / Specific Requirement

Expenditures should be supported with information to substantiate that the expenditure related to JTPA matters.

Condition

Office voucher 121748 was a payment to a department employee for his and another employees expenses for U.S. Conference of Mayors in Reno, Nevada on June 18, 1998 to June 23, 1998 in the amount of \$3,591. No agenda was provided to substantiate that this conference dealt with JTPA issues 100% of the time.

Cause / Effect

With no agenda, it is not possible to determine what percentage dealt with JTPA matters.

Recommendation

JTPA should obtain an agenda from any future conferences in order to determine the percentage of time that dealt directly with JTPA issues.

Management's Response

This finding is also a result of the City initiated review of the JTPA program. The Division of Human Resources has requested a written explanation of how activities attended apply to JTPA. This document was submitted to POWEROHIO who also questioned the expenses. If the explanation is not acceptable, the cost of approximately \$1,500 will have to be reimbursed. In the future, all conference agendas will be required for reimbursement travel.

Schedule of Findings and Questioned Costs, Continued

for the year ended December 31, 1998

Section III - Federal Award Findings and Questioned Costs, Continued

Finding #98-10: Equipment and Real Property Management

Program Title: Job Training Partnership Act ("JTPA")

CFDA #: 17.250

Type: Reportable Condition - Federal Awards

Criteria / Specific Requirement

JTPA Policy Letter #10-95 states that equipment records must be maintained that include the following data on the equipment: description; identification number; source of property; title holder; acquisition date; percentage of Federal participation in the project cost; location; condition; and last inventory date for the property; acquisition cost; and any ultimate disposition data, including date of disposal and sale price or current market value.

Condition

JTPA equipment inventory record did not indicate location, condition, last inventory date for the property, or current market value. JTPA equipment inventory records for various older assets did not contain any acquisition dates or original cost.

Cause / Effect

JTPA equipment inventory records were not maintained in accordance with JTPA Policy Letter #10-95

Recommendation

JTPA equipment records should be maintained in accordance with JTPA Policy Letter #10-95.

Management's Response

Management is currently reviewing the JTPA inventory process and concurs with the recommendation.

Schedule of Findings and Questioned Costs, Continued

for the year ended December 31, 1998

Section III - Federal Award Findings and Questioned Costs, Continued

Finding #98-11: Expenditure Support - Allowable Costs/Costs Principle

Program Title: Job Training Partnership Act ("JTPA")

CFDA #: 17.250

Type: Reportable Condition - Federal Awards

Criteria / Specific Requirement

All JTPA reimbursements should have adequate support.

Condition

Office voucher 219524 B on September 28, 1998 was a payment to an agency in the amount of \$11,390. One of the individuals paid via the register for which reimbursement was requested for \$599 was voided later in the register.

Cause / Effect

JTPA reimbursed in excess of the support provided in the amount of \$599.

Recommendation

More diligent effort should be made to substantiate support before reimbursement. JTPA should obtain reimbursement from the agency in the amount of \$599.

Management's Response

This finding is also a result of the City initiated review of the JTPA program. If this condition is confirmed through additional fiscal reconciliation, efforts will be initiated to settle any outstanding amounts due from the agency. However, this may be somewhat difficult, as the agency is no longer in business. More detailed information with the invoices is required before issuing a payment. Additionally, all future reimbursements must include a detailed explanation of the reimbursement before vouchers will be processed. Written procedures will be drafted.

Schedule of Findings and Questioned Costs, Continued

for the year ended December 31, 1998

Section III - Federal Award Findings and Questioned Costs, Continued

Finding #98-12: Procurement - Contract Amendments
Program Title: Job Training Partnership Act ("JTPA")
CFDA #: 17.250
Type: Reportable Condition - Federal Awards

Criteria / Specific Requirement

A contract amount for the period July 1, 1997 to June 30, 1998 and additional contract addendum should agree to the JTPA records.

Condition

An invoice paid in the amount of \$40,682 did not agree to actual contract document amount of \$39,690. No addendum was presented.

Cause / Effect

Contract amount could be overpaid if no addendum exists.

Recommendation

Contracts and any addendums should be filed together.

Management's Response

In fiscal 1999, the City will file all contracts and addendums together.

Schedule of Findings and Questioned Costs, Continued

for the year ended December 31, 1998

Section III - Federal Award Findings and Questioned Costs, Continued

Finding #98-13: Controls Over Tuition Reimbursements - Allowable Costs/Costs Principles

Program Title: Job Training Partnership Act ("JTPA")

CFDA #: 17.250

Type: Reportable Condition - Federal Awards

Criteria / Specific Requirement

JTPA should have controls in place to detect paying tuition twice for individuals already in the system or by supervisory review to prevent overpayments.

Condition

For a contract dated August 1, 1997 to November 30, 1998 there were two office vouchers for \$3,000 (OV21786A July 23, 1998 and OV99879A March 16, 1998) which reimbursed tuition for one individual. The invoice attached to the vouchers for support was the same for both reimbursements.

Cause / Effect

JTPA reimbursed tuition for one individual twice. JTPA subsequently received reimbursement from the agency for this overpayment.

Recommendation

JTPA should implement controls in the system to detect paying tuition for the same individuals or implement supervisory review to prevent overpayments.

Management's Response

This finding is also a result of the City initiated review of the JTPA program. The Division is currently reviewing this process. Controls will be established to ensure that in the future tuition costs are not paid twice. Written procedures will be developed. Subsequent to this audit, the fiscal department established central files which contain the following documentation for agency files: letters of intent, agency contracts, amendments, invoices and vouchers, contract reconciliation documents and other correspondence documents relevant to the contract.

Schedule of Findings and Questioned Costs, Continued

for the year ended December 31, 1998

Section III - Federal Award Findings and Questioned Costs, Continued

Finding #98-14: Expenditure Support - Allowable Costs/Costs Principles

Program Title: Job Training Partnership Act ("JTPA")

CFDA #: 17.250

Type: Reportable Condition - Federal Awards

Criteria / Specific Requirement

JTPA should not pay any voucher unless supporting documentation is presented by the agency.

Condition

For a contract dated July 1, 1997 to August 31, 1997 there were expense vouchers (OV21620A and OV21620B) totalling \$2,180 that were reimbursed with JTPA funds but supporting documentation totalled only \$800.

Cause / Effect

JTPA reimbursed a request without proper supporting documentation.

Recommendation

No reimbursement should be made without proper support. Also, JTPA should either obtain additional support for payment or attempt to obtain reimbursement.

Management's Response

This finding is also a result of the City initiated review of the JTPA program. If this condition is confirmed through additional fiscal reconciliation, efforts will be initiated to settle any outstanding amounts due from the agency. Additionally, all future reimbursements must include a detailed explanation of the reimbursement before vouchers will be processed. Written procedures will be drafted.

Schedule of Findings and Questioned Costs, Continued

for the year ended December 31, 1998

Section III - Federal Award Findings and Questioned Costs, Continued

Finding #98-15: Activities Allowed/Unallowed, Eligibility, Allowable Costs/Cost Principles and Procurement

Program Title: Empowerment Zone

CFDA: 14.244

Type: Reportable Condition and Noncompliance - Federal Awards

Criteria / Specific Requirement

Contracted agencies should be required to submit documentation which supports the exact amount of the requested reimbursement. Original 3rd party receipts should be required as supporting documentation rather than agency created invoices.

Condition

The following control weaknesses and non-compliance findings were noted related to a particular grant awarded by the City under its Empowerment Zone's One-Stop program. The One-Stop program is administrated by the City's JTPA department:

- ♦ The contract did not contain the required signature of the Director of Economic Development.
- ♦ The contract required the agency to submit the following to the Department within 45 days of the contract date: audit report, Form 990 tax return, legal representation detailing current litigation, various payroll tax filings, and support for the establishment of a segregated bank account. Based on our review of the contract file and discussion with Department personnel, none of these items were received by the Department.
- ♦ The supporting documentation submitted by the contracted agency for reimbursement included information pertaining to applicants which were trained by the contracted agency prior to the contract period.
- ♦ The contracted agency was reimbursed twice under this contract in 1998; one payment was for two invoices submitted by the agency which were paid together while the other was for payment of a single invoice. Based on our review of the three invoices submitted by the agency, they all appear to be identical (i.e., just copies).
- ♦ The training hours reported by the owner of the contracted agency based on supporting documentation submitted for reimbursement appear to be excessive.

The City has not yet requested reimbursement for these expenditures from the federal government, and thus the amounts are not reported as questioned costs.

Schedule of Findings and Questioned Costs, Continued

for the year ended December 31, 1998

Section III - Federal Award Findings and Questioned Costs, Continued

The City is currently in the process of attempting to recover the payments made to this agency through litigation (total payments were approximately \$81,000).

Cause / Effect

Inappropriate expenditures were made.

Recommendations

- ♦ Original 3rd party receipts should be required as supporting documentation rather than agency created invoices.
- ♦ Invoice specialist should review contracts when approving payment to ensure all required documentation per the contract is submitted and also to ensure the budgeted expenditures per the contract are not exceeded.
- ♦ Supporting documentation submitted by contracted agencies that is in excess of 3 months old should be questioned.
- ♦ A more in-depth review of supporting documentation should be performed by the invoice specialist. Additionally, a detailed independent review of the voucher package and underlying detail summarized by the invoice specialist should be performed by a supervisor.

Management's Response

This finding is also a result of the City initiated review of the JTPA program. The Division is now requiring the agencies to provide more detailed information with the invoices prior to issuing a payment. The Division has hired a Controller for the Fiscal and Monitoring Unit who will be assigned the task of drafting and implementing general and acceptable accounting procedures. Invoices submitted for reimbursement, by agencies, are required to contain appropriate documentation prior to approval for payment. Appropriate documentation includes third party records and receipts. Submitted invoices are reviewed and analyzed according to budget categories to verify expense category accuracy on a budget line item basis. In addition, the invoice specialist verifies the agencies' amounts and recalculates the submitted invoices. The Accounting Supervisor recalculates the worksheets submitted by the invoice specialists and signs the invoices approved.

Schedule of Findings and Questioned Costs, Continued

for the year ended December 31, 1998

Section IV - Summary of Prior Audit Findings

Finding #	CFDA #	Finding Description	Current Year Update
97-1	-	Cash and investment accounts were not reconciled on a timely basis.	Re-issued in 1998. See Finding Number 98-1.
97-2	-	Supporting documents could not be located.	Improved controls established in 1998.
97-3	93.926	On-site visits to subrecipients were not performed nor were subrecipients single audit reports obtained or reviewed.	Re-issued in 1998. See Finding number 98-2.
97-4	93.926	The quarterly Federal Transaction Report (SF-272) filed with the federal government did not reconcile to the City's internal accounting records.	No findings in 1998.
97-5	93.994	Quarterly reports were filed beyond the 15 day filing requirement.	No findings in 1998.
97-6	17.250	Contracts between the City and subrecipients were executed after the contract period began.	Re-issued in 1998. See Finding number 98-6.
97-7	17.250	Several documents relating to the procurement of contracts were not maintained.	Re-issued in 1998. See Finding number 98-7.
97-8	17.250	Subrecipients' single audit reports were not reviewed.	Re-issued in 1998. See Finding number 98-8.
97-9	14.249	The Empowerment Zone office did not obtain or review certain single audit reports required to be filed by its subrecipients.	Reports obtained in 1998.
97-10	14.249	A listing of equipment purchased with federal grants is not maintained nor is a physical inventory performed.	Listing compiled in 1998.

CLEVELAND



Our Children..... Our Future

COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF CLEVELAND, OHIO
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 1998

To the Citizens of the City of Cleveland:

When this administration took office in 1991, we laid five cornerstones for the future of Cleveland: jobs, safety, affordable housing, education and race relations. The improved financial condition of Cleveland you see in this Comprehensive Annual Financial Report reflects the successes in these areas.

Since 1996, we have created seven industrial parks and enticed sixteen Companies to locate there. We have set up One-Stop Job Centers to train our citizens and recruit for our local companies. We have made more than 143 business loans and created more than 2,100 jobs for our residents since 1990. We have embarked on a billion-dollar expansion of our airport to keep our city the economic powerhouse of the region.



Today we have more police officers, fire fighters and emergency medical professionals than ever before. We have equipped all of our Safety forces with up-to-date equipment. And we have established innovative programs of Community Policing and Police civilization. The results speak for themselves: crime down 25%; fire-related deaths at the lowest level in recorded history; EMS response time at its lowest level ever.

We have made large tracts of land available for development and built the infrastructure to support housing development. Innovative assistance programs have been created and marketed. The City has sought out new developers and enticed them to start working in the City. Financial assistance for homebuyers has been made available through banks we work with.

A complete overhaul of the Cleveland Public Schools is underway. Control has been given to the Mayor, a new board has been appointed and a new CEO has taken office. The voters also have approved a funding levy. Failure to perform by teachers or administrators is no longer acceptable.

For decades the City has had a Cabinet level department to proactively deal with racial issues. The Community Relations Board sponsors community-based programs and events to encourage dialogue and interaction. They also investigate complaints of housing discrimination. Our Office of Equal Opportunity, also a Cabinet level office, encourages the development of minority and female business enterprises.

These successes have meant a stronger Cleveland. The financial community has raised the credit ratings of the City, the Division of Water and Cleveland Public Power. We have seen our revenues grow. We have effectively controlled spending and made the difficult decisions when they needed to be made. Most importantly, we have also kept our promises to our residents. And it is these "kept promises" that have Cleveland leading the revival of American cities.

Sincerely,

A handwritten signature in black ink, appearing to read "M. R. White". The signature is stylized and written in a cursive-like font.

Michael R. White
Mayor
City of Cleveland

MISSION STATEMENT

We are committed to improving the quality of life in the City of Cleveland by strengthening our neighborhoods, delivering superior services, embracing the diversity of our citizens and making Cleveland a desirable, safe city in which to live, work, raise a family, shop, study, play, and grow old.

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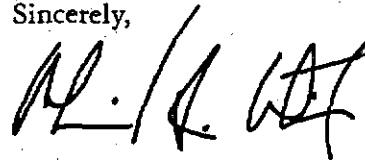
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Sincerely,



Michael R. White
Mayor
City of Cleveland



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CITY OF CLEVELAND



Comprehensive Annual Financial Report

For the year ended December 31, 1998

Issued by the
Department of Finance

Martin L. Carmody
Director

Robert W. Dolan, CPA
City Controller

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City of Cleveland, Ohio

Comprehensive Annual Financial Report

For the year ended December 31, 1998

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CITY OF CLEVELAND

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June 25, 1999

Honorable Mayor Michael R. White,
City Council and the Citizens of the
City of Cleveland, Ohio

We are pleased to submit the Comprehensive Annual Financial Report of the City of Cleveland (the "City") for the year ended December 31, 1998. We believe this report, prepared by the Department of Finance, presents comprehensive financial and operating information about the City's activities during 1998 that should be useful to citizens and taxpayers. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to set forth fairly the financial position and the results of operations of the City; and that all disclosures necessary to enable the reader to gain an understanding of the City's financial activity have been included.

The Comprehensive Annual Financial Report is presented in three sections: the Introductory Section, which contains the table of contents, this transmittal letter, a listing of City officials and the City's organizational structure; the Financial Section, which contains the independent auditor's report, general purpose financial statements, notes to the financial statements and more detailed combining and individual fund and account groups statements and schedules; and the Statistical Section, which contains pertinent financial and general information indicating trends for comparative fiscal periods.

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

On this basis, the City's financial reporting entity has no component units but includes all funds, account groups, agencies, boards and commissions that are part of the primary government, including police and fire protection, waste collection, parks and recreation, health, certain social services and general administrative services. In addition, the City owns and operates ten enterprise activities, the major ones consisting of a water system, a sewer system, an electric distribution system, two airports, municipal parking lots and a convention facility.

The following entities are related organizations to the City of Cleveland because the City's accountability does not extend beyond appointing board members:

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

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

Cleveland Public Schools - In November 1998 the Mayor of the City of Cleveland was given appointing authority for the Cleveland Public Schools. As approved by the State legislature, the Ohio Revised Code provided for the Mayor to appoint a Chief Executive Officer who was to be approved by the Board of Education. The Board of Education is comprised of nine members. The members of the Board are appointed by the Mayor from a pool of 18 candidates presented to the Mayor by an independent nominating panel.

The following entity is a jointly governed organization to the City of Cleveland because the City has no ongoing financial interest or responsibility:

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

Cleveland operates and is governed under the laws of the State of Ohio and its own charter which was first adopted by the electorate in 1913. The Charter provides for a mayor-council form of government. Legislative authority is vested in a 21-member council. All members are elected from wards to serve in a full time capacity for four year terms. The Council fixes compensation of City officials and employees and enacts ordinances and resolutions relating to city services, tax levies, appropriations and borrowings, licensing and regulating of businesses and trades, and other municipal purposes. The City's Chief Executive and Administrative Officer is the Mayor, elected for a four year term. The Mayor has the power to veto any legislation passed by Council. The present term of the aforementioned elected officials expires on December 31, 2001.

ECONOMIC CONDITION AND OUTLOOK

The City of Cleveland, located on the southern shores of Lake Erie, is the central city of the largest metropolitan area in the State of Ohio.

Summary of Local Economy: Cleveland's economy is more diverse than it has been in two decades, the result of sound growth during the mid-to-late 1980's. Founded in 1796, Cleveland grew into the dominant manufacturing and business center of Northeast Ohio. As the national economy moved away from a manufacturing base, so did that of the Greater Cleveland area. Beginning in the mid 1980's and continuing in the 1990's, Cleveland's economic base is rebuilding, with less concentration in manufacturing and a greater dependence on services and trade. While current employment is more concentrated in manufacturing than the national average, the dependence is far below levels of the early 1970's.

Cleveland's economic condition also draws strength and stability from its evolving role as the focal point of a growing and substantial regional economy. Commercial development over the last decade is now complemented by recent and ongoing projects serving to solidify and enhance the City's regionally prominent role in the area of entertainment, culture and tourism. As this takes place against a long-standing backdrop of substantial institutional presences in health care, higher education and government, the local economy evolved from one vulnerable to extended recessionary pressures to one of greater diversity and stability.

Economic development and rehabilitation efforts are continuing at a record pace in Cleveland. This is evident by the construction of numerous projects in downtown Cleveland and the numerous success stories of neighborhood revitalization. Many of these development projects are being stimulated by economic incentives being offered to residents and developers by the City.

Overall, the unemployment rate within the Cleveland-Lorain-Elyria Primary Metropolitan Statistical Area (PMSA) decreased from 4.8% to 4.3%. Income tax collections, an indicator of the local economy, are very sensitive to economic fluctuations. During 1998, income tax collections rose by 6.4% overall.

Another key indication of the City's anticipated economic recovery is construction activity, as indicated by the value of building permits issued. The value of building permits issued is exhibited below:

<u>Year</u>	<u>Value</u>
1993	\$ 356,274,457
1994	394,401,814
1995	332,995,299
1996	403,166,832
1997	523,655,516
1998	768,911,015

Major Industries Affecting The Cleveland Economy: The Cleveland area provides an attractive and competitive location for business and industry. Seven *Fortune 500* industrial and service companies are now located within the City of Cleveland, while another three are located within the PMSA making the total Fortune 500 industrial and service companies within the Cleveland-Lorain-Elyria PMSA equal to 10.

Cleveland's major industries include a significant number of health care, education and government employers. Therefore, the City's economic health is no longer based solely upon the success or failure of its large manufacturing firms.

The following list of the top 10 employers illustrates the City's diverse service, trade and manufacturing employment:

<u>EMPLOYER</u>	<u>NATURE OF BUSINESS</u>	<u>NUMBER OF EMPLOYEES (1)</u>
Cleveland Clinic Health System	Health Care	19,625
United States of America	Government	12,944
University Hospitals Health System	Health Care	10,983
Cuyahoga County	Government	9,713
City of Cleveland	Government	8,905
Cleveland City School District	Education	8,660
Key Corp	Commercial Banking	7,475
U.S. Postal Service		
Cleveland & Akron Districts	U.S. Postal Service	6,600
Ford Motor Company	Automotive	6,562
Progressive Corp.	Vehicle Insurance	5,416

(1) Includes employees in Cuyahoga County, per Crains Cleveland Business, March 8, 1999

Future Economic Outlook: In recent years, the City of Cleveland has initiated or completed various projects or programs in both downtown Cleveland and surrounding neighborhoods which strengthen the City's continued revitalization. These projects bode well for a positive economic outlook for the City. Cleveland's downtown resurgence will continue to be stimulated by the success of various key projects including:

- Renovation of the main library building after the construction and opening of the new Stokes Building in 1997 and the renovation of the Allen Theatre which brings a fifth theatre to the Playhouse Square District.
- Continuing construction of the new Cleveland Browns Stadium on the Lakefront. The new facility is scheduled to be completed in mid-1999.
- Construction of a new 22-story federal building of approximately 800,000 sq.ft. This new facility will house offices and court rooms.
- The completion and opening of two new hotels: Hampton Inn-194 rooms; Radisson Hotel at Gateway-142 rooms.

Numerous neighborhood housing and retail projects were in progress or completed during 1998 or 1997. These projects include:

- **Empowerment Zone Designation** - Cleveland was awarded an Empowerment Zone grant from the U.S. Department of Housing and Urban Development. This will provide \$90 million to aid the Fairfax, Glenville and Hough neighborhoods to fulfill community development objectives and support development of a labor force system which will help unemployed residents find permanent jobs. In 1997, the federal government announced additional awards in the form of tax credits to employers in the Empowerment Zone. The Empowerment Zone funding is expected to attract an additional \$1.5 billion in investments from banks, corporations and foundations.
- **Housing in the Downtown Area** - Growth in the number of units downtown continues. Four projects were completed in 1997: National Terminals (240 units, 10,000 square feet of commercial), the Water Street Apartments (102 apartments), the Finance/Point Building Project (42 units, 60,000 square feet of commercial) and the Downtown YMCA (148 units, 70,000 square feet of commercial). Projects completed in 1998 include the Kirkham Place for-sale townhouses (6 units), Windsor Block (52 units, 14,000 square feet of commercial) and the Apartments at the Pointe of Gateway (42 units). Projects to be completed in 1999 include Otis Terminal (249 units, 20,500 square feet of commercial) and 1001 Huron (70 units, 8,900 square feet of commercial).
- **Housing in Inner / City Neighborhoods** - Backed by a major commitment by the Federal National Mortgage Association (Fannie Mae), the City launched a strategy for financing \$300 million in affordable housing in inner-city neighborhoods over the next five years.
- **Midtown Corridor** - This historic, one-square mile area is setting standards for redevelopment of a business center outside downtown Cleveland. Midtown Corridor has experienced more than 350 expansion and improvement projects in the past decade, with private investment approaching \$450 million. Projects completed in 1998 include the restoration of four buildings accommodating new businesses in the area and the construction of a \$10 million corporate office park anchored by Roulston, Inc.

The City's revitalization is being assisted by local lenders which have signed agreements with the City to provide products and services targeted to the Cleveland market. The following amounts covering the past seven years were committed through December 31, 1997:

Key Bank	\$ 323 million
Key Bank (Renewal)	267 million
Star Bank	182 million
National City Bank	125 million
Huntington National Bank	106 million
Fifth Third Bank	97 million
First Merit Bank	71 million
Charter One	69 million
Bank One	67 million

For the period January 1, 1998 forward, the following additional amounts have been committed:

National City Bank	\$ 540 million
Firststar (Star Bank)	346 million
Bank One	302 million
Fifth Third Bank	170 million
Huntington National Bank	<u>146 million</u>
Total	\$ 1,504 billion

Additionally, the Federal National Mortgage Association (Fannie Mae), the secondary market lender committed \$300 million for housing related financing bringing the total commitment from all financial institutions to \$1.8 billion.

MAJOR INITIATIVES

Current Year Projects: The 1998 budget focused on continuing the City's commitment to improving the quality of life by strengthening our neighborhoods and providing superior services, with an eye toward planning for the future both financially and operationally. In order to adequately fund service levels, the City relied upon growth in virtually all revenue sources.

The increase in revenues enabled the City to direct additional resources toward Public Safety and other related services. In the area of Public Safety, the City graduated over 160 additional uniformed personnel, which allowed the City to have the highest number of officers in over 15 years. The City's programs of civilianization, community policing and redistricting resulted in a dramatic decrease in crime: a 25% decrease over the last five years. In 1998, the City graduated 55 new firefighters from the Academy, bringing our fire suppression force to almost 1,000 firefighters. At this staffing level, we were able to reduce overtime in the Division of Fire by over \$2 million in 1997 and by an additional \$1 million in 1998.

Additionally, the City operated 21 EMS bases for a full 24 hours a day with money saved through our Cleveland Competes initiatives. As a result, the City saw a further reduction in EMS response time to a new low of 7 minutes 41 seconds for the most serious calls.

Our neighborhoods continue to improve in other ways as well. Housing is on an upswing, with Cleveland making progress in housing starts and housing renovations. Cleveland is beginning to surpass the suburbs in new housing construction. In fact, in two out of the past three years, Cleveland was the site of the largest number of housing starts in Cuyahoga County. We continue to renovate existing houses at an incredible pace. Residents are taking pride in their neighborhoods and taking care of their homes. City programs, along with this renewed and growing pride in the community, have pushed the number of home rehabilitation units in the City to record levels.

Future Projects: In November 1996, demolition of Municipal Stadium began clearing the way for construction of the new Cleveland Browns Stadium. The new stadium will be an open air facility with 72,000 seats and is expected to be completed by mid-1999. In June 1997, the City issued approximately \$140 million in Certificates of Participation to pay for the City's share of the construction costs. The National Football League and the State of Ohio are also making financial contributions towards construction.

As we continue our efforts to make Cleveland the kind of place our citizens want to raise their family, we must also enhance our public safety forces. Our average police staffing level will rise to 1,890 uniformed officers, the highest level in over 15 years. The 1999 budget proposes an incremental expansion of services while planning for the future both operationally and financially. Public safety is a major focus of the General Fund resources with two police cadet classes, a fire cadet class, and 21 EMS bases operating for 24 hours per day.

To provide recreation opportunities for our young people, we will operate a 10 week pool and playground program this summer.

The City continues to aggressively manage its costs. In 1999, the Bureau of Workers Compensation will again lower the City's premium. At this time the impact of this reduction cannot be estimated. In addition, our efforts at controlling health care costs resulted in no increase in hospitalization or dental related costs from our primary provider for the second year in a row. And finally, after a \$2.3 million decrease in overtime from 1996 to 1997, and a \$270,000 reduction in 1998, we expect no increase in overtime in 1999.

Several aspects of the 1999 budget permit the expansion of services mentioned above. On the revenue side, income tax receipts, the largest source of General Fund revenue, are projected to increase 2.55% over 1998 while property tax receipts are expected to rise by 2.4%. Overall growth in City spending is expected to be less than 5.1%.

Department Focus: The Department of Public Service is responsible for a variety of activities which include public improvement planning, construction inspection, repairs and maintenance of bridges, streets, boulevards, sidewalks, alleys, lanes and other public roads and highways; planning construction improvements, repairs (major and minor), and the operation of bridges and viaducts; the construction of all public buildings; making and preserving of all maps, plans, drawings and estimates for such public work; cleaning, ice control, snow removal, resurfacing and pothole remediation of streets and boulevards; graffiti abatement; collection and disposal of solid waste; granting of permits for the use of public rights of way of the City; planning and geometric design of streets, highways and abutting lands as related to efficient traffic flow; erection and maintenance of traffic control devices; determination and layout of parking restrictions; and the design and placement of pavement markings, traffic signs, and traffic control devices.

The Department consists of six (6) Divisions including Traffic Engineering (moved from Public Safety as a pilot program), Architecture, Engineering and Construction, Motor Vehicle Maintenance, Streets and Waste Collection. Our budget in 1998 totaled \$69,710,649.

The Department of Public Service experienced a banner year in 1998 which culminated in being named the City of Cleveland's Department of the year. The following were among the Department's major accomplishments in 1998:

- Resurfaced 658,790 square yards of roadway for a total of 192 streets, at an average cost of \$5.12 per square yard, which represents a significant savings when compared to the \$6.53 per square yard cost prior to the Cleveland Competes Initiative of 1995.
- In 1997 we implemented a graffiti Abatement Program and 325 graffiti locations were abated. In 1998, 414 locations were abated.
- Increased the amount of recyclable goods collected by 5% to 6,281 tons.
- Increased the number of commercial accounts for the Division of Waste Collection by 10%, from 66 to 72. In 1998 this operation generated approximately \$1.4 million in revenues.
- Exceeded our asphalt rejuvenation operation goal by 16%. A total of 1,164,285 square yards of roadway were rejuvenated in 1998.
- Crack and gutter sealed 89 streets in 1998, which exceeded our goal by 12%.
- Completed 14 capital improvement projects totaling \$4,150,011 in construction dollars. All projects were completed on time and under budget.
- Completed the design and bid specifications for the construction of the new Ridge Road Transfer Station.
- Successfully renegotiated a price reduction in the current salt contract from \$40.55 per ton to \$28.50 per ton.

Other major developments in 1998 included a fire which completely destroyed the Ridge Road Transfer Station. However through our hard work and determination we were able to maintain the collection of solid waste by utilizing other transfer stations and constructing a temporary pad at the Ridge Road site.

Financial Information

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

Single Audit: As a recipient of federal, state and county financial assistance, the City is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management, external auditors and the internal audit staff of the City.

The City is required to undergo an annual audit in conformity with the provisions of the Single Audit Act Amendment of 1996 and U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*. As a part of the City's Single Audit, tests are made to determine the adequacy of the internal control structure, including the internal controls related to federal financial assistance programs, as well as to determine that the City has complied with applicable laws and regulations. The results of the City's Single Audit for the fiscal year ended December 31, 1997 provided no instances of material weaknesses in the internal control structure or significant violations of applicable laws and regulations. The City expects the same results for the Single Audit for the fiscal year ended December 31, 1998. The information related to the Single Audit, including the schedule of federal financial assistance, findings and recommendations, and auditor's reports on the internal control structure and compliance with applicable laws and regulations will be included in a separate report.

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

The City maintains budgetary control on a non-GAAP basis at the character level (personnel and related expenditures, other expenditures, debt service and capital outlay) within each division. Lower levels within each character are accounted for and reported internally. Such lower levels are referred to as the object level. Estimated expenditure amounts must be encumbered prior to release of purchase orders to vendors or finalization of other contracts. Encumbrances which would exceed their available character level appropriation are not approved or recorded until the City Council authorizes additional appropriations or transfers. Unencumbered appropriations lapse at the end of each calendar year.

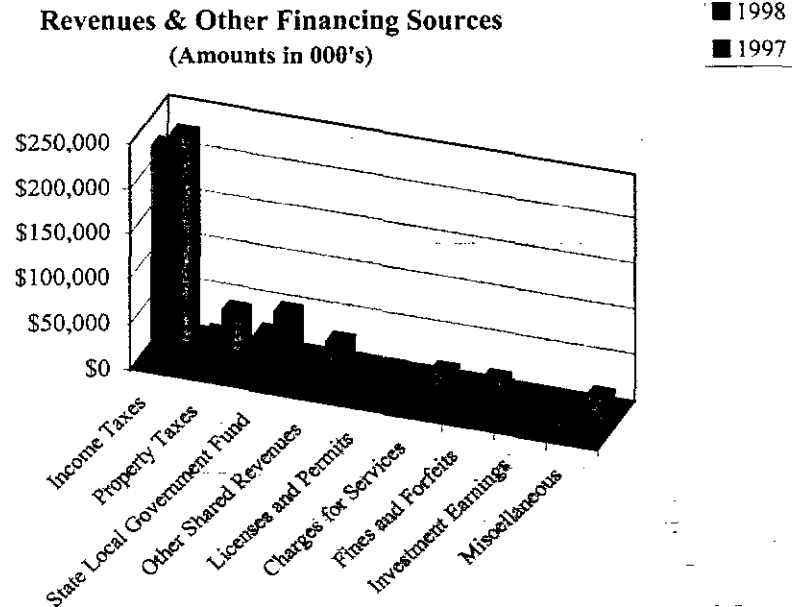
In addition to the budgetary controls mentioned above, the City's Office of Budget and Management prepares a detailed monthly operating plan which is used to monitor revenues and expenditures. This plan is reviewed monthly by City management. As an additional control over expenditures, the City Charter requires that all contracts in excess of \$10,000 shall first be authorized and directed by ordinance of City Council.

The Accounting System: The City's accounting system is organized and operated on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. The types of funds to be used are determined by generally accepted accounting principles ("GAAP") and the number of individual funds established is determined by sound financial administration.

The City's records are maintained on a modified accrual basis for all governmental and fiduciary fund types. Accordingly, revenues are recognized when susceptible to accrual (i.e., both measurable and available). Expenditures, other than interest on long-term debt, are recorded as fund liabilities when incurred. The accrual basis of accounting is utilized by all proprietary funds. A more detailed explanation of the basis of accounting for the various funds is included in the *Notes To Financial Statements*, located in the Financial Section of this report.

General Fund

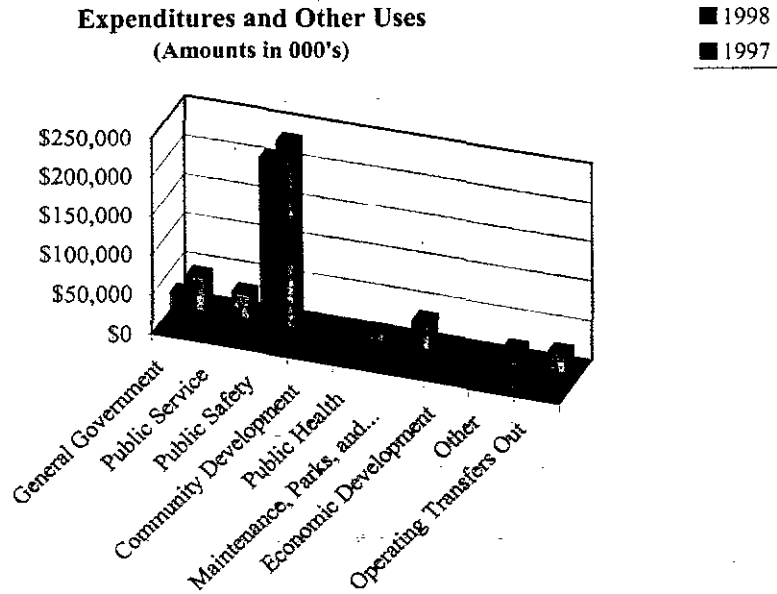
Revenues: General Fund revenues and other financing sources totaled \$427,828,000 in 1998, an increase of \$23.2 million or 5.7% over 1997. The amount of revenues and other financing sources on a GAAP basis, including the increases (decreases) over the prior year are shown in the following graph and tabulation:



	1998	% of	1997	% of	Increase	%
	Actual	Total	Actual	Total	(Decrease)	Change
	(Amounts in 000's)					
REVENUES AND OTHER FINANCING SOURCES						
Income Taxes	\$242,056	57%	\$227,488	56%	\$14,568	6.4%
Property Taxes	42,625	10%	41,277	10%	1,348	3.3%
State Local Government Fund	53,998	13%	50,217	12%	3,781	7.5%
Other Shared Revenues	26,918	6%	27,043	7%	(125)	-0.5%
Licenses and Permits	10,278	2%	8,855	2%	1,423	16.1%
Charges for Services	16,051	4%	14,658	4%	1,393	9.5%
Fines and Forfeits	14,766	3%	15,572	4%	(806)	-5.2%
Investment Earnings	5,581	1%	2,726	1%	2,855	104.7%
Miscellaneous	15,555	4%	16,788	4%	(1,233)	-7.3%
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$427,828	100%	\$404,624	100%	\$23,204	5.7%

During 1998, income tax receipts, the largest General Fund revenue source, increased by \$14,568,000 or 6.4% from 1997. Both the withholding and net profits from corporations components of the tax were very strong, a sign of a stable local economy. Other shared revenues, which includes such items as the admission tax and motor vehicle lessor tax, benefitted from another sold out year from the Cleveland Indians and baseball play-offs.

Expenditures: General Fund expenditures and other uses totaled \$403,492,000 in 1998, an increase of \$4.2 million or 1.1% over 1997. The amount of expenditures and other uses by function on a GAAP basis, including the increases (decreases) over the prior year are shown in the following graph and tabulation:



	1998 Actual	% of Total	1997 Actual	% of Total	Increase (Decrease) Over 1997	% Change
(Amounts in 000's)						
EXPENDITURES AND OTHER USES						
Current:						
General Government	\$47,263	12%	\$42,164	11%	\$5,099	12.1%
Public Service	29,020	7%	29,911	7%	(891)	-3.0%
Public Safety	239,183	59%	233,093	58%	6,090	2.6%
Community Development	6,746	2%	5,942	1%	804	13.5%
Public Health	10,519	3%	10,233	3%	286	2.8%
Maintenance, Parks, and Recreation	34,375	9%	34,193	9%	182	0.5%
Economic Development	1,063	0%	1,034	0%	29	2.8%
Other	14,125	4%	18,945	5%	(4,820)	-25.4%
Operating Transfers Out	21,198	5%	23,776	6%	(2,578)	-10.8%
TOTAL EXPENDITURES AND OTHER USES	\$403,492	100%	\$399,291	100%	\$4,201	1.1%

Overall expenditures rose in 1998 as a result of a 3.0% pay increase granted to City employees in April 1998, pursuant to the current three year agreement with various bargaining units. While there was also some increase in salary related fringe benefits, hospitalization and dental care costs were held down by the continued shift to managed health care plans. Employees also continued to make a modest contribution towards their health insurance premiums through payroll deductions.

Programmatic related costs account for the major portion of the 1998 expenditure increase, with the Department of Public Safety reflecting the largest growth. During 1998, two police cadet classes were hired along with one fire cadet class and additional Emergency Medical Technicians to go to 24-hour service. Operating transfers out also included revenue transfers due to taxes enacted to construct the new Cleveland Browns football stadium.

The legal appropriation level in 1998 was approximately \$411,630,000. Actual expenditures and other uses on the non-GAAP budgetary basis were \$408,232,000. Expenditures within the General Fund remained within the legal appropriation level during 1998.

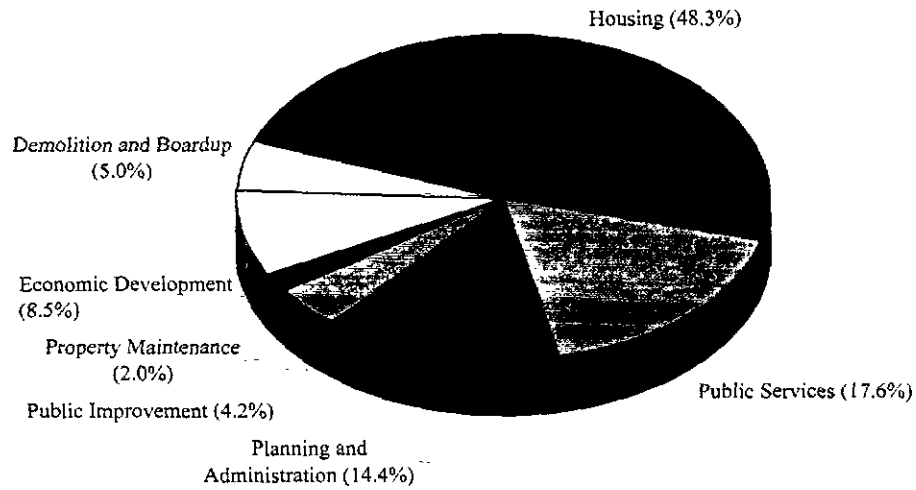
Fund Balance: The 1998 General Fund operating results reflected the success of the City's strategic plan of improving the General Fund fund balance while effectively providing quality City services. In 1998, the City made another deposit to the Rainy Day Reserve Fund. This transaction along with the continued pursuit of all revenue sources and efforts aimed at controlling expenditures provide a solid foundation on which to increase the General Fund fund balance in future years.

Special Revenue Funds

The Special Revenue Funds are used for certain revenue sources, primarily grant programs, which are restricted by law or other formal action to expenditures for specific purposes. Certain Special Revenue Funds are subject to an annual budget, others are not. Those that are not subject to an annual budget consist primarily of state and federal grants, including the Community Development Block Grant (CDBG), the Federal HOME Program, the State of Ohio-Home Weatherization Assistance Program (HWAP), the Urban Development Action Grant (UDAG), the Job Training Partnership Act (JTPA) and the Empowerment Zone.

Community Development Block Grant: The Community Development Block Grant, which the City of Cleveland receives on an annual basis under Title I from the U.S. Department of Housing and Urban Development, is administered by the Department of Community Development. The annual entitlement for the program year 1998, CDBG Year XXIV, was \$30,249,000. The primary objective of the CDBG program is the development of a viable urban community including decent housing, a suitable living environment and expanded economic opportunities principally for low and moderate income individuals.

The 1998 CDBG allocation breakdown is illustrated below:



Federal HOME Program: The HOME Program authorized by the HOME Investment Partnership Act was enacted as Title II of the National Affordable Housing Act. Purposes of the HOME Program are to expand the supply of decent, affordable housing for low-income families with emphasis on rental housing, to assist state and local governments in carrying out affordable housing programs and to provide coordinated assistance to participants in the development of affordable low-income housing.

The City's Federal HOME Program allocation for 1998 was \$7,413,000:

<u>Activity</u>	<u>Allocation</u>	<u>Percent of Budget</u>
Rehabilitation loans to homeowners	\$4,413,000	60 %
Rehabilitation of rental housing by community based organizations	\$2,000,000	27 %
Development of rental housing trust funds	\$1,000,000	13 %

State of Ohio-Home Weatherization Assistance Program (HWAP): During 1998, the City of Cleveland was awarded \$2,066,523 for HWAP by the State of Ohio enabling about 800 low-income households to be weatherized free of charge. This represents the seventeenth year of funding for this program.

Neighborhood Development Investment Fund (NDIF): Since 1995, the City of Cleveland has dedicated in excess of \$48.7 million in Cleveland Public Power cash and bond proceeds and interest earnings thereon to industrial, commercial and residential economic development in the City of Cleveland. The NDIF Advisory Committee and Cleveland Citywide Development Corporation have recommended and the City's Department of Economic Development has funded Economic Development projects totaling in excess of \$14.5 million and residential projects totaling in excess of \$6.2 million during 1998.

Major NDIF Economic Development projects funded include Cleveland Business Park and the Emerald Research Park. Major NDIF residential projects funded include the National Terminals Apartments and Ameri-Con Homes project.

Job Training Partnership Act: The Job Training Partnership Act is composed of five grant awards, Title II A, Title II B, Title II C, Title III and Title IV. Three programs are associated with Title II A. Program One provides skilled training and supportive services to economically disadvantaged adults and welfare recipients. Program Two provides educational studies to both adults and youths which assist recipients in acquiring the marketable skills and knowledge necessary to obtain employment. Program Three provides training and employment placement opportunities for disadvantaged workers 55 years of age and older.

During 1998, \$1,142,184, \$44,665 and \$12,144 were spent for these programs, respectively. The purpose of Title II B is to provide supervised summer employment experience as well as academic and training opportunities to disadvantaged youth. During 1998, \$3,025,637 was spent for this purpose. The purpose of Title II C is to provide skilled training and supportive service to youth recipients. During 1998, \$188,888 was spent for this purpose. Under Title III, the Employment and Training Assistance for Dislocated Workers, \$1,328,312 was spent for Rapid Response Assistance, Basic Readjustment Services and Retraining Services, during 1998. Title IV is a Discretionary Allotment awarded to the City and Youth Opportunities Unlimited by the Secretary of Labor. During 1998, \$577,498 was spent for this program. The City of Cleveland spent \$6,319,328 during 1998 under the Job Training Partnership Act.

The following reflects the number of participants by program:

<u>Grant Programs</u>	<u>Participants</u>	<u>Percent</u>
Title II A		
Program One:	1,260	18.68%
Program Two:	55	.82%
Program Three:	57	.84%
Title II B	4,411	65.40%
Title II C	320	4.74%
Title III	642	9.52%
Total	<u>6,745</u>	<u>100.00 %</u>

The Special Revenue Funds which are subject to an annual budget are the Division of Streets Fund, Restricted Income Tax Fund, Rainy Day Reserve Fund and the Schools Recreational and Cultural Activities Fund. The Division of Streets Fund maintains and improves the City's streets. Its primary revenue sources are the City's share of the state collected license plate fees and gasoline taxes and a subsidy from the General Fund. The Restricted Income Tax Fund, representing one-ninth of the total income tax collected, was utilized entirely for capital improvements and debt service. The Rainy Day Reserve Fund consists of deposits set aside for economic downturns, while the Schools Recreational and Cultural Activities Fund is devoted to the activities of Cleveland school children.

Debt Administration

General obligation bonds are recorded in the General Long-Term Obligations Account Group. Revenue bonds and mortgage revenue bonds are recorded in the applicable Enterprise Fund. The principal amounts outstanding at December 31, 1998 are as follows:

	Balance January 1, 1998	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 1998
	(Amount in 000's)				
General Long-Term Obligations:					
General Obligation Bonds	\$299,100	\$49,075	(\$22,710)	(\$19,300)	\$306,165
Urban Renewal Bonds	9,930			(245)	9,685
Subordinated Income Tax Bonds	72,800			(1,000)	71,800
Non-tax Revenue Bond					
Anticipation Notes	20,000				20,000
Enterprise Fund Debt:					
Revenue Bonds and Notes	1,425,501	305,650	(190,995)	(28,940)	1,511,216
Ohio Water Development Loans	8,761	927		(766)	8,922
Total	<u>\$1,836,092</u>	<u>\$355,652</u>	<u>(\$213,705)</u>	<u>(\$50,251)</u>	<u>\$1,927,788</u>

Funds used to meet the debt service requirement on the City's general obligation bonds are from certain ad valorem taxes, restricted income taxes, interest earnings and enterprise reimbursements from the Convention Center. Ad valorem taxes, the primary source of funds, amounted to \$22,686,000 in 1998 which represents 64% of the debt service requirement on the general obligation bonds recorded in the General Long-Term Obligations Account Group. These taxes were derived from a levy of \$4.35 per \$1,000 of assessed property. The City issues its general obligation bonds in connection with its overall Capital Improvement Program. Programs which have benefited due to the issuance of general obligation debt include, but are not limited to, public service improvements, bridge and roadway improvements, recreational facilities, cemeteries and urban redevelopment. The City's Enterprise Funds implement their own individual capital improvement programs and issue revenue debt necessary to fund their programs.

Effective October 1, 1998 the City issued \$49,075,000 Various Purpose General Obligation Bonds, Series 1998. The proceeds are being used to finance various capital improvements to certain of the City's properties and assets, to advance refund \$22,710,000 of the City's outstanding general obligation bonds, and to pay costs of issuance.

Effective August 1, 1998, the Division of Water issued \$305,650,000 of Waterworks Improvement and Refunding Revenue Bonds, Series I, 1998. The proceeds will be used to pay a portion of the costs of various Waterworks System capital improvements, to fund a deposit to the Debt Service Reserve Fund, to pay capitalized interest, to advance refund certain outstanding bonds and to pay costs of issuance. At the same time, the Division of Water applied \$30,000,000 of cash on hand to defease outstanding bonds.

The City's Bond Ratings for general obligation and revenue bonds are as follows:

	<u>Moody's Investors Service</u>	<u>Standard & Poor's</u>	<u>Fitch Investors Service</u>
General Obligation Bonds	A2	A	A
Waterworks Mortgage: Revenue Bonds	Aa3	AA-	
Cleveland Public Power: Revenue Bonds	A2	A-	
Airport System: Revenue Bonds	A3	A	
Municipal Parking Lots: Revenue Bonds (Insured ratings)	Aaa	AAA	AAA

In July 1998, Moody's Investors Service upgraded the rating on the City's Water Revenue Bonds from A1 to Aa3. At the same time, Standard and Poor's Ratings Services upgraded the Water Revenue Bonds from A+ to AA-. In November 1998, Standard & Poor's also upgraded the rating on Cleveland Public Power Revenue Bonds from BBB+ to A-.

The ratio of net general bonded debt to assessed valuation and the amount of bonded debt per capita are useful indicators of the City's debt position to management, citizens and investors. Net general bonded debt is total general bonded debt supported by taxes less amounts available in the Debt Service Fund. This data at December 31, 1998 was:

<u>Net General Bonded Debt</u>	<u>Ratio of Net General Bonded Debt to Assessed Valuation</u>	<u>Net General Bonded Debt Per Capita</u>
\$300,082,000	5.58 %	\$593.50

Capital Projects Fund

The Capital Projects Fund includes all major capital improvement projects of the City other than those accounted for in the Proprietary and Special Revenue Fund Types. The primary sources for financing the City's Capital Improvement Program (CIP) are General Obligation Bond proceeds, Certificates of Participation proceeds, Urban Renewal Bond proceeds, interest earned on funds prior to and during the construction period, restricted income taxes and funds from the State Issue 2 and Local Transportation Improvement Programs. Capital Projects capital outlays for the year amounted to \$184,528,000. The City's CIP has three primary goals:

1. Preservation and revitalization of Cleveland's neighborhoods.
2. Economic development and job creation.
3. Provision of cost-effective, basic City services to Cleveland residents and the business community.

The City-wide five-year capital improvement program is annually revised through a centralized planning process. Funding is anticipated from a variety of local, state and federal sources. Capital projects fall into three major groups and are classified under the following ten functional areas:

<u>Major Groups</u>	<u>Functional Areas</u>
Basic Services	<ul style="list-style-type: none"> - Transportation (roads and bridges) - Public buildings and facilities - Vehicles and major equipment - Parks and recreation
Development	<ul style="list-style-type: none"> - Economic - Community
Major Enterprise Services	<ul style="list-style-type: none"> - Airports - Water system - Electric utility - Collector sewer system

Enterprise Funds

Cleveland operates four major Enterprise Funds including two airports, a water system, an electrical plant and a local sewer system. The City also operates other minor Enterprise Funds consisting of cemeteries, a convention center, golf courses, municipal parking lots and public market facilities.

Department of Port Control: The Airports' operating revenue amounted to \$67 million. Cleveland Hopkins International Airport served 12.3 million passengers in 1998, a record high. This reflects a 1.7% increase from 1997 passengers served. Over the past 5 years, the net increase in passengers has been 31%, increasing from a level of 9.4 million passengers in 1993 to 12.3 million in 1998. This was due to a number of factors including an economic recovery which caused a strong overall passenger increase and additional flights by Continental and Southwest Airlines as well as lower fares offered by all airlines.

The Airport is currently involved in an expansion project to accommodate increased passenger service through Continental Airlines. This construction project has resulted in the opening of a new regional jet concourse (Concourse D) to provide 12 additional jet gates and 24 aircraft parking positions. In addition, improvements will be made to the existing concourse (Concourse C), including the construction of a new President's Club, additional holdrooms, and the installation of new jet bridges. Within the terminal, new baggage handling facilities will be installed and the security checkpoint will be expanded. Other expansion projects include the building of a new employee parking lot, de-icing pads and a hydrant fueling system.

A new roadway will be designed and constructed to increase the capacity of the roadway system for passengers leaving the terminal complex and to reduce traffic congestion. Airfield improvements include the design and construction of a new runway and rehabilitation of existing taxiways and ramps. The proposed runway is expected to increase airfield capacity by nearly 50% and reduce aircraft delays. A significant component of the capital improvement program continues to be the insulation of residential homes near the Airport, which are affected by aircraft noise.

In 1996, the City completed an update of the master plan for the Airport (which has been submitted to the FAA for review), providing for the development of an Airport capital improvement program. In addition to the Continental expansion project, this capital improvement program includes other terminal complex improvements such as replacing electrical, lighting, and telecommunication systems. Recently-completed capital projects include the consolidated rental car facility (providing a one-stop service center for rental car customers), the new short-term parking garage facility, and the transfer of certain land and property interests from the City of Brook Park to the City of Cleveland for Airport purposes.

In January 1999, the City agreed to purchase the International Exposition ("I-X") Center for \$66.5 million as part of its master plan to expand Hopkins International Airport on this property. This land is being acquired to provide for future airport expansion.

Division of Water: The Division of Water ("the Division") was created in 1853 and charged with the responsibility of collecting, treating, pumping and distributing portable water and providing related water service to customers within its service areas. The Division operates a major public water supply system which serves not only the City of Cleveland, but also 69 suburban municipalities in Cuyahoga, Medina, Summit and Geauga Counties. The present service area covers over 640 square miles and serves over 1.5 million people. In 1998, the aggregate metered consumption of water in the City of Cleveland constituted 38% of the total metered consumption in the service area, while consumption in the direct service communities and master meter communities constituted 52% and 10%, respectively.

Operating revenue in 1998 increased 9.2% to \$192.6 million from \$176.5 million in 1997. Metered sales revenue increased 9.1% because of a rate increase and 1.1% increase in water consumption. Operating expenses, exclusive of depreciation, increased 2.6% to \$102.9 million compared to \$100.3 million in 1997. Higher electricity and maintenance costs slightly offset by lower fringe benefit costs contributed to most of the increase.

Division of Cleveland Public Power: The Division of Cleveland Public Power ("the Division") supplies electrical service to over 78,000 accounts in the City of Cleveland. The Division is responsible for producing, supplying, transmitting and distributing electricity and providing related electrical services to customers within its service area.

Cleveland Public Power's 1998 operating revenue increased 9.1% to \$120.3 million from \$110.3 million in 1997. The number of customers served increased 2.8% while kilowatt hour (kwh) sales rose 6.9%. Purchased power expense rose 18.4% to \$58.7 million in 1998 from \$49.6 million a year ago primarily because of higher rates charged during the extraordinary demand in June and July. Operating expenses, exclusive of depreciation, increased 5.5% to \$29.0 million compared to \$27.4 million a year ago because of higher legal and payroll costs.

Division of Water Pollution Control: The Division of Water Pollution Control ("the Division") is responsible for the network of sewers conveying sanitary sewage and industrial waste in the City from their point of origin to the treatment facilities for treatment and disposal. The Division also maintains, cleans, repairs and improves sewers and their appurtenances, including catch basins and relaying of sewer connections.

The Division reported a 7.5% increase in 1998 operating revenue to \$18.5 million compared to \$17.2 million in 1997 because of a 6.5% rate increase and higher miscellaneous charges. Operating expenses, exclusive of depreciation, declined 4.5% to \$12.7 million from \$13.3 million a year ago because of lower maintenance costs. Other income rose 38.4% because of a one time worker's compensation refund and higher interest income offset by an increase in interest expense.

General Fixed Assets

The general fixed assets of the City as of December 31, 1998 total \$576,865,000 and include all fixed assets of the City except those recorded in the Proprietary Fund Types and infrastructure assets such as streets and bridges. Infrastructure assets are not recorded because they are immovable and of use only to the City. Fixed asset additions and deductions for fiscal year 1998 amounted to \$147,936,000 and \$14,354,000 respectively. The additions were funded primarily from the Certificates of Participation, General Fund, General Obligation Bonds proceeds and Other Revenues.

Cash Management

Currently, the City's policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, \$5,085,187 of bank deposits are either insured by federal depository insurance or collateralized with the collateral being held by the City or by its agent in the City's name and \$13,004,869 are uninsured and uncollateralized. Of the \$521,284,385 of classified investments, \$388,154,415 are classified in the category of lowest credit risk established by the Governmental Accounting Standards Board and \$89,060,970 represents investments held in the City's name by the counterparty's trust department. The remaining \$44,069,000 represents repurchase agreements held by a counterparty or its trust department but not in the City's name and Certificates of Participation proceeds.

The City's investment policies are being modified to enable future repurchase agreements to be classified under the lowest risk category. In addition, the Department of Finance reviewed the Codified Ordinances of the City as they affect the investment and deposit of City funds. The goal was to ensure the most efficient and profitable use of the City's cash resources and reduce the credit and market risks associated with the deposit and investment of City funds. Furthermore, the cash management program will ensure that the City takes full advantage of investment opportunities of temporarily idle funds. Significant elements of the City's current cash management program are as follows:

- A more streamlined bank account structure.
- On-line connection to concentration banks which advise the City of funds available each day for disbursement and investment.
- Improved control over the timing of disbursements.
- More sophisticated management of the City's investment portfolio.
- Reconciliation of investments to the market value of the collateral pledged.
- Investments transacted on a delivery versus payment basis.

Risk Management

The City has developed a risk management program involving law, finance and personnel to further promote its fundamental responsibility and financial capability to provide basic services to the citizens of Cleveland. The risk management program serves to implement qualitative controls, programs and safeguards in the delivery of basic City services for the protection of both the public and City employees, as well as to identify and to control exposures the City may have to financial loss. Periodic review of the City's funding arrangements with respect to general liability and employee benefits maintains the City's assumption of risk at a reasonable and affordable level.

OTHER INFORMATION

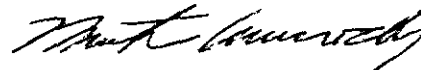
The Independent Audit: The City Charter requires an annual audit of the financial statements of all accounts of the City by an independent certified public accountant. Accordingly, this year's audit was completed by PricewaterhouseCoopers LLP and Dingus and Daga, Inc. with assistance from the Auditor of State. The fiscal year ended December 31, 1998, represents the eighteenth consecutive year the City has prepared a Comprehensive Annual Financial Report. In addition to the independent auditors, the City maintains its own Internal Audit division. Along with its duty of assisting the independent auditors, the Internal Audit division is responsible for strengthening and reviewing the City's internal controls. Internal Audit performs its own independent operational and financial audits of the City's many funds, departments and divisions. We believe that the City's internal control structure adequately safeguards assets and provides reasonable assurance of proper recording of all financial transactions.

GFOA Certificate of Achievement Award: The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Cleveland, Ohio for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 1997. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The City of Cleveland has received a Certificate of Achievement for the last 14 consecutive years (fiscal years ended 1984-1997). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

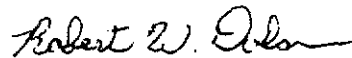
Award For Distinguished Budget Presentation: The GFOA presented an Award for Distinguished Budget Presentation to the City of Cleveland, Ohio for its annual budget for the fiscal year beginning January 1, 1998. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communications medium. The award is valid for a period of one year only. The City believes its current budget continues to conform to program requirements, and we have submitted it to the GFOA to determine its eligibility for another award.

Acknowledgments: The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated service of the Finance Department, particularly the Financial Reporting and Control division and the Internal Audit division. We would also like to thank the Mayor, his cabinet and members of City Council, who without their continued support the Department of Finance could not have maintained the financial management practices required to ensure the financial integrity of the City. In addition, we would like to thank the independent public accounting firms of PricewaterhouseCoopers LLP and Dingus and Daga, Inc., and the Auditor of State for their efforts and professional conduct throughout the audit engagement.

Sincerely,



Martin L. Carmody, Director
Department of Finance



Robert W. Dolan, CPA
City Controller

CITY OF CLEVELAND, OHIO
City Officials

Michael R. White, Mayor

EXECUTIVE STAFF

LaVonne Sheffield-McClain Chief of Staff/Executive Assistant for Policy
Barry Withers Executive Assistant for Administration
Judith Zimomra Executive Assistant for Service
Kenneth Silliman Executive Assistant for Economic Development
Milan T. Polacek Executive Assistant for Legislative Affairs

ADMINISTRATION

Laura Ann Williams..... Director, Office of Equal Opportunity
Cornell P. Carter..... Director, Department of Law
Martin L. Carmody Director, Department of Finance
Michael Konicek Director, Department of Public Utilities
Solomon F. Balraj Director, Department of Port Control
Mark Ricchiuto..... Director, Department of Public Service
Michelle Whitlow Acting Director, Department of Public Health
Henry Guzman Director, Department of Public Safety
Martin L. Flask..... Police Chief
Kevin G. Gerrity Fire Chief
Nicholas P. Jackson..... Director, Department of Parks, Recreation and Properties
Linda M. Hudecek..... Director, Department of Community Development
Jeffery K. Patterson Director, Personnel and Human Resources
Christopher P. Warren Director, Economic Development/Empowerment Zone
Susan E. Axelrod..... Director, Department of Aging
Dennis D. Dove Acting Director, Community Relations Board
Cynthia Sullivan..... Secretary, Civil Service Commission
Hunter Morrison Director, City Planning Commission

CITY OF CLEVELAND, OHIO

City Council

Jay Westbrook	President of Council / Ward 18
Cecelia R. Huffman	Clerk of Council
Joseph T. Jones	Ward 1
Robert J. White	Ward 2
Odelia V. Robinson	Ward 3
Kenneth L. Johnson	Ward 4
Frank G. Jackson	Ward 5
Patricia J. Britt	Ward 6
Fannie M. Lewis	Ward 7
William W. Patmon	Ward 8
Craig E. Willis	Ward 9
Roosevelt Coats	Ward 10
Michael D. Polensek	Ward 11
Edward W. Rybka	Ward 12
Joe Cimperman	Ward 13
Nelson Cintron, Jr.	Ward 14
Merle R. Gordon	Ward 15
Michael C. O'Malley	Ward 16
Timothy J. Melena	Ward 17
Joseph J. Zone	Ward 19
Martin J. Sweeney	Ward 20
Michael A. Dolan	Ward 21

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Cleveland,
Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 1997

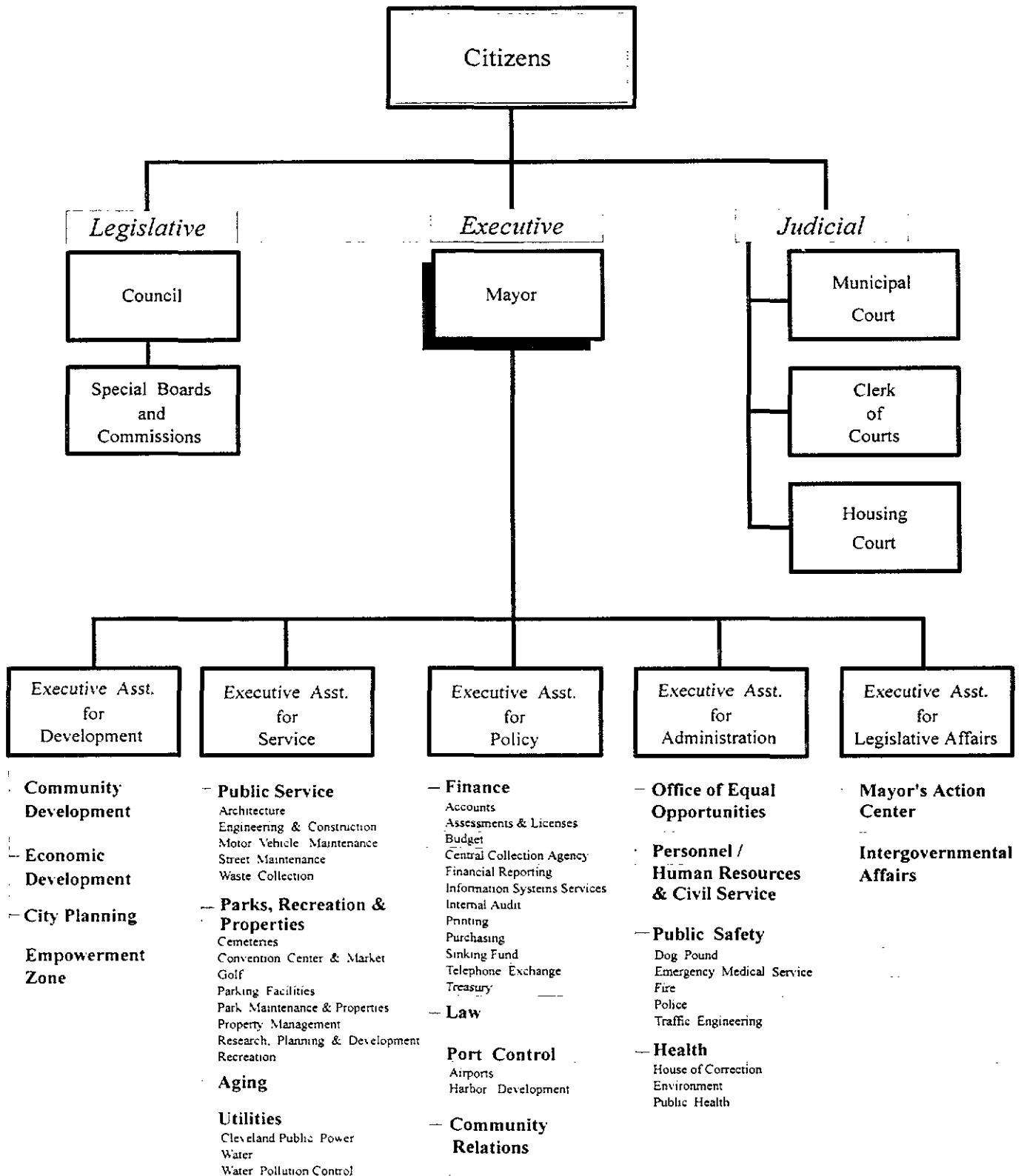
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



Douglas R. Ellaworth
President

Jeffrey L. Esler
Executive Director

City of Cleveland, Ohio Administrative Organization Chart

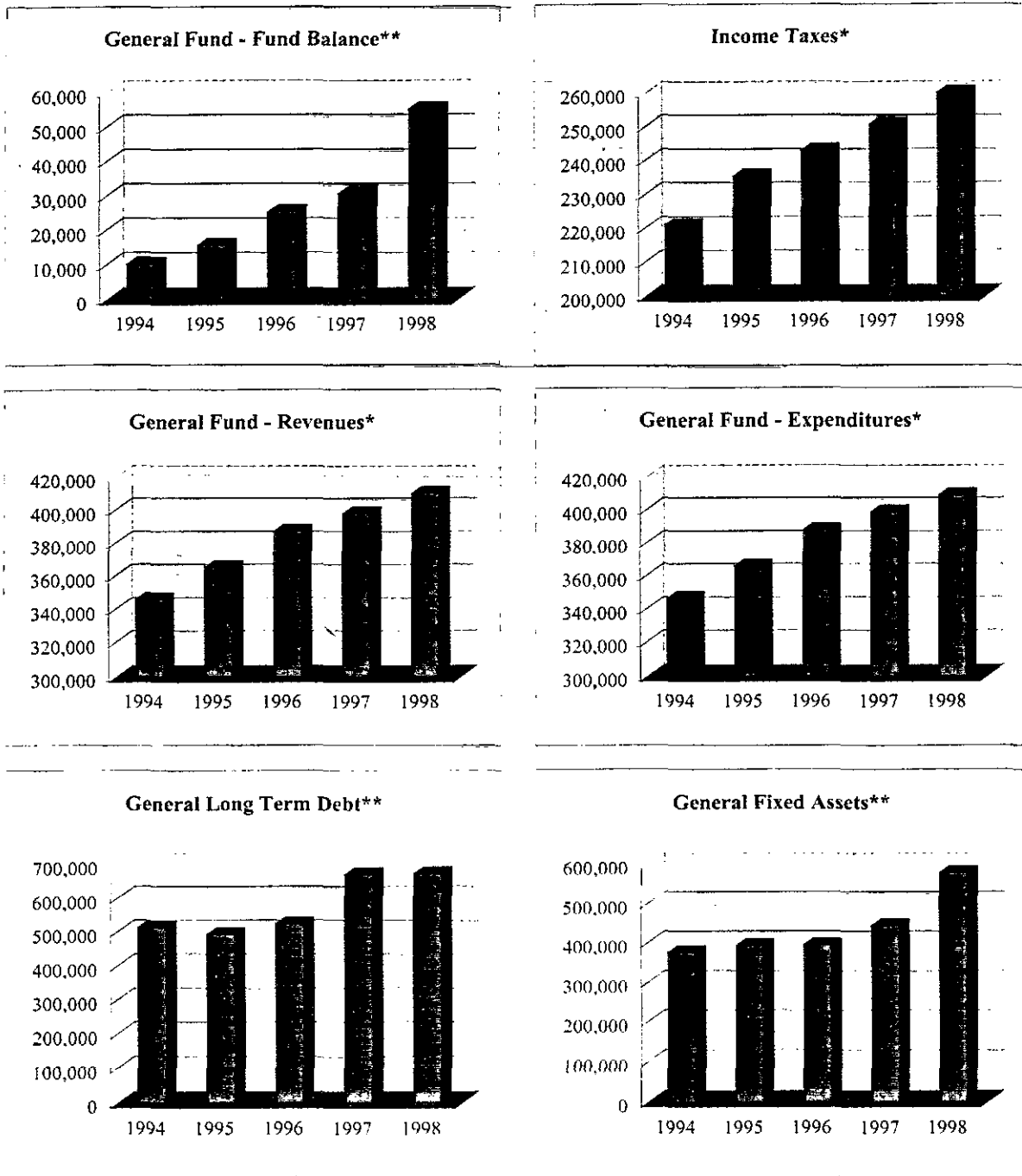


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FINANCIAL SECTION

FINANCIAL HIGHLIGHTS

(in thousands of dollars)



For Year Ended	General Fund Balance**	General Fund Revenues*	General Long Term Debt**	Income Taxes*	General Fund Expenditures*	General Fixed Assets**
1994	10,092	345,784	510,963	220,847	346,159	374,231
1995	15,458	365,030	490,757	235,298	365,466	391,615
1996	25,174	387,104	522,536	242,860	387,431	393,492
1997	30,507	397,778	668,874	250,590	398,183	443,283
1998	54,843	409,666	670,753	259,721	408,232	576,865

* Budget Basis
 ** G.A.P Basis



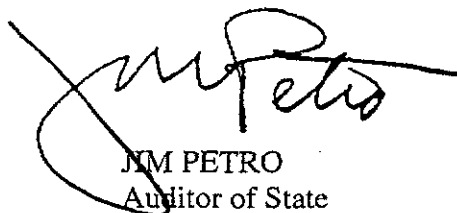
STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

Members of City Council
City of Cleveland

We have reviewed the independent auditor's report of the City of Cleveland, Cuyahoga County, prepared by Pricewaterhouse Coopers LLP for the audit period January 1, 1998 through December 31, 1998. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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



JIM PETRO
Auditor of State

January 25, 2000

REPORT OF INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
1500 One Cleveland Center
1375 East Ninth Street
Cleveland OH 44114-1700
Telephone (216) 241 4380
Facsimile (216) 575 0170

The Honorable Michael R. White, Mayor
and City Council
Cleveland, Ohio

In our opinion, the accompanying general-purpose financial statements present fairly, in all material respects, the financial position of the City of Cleveland, Ohio (the "City") as of December 31, 1998, and the results of its operations and cash flows of its proprietary funds for the year then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the City's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated June 25, 1999 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

As discussed in Note N to the financial statements, effective January 1, 1998, the City adopted Governmental Accounting Standards Board Statement No. 32, "*Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.*"

Our audit was made for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The combining, individual fund and account group financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

We did not audit the introductory and statistical sections as listed in the accompanying table of contents and therefore express no opinion thereon.

June 25, 1999

PricewaterhouseCoopers LLP
Dingus and Daga, Inc.

CITY OF CLEVELAND, OHIO
COMBINED BALANCE SHEET-ALL FUND TYPES AND ACCOUNT GROUPS

December 31, 1998

(Amounts in 000's)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS				
Cash and cash equivalents	\$ 2,037	\$ 96,706	\$ 1,494	\$ 75,323
Investments at market			9,406	38,798
Receivables:				
Taxes	33,689	4,208		
Accounts	8,824	2,220		
Loans		163,081		
Unbilled revenue				
Accrued interest	2,461	311	41	875
Assessments				222
Less: Allowance for doubtful accounts	(959)			
	44,015	169,820	41	1,097
Due from other funds	42,951	18,500	2,400	21,981
Due from other governments	53,560	23,468	21,448	8,429
Inventory of supplies		580		
Prepaid expenses and other assets				
Restricted assets:				
Cash and cash equivalents				14,582
Investments at cost				
Accrued interest receivable				
Bond retirement reserve				
Accrued passenger facility charge				
				14,582
Fixed assets in service:				
Land				
Land improvements				
Utility plant in service				
Buildings, structure and improvements				
Furniture, fixtures and equipment				
Less: Accumulated depreciation				
Construction in progress				
Idle facilities, less depreciation				
Amount available in Debt Service Funds				
Amount to be provided for retirement of general long-term obligations:				
Debt				
Other Obligations				
TOTAL ASSETS	\$ 142,563	\$ 309,074	\$ 34,789	\$ 160,210

See notes to financial statements.

Proprietary Fund Types		Fiduciary Fund Type		Account Groups		Totals (Memorandum Only)	
Enterprise	Internal Service	Agency	General Fixed Assets	General Long-Term Obligations	1998	1997	
\$ 79,336	\$ 6,800	\$ 40,146			\$ 301,842	\$ 202,760	
111,405					159,609	281,331	
		18,107			56,004	46,469	
84,179					95,223	81,782	
29,242					163,081	160,462	
1,603	25	35			29,242	29,760	
					5,351	4,691	
					222	338	
(13,897)					(14,856)	(13,246)	
101,127	25	18,142			334,267	310,256	
7,256	1,167				94,255	48,084	
3,624		223			110,752	91,255	
14,284	793				15,657	16,123	
17,293					17,293	16,429	
494,457					509,039	477,103	
178,141					178,141	213,676	
3,930					3,930	4,044	
53					53	53	
2,228					2,228	1,984	
678,809					693,391	696,860	
119,383	663		\$ 37,070		157,116	143,959	
177,539	3		52,753		230,295	223,809	
1,040,279					1,040,279	954,216	
532,694	1,605		213,718		748,017	648,973	
85,844	9,316		78,575		173,735	170,018	
(619,698)	(10,568)				(630,266)	(582,509)	
1,336,041	1,019		382,116		1,719,176	1,558,466	
310,572			194,749		505,321	368,857	
723					723	1,796	
				\$ 13,997	13,997	13,210	
					306,165	299,100	
					350,591	356,564	
\$ 2,660,470	\$ 9,804	\$ 58,511	\$ 576,865	\$ 670,753	\$ 4,623,039	\$ 4,261,091	

Continued

CITY OF CLEVELAND, OHIO
COMBINED BALANCE SHEET-ALL FUND TYPES AND ACCOUNT GROUPS-Continued

December 31, 1998

(Amounts in 000's)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
LIABILITIES				
Accounts payable	\$ 3,053	\$ 4,315		\$ 27,952
Estimated claims payable	1,130			
Deferred revenue	39,975	168,720	\$ 20,792	222
Due to other funds	6,082	32,192		25,584
Due to other governments	802	5,031		
Accrued wages and benefits	36,678	2,664		
Police and fire overtime				
Police and fire deferred vacation				
Sundry liabilities				
Accrued interest				
Accounts payable from restricted assets				
Capital lease obligations				
Certificates of participation				
Urban renewal increment bonds				
Subordinated income tax refunding bond				
Non-tax revenue bond anticipation notes				
Notes payable				
General obligation bonds payable				
Mortgage revenue bonds payable				
Construction bonds payable				
Revenue bonds payable				
TOTAL LIABILITIES	87,720	212,922	20,792	53,758
FUND EQUITY AND OTHER CREDITS				
Investment in general fixed assets				
Contributed capital - City of Cleveland and others				
Retained earnings:				
Reserve for revenue bond retirement				
Unreserved				
TOTAL RETAINED EARNINGS				
Fund balances:				
Reserve for inventory		580		
Reserve for debt service			13,997	
Reserve for encumbrances	5,867	11,027		26,892
Reserve for rainy day reserve fund	6,031			
Unreserved:				
Designated for future capital improvements		12,927		72,557
Undesignated	42,945	71,618		7,003
TOTAL FUND BALANCES	54,843	96,152	13,997	106,452
TOTAL FUND EQUITY AND OTHER CREDITS	54,843	96,152	13,997	106,452
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	\$ 142,563	\$ 309,074	\$ 34,789	\$ 160,210

See notes to financial statements.

Proprietary Fund Types		Fiduciary Fund Types		Account Groups		Totals (Memorandum Only)	
Enterprise	Internal Service	Agency	General Fixed Assets	General Long-Term Obligations	1998	1997	
\$ 13,498	\$ 1,267			\$ 2,100	\$ 50,085	\$ 34,321	
625					3,855	2,889	
					229,709	222,169	
15,971	827	\$ 13,599			94,255	48,084	
38,828		31,268			75,929	70,467	
21,740	2,267			38,630	101,979	92,911	
				53,514	53,514	54,022	
				1,261	1,261	1,043	
871		13,644			14,515	8,588	
44,128					44,128	38,018	
27,182					27,182	28,424	
1,539				2,341	3,880	2,799	
				160,757	160,757	166,723	
				9,685	9,685	9,930	
				71,800	71,800	72,800	
				20,000	20,000	20,000	
				4,500	4,500	4,750	
				306,165	306,165	299,100	
951,584					951,584	864,537	
8,645					8,645	8,761	
455,711					455,711	463,148	
1,580,322	4,361	58,511		670,753	2,689,139	2,513,484	
			\$ 576,865		576,865	443,283	
320,801	2,923				323,724	318,989	
34,401					34,401	28,940	
724,946	2,520				727,466	628,511	
759,347	2,520				761,867	657,451	
					580	1,169	
					13,997	13,210	
					43,786	96,828	
					6,031	4,532	
					85,484	128,805	
					121,566	83,340	
					271,444	327,884	
1,080,148	5,443		576,865		1,933,900	1,747,607	
\$ 2,660,470	\$ 9,804	\$ 58,511	\$ 576,865	\$ 670,753	\$ 4,623,039	\$ 4,261,091	

CITY OF CLEVELAND, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-ALL GOVERNMENTAL FUND TYPES

For the Year Ended December 31, 1998

(Amounts in 000's)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
REVENUES				
Income taxes	\$ 242,056	\$ 30,253		
Property taxes	42,625		\$ 24,037	
State local government fund	53,998			
Other shared revenues	26,918	10,475		
Licenses and permits	10,278	296		
Charges for services	16,051	597		
Fines and forfeits	14,766			
Investment earnings	5,581	2,101	875	\$ 15,333
Grants		73,549		26,706
Assessments				115
Enterprise reimbursements				
Miscellaneous	15,555	45,405	288	5,642
TOTAL REVENUES	427,828	162,676	25,200	47,796
EXPENDITURES				
Current:				
General government	47,263	7,526		
Public service	29,020	24,878		
Public safety	239,183	2,449		
Human resources		9,920		
Community development	6,746	45,432		
Public health	10,519	9,295		
Maintenance, parks and recreation	34,375	8,270		
Economic development	1,063	12,305		
Other	14,125		751	
Capital outlay		12,631		171,897
Debt service:				
Principal retirement			20,545	5,966
Interest			21,347	8,946
Enterprise debt service				
TOTAL EXPENDITURES	382,294	132,706	42,643	186,809
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	45,534	29,970	(17,443)	(139,013)
OTHER FINANCING SOURCES (USES)				
Operating transfers in		7,102	18,276	17,295
Operating transfers out	(21,198)	(18,068)	(46)	(2,762)
Proceeds from sale of notes				
Proceeds from sale of bonds-net				48,736
Payments to refund bonds				(24,823)
TOTAL OTHER FINANCING SOURCES (USES)	(21,198)	(10,966)	18,230	38,446
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	24,336	19,004	787	(100,567)
Fund balances at beginning of year	30,507	77,148	13,210	207,019
Fund balances at end of year	\$ 54,843	\$ 96,152	\$ 13,997	\$ 106,452

See notes to financial statements.

Totals	
(Memorandum Only)	
1998	1997
\$ 272,309	\$ 255,925
66,662	64,354
53,998	50,217
37,393	37,561
10,574	9,252
16,648	16,326
14,766	15,572
23,890	10,492
100,255	92,276
115	168
	116
66,890	36,064
<u>663,500</u>	<u>588,323</u>
54,789	44,568
53,898	47,975
241,632	236,426
9,920	9,549
52,178	56,754
19,814	22,343
42,645	36,858
13,368	18,439
14,876	19,546
184,528	81,222
26,511	25,003
30,293	26,488
	352
<u>744,452</u>	<u>625,523</u>
(80,952)	(37,200)
42,673	41,580
(42,074)	(40,981)
	5,000
48,736	209,166
(24,823)	(47,665)
<u>24,512</u>	<u>167,100</u>
(56,440)	129,900
327,884	197,984
<u>\$ 271,444</u>	<u>\$ 327,884</u>

CITY OF CLEVELAND, OHIO

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-GENERAL, BUDGETED SPECIAL REVENUE AND BUDGETED DEBT SERVICE FUND TYPES-LEGAL APPROPRIATION LEVEL

For the Year Ended December 31, 1998

(Amounts in 000's)

	General Fund				Budgeted Special Revenue Funds			
	Original Budget	Revised Budget	Actual	Variance- Favorable (Unfavor- able)	Original Budget	Revised Budget	Actual	Variance- Favorable (Unfavor- able)
REVENUES								
Income taxes	\$ 227,758	\$ 227,758	\$ 230,863	\$ 3,105	\$ 28,470	\$ 28,470	\$ 28,858	\$ 388
Property taxes	43,443	43,443	43,026	(417)				
State local government fund	51,430	51,430	54,255	2,825				
Other shared revenues	25,252	25,252	26,581	1,329	10,425	10,425	10,929	504
Licenses and permits	9,104	9,104	10,303	1,199	374	374	280	(94)
Charges for services	14,351	14,351	14,975	624	1,156	1,156	893	(263)
Fines and forfeits	14,257	14,257	15,914	1,657				
Investment earnings	2,115	2,115	4,241	2,126				
Grants								
Workers compensation settlement and refunds	1,750	1,750		(1,750)				
Enterprise reimbursements								
Miscellaneous	21,734	21,734	9,508	(12,226)	3,902	3,902	5,171	1,269
TOTAL REVENUES	411,194	411,194	409,666	(1,528)	44,327	44,327	46,131	1,804
EXPENDITURES								
Current:								
General government	46,212	47,402	45,902	1,500				
Public service	31,777	30,996	30,669	327	22,728	22,728	21,721	1,007
Public safety	240,770	240,991	240,717	274				
Community development	6,442	6,482	6,461	21				
Public health	10,871	10,909	10,418	491				
Maintenance, parks and recreation	35,524	35,106	34,385	721	2,000	2,000	2,000	
Economic development	1,256	1,082	1,067	15				
Other	14,053	15,012	14,963	49				
Capital outlay					16,938	16,938	16,470	468
Debt service:								
Principal retirement								
Interest								
TOTAL EXPENDITURES	386,905	387,980	384,582	3,398	41,666	41,666	40,191	1,475
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	24,289	23,214	25,084	1,870	2,661	2,661	5,940	3,279
OTHER FINANCING SOURCES (USES)								
Operating transfers in					9,512	9,512	8,602	(910)
Operating transfers out	(24,724)	(23,650)	(23,650)		(11,750)	(11,750)	(11,750)	
TOTAL OTHER SOURCES (USES)	(24,724)	(23,650)	(23,650)		(2,238)	(2,238)	(3,148)	(910)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER (UNDER) EXPENDITURES	(435)	(436)	1,434	1,870	423	423	2,792	2,369
Decertification of prior year encumbrances			503	503			1,218	1,218
Fund balances at beginning of year	554	554	554		6,608	6,608	6,608	
Fund balances at end of year	\$ 119	\$ 118	\$ 2,491	\$ 2,373	\$ 7,031	\$ 7,031	\$ 10,618	\$ 3,587

See notes to financial statements.

Budgeted Debt Service Funds				Totals (Memorandum Only)			
Original Budget	Revised Budget	Actual	Variance- Favorable (Unfavor- able)	Original Budget	Revised Budget	Actual	Variance- Favorable (Unfavor- able)
				\$ 256,228	\$ 256,228	\$ 259,721	\$ 3,493
\$ 22,632	\$ 22,632	\$ 22,686	\$ 54	66,075	66,075	65,712	(363)
				51,430	51,430	54,255	2,825
				35,677	35,677	37,510	1,833
				9,478	9,478	10,583	1,105
				15,507	15,507	15,868	361
				14,257	14,257	15,914	1,657
300	300	800	500	2,415	2,415	5,041	2,626
600	600		(600)	600	600		(600)
				1,750	1,750		(1,750)
		288	288			288	288
				25,636	25,636	14,679	(10,957)
23,532	23,532	23,774	242	479,053	479,053	479,571	518
				46,212	47,402	45,902	1,500
				54,505	53,724	52,390	1,334
				240,770	240,991	240,717	274
				6,442	6,482	6,461	21
				10,871	10,909	10,418	491
				37,524	37,106	36,385	721
				1,256	1,082	1,067	15
				14,053	15,012	14,963	49
				16,938	16,938	16,470	468
20,300	20,300	20,300		20,300	20,300	20,300	
22,144	22,144	20,709	1,435	22,144	22,144	20,709	1,435
42,444	42,444	41,009	1,435	471,015	472,090	465,782	6,308
(18,912)	(18,912)	(17,235)	1,677	8,038	6,963	13,789	6,826
19,050	19,050	17,030	(2,020)	28,562	28,562	25,632	(2,930)
				(36,474)	(35,400)	(35,400)	
19,050	19,050	17,030	(2,020)	(7,912)	(6,838)	(9,768)	(2,930)
138	138	(205)	(343)	126	125	4,021	3,896
						1,721	1,721
8,885	8,885	8,885		16,047	16,047	16,047	
\$ 9,023	\$ 9,023	\$ 8,680	\$ (343)	\$ 16,173	\$ 16,172	\$ 21,789	\$ 5,617

CITY OF CLEVELAND, OHIO
COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS-ALL PROPRIETARY FUND TYPES

For the Year Ended December 31, 1998

(Amounts in 000's)

	Proprietary Fund Types		Totals	
	Enterprise	Internal Service	(Memorandum Only)	
			1998	1997
OPERATING REVENUES				
Charges for services	\$ 413,683	\$ 31,831	\$ 445,514	\$ 404,836
TOTAL OPERATING REVENUES	413,683	31,831	445,514	404,836
OPERATING EXPENSES				
Operations	158,595	27,357	185,952	183,375
Maintenance	41,647	4,218	45,865	44,579
Incentive compensation	2,551		2,551	
Purchased power	58,686		58,686	49,566
Depreciation	51,490	95	51,585	49,858
TOTAL OPERATING EXPENSES	312,969	31,670	344,639	327,378
OPERATING INCOME	100,714	161	100,875	77,458
NON-OPERATING REVENUES (EXPENSES)				
Interest income	35,214	1,014	36,228	25,671
Interest expense	(60,172)		(60,172)	(50,910)
State insurance refund	6,375		6,375	
Passenger facility charge revenue	16,648		16,648	16,125
Other revenues	5,061		5,061	4,228
TOTAL NON-OPERATING REVENUES (EXPENSES)	3,126	1,014	4,140	(4,886)
INCOME BEFORE OPERATING TRANSFERS	103,840	1,175	105,015	72,572
Operating transfers in		601	601	445
Operating transfers out	(1,200)		(1,200)	(1,044)
NET INCOME	102,640	1,776	104,416	71,973
Retained earnings at beginning of year	656,707	744	657,451	585,478
Retained earnings at end of year	\$ 759,347	\$ 2,520	\$ 761,867	\$ 657,451

See notes to financial statements.

CITY OF CLEVELAND, OHIO
COMBINED STATEMENT OF CASH FLOWS-ALL PROPRIETARY FUND TYPES

For the Year Ended December 31, 1998

(Amounts in 000's)

	Proprietary Fund Types		Totals	
	Enterprise	Internal Service	(Memorandum Only)	
			1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 417,977	\$ 32,250	\$ 450,227	\$ 400,612
Cash payments to suppliers for goods or services	(101,611)	(19,882)	(121,493)	(111,022)
Cash payments to employees for services	(106,124)	(11,410)	(117,534)	(112,782)
Cash payments for purchased power	(58,027)		(58,027)	(49,708)
Cash receipts of customer deposits	119		119	205
NET CASH PROVIDED BY OPERATING ACTIVITIES	152,334	958	153,292	127,305
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Cash received through operating transfers from other funds		516	516	445
Construction contract settlement	6,375		6,375	
Cash receipts for passenger facility charges	16,404		16,404	15,188
Cash received from litigation settlement	3,000		3,000	
Agency activity on behalf of other sewer authorities	399		399	(382)
Cash receipts from hotel	3,393		3,393	3,260
Other	1,365		1,365	(201)
Cash transfer to debt service fund				(1,044)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	30,936	516	31,452	17,266
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of revenue bonds and notes	303,302		303,302	274,845
Acquisition and construction of capital assets	(204,091)		(204,091)	(157,502)
Principal paid on long-term debt	(29,707)		(29,707)	(27,929)
Interest paid on long-term debt	(72,608)		(72,608)	(67,295)
Cash paid to escrow agent for refunding	(202,372)		(202,372)	(32,091)
Cash receipts from Convention and Visitor's Bureau				1,044
Capital grant proceeds	358		358	5,914
NET CASH (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(205,118)		(205,118)	(3,014)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investment securities	(427,309)		(427,309)	(409,792)
Proceeds from sale and maturity of investment securities	456,267		456,267	339,504
Interest received on investments	50,200	1,016	51,216	37,448
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	79,158	1,016	80,174	(32,840)
NET INCREASE IN CASH AND CASH EQUIVALENTS	57,310	2,490	59,800	108,717
Cash and cash equivalents at beginning of year	516,483	4,310	520,793	412,076
Cash and cash equivalents at end of year	\$ 573,793	\$ 6,800	\$ 580,593	\$ 520,793

Continued

CITY OF CLEVELAND, OHIO
COMBINED STATEMENT OF CASH FLOWS-ALL PROPRIETARY FUND TYPES-Continued
For the Year Ended December 31, 1998
(Amounts in 000's)

	Proprietary Fund Types		Totals	
	Enterprise	Internal Service	(Memorandum Only)	
			1998	1997
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
OPERATING INCOME	\$ 101,583	\$ 161	\$ 101,744	\$ 77,458
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	50,621	95	50,716	49,858
Loss on fixed assets disposed	461		461	2,355
Change in assets and liabilities:				
Accounts receivable	(2,426)		(2,426)	(1,959)
Unbilled revenue	518		518	(5,241)
Due from other funds	(1,947)	1,478	(469)	3,841
Inventory of supplies	(114)	(3)	(117)	174
Prepaid expenses	35		35	
Landing fee adjustment payable to airlines	(4,593)		(4,593)	501
Accounts payable	(1,606)	(646)	(2,252)	3
Due to other funds	6,702	(272)	6,430	613
Due to other governments	1,073	(14)	1,059	(274)
Accrued expenses	(31)		(31)	300
Accrued wages and benefits	1,731	159	1,890	(624)
Sundry liabilities	327		327	300
TOTAL ADJUSTMENTS	50,751	797	51,548	49,847
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 152,334	\$ 958	\$ 153,292	\$ 127,305

See notes to financial statements.

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS

NOTE A - DESCRIPTION OF CITY OPERATIONS AND BASIS OF PRESENTATION

The City: The City of Cleveland, Ohio (the "City") operates under an elected Mayor/Council (21 members) administrative/legislative form of government.

Reporting Entity: The accompanying financial statements of the City present the financial position of the various fund types and account groups, the results of operations of the various fund types, and the cash flows of the proprietary funds. The financial statements are presented as of December 31, 1998, and for the year then ended, and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

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

On this basis, the City's financial reporting entity has no component units but includes all funds, account groups, agencies, boards and commissions that are part of the primary government, including police and fire protection, waste collection, parks and recreation, health, certain social services and general administrative services. In addition, the City owns and operates ten enterprise activities, the major ones consisting of a water system, a sewer system, an electric distribution system, two airports, municipal parking lots and a convention facility.

The following entities are related organizations to the City of Cleveland but the City's accountability does not extend beyond appointing authority:

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

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

Cleveland Public Schools - In November 1998 the Mayor of the City of Cleveland was given appointing authority for the Cleveland Public Schools. As approved by the State legislature, the Ohio Revised Code provided for the Mayor to appoint a Chief Executive Officer who was to be approved by the Board of Education. The Board of Education is comprised of nine members. The members of the Board are appointed by the Mayor from a pool of 18 candidates presented to the Mayor by an independent nominating panel.

The following entity is a jointly governed organization to the City of Cleveland but the City has no ongoing financial interest or responsibility:

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

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

Basis of Presentation: The accounts of the City are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for using a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the general purpose financial statements.

Amounts in the "totals-memorandum only" columns represent a summation of the general purpose financial statement line items of the fund types and account groups and are presented only for analytical purposes. The summation includes fund types and account groups that use different bases of accounting, both restricted and unrestricted amounts, interfund transactions that have not been eliminated, and the caption "amount to be provided," which is not an asset in the usual sense. Consequently, amounts shown in the "totals-memorandum only" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures (expenses) of the City.

The following fund types and account groups are used by the City:

Governmental Funds

General Fund: This fund, which is the major operating fund of the City, accounts for the general operating revenues and expenditures of the City not recorded elsewhere. Revenues are derived primarily from property taxes, income taxes and the state local government fund.

Special Revenue Funds: These funds are used to account for specific governmental revenues (other than revenues for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. These funds include most major federal and state grants.

Debt Service Funds: These funds are used to account for the resources received and used to pay principal and interest on debt reported in the General Long-Term Obligations Account Group and certain enterprise funds. Revenues and financing resources are derived primarily from property taxes, reimbursements from enterprise funds and operating transfers by enterprise funds.

Capital Projects Funds: These funds are used to account for the acquisition or construction of capital assets other than those financed by special revenue, enterprise and internal service fund operations. Revenues and financing resources are derived primarily from the issuance of bonds, certificates of participation and the receipt of grants.

Proprietary Funds

Enterprise Funds: These funds are used to account for operations that provide services which are financed primarily by user charges, or activities where periodic measurement of income is appropriate for capital maintenance, public policy, management control or other purposes.

Internal Service Funds: These funds are used to account for the goods or services provided to certain City departments and funds or to other governments on a cost reimbursement basis.

Fiduciary Funds

Agency Funds: These funds are used to account for assets held by the City as an agent for others and include the Central Collection Agency, the Cleveland Municipal Court and payroll deductions withheld and awaiting payment.

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

Account Groups

General Fixed Assets Account Group: This account group is used to present the general fixed assets of the City utilized in its general operations, exclusive of those used in enterprise and internal service funds. General fixed assets include land, buildings, improvements and equipment owned by the City, and the City's share of the Justice Center Building.

General Long-Term Obligations Account Group: This account group is used to account for all long-term obligations of the City except those accounted for in the enterprise funds.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the more significant accounting policies for the City is described below:

Basis of Accounting: All financial transactions for Governmental and Fiduciary Funds are recorded on the modified accrual basis of accounting. Under this accounting method, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the fiscal period. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues accrued at the end of the year primarily consist of reimbursements from other governments for grant expenditures, revenues from other governmental entities for services rendered, state local government fund revenues, other shared revenues, delinquent property taxes, and income taxes receivable arising from payroll tax withholdings for individuals in December and quarterly and annual payments of income taxes pertaining to net profits, self-employment and residents received within 60 days after year end. Governmental and fiduciary fund expenditures are accrued when the fund liability is incurred except for interest on long-term debt, which is recorded when due. Financial transactions for proprietary funds are recorded on the accrual basis of accounting; revenues are recognized when earned, and expenses are recognized as incurred. Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Activities", all Proprietary Funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, Proprietary Funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements (unless they conflict with GASB pronouncements). The City has chosen not to apply future FASB standards.

Measurement Focus: All Governmental Funds are accounted for on a spending or current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Resources not available to finance expenditures or commitments of the current period are recognized as deferred revenue. Liabilities for claims, judgments, compensated absences, police and fire overtime and police and fire deferred vacation which will not be currently liquidated using expendable financial resources are shown in the General Long-Term Obligations Account Group.

All Proprietary Funds are accounted for on a flow of economic resources measurement focus and upon determination of net income, financial position and cash flows.

Budgetary Accounting and Control: The City is required by state law to adopt annual budgets for the General Fund, Special Revenue Funds including the Division of Streets, Restricted Income Tax, Rainy Day Reserve Fund, Schools Recreation and Cultural Activities Fund, and Debt Service Funds (except for Urban Renewal and Urban Renewal Reserve Funds). Modifications to the original budget are approved by City Council throughout the year. The City maintains budgetary control by not permitting expenditures to exceed appropriations for personnel costs, (including benefits) other costs, debt service and capital outlay within a division of the City without the approval of City Council. Adjustments to the budget can only be made within a division and then within each category. Further legislation is needed in order to move budget authority from "personnel" to "other" or vice versa, or between divisions. City Council adopted an additional supplemental appropriation for 1998.

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

Unencumbered appropriations for annually budgeted funds lapse at year end. Budgetary data are not presented for the Proprietary Funds due to the nature of the funds. There is no legal requirement to report on such budgets.

The actual results of operations as compared to the amended appropriations passed by Council are presented in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual (Non-GAAP Budgetary Basis)-General, Budgeted Special Revenue and Debt Service Fund Types, in accordance with the City's budgetary process (budget basis) to provide a meaningful comparison of actual results with the budget for those governmental funds for which annual budgets are prepared.

The City's budgetary process does not include annual budgeting for grant funds and capital project funds. Appropriations in these funds remain open and carry over to succeeding years (i.e., multi-year) until the related expenditures are made or until they are modified or canceled. Appropriations for these funds are controlled on a project basis and therefore budgetary comparison statements on an annual basis do not provide meaningful information and, accordingly, are not presented.

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP basis).

The major differences between the budget basis and the GAAP basis are that:

- (1) Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
- (2) Expenditures are recorded when paid in cash or encumbered (budget) as opposed to when goods or services are received (GAAP). Encumbrances are recorded as expenditures (budget) as opposed to reservation of fund balance (GAAP).

	Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses		
	General Fund	Special Revenue Funds	Debt Service Funds
	(Amounts in 000's)		
GAAP Basis	\$24,336	\$19,004	\$787
Less funds not budgeted on an annual basis		18,945	(179)
GAAP basis for budgeted funds	24,336	59	966
Increase (decrease):			
Accrued receivables at December 31, 1998, not recognized in the 1998 budget	(140,526)	(19,714)	(23,854)
Accrued receivables at December 31, 1997, recognized in the 1998 budget	104,422	17,046	22,442
Net impact of encumbrances on budget basis expenditures and other adjustments	8,543	4,540	1
Accrued liabilities at December 31, 1998, not recognized in the 1998 budget	87,720	7,786	20,792
Accrued liabilities at December 31, 1997, recognized in the 1998 budget	(83,061)	(6,925)	(20,552)
Budget basis for budgeted funds	\$1,434	\$2,792	(\$205)

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

Pooled Cash and Investments: Cash resources of certain individual funds are combined to form a pool of cash and investments which is managed by the City Treasurer. Investments in the Pooled Cash Account, consisting of certificates of deposit, repurchase agreements, U.S. government securities, Star Ohio and time deposits, are carried at market value (see Note C). Interest earned on pooled cash and investments is distributed to the appropriate funds utilizing a formula based on the average weekly balance of cash and investments of each fund.

Cash and Cash Equivalents: Cash and cash equivalents are defined as highly liquid investments with a maturity of three months or less when purchased.

Investments: Effective January 1, 1998, the City adopted the provisions of GASB Statement number 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools," which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement number 31, the City has stated certain investments at fair value. The effect of the change on the financial statements was not significant, accordingly prior year financial statements were not restated.

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

Inventory of Supplies: Inventory is valued at average cost except Special Revenue Fund inventory which is valued at cost. Inventory generally consists of construction and utility plant supplies not yet placed into service. Inventory costs are charged to operations when consumed.

Restricted Assets: Proceeds from debt and amounts set aside for payment of enterprise fund general obligation debt and revenue bonds are classified as restricted assets since their use is limited by applicable bond indentures.

Fixed Assets and Depreciation: Property, plant and equipment is stated on the basis of historical cost, or if contributed, at fair market value at the date received. Infrastructure, pertaining to Governmental Fund Type activities, including streets, bridges and sidewalks, is not capitalized by the City. Depreciation is not provided in the General Fixed Assets Account Group. Depreciation for the Proprietary Fund Types is determined by allocating the cost of fixed assets over the estimated useful lives of the assets using the straight-line method. When property is disposed of, the cost and related accumulated depreciation are removed from the accounts with gains or losses on disposition being reflected in operations. The estimated useful lives are as follows:

Utility plant in service	6 to 100 years
Buildings, structures and improvements	10 to 65 years
Furniture, fixtures and equipment	5 to 33 years

Capital Outlay: The City reports capital outlays in the fund which provides the resources.

Idle Facilities: In April 1977, the Division of Cleveland Public Power closed its generation plant and since that time the Division's revenues have been derived primarily from the distribution of purchased power. Management has several options available for rehabilitating the plant and returning it to operation. With the present availability of competitively priced purchased power, the plant will remain idle until such time as returning it to operation is economically desirable. In the interim, the Division continues its past practice of depreciating the plant at rates which will complete the depreciation of the plant by approximately 1999. Revenues from consumption rates charged are sufficient to cover depreciation, maintenance and other overhead charges.

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

Capitalization of Interest: The City's policy is to capitalize interest on Proprietary Fund Type construction projects until substantial completion of the project. Capitalized interest is amortized on the straight-line basis over the estimated useful lives of such assets. The City applies Statement of Financial Accounting Standards No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*, for its Waterworks Improvement First Mortgage Revenue Bonds, its Public Power Improvement First Mortgage Revenue Bonds and its Parking Facilities Refunding Revenue Bonds. This Statement requires capitalization of interest cost of the borrowings less interest earned on investment of the bond proceeds from the date of the borrowing until the assets constructed from the bond proceeds are ready for their intended use.

For 1998, total interest expense incurred for the Proprietary Funds was \$81,369,000 which was reduced by \$21,197,000 of interest expense capitalized. For 1998, total interest income earned by the Proprietary Funds was \$50,632,000 which was reduced by \$14,404,000 of interest income capitalized.

Contributed Capital: Contributed capital represents federal and state grants and other financial resources supplied to the City's Proprietary Funds which are not subject to mandatory repayment.

Grants and Other Intergovernmental Revenues: Federal grants and assistance awards made on the basis of entitlement programs are recorded as intergovernmental receivables and revenues when entitlement occurs. Federal reimbursement-type grants for the acquisition of fixed assets of Proprietary Fund Types are recorded as intergovernmental receivables and contributed capital when the related expenses occur. Other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures (expenses) are incurred. The City accounts for loans receivable related to the Economic Development Funds, Urban Development Action Funds, Community Development Block Grants and Supplemental Empowerment Zone as deferred revenue and recognizes revenues when the principal and interest payments are received. The loan proceeds are earmarked for future reprogramming under federal guidelines and are not available to fund current operating expenditures of the City.

The City participates in the State Issue 2 program and the Local Transportation Improvement Program. Through these programs, the State of Ohio (State) provides financial assistance to the City for its various road and bridge improvements and storm water detention facilities. The Ohio Public Works Commission (OPWC) is the State agency which oversees the allocation of State bond proceeds and tax revenue to selected projects which have met funding requirements. Upon approval of the OPWC, the City and the State create project agreements establishing each entity's financial contribution toward each project. Through December 31, 1998, the State funded \$52,084,800 of road and bridge improvement projects. Also funded was \$4,800,000 for storm water detention facilities recorded in the Enterprise Fund's Division of Water Pollution Control.

Encumbrances: Encumbrance accounting is employed in the General, certain Special Revenue, and Capital Projects Funds. Purchase orders and requisitions, contracts, and other commitments for expenditures are recorded as encumbrances to reserve the applicable portion of the appropriation. Encumbrances outstanding at year end are reported as a reservation of fund balances since they do not constitute expenditures or liabilities and are carried forward to the next fiscal year.

Interfund Transactions: During the course of normal operations, the City has numerous transactions between funds, including transfers of resources to provide services, construct assets and service debt. Such transactions are generally reflected as operating transfers or reimbursements in the accompanying financial statements.

Statement of Cash Flows: The City utilizes the direct method of reporting cash flows from operating activities in the Statement of Cash Flows as defined by the Governmental Accounting Standards Board Statement No. 9. In a statement of cash flows, cash receipts and cash payments are classified according to operating, non-capital financing, capital and related financing, and investing activities.

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

Compensated Absences: In conformity with the Governmental Accounting Standards Board Statement No. 16, the City accrues vacation and sick pay benefits including their related fringe benefits as earned by its employees. For Governmental Fund Types, the liability not currently due and payable at year end is recorded in the General Long-Term Obligations Account Group.

Normally, all vacation time is to be taken in the year available unless written approval for carryover of vacation time is obtained. Sick days not taken may be accumulated until retirement. An employee is paid one-third of accumulated sick leave, calculated at current wage rates, upon retirement with the balance being forfeited.

Police and Fire Deferred Vacation: Uniformed police and fire employees are eligible to defer earned vacation time, with the appropriate approvals, until retirement. Once deferred, the employee cannot use deferred time as vacation. Deferred vacation is paid to the employee upon retirement, calculated using the hourly rate and their related fringe benefits at the date of retirement.

Future Capital Improvements: Certain resources have been designated by City management to fund future capital improvements. These resources are classified as "Designated for future capital improvements" in the fund balance of the Governmental Fund Types.

Rainy Day Reserve Fund: The Rainy Day Reserve Fund was established to account for assets that are only eligible to be used during significant periods of economic downturn or to fund unanticipated one-time General Fund obligations.

Reserved Fund Balance: Fund balances are reserved to indicate that they do not constitute available financial resources and have been specifically reserved by City ordinance or other requirements.

Reclassifications: Certain amounts for 1997 have been reclassified to conform with 1998 classifications.

NOTE C - POOLED AND SEGREGATED CASH AND INVESTMENTS

Monies for the Debt Service Funds, certain Capital Projects Funds, Central Collection Agency, Municipal Courts, Department of Port Control, Division of Water, Division of Water Pollution Control, Division of Cleveland Public Power, Division of Municipal Parking Lots and certain Special Revenue Funds are deposited or invested in individual segregated bank accounts. Monies for the Job Training Partnership Act (JTPA) Grants, Neighborhood Development Investment Funds, Economic Development Funds, Supplemental Empowerment Zone and other Special Revenue Funds are also deposited in segregated bank accounts.

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

Certain funds have made disbursements from the PCA in excess of their individual equities in the PCA. Such amounts have been classified as interfund receivables and payables between the Restricted Income Tax Fund and the respective funds that have made disbursements in excess of their individual equities in the PCA.

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

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

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

Monthly, the City determines that the collateral has a market value adequate to cover the deposits and that it has been segregated either physically or in book entry form. At year end, the carrying amount of the City's deposits including certificates of deposit was \$47,231,993 and the actual bank balance including accrued interest totaled \$80,059,680. The difference represents outstanding warrants payable and normal reconciling items. Based on the criteria described in GASB Statement No. 3, \$5,085,187 of the bank balance was insured or collateralized with securities held by the City or by its agent in the City's name.

The remaining balance of \$74,974,493 was uninsured and uncollateralized (which includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department but not in the City's name). Of this amount, \$61,969,624 was invested in two bank investment contracts (BIC). The first BIC, with a cost of \$55,789,149, is secured by repurchase agreements of government securities held as collateral by the City's trustee in the name of the trustee. The second BIC of \$6,180,475 is secured by securities held by the pledging financial institution's trust department but not in the City's name. The remaining amount, \$13,004,869 was secured by a collateral pool held at the Federal Reserve Bank in the name of the respective depository bank which pledges a pool of collateral against all public deposits it holds.

Investments: The City's investment policies are governed by state statutes and City ordinances which authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; bonds and other State of Ohio obligations; certificates of deposit; U.S. Government Money Market Mutual Funds; State Treasurer Asset Reserve Fund (Star Ohio), guaranteed investment contracts and repurchase transactions. Such repurchase transactions must be purchased from financial institutions as discussed in "Deposits" above or registered broker/dealers. Repurchase transactions are not to exceed a period of one year and confirmation of securities pledged must be obtained. Under City policy, investments are limited to repurchase agreements, U.S. government securities, certificates of deposit, investments in certain money market mutual funds and State Treasurer Asset Reserve Fund (Star Ohio). Generally, investments are recorded in segregated accounts by way of book entry through the bank's commercial or trust department and are kept at the Federal Reserve Bank in the depository institution's separate custodial account for the City, apart from the assets of the depository institution. Ohio statute prohibits the use of Reverse Repurchase Agreements as of September 1996.

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

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

Investments are categorized to give an indication of the level of risk assumed by the City at year end. The categorized investments shown in the following table include those which are classified as cash and cash equivalents in the balance sheet in accordance with the provisions of GASB Statement No. 9:

Type of Investment	(1) Insured or Registered, or Securities Held by the City or its Agent in the City's Name	(2) Uninsured and Unregistered, with Securities Held by the Counterparty's Trust Department or Agent in the City's Name	(3) Uninsured and Unregistered, with Securities Held by the Counterparty, or its Trust Department or Agent but Not in the City's Name	Market Value	Cost
Repurchase Agreements			\$44,069,000	\$44,069,000	\$44,069,000
U.S. Treasury Bonds		\$13,969,663		13,969,663	12,898,806
U.S. Treasury Bills		25,059,501		25,059,501	24,772,683
U.S. Treasury Notes		27,295,449		27,295,449	27,307,423
Certificates of Participation		14,549,401		14,549,401	14,544,006
U.S. Agency Obligations	\$388,154,415	8,186,956		396,341,371	393,716,543
	<u>\$388,154,415</u>	<u>\$89,060,970</u>	<u>\$44,069,000</u>	<u>521,284,385</u>	<u>517,308,461</u>
State Treasurer Asset					
Reserve Fund (Star Ohio)				57,630,406	57,630,406
Investments in Mutual Funds				101,217,669	101,217,669
Guaranteed Investment Contracts				421,266,981	421,266,981
Total Investments				<u>\$1,101,399,441</u>	<u>\$1,097,423,517</u>

Star Ohio is an investment pool created pursuant to Ohio Statutes and managed by the Treasurer of the State of Ohio. Amounts invested with Star Ohio, mutual funds and guaranteed investment contracts are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 3.

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE D - BONDS, DEBT AND OTHER OBLIGATIONS

A summary of all outstanding debt of the City as of December 31, 1998 is as follows:

	Balance January 1, 1998	Additions	(Reductions)	Balance December 31, 1998
	(Amounts in 000's)			
General Long-Term Obligations and Notes				
General Obligation Bonds due through 2020, 3.5% to 9.875%	\$299,100	\$49,075	(\$42,010)	\$306,165
<i>Other Obligations:</i>				
Urban Renewal Bonds due through 2018, 3.60% to 6.75%	9,930		(245)	9,685
Subordinated Income Tax Refunding Bonds due through 2024, 4.375% to 15.00%	72,800		(1,000)	71,800
Non-tax Revenue Bond Anticipation Notes	20,000			20,000
Certificates of Participation - 1992 and 1995	27,378		(4,616)	22,762
Certificates of Participation - Stadium	139,345		(1,350)	137,995
Capital lease obligations	2,799		(458)	2,341
Gateway Note Payable	4,750		(250)	4,500
Accrued wages and benefits	35,596	3,034		38,630
Police and fire overtime	54,022		(508)	53,514
Police and fire deferred vacation	1,043	218		1,261
Estimated claims payable	2,111		(11)	2,100
Total General Long-Term Obligations and Notes	\$668,874	\$52,327	(\$50,448)	\$670,753
Enterprise Funds				
Airport System Revenue Bonds:				
Series 1976 due through 1998, 7.00%	\$4,085		(\$4,085)	\$0
Series 1990 due through 2020, 6.50% to 7.40%	36,021		(2,305)	33,716
Series 1994 due through 2024, 4.60% to 7.95%	83,640		(1,405)	82,235
Series 1997 due through 2027, 4.25% to 7.00%	277,165		(590)	276,575
Public Power System Revenue Bonds:				
Series 1991 due through 2017, 5.90% to 7.00%	60,265		(1,555)	58,710
Series 1994 due through 2015, 6.30% to 7.00%	112,360		(4,245)	108,115
Series 1996 due through 2024, 5.00% to 6.00%	123,045		(665)	122,380
Waterworks Improvement Revenue Bonds:				
Series 1977 due in 2008, 6.13%	12,905			12,905
Series 1986 due through 2015, 5.00% to 7.00%	22,335		(3,375)	18,960
Series 1987 refunded in 1998, 6.8%	15,335		(15,335)	0
Series 1992 due through 2016, 5.50% to 6.50%	172,585		(80,140)	92,445
Series 1993 due through 2021, 4.60% to 5.50%	219,870		(3,610)	216,260
Series 1996 due through 2026, 4.45% to 6.00%	204,885		(102,525)	102,360
Series 1998 due through 2028, 4.0% to 5.25%		305,650		305,650
Ohio Water Development Authority Loans				
due through 2003, 4.18% to 9.47%	8,761	927	(766)	8,922
Parking Facilities Refunding Revenue Bonds				
due through 2022, 4.25% to 6.00%	81,005		(100)	80,905
Capital Lease Obligations - Cleveland Public Power		1,868	(329)	1,539
	1,434,262	308,445	(221,030)	1,521,677
Less: Unamortized premium (discount)-net	(54,502)	35	5,650	(48,817)
Unamortized advance debt refunding	(43,314)	(14,867)	2,800	(55,381)
Total Enterprise Debt	\$1,336,446	\$293,613	(\$212,580)	\$1,417,479
Total Debt	\$2,005,320	\$345,940	(\$263,028)	\$2,088,232

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

A summary of the City's future debts service requirements for tax supported general obligations, enterprise fund self-supporting obligations, urban renewal obligations and subordinated income tax refunding bonds as of December 31, 1998 follows:

Due In	General Long Term Obligations Bonds Payable		Enterprise Obligations		Urban Renewal Obligations		Subordinated Income Tax Refunding Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
(Amounts in 000's)								
1999	\$20,270	\$15,993	\$34,954	\$69,899	\$255	\$632	\$1,100	\$5,057
2000	21,070	14,917	40,106	77,080	270	618	1,200	4,989
2001	21,615	13,761	44,628	74,789	285	603	1,300	4,886
2002	22,230	12,664	42,485	76,908	300	587	1,300	4,794
2003	22,285	11,528	45,152	74,947	320	569	1,400	4,698
2004-2008	107,355	41,234	272,008	327,484	1,930	2,520	8,600	21,826
2009-2013	71,275	15,212	317,858	237,562	2,655	1,795	11,900	18,195
2014-2018	19,715	2,725	317,233	153,313	3,670	776	16,500	13,189
2019-2023	350	29	271,175	73,259	0	0	23,000	6,248
2024-2028	0	0	136,078	15,560	0	0	5,500	196
Total	\$306,165	\$128,063	\$1,521,677	\$1,180,801	\$9,685	\$8,100	\$71,800	\$84,078

The outstanding debt by purpose, as of December 31, 1998 is as follows:

	Original Issue Amount	Balance January 1, 1998	Debt Issued 1998	Debt Refunded/Retired 1998	Balance December 31, 1998
(Amounts in 000's)					
Unvoted General Obligations					
Public Facilities	\$87,100	\$30,480	\$6,930	\$3,215	\$34,195
Public Service	8,145	3,235		2,040	1,195
Convention Center	27,090	12,755		5,380	7,375
Residential Redevelopment	9,295	4,955	1,020	610	5,365
Bridges & Roadways	121,915	59,765	10,900	11,615	59,050
Public Safety	26,705	2,690		1,440	1,250
Parks & Recreation	55,755	20,500	5,495	4,610	21,385
Waterways	2,740	840		165	675
Parking	10,000	2,075		415	1,660
Refunding Bonds	229,925	158,450	24,730	11,390	171,790
Judgement/Settlement	14,500	3,355		1,130	2,225
	593,170	299,100	49,075	42,010	306,165
Revenue Bonds					
Airport	437,666	400,911		8,385	392,526
Public Power	409,755	295,670		6,465	289,205
Waterworks	1,381,735	647,915	305,650	204,985	748,580
Parking Facilities	81,105	81,005		100	80,905
Loans and Capital Lease Obligations					
Water	3,134	831		253	578
Water Pollution Control	5,849	7,930	927	513	8,344
Cleveland Public Power	1,868	0	1,868	329	1,539
	2,321,112	1,434,262	308,445	221,030	1,521,677
Total	\$2,914,282	\$1,733,362	\$357,520	\$263,040	\$1,827,842

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

General Obligations Bonds and Notes

The City classifies general obligation bonds and notes as follows:

Unvoted Tax Supported Obligations: General obligation bonds of the City, not authorized by a vote of the electors, and notes issued in anticipation of such bonds, payable from ad valorem property taxes levied within the limitations provided by law, irrespective of whether such bonds or notes are secured by other receipts of the City in addition to such ad valorem property taxes.

Self-Supporting Obligations: Voted and unvoted general obligation bonds of the City, and notes issued in anticipation of such bonds, issued for permanent improvements which constitute or are part of an Enterprise Fund of the City. As of December 31, 1998, the City has no self-supporting obligations outstanding.

Legal Debt Margin: Under the Uniform Bond Act of the Ohio Revised Code, the City at December 31, 1998 had the capacity to issue \$295,036,333 of additional debt under the direct debt limit. However, significantly less could be issued under the indirect debt limit.

An agreement exists between the City of Cleveland and the Convention and Visitors Bureau of Greater Cleveland (Visitors Bureau), an Ohio not-for-profit corporation, whereby the Visitors Bureau has agreed to fund 64% of the construction costs, interest expense and financing costs associated with the improvements to the Convention Center. These improvements were financed through the issuance of General Obligation Bonds and Notes. The Visitors Bureau's portion is established at a maximum of \$33,600,000. As of December 31, 1998, the Visitors Bureau has made payments to the City totaling \$12,790,000.

Series 1998 General Obligation Bonds: Effective October 14, 1998, the City issued \$49,075,000 of Various Purpose General Obligation Bonds, Series 1998. The proceeds are being used to finance various capital improvements to certain of the City's properties and assets, to advance refund \$22,710,000 of the City's outstanding general obligation bonds, and to pay costs of issuance.

Net proceeds in the amount of \$24,823,570 were placed in an irrevocable escrow account which, including interest earned, will be used to pay the principal, interest and redemption premium on the \$22,710,000 general obligation bonds which were advance refunded. The proceeds are invested in government obligations in the form of United States Treasury Obligations, State and Local Government Series. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the general long term debt account group.

As a result of this advance refunding, the City will realize gross debt service savings of \$726,000 over the life of the bonds and obtain an economic gain (difference between the present value of the old and new debt service payments) of \$765,640.

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

Other Obligations

Urban Renewal Bonds: In 1993, the City issued \$11,515,000 of Urban Renewal Increment Bonds (Rock and Roll Hall of Fame and Museum Project) for the purpose of paying a portion of the costs of the acquisition and construction of a "port authority educational and cultural facility" to conduct programs of an educational and instructional nature relating to the field of contemporary music, including rock and roll music, which will constitute the Rock and Roll Hall of Fame and Museum ("the Facility"). The net proceeds were contributed to the Cleveland-Cuyahoga County Port Authority which owns and leases the facility to Rock and Roll Hall of Fame and Museum, Inc., an Ohio non-profit corporation. The Rock and Roll Hall of Fame and Museum opened in September 1995. The Urban Renewal Increment Bonds are not general obligations of the City and are not secured by the full faith and credit of the City nor are they payable from the general revenues or assets of the City. Urban Renewal Bonds are secured solely by pledged receipts, consisting of payments to be made in lieu of real property taxes pursuant to Development Agreements between the City and certain property owners and interest income on those payments.

Subordinated Income Tax Refunding Bonds: Effective June 1, 1994, the City issued \$74,700,000 of Subordinated Income Tax Variable Rate Refunding Bonds, Series 1994 (the "Bonds"). The proceeds were used to fund the City's obligation for the employer's accrued liability to the Police and Firemen's Disability and Pension Fund of the State of Ohio ("the Fund"), to fund a deposit to the reserve fund and to pay costs of issuance. The principal use of the proceeds was for the current refunding of the City's obligation to the Fund for the employer's accrued liability in the amount of \$104,686,400, which was payable in semi-annual installments of \$2,696,243 through May 15, 2035. Pursuant to Section 742.30 (C) of the Ohio Revised Code, the City and the Fund entered into an agreement that permitted the City to make a one time payment to the Fund to extinguish the City's obligation. The payment amount of \$70,493,204 was calculated by applying a 35% discount factor to the \$104,686,400 accrued liability plus adding accrued interest of \$2,447,044. The Bonds are not general obligations of the City and are not secured by its full faith and credit. The Bonds are unvoted special obligations secured by a pledge of and a lien on the unrestricted municipal income taxes of the City, to the extent that such income taxes are not needed to pay debt service on the City's currently outstanding unvoted general obligation bonds or unvoted general obligation bonds issued in the future. The Bonds bear interest at a variable rate, determined from time to time by the remarketing agent in accordance with the indenture. As a result of a Tax Court ruling on similar bonds issued by the City of Columbus, Ohio, the City's Special Tax Counsel, Squire, Sanders & Dempsey L.L.P., issued an opinion on August 7, 1998, that the Subordinated Income Tax Refunding Bonds are tax exempt. As of that date, the bonds were remarketed as variable rate tax-exempt bonds. During 1998, the variable interest rate paid by the City on these Bonds ranged from 3.15% to 5.98%. The schedule on page 51 represents the debt service requirements on the Bonds assuming a rate of interest of 5.26%.

Nontax Revenue Bond Anticipation Notes: In 1996, the City issued \$15,000,000 of Nontax Revenue Bond Anticipation Notes to finance the demolition of the existing Cleveland Stadium and other development costs and to pay costs of issuance. In early 1997, the City issued an additional \$5,000,000 of such notes. Both issues of Nontax Revenue Bond Anticipation Notes were retired on October 14, 1997 with the issuance of \$20,000,000 Nontax Revenue Bond Anticipation Notes, Series 1997B which are due October 1, 1999. These notes are not general obligations of the City and are not secured by its full faith and credit.

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

Certificates of Participation-1992 and 1995: Certificates of Participation were issued to fund the acquisition of certain motor vehicles and communication equipment for lease to the City. The City will make basic lease payments during successive renewal periods of one year or less through July 1, 2003, if the City Council appropriates funds each year for that purpose. The Certificates do not constitute a debt or a pledge of the faith and credit of the City, and the City is not a party to the Certificates. If the Lease is renewed through July 1, 2003, and the City makes a purchase payment and complies with certain other conditions, the City will acquire title to the property. The following is a schedule of the future lease payments for these Certificates of Participation at December 31, 1998:

	<u>Principal</u>	<u>Interest</u>
	(Amounts in 000's)	
1999	\$ 5,392	\$ 1,300
2000	5,611	955
2001	4,788	614
2002	3,887	345
2003	3,084	126
Total	<u>\$ 22,762</u>	<u>\$ 3,340</u>

Certificates of Participation-Stadium: Effective June 1, 1997, Certificates of Participation in the amount of \$139,345,000 were issued to assist in the construction of an open-air stadium for the play of professional football and other events. The City will make lease payments subject to annual appropriation by City Council and certification by the Director of Finance as to the availability of funds from those appropriations. This obligation does not constitute a debt or pledge of the full faith and credit of the City. The following is a schedule of the future payments for the Stadium Certificates of Participation outstanding as of December 31, 1998:

	<u>Principal</u>	<u>Interest</u>
	(Amounts in 000's)	
1999	\$ 1,425	\$ 7,293
2000	1,495	7,231
2001	1,520	7,164
2002	1,690	7,094
2003	1,860	7,015
2004-2008	16,380	33,542
2009-2013	42,055	25,652
2014-2018	20,775	16,636
2019-2023	25,320	10,811
2024-2028	25,475	3,429
Total	<u>\$137,995</u>	<u>\$125,867</u>

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

Capital Lease Obligations: The City has entered into agreements to lease equipment. Such agreements are treated as lease purchases (capital leases) and are classified as long-term lease obligations in the financial statements. The lease contracts contain annual one-year renewal options that can be exercised by the City if sufficient funds are appropriated by City Council. Upon the exercise of each annual one-year renewal option and satisfaction of the lease obligations related thereto, title to the equipment will pass to the City. During 1998, operating lease payments for the City were immaterial. Future minimum lease payments under capital leases at December 31, 1998 are \$597,218 per year through year 2002 and \$248,018 in 2003. Of these amounts, \$295,071 represents interest resulting in a capital lease obligation outstanding of \$2,341,819 at December 31, 1998.

Gateway Note Payable: In October 1996, the City and Cuyahoga County each agreed to pay \$5,000,000 for additional costs associated with the Gateway Sports Complex. The amounts are to be repaid in annual installments of \$250,000 for 20 years. The monies will be deducted from the monthly distribution of the State local government fund. The first deduction was made in March 1997. This liability is reported in the general long-term debt account group.

Police and Fire Overtime and Deferred Vacation Pay: Uniformed employees of the Police and Fire Divisions accumulate overtime compensation in accordance with the union contracts and the requirements of the Fair Labor Standards Act. In addition, uniformed employees may defer earned vacation time, with the appropriate approvals, until retirement. The liabilities for overtime and deferred vacation time, at current pay rates including their related fringe benefits and converted to straight time hours, at December 31, 1998, follow:

Division	Overtime		Deferred Vacation	
	Hours	Dollars	Hours	Dollars
		(Amounts in 000's)		
Police	2,133	\$ 48,506	1	\$ 4
Fire	216	5,008	54	1,257
Total	<u>2,349</u>	<u>\$ 53,514</u>	<u>55</u>	<u>\$1,261</u>

Such employees are entitled to receive cash payments for their accumulated hours upon retirement or other termination from the City's payroll. For employees not terminating, accumulated overtime is paid once a year up to the budgeted amount for such purpose. Accumulated overtime is paid in June upon receiving requests in the first quarter. If requests exceed the budgeted amount, the requests are to be paid on a pro-rata basis. No accumulated overtime was paid subsequent to year end during the available and measurable period, therefore, the full amount is included in the general long-term debt account group. Deferred vacation is available to the employee only as a cash payment upon retirement or other termination from the City's payroll. The accumulated hours are paid at the employee's hourly rate at the date of retirement, other termination or at the date of the payment pursuant to a request, which may differ from the rate used to determine the liability above.

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

Enterprise Obligations

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

Airport Special Revenue Bonds: Airport Special Revenue Bonds, Series 1998, totaling \$75,120,000 were issued March 1, 1998 to finance the design and construction of a new regional jet concourse leased to Continental Airlines, Inc. at Cleveland Hopkins International Airport. At the same time, the City authorized and sold \$71,440,000 of Airport Special Revenue Refunding Bonds, Series 1999, the proceeds of which will be used to currently refund \$74,975,000 aggregate principal amount of the City's 1990 Airport Special Revenue Bonds issued on behalf of Continental and expected to be outstanding on December 1, 1999. These Bonds are special limited obligations of the City of Cleveland and do not constitute a debt, liability or general obligation of the City or a pledge of Airport revenues. As such, no liabilities relating to the Bonds are included in the accompanying financial statements.

Public Power System Revenue Bonds: These bonds are payable from the net revenues derived from the public power system. The bonds are secured by a pledge of and lien on such net revenues plus a first mortgage lien upon all property of the public power system, including any improvements, additions, replacements and extensions thereto.

Effective January 1999, Public Power System Revenue Bonds, Series 1998 were issued for \$44,840,000. The proceeds from the bonds will be used to advance refund certain series 1991 and 1994 Public Power System Revenue Bonds.

Waterworks Improvement Revenue Bonds: These bonds are payable from the revenues derived from operations of the waterworks system after the payment of all operating and maintenance expenses (net revenue). The bonds are secured by a pledge of and lien on such net revenues plus a first mortgage lien upon all property of the waterworks system, including any improvements, additions, replacements and extensions thereto.

Waterworks Improvement and Refunding Revenue Bonds, Series I, 1998: Effective August 1, 1998, the Division of Water issued \$305,650,000 of Waterworks Improvement and Refunding Revenue Bonds, Series I, 1998. The proceeds were used to pay a portion of the costs of various Waterworks System capital improvements, to fund a deposit to the Debt Service Reserve Fund to advance refund certain Series 1987, 1992 and 1996 Bonds (the "Refunded Bonds"), and to pay the costs of issuance of the Series I Bonds.

Net proceeds of \$172,372,225 were placed in an irrevocable escrow account which, including interest earned, will be used to pay the principal, interest and redemption premium on the Refunded Bonds. The Refunded Series 1987 Bonds were redeemed prior to maturity on November 1, 1998 at a redemption price of 100%. The Series 1992 Bonds maturing on January 1, 2007, 2011 and 2015 will be redeemed prior to maturity on January 1, 2002 at a redemption price of 102%. The Series 1996 Bonds maturing January 1, 2014, 2016, 2021 and 2026 will be redeemed prior to maturity on January 1, 2006 at a redemption price of 102%. The proceeds are invested in non-callable United States Treasury Obligations. As a result, the Refunded Bonds are considered to be defeased and the liability for those bonds has been removed from long term debt. The total aggregate principal amount of bonds refunded by the Series I Bonds was \$162,940,000.

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

Cash Defeasance of Waterworks Improvement First Mortgage Revenue Bonds: Simultaneously with the issuance of the Series I Bonds, the Division of Water applied \$30,000,000 of cash on hand to defease outstanding Series 1992 Bonds (the "Defeased Bonds"). The money was placed in an irrevocable escrow account which, including interest earned, will be used to pay the principal, interest and redemption premium on the Defeased Bonds. Series 1992 Bonds maturing January 1, 2011 in the total principal amount of \$28,055,000 will be redeemed on January 1, 2002 at a redemption price of 102%. The cash has been invested in non-callable United States Treasury Obligations. As a result, the Defeased Bonds are considered to be defeased and the liability for those bonds has been removed from long term debt.

The advance refunding and cash defeasance resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$14,867,420. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2025 using a method of amortization which approximates the effective interest method. The City completed the advance refunding and cash defeasance to reduce its total debt service payments over the next 28 years by \$9,022, 658 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$8,287,219.

Ohio Water Development Authority Loans: These loans are payable from net revenues derived from the waterworks and water pollution control systems. These obligations do not have a lien on revenues of the Divisions.

Parking Facilities Refunding Revenue Bonds: These bonds are payable from net revenues generated from certain parking facilities and other operating revenues of the Division of Municipal Parking Lots, 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 (see Note P).

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

Cleveland Public Power Capital Leases: The Division of Cleveland Public Power entered into agreements to lease equipment. Such agreements are treated as lease purchases (capital leases) and are classified as long term lease obligations in the financial statements. During 1998, operating lease payments for the Division were immaterial. Future minimum lease payments under capital leases at December 31, 1998 are \$563,844 in 1998, \$660,856 in 1999 and \$434,448 in 2000. Of these amounts, \$119,918 represents interest resulting in a capital lease obligation of \$1,539,230 at December 31, 1998.

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

Defeasance of Debt

The City has defeased certain debt by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements.

The aggregate amount of defeased debt outstanding at December 31, 1998 is as follows:

<u>Bond Issue</u>	<u>Amount of Defeased Bonds Outstanding</u>
Voted Tax Supported General Obligations:	
1969	\$65,000
1977	120,000
Unvoted Tax Supported General Obligations:	
1988	\$11,180,000
1989	29,220,000
1990	19,510,000
1991	32,135,000
1992	16,320,000
1994	25,465,000
Waterworks Improvement Bonds:	
Series F, 1992	\$102,340,000
Series H, 1996	183,140,000
Public Power System Bonds:	
Series 1994	\$102,710,000
Parking Facilities Bonds:	
Series 1992	\$67,420,000
Airport System Revenue Bonds:	
Series 1990A & 1990B	\$18,520,000
Series 1994B	7,950,000

NOTE E - RETAINED DEFICITS

At December 31, 1998, the following funds had retained deficits:

<u>Fund Name</u>	<u>Retained Deficit</u>	<u>Contributed Capital</u>	<u>Total Fund Equity</u>
	<i>(Amounts in 000's)</i>		
Enterprise Funds:			
Convention Center	(\$46,639)	\$65,194	\$18,555
West Side Market	(990)	4,284	3,294
Municipal Parking Lots	(2,935)	21,079	18,144
Golf Courses	(382)	4,593	4,211
East Side Market	(115)	2,943	2,828

The above deficits arise principally from the depreciation of fixed assets funded by grants which were recorded as contributed capital.

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE F - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City does not carry commercial insurance for such risks, except for certain proprietary funds and the new football stadium under construction (see Note G). In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Governmental fund type liabilities are recorded in the general fund if amounts are payable with available expendable financial resources. Amounts not currently payable are reported in the general long-term debt account group. As of December 31, 1998, the total of such liabilities for governmental fund types was \$3,230,000. Proprietary fund type liabilities are recorded in their respective fund. As of December 31, 1998, the total amount of proprietary fund type liabilities was \$625,000.

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

	<u>1998</u>	<u>1997</u>
Estimated Claims payable, January 1	\$2,889,000	\$3,112,000
Current year claims and changes in estimates	4,223,218	2,039,000
Claim payments	<u>(3,257,218)</u>	<u>(2,262,000)</u>
Estimated Claims payable, December 31	<u>\$3,855,000</u>	<u>\$2,889,000</u>

The estimated claims liability was based on the estimated cost of settling claims (including incremental claim adjustment expenses) through a case-by-case review of all outstanding claims and by using historical experience. The estimates do not include other allocated or unallocated claim adjustment expenses.

Insurance: Certain proprietary funds carry insurance to cover certain liability risks and property protection. Otherwise, the City is generally self-insured. No material losses, including incurred but not reported losses, occurred in 1998. The City reported no significant decrease in any insurance coverages in 1998. In addition, the City reported no amounts of insurance settlements in excess of insurance coverage during the past three fiscal years.

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

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE G - COMMITMENTS & CONTINGENCIES

Various claims and lawsuits are pending against the City. In accordance with GASB Statement No. 10, those claims which are considered "probable" are accrued, while those claims which are considered "reasonably possible" are disclosed but not accrued. The potential losses resulting from all claims which are reasonably possible, excluding condemnation proceedings, is approximately \$10,200,000 as of December 31, 1998, and approximately \$3,855,000 has been recorded for claims that are considered to be probable.

Cleveland Browns Litigation Settlement: In March 1996, the City and the National Football League (NFL) reached a settlement in litigation relating to the relocation of the Cleveland Browns football team. The settlement obligates the NFL to provide an NFL franchise to play in Cleveland in time for the start of the 1999 NFL football season. In return, the City pledged to build a new stadium in downtown Cleveland for the play of professional football. The Cleveland Browns team name, colors and other heritage property are being held in trust by the Commissioner of the NFL for delivery to the owner of the Cleveland Browns and the Cleveland NFL franchise. On May 15, 1997, ground was broken to construct the new 72,000 seat open-air stadium.

In 1997, the City issued \$139,345,000 of Certificates of Participation (COPs) to fund the stadium construction. In 1996, the City issued \$15,000,000 Nontax Revenue Bond Anticipation Notes, Series 1996A to provide funds to demolish the existing municipal stadium, which is the site of the new stadium, and to provide funds for certain pre-construction costs. In 1997, an additional \$5,000,000 of such notes were issued. The NFL, State of Ohio and the Department of Public Utilities have also agreed to make financial contributions to help fund the construction of the new stadium.

To supplement the cost of the new stadium, new revenue sources have been authorized by City Council. Effective September 1, 1995 the City began levying a tax of 8% on off-street parking, and effective January 1, 1996 the City increased its tax on admissions to entertainment events (including sports events) from 6% to 8%. Also, Effective August 1, 1996 the City increased its tax on motor vehicle leasing transactions from \$4 to \$6 per leasing transaction. In addition, the voters in Cuyahoga County approved an extension of the existing County-wide tax on alcohol and cigarettes, from August 1, 2005 through July 31, 2015, to fund stadium construction. Collections from that tax levied in those years are expected to be paid to the City by the County pursuant to a cooperative agreement.

Contingencies Under Grant Programs: The City participates in a number of federally assisted grant programs, principal of which are Community Development Block Grant, Job Training Partnership Act Grant, the Urban Development Action Grants, the Healthy Start Initiative, Federal HOME Program and FAA Airport Improvement Grant Programs. These programs are subject to financial and compliance audits by the grantors or their representatives. As of December 31, 1998, the audits of certain programs have not been completed. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The City believes that disallowed costs, if any, would not be material.

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE H - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains enterprise funds which provide water, sewer (Water Pollution Control), light and power service (Cleveland Public Power), airport (Port Control), cemetery, convention center, golf courses, municipal parking and public market facilities. Segment information for the year ended December 31, 1998 for the enterprise funds is summarized as follows:

	Water	Water Pollution Control	Cleveland Public Power	Port Control	Convention Center	West Side Market
(Amounts in 000's)						
Total operating revenue	\$192,628	\$18,465	\$120,280	\$67,039	\$2,979	\$980
Operating revenue from other City divisions	5,609					
Depreciation and amortization expense	20,997	2,864	9,171	13,932	2,361	153
Operating income (loss)	68,708	2,866	23,451	8,919	(6,484)	(123)
Operating transfers out					(1,200)	
Net income (loss)	64,736	4,291	15,683	21,202	(3,021)	(97)
Current capital and grant contributions		197		2,398	200	136
Restricted assets	344,107	196	33,687	279,574		
Fixed assets additions	42,119	5,861	64,942	78,733	2,520	
Fixed assets disposals	1,485		870			
Net working capital	108,590	18,730	37,027	35,790	270	438
Total assets	1,288,065	123,119	380,272	733,319	22,845	3,553
Bonds and other long-term liabilities:						
Payable from operating revenues	710,858	8,343	241,028	383,991		
Payable from other sources	10,794	583	1,817	13,734		
Total fund equity	527,211	73,771	120,891	301,531	18,555	3,294

	East Side Market	Municipal Parking Lots	Cemeteries	Golf Courses	Total
(Amounts in 000's)					
Total operating revenue	\$85	\$7,254	\$1,622	\$2,351	\$413,683
Operating revenue from other City divisions		581			6,190
Depreciation and amortization expense	122	1,709	34	147	51,490
Operating income (loss)	(79)	3,702	(571)	325	100,714
Operating transfers out					(1,200)
Net income (loss)	(79)	(405)	(62)	392	102,640
Current capital and grant contributions			1,803	2	4,736
Restricted assets		15,886	5,359		678,809
Fixed assets additions		76			194,251
Fixed assets disposals					2,355
Net working capital	252	419	495	1,577	203,588
Total assets	2,828	91,754	10,318	4,397	2,660,470
Bonds and other long-term liabilities:					
Payable from operating revenues		71,720			1,415,940
Payable from other sources		254			27,182
Total fund equity	2,828	18,144	9,712	4,211	1,080,148

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS-Continued

NOTE 1 - INTERFUND RECEIVABLES AND PAYABLES

Individual fund interfund receivable and payable balances as of December 31, 1998 are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
	<u>(Amount in 000's)</u>	
GENERAL FUND	\$42,951	\$6,082
SPECIAL REVENUE FUNDS:		
Division of Streets	410	11
Restricted Income Tax	14,260	157
Rainy Day Reserve Fund		6,031
Community Development Block Grants	491	8,997
Community Development Funds		1,982
Economic Development Funds		396
Home Weatherization Grants		1,620
Air Pollution Control Grants		276
Airport Transportation Rental Fees	216	1,417
General Government Funds	2,170	2,775
Public Safety Funds	32	1,054
Public Health Funds	537	2,469
Urban Development Action Grants		2
Maintenance, Parks and Recreation Funds	384	789
Supplemental Empowerment Zone		4,216
	<u>18,500</u>	<u>32,192</u>
DEBT SERVICE FUNDS:		
Unvoted Tax Supported Obligations Fund	2,400	
CAPITAL PROJECTS FUNDS:		
Capital/Urban Renewal Bond Construction		3,001
Grant Improvement		8,429
Capital Improvement	18,267	
Cleveland Stadium Construction	3,714	14,154
	<u>21,981</u>	<u>25,584</u>
ENTERPRISE FUNDS:		
Division of Water	3,072	3,402
Division of Water Pollution Control	836	2,548
Division of Cleveland Public Power	1,292	2,229
Department of Port Control	1,915	4,988
Convention Center	53	2,618
West Side Market		92
Municipal Parking Lots	88	17
Cemeteries		1
Golf Courses		76
	<u>7,256</u>	<u>15,971</u>
INTERNAL SERVICE FUNDS:		
Data Center	425	
Motor Vehicle Maintenance		3
Printing and Reproduction	121	
Utilities Administration		1
Municipal Income Tax Administration	564	366
Telephone Exchange	57	457
	<u>1,167</u>	<u>827</u>
AGENCY FUNDS:		
Municipal Courts		1,483
Central Collection Agency		12,116
	<u>0</u>	<u>13,599</u>
	<u>\$94,255</u>	<u>\$94,255</u>

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE J - INCOME TAXES

During 1998, the City income tax rate remained at 2% and the credit provided to City residents for income taxes paid to other municipalities remained at 50%. A portion of the City income tax is restricted in its use to capital expenditures and debt service and is included in the Special Revenue Funds. All other income tax proceeds are included in the General Fund.

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

NOTE K - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the City. The 1998 levy was based upon an assessed valuation of approximately \$5.4 billion. Ohio law prohibits taxation of property from all taxing authorities in excess of 10 mills of assessed value without a vote of the people. Under current procedures, the City's share is 4.4 mills, of which 4.35 mills is dedicated to debt service and .05 mills is dedicated to the payment of police and fire pension obligations. A revaluation of all property is required to be completed no less than every six years, with a statistical update every third year. Assessed values are established by the Cuyahoga County (County) Auditor. The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City.

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

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

Tangible personal property taxes are based on assessed values determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. For the collection year 1998, the percentage used to determine taxable value of personal property and inventory was 25%. Pertinent tangible personal property tax dates are:

- Collection Dates April 30 and September 30 of the current year
- Lien Date January 1 of the current year
- Levy Date October 1 of the year preceding the collection year

Public utility tangible personal property currently is assessed at 100% of its true value except for rural electric companies (50%) and railroads (25%). Pertinent public utility tangible personal property tax dates are:

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

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE L - PENSION AND RETIREMENT PLANS

The City has adopted GASB No. 27 "Accounting for Pensions of State and Local Government Employees," which establishes standards for the measurement, recognition and display of pension expense and related liabilities, assets and note disclosures in the financial reports of state and local government employers.

The City contributes to two cost-sharing multiple-employer defined benefit plans: (1) Public Employees Retirement System of Ohio (PERS), and (2) Police and Firemen's Disability and Pension Fund of Ohio (P&FDPF). Both plans provide retirement, disability, health care coverage and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS and P&FDPF issue stand-alone financial reports. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

The funding policy for the above plans is as follows:

PERS: The Ohio Revised Code provides statutory authority for employee and employer contributions. During 1998, PERS employees contributed 8.5% of their salary to the plan and the City contributed 13.55% of covered payrolls to the plan, of which 4.20% was applied towards the health care program for retirees. The employer contributions to PERS for the years ended December 31, 1998, 1997 and 1996 were \$28,600,000, \$28,835,000 and \$27,466,000 respectively, equal to 100% of the required employer contributions for each year.

P&FDPF: The Ohio Revised Code provides statutory authority for employee and employer contributions. During 1998, P&FDPF employees contributed 10% of their salary to the plan and the City contributed 19.5% of gross salary for policemen and 24.0% for firemen, of which 6.5% was applied towards the health care program for retirees. The employer contributions to P&FDPF for the years ended December 31, 1998, 1997 and 1996 were \$26,727,000, \$26,203,000 and \$25,443,000 respectively, equal to 100% of the required employer contributions for each year.

NOTE M - OTHER POST EMPLOYMENT BENEFITS

The City provides post-employment health care benefits, defined by GASB Statement No. 12, through its contribution to the Public Employees Retirement System of Ohio (PERS) and Police and Fireman's Disability and Pension Fund of Ohio (P&FDPF).

PERS: PERS provides post-retirement health care coverage to service retirees with 10 years or more of qualifying Ohio service credit. The post-retirement health care benefits cover disability recipients and primary survivor recipients. Post-retirement health care coverage is funded by a portion of the City's contribution to PERS. During 1998, the City's portion that was used to fund health care was 4.20% of covered payroll. Post-retirement health care benefits are established by state statute.

The post-retirement health care coverage is financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely. Expenditures for post-employment health care benefits during 1998 for PERS as a whole were approximately \$440,597,000. As of December 31, 1998, the unaudited estimated net assets available for future post-employment health care benefit payments for PERS as a whole were approximately \$9,447,325,000. The number of benefit recipients eligible for post-employment health care benefits at December 31, 1998 for PERS as a whole was 115,579.

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

P&FDPF: P&FDPF provides postretirement health care coverage to any policeman or fireman who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a two-thirds basis. Postretirement health care coverage is funded by a portion of the City's contribution and is determined on a pay-as-you-go basis. Currently, 6.5% of covered payroll, the Board-defined allocation, is used to pay retiree health care expenses. Since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. During 1998, the City's portion that was used to fund health care was \$5,411,000 for police and \$2,839,000 for firemen. The number of participants eligible to receive health care benefits as of December 31, 1997 (the latest date for which information is available) for P&FDPF as a whole was 11,239 and 9,025 for police and firemen, respectively. Postretirement health care benefits are established by state statute. Total health care cost for P&FDPF as a whole for the year ended December 31, 1997 (the latest date for which information is available) was \$76,459,000. Expenditures for post retirement health care benefits cannot be reasonably estimated.

NOTE N - DEFERRED COMPENSATION

Eligible employees of the City may elect to participate in the Ohio Public Employees Deferred Compensation Program created in accordance with Internal Revenue Code Section 457. The program allows employees to defer up to 33.3% of their annual salary not to exceed \$8,000 per year until a future date, usually after retirement. The deferred wages and any earned income are not subject to federal or state taxes until actually received by the employee.

In 1997, the assets of this program were the property of the City of Cleveland and were recorded in an agency fund of the City. Effective September 1, 1998, the Ohio Public Employees Deferred Compensation Program Board implemented a trust to hold the assets of the program in accordance with Internal Revenue Code Section 457. The program assets are now property of the trust, which holds the assets on behalf of the participants. Therefore, in accordance with GASB 32 "Accounting and Financial Reporting for Internal Revenue Service Code Section 457 Deferred Compensation Plans", the assets of this program are no longer reported in an agency fund of the City.

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE O - GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance January 1, 1998	Additions	(Deductions)	Transfers	Balance December 31, 1998
	(Amount in 000's)				
Land	\$37,070				\$37,070
Land Improvements	49,257			\$3,496	52,753
Buildings, structures and improvements	196,788			16,930	213,718
Furniture, fixtures and equipment	82,117	\$10,812	(\$14,354)		78,575
Construction in progress	78,051	137,124	0	(20,426)	194,749
Total	\$443,283	\$147,936	(\$14,354)	\$0	\$576,865

At December 31, 1998, general fixed assets include \$4,943,000 of equipment under capitalized leases and \$26,625,000 of equipment acquired through certificates of participation financing.

Construction in progress is composed of the following:

	Project Authorization	Expended to December 31, 1998	Committed
	(Amounts in 000's)		
General Government	\$289,463	\$175,690	\$113,773
Dog Pound	54	31	23
Health	81	37	44
Police	16,085	8,167	7,918
Fire	1,196	884	312
Park Maintenance and Properties	16,896	8,983	7,913
Recreation	1,178	957	221
Total	\$324,953	\$194,749	\$130,204

CITY OF CLEVELAND, OHIO

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE P-GATEWAY ECONOMIC DEVELOPMENT CORPORATION OF GREATER CLEVELAND (GATEWAY)

In 1990, voters in Cuyahoga County agreed to levy an excise tax for the purpose of constructing sports facilities for the Cleveland Indians and the Cleveland Cavaliers. The sports facility for the Cleveland Indians, Jacobs Field, opened in April 1994. The multi-functional arena, Gund Arena, opened in October 1994.

The bonds that were issued to construct the sports facilities described above are not a debt or liability of the City of Cleveland. To enhance the security of the bonds, the City has agreed to pledge annually 50% of admissions taxes on Cleveland Cavaliers games held at the arena to pay debt service if other revenue sources are not sufficient. Any exempted admissions tax not required for debt service will be reimbursed to the City. The City's current admissions tax rate is 8%. For the year ended December 31, 1998, the City pledged \$1,254,000.

In 1992, the Division of Municipal Parking Lots (Division) issued \$71,000,000 of Parking Facilities Improvement Revenue Bonds to finance the construction of three parking facilities including two which will directly service the sports facilities. In 1996, the Division issued \$81,105,000 of Parking Facilities Refunding Revenue Bonds, Series 1996 to advance refund these bonds. Debt service is covered by net revenues from the new parking facilities and other operating revenues of the Division. In addition, the City has pledged up to \$3,000,000 annually from parking meter income and other non-tax revenues to meet debt service requirements, if necessary. The first garage on the Gateway site was completed in January 1994. The second garage was completed in August 1994. The third parking facility, Willard Park Garage, was completed in April 1996. For the year ended December 31, 1998, no pledged revenue was necessary to meet debt service requirements since adequate resources were available by the Division.

During 1998, net revenues (as defined) generated by the two Gateway garages were less than the debt service requirements attributed to those garages. Debt service requirements due from Gateway totaled \$12,107,000 at December 31, 1998. Due to the uncertainty of collecting such amounts, an allowance for the full amount has been recorded at December 31, 1998.

NOTE Q - CHANGES IN CONTRIBUTED CAPITAL

During the year ended December 31, 1998, the following Proprietary funds had changes in contributed capital:

	Water Pollution Control	Port Control	Convention Center	Cemeteries	Golf Courses	West Side Market
Contributed capital, January 1	\$42,703	\$157,644	\$64,994	\$3,373	\$4,591	\$4,148
Grants	197	2,398				
General obligation bonds			200	1,803	2	136
Contributed capital, December 31	\$42,900	\$160,042	\$65,194	\$5,176	\$4,593	\$4,284

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1375 East Ninth Street
Cleveland OH 44114-1700
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**REPORT OF INDEPENDENT ACCOUNTANTS
ON YEAR 2000 SUPPLEMENTARY INFORMATION**

The Honorable Michael R. White, Mayor
and City Council
Cleveland, Ohio

The year 2000 supplementary information on page 69 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the City is or will become year 2000 compliant, that the City's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the City does business are or will become year 2000 compliant.

June 25, 1999

*PricewaterhouseCoopers LLP
Dingus and Daga, Inc.*

Year 2000 Supplementary Information

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the City of Cleveland's operations as early as 1999.

The City of Cleveland has developed and adopted a comprehensive strategic plan to address the year 2000 issue. This plan incorporates a combination of new system implementations and remediation of date sensitive programming code in existing data processing systems. The City formed a Year 2000 Management Team headed by the Chief of Staff and comprised of Directors of key departments, City employees and consultants to ensure that the City provides uninterrupted services. As part of this effort, the City has contacted its business partners, power providers, telecommunications and transmission services providers, telephone companies, hospitals and other public and private businesses.

The City has inventoried and assessed its systems and components, and is in the process of replacement or remediation and validation and testing of these systems. Work on many systems has already been completed and the City expects to complete all remediation and validation and testing on all remaining systems prior to the year 2000. The objective is to complete the validation and testing phases by July 31, 1999. Additionally, the City has developed contingency plans for all major operations to ensure continuity of services if external suppliers experience difficulties.

Based on the inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the City's operations, the City has identified the following mission-critical systems: (Stage of work: P - in process; C - completed).

Mission Critical System Requiring Year 2000 Remediation	Awareness	Assessment Stage	Remediation Stage	Validation Testing Stage
Accounting & Financial Reporting Systems (1)	C	C	C	C
Water Utilities (2)	C	C	C	P
Electrical Utilities Communication Systems (3)	C	C	P	P
Airport System (4)	C	C	P	P
Payroll & Time Reporting System (5)	C	C	P	P

- (1) The City has implemented a new integrated financial and accounting system that will be used by all departments within the City of Cleveland. This system has been certified by the vendor as being year 2000 compliant.
- (2) The Division of Water's system (water purification, pumping and billing) is in the final stages of validation and testing.
- (3) Includes: internal and external electrical grid and inventory management systems.
- (4) Includes: access control, communications, airfield lighting, runway conditions and weather notification.
- (5) Outside processing.

At December 31, 1998 expenditures for the City of Cleveland's Year 2000 Project were \$4.5 million. The estimated cost for the project will be approximately \$16.6 million.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management of the City of Cleveland cannot assure that the City is or will be year 2000 ready, that the City's remediation efforts will be successful in whole or in part, or that the parties with whom the City does business will be year 2000 ready.

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CITY OF CLEVELAND, OHIO
GENERAL FUND

COMPARATIVE FINANCIAL STATEMENTS

**THE GENERAL FUND IS ESTABLISHED TO
ACCOUNT FOR ALL FINANCIAL RESOURCES
EXCEPT FOR THOSE REQUIRED TO BE
ACCOUNTED FOR IN ANOTHER FUND**

CITY OF CLEVELAND, OHIO**BALANCE SHEET-GENERAL FUND**

(Amounts in 000's)

	December 31,	
	1998	1997
ASSETS		
Cash and cash equivalents	\$ 2,037	\$ 9,146
Receivables:		
Taxes	33,689	27,152
Accounts	8,824	7,443
Accrued interest	2,461	1,121
Less: Allowance for doubtful accounts	(959)	(959)
	<u>44,015</u>	<u>34,757</u>
Due from other funds	42,951	16,373
Due from other governments	53,560	53,292
TOTAL ASSETS	<u>\$ 142,563</u>	<u>\$ 113,568</u>
LIABILITIES		
Accounts payable	\$ 3,053	\$ 3,458
Estimated claims payable	1,130	128
Deferred revenue	39,975	39,451
Due to other funds	6,082	6,489
Due to other governments	802	643
Accrued wages and benefits	36,678	32,892
TOTAL LIABILITIES	<u>87,720</u>	<u>83,061</u>
FUND BALANCE		
Reserve for encumbrances	5,867	1,830
Reserve for rainy day reserve fund	6,031	4,532
Unreserved:		
Undesignated	42,945	24,145
TOTAL FUND BALANCE	<u>54,843</u>	<u>30,507</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 142,563</u>	<u>\$ 113,568</u>

CITY OF CLEVELAND, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE-GENERAL FUND

(Amounts in 000's)

	Years Ended December 31,	
	1998	1997
REVENUES		
Income taxes	\$ 242,056	\$ 227,488
Property taxes	42,625	41,277
State local government fund	53,998	50,217
Other shared revenues	26,918	27,043
Licenses and permits	10,278	8,855
Charges for services	16,051	14,658
Fines and forfeits,	14,766	15,572
Investment earnings	5,581	2,726
Miscellaneous	15,555	16,788
TOTAL REVENUES	427,828	404,624
EXPENDITURES		
Current:		
General government	47,263	42,164
Public service	29,020	29,911
Public safety	239,183	233,093
Community development	6,746	5,942
Public health	10,519	10,233
Maintenance, parks and recreation	34,375	34,193
Economic development	1,063	1,034
Other	14,125	18,945
TOTAL EXPENDITURES	382,294	375,515
EXCESS OF REVENUES OVER EXPENDITURES	45,534	29,109
OTHER FINANCING USES		
Operating transfers out	(21,198)	(23,776)
TOTAL OTHER FINANCING USES	(21,198)	(23,776)
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	24,336	5,333
Fund balance at beginning of year	30,507	25,174
Fund balance at end of year	\$ 54,843	\$ 30,507

CITY OF CLEVELAND, OHIO
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-
GENERAL FUND-LEGAL APPROPRIATION LEVEL

For the Year Ended December 31, 1998

(Amounts in 000's)

	General Fund			Variance- Favorable (Unfavorable)
	Original Budget	Revised Budget	Actual	
REVENUES				
Income taxes	\$ 227,758	\$ 227,758	\$ 230,863	\$ 3,105
Property taxes	43,443	43,443	43,026	(417)
State local government fund	51,430	51,430	54,255	2,825
Other shared revenues	25,252	25,252	26,581	1,329
Licenses and permits	9,104	9,104	10,303	1,199
Charges for services	14,351	14,351	14,975	624
Fines and forfeits	14,257	14,257	15,914	1,657
Investment earnings	2,115	2,115	4,241	2,126
Workers compensation settlement and refunds	1,750	1,750		(1,750)
Miscellaneous	21,734	21,734	9,508	(12,226)
TOTAL REVENUES	411,194	411,194	409,666	(1,528)
EXPENDITURES				
Current:				
General government				
Council and clerk of council				
Personnel	2,791	2,791	2,769	22
Other	1,343	1,403	1,292	111
Total council and clerk of council	4,134	4,194	4,061	133
Office of the Mayor				
Personnel	1,261	1,261	1,260	1
Other	275	275	265	10
Total office of the Mayor	1,536	1,536	1,525	11
Office of personnel				
Personnel	952	985	981	4
Other	356	531	522	9
Total office of personnel	1,308	1,516	1,503	13
Landmarks commission				
Personnel	82	82	82	
Other	9	9	6	3
Total landmarks commission	91	91	88	3
Board of building standards and appeals				
Personnel	74	74	71	3
Other	13	13	13	
Total board of building standards and appeals	87	87	84	3
Fair campaign finance commission				
Other	10	10		10
Total fair campaign finance commission	10	10		10

CITY OF CLEVELAND, OHIO
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-
GENERAL FUND-LEGAL APPROPRIATION LEVEL-Continued

For the Year Ended December 31, 1998

(Amounts in 000's)

	General Fund			Variance- Favorable (Unfavorable)
	Original Budget	Revised Budget	Actual	
Board of zoning appeals				
Personnel	\$ 225	\$ 228	\$ 220	\$ 8
Other	21	21	19	2
Total board of zoning appeals	246	249	239	10
Civil service commission				
Personnel	610	610	518	92
Other	474	474	473	1
Total civil service commission	1,084	1,084	991	93
Community relations board				
Personnel	800	814	781	33
Other	105	105	94	11
Total community relations board	905	919	875	44
City planning commission				
Personnel	1,192	1,192	1,105	87
Other	63	77	68	9
Total city planning commission	1,255	1,269	1,173	96
Boxing and wrestling commission				
Personnel	8	8	7	1
Total boxing and wrestling commission	8	8	7	1
Office of equal opportunity				
Personnel	542	542	468	74
Other	82	82	72	10
Total office of equal opportunity	624	624	540	84
Board of examiners of plumbers and electricians				
Personnel	86	86	79	7
Other	4	4	3	1
Total board of examiners of plumbers and electricians	90	90	82	8
Municipal court-judicial division				
Personnel	11,156	11,089	11,089	
Other	1,574	1,641	1,622	19
Total municipal court-judicial division	12,730	12,730	12,711	19
Municipal court-housing division				
Personnel	1,660	1,649	1,633	16
Other	84	117	92	25
Total municipal court-housing division	1,744	1,766	1,725	41

CITY OF CLEVELAND, OHIO
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-
GENERAL FUND-LEGAL APPROPRIATION LEVEL-Continued

For the Year Ended December 31, 1998

(Amounts in 000's)

	General Fund			Variance- Favorable (Unfavorable)
	Original Budget	Revised Budget	Actual	
Municipal court-clerks division				
Personnel	\$ 5,261	\$ 5,226	\$ 5,162	\$ 64
Other	1,921	1,956	1,936	20
Total municipal court-clerks division	7,182	7,182	7,098	84
Office of budget and management				
Personnel	412	412	402	10
Other	60	60	47	13
Total office of budget and management	472	472	449	23
Department of aging				
Personnel	203	203	193	10
Other	73	78	58	20
Total department of aging	276	281	251	30
Department of law				
Personnel	5,046	5,046	4,694	352
Other	2,346	3,117	3,117	
Total department of law	7,392	8,163	7,811	352
Division of harbors				
Personnel	59	59	30	29
Total division of harbors	59	59	30	29
Finance administration				
Personnel	255	268	253	15
Other	49	49	36	13
Total finance administration	304	317	289	28
Division of accounts				
Personnel	750	750	638	112
Other	386	386	367	19
Total division of accounts	1,136	1,136	1,005	131
Division of assessments and licenses				
Personnel	847	896	863	33
Other	155	155	149	6
Total division of assessments and licenses	1,002	1,051	1,012	39
Division of treasury				
Personnel	346	346	321	25
Other	73	73	69	4
Total division of treasury	419	419	390	29

CITY OF CLEVELAND, OHIO
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-
GENERAL FUND-LEGAL APPROPRIATION LEVEL-Continued

For the Year Ended December 31, 1998

(Amounts in 000's)

	General Fund			Variance- Favorable (Unfavorable)
	Original Budget	Revised Budget	Actual	
Division of purchases and supplies				
Personnel	\$ 543	\$ 543	\$ 563	\$ (20)
Other	117	143	97	46
Total division of purchases and supplies	660	686	660	26
Bureau of internal audit				
Personnel	182	182	170	12
Other	333	338	317	21
Total bureau of internal audit	515	520	487	33
Division of financial reporting and control				
Personnel	877	785	677	108
Other	66	158	139	19
Total division of financial reporting and control	943	943	816	127
TOTAL GENERAL GOVERNMENT	46,212	47,402	45,902	1,500
Public Service				
Public service administration				
Personnel	316	326	319	7
Other	18	23	16	7
Total public service administration	334	349	335	14
Division of architecture				
Personnel	521	531	525	6
Other	36	36	24	12
Total division of architecture	557	567	549	18
Division of waste collection and disposal				
Personnel	14,703	13,277	13,140	137
Other	11,556	12,356	12,322	34
Total division of waste collection and disposal	26,259	25,633	25,462	171
Division of engineering and construction				
Personnel	4,159	3,979	3,871	108
Other	468	468	452	16
Total division of engineering and construction	4,627	4,447	4,323	124
TOTAL PUBLIC SERVICE	31,777	30,996	30,669	327

CITY OF CLEVELAND, OHIO
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-
GENERAL FUND-LEGAL APPROPRIATION LEVEL-Continued

For the Year Ended December 31, 1998

(Amounts in 000's)

	General Fund			Variance- Favorable (Unfavorable)
	Original Budget	Revised Budget	Actual	
Public Safety				
Public safety administration				
Personnel	\$ 9,126	\$ 8,986	\$ 8,879	\$ 107
Other	817	817	792	25
Total public safety administration	9,943	9,803	9,671	132
Division of police				
Personnel	134,831	134,649	134,649	
Other	11,144	11,325	11,318	7
Total division of police	145,975	145,974	145,967	7
Division of fire				
Personnel	63,221	63,845	63,844	1
Other	2,600	2,709	2,694	15
Total division of fire	65,821	66,554	66,538	16
Division of emergency medical services				
Personnel	13,815	13,584	13,582	2
Other	1,119	1,119	1,111	8
Total division of emergency medical services	14,934	14,703	14,693	10
Division of traffic engineering				
Personnel	2,638	2,385	2,343	42
Other	767	857	828	29
Total division of traffic engineering	3,405	3,242	3,171	71
Division of dog pound				
Personnel	551	551	517	34
Other	141	164	160	4
Total division of dog pound	692	715	677	38
TOTAL PUBLIC SAFETY	240,770	240,991	240,717	274
Community Development				
Division of administration services				
Personnel	86	87	86	1
Total division of administration services	86	87	86	1
Division of neighborhood services				
Personnel	70	73	71	2
Total division of neighborhood services	70	73	71	2

CITY OF CLEVELAND, OHIO
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-
GENERAL FUND-LEGAL APPROPRIATION LEVEL-Continued

For the Year Ended December 31, 1998

(Amounts in 000's)

	General Fund			Variance- Favorable (Unfavorable)
	Original Budget	Revised Budget	Actual	
Division of neighborhood development				
Personnel	\$ 130	\$ 130	\$ 117	\$ 13
Other	192	204	204	
Total division of neighborhood development	322	334	321	13
Division of building and housing				
Personnel	5,326	5,326	5,326	
Other	533	554	552	2
Total division of building and housing	5,859	5,880	5,878	2
Director's office				
Personnel	105	108	105	3
Total director's office	105	108	105	3
TOTAL COMMUNITY DEVELOPMENT	6,442	6,482	6,461	21
Public Health				
Public health administration				
Personnel	149	149	147	2
Other	109	129	114	15
Total public health administration	258	278	261	17
Division of correction				
Personnel	4,257	4,007	3,876	131
Other	993	1,154	1,153	1
Total division of correction	5,250	5,161	5,029	132
Division of health				
Personnel	2,406	2,406	2,229	177
Other	665	745	741	4
Total division of health	3,071	3,151	2,970	181
Division of environment				
Personnel	2,039	2,039	1,888	151
Other	253	280	270	10
Total division of environment	2,292	2,319	2,158	161
TOTAL PUBLIC HEALTH	10,871	10,909	10,418	491

CITY OF CLEVELAND, OHIO
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-
GENERAL FUND-LEGAL APPROPRIATION LEVEL-Continued

For the Year Ended December 31, 1998

(Amounts in 000's)

	General Fund			
	Original Budget	Revised Budget	Actual	Variance- Favorable (Unfavorable)
Maintenance, Parks and Recreation				
Parks, recreation and properties administration				
Personnel	\$ 578	\$ 578	\$ 550	\$ 28
Other	186	186	160	26
Total parks, recreation and properties administration	764	764	710	54
Division of research, planning and development				
Personnel	595	595	571	24
Other	78	88	85	3
Total division of research, planning and development	673	683	656	27
Division of recreation				
Personnel	7,183	7,183	7,048	135
Other	2,823	2,989	2,963	26
Total division of recreation	10,006	10,172	10,011	161
Division of parking				
Personnel	839	839	693	146
Other	42	42	42	
Total division of parking	881	881	735	146
Division of parks, maintenance and properties				
Personnel	8,371	8,180	8,030	150
Other	3,977	3,977	3,863	114
Total division of parks, maintenance and properties	12,348	12,157	11,893	264
Division of property management				
Personnel	8,308	7,905	7,880	25
Other	2,544	2,544	2,500	44
Total division of property management	10,852	10,449	10,380	69
TOTAL MAINTENANCE, PARKS AND RECREATION	35,524	35,106	34,385	721

CITY OF CLEVELAND, OHIO
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-
GENERAL FUND-LEGAL APPROPRIATION LEVEL-Continued

For the Year Ended December 31, 1998

(Amounts in 000's)

	General Fund			Variance- Favorable (Unfavorable)
	Original Budget	Revised Budget	Actual	
Economic Development				
Economic development administration				
Personnel	\$ 1,164	\$ 990	\$ 986	\$ 4
Other	92	92	81	11
Total economic development administration	1,256	1,082	1,067	15
TOTAL ECONOMIC DEVELOPMENT	1,256	1,082	1,067	15
Non-departmental expenditures				
Other	14,053	15,012	14,963	49
TOTAL NON-DEPARTMENTAL EXPENDITURES	14,053	15,012	14,963	49
TOTAL EXPENDITURES	386,905	387,980	384,582	3,398
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	24,289	23,214	25,084	1,870
OTHER FINANCING SOURCES (USES):				
Operating transfers out	(24,724)	(23,650)	(23,650)	
	(24,724)	(23,650)	(23,650)	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(435)	(436)	1,434	1,870
Decertification of prior year encumbrances			503	503
Fund balance at beginning of year	554	554	554	
Fund balance at end of year	\$ 119	\$ 118	\$ 2,491	\$ 2,373

CITY OF CLEVELAND, OHIO

SPECIAL REVENUE FUNDS

COMBINING FINANCIAL STATEMENTS

SPECIAL REVENUE FUNDS ARE ESTABLISHED TO ACCOUNT FOR THE PROCEEDS OF SPECIFIC REVENUE SOURCES (OTHER THAN MAJOR CAPITAL PROJECTS) THAT ARE RESTRICTED BY LAW AND ADMINISTRATIVE ACTION TO EXPENDITURES FOR SPECIFIED PURPOSES

Division of Streets	To account for Motor Vehicle License Tax and Gasoline Excise Tax used for the repair and building of streets.
Restricted Income Tax	To account for one-ninth of the City's income tax collections. Monies are to be used for capital improvement purposes and repayment of debt.
Rainy Day Reserve Fund	To account for revenue which is eligible to be used during significant periods of economic downturn.
Schools Recreation and Cultural Activities Fund	To account for revenue from special taxes earmarked for Cleveland Public Schools for recreation and cultural activities.
Community Development Block Grants	To account for revenue from the federal government and expenditures as prescribed under the Community Development Block Grant Program.
Community Development Funds	To account for revenue earmarked for City-wide development.
Urban Development Action Funds	To account for revenue from the federal government under the Urban Development Action Grant Program.
Economic Development Funds	To account for revenue earmarked to revitalize distressed cities by stimulating economic development.

Home Weatherization Grants	To account for revenue from the State of Ohio and expenditures as prescribed under the Home Weatherization Assistance Program.
Job Training Partnership Act (JTPA) Grants	To account for revenue from the State of Ohio and expenditures under the Job Training Partnership Act Program.
Air Pollution Control Grants	To account for revenue primarily used to reduce levels of air pollution and continue progress towards meeting the federal clean air standards.
General Government Funds	To account for revenue earmarked for general government activities.
Public Service Funds	To account for revenue earmarked for the Litter Control and Recycling Program.
Public Safety Funds	To account for revenue earmarked for public safety activities.
Public Health Funds	To account for revenue earmarked for the improvement of public health.
Maintenance, Parks and Recreation Funds	To account for revenue earmarked for maintenance, parks and recreation activities.
Judgment/Settlement Funds	To account for revenue earmarked for the payment of certain judgments.
Gateway Shared Income Tax Funds	To account for municipal income tax revenue derived from persons employed at the Gund Arena and Jacobs Field with 50% of the revenues shared with the other taxing districts in the City.
Neighborhood Development Investment Fund	To account for revenue earmarked for the Neighborhood Development Investment Fund.
Supplemental Empowerment Zone	To account for revenue from the U.S. Department of Housing and Urban Development Program designed to help rebuild specific urban communities.
Rental Car Transportation Fees	To account for revenues from vehicle rentals at Cleveland Hopkins International Airport earmarked for providing airport shuttle services

CITY OF CLEVELAND, OHIO
COMBINING BALANCE SHEET-ALL SPECIAL REVENUE FUNDS

December 31, 1998

(Amounts in 000's)

	Budgeted				
	Division of Streets	Restricted Income Tax	Rainy Day Reserve Fund	Schools Recreation and Cultural Activities Fund	Total Budgeted Funds
ASSETS					
Cash and cash equivalents	\$ 1,975		\$ 6,031	\$ 2,000	\$ 10,006
Investments at market					
Receivables:					
Taxes		4,207			4,207
Accounts	18				18
Loans					
Accrued interest					
	18	4,207			4,225
Due from other funds	410	14,260			14,670
Due from other governments	819				819
Inventory of supplies	580				580
TOTAL ASSETS	\$ 3,802	\$ 18,467	\$ 6,031	\$ 2,000	\$ 30,300
LIABILITIES					
Accounts payable	\$ 176				\$ 176
Deferred revenue					
Due to other funds	11	157	6,031		6,199
Due to other governments					
Accrued wages and benefits	1,411				1,411
TOTAL LIABILITIES	1,598	157	6,031		7,786
FUND BALANCE					
Reserve for inventory	580				580
Reserve for encumbrances	862	4,192			5,054
Unreserved:					
Designated for future capital improvements	400	11,058			11,458
Undesignated	362	3,060		2,000	5,422
TOTAL FUND BALANCE	2,204	18,310		2,000	22,514
TOTAL LIABILITIES AND FUND BALANCE	\$ 3,802	\$ 18,467	\$ 6,031	\$ 2,000	\$ 30,300

Non-Budgeted

Community Development Block Grants	Community Development Funds	Urban Development Action Funds	Economic Development Funds	Home Weatherization Grants	Job Training Partnership Act (JTPA) Grants	Air Pollution Control Grants
	\$ 2,050	\$ 9,450	\$ 9,044	\$ 1,184	\$ 959	\$
19,257		113,089	5,730			
		53	9			
19,257		113,142	5,740			
491						
10,475	2,480			1,714		\$ 738
\$ 30,223	\$ 4,530	\$ 122,592	\$ 14,784	\$ 2,898	\$ 959	\$ 738
\$ 1,092	\$ 545	\$ 231	\$ 10	\$ 93	\$ 349	\$ 25
19,257	1,892	113,089	3,163	1,184	514	321
8,997	1,982	2	396	1,620		276
98			2,818			
779	5			1	96	116
30,223	4,424	113,322	6,387	2,898	959	738
	58	971	381			
			631			
	48	8,299	7,385			
	106	9,270	8,397			
\$ 30,223	\$ 4,530	\$ 122,592	\$ 14,784	\$ 2,898	\$ 959	\$ 738

Continued

CITY OF CLEVELAND, OHIO
COMBINING BALANCE SHEET-ALL SPECIAL REVENUE FUNDS-Continued
December 31, 1998
(Amounts in 000's)

	Non-Budgeted				
	General Government Funds	Public Service Funds	Public Safety Funds	Public Health Funds	Maintenance, Parks and Recreation Funds
ASSETS					
Cash and cash equivalents	\$ 20,744	\$ 627	\$ 4,640	\$ 2,449	\$ 2,257
Investments at market					
Receivables:					
Taxes			1		
Accounts					11
Loans					
Accrued interest				1	
			1	1	11
Due from other funds	2,170		32	537	384
Due from other governments	961	25	1,012	2,262	334
Inventory of supplies					
TOTAL ASSETS	\$ 23,875	\$ 652	\$ 5,685	\$ 5,249	\$ 2,986
LIABILITIES					
Accounts payable	\$ 365	\$ 6	\$ 207	\$ 645	\$ 60
Deferred revenue	494	41	2,462	1,740	1,674
Due to other funds	2,775		1,054	2,469	789
Due to other governments					
Accrued wages and benefits	52		2	156	6
TOTAL LIABILITIES	3,686	47	3,725	5,010	2,529
FUND BALANCE					
Reserve for inventory					
Reserve for encumbrances	2,457		326		37
Unreserved:					
Designated for future capital improvements	293		410		135
Undesignated	17,439	605	1,224	239	285
TOTAL FUND BALANCE	20,189	605	1,960	239	457
TOTAL LIABILITIES AND FUND BALANCE	\$ 23,875	\$ 652	\$ 5,685	\$ 5,249	\$ 2,986

Non-Budgeted

Judgment/ Settlement Funds	Gateway Shared Income Tax Funds	Neighborhood Development Investment Fund	Supplemental Empowerment Zone	Rental Car Transportation Fee	Total Non- Budgeted Funds	Totals	
						1998	1997
\$ 12	\$ 1,434	\$ 30,411		\$ 1,439	\$ 86,700	\$ 96,706	\$ 60,768
							15,836
					1	4,208	3,394
			2,001	189	2,202	2,220	971
		12,599	12,406		163,081	163,081	160,462
		248			311	311	305
		12,847	14,407	189	165,595	169,820	165,132
				216	3,830	18,500	13,801
			2,648		22,649	23,468	9,832
						580	1,169
\$ 12	\$ 1,434	\$ 43,258	\$ 17,055	\$ 1,844	\$ 278,774	\$ 309,074	\$ 266,538
		\$ 1	\$ 355	\$ 155	\$ 4,139	\$ 4,315	\$ 5,823
		12,599	10,290		168,720	168,720	161,828
			4,216	1,417	25,993	32,192	13,776
			2,115		5,031	5,031	5,659
			40		1,253	2,664	2,304
		12,600	17,016	1,572	205,136	212,922	189,390
						580	1,169
		1,743			5,973	11,027	8,465
					1,469	12,927	12,882
12	1,434	28,915	39	272	66,196	71,618	54,632
12	1,434	30,658	39	272	73,638	96,152	77,148
\$ 12	\$ 1,434	\$ 43,258	\$ 17,055	\$ 1,844	\$ 278,774	\$ 309,074	\$ 266,538

CITY OF CLEVELAND, OHIO
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-ALL SPECIAL REVENUE FUNDS

For the Year Ended December 31, 1998

(Amounts in 000's)

	Budgeted				
	Division of Streets	Restricted Income Tax	Rainy Day Reserve Fund	Schools Recreation and Cultural Activities Fund	Total Budgeted Funds
REVENUES					
Income taxes		\$ 30,253			\$ 30,253
Other shared revenues	\$ 10,475				10,475
Licenses and permits	296				296
Charges for services	597				597
Investment earnings					
Grants					
Miscellaneous	5,030	142			5,172
TOTAL REVENUES	16,398	30,395			46,793
EXPENDITURES					
Current:					
General government				\$ 2,000	2,000
Public service	21,645				21,645
Public safety					
Human resources					
Community development					
Public health					
Maintenance, parks and recreation					
Economic development					
Capital outlay		12,123			12,123
TOTAL EXPENDITURES	21,645	12,123		2,000	35,768
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(5,247)	18,272		(2,000)	11,025
OTHER FINANCING SOURCES (USES)					
Operating transfers in	5,102			2,000	7,102
Operating transfers out		(18,068)			(18,068)
TOTAL OTHER FINANCING SOURCES (USES)	5,102	(18,068)		2,000	(10,966)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(145)	204			59
Fund balances at beginning of year	2,349	18,106		2,000	22,455
Fund balances at end of year	\$ 2,204	\$ 18,310	\$ -	\$ 2,000	\$ 22,514

Non-Budgeted

Community Development Block Grants	Community Development Funds	Urban Development Action Funds	Economic Development Funds	Home Weatherization Grants	Job Training Partnership Act (JTPA) Grants	Air Pollution Control Grants
	\$ 1	\$ 402	\$ 80			
\$ 39,611	6,927	488	249	\$ 1,631	\$ 9,920	\$ 1,503
	274	3,876	5,665			
39,611	7,202	4,766	5,994	1,631	9,920	1,503
67						
138						
988						
36,690	7,111			1,631	9,920	
74						1,503
1,136						
10		4,132	1,861			
508						
39,611	7,111	4,132	1,861	1,631	9,920	1,503
	91	634	4,133			
	91	634	4,133			
	15	8,636	4,264			
\$ -	\$ 106	\$ 9,270	\$ 8,397	\$ -	\$ -	\$ -

Continued

CITY OF CLEVELAND, OHIO
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-ALL SPECIAL REVENUE FUNDS-Continued
For the Year Ended December 31, 1998
(Amounts in 000's)

	Non-Budgeted				
	General Government Funds	Public Service Funds	Public Safety Funds	Public Health Funds	Maintenance, Parks and Recreation Funds
REVENUES					
Income taxes					
Other shared revenues					
Licenses and permits					
Charges for services					
Investment earnings				\$ 3	\$ 5
Grants	\$ 2,497	\$ 193	\$ 614	7,712	894
Miscellaneous	19,973	185	1,141	18	375
TOTAL REVENUES	22,470	378	1,755	7,733	1,274
EXPENDITURES					
Current:					
General government	5,459				
Public service		221			
Public safety			1,461		
Human resources					
Community development					
Public health				7,718	
Maintenance, parks and recreation					1,535
Economic development					
Capital outlay					
TOTAL EXPENDITURES	5,459	221	1,461	7,718	1,535
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	17,011	157	294	15	(261)
OTHER FINANCING SOURCES (USES)					
Operating transfers in					
Operating transfers out					
TOTAL OTHER FINANCING SOURCES (USES)					
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	17,011	157	294	15	(261)
Fund balances at beginning of year	3,178	448	1,666	224	718
Fund balances at end of year	\$ 20,189	\$ 605	\$ 1,960	\$ 239	\$ 457

Non-Budgeted

Judgment/ Settlement Funds	Gateway Shared Income Tax Funds	Neighborhood Development Investment Fund	Supplemental Empowerment Zone	Rental Car Transportation Fee	Total Non- Budgeted Funds	Totals	
						1998	1997
					-	\$ 30,253	\$ 28,437
						10,475	10,518
						296	397
						597	1,668
		\$ 1,610			\$ 2,101	2,101	1,866
			1,310		73,549	73,549	84,101
	\$ 591		4,989	3,146	40,233	45,405	16,104
	591	1,610	6,299	3,146	115,883	162,676	143,091
					5,526	7,526	2,404
				2,874	3,233	24,878	18,064
					2,449	2,449	3,333
					9,920	9,920	9,549
					45,432	45,432	50,812
					9,295	9,295	12,110
		5,599			8,270	8,270	2,665
			6,302		12,305	12,305	17,405
					508	12,631	7,693
		5,599	6,302	2,874	96,938	132,706	124,035
	591	(3,989)	(3)	272	18,945	29,970	19,056
						7,102	8,547
						(18,068)	(14,636)
						(10,966)	(6,089)
	591	(3,989)	(3)	272	18,945	19,004	12,967
12	843	34,647	42		54,693	77,148	64,181
\$ 12	\$ 1,434	\$ 30,658	\$ 39	\$ 272	\$ 73,638	\$ 96,152	\$ 77,148

CITY OF CLEVELAND, OHIO
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-
BUDGETED SPECIAL REVENUE FUNDS-LEGAL APPROPRIATION LEVEL

For the Year Ended December 31, 1998

(Amounts in 000's)

	Division of Streets			
	Original Budget	Revised Budget	Actual	Variance- Favorable (Unfavorable)
REVENUES				
Income taxes				
Other shared revenues	\$ 10,425	\$ 10,425	\$ 10,929	\$ 504
Licenses and permits	374	374	280	(94)
Charges for services	1,156	1,156	893	(263)
Miscellaneous	3,761	3,761	5,030	1,269
TOTAL REVENUES	15,716	15,716	17,132	1,416
EXPENDITURES				
Public Service	22,728	22,728	21,721	1,007
Maintenance, Parks and Recreation				
Capital outlay				
TOTAL EXPENDITURES	22,728	22,728	21,721	1,007
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(7,012)	(7,012)	(4,589)	2,423
OTHER FINANCING SOURCES (USES)				
Operating transfers in	7,012	7,012	5,102	(1,910)
Operating transfers out				
TOTAL OTHER FINANCING SOURCES (USES)	7,012	7,012	5,102	(1,910)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES			513	513
Decertification of prior year encumbrances			156	156
Fund balances at beginning of year				
Fund balances at end of year	\$ -	\$ -	\$ 669	\$ 669

Restricted Income Tax				Rainy Day Reserve Fund				Schools Recreation and Cultural Activities			
Original Budget	Revised Budget	Actual	Variance-Favorable (Unfavorable)	Original Budget	Revised Budget	Actual	Variance-Favorable (Unfavorable)	Original Budget	Revised Budget	Actual	Variance-Favorable (Unfavorable)
\$ 28,470	\$ 28,470	\$ 28,858	\$ 388								
141	141	141									
28,611	28,611	28,999	388								
								2,000	2,000	2,000	\$ -
16,938	16,938	16,470	468								
16,938	16,938	16,470	468					2,000	2,000	2,000	
11,673	11,673	12,529	856					(2,000)	(2,000)	(2,000)	
(11,750)	(11,750)	(11,750)		\$ 500	\$ 500	\$ 1,500	\$ 1,000	2,000	2,000	2,000	
(11,750)	(11,750)	(11,750)		500	500	1,500	1,000	2,000	2,000	2,000	
(77)	(77)	779	856	500	500	1,500	1,000				
		1,062	1,062								
77	77	77		4,531	4,531	4,531		2,000	2,000	2,000	
\$ -	\$ -	\$ 1,918	\$ 1,918	\$ 5,031	\$ 5,031	\$ 6,031	\$ 1,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ -

Continued

CITY OF CLEVELAND, OHIO
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-
BUDGETED SPECIAL REVENUE FUNDS-LEGAL APPROPRIATION LEVEL-Continued
For the Year Ended December 31, 1998
(Amounts in 000's)

	Totals			
	Original Budget	Revised Budget	Actual	Variance- Favorable (Unfavorable)
REVENUES				
Income taxes	\$ 28,470	\$ 28,470	\$ 28,858	\$ 388
Other shared revenues	10,425	10,425	10,929	504
Licenses and permits	374	374	280	(94)
Charges for services	1,156	1,156	893	(263)
Miscellaneous	3,902	3,902	5,171	1,269
TOTAL REVENUES	44,327	44,327	46,131	1,804
EXPENDITURES				
Public Service	22,728	22,728	21,721	1,007
Maintenance, Parks and Recreation	2,000	2,000	2,000	
Capital outlay	16,938	16,938	16,470	468
TOTAL EXPENDITURES	41,666	41,666	40,191	1,475
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,661	2,661	5,940	3,279
OTHER FINANCING SOURCES (USES)				
Operating transfers in	9,512	9,512	8,602	(910)
Operating transfers out	(11,750)	(11,750)	(11,750)	
TOTAL OTHER FINANCING SOURCES (USES)	(2,238)	(2,238)	(3,148)	(910)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	423	423	2,792	2,369
Decertification of prior year encumbrances			1,218	1,218
Fund balances at beginning of year	6,608	6,608	6,608	
Fund balances at end of year	\$ 7,031	\$ 7,031	\$ 10,618	\$ 3,587

CITY OF CLEVELAND, OHIO

DEBT SERVICE FUNDS

COMBINING FINANCIAL STATEMENTS

DEBT SERVICE FUNDS ARE ESTABLISHED TO ACCOUNT FOR THE ACCUMULATION OF RESOURCES FOR THE PAYMENT OF DEBT REPORTED IN THE GENERAL LONG-TERM OBLIGATION ACCOUNT GROUP AND PRINCIPAL AND INTEREST OF CERTAIN PROPRIETARY FUNDS' GENERAL OBLIGATIONS

Unvoted Tax Supported
Obligations Fund

To account for the accumulation of resources for the payment of general obligation bonds of the City not requiring a vote of the electors, other than self-supporting obligations, payable from ad valorem property taxes levied within the limitations provided by law.

Stadium Bond Fund

The account for the accumulation of resources for the payment of the stadium certificates of participation from pledged city taxes.

Subordinated Income
Tax Fund

To account for the accumulation of resources for the payment of subordinated income tax variable rate refunding bonds payable from pledged income taxes.

Subordinated Income Tax
Reserve Fund

The account is to be maintained at an amount equal to the maximum bond service charges required to be paid in any of the subsequent six month period.

Urban Renewal Fund

To account for the accumulation of resources for the payment of tax increment urban renewal bonds payable from deposits made in lieu of taxes.

Urban Renewal Reserve Fund

The account is to be maintained at an amount equal to one year's maximum annual debt service on certain Urban Renewal Bonds and can be used to cover any debt insufficiency payable from certain urban renewal bonds.

CITY OF CLEVELAND, OHIO
COMBINING BALANCE SHEET-ALL DEBT SERVICE FUNDS

December 31, 1998

(Amounts in 000's)

	Budgeted			
	Unvoted Tax Supported Obligations Fund	Stadium Bond Fund	Subordinated Income Tax Fund	Subordinated Income Tax Reserve Fund
ASSETS				
Cash and cash equivalents	\$ 1,134	\$ 5	\$ 293	
Investments at market	1,888		756	4,603
Accrued interest	5			1
Due from other funds	2,400			
Due from other governments	21,448			
TOTAL ASSETS	\$ 26,875	\$ 5	\$ 1,049	\$ 4,604
LIABILITIES				
Deferred revenue	\$ 20,792			
TOTAL LIABILITIES	20,792			
FUND BALANCE				
Reserve for debt service	\$ 6,083	\$ 5	\$ 1,049	\$ 4,604
TOTAL LIABILITIES AND FUND BALANCE	\$ 26,875	\$ 5	\$ 1,049	\$ 4,604

Non-Budgeted

Urban Renewal Fund	Urban Renewal Reserve Fund	Totals	
		1998	1997
\$ 51	\$ 11	\$ 1,494	\$ 5,360
801	1,358	9,406	5,918
13	22	41	76
		2,400	1,200
		21,448	21,208
<u>\$ 865</u>	<u>\$ 1,391</u>	<u>\$ 34,789</u>	<u>\$ 33,762</u>
		\$ 20,792	\$ 20,552
		20,792	20,552
865	1,391	13,997	13,210
<u>\$ 865</u>	<u>\$ 1,391</u>	<u>\$ 34,789</u>	<u>\$ 33,762</u>

CITY OF CLEVELAND, OHIO
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES-ALL DEBT SERVICE FUNDS
For the Year Ended December 31, 1998
(Amounts in 000's)

	Budgeted			
	Unvoted Tax Supported Obligations Fund	Stadium Bond Fund	Subordinated Income Tax Fund	Subordinated Income Tax Reserve Fund
REVENUES				
Property taxes	\$ 22,686			
Investment earnings	354	\$ 4	\$ 23	\$ 390
Enterprise reimbursements				
Miscellaneous	288			
TOTAL REVENUES	23,328	4	23	390
EXPENDITURES				
Principal retirement	19,300		1,000	
Interest	16,303	867	3,539	
Enterprise debt service				
Other				
TOTAL EXPENDITURES	35,603	867	4,539	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(12,275)	(863)	(4,516)	390
OTHER FINANCING SOURCES (USES)				
Operating transfers in	12,950	762	4,518	
Operating transfers out				
TOTAL OTHER FINANCING SOURCES (USES)	12,950	762	4,518	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	675	(101)	2	390
Fund balances at beginning of year	5,408	106	1,047	4,214
Fund balances at end of year	\$ 6,083	\$ 5	\$ 1,049	\$ 4,604

Non-Budgeted

	Urban Renewal Fund	Urban Renewal Reserve Fund	Totals	
			1998	1997
\$	1,351		\$ 24,037	\$ 23,077
	36	\$ 68	875	1,299
				116
			288	131
	1,387	68	25,200	24,623
	245		20,545	20,820
	638		21,347	21,291
				352
	751		751	601
	1,634		42,643	43,064
	(247)	68	(17,443)	(18,441)
		46	18,276	15,817
	(46)		(46)	(33)
	(46)	46	18,230	15,784
	(293)	114	787	(2,657)
	1,158	1,277	13,210	15,867
\$	865	\$ 1,391	\$ 13,997	\$ 13,210

CITY OF CLEVELAND, OHIO
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-
BUDGETED DEBT SERVICE FUNDS-LEGAL APPROPRIATION LEVEL

For the Year Ended December 31, 1998

(Amounts in 000's)

	Unvoted Tax Supported Obligations Fund			Variance- Favorable (Unfavor- able)	Stadium Bond Fund			Variance- Favorable (Unfavor- able)
	Original Budget	Revised Budget	Actual		Original Budget	Revised Budget	Actual	
REVENUES								
Property taxes	\$22,632	\$22,632	\$22,686	\$ 54				
Investment earnings	300	300	379	79			\$ 4	\$ 4
Grants	600	600		(600)				
Miscellaneous			288	288				
TOTAL REVENUES	23,532	23,532	23,353	(179)			4	4
EXPENDITURES								
Principal retirement	19,300	19,300	19,300					
Interest	17,044	17,044	16,303	741	900	900	867	33
TOTAL EXPENDITURES	36,344	36,344	35,603	741	900	900	867	33
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(12,812)	(12,812)	(12,250)	562	(900)	(900)	(863)	37
OTHER FINANCING SOURCES (USES)								
Operating transfers in	12,950	12,950	11,750	(1,200)	900	900	762	(138)
TOTAL OTHER FINANCING SOURCES	12,950	12,950	11,750	(1,200)	900	900	762	(138)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	138	138	(500)	(638)			(101)	(101)
Fund balances at beginning of year	3,523	3,523	3,523		106	106	106	
Fund balances at end of year	\$ 3,661	\$ 3,661	\$ 3,023	\$ (638)	\$ 106	\$ 106	\$ 5	\$ (101)

Subordinated Income Tax Fund				Subordinated Income Tax Reserve Fund				Totals			
Original Budget	Revised Budget	Actual	Variance- Favorable (Unfavor- able)	Original Budget	Revised Budget	Actual	Variance- Favorable (Unfavor- able)	Original Budget	Revised Budget	Actual	Variance- Favorable (Unfavor- able)
		\$ 26	\$ 26			\$ 391	\$ 391	\$ 22,632	\$ 22,632	\$ 22,686	\$ 54
								300	300	800	500
								600	600		(600)
										288	288
		26	26			391	391	23,532	23,532	23,774	242
1,000	1,000	1,000						20,300	20,300	20,300	
4,200	4,200	3,539	661					22,144	22,144	20,709	1,435
5,200	5,200	4,539	661					42,444	42,444	41,009	1,435
(5,200)	(5,200)	(4,513)	687			391	391	(18,912)	(18,912)	(17,235)	1,677
5,200	5,200	4,518	(682)					19,050	19,050	17,030	(2,020)
5,200	5,200	4,518	(682)					19,050	19,050	17,030	(2,020)
		5	5			391	391	138	138	(205)	(343)
1,044	1,044	1,044		4,212	4,212	4,212		8,885	8,885	8,885	
\$ 1,044	\$ 1,044	\$ 1,049	\$ 5	\$ 4,212	\$ 4,212	\$ 4,603	\$ 391	\$ 9,023	\$ 9,023	\$ 8,680	\$ (343)

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CITY OF CLEVELAND, OHIO

CAPITAL PROJECTS FUNDS

COMBINING FINANCIAL STATEMENTS

CAPITAL PROJECTS FUNDS ARE ESTABLISHED TO ACCOUNT FOR FINANCIAL RESOURCES TO BE USED FOR THE ACQUISITION OR CONSTRUCTION OF MAJOR CAPITAL FACILITIES OTHER THAN THOSE FINANCED BY SPECIAL REVENUE FUNDS AND PROPRIETARY FUNDS

Capital / Urban Renewal Bond Construction	To account for all bond proceeds and capital projects costs of bond-funded capital acquisitions, tax increment urban renewal bond issues and construction within the City.
Grant Improvement	To account for capital grant revenues which fund capital improvement projects within the City.
Capital Improvement	To account for miscellaneous revenues which fund capital projects.
Certificates of Participation	To account for certificates of participation proceeds which fund certain capital acquisitions.
Cleveland Stadium Construction	To account for bond proceeds and capital projects costs of the new Cleveland Stadium Construction

CITY OF CLEVELAND, OHIO
COMBINING BALANCE SHEET-ALL CAPITAL PROJECTS FUNDS

December 31, 1998

(Amounts in 000's)

	Capital/ Urban Renewal		Grant Improvement	Capital Improvement	Certificates of Participation	Cleveland Stadium Construction	Totals							
	Bond Construction						1998	1997						
ASSETS														
Cash and cash equivalents	\$	56,334		\$	8,961	\$	10,028	\$ 75,323	\$ 40,506					
Investments at market		21,958					16,840	38,798	154,751					
Receivables:														
Accrued interest		534			\$	70	271	875	831					
Assessments		222						222	338					
		756				70	271	1,097	1,169					
Due from other funds					18,267		3,714	21,981	8,479					
Due from other governments			\$	8,429				8,429	5,099					
Restricted cash and cash equivalents						5,725	8,857	14,582	13,970					
TOTAL ASSETS	\$	79,048	\$	8,429	\$	27,228	\$	5,795	\$	39,710	\$	160,210	\$	223,974
LIABILITIES														
Accounts payable	\$	904		\$	27,048			\$ 27,952	\$ 7,687					
Deferred revenue		222						222	338					
Due to other funds		3,001	\$	8,429			\$	14,154	25,584	8,930				
TOTAL LIABILITIES		4,127		8,429		27,048		14,154	53,758	16,955				
FUND BALANCE														
Reserve for encumbrances		2,046					24,846	26,892	86,533					
Unreserved:														
Designated for future capital improvements		66,052			\$	5,795	710	72,557	115,923					
Undesignated		6,823			180			7,003	4,563					
TOTAL FUND BALANCE		74,921			180	5,795	25,556	106,452	207,019					
TOTAL LIABILITIES AND FUND BALANCE	\$	79,048	\$	8,429	\$	27,228	\$	5,795	\$	39,710	\$	160,210	\$	223,974

CITY OF CLEVELAND, OHIO
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES-ALL CAPITAL PROJECTS FUNDS

For the Year Ended December 31, 1998

(Amounts in 000's)

	Capital/ Urban Renewal	Grant	Capital	Certificates of	Cleveland	Totals	
	Bond Construction	Improvement	Improvement	Participation	Stadium Construction	1998	1997
REVENUES							
Investment earnings	\$ 3,785		\$ 22	\$ 247	\$ 11,279	\$ 15,333	\$ 4,601
Grants		\$ 11,706			15,000	26,706	8,175
Assessments	115					115	168
Miscellaneous			80		5,562	5,642	3,041
TOTAL REVENUES	3,900	11,706	102	247	31,841	47,796	15,985
EXPENDITURES							
Capital outlay	22,085	11,706	76		138,030	171,897	73,529
Principal retirement				4,616	1,350	5,966	4,183
Interest				1,600	7,346	8,946	5,197
TOTAL EXPENDITURES	22,085	11,706	76	6,216	146,726	186,809	82,909
EXCESS OF EXPENDITURES OVER REVENUES	(18,185)		26	(5,969)	(114,885)	(139,013)	(66,924)
OTHER FINANCING SOURCES (USES)							
Operating transfers in				6,318	10,977	17,295	17,216
Operating transfers out					(2,762)	(2,762)	(2,536)
Proceeds from sale of notes							5,000
Proceeds from sale of bonds-net	48,736					48,736	209,166
Payments to refund bonds	(24,823)					(24,823)	(47,665)
TOTAL OTHER FINANCING SOURCES	23,913			6,318	8,215	38,446	181,181
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	5,728		26	349	(106,670)	(100,567)	114,257
Fund balances at beginning of year	69,193		154	5,446	132,226	207,019	92,762
Fund balances at end of year	\$ 74,921	\$ -	\$ 180	\$ 5,795	\$ 25,556	\$ 106,452	\$ 207,019

CITY OF CLEVELAND, OHIO

ENTERPRISE FUNDS

COMBINING FINANCIAL STATEMENTS

ENTERPRISE FUNDS ARE ESTABLISHED TO ACCOUNT FOR OPERATIONS THAT ARE FINANCED AND OPERATED IN A MANNER SIMILAR TO PRIVATE SECTOR BUSINESSES WHERE THE INTENT IS THAT THE EXPENSE (INCLUDING DEPRECIATION) OF PROVIDING GOODS OR SERVICES PRIMARILY OR SOLELY TO THE GENERAL PUBLIC BE FINANCED OR RECOVERED PRIMARILY THROUGH USER CHARGES

Division of Water

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

Division of Water Pollution Control

The Division of Water Pollution Control is a segment of the Department of Public Utilities of the City. The Division of Water Pollution Control was created for the purpose of providing sewage services to customers and to maintain the local sewer system of the City.

Division of Cleveland Public Power

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

Department of Port Control

The Department of Port Control was established to provide airport facilities for the City and its neighboring communities.

Convention Center

The Convention Center Division was established to provide facilities for conventions, trade shows, sporting events and fine arts programs.

West Side Market

The West Side Market provides a public market where Cleveland area residents can purchase a variety of quality foods in a centralized location.

Municipal Parking Lots

The Division of Parking was established to provide municipal parking within the City's limits.

Cemeteries

The Division of Cemeteries was established to provide interment and cremation services for the City and its neighboring communities.

Golf Courses

The Golf Course Division was established to provide the City and its neighboring communities with recreational facilities for golfing and cross country skiing.

East Side Market

The East Side Market provides a public market where Cleveland area residents can purchase a variety of quality foods in a centralized location.

CITY OF CLEVELAND, OHIO
COMBINING BALANCE SHEET-ALL ENTERPRISE FUNDS

December 31, 1998

(Amounts in 000's)

	Division of Water	Water Pollution Control	Cleveland Public Power	Department of Port Control
ASSETS				
Cash and cash equivalents	\$ 52,136	\$ 8,807	\$ 7,085	\$ 4,411
Investments at market	51,095	17,382	18,545	24,383
Receivables:				
Accounts	18,206	29,996	14,241	6,573
Unbilled revenue	19,517	1,915	1,619	6,191
Accrued interest receivable	803	160	197	378
Less: Allowance for doubtful accounts	(1,147)	(150)	(377)	(110)
	37,379	31,921	15,680	13,032
Due from other funds	3,072	836	1,292	1,915
Due from other governments				3,624
Inventory of supplies	4,110	206	9,422	271
Prepaid expenses and other assets	7,143	581	2,976	5,193
Restricted assets:				
Cash and cash equivalents	272,754	196	15,700	195,191
Investments at Market	69,752		17,698	80,257
Accrued interest receivable	1,601		289	1,845
Bond retirement reserve				53
Accrued passenger facility charge				2,228
	344,107	196	33,687	279,574
Fixed assets in service:				
Land	5,279	297	4,813	90,733
Land improvements	13,363		1,919	157,684
Utility plant in service	656,059	95,007	289,213	
Buildings, structure and improvements	140,898		31,088	224,190
Furniture, fixtures and equipment	55,670	107	6,138	20,291
Less: Accumulated depreciation	(249,804)	(38,908)	(92,966)	(173,949)
	621,465	56,503	240,205	318,949
Construction in progress	167,558	6,687	50,657	81,967
Idle facilities, less depreciation			723	
TOTAL ASSETS	\$ 1,288,065	\$ 123,119	\$ 380,272	\$ 733,319

Convention Center	West Side Market	Municipal Parking Lots	Cemeteries	Golf Courses	East Side Market	Totals	
						1998	1997
\$ 1,660	\$ 693	\$ 1,753	\$ 840	\$ 1,729	\$ 222	\$ 79,336	\$ 53,350
						111,405	104,826
2,888		12,233	22		20	84,179	73,368
8	4		43	10		29,242	29,760
(49)		(12,064)				1,603	2,304
2,847	4	169	65	10	20	(13,897)	(12,287)
						101,127	93,145
53		88				7,256	5,317
						3,624	1,582
		45	196	24	10	14,284	14,164
		1,400				17,293	16,429
						494,457	463,133
		10,332	284			178,141	213,676
		5,359	5,075			3,930	4,044
		195				53	53
						2,228	1,984
		15,886	5,359			678,809	682,890
4,261	198	12,929	252	208	413	119,383	106,226
		1,264	7	2,818	484	177,539	174,549
						1,040,279	954,216
61,375	4,966	65,201	915	1,661	2,400	532,694	450,580
1,410	37	694	485	562	450	85,844	78,585
(48,761)	(2,782)	(7,675)	(1,062)	(2,620)	(1,171)	(619,698)	(572,036)
18,285	2,419	72,413	597	2,629	2,576	1,336,041	1,192,120
	437		3,261	5		310,572	290,806
						723	1,796
\$ 22,845	\$ 3,553	\$ 91,754	\$ 10,318	\$ 4,397	\$ 2,828	\$ 2,660,470	\$ 2,456,425

Continued

CITY OF CLEVELAND, OHIO
COMBINING BALANCE SHEET-ALL ENTERPRISE FUNDS-Continued

December 31, 1998

(Amounts in 000's)

	Division of Water	Water Pollution Control	Cleveland Public Power	Department of Port Control
LIABILITIES				
Accounts payable	\$ 4,125	\$ 900	\$ 5,861	\$ 2,266
Estimated claims payable	625			
Due to other funds	3,402	2,548	2,229	4,988
Due to other governments		35,564		1,947
Accrued wages and benefits	12,184	1,355	4,349	2,645
Sundry liabilities		55	811	
Accrued interest	18,866		1,747	22,217
Accounts payable from restricted assets	10,794	583	1,817	13,734
Capital lease obligations			1,539	
General obligation bonds payable				
Mortgage revenue bonds payable	710,556		241,028	
Construction bonds payable	302	8,343		
Revenue bonds payable				383,991
TOTAL LIABILITIES	<u>760,854</u>	<u>49,348</u>	<u>259,381</u>	<u>431,788</u>
CONTRIBUTED CAPITAL AND RETAINED EARNINGS (DEFICIT)				
Contributed capital - City of Cleveland and others	2,407	42,900	12,183	160,042
Retained earnings (deficit):				
Reserve for revenue bond retirement	17,456	650	6,130	8,450
Unreserved (deficit)	507,348	30,221	102,578	133,039
TOTAL RETAINED EARNINGS (DEFICIT)	<u>524,804</u>	<u>30,871</u>	<u>108,708</u>	<u>141,489</u>
TOTAL FUND EQUITY	<u>527,211</u>	<u>73,771</u>	<u>120,891</u>	<u>301,531</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,288,065</u>	<u>\$ 123,119</u>	<u>\$ 380,272</u>	<u>\$ 733,319</u>

Convention Center	West Side Market	Municipal Parking Lots	Cemeteries	Golf Courses	East Side Market	Totals	
						1998	1997
\$ 185	\$ 85		\$ 17	\$ 59		\$ 13,498	\$ 15,440
						625	650
2,618	92	17	1	76		15,971	9,195
1,127		190				38,828	34,674
360	82	131	588	46		21,740	20,012
				5		871	794
		1,298				44,128	38,018
		254				27,182	28,424
						1,539	
						951,584	864,537
						8,645	8,761
		71,720				455,711	463,148
4,290	259	73,610	606	186		1,580,322	1,483,653
65,194	4,284	21,079	5,176	4,593	2,943	320,801	316,065
		1,715				34,401	28,940
(46,639)	(990)	(4,650)	4,536	(382)	(115)	724,946	627,767
(46,639)	(990)	(2,935)	4,536	(382)	(115)	759,347	656,707
18,555	3,294	18,144	9,712	4,211	2,828	1,080,148	972,772
\$ 22,845	\$ 3,553	\$ 91,754	\$ 10,318	\$ 4,397	\$ 2,828	\$ 2,660,470	\$ 2,456,425

CITY OF CLEVELAND, OHIO
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN RETAINED EARNINGS (DEFICIT)-ALL ENTERPRISE FUNDS

For the Year Ended December 31, 1998

(Amounts in 000's)

	Division of Water	Water Pollution Control	Cleveland Public Power	Department of Port Control
OPERATING REVENUES				
Charges for services	\$ 192,628	\$ 18,465	\$ 120,280	\$ 67,039
TOTAL OPERATING REVENUE	192,628	18,465	120,280	67,039
OPERATING EXPENSES				
Operations	84,514	5,944	14,154	41,637
Maintenance	18,409	6,791	14,818	
Incentive compensation				2,551
Purchased power			58,686	
Depreciation	20,997	2,864	9,171	13,932
TOTAL OPERATING EXPENSES	123,920	15,599	96,829	58,120
OPERATING INCOME (LOSS)	68,708	2,866	23,451	8,919
NON-OPERATING REVENUE (EXPENSES)				
Interest income	11,393	1,370	1,616	19,180
Interest expense	(18,628)	(595)	(12,406)	(23,545)
State insurance refund	4,365	650	1,360	
Passenger facility charge revenue				16,648
Other revenues (expenses)	(1,102)		1,662	
TOTAL NON-OPERATING REVENUES (EXPENSES)	(3,972)	1,425	(7,768)	12,283
INCOME (LOSS)				
BEFORE OPERATING TRANSFERS	64,736	4,291	15,683	21,202
Operating transfers out				
NET INCOME (LOSS)	64,736	4,291	15,683	21,202
Retained earnings (deficit) at beginning of year	460,068	26,580	93,025	120,287
Retained earnings (deficit) at end of year	\$ 524,804	\$ 30,871	\$ 108,708	\$ 141,489

Convention Center	West Side Market	Municipal Parking Lots	Cemeteries	Golf Courses	East Side Market	Totals	
						1998	1997
\$ 2,979	\$ 980	\$ 7,254	\$ 1,622	\$ 2,351	\$ 85	\$ 413,683	\$ 374,165
2,979	980	7,254	1,622	2,351	85	413,683	374,165
5,768	858	1,791	2,085	1,810	34	158,595	155,611
1,334	92	52	74	69	8	41,647	40,930
						2,551	
						58,686	49,566
2,361	153	1,709	34	147	122	51,490	49,750
9,463	1,103	3,552	2,193	2,026	164	312,969	295,857
(6,484)	(123)	3,702	(571)	325	(79)	100,714	78,308
69	26	984	509	67		35,214	24,747
		(4,998)				(60,172)	(50,910)
						6,375	
						16,648	16,125
4,594		(93)				5,061	4,228
4,663	26	(4,107)	509	67		3,126	(5,810)
(1,821)	(97)	(405)	(62)	392	(79)	103,840	72,498
(1,200)						(1,200)	(1,044)
(3,021)	(97)	(405)	(62)	392	(79)	102,640	71,454
(43,618)	(893)	(2,530)	4,598	(774)	(36)	656,707	585,253
\$ (46,639)	\$ (990)	\$ (2,935)	\$ 4,536	\$ (382)	\$ (115)	\$ 759,347	\$ 656,707

CITY OF CLEVELAND, OHIO
COMBINING STATEMENT OF CASH FLOWS-ALL ENTERPRISE FUNDS

For the Year Ended December 31, 1998

(Amounts in 000's)

	Division of Water	Water Pollution Control	Cleveland Public Power	Department of Port Control
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 192,678	\$ 18,011	\$ 125,119	\$ 66,677
Cash payments to suppliers for goods or services	(44,923)	(6,654)	(15,247)	(26,638)
Cash payments to employees for services	(62,131)	(6,455)	(18,113)	(15,056)
Cash payments for purchased power			(58,027)	
Cash receipts (payments) of customer deposits	251		66	
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	85,875	4,902	33,798	24,983
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
State insurance refund	4,365	650	1,360	
Cash receipts for passenger facility charges				16,404
Cash received from litigation settlement			3,000	
Agency activity on behalf of other sewer authorities		399		
Cash receipts from hotel tax				
Other			1,365	
Cash transfer to debt service fund				
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	4,365	1,049	5,725	16,404
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of revenue bonds, loans and notes	302,375	927		
Acquisition and construction of capital assets	(77,450)	(3,678)	(24,384)	(98,482)
Principal paid on long-term debt	(14,243)	(514)	(6,465)	(8,385)
Interest paid on long-term debt	(35,553)	(595)	(14,332)	(17,673)
Cash paid to escrow agent for refunding	(202,372)			
Cash receipts from Convention and Visitor's Bureau				
Capital grant proceeds		2		356
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(27,243)	(3,858)	(45,181)	(124,184)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investment securities	(203,799)	(23,351)	(49,572)	(135,075)
Proceeds from sale and maturity of investment securities	263,387	16,498	50,241	111,587
Interest received on investments	24,890	1,473	3,073	19,125
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	84,478	(5,380)	3,742	(4,363)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	147,475	(3,287)	(1,916)	(87,160)
Cash and cash equivalents at beginning of year	177,415	12,290	24,701	286,762
Cash and cash equivalents at end of year	<u>\$ 324,890</u>	<u>\$ 9,003</u>	<u>\$ 22,785</u>	<u>\$ 199,602</u>

Convention Center	West Side Market	Municipal Parking Lots	Cemeteries	Golf Courses	East Side Market	Totals	
						1998	1997
\$ 3,058	\$ 1,051	\$ 7,350	\$ 1,625	\$ 2,342	\$.66	\$ 417,977	\$ 370,814
(4,269)	(1,284)	(1,092)	(531)	(928)	(45)	(101,611)	(92,521)
(1,909)	340	(638)	(1,295)	(867)		(106,124)	(101,261)
						(58,027)	(49,708)
(195)	(3)					119	205
(3,315)	104	5,620	(201)	547	21	152,334	127,529
						6,375	
						16,404	15,188
						3,000	
						399	(382)
3,393						3,393	3,260
						1,365	(201)
							(1,044)
3,393						30,936	16,821
						303,302	274,845
		(97)				(204,091)	(157,502)
		(100)				(29,707)	(27,929)
		(4,455)				(72,608)	(67,295)
						(202,372)	(32,091)
							1,044
						358	5,914
		(4,652)				(205,118)	(3,014)
		(5,478)	(10,034)			(427,309)	(409,792)
		4,494	10,060			456,267	339,504
54	25	994	497	69		50,200	36,552
54	25	10	523	69		79,158	(33,736)
132	129	978	322	616	21	57,310	107,600
1,528	564	11,107	802	1,113	201	516,483	408,883
\$ 1,660	\$ 693	\$ 12,085	\$ 1,124	\$ 1,729	\$ 222	\$ 573,793	\$ 516,483

Continued

CITY OF CLEVELAND, OHIO
COMBINING STATEMENT OF CASH FLOWS-ALL ENTERPRISE FUNDS-Continued
For the Year Ended December 31, 1998
(Amounts in 000's)

	Division of Water	Water Pollution Control	Cleveland Public Power	Department of Port Control
RECONCILIATION OF OPERATING INCOME (LOSS)				
TO NET CASH PROVIDED BY (USED FOR)				
OPERATING ACTIVITIES				
OPERATING INCOME (LOSS)	\$ 68,708	\$ 2,866	\$ 23,451	\$ 9,788
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	20,997	2,864	9,171	13,063
Loss on fixed assets disposed	461			
Change in assets and liabilities:				
Accounts receivable	(4,003)	(277)	(2,056)	4,848
Unbilled revenue	(1,133)	(152)	153	1,650
Due from other funds	(417)	(520)	489	(1,447)
Inventory of supplies	(342)	(55)	275	8
Prepaid expenses	84		(4)	(45)
Landing fee adjustment payable to airlines				(4,593)
Incentive compensation due to City of Cleveland				
Accounts payable	122	398	472	(2,439)
Due to other funds	555	(256)	1,393	3,858
Due to other governments				
Accrued expenses	(25)	(6)		
Accrued wages and benefits	617	40	376	292
Sundry liabilities	251		78	
TOTAL ADJUSTMENTS	<u>17,167</u>	<u>2,036</u>	<u>10,347</u>	<u>15,195</u>
NET CASH PROVIDED BY				
(USED FOR) OPERATING ACTIVITIES	<u>\$ 85,875</u>	<u>\$ 4,902</u>	<u>\$ 33,798</u>	<u>\$ 24,983</u>

Convention Center	West Side Market	Municipal Parking Lots	Cemeteries	Golf Courses	East Side Market	Totals	
						1998	1997
\$ (6,484)	\$ (123)	\$ 3,702	\$ (571)	\$ 325	\$ (79)	101,583	\$ 78,308
2,361	153	1,709	34	147	122	50,621	49,750
(1,089)	72	96	3		(20)	(2,426)	(2,244)
(45)			(12)	5		518	(5,241)
						(1,947)	4,131
						(114)	69
						35	
						(4,593)	501
(192)	(12)	(25)	(2)	74	(2)	(1,606)	(341)
1,157	16	(22)	1			6,702	602
936		137				1,073	(288)
						(31)	300
41	(2)	23	346	(2)		1,731	(673)
				(2)		327	300
3,169	227	1,918	370	222	100	50,751	49,221
\$ (3,315)	\$ 104	\$ 5,620	\$ (201)	\$ 547	\$ 21	152,334	\$ 127,529

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CITY OF CLEVELAND, OHIO

INTERNAL SERVICE FUNDS

COMBINING FINANCIAL STATEMENTS

INTERNAL SERVICE FUNDS ARE ESTABLISHED TO ACCOUNT FOR THE FINANCING OF GOODS OR SERVICES PROVIDED BY ONE DEPARTMENT OF THE CITY TO OTHER DEPARTMENTS OF THE CITY ON A COST-REIMBURSEMENT BASIS

Data Center	The Data Center Division was established to provide centralized data processing services for certain City divisions.
Motor Vehicle Maintenance	The Division of Motor Vehicle Maintenance was established to provide centralized maintenance, repairs and fueling of certain City vehicles.
Printing and Reproduction	The Division of Printing and Reproduction was established to provide printing and reproduction services for all City divisions.
City Storeroom and Warehouse	The City's Storeroom and Warehouse Division was established to provide centralized storeroom services.
Utilities Administration	The Division of Utilities Administration was established to provide administrative assistance to the Department of Public Utilities.
Sinking Fund Administration	The Sinking Fund Administration Fund was established to account for the personnel and other operating expenditures related to the administration of the Debt Service fund.
Municipal Income Tax Administration	The Municipal Income Tax Administration Fund was established to account for operating expenditures related to the collection of Municipal Income Tax for Cleveland and other municipalities.
Telephone Exchange	The Division of Telephone Exchange was established to operate the communications system for the City at minimal cost.
Radio Communications	The Office of Radio Communications was established to operate the 800MHZ radio communication system.

CITY OF CLEVELAND, OHIO
COMBINING BALANCE SHEET-ALL INTERNAL SERVICE FUNDS

December 31, 1998

(Amounts in 000's)

	Data Center	Motor Vehicle Maintenance	Printing and Repro- duction	City Storeroom and Warehouse
ASSETS				
Cash and cash equivalents	\$ 144	\$ 3,664	\$ 291	\$ 26
Accounts receivable				
Accrued interest receivable		20	1	
Due from other funds	425		121	
Inventory of supplies		775	18	
Fixed assets in service:				
Land		663		
Land improvements		3		
Buildings, structures and improvements		1,605		
Furniture, fixtures and equipment	7,209	1,628	464	6
Less: Accumulated depreciation	(7,204)	(2,890)	(464)	(6)
	5	1,009		
TOTAL ASSETS	\$ 574	\$ 5,468	\$ 431	\$ 26
LIABILITIES				
Accounts payable	\$ 10	\$ 736	\$ 12	
Due to other funds		3		
Due to other governments				
Accrued wages and benefits	306	866	118	\$ 5
TOTAL LIABILITIES	316	1,605	130	5
CONTRIBUTED CAPITAL AND RETAINED EARNINGS				
Contributed capital-City of Cleveland and others	258	2,364	301	
Retained earnings-unreserved		1,499		21
TOTAL FUND EQUITY	258	3,863	301	21
TOTAL LIABILITIES AND FUND EQUITY	\$ 574	\$ 5,468	\$ 431	\$ 26

Utilities Adminis- tration	Sinking Fund Adminis- tration	Municipal Income Tax Adminis- tration	Telephone Exchange	Radio Commun- ications	Totals	
					1998	1997
\$ 848	\$ 108	\$ 744	\$ 470	\$ 505	\$ 6,800	\$ 4,310
4		564	57		25	28
					1,167	2,559
					793	790
					663	663
					3	3
					1,605	1,605
			9		9,316	9,316
			(4)		(10,568)	(10,473)
			5		1,019	1,114
\$ 852	\$ 108	\$ 1,308	\$ 532	\$ 505	\$ 9,804	\$ 8,801
\$ 6	\$ 1	\$ 471	\$ 30	\$ 1	\$ 1,267	\$ 1,913
\$ 1		366	457		827	1,099
						14
425	31	471	45		2,267	2,107
432	32	1,308	532	1	4,361	5,133
					2,923	2,924
420	76			504	2,520	744
420	76			504	5,443	3,668
\$ 852	\$ 108	\$ 1,308	\$ 532	\$ 505	\$ 9,804	\$ 8,801

CITY OF CLEVELAND, OHIO
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS-ALL INTERNAL SERVICE FUNDS

For the Year Ended December 31, 1998

(Amounts in 000's)

	Data Center	Motor Vehicle Maintenance	Printing and Repro- duction	City Storeroom and Warehouse
OPERATING REVENUES				
Charges for services	\$ 2,482	\$ 14,717	\$ 953	\$ 760
TOTAL OPERATING REVENUE	2,482	14,717	953	760
OPERATING EXPENSES				
Operations	2,217	10,487	945	748
Maintenance	264	2,745	43	
Depreciation	2	91		
TOTAL OPERATING EXPENSES	2,483	13,323	988	748
OPERATING INCOME (LOSS)	(1)	1,394	(35)	12
NON-OPERATING REVENUES				
Interest income	1	105	7	
TOTAL NON-OPERATING REVENUES	1	105	7	
INCOME (LOSS) BEFORE OPERATING TRANSFERS	\$ -	\$ 1,499	\$ (28)	\$ 12
Operating transfers in			28	
NET INCOME (LOSS)		1,499		12
Retained earnings at beginning of year				9
Retained earnings at end of year	\$ -	\$ 1,499	\$ -	\$ 21

Utilities Adminis- tration	Sinking Fund Adminis- tration	Municipal Income Tax Adminis- tration	Telephone Exchange	Radio Commun- ications	Totals	
					1998	1997
\$ 2,461	\$ 9	\$ 4,784	\$ 4,257	\$ 1,408	\$ 31,831	\$ 30,671
2,461	9	4,784	4,257	1,408	31,831	30,671
2,196	\$ 449	5,651	3,957	707	27,357	27,764
112			358	696	4,218	3,649
			2		95	108
2,308	449	5,651	4,317	1,403	31,670	31,521
153	(440)	(867)	(60)	5	161	(850)
31		867	3		1,014	924
31		867	3		1,014	924
\$ 184	\$ (440)	\$ -	\$ (57)	\$ 5	\$ 1,175	\$ 74
	516		57		601	445
184	76			5	1,776	519
236				499	744	225
\$ 420	\$ 76	\$ -	\$ -	\$ 504	\$ 2,520	\$ 744

CITY OF CLEVELAND, OHIO
COMBINING STATEMENT OF CASH FLOWS-ALL INTERNAL SERVICE FUNDS

For the Year Ended December 31, 1998

(Amounts in 000's)

	Data Center	Motor Vehicle Maintenance	Printing and Repro- duction	City Storeroom and Warehouse
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 2,302	\$ 15,410	\$ 1,051	\$ 760
Cash payments to suppliers for goods or services	(1,122)	(9,282)	(433)	(717)
Cash payments to employees for services	(1,322)	(4,001)	(514)	(36)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(142)	2,127	104	7
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Cash received through operating transfers from other funds				
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES				
CASH FLOWS FROM CAPITAL AND RELATED ACTIVITIES				
Acquisition and construction of capital assets				
NET CASH (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES				
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received on investments	3	96	8	
NET CASH PROVIDED BY INVESTING ACTIVITIES	3	96	8	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(139)	2,223	112	7
Cash and cash equivalents at beginning of year	283	1,441	179	19
Cash and cash equivalents at end of year	<u>\$ 144</u>	<u>\$ 3,664</u>	<u>\$ 291</u>	<u>\$ 26</u>

Utilities Adminis- tration	Sinking Fund Adminis- tration	Municipal Income Tax Adminis- tration	Telephone Exchange	Radio Commun- ications	Totals	
					1998	1997
\$ 2,461	\$ 36	\$ 4,359	\$ 4,464	\$ 1,407	\$ 32,250	\$ 29,798
(240)	(347)	(1,879)	(4,476)	(1,386)	(19,882)	(18,501)
(2,039)	(116)	(3,095)	(262)	(25)	(11,410)	(11,521)
182	(427)	(615)	(274)	(4)	958	(224)
	516				516	445
	516				516	445
31		867	11		1,016	896
31		867	11		1,016	896
213	89	252	(263)	(4)	2,490	1,117
635	19	492	733	509	4,310	3,193
\$ 848	\$ 108	\$ 744	\$ 470	\$ 505	\$ 6,800	\$ 4,310

Continued

CITY OF CLEVELAND, OHIO
COMBINING STATEMENT OF CASH FLOWS-ALL INTERNAL SERVICE FUNDS-Continued
For the Year Ended December 31, 1998
(Amounts in 000's)

	Data Center	Motor Vehicle Maintenance	Printing and Repro- duction	City Storeroom and Warehouse
RECONCILIATION OF OPERATING INCOME (LOSS)				
TO NET CASH PROVIDED BY (USED FOR)				
OPERATING ACTIVITIES				
OPERATING INCOME (LOSS)	\$ (1)	\$ 1,394	\$ (35)	\$ 12
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	2	91		
Change in assets and liabilities:				
Accounts receivable				
Due from other funds	(179)	693	96	
Inventory of supplies	7	(38)	28	
Accounts payable	(12)	(94)	(3)	
Due to other funds		(1)	(1)	
Due to other governments		(14)		
Accrued wages and benefits	41	96	19	(5)
TOTAL ADJUSTMENTS	<u>(141)</u>	<u>733</u>	<u>139</u>	<u>(5)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ (142)</u>	<u>\$ 2,127</u>	<u>\$ 104</u>	<u>\$ 7</u>

Utilities Adminis- tration	Sinking Fund Adminis- tration	Municipal Income Tax Adminis- tration	Telephone Exchange	Radio Commun- ications	Totals	
					1998	1997
\$ 153	\$ (440)	\$ (867)	\$ (60)	\$ 5	\$ 161	\$ (850)
			2		95	108
	26	177	665		1,478	285
					(3)	(290)
6	(5)	345	(884)	1	(646)	105
(1)		(269)			(272)	344
					(14)	11
24	(8)	(1)	3	(10)	159	14
29	13	252	(214)	(9)	797	49
\$ 182	\$ (427)	\$ (615)	\$ (274)	\$ (4)	\$ 958	\$ (224)

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CITY OF CLEVELAND, OHIO

AGENCY FUNDS

COMBINING FINANCIAL STATEMENTS

**AGENCY FUNDS ARE ESTABLISHED TO ACCOUNT FOR
ASSETS RECEIVED AND HELD BY THE CITY ACTING
IN THE CAPACITY OF AN AGENT OR CUSTODIAN**

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

CITY OF CLEVELAND, OHIO
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES-
ALL AGENCY FUNDS

For the Year Ended December 31, 1998

(Amounts in 000's)

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
PAYROLL AGENCY				
ASSETS				
Cash and cash equivalents	\$ 3,600	\$ 237,549	\$ 232,227	\$ 8,922
Due from other governments	-	-	-	-
TOTAL ASSETS	\$ 3,600	\$ 237,549	\$ 232,227	\$ 8,922
LIABILITIES				
Due to other governments	\$ 2,372	\$ 162,559	\$ 162,559	\$ 2,372
Sundry liabilities	1,228	74,990	69,668	6,550
TOTAL LIABILITIES	\$ 3,600	\$ 237,549	\$ 232,227	\$ 8,922
MUNICIPAL COURTS				
ASSETS				
Cash and cash equivalents	\$ 5,835	\$ 31,691	\$ 31,027	\$ 6,499
Accrued interest	26	35	26	35
TOTAL ASSETS	\$ 5,861	\$ 31,726	\$ 31,053	\$ 6,534
LIABILITIES				
Due to other funds	\$ 1,483	\$ 18,997	\$ 18,997	\$ 1,483
Sundry liabilities	4,378	12,730	12,057	5,051
TOTAL LIABILITIES	\$ 5,861	\$ 31,727	\$ 31,054	\$ 6,534

CITY OF CLEVELAND, OHIO
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES-
ALL AGENCY FUNDS-Continued

For the Year Ended December 31, 1998

(Amounts in 000's)

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
CENTRAL COLLECTION AGENCY				
ASSETS				
Cash and cash equivalents	\$ 14,860	\$ 400,173	\$ 395,491	\$ 19,542
Taxes receivable	15,923	18,107	15,923	18,107
Due from other funds	351		351	-
Due from other governments	242	223	242	223
TOTAL ASSETS	\$ 31,376	\$ 418,503	\$ 412,007	\$ 37,872
LIABILITIES				
Due to other funds	\$ 7,055	\$ 276,498	\$ 271,437	\$ 12,116
Due to other governments	24,321	142,005	140,570	25,756
TOTAL LIABILITIES	\$ 31,376	\$ 418,503	\$ 412,007	\$ 37,872
OTHER AGENCIES				
ASSETS				
Cash and cash equivalents	\$ 5,025	\$ 18,431	\$ 18,273	\$ 5,183
Due from other funds	4		4	-
TOTAL ASSETS	\$ 5,029	\$ 18,431	\$ 18,277	\$ 5,183
LIABILITIES				
Due to other funds	\$ 57		\$ 57	\$ -
Due to other governments	2,784	1,070	714	3,140
Sundry liabilities	2,188	17,361	17,506	2,043
TOTAL LIABILITIES	\$ 5,029	\$ 18,431	\$ 18,277	\$ 5,183

CITY OF CLEVELAND, OHIO
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES-
ALL AGENCY FUNDS-Continued
For the Year Ended December 31, 1998
(Amounts in 000's)

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
TOTALS-ALL AGENCY FUNDS				
ASSETS				
Cash and cash equivalents	\$ 29,320	\$ 687,844	\$ 677,018	\$ 40,146
Taxes receivable	15,923	18,107	15,923	18,107
Accrued interest	26	35	26	35
Due from other funds	355	-	355	-
Due from other governments	242	223	242	223
TOTAL ASSETS	\$ 45,866	\$ 706,209	\$ 693,564	\$ 58,511
LIABILITIES				
Due to other funds	\$ 8,595	\$ 295,495	\$ 290,491	\$ 13,599
Due to other governments	29,477	305,634	303,843	31,268
Sundry liabilities	7,794	105,081	99,231	13,644
TOTAL LIABILITIES	\$ 45,866	\$ 706,210	\$ 693,565	\$ 58,511

CITY OF CLEVELAND, OHIO

GENERAL FIXED ASSETS

ACCOUNT GROUP

**THIS ACCOUNT GROUP IS USED TO PRESENT THE
GENERAL FIXED ASSETS OF THE CITY UTILIZED IN ITS
GENERAL OPERATIONS, EXCLUSIVE OF THOSE USED IN
ENTERPRISE AND INTERNAL SERVICE FUNDS**

**GENERAL FIXED ASSETS INCLUDE LAND, BUILDINGS,
BETTERMENTS AND EQUIPMENT OWNED BY
THE CITY AND THE CITY'S INVESTMENT
IN THE JUSTICE CENTER BUILDING**

CITY OF CLEVELAND, OHIO
SCHEDULE OF GENERAL FIXED ASSETS BY SOURCES

December 31, 1998

(Amounts in 000's)

General Fixed Assets:	
Land	\$ 37,070
Land improvements	52,753
Buildings, structures and improvements	213,718
Furniture, fixtures and equipment	78,575
Construction in progress	194,749
TOTAL GENERAL FIXED ASSETS	<u>\$ 576,865</u>
Investment in General Fixed Assets:	
General obligation bonds	\$ 235,999
General Fund and other revenues	202,845
Special Revenue Fund revenues:	
Restricted income taxes	59,278
Federal grants	41,839
Certificates of participation	26,625
Gifts	10,279
TOTAL INVESTMENT IN GENERAL FIXED ASSETS	<u>\$ 576,865</u>

CITY OF CLEVELAND, OHIO
SCHEDULE OF GENERAL FIXED ASSETS BY FUNCTION AND ACTIVITY

December 31, 1998

(Amounts in 000's)

	Total	Land	Land Improvements	Buildings, Structures and Improvements	Capitalized Leased Equipment	Furniture, Fixtures and Equipment
General Government:						
General government	\$ 11,320	\$ 208		\$ 1,168	\$ 8	\$ 9,936
City Hall	16,859			16,859		
Justice Center	29,725			29,306	150	269
Charles V. Carr Municipal Center	22,102	2,540		19,562		
TOTAL GENERAL GOVERNMENT	80,006	2,748	-	66,895	158	10,205
Public Service:						
Waste collection	22,931	1,057		8,138	7,332	6,404
Engineering and construction	1,556				60	1,496
Streets	17,934	258	20	12,922	2,854	1,880
Other	1,575			874		701
TOTAL PUBLIC SERVICE	43,996	1,315	20	21,934	10,246	10,481
Public Health:						
Correction	7,051	135		6,638	78	200
Health and environment	10,733	1,116	56	8,868	53	640
TOTAL PUBLIC HEALTH	17,784	1,251	56	15,506	131	840
Public Safety:						
Police	56,903	4,560	316	33,053	5,548	13,426
Fire	40,809	1,619		21,937	13,650	3,603
Emergency medical service	4,469			125	669	3,675
Traffic engineering	1,531			155	363	1,013
Dog pound	739			630	31	78
TOTAL PUBLIC SAFETY	104,451	6,179	316	55,900	20,261	21,795
Maintenance, Parks and Recreation						
Park maintenance and properties	57,638	23,000	24,829	8,083	674	1,052
Research, planning and development	3,661		3,231	164		266
Recreation	69,554	920	22,840	44,652	27	1,115
TOTAL MAINTENANCE, PARKS AND RECREATION	130,853	23,920	50,900	52,899	701	2,433
Community Development:						
Community development	4,845	1,657	1,331	584	71	1,202
TOTAL COMMUNITY DEVELOPMENT	4,845	1,657	1,331	584	71	1,202
Economic Development:						
Economic development	181		130			51
TOTAL ECONOMIC DEVELOPMENT	181	-	130	-	-	51
TOTAL BY FUNCTION	382,116	37,070	52,753	213,718	31,568	47,007
Construction in progress	194,749		7,125	187,624		
TOTAL GENERAL FIXED ASSETS	\$ 576,865	\$ 37,070	\$ 59,878	\$ 401,342	\$ 31,568	\$ 47,007

CITY OF CLEVELAND, OHIO

SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY FUNCTION AND ACTIVITY

For the Year Ended December 31, 1998

(Amounts in 000's)

	Balance January 1, 1998	Additions	Deductions	Transfers	Balance December 31, 1998
General Government:					
General government	\$ 9,737	\$ 1,618	\$ (84)	\$ 49	\$ 11,320
City Hall	16,859				16,859
Justice Center	29,725				29,725
Charles V. Carr Municipal Center	22,102				22,102
TOTAL GENERAL GOVERNMENT	\$ 78,423	\$ 1,618	\$ (84)	\$ 49	\$ 80,006
Public Service:					
Waste collection	22,802	1,989	(1,860)		22,931
Engineering and construction	1,527	29			1,556
Streets	17,458	1,380	(824)	(80)	17,934
Other	1,012	292		271	1,575
TOTAL PUBLIC SERVICE	42,799	3,690	(2,684)	191	43,996
Public Health:					
Correction	7,051				7,051
Health and environment	10,670	66	(39)	36	10,733
TOTAL PUBLIC HEALTH	17,721	66	(39)	36	17,784
Public Safety:					
Police	58,135	3,204	(4,293)	(143)	56,903
Fire	45,084	268	(4,753)	210	40,809
Emergency medical service	4,188	920	(639)		4,469
Traffic engineering	1,424	194	(87)		1,531
Dog pound	717	55	(33)		739
TOTAL PUBLIC SAFETY	109,548	4,641	(9,805)	67	104,451
Maintenance, Parks and Recreation					
Park maintenance and properties	58,861	316	(1,630)	91	57,638
Research, planning and development	273	264	(16)	3,140	3,661
Recreation	52,791	7	(96)	16,852	69,554
TOTAL MAINTENANCE, PARKS AND RECREATION	111,925	587	(1,742)	20,083	130,853
Community Development:					
Community development	4,635	210			4,845
TOTAL COMMUNITY DEVELOPMENT	4,635	210	-	-	4,845
Economic Development:					
Economic development	181				181
TOTAL ECONOMIC DEVELOPMENT	181	-	-	-	181
Construction in progress	78,051	137,124		(20,426)	194,749
TOTAL GENERAL FIXED ASSETS	\$ 443,283	\$ 147,936	\$ (14,354)	\$ -	\$ 576,865

**STATISTICAL
SECTION**

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CITY OF CLEVELAND, OHIO
GENERAL FUND REVENUES BY SOURCE AND
EXPENDITURES BY FUNCTION-(BUDGET BASIS)
LAST TEN FISCAL YEARS
(Amounts in 000's)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
REVENUES										
Income taxes	\$181,642	\$186,428	\$183,139	\$184,805	\$191,005	\$196,309	\$209,154	\$215,876	\$222,745	\$230,863
Property taxes	37,340	36,830	37,320	40,423	39,309	38,722	40,145	40,844	40,844	43,026
State local government fund	34,527	38,038	39,379	37,570	40,107	43,431	46,407	48,689	50,762	54,255
Other shared revenues	5,122	6,100	6,250	8,454	9,862	10,147	17,879	24,820	26,122	26,581
Licenses and permits	5,180	5,227	5,450	5,981	5,733	6,488	6,964	8,403	8,886	10,303
Charges for services	6,813	7,959	9,796	11,440	14,394	15,038	12,160	13,191	13,570	14,975
Fines and forfeits	7,356	8,634	11,627	13,745	13,947	13,890	13,360	14,422	15,375	15,914
Investment earnings	3,163	2,301	1,944	1,121	1,006	1,106	2,060	1,384	2,159	4,241
Sale of city assets	489	168	3,965							
Cleveland Public Power repayment										
Workers compensation settlement	1,327	589	462	199	17	419	534	2,177	417	
and refunds	11,179	16,818	21,846	19,181	21,522	20,234	16,367	17,298	16,898	9,508
Miscellaneous	\$294,138	\$309,102	\$321,178	\$322,919	\$336,902	\$345,784	\$365,030	\$387,104	\$397,778	\$409,666
EXPENDITURES AND										
OTHER USES										
General Government	\$33,850	\$34,474	\$35,290	\$35,856	\$36,643	\$37,445	\$39,189	\$41,623	\$42,352	\$45,902
Public Service	30,930	32,062	31,320	31,362	30,798	29,435	30,357	29,537	30,208	30,669
Public Safety	174,811	184,862	192,352	194,675	200,874	207,541	217,825	225,669	234,064	240,717
Community Development	5,658	6,788	7,158	7,164	6,366	6,040	6,461	5,920	5,943	6,461
Public Health	10,351	10,870	10,381	10,604	10,421	10,545	10,261	10,037	10,274	10,418
Maintenance, Parks and Recreation	24,067	25,064	27,613	28,098	29,310	30,126	31,121	33,263	34,952	34,385
Economic Development	530	490	469	443	932	1,026	1,017	1,103	1,039	1,067
Other	9,821	9,306	9,203	9,784	12,580	11,876	12,843	14,071	14,575	14,963
Operating Transfers Out	7,790	7,083	7,928	5,282	9,253	12,125	16,392	26,208	24,776	23,650
	\$297,808	\$310,999	\$321,714	\$323,268	\$337,177	\$346,159	\$365,466	\$387,431	\$398,183	\$408,232

CITY OF CLEVELAND, OHIO
GENERAL GOVERNMENT REVENUES AND OTHER FINANCING SOURCES
AND EXPENDITURES BY FUNCTION AND OTHER USES
LAST TEN FISCAL YEARS
(Amounts in 000's)

	1989	1990	1991	1992
REVENUES AND OTHER FINANCING SOURCES				
Income taxes	\$204,051	\$213,510	\$205,957	\$211,417
Property taxes	55,231	54,749	55,850	61,367
State local government fund	36,769	38,308	39,289	37,569
Other shared revenues	18,163	15,820	16,958	19,392
Licenses and permits	5,544	5,506	5,837	6,519
Charges for services	8,416	9,690	11,672	14,492
Fines and forfeits	7,428	8,678	11,950	13,839
Investment earnings	9,483	8,192	8,355	6,276
Grants	68,021	96,182	65,502	67,612
Assessments	16	113	98	116
Sale of City assets	489	168		
Cleveland Public Power repayment			3,965	
Workers compensation settlement and refunds	1,326	982	436	
Enterprise reimbursements	7,019	6,733	7,319	6,157
Miscellaneous	14,188	21,502	26,598	25,610
Operating transfers in	16,839	18,376	16,124	21,001
Resources from capitalized leases		4,058	2,191	2,363
Proceeds from sale and transfer of notes and bonds, net	29,836			
Proceeds from sale of bonds-net	58,385	25,856	63,129	35,380
Proceeds from sale of certificates of participation				17,125
	<u>\$541,204</u>	<u>\$528,423</u>	<u>\$541,230</u>	<u>\$546,235</u>
EXPENDITURES AND OTHER USES				
Current:				
General government	\$34,966	\$36,316	\$38,060	\$39,047
Public service	53,422	55,431	51,867	50,610
Public safety	180,415	188,877	202,545	199,584
Human resources	8,517	8,737	8,865	10,380
Community development	34,603	34,153	36,166	39,768
Public health	13,114	13,643	13,231	15,901
Maintenance, parks and recreation	24,757	26,308	28,494	28,515
Economic development	20,929	51,367	12,547	8,206
Other	8,469	14,255	6,227	9,107
Rebatable arbitrage			807	
Capital outlay	40,010	38,419	45,135	49,273
Debt service:				
Principal retirement	14,835	16,670	16,150	15,810
Interest	13,480	14,696	14,822	17,694
Enterprise debt service	7,038	6,751	6,470	6,178
Operating transfers out	17,539	18,876	18,157	20,560
Payments to refund notes, bonds and certificates of participation	58,385		26,913	10,156
	<u>\$530,479</u>	<u>\$524,499</u>	<u>\$526,456</u>	<u>\$520,789</u>

Note: Includes all Governmental Fund Types

1993	1994	1995	1996	1997	1998
\$217,082	\$222,651	\$237,081	\$243,213	\$255,925	\$272,309
58,994	60,949	62,630	63,968	64,354	66,662
40,515	43,634	52,625	50,865	50,217	53,998
20,644	22,339	29,098	34,590	37,561	37,393
6,096	6,924	7,466	8,714	9,252	10,574
14,832	15,682	13,056	13,744	16,326	16,648
13,856	13,726	13,402	14,771	15,572	14,766
5,898	6,731	10,276	9,963	10,492	23,890
76,864	81,507	97,841	90,412	92,276	100,255
122	156	152	120	168	115
4,370	35,609				
249	303	916	2,095		
6,038	4,161	2,878	1,342	116	
30,442	25,567	25,552	38,374	36,064	66,890
20,553	53,613	28,769	47,568	41,580	42,673
		3,891			
136,456	139,708		58,491	214,166	48,736
	19,790	19,171			
<u>\$653,011</u>	<u>\$753,050</u>	<u>\$604,804</u>	<u>\$678,230</u>	<u>\$844,069</u>	<u>\$754,909</u>

\$36,291	\$38,061	\$39,901	\$44,268	\$44,568	\$54,789
54,357	49,959	50,619	50,246	47,975	53,898
205,801	210,118	223,488	227,572	236,426	241,632
7,726	6,724	8,919	9,494	9,549	9,920
45,511	50,065	58,502	57,509	56,754	52,178
17,516	20,201	20,981	22,560	22,343	19,814
29,931	31,409	32,889	34,528	36,858	42,645
4,944	7,668	13,242	22,285	18,439	13,368
12,164	10,227	14,523	12,980	19,546	14,876
(131)					
88,960	81,622	63,457	42,314	81,222	184,528
16,972	112,119	18,824	21,935	25,003	26,511
16,820	22,616	26,439	23,444	26,488	30,293
5,199	4,577	2,810	2,602	352	
20,723	53,226	30,455	48,497	40,981	42,074
99,858		19,171	16,644	47,665	24,823
<u>\$662,642</u>	<u>\$698,592</u>	<u>\$624,220</u>	<u>\$636,878</u>	<u>\$714,169</u>	<u>\$811,349</u>

CITY OF CLEVELAND, OHIO
AD VALOREM
PROPERTY TAX LEVIES AND COLLECTIONS-
REAL, UTILITY AND TANGIBLE TAXES
LAST TEN FISCAL YEARS

Tax Year/ Collection Year	Current Levy	Delinquent Levy (1)	Total Levy	Current Collection	Current Levy Collected	Delinquent Collection	Total Collections	Total Collections	
								As Percent of Current Levy	Accumulative Delinquency
1988/1989	\$53,685,144	\$13,950,145	\$67,635,289	\$51,377,437	95.7%	\$4,656,412	\$56,033,849	104.4%	\$9,902,837 (2)
1989/1990	54,774,040	11,405,459	66,179,499	52,515,034	95.9%	2,512,244	55,027,278	100.5%	10,432,080
1990/1991	55,216,283	11,565,961	66,782,244	52,854,525	95.7%	2,547,649	55,402,174	100.3%	9,883,006
1991/1992	61,331,722	10,980,125	72,311,847	56,886,685	92.8%	2,632,169	59,518,854	97.0%	10,200,350
1992/1993	60,086,819	11,399,652	71,486,471	55,724,076	92.7%	2,164,940	57,889,016	96.3%	12,217,231
1993/1994	61,438,787	12,569,653	74,008,440	56,476,156	91.9%	2,421,817	58,897,973	95.9%	10,772,864
1994/1995	63,537,979	11,399,864	74,937,843	58,758,206	92.5%	2,403,005	61,161,211	96.3%	10,975,479
1995/1996	64,041,017	12,339,642	76,380,659	59,133,403	92.3%	2,850,250	61,983,653	96.8%	12,752,255
1996/1997	65,060,514	14,986,362	80,046,876	59,733,751	91.8%	3,023,595	62,757,346	96.5%	14,222,919
1997/1998	68,518,965	13,796,053	82,315,018	62,883,792	91.8%	2,785,155	65,668,947	95.8%	14,128,110

Source: Cuyahoga County Auditor's Office

(1) Levy includes adjustments, abatements, additions and penalties against current delinquent levy.

(2) The reduction primarily resulted from the negotiated LTV Steel Company settlement on delinquent property taxes.

CITY OF CLEVELAND, OHIO
ASSESSED AND ESTIMATED ACTUAL VALUE
OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
 (Amounts in 000's)

Tax Year/ Collection Year	Real Property (1)		Personal Property (2)		Public Utilities (3)		Total	Ratio of Total Assessed Value To Total Estimated Actual Value		
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value		Assessed Value	Estimated Actual Value	Assessed Value
1988/1989	\$2,900,226	\$8,286,360	\$909,911	\$3,137,624	\$448,535	\$897,070	\$4,258,672	\$12,321,054		34.6%
1989/1990	2,946,812	8,419,463	918,288	3,279,600	477,373	954,746	4,342,473	12,653,809		34.3%
1990/1991	3,014,356	8,612,446	958,519	3,550,070	499,998	999,996	4,472,873	13,162,512		34.0%
1991/1992	3,580,628	10,230,366	905,638	3,483,223	518,619	1,037,238	5,004,885	14,750,827		33.9%
1992/1993	3,510,905	10,031,157	868,719	3,474,876	519,073	1,038,146	4,898,697	14,544,179		33.7%
1993/1994	3,526,652	10,076,150	862,181	3,448,724	503,658	572,338	4,892,491	14,097,212		34.7%
1994/1995	3,666,719	10,476,340	816,921	3,267,684	517,663	588,253	5,001,303	14,332,277		34.9%
1995/1996	3,700,852	10,573,863	820,959	3,283,836	484,244	550,277	5,006,055	14,407,976		34.7%
1996/1997	3,767,013	10,762,894	856,832	3,427,327	476,677	541,678	5,100,522	14,731,899		34.6%
1997/1998	4,015,815	11,473,757	885,245	3,540,980	474,182	538,843	5,375,242	15,553,580		34.6%

Source: Cuyahoga County Auditor's Office

(1) The assessed valuation level for real property in Cuyahoga County is 35% of market value, except for certain agricultural land.

(2) For the collection year 1998, the percentage used to determine taxable value of personal property and inventory was 25%.

(3) In the case of public utilities, real property is assessed at 35% of true (market) value and personal property is assessed at 88% of true value except personal property of railroads which is assessed at 25% of true value in 1998.

CITY OF CLEVELAND, OHIO
AD VALOREM PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS
(PER \$1,000 OF ASSESSED VALUATION)

Tax Year/ Collection Year	City of Cleveland					County	Library & School	Total
	General Fund	Bond Retirement	Police Pension	Fire Pension	Total City Rate			
1988/1989	7.75	4.15	0.30	0.30	12.50	15.60	51.00	79.10
1989/1990	7.75	4.05	0.30	0.30	12.40	15.30	51.00	78.70
1990/1991	7.75	4.05	0.30	0.30	12.40	16.80	51.00	80.20
1991/1992	7.75	3.95	0.30	0.30	12.30	16.80	51.90	81.00
1992/1993	7.75	3.95	0.30	0.30	12.30	16.80	52.70	81.80
1993/1994	7.75	4.35	0.30	0.30	12.70	16.80	51.40	80.90
1994/1995	7.75	4.35	0.30	0.30	12.70	16.80	51.10	80.60
1995/1996	7.75	4.35	0.30	0.30	12.70	16.60	51.10	80.40
1996/1997	7.75	4.35	0.30	0.30	12.70	16.60	64.00	93.30
1997/1998	7.75	4.35	0.30	0.30	12.70	16.60	64.00	93.30

Source: Cuyahoga County Auditor's Office

CITY OF CLEVELAND, OHIO
RATIO OF NET GENERAL BONDED DEBT TO
ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS

Year	Population		Assessed Value (3) (Amounts in 000's)	Gross General Bonded Debt (4)	Less Balance in Debt Service Fund (5)	Net General Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1989	503,266	(1)	\$4,258,672	\$209,250,000	\$13,045,508	\$196,204,492	4.61%	\$389.86
1990	505,616	(2)	4,342,473	219,225,000	12,990,801	206,234,199	4.75%	407.89
1991	505,616	(2)	4,472,873	240,870,000	12,943,932	227,926,068	5.10%	450.79
1992	505,616	(2)	5,004,885	251,060,000	9,447,394	241,612,606	4.83%	477.86
1993	505,616	(2)	4,898,697	272,380,000	9,397,000	262,983,000	5.37%	520.12
1994	505,616	(2)	4,892,491	296,800,000	9,157,000	287,643,000	5.88%	568.90
1995	505,616	(2)	5,001,303	280,650,000	9,729,000	270,921,000	5.42%	535.82
1996	505,616	(2)	5,006,055	291,665,000	8,460,000	283,205,000	5.66%	560.12
1997	505,616	(2)	5,100,522	299,100,000	5,408,000	293,692,000	5.76%	580.86
1998	505,616	(2)	5,375,242	306,165,000	6,083,000	300,082,000	5.58%	593.50

(1) City Planning Commission.

(2) Bureau of Census.

(3) Cuyahoga County Auditor's Office. Values listed for year of collection.

(4) General Obligation Debt Outstanding December 31.

(5) Balance in Debt Service Fund excludes the balance in the Stadium Fund, Urban Renewal Fund, Urban Renewal Reserve Fund, Subordinated Income Tax Fund and Subordinated Income Tax Reserve Fund.

CITY OF CLEVELAND, OHIO

COMPUTATION OF LEGAL DEBT MARGIN (1)

December 31, 1998

Total of all City Debt Outstanding	\$1,927,788,000
Debt Exempt From Direct Debt Limitation:	
Tax Supporting:	
Tax Supporting Issues after 1980	\$299,480,000
Self-Supporting:	
Revenue Bonds and Notes	1,511,216,000
Ohio Water Development Authority Loans	8,922,000
Urban Renewal Bonds	9,685,000
Subordinated Income Tax Refunding Bonds	71,800,000
Non-tax Bond Anticipation Notes	20,000,000
Total Exempt Debt	1,921,103,000
Net Indebtedness (Voted and Unvoted) Subject to 10-1/2% Debt Limitation	6,685,000
Less Applicable Debt Service Fund	6,083,000
Net Indebtedness Subject to 5-1/2% Limitation	\$602,000
Net Indebtness (Unvoted) Subject to 5-1/2% Debt Limitation	\$6,685,000
Less Applicable Debt Service Fund	6,083,000
Net Indebtedness Subject to 5-1/2% Limitation	\$602,000
Assessed Valuation of City (1997 for 1998 Collection)	\$5,375,242,416
10-1/2% of Valuation (Maximum Voted and Unvoted Non-exempt General Obligation Debt Allowed)	\$564,400,454
Net Indebtedness Subject to 10-1/2% Debt Limitation	602,000
Legal 10-1/2% Margin	\$563,798,454
5-1/2% of Valuation (Maximum Unvoted Non-exempt General Obligation Debt Allowed)	\$295,638,333
Net Indebtness Subject to 5-1/2% Debt Limitation	602,000
Legal 5-1/2% Margin	\$295,036,333

(1) Computation of Legal Debt Margin based on Section 133, the Uniform Bond Act of the Ohio Revised Code.

CITY OF CLEVELAND, OHIO
COMPUTATION OF DIRECT AND OVERLAPPING DEBT

December 31, 1998

	Gross Debt (1)	Debt Service Fund		Net Debt	Percent Applicable (4)	City's Share
City of Cleveland	\$306,165,000	\$6,083,000	(5)	\$300,082,000	100.00%	\$300,082,000
Cleveland School District	104,800,000	25,510,212	(3)	79,289,788	98.75%	78,298,666
Shaker Heights School District	18,054,830	732,425	(3)	17,322,405	6.49%	1,124,224
Berea School District	12,950,000	480,762	(3)	12,469,238	1.76%	219,459
Polaris St. Vocational School District	0	1,376	(3)	(1,376)	0.00%	0
Cuyahoga County	154,064,636	1,658,942	(2)	152,405,694	21.60%	<u>32,919,630</u>
TOTAL NET DIRECT AND OVERLAPPING DEBT						<u><u>\$412,643,979</u></u>

- (1) Bond schedules from County Budget Commission.
- (2) 1999 estimated unencumbered balances filed with County Budget Commission in January 1999.
- (3) Certified unencumbered balances filed with County Budget Commission in July 1998
- (4) Percent applicable column is calculated using current assessed valuation of the City area overlapping the applicable taxing district divided by total current assessed valuation of that taxing district.
- (5) Balance in Debt Service Fund excludes the balance in the Stadium Fund, Urban Renewal Fund, Urban Renewal Reserve Fund, Subordinated Income Tax Fund and Subordinated Income Tax Reserve Fund.

CITY OF CLEVELAND, OHIO

STATEMENT OF DIRECT DEBT (1)

December 31, 1998

DIRECT DEBT

Long-Term Debt:

General Obligation Bonds and Notes:

Various Purpose \$ 306,165,000

Revenue Bonds:

Airport 392,526,000

Waterworks 748,580,000

Public Power System Improvement 289,205,000

Parking Facilities 80,905,000

Urban Renewal Bonds 9,685,000

Subordinated Income Tax Refunding Bonds 71,800,000

Non-tax Revenue Bond Anticipation Notes 20,000,000

Ohio Water Development Authority Loans 8,922,000

Total Long-Term Debt \$ 1,927,788,000

Short-Term Debt

0

Gross Direct Debt

1,927,788,000

Deduct:

General Obligation Debt Service Fund 6,083,000 (2)

Exempt Tax-Supporting General Obligations:

General Obligation Bonds Issued after 1980 299,480,000

Revenue Bonds:

Airport 392,526,000

Waterworks Improvement 748,580,000

Public Power System Improvement 289,205,000

Parking Facilities 80,905,000

Total Revenue Bonds 1,511,216,000

Urban Renewal Bonds 9,685,000

Subordinated Income Tax Refunding Bonds 71,800,000

Non-tax Revenue Bond Anticipation Notes 20,000,000

Total Deductions 1,918,264,000

Net Direct Debt \$ 9,524,000

(1) Statement of Direct Debt is based on Section 133 of the Uniform Bond Act of the Ohio Revised Code.

(2) Balance in Debt Service Fund excludes the balance in the Stadium Fund, Urban Renewal Fund, Urban Renewal Reserve Fund, Subordinated Income Tax Fund and Subordinated Income Tax Reserve Fund.

CITY OF CLEVELAND, OHIO

**RATIO OF ANNUAL DEBT SERVICE FOR GENERAL BONDED
DEBT TO TOTAL GENERAL FUND EXPENDITURES-(BUDGET BASIS)**

LAST TEN FISCAL YEARS

Year	Debt Service on General Tax Supported Debt	Debt Service on Self-Supporting Debt	General Fund Expenditures (1)	Ratio of Tax Supported Debt Service to General Fund Expenditures	Ratio of Self-Supporting Debt Service to General Fund Expenditures
1989	\$28,315,153 (2)	\$7,038,081 (2)	\$297,808,000	9.51%	2.36%
1990	31,365,592	6,751,278	310,999,000	10.09%	2.17%
1991	30,972,700	6,469,481	321,714,000	9.63%	2.01%
1992	33,504,835	6,177,438	323,268,000	10.36%	1.91%
1993	32,204,093	5,198,337	337,177,000	9.55%	1.54%
1994	33,182,285	4,576,925	346,159,000	9.59%	1.32%
1995	33,960,155	2,810,246	366,659,000	9.26%	0.77%
1996	34,890,298	2,601,657	387,431,000	9.01%	0.67%
1997	35,157,587	352,168	398,183,000	8.83%	0.09%
1998	35,603,010	0	408,232,000	8.72%	0.00%

(1) Expenditures and other financing uses based on budget basis accounting.

(2) Debt service on general tax supported debt includes the General Obligation Municipal Parking Lots Bonds which were self-supporting before 1989.

CITY OF CLEVELAND, OHIO
REVENUE BOND COVERAGE-AIRPORT BONDS (1)
LAST TEN FISCAL YEARS

Year	Gross Revenue (2)	Direct Operating Expenses (3)	Net Revenue Available for Debt Service	Annual Debt Service Requirement (4)	Coverage
1989	\$37,568,000	\$23,507,000	\$14,061,000	\$8,390,614	1.68
1990	42,493,000	25,041,000	17,452,000	8,351,285	2.09
1991	39,965,000	26,203,000	13,762,000	10,547,056	1.30
1992	43,872,000	27,236,000	16,636,000	10,168,562	1.64
1993	44,398,000	28,098,000	16,300,000	10,057,216	1.62
1994	54,875,000	28,610,000	26,265,000	10,028,565	2.62
1995	56,876,000	29,992,000	26,884,000	15,626,785	1.72
1996	61,778,000	34,050,000	27,728,000	16,771,815	1.65
1997	65,275,000	43,211,000	22,064,000	18,097,000	1.22
1998	86,219,000	44,188,000	42,031,000	26,058,000	1.61

- (1) The Trust Indenture governing Airport Bonds provides for a different method of calculating bond coverage than is presented on this page. That method excludes various items of revenue from the calculation and is therefore a more restrictive coverage test.
- (2) Gross revenues include operating revenues plus interest income.
- (3) Direct operating expenses include operating expenses less depreciation.
- (4) Annual debt service requirements include principal and interest of both self-supported revenue and self-supported general obligation bonds.

CITY OF CLEVELAND, OHIO
REVENUE BOND COVERAGE-WATER BONDS
LAST TEN FISCAL YEARS

Year	Gross Revenues (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Service	Annual Debt Service Requirement (3)	Coverage
1989	\$126,149,000	\$76,633,000	\$49,516,000	\$30,257,371	1.64
1990	124,001,000	82,590,000	41,411,000	30,180,496	1.37
1991	135,068,000	85,815,000	49,253,000	30,129,809	1.63
1992	133,180,000	89,673,000	43,507,000	25,932,187	1.68
1993	146,739,000	88,562,000	58,177,000	41,492,806	1.40
1994	158,282,000	93,326,000	64,956,000	38,917,184	1.67
1995	165,654,000	96,719,000	68,935,000	42,606,553	1.62
1996	176,968,000	100,882,000	76,086,000	43,107,346	1.77
1997	187,151,000	100,286,000	86,865,000	50,927,000	1.71
1998	204,021,000	102,923,000	101,098,000	49,796,000	2.03

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

(2) Direct operating expenses include operating expenses less depreciation.

(3) Annual debt service requirements include principal and interest of both self-supported revenue and self-supported general obligation bonds.

CITY OF CLEVELAND, OHIO
REVENUE BOND COVERAGE-PUBLIC POWER SYSTEM BONDS
LAST TEN FISCAL YEARS

Year	Gross Revenues (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Service	Annual Debt Service Requirement (3)	Coverage
1989	\$50,207,000	\$38,505,000	\$11,702,000	\$4,846,831	2.41
1990	51,798,000	39,745,000	12,053,000	4,836,856	2.49
1991	55,470,000	42,007,000	13,463,000	4,823,566	2.79
1992	60,426,000	48,294,000	12,132,000	5,632,570	2.15
1993	67,788,000	54,128,000	13,660,000	5,912,677	2.31
1994	79,696,000	62,330,000	17,366,000	5,901,327	2.94
1995	92,073,000	71,315,000	20,758,000	17,471,701	1.19
1996	99,881,000	68,566,000	31,315,000	17,033,000	1.84
1997	111,663,000	77,015,000	34,648,000	20,561,000	1.69
1998	121,669,000	87,658,000	34,011,000	20,797,000	1.64

- (1) Gross revenues include operating revenues plus interest income.
- (2) Direct operating expenses include operating expenses less depreciation.
- (3) Annual debt service requirements include principal and interest of both self-supported revenue and self-supported general obligation bonds.

CITY OF CLEVELAND, OHIO

REVENUE BOND COVERAGE-SEWER AND SEWAGE DISPOSAL BONDS

LAST TEN FISCAL YEARS

Year	Gross Revenues (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Service	Annual Debt Service Requirement	Coverage
1989	\$16,217,000	\$9,088,000	\$7,129,000	\$4,654,963	1.53
1990	15,463,000	9,098,000	6,365,000	4,456,931	1.43
1991	15,015,000	9,987,000	5,028,000	4,247,886	1.18
1992	15,487,000	9,883,000	5,604,000	4,044,932	1.39
1993	16,120,000	10,672,000	5,448,000	3,634,158	1.50
1994	17,112,000	11,282,000	5,830,000	3,068,983	1.90
1995	16,844,000	11,071,000	5,773,000	2,251,648	2.56
1996	17,556,000	11,998,000	5,558,000	2,087,048	2.66
1997	18,423,000	13,303,000	5,120,000	906,000	5.65
1998	19,835,000	12,735,000	7,100,000	1,109,000	6.40

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

(2) Direct operating expenses include operating expenses less depreciation.

CITY OF CLEVELAND, OHIO
PROPERTY VALUES, CONSTRUCTION AND BANK DEPOSITS
LAST TEN FISCAL YEARS

Year	Total Estimated Actual Value (1) (Amounts in 000's)	Bank Deposits at December 31 (2) (Amounts in 000's)	Building Permits Issued (3)
1989	\$12,321,054	\$18,850,225	5,208
1990	12,653,809	19,188,641	5,371
1991	13,162,512	18,392,243	5,376
1992	14,750,827	19,379,280	5,355
1993	14,544,179	21,009,421	5,957
1994	14,097,212	20,885,453	6,666
1995	14,332,277	22,458,573	6,850
1996	14,407,976	27,068,211	8,077
1997	14,731,899	53,941,971	9,728
1998	15,553,580	58,904,596	9,216

- (1) Estimated actual value for real, personal and public utilities-Cuyahoga County Auditor's Office. Value listed for year of collection.
- (2) Bank deposits at year-end for banks headquartered in the City of Cleveland-Federal Reserve Bank of Cleveland (total demand, time and saving deposits).
- (3) Building permits issued-Division of Building and Housing, City of Cleveland.

CITY OF CLEVELAND, OHIO

PRINCIPAL PROPERTY TAXPAYERS

December 31, 1998

The largest property taxpayers with respect to property located in the City, based on assessed valuation of property for the 1998 tax collection year, are as follows:

Name of Taxpayer	Nature of Business	Assessed Valuation	Percentage of Assessed Valuation by Category
Real Property (1)			
City of Cleveland	Government	80,067,170	1.99%
ZML - Cleveland Public Square LLC	Commercial Real Estate Holdings	\$ 56,306,250	1.40%
Lakeside Associates	Commercial Real Estate Holdings	35,350,000	0.88%
The LTV Corporation	Steel Manufacturing and Processing	32,193,000	0.80%
BRE/City Center LLC	Commercial Real Estate Holdings	31,819,000	0.79%
PHS Mt. Sinai, Incorporated	Hospital System	29,294,270	0.73%
Tower City	Commercial Real Estate Holdings	26,108,830	0.65%
600 Superior Place Partnership	Commercial Real Estate Holdings	24,850,000	0.62%
Federal Reserve Bank of Cleveland	Government	23,721,670	0.59%
Erievue Joint Venture	Commercial Real Estate Holdings	22,925,000	0.57%
TOTAL		\$ 362,635,190	9.03%
Total Assessed Valuation-Real		\$ 4,015,815,000	74.71%
Tangible Personal Property (other than Public Utilities)			
The LTV Corporation	Steel Manufacturing and Processing	\$ 67,838,240	7.66%
Key Services Corporation	Real Estate Agents and Managers	18,878,255	2.13%
B.F. Goodrich Company	Automotive Products	12,736,100	1.44%
PPG Industries, Incorporated	Automotive Finishes, Coatings & Resins	11,146,490	1.26%
IBM Credit Corporation	Real Estate Agents and Managers	9,455,890	1.07%
General Electric Company	Electric Components	8,227,120	0.93%
TRW, Incorporated	Motor Vehicle Parts and Accessories	7,833,000	0.88%
XEROX Corporation	Printing & Reproduction Services	6,495,630	0.73%
Air Products & Chemicals, Inc.	Chemical Products	6,449,730	0.73%
SPS Technologies	Steel Manufacturing and Processing	5,807,830	0.66%
TOTAL		\$ 154,868,285	17.49%
Total Assessed Valuation-Tangible Personal		\$ 885,245,000	16.47%
Public Utilities (real and tangible personal property)			
Cleveland Electric Illuminating Co.	Electric	\$ 270,998,960	57.15%
Ameritech	Telephone	142,449,480	30.04%
East Ohio Gas Company	Natural Gas	47,844,460	10.09%
TOTAL		\$ 461,292,900	97.28%
Total Assessed Valuation-Public Utilities		\$ 474,182,000	8.82%
Total Assessed Valuation-All Categories		\$ 5,375,242,000	100.00%

Source: Cuyahoga County Auditor's Office.

(1) Includes Public Utilities Real Property.

CITY OF CLEVELAND, OHIO

SCHEDULE OF INSURANCE COVERAGE

December 31, 1998

Type of Coverage / Name of Carrier	Policy Number	Policy Period	Annual Premium
AIRPORTS:			
1) COMPREHENSIVE GENERAL LIABILITY INSURANCE -			
A) Great American Insurance Co. Primary Airport General Liability Insurance	GHK 0295282-00	10/10/98-10/10/99	\$244,023
B) Underwriters at Lloyd's of London Excess Airport Liability Insurance	GIK0295283-00	10/10/98-10/10/99	
2) PROPERTY DAMAGE AND EARNINGS INSURANCE -			
A) Arkwright Mutual Insurance Co.	02020416	02/06/98-02/06/99	\$117,850
3) VEHICLE LIABILITY INSURANCE:			
A) St. Paul Mercury Insurance Co.	GP03400045	07/03/98-07/03/99	\$ 47,740
CLEVELAND PUBLIC POWER:			
1) PROPERTY COVERAGE:			
A) Northbrook Property & Casualty Insurance Co - Property Insurance Coverage	84-108881	01/18/96-01/18/99	\$ 74,390
B) Seneca Insurance company Boiler and Machinery Coverage	BME 2000027	08/28/96-08/28/99	\$ 94,000

Details of Coverage	Liability Limit
Bodily injury and property damage including airport operations hazard, products-completed operations hazard, contractual hazard, non-owned aircraft hazard, liquor liability hazard and hangarkeepers liability.	\$50 million annual aggregate. Self-insured retention of \$100,000.
Excess liability coverage	\$150 million annual aggregate, excess to \$50 million primary coverage.
Property damage, gross earnings, demolition, and increased cost of construction	\$316,805,000.
Earthquake and flood	\$100 million annual aggregate.
Debris removal (greater of)	25% of value or \$5 million.
Extra expense, service interruption bodily injury, EDP-media, property damage/bodily injury (automatic coverage or errors and omissions), transit and expediting expense	\$1 million with deductibles of \$100,000 per occurrence and \$500,000 annual aggregate.
Bodily injury or property damage arising out of the ownership, maintenance, operation and use of all owned, non-owned, leased and/or hired vehicles	\$1 million per occurrence; \$1,000 deductible per accident with annual aggregate deductible of \$10,000.
Blanket real and personal property special form coverage for insured perils; newly acquired location; fire brigade charges and extinguishing services	\$82,093,565 per occurrence; \$250,000 deductible for turbines, \$100,000 deductible for three locations; \$5,000 deductible for two locations.
Pollutant removal	\$50,000 per occurrence.
Comprehensive coverage including production machinery (including breakdown)	\$20,000,000 per accident; \$250,000 deductible for turbines/generators. \$1/KVA deductible for transformers 20,000 KVA or larger, 25,000 deductible all other objects.
Water damage	\$100,000 per accident
Expediting expenses	\$100,000 per accident
Hazardous substance	\$100,000 per accident
Ammonia contamination	\$100,000 per accident

CITY OF CLEVELAND, OHIO

SCHEDULE OF INSURANCE COVERAGE

December 31, 1998

Type of Coverage/ Name of Carrier	Policy Number	Policy Period	Annual Premium
CLEVELAND DATA CENTER-EDP FORM:			
A) Cigna Property & Casualty Insurance Company	I 20040269	10/06/96-10/06/99	\$ 6,276
NEW CLEVELAND BROWNS' STADIUM CONSTRUCTION:			
A) National Union Fire Insurance Co. of Pittsburgh, Pa. General liability coverage	817-80-41 RA	04/23/97-07/31/99	\$356,693
B) Federal Insurance Company Builders risk property insurance	0659-82-04	04/23/97-08/23/99	\$112,785

Details of Coverage	Liability Limit
Data processing equipment	\$7,816,304; \$10,000 deductible.
Software	\$500,000; \$10,000 deductible.
Extra expense	\$625,000; \$10,000 deductible.
Property in transit	\$50,000; \$10,000 deductible.
Commercial General Liability Coverage, wrap program; products/completed operations coverage; personal & advertising injury coverage	\$30,000,000 per occurrence. \$30,000,000 aggregate. \$10,000 deductible per occurrence. \$100,000 aggregate deductible.
Fire damage	\$50,000 any one fire.
Medical expense	5,000 any one person.
Builders' risk property coverage	\$210,000,000 limit 25,000 deductible
Earthquake coverage, Flood coverage	\$5,000,000 limit 100,000 deductible

CITY OF CLEVELAND, OHIO

DEMOGRAPHIC STATISTICS

December 31, 1998

The population of the City, the County, the PMSA and the State for each decade from 1940 to 1990 (U.S. Bureau of the Census) is as follows:

Year	Population			
	City	County	PMSA	State
1940	878,336	1,217,250	1,219,734	6,907,612
1950	914,808	1,389,532	1,532,574	7,946,627
1960	876,050	1,647,895	1,909,483	9,706,397
1970	750,903	1,721,300	2,063,729	10,652,017
1980	573,822	1,498,400	1,898,825	10,797,630
1990	505,616	1,412,140	1,831,122	10,847,115

AGE DISTRIBUTION (1), (2)

Age	1990			
	Males		Females	
	Number	Percentage	Number	Percentage
Under 5 Years	22,579	9.5%	21,577	8.0%
5-9 yrs	19,524	8.2%	19,069	7.1%
10-14 yrs	17,439	7.4%	16,848	6.3%
15-19 yrs	17,080	7.2%	16,937	6.3%
20-24 yrs	18,289	7.7%	20,205	7.6%
25-34 yrs	43,747	18.4%	47,501	17.7%
35-44 yrs	30,917	13.0%	33,503	12.5%
45-54 yrs	20,002	8.4%	23,968	8.9%
55-64 yrs	20,558	8.7%	25,120	9.4%
65-74 yrs	17,310	7.3%	24,006	8.9%
75 and over	9,766	4.2%	19,671	7.3%
TOTAL	237,211	100.0%	268,405	100.0%

Median age 29.9 32.5

DISTRIBUTION OF FAMILIES BY INCOME BRACKET (average 2.2 persons) (1), (2)

Income	1990		1980	
	Number	Percentage	Number	Percentage
\$0-4,999	33,323	16.7%	52,258	23.9%
\$5,000- 9,999	31,029	15.5%	40,191	18.4%
\$10,000- 14,999	22,925	11.5%	33,290	15.3%
\$15,000- 19,999	21,224	10.6%	29,231	13.4%
\$20,000- 24,999	17,680	8.9%	23,682	10.8%
\$25,000- 34,999	29,632	14.8%	25,639	11.7%
\$35,000- 49,999	25,866	13.0%	10,967	5.0%
\$50,000- 74,999	14,060	7.0%	2,961	1.3%
\$75,000- 99,999	2,568	1.3%	224	.1%
OVER \$100,000	1,310	.7%	56	.1%
TOTAL	199,617	100.0%	218,499	100.0%

Median Family Income (1) \$ 22,448 \$ 15,991
 Per Capita Income (1) \$ 9,258 \$ 5,770

Source: (1) U.S. Census of Population 1980, 1990
 (2) Northern Ohio Data & Information Service, College of Urban Affairs, Cleveland State University

CITY OF CLEVELAND, OHIO

DEMOGRAPHIC STATISTICS

December 31, 1998

Employment

The following table indicates the distribution of employees among major industrial classifications in the Cleveland-Lorain-Elyria PMSA for the years 1994 through 1998:

Distribution of Employees by Sector (Amounts in 000's)

	1998(1)(2)	1997(2)	1996(2)	1995(2)	1994(2)
Goods Producing Industries					
Construction	46.6	44.2	41.9	41.4	40.2
Primary Metal	21.4	21.6	21.7	22.4	21.8
Fabricated Metal	38.6	38.4	37.7	38.5	37.1
Industrial Machinery	37.5	36.3	36.9	36.3	34.0
Electrical Equipment	15.4	16.0	16.5	16.7	16.5
Transportation Equipment	21.4	22.2	22.7	23.1	22.6
Printing & Publishing	16.8	17.0	17.8	18.0	18.1
Chemical Products	17.5	17.4	17.7	17.7	17.7
Rubber & Plastic Products	14.5	14.6	14.4	15.4	15.9
Other	40.3	39.7	40.1	39.3	38.9
Total Goods Producing Industries	270.0 262.8		267.4	267.4	268.8
Service Producing Industries					
Transportation & Public Utilities	45.8	45.4	45.1	44.4	44.4
Wholesale Trade	73.9	72.7	71.1	71.0	68.6
Retail Trade	202.6	198.3	195.5	190.5	182.7
Finance, Insurance, & Real Estate	75.5	74.1	71.9	69.3	68.7
Health Services	109.0	106.2	104.3	103.8	102.4
Other Services	239.4	228.9	221.8	215.3	206.5
Federal Government	21.2	21.5	22.3	22.6	21.6
State Government	9.1	9.0	9.1	9.5	9.6
Local Government	115.9	114.0	111.3	109.6	110.3
Total Service Producing Industries	892.4 814.8		870.1	852.4	836.0
Total	1,162.4 1,077.6		1,137.5	1,119.8	1,104.8
<hr/>					
Goods Producing Percentage	23.2%	23.5%	23.9%	24.3%	24.4%
Service Producing Percentage	76.8%	76.5%	76.1%	75.7%	75.6%

Source: Ohio Bureau of Employment Services, Labor Market Information Division.

(1) Preliminary.

(2) Effective January 1, 1994 the Cleveland PMSA was modified to include Lorain and Ashtabula counties. Data presented for years prior to 1994 does not reflect this change.

CITY OF CLEVELAND, OHIO

DEMOGRAPHIC STATISTICS

December 31, 1998

Employment

The following table compares estimated employment statistics for Cuyahoga County and the Cleveland - Lorain - Elyria PMSA including comparisons with unemployment rates for the State of Ohio and the United States:

Employed Year(1)	Unemployed		Unemployment Rate					
	County	PMSA	County	PMSA	County	PMSA	Ohio	U.S.
1989	696,000	907,500	35,300	46,000	4.8%	4.8%	5.5%	5.3%
1990	646,900	1,034,100	34,000	57,700	5.0%	5.3%	5.7%	5.6%
1991	635,700	1,019,400	39,400	68,600	5.8%	6.3%	6.4%	6.8%
1992	629,200	1,011,100	48,800	82,900	7.2%	7.6%	7.3%	7.5%
1993	627,900	1,008,500	46,000	75,100	6.8%	6.9%	6.5%	6.9%
1994	636,300	1,023,900	39,400	64,200	5.8%	5.9%	5.5%	6.1%
1995	644,100	1,037,000	31,800	55,400	4.9%	5.1%	4.8%	5.6%
1996	655,700	1,046,100	34,300	57,100	5.1%	5.2%	4.9%	5.4%
1997	651,900	1,061,600	33,000	53,500	4.9%	4.8%	4.6%	4.9%
1998(2)	644,400	1,088,700	30,000	49,400	4.5%	4.3%	4.3%	4.5%

Source: Ohio Bureau of Employment Services-U.S. Department of Labor, Bureau of Labor Statistics

(1) Effective January 1, 1994 the Cleveland PMSA was modified to include Lorain and Ashtabula counties. Data presented for years prior to 1994 does not reflect this change.

(2) Preliminary.

CITY OF CLEVELAND, OHIO

DEMOGRAPHIC STATISTICS

December 31, 1998

Corporate Headquarters

The following table shows the corporations among Fortune magazine's listing of the five hundred largest U.S. corporations in the United States which are located in the Cleveland-Lorain-Elyria PMSA:

The 500 Largest Industrial and Service Corporations Ranked by Revenues(1)

Rank	Company	Worldwide Revenues (\$ millions)	Worldwide Assets (\$ millions)	Major Products or Services
142	TRW, Incorporated	\$11,886	\$ 7,169	Automotive and Electronics
201	National City Corporation	8,070	88,245	Commercial Banking
238	KeyCorp.	7,100	80,020	Commercial Banking
250	Eaton Corporation	6,625	5,665	Automotive and Electronics
305	Progressive	5,292	8,463	Insurance
322	Sherwin Williams	4,934	4,065	Paints
336	Parker Hannifin Corporation	4,633	3,524	Hydraulic Components
358	OfficeMax	4,337	2,231	Retail Office Supplies
362	LTV	4,273	5,324	Steel Manufacturing

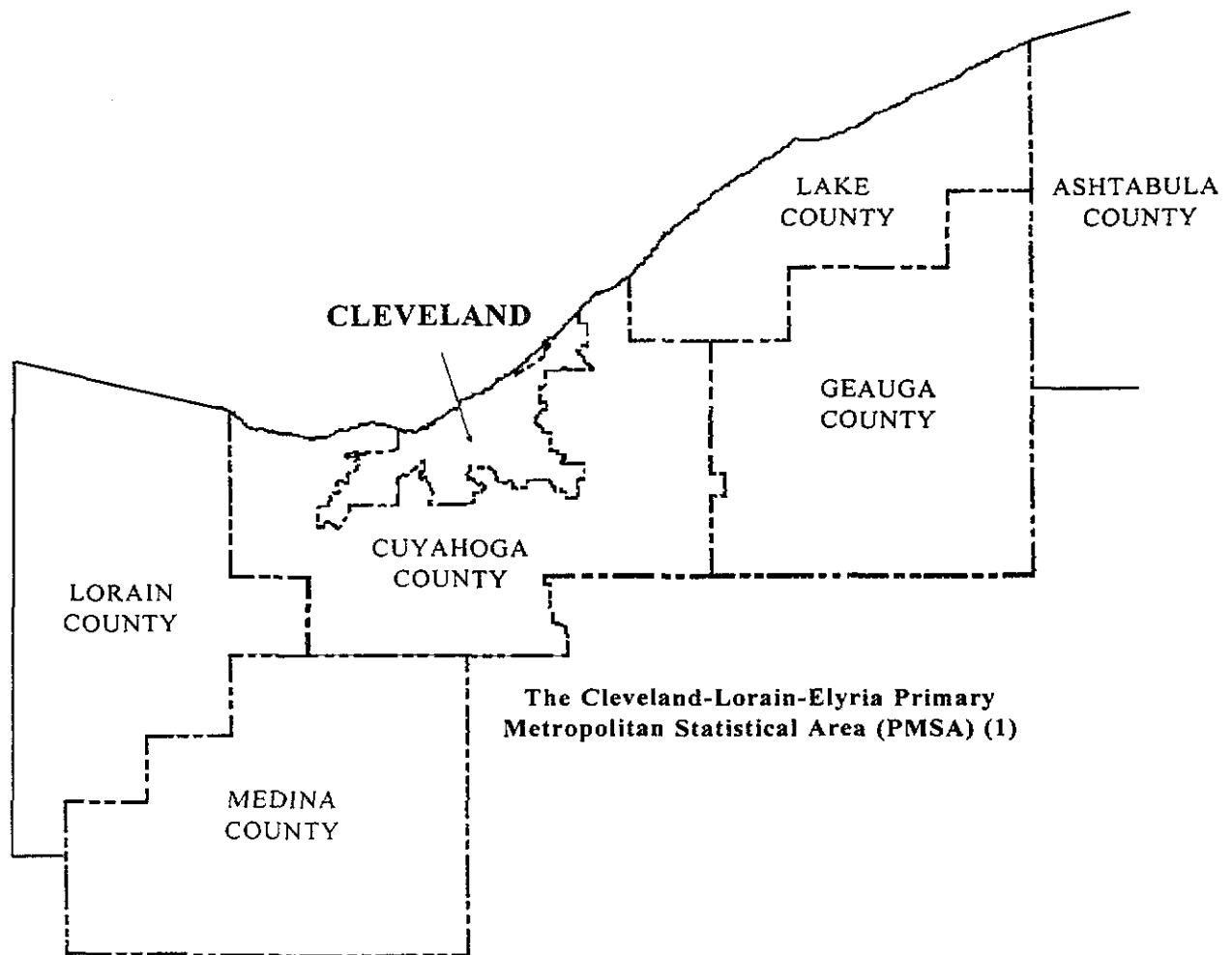
(1) Source: Fortune 500 Directory of the Largest U.S. Corporations, April 26, 1999

CITY OF CLEVELAND, OHIO

DEMOGRAPHIC STATISTICS - Continued

December 31, 1998

METROPOLITAN CLEVELAND



- 2.2 million people
- 6 counties
- Largest metropolitan area in Ohio
- 1,061,600 employed labor force

(1) Effective January 1, 1994 Ashtabula and Lorain counties were added to the Cleveland PMSA.

CITY OF CLEVELAND, OHIO

MISCELLANEOUS DEMOGRAPHIC STATISTICS

December 31, 1998

DATE OF INCORPORATION	MARCH 5, 1836
DATE OF ADOPTION OF ORIGINAL CITY CHARTER	JULY 1, 1913
FORM OF GOVERNMENT	MAYOR AND TWENTY-ONE COUNCILMEN
AREA-SQUARE MILES	76
MILES OF SHORELINE ON CUYAHOGA RIVER	17
MILES OF SHORELINE ON LAKE ERIE	14
ELECTION OF NOVEMBER, 1998 (Gubernatorial)	
Number of Registered Voters-Last General Election	268,914
Number of Votes Cast-Last General Election	98,260
Percentage of Registered Votes Cast	37
AIRPORTS	
Cleveland Hopkins International Airport	
Enplaned Passengers	6,137,091
Landing Weight-Scheduled Airliner (Tons)	9,714,969
Number of Scheduled Aircraft Departures per day (Average at Hopkins)	339
Miles from City Hall to Cleveland Hopkins International Airport	13
Miles from City Hall to Burke Lakefront Airport	1/4
WATER SYSTEM	
Number of Customer Billings	1,610,684
Daily Average Pumpage-Gallons	261,100,000
Greatest Pumpage for a Single Day (July 18, 1997)	390,300,000
Maximum-Filtration Plant Capacity per day-gallons	465,000,000
Maximum-Intake Capacity per day-gallons	740,000,000
Number of Miles of Watermains Owned by City	1,600
Number of Miles of Watermains Owned by Suburbs	3,500
Population Served	1,500,000
FIRE DEPARTMENT	
Number of Stations	26
Number of Employees (Uniform)	981
POLICE DEPARTMENT	
Number of Districts	6
Number of Employees (Uniform)	1,890
BUILDINGS	
Permits Issued	9,216
Estimated Cost of Construction	\$768,911,015
Inspections under Ohio Basic Building Code	55,985
PARKS AND RECREATION	
Number of Parks (District, Community, Neighborhood and Urban)	145
Number of Ball Diamonds (at 73 sites)	143
Total Playgrounds	112
Recreation Centers	18
Pools:	
Indoor	17
Outdoor	24
Golf Courses (2-18 hole courses at each)	2
Ice Rink	1
Roller Rink (indoor)	1
Tennis Courts (at 30 sites)	133
Soccer Fields	8
Cudell Fine Arts Center	1
Rockefeller Park Public Greenhouse	1
Camp George L. Forbes	1
Total Park Acreage (not including golf courses)	1,427

CITY OF CLEVELAND, OHIO

SCHEDULE OF STATISTICS-GENERAL FUND

For The Year Ended December 31, 1998

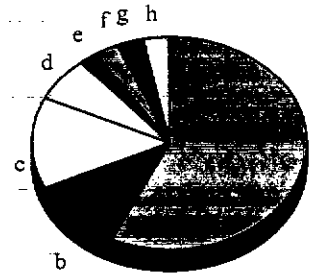
Operating Ratios-General Fund-Budget Basis

For 1998

REVENUE DOLLAR BY SOURCE

Where the money came from

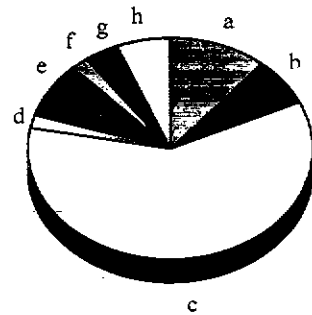
a. Income taxes	\$ 0.57
b. Property taxes	0.11
c. State local government fund	0.14
d. Other shared revenues	0.07
e. Licenses and permits	0.02
f. Charges for services	0.03
g. Fines and forfeits	0.03
h. Miscellaneous	0.03
	\$ 1.00



EXPENDITURE DOLLAR BY FUNCTION

Where the money was spent

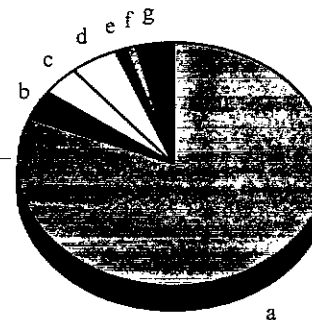
a. General government	\$ 0.11
b. Public service	0.07
c. Public safety	0.60
d. Public health	0.02
e. Maintenance, parks and recreation	0.08
f. Community development	0.02
g. Other	0.04
h. Operating transfers out	0.06
	\$ 1.00



EXPENDITURE DOLLAR BY OBJECT

What the money was spent on

a. Salaries, wages, and related benefits	\$ 0.81
b. Interdepartmental charges	0.04
c. Utilities	0.04
d. Contractual services	0.05
e. Materials and supplies	0.01
f. Miscellaneous	0.01
g. Operating transfers out	0.04
	\$ 1.00



SPECIAL THANKS TO:

**The Division of Financial Reporting & Control
and Other Divisions of Finance (as noted)**

George Barbulescu (ISS)
Michael Chambers
Celina Chaves
Heather Dial (CCA)
James Fadel (Internal Audit)
Michael Klein
Yanping Liu

Tina Magistro
Lori McGee
Annette Mitchell
Nancee Murphy
Linda Pavich
Ray Pring

Photography

Donn Nottage, City Photographer

Cover color separations & printing

Bowne of Cleveland



Robert W. Dolan, City Controller
Department of Finance
Room 18 – City Hall
Cleveland, Ohio 44114
(216) 664-2667

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**CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL**

REPORT TO MANAGEMENT

for the year ended December 31, 1998

**CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL**

REPORT TO MANAGEMENT

for the year ended December 31, 1998

PricewaterhouseCoopers LLP
1500 One Cleveland Center
1375 East Ninth Street
Cleveland OH 44114-1700
Telephone (216) 875 3000
Facsimile (216) 575 0170

October 8, 1999

Mr. Solomon Balraj
Director of Port Control
Cleveland Hopkins International Airport
5300 Riverside Drive
Cleveland, Ohio 44135

Dear Mr. Balraj:

In planning and performing our audit of the financial statements of the City of Cleveland, Department of Port Control, Divisions of Cleveland Hopkins International and Burke Lakefront Airports, (the "Airport") for the year ended December 31, 1998, we considered the Airport's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Airport's financial statements. Although our audit was not designed to provide assurance on the internal control structure, we noted certain matters involving the internal control structure and its operation, and are submitting for your consideration related recommendations designed to help the Airport improve the internal control structure.

Certain of these matters may be considered reportable conditions, under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Airport's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

This report is intended for the information of the City of Cleveland and appropriate government agencies. However, this report is a matter of public record and its distribution is not limited. Please contact us if you have any questions or require additional information with respect to this report.

Very truly yours,

PricewaterhouseCoopers LLP

**City Of Cleveland
Department Of Port Control
Report To Management
for the year ended December 31, 1998**

Department of Port Control

Page

Executive Summary 2

Detail Comments:

1. Process Used For Year End Closing Should Be Modified Or More
Well Controlled* 3
2. Account Receivable Should Be Reconciled On A Monthly Basis* 4
3. Monthly Review Of Income Statement Accounts Should Be Performed* 6
4. Passenger Facility Charges Related Issues* 7

* Prior year comment re-issued

DEPARTMENT OF PORT CONTROL

Executive Summary

Presented below is a summary of our management letter comments for the Airport for the year ended December 31, 1998. A more detail description of these comments is presented in the remainder of this report.

Financial and Accounting:

- The Airport should continue to strengthen the financial reporting and analytical skills of its accounting department. All accounting personnel should be provided regular training, including cross-training.
- Monthly actual financial results should be compared to budgeted amounts and to the prior year, with detailed explanations for variances.
- The Airport should reconcile all accounts and prepare financial statements within 30 days of month end.
- Non-subfund revenue and expense accounts should be reviewed and approved on a monthly basis. Detail for the balances should be explained and documented.
- Account receivable reconciliations should be completed on a monthly basis.
- Credit balances and old accounts included within the accounts receivable detail should be reviewed and cleared on a monthly basis.
- The Airport should consider modifying the incentive compensation calculation to provide for only one choice, with necessary approvals obtained from the airlines, if needed.
- Passenger facility charge reports filed with the FAA should be reconciled to FAMIS.

Many of the above comments are recurring matters which were identified in prior year management letters. Establishing policies and procedures to correct the above matters is critical to the maintenance of an effective internal control environment at the Airport and to ensure accurate financial reporting.

DEPARTMENT OF PORT CONTROL

1. Process Used For Year End Closing Should Be Modified Or More Well Controlled*

Currently, the Airport utilizes a separate "off line" system for recording year-end activity once FAMIS is closed. This process has the following weaknesses:

- It is based on lotus spreadsheets and as such leaves no audit trail for entries posted.
- Updating and generation of the reports from this off line system requires excessive time to perform. Since only one employee had access and training to use the current system during the past year, there were delays in receiving updated reports several times during the audit.

We recommend the Airport make it a priority to identify and implement a new accounting software package that can be used to facilitate the closing process.

Current Year Update:

Same process used as in 1998. With the implementation of PeopleSoft in 1999, the Airport should revisit their year end closing process.

Management's Response:

Because of the decision to install a city-wide financial system (PeopleSoft), the Airport did not purchase a separate financial system in 1998. PeopleSoft will be fully implemented at the Airport by December 1999. As a result of the implementation of the new financial system, Port Control anticipates a more efficient Year-End Closing. With PeopleSoft, the Billing, Accounts Receivable, and General Ledger functions are coordinated within one fiscal system. The need for a separate off-line system (the Excel spreadsheet) is not anticipated after completion of the PeopleSoft installation.

DEPARTMENT OF PORT CONTROL

2. Account Receivable Should Be Reconciled on a Monthly Basis*

The accounts receivable reconciliation for December 31, 1997 was not accurately completed until June 1998. Additionally, upon completion, significant adjustments were required to the Airport's annual financial statements. We recommend that accounts receivable be reconciled on a monthly basis. This will help reduce the time necessary to reconcile the account at year-end and help avoid delays in future audits.

Additionally, the accounts receivable aging at year-end included several past due balances. To enhance collection of receivables, the Airport should monitor past due balances on a regular basis. We recommend the Airport implement a monthly procedure whereby all receivable balances over 60 days are reviewed by someone independent of the accounts receivable function. A determination should then be made as to whether the amount should be reserved. A reserve policy should be adopted as a guideline in setting the reserve levels for past due accounts.

Finally, we noted that receivable balances for amounts owed by individuals for emergency services administered at the Airport are rarely collected. However, these balances continue to be maintained on the aging report, thus adding to the length of the report and hindering its use. The City and the Airport should consider revisiting their strategy for collecting these balances and, if they are not collectible, they be written off.

Current Year Update:

No improvement noted in the current year. The December 31, 1998 reconciliation was not finalized until June 1999.

Management's Response:

In fiscal year 1998, several levels of Airport management reviewed Accounts Receivable on a monthly basis through the Airport's Aging Schedule. Accounts over 90 and 120 days were reviewed to resolve billing and nonpayment disputes. As a result of these reviews, the Airport took steps towards collections, including third-party collection. In a process that was established in 1998, a committee of Accounting and Properties staff reviewed outstanding accounts for payment resolution.

DEPARTMENT OF PORT CONTROL

2. Account Receivable Should Be Reconciled on a Monthly Basis*, Continued

With the implementation of the new financial system (PeopleSoft), Port Control anticipates monthly Accounts Receivable reconciliations. PeopleSoft will provide one system for both Accounts Receiving, Billing and General Ledger. In the interim, an Accounts Receivable reconciliation will be completed for each month, under the supervision of the Fiscal Manager (Operating Budget) and approved by the Airport Comptroller. In addition, a new Fiscal manager position has been created that is devoted to auditing responsibilities, including internal procedures. This Fiscal Manager (of Audits) will review Accounts Receivable after 60 days to determine whether the amount should be reserved, consistent with current City of Cleveland policy and practices.

Port Control is resolving its EMS revenue issue by invoicing for EMS services through the Department of Finance's EMS billing system, and by writing off the previous year's uncollectible EMS revenue, throughout the fiscal year. In order to monitor uncollectible accounts, the Fiscal Manager will prepare a quarterly report of reserve accounts, to be approved by the Airport Controller and Assistant Director.

DEPARTMENT OF PORT CONTROL

3. Monthly Review Of Income Statement Accounts Should Be Performed*

The Department of Port Control has various revenue and expense accounts specific to the activities of Burke Lakefront and Cleveland Hopkins International Airports. In some cases, the balances in the accounts, such as PFC revenue, interest expense and depreciation agree directly to supporting schedules maintained by either the Airports or City Hall. However, balances in other accounts, such as non-subfund revenue and expenses, do not agree to supporting detail, but rather are an accumulation of several entries made throughout the year. As such, these accounts are difficult to analyze.

We recommend the Airport develop procedures whereby all income statement accounts are reviewed and analyzed each month. The procedures should include:

- Monthly review and reconciliation of accounts to the supporting documentation, where available.
- Monthly review of transactions for those accounts that do not have available cross-checks (i.e., non-subfund revenue and expenses).
- Comparison of actual balances to prior year, monthly and year to date results.
- Comparison of actual balances with budgeted amounts.

We believe such procedures will help identify errors on a more timely basis as well as allow the Airport to place more reliance on income statement account balances in making financial and operating decisions for the two airports.

Current Year Update:

Some improvements were noted in the current year, however, there were still numerous audit adjustments required to accurately reflect the 1998 activity and the December 31, 1998 balance sheet. Many of these adjustments could have been identified by Airport personnel during the course of the year if monthly reviews of financial results were completed and if account reconciliations were completed on a timely basis.

Management's Response:

In 1998, the Airport completed monthly reviews of all expense and revenue accounts, including prior year and current year-to-date comparisons for the operating budget. Port Control completed reviews of non-subfund transactions throughout the year. Capital reports were completed on a quarterly basis and the Fiscal Manager (Capital Budgets) prepared a Capital Expense Report each month. It should be noted that because of the terms of the Airport's master lease, some financial obligations can be determined only after financial statements are completed, such as the Incentive Compensation expense and the landing fee settlement. In 1998, new procedures were implemented to monitor fiscal operations including monthly billing reports, revenue reports for the Rental Car Facility operations and additional PFC reports.

DEPARTMENT OF PORT CONTROL

4. Passenger Facility Charges Related Issues*

In accordance with the Federal Aviation Regulations, the Airport is required to file quarterly reports of passenger facility charge ("PFC") revenue collected and expended with the appropriate Federal Aviation Administration office. Based on our review of the quarterly reports, we noted differences between the Airport's accounting records and the data included in the quarterly reports. These differences were corrected in the year-end summary. We recommend that the Airport perform reconciliations of the internal accounting records to the records generated by FAMIS before preparing the quarterly reports. This should reduce and/or eliminate the differences described.

Current Year Update:

Same comment applies to 1998.

Management's Response:

Throughout the 1998 fiscal year, the PFC revenue and expense reporting was overseen by the Fiscal Manager. These reports were based on the information provided by the FAMIS fiscal system, which is the primary source of information regarding PFC's. The FAMIS data posted was reconciled with receiving warrants before the end of the year closing. In addition to the quarterly reports, the Airport generates monthly PFC reports that are reviewed by several levels of management. The adjustments made at year-end 1998 reflects a bank error in which PFC revenues were identified as operating revenue when the funds were deposited into Airport accounts. In order to monitor this type of potential error, the PFC Accountant will complete a cash reconciliation on a quarterly basis and the report will be reviewed by the Fiscal Manager (Capital Budgets) before the quarterly reports are issued to the FAA.

CITY OF CLEVELAND, OHIO

**DEPARTMENT OF PORT CONTROL —
DIVISIONS OF CLEVELAND HOPKINS
INTERNATIONAL AIRPORT AND
BURKE LAKEFRONT AIRPORT**

REPORT ON PASSENGER FACILITY CHARGES

for the year ended December 31, 1998

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL —
DIVISIONS OF CLEVELAND HOPKINS
INTERNATIONAL AIRPORT AND
BURKE LAKEFRONT AIRPORT
REPORT ON PASSENGER FACILITY CHARGES
for the year ended December 31, 1998**

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Supplementary Schedules of Passenger Facility Charges:	
Schedule of Passenger Facility Revenue, Interest and Expenditures by Quarter for the year ended December 31, 1998	2
Schedule of Passenger Facility Charges by Project for the year and each quarter during the year ended December 31, 1998	3
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**Independent Auditor's Report on
Supplementary Schedules of
Passenger Facility Charges**

We have audited the financial statements of the City of Cleveland, Department of Port Control — Divisions of Cleveland Hopkins International and Burke Lakefront Airports (the "Airport"), as of and for the year ended December 31, 1998, and have issued our report thereon dated June 25, 1999. These financial statements are the responsibility of the Airport's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Our audit was made for the purpose of forming an opinion on the financial statements of the Airport taken as a whole. The accompanying schedules (which are also the responsibility of management of the Airport) are presented as required by the Federal Aviation Administration of the U.S. Department of Transportation to implement Sections 9110 and 9111 of the Aviation Safety and Capacity Expansion Act of 1990 and are not a required part of the financial statements. The information in those schedules has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

This report is intended for the information of management and applicable federal and state agencies. However, this report is a matter of public record and its distribution is not limited.

PricewaterhouseCoopers LLP

June 25, 1999

Schedule of Passenger Facility Revenue, Interest and Expenditures by Quarter

for the year ended December 31, 1998

	PFC			Unliquidated PFC
	<u>Revenues</u>	<u>Interest</u>	<u>Expenditures</u>	<u>Revenue</u>
Cumulative balances at December 31, 1997	\$ 72,557,070	\$ 6,530,455	\$(31,966,723)	\$ 47,120,802
1st quarter 1998 activity (a)	3,433,698	1,063,940	(2,530,630)	1,967,008
2nd quarter 1998 activity (a)	4,357,517	421,147	(1,047,815)	3,730,849
3rd quarter 1998 activity (a)	4,209,574	950,179	(5,916,377)	(756,624)
4th quarter 1998 activity (a)	4,486,172	654,727	(6,761,825)	(1,620,926)
1998 totals	<u>16,486,961</u>	<u>3,089,993</u>	<u>(16,256,647)</u>	<u>3,320,307</u>
Cumulative balances at December 31, 1998	<u>\$ 89,044,031</u>	<u>\$ 9,620,448</u>	<u>\$(48,223,370)</u>	<u>\$ 50,441,109</u>

a - Reflects adjustments to amounts previously reported in the quarterly PFC reports for correction of errors.

Schedule of Passenger Facility Charges by Project
for the year and each quarter during the year ended December 31, 1998

	Approved Project Budget	Cumulative Expenditures at 12/31/97	1st Quarter 1998 Expenditures	2nd Quarter 1998 Expenditures	3rd Quarter 1998 Expenditures	4th Quarter 1998 Expenditures	Total 1998 Expenditures	Cumulative Expenditures at 12/31/98
Insulate Residences - full program phase I	\$ 16,960,400	\$ 11,750,199	\$ 1,417,311	\$ 778,495	\$ 130,651	\$ 111,465	\$ 2,437,922	\$ 14,188,121
Extension of taxiway "Q"	2,500,000	2,155,743						2,155,743
Land acquisition - resident relocation	16,883,240	11,497,708	613,319	230,241	119,303	101,455	1,064,318	12,562,026
Sewer construction	5,500,000	5,126,417	500,000			350,000	850,000	5,976,417
Asbestos removal in terminal CHIA	1,000,000	452,342		21,157			21,157	473,498
Acquisition of anaex office building and vacant land	13,025,000							
Passenger jetways (BKL)	500,000							
Baggage claim/security improvements (BKL)	300,000							
Waste water - glycol collection system construction	6,320,642							
NASA feasibility and pre-engineering study	355,000							
Land acquisition	30,360,000	984,314		17,922	5,666,423	6,198,905	11,883,250	12,867,564
Sound insulation	8,675,000							
Environmental assessment/impact studies	1,725,000							
Part 150 noise compatibility program update	584,570							
Terminal passenger flow & security study	300,000							
Railway system/vehicular ingress-egress study	200,000							
Total expenditures	\$ 105,188,852	\$ 31,966,723	\$ 2,530,630	\$ 1,047,815	\$ 5,916,377	\$ 6,761,825	\$ 16,256,647	\$ 48,223,370

Notes to Supplementary Schedules

General

The accompanying schedules present all the activity of the Airport's Passenger Facility Charge (PFC) program. The Airport's reporting entity is defined in Note A to the Airport's financial statements.

Basis of Presentation

The accompanying schedules are presented on the cash basis of accounting.

**Independent Auditor's Report on
Compliance with Specific Requirements
Applicable to Passenger Facility Charge Program**

We have audited the financial statements of the City of Cleveland, Department of Port Control — Divisions of Cleveland Hopkins International and Burke Lakefront Airports (the "Airport"), as of and for the year ended December 31, 1998 and have issued our report thereon dated June 25, 1999.

We have also audited the Airport's compliance with the requirements governing project cost allowability, Passenger Facility Charge (PFC) funds used as matching share and special reporting requirements that are applicable to the PFC program for the year ended December 31, 1998. The management of the Airport, is responsible for the Airport's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; Government Audit Standards, issued by the Comptroller General of the United States; and the draft of the Passenger Facility Charge Program Audit Compliance Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Airports' compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying Schedule of Findings and Recommendations. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Airport complied, in all material respects, with the requirements governing project cost allowability, PFC funds used as matching share or as a supplemental to AIP funded projects, and special reporting requirements that are applicable to its PFC program for the year ended December 31, 1998.

This report is intended for the information of management and applicable federal and state agencies. However, this report is a matter of public record and its distribution is not limited.

PricewaterhouseCoopers LLP

June 25, 1999

Independent Auditor's Report on the Internal Control Structure Used in Administering the Passenger Facility Charge Program

PricewaterhouseCoopers LLP
1500 One Cleveland Center
1375 East Ninth Street
Cleveland OH 44114-1700
Telephone (216) 241 4380
Facsimile (216) 573 0170

We have audited the financial statements of the City of Cleveland, Department of Port Control — Divisions of Cleveland Hopkins International and Burke Lakefront Airports (the "Airport"), as of and for the year ended December 31, 1998, and have issued our report thereon dated June 25, 1999. We have also audited the Airport's compliance with requirements applicable to the Passenger Facility Charge ("PFC") program and have issued our report thereon dated June 25, 1999.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, and about whether the Airport complied with the regulations issued by the Federal Aviation Administration of the U.S. Department of Transportation to implement Sections 9110 and 9111 of the Aviation Safety and Capacity Expansion Act of 1990, noncompliance with which would be material to the PFC program.

In planning and performing our audit for the year ended December 31, 1998, we considered the internal control structure of the Airport in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements of the Airport, and on its compliance, with requirements applicable to the PFC program, and to report on the internal control structure used in administering the PFC program. This report addresses our consideration of internal control structure policies and procedures relevant to with requirements applicable to the PFC program. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated June 25, 1999.

The management of the Airport is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles, and the PFC program is managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering PFC program into the following categories:

Activity Cycles

- Revenue/receipts
- Purchases/disbursements
- Financial reporting
- Payroll/personnel
- Capital Expenditures

Specific Requirements

- Project cost allowability
- PFC funds used as matching share or as a supplemental to the AIP funded projects
- Special reporting

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

We performed tests of controls to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with requirements governing project cost allowability, PFC funds used as matching share or as a supplemental to the AIP funded projects and special reporting requirements to the Airport's PFC program. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering the PFC program would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to the PFC program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weakness as defined above.

However, we noted other matters involving the internal control structure and its operation that we have reported to the management of the Airport in a separate letter.

This report is intended for the information of management and applicable federal and state agencies. However, this report is a matter of public record and its distribution is not limited.

Preewaterhuselogen LLP

June 25, 1999

Schedule of Findings and Recommendations

for the year ended December 31, 1998

1. Differences Between Quarterly PFC Reports and Accounting Records (Prior Year Comment Re-issued):

Criteria:

In accordance with Section 158.63 of the Federal Aviation Regulations, the Airport is required to file quarterly reports of PFC revenue collected and expended with the appropriate Federal Aviation Administration (FAA) office.

Condition:

Based on our review of the quarterly reports, we noted differences between the Airport's accounting records and the data in all quarterly reports. These differences were corrected in the year-end summary.

Recommendation:

We recommend that the Airport reconcile their internal accounting records to the records generated by FAMIS (the City-wide accounting system) before preparing the quarterly reports. This should reduce and/or eliminate the differences.

Management's Response:

We agree that the Airport must reconcile their internal accounting records to the records generated by FAMIS before preparing quarterly records and will take actions to do so.

CITY OF CLEVELAND, OHIO



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

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the years ended December 31, 1998 and 1997**

CITY OF CLEVELAND, OHIO



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

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the years ended December 31, 1998 and 1997**

REPORT OF INDEPENDENT ACCOUNTANTS

The Honorable Michael R. White, Mayor
and Members of Council
City of Cleveland, Ohio

In our opinion, the accompanying balance sheets and the related statements of income, changes in equity, and cash flows present fairly, in all material respects, the financial position of The City of Cleveland, Department of Port Control-Divisions of Cleveland Hopkins International and Burke Lakefront Airports as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the City's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

June 25, 1999

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
BALANCE SHEETS
December 31, 1998 and 1997

	December 31,	
	1998	1997
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,411,395	\$ 7,763,070
Investments at market	24,382,969	8,410,642
Receivables:		
Accounts receivable-net of allowance for doubtful accounts of \$110,125 in 1998 and \$34,970 in 1997	2,382,344	7,230,223
Unbilled revenue	6,191,197	7,841,412
Accrued interest receivable	378,062	195,084
Landing fee adjustment - receivable from Airlines	4,080,380	-
Total Receivables	13,031,983	15,266,719
Prepaid expenses	259,403	214,834
Due from other City of Cleveland departments, divisions or funds	1,915,391	468,809
Due from federal government	3,623,904	1,581,797
Materials and supplies, at cost	271,145	278,924
TOTAL CURRENT ASSETS	47,896,190	33,984,795
DEFERRED BOND ISSUANCE EXPENSE	4,933,630	5,298,952
RESTRICTED ASSETS		
Cash and cash equivalents	195,190,807	278,999,333
Investments at market	80,256,938	72,741,076
Accrued interest receivable	1,845,477	1,973,403
Bond retirement reserve	52,825	52,825
Accrued passenger facility charges	2,227,740	1,983,655
TOTAL RESTRICTED ASSETS	279,573,787	355,750,292
PROPERTY, PLANT AND EQUIPMENT		
Land	90,732,823	77,575,749
Land Improvements	157,684,103	157,139,051
Buildings, structures and improvements	224,189,964	160,189,316
Furniture, fixtures and equipment	20,291,035	19,261,177
	492,897,925	414,165,293
Less: accumulated depreciation	173,949,051	160,886,186
	318,948,874	253,279,107
Construction in progress	81,967,101	57,038,485
PROPERTY, PLANT AND EQUIPMENT, NET	400,915,975	310,317,592
TOTAL ASSETS	\$ 733,319,582	\$ 705,351,631

	December 31,	
	1998	1997
LIABILITIES AND EQUITY		
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 8,450,000	\$ 8,385,000
Accounts payable	2,266,019	4,704,953
Due to other City of Cleveland departments, divisions or funds	4,988,429	1,130,846
Accrued wages and benefits	2,644,617	2,353,065
Accrued property taxes	1,947,124	1,946,806
Landing fee adjustment-payable to Airlines	-	512,485
TOTAL CURRENT LIABILITIES	<u>20,296,189</u>	<u>19,033,155</u>
PAYABLE FROM RESTRICTED ASSETS		
Bond service fund-accrued interest	22,216,782	16,344,320
Construction fund	13,734,702	8,555,203
TOTAL PAYABLE FROM RESTRICTED ASSETS	<u>35,951,484</u>	<u>24,899,523</u>
LONG TERM DEBT-excluding amounts due within one year:		
Revenue bonds	375,540,620	383,487,010
TOTAL LONG-TERM DEBT	<u>375,540,620</u>	<u>383,487,010</u>
TOTAL LIABILITIES	431,788,293	427,419,688
EQUITY		
Contributions in aid of construction:		
Federal and state	156,470,405	154,072,749
Municipal	3,571,822	3,571,822
Total contributions in aid of construction	<u>160,042,227</u>	<u>157,644,571</u>
Retained earnings	141,489,062	120,287,372
TOTAL EQUITY	<u>301,531,289</u>	<u>277,931,943</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 733,319,582</u>	<u>\$ 705,351,631</u>

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF INCOME

For the Years Ended December 31, 1998 and 1997

	For the Years Ended December 31,	
	1998	1997
OPERATING REVENUE		
Landing fees:		
Scheduled airlines	\$ 18,499,928	\$ 17,200,369
Adjustments of landing fees as provided in airline use agreements	4,080,380	(512,485)
Other	2,488,581	1,975,747
	25,068,889	18,663,631
Terminal and concourse rentals:		
Scheduled airlines	10,666,243	9,290,880
Car rental facilities and other	8,417,909	7,253,862
	19,084,152	16,544,742
Concessions	19,039,296	16,336,111
Utility sales and other	3,846,286	4,267,781
TOTAL OPERATING REVENUE	67,038,623	55,812,265
OPERATING EXPENSES		
Operations, maintenance and administrative	39,940,087	41,687,723
Depreciation	13,062,865	12,955,973
Incentive compensation - City of Cleveland	2,550,673	-
Employees' retirement	1,697,406	1,524,400
TOTAL OPERATING EXPENSES	57,251,031	56,168,096
OPERATING INCOME (LOSS)	9,787,592	(355,831)
NON-OPERATING REVENUE (EXPENSE)		
Passenger facility charges revenue	16,648,177	16,124,715
Interest income	19,179,839	9,462,810
Interest expense	(23,544,986)	(11,697,311)
Amortization of bond issuance expense, discount and debt refunding	(868,932)	(338,642)
TOTAL NON-OPERATING REVENUE, NET	11,414,098	13,551,572
NET INCOME	\$ 21,201,690	\$ 13,195,741

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 1998 and 1997

	Contributions In Aid of Construction		Retained Earnings	Total
	Federal and State	Municipal		
BALANCE AT JANUARY 1, 1997	\$ 148,764,471	\$ 3,571,822	\$ 107,091,631	\$ 259,427,924
Grant funds earned	5,308,278	-	-	5,308,278
Net income	-	-	13,195,741	13,195,741
BALANCE AT DECEMBER 31, 1997	154,072,749	3,571,822	120,287,372	277,931,943
Grant funds earned	2,397,656	-	-	2,397,656
Net income	-	-	21,201,690	21,201,690
BALANCE AT DECEMBER 31, 1998	<u>\$ 156,470,405</u>	<u>\$ 3,571,822</u>	<u>\$ 141,489,062</u>	<u>\$ 301,531,289</u>

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 1998 and 1997

	For the Years Ended December 31,	
	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 66,676,215	\$ 51,116,583
Cash payments to suppliers for goods or services	(26,637,544)	(26,901,493)
Cash payments to employees for services	(15,055,838)	(14,629,342)
NET CASH PROVIDED BY OPERATING ACTIVITIES	24,982,833	9,585,748
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
<i>Cash receipts for passenger facility charges</i>	16,404,092	15,187,861
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	16,404,092	15,187,861
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(98,481,749)	(60,005,212)
Proceeds from bond issue	-	269,648,426
Cash paid to escrow agent for refunding	-	(32,090,091)
Principal paid on long-term debt	(8,385,000)	(7,655,000)
Interest paid on long-term debt	(17,672,524)	(10,441,841)
Capital grant proceeds	355,549	6,409,185
NET CASH (USED FOR) PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(124,183,724)	165,865,467
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(135,074,666)	(116,200,066)
Proceeds from sale and maturity of investment securities	111,586,477	98,377,889
Interest received on investments	19,124,787	9,835,700
NET CASH USED FOR INVESTING ACTIVITIES	(4,363,402)	(7,986,477)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(87,160,201)	182,652,599
Cash and cash equivalents, beginning of year	286,762,403	104,109,804
Cash and cash equivalents, end of year	\$ 199,602,202	\$ 286,762,403

	For the Years Ended December 31,	
	1998	1997
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	\$ 9,787,592	\$ (355,831)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	13,062,865	12,955,973
Loss on disposal of equipment	-	955,467
Change in assets and liabilities:		
Accounts receivable, net	4,847,879	(632,028)
Unbilled revenue	1,650,215	(4,565,084)
Prepaid expenses	(44,569)	21,732
Due from other City of Cleveland departments, divisions or funds	(1,446,582)	1,083,398
Materials and supplies, at cost	7,779	(10,602)
Accounts payable	(2,438,934)	462,120
Due to other City of Cleveland departments, divisions or funds	3,857,583	(901,109)
Accrued wages and benefits	291,552	(70,689)
Accrued property taxes	318	140,971
Landing fee adjustment	(4,592,865)	501,430
TOTAL ADJUSTMENTS	<u>15,195,241</u>	<u>9,941,579</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 24,982,833</u>	<u>\$ 9,585,748</u>

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Divisions of Cleveland Hopkins International and Burke Lakefront Airports (the "Divisions") are reported as an enterprise fund of the City of Cleveland's Department of Port Control and are reported as part of the City of Cleveland's (the "City") primary government. The Divisions were created for the purpose of operating the airports within the Cleveland metropolitan area. The following is a summary of the more significant accounting policies

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

Statement of Cash Flows: The Divisions adopted the direct method of reporting for the statement of cash flows as defined by Government Accounting Standards Board Statement No. 9. In a statement of cash flows, cash receipts and cash payments are classified according to operating, non-capital financing, capital and related financing, and investing activities.

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

Investments: Effective January 1, 1998, the Divisions adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools," which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the Divisions have stated certain investments at fair value. The effect of the change on the financial statements was not significant, accordingly prior year financial statements were not restated.

Property, Plant and Equipment: Property, plant and equipment are stated on the basis of cost. Maintenance and repair costs are charged to expense as incurred. Depreciation is provided on the straight-line method designed to amortize the cost of depreciable assets over their estimated useful lives, which range from three to thirty years. The Divisions capitalize interest as part of the cost of major projects.

Bond Issuance Expense, Discount and Premium: Bond issuance expense is carried on the Divisions' books as an asset and deferred bond discounts and premiums are netted against long-term debt. Both are amortized over the lives of the applicable bonds.

Contributions in Aid of Construction: Contributions in aid of construction represent federal, state and municipal capital grants not subject to mandatory repayment.

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
NOTES TO FINANCIAL STATEMENTS-Continued
December 31, 1998 and 1997

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Environmental Expenditures: Environmental expenditures that relate to current operations are expensed or capitalized, as appropriate. Environmental expenditures that relate to an existing condition caused by past operations and which do not contribute to future revenues are expensed. Liabilities are recorded when remedial efforts are probable and the costs can be reasonably estimated.

Reclassifications: Certain amounts from 1997 have been reclassified to conform to the current year's presentation.

Interfund Transactions: During the course of normal operations, the Divisions have numerous transactions between other City divisions and departments. Such transactions are generally reflected as due to or due from account balances in the accompanying financial statements.

Interfund receivables and payables balances at December 31, 1998 are as follows:

	Interfund Receivables	Interfund Payables
City of Cleveland General Fund	\$ 24,979	\$ 4,747,507
Division of Water		792
Division of Water Pollution Control	1,697	12,742
Division of Cleveland Public Power	14,304	
Division of Telephone Exchange	457,055	
Community Development		11,536
Special Revenue Fund - Transportation	1,417,356	215,852
	\$ 1,915,391	\$ 4,988,429

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
NOTES TO FINANCIAL STATEMENTS-Continued
December 31, 1998 and 1997

NOTE B--LONG TERM DEBT

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

	Interest Rate	Outstanding Principal Amount	
		1998	1997
Airport System Revenue Bonds:			
Series 1976:			
Term Bonds due through 2006	7.00%	\$ -	\$ 4,085,000
Series 1990:			
Serial Bonds maturing through 2006	6.50-7.30	33,716,243	36,021,243
Series 1994:			
Serial Bonds maturing through 2010	4.80-6.00	16,930,000	18,335,000
Term Bonds due 2000 through 2024	5.75-7.95	65,305,000	65,305,000
		82,235,000	83,640,000
Series 1997:			
Serial Bonds maturing through 2015	4.25-6.53	84,825,000	85,415,000
Term Bonds due 2017 through 2027	5.125-7.0	191,750,000	191,750,000
		276,575,000	277,165,000
Total debt		392,526,243	400,911,243
Less:			
Deferred discount/premium		(5,747,610)	(6,049,724)
Unamortized debt refunding		(2,788,013)	(2,989,509)
Current portion		(8,450,000)	(8,385,000)
Total Long-Term Debt		\$ 375,540,620	\$ 383,487,010

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
NOTES TO FINANCIAL STATEMENTS-Continued
December 31, 1998 and 1997

NOTE B—LONG TERM DEBT—Continued

Minimum principal and interest payments on long-term debt for the next five years are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 8,450,000	\$ 20,394,570	\$ 28,844,570
2000	12,100,000	19,791,926	31,891,926
2001	14,315,000	18,959,924	33,274,924
2002	10,783,281	22,739,849	33,523,130
2003	10,915,781	22,550,900	33,466,681
Thereafter	335,962,181	247,560,352	583,522,533
	<u>\$ 392,526,243</u>	<u>\$ 351,997,521</u>	<u>\$ 744,523,764</u>

Of the Airport System Revenue Bonds, Series B issued in 1990, \$15,276,243 were issued in the form of Capital Appreciation Bonds. Interest on the Capital Appreciation Bonds is payable only as a component of their appreciated principal amount at maturity or redemption. Interest on the Capital Appreciation Bonds is compounded semiannually on each interest payment date beginning July 1990. As of December 31, 1998, the Department of Port Control has recorded a liability in the amount of \$12,816,004 for compounded interest payable on the Capital Appreciation Bonds.

The Airport System Revenue Bonds are secured by the pledge of all airport revenues, as is defined in the revenue bond indenture. Further, the City has assigned all its rights and interest in and to the airline use agreements to the trustee under the revenue bond indenture. The indenture as amended requires, among other things, that the Divisions: (1) make equal monthly deposits to a Bond Service Fund to have sufficient assets available to meet debt service requirements on the next payment date (2) maintain the Bond Service Reserve Fund equal in amount to the maximum annual debt service to be paid in any year (3) as long as any revenue bonds are outstanding, charge such rates, fees and charges for use of the airport system to produce in each year, together with other available funds, net revenues (as defined) at least equal to the greater of (a) 116% of the annual debt service due in such year on all outstanding revenue bonds and general obligation debt or (b) 125% of the annual debt service due in such year on all outstanding revenue bonds.

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
NOTES TO FINANCIAL STATEMENTS-Continued
December 31, 1998 and 1997

NOTE B—LONG TERM DEBT—Continued

The following shows the composition of the aforementioned restricted assets as of December 31, 1998 and 1997:

	Bond Service Fund		Bond Service Reserve Fund	
	December 31,		December 31,	
	1998	1997	1998	1997
Cash and marketable securities	\$ 22,532,146	\$ 28,351,694	\$ 36,233,616	\$ 35,784,786
Accrued interest receivable	39,794	96,412	115,305	648,539
	<u>\$ 22,571,940</u>	<u>\$ 28,448,106</u>	<u>\$ 36,348,921</u>	<u>\$ 36,433,325</u>

	Construction Funds		Other Construction Fund	
	December 31,		December 31,	
	1998	1997	1998	1997
Cash and marketable securities	\$ 135,401,655	\$ 224,087,644	\$ 81,280,328	\$ 63,516,285
Accrued interest receivable	-	-	1,690,378	1,228,452
	<u>\$ 135,401,655</u>	<u>\$ 224,087,644</u>	<u>\$ 82,970,706</u>	<u>\$ 64,744,737</u>

Airport System Revenue Bonds, Series 1997A-E: On December 11, 1997 the Divisions issued \$277,165,000 Airport System Revenue Bonds, Series A-E. The proceeds were used to fund a portion of the costs of various capital improvements, to fund deposits to the Debt Service Reserve Fund and Renewal and Replacement Fund, to advance refund certain Series 1976A, 1990A, 1990B and 1994B Bonds (the "Refunded Bonds") and to pay costs of issuance of the Series 1997A-E Bonds. The total principal balance refunded on the Refunded Bonds totaled \$30,840,000.

Net proceeds from the Series C Bonds in the amount of \$12,705,544 were placed in an irrevocable escrow account which, including interest earned, will be used to pay the principal, interest and redemption premium on a portion of the Series 1976A Bonds and a portion of the Series 1994B Bonds. The Refunded Series 1976A Bonds were redeemed prior to maturity on January 1, 1998 at a redemption price of 101% of the principal amount plus accrued interest to the redemption date. The Series 1994B Bonds maturing on and after January 1, 2005 will be redeemed prior to maturity on January 1, 2004 at a redemption price of 102% of the principal amount plus accrued interest earned to the redemption date. As a result, the Refunded Bonds are considered to be defeased and the liability for those bonds has been removed from long term debt. This advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,001,399. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2024 using a method of amortization, which approximates the effective interest method. The City completed the advance refunding to reduce its total debt service over the next 27 years by \$681,523 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$319,635.

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
NOTES TO FINANCIAL STATEMENTS-Continued
December 31, 1998 and 1997

NOTE B—LONG TERM DEBT—Continued

Net proceeds from the Series E Bonds in the amount of \$19,384,547 were placed in an irrevocable escrow account which, including interest earned, were used to pay the principal, interest and redemption premium on a portion of the Series 1990A and 1990B Bonds. The Series 1990A and 1990B Refunded Bonds will be redeemed prior to maturity on January 1, 2000 at a redemption price of 102% of the principal amount plus accrued interest earned to the redemption date. As a result, the Refunded Bonds are considered to be defeased and the liability for those bonds has been removed from long term debt. This advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,988,110. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2020 using a method of amortization, which approximates the effective interest method. The City completed the advance refunding to reduce its total debt service over the next 23 years by \$3,632,785. Due to the fact that the Series E Bonds were issued on a variable rate basis, with rates set on a weekly basis, the exact economic gain cannot be calculated. However, assuming an average rate of 5.39%, the issuance of the Series E Bonds would result in an economic gain (difference between the present values of the old and new debt service payments) of \$1,824,062.

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
NOTES TO FINANCIAL STATEMENTS-Continued
December 31, 1998 and 1997

NOTE C—DEPOSITS AND INVESTMENTS

In accordance with the provisions of GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," deposits and investments of the Divisions are classified to disclose the risk inherent in deposit and investment transactions. The Divisions' carrying amount of deposits at year-end including accrued interest totaled \$2,713,847. The Divisions' bank balance was \$2,867,552. Based on the criteria described in GASB Statement No. 3, all of the bank balance was insured or collateralized with securities held by the City or by its agent in the City's name.

The Divisions' investments are classified in the following risk categories:

Type of Investment	(1) Insured or Registered, or Securities Held by the City or its Agent in the City's Name	(2) Uninsured and Unregistered, with Securities Held by the Counterparty's Trust Department or Agent in the City's Name	(3) Uninsured and Unregistered, with Securities Held by the Counterparty, or its Trust Department or Agent but Not in the City's Name	Market Value	Cost
U.S. Treasury Bills	\$ -	\$ 2,624,125		\$ 2,624,125	\$ 2,620,635
U.S. Agency Obligations	91,554,805			91,554,805	91,089,630
	<u>\$ 91,554,805</u>	<u>\$ 2,624,125</u>		94,178,930	93,710,265
State Treasurer Asset					
Reserve Fund (Star Ohio)				6,578,929	6,578,929
Guaranteed Investment Contract				200,770,403	200,770,403
				<u>\$ 301,528,262</u>	<u>\$ 301,059,597</u>

Certain investments included above are classified as cash and cash equivalents in the accompanying balance sheets since they have a maturity of three months or less.

Star Ohio is an investment pool created pursuant to Ohio Statutes and managed by the Treasurer of the State of Ohio. Star Ohio investments and guaranteed investment contracts are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 3. Additional information pertaining to GASB Statement No. 3 is included in the Comprehensive Annual Financial Report for the City of Cleveland.

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
NOTES TO FINANCIAL STATEMENTS-Continued
December 31, 1998 and 1997

NOTE D—SPECIAL FACILITY REVENUE BONDS

Airport Special Revenue Bonds, Series 1990, totaling \$76,320,000 and Airport Special Revenue Bonds, Series 1998, totaling \$75,120,000 were issued to finance the acquisition and construction of terminal, hangar and other support facilities of Continental Airlines, Inc. at Cleveland Hopkins International Airport.

These Bonds are special and limited obligations of the City of Cleveland and do not constitute a debt, liability or general obligation of the City or a pledge of the Divisions' revenues. As such, no liabilities relating to these Bonds are included in the accompanying statements.

NOTE E—LEASES AND CONCESSIONS

The Divisions' lease specifies terminal and concourse areas to the various airlines under terms and conditions of the airline use agreements. These agreements will remain in effect until December 31, 2005 and, under the terms of the agreements, rental payments and landing fees paid by the airlines are adjusted annually to provide airport revenues sufficient to meet the financial requirements of the airport system. Other areas are leased to various occupants under separate agreements.

The Divisions have various concession agreements that permit the concessionaires and certain others to operate on airport property. These agreements usually provide for payments based on a percentage of the revenues, with an annual minimum payment guarantee and in certain circumstances for the offset of percentage rents to the extent of certain improvements made to the leased property.

NOTE F—CONTINGENT LIABILITIES

Various claims are pending against the City involving the Divisions for personal injuries, property damage and other matters as well as various environments investigative and remediation efforts in its ordinary course of business. The City is responsible for the suits and environmental remediation actions. The City believes that the amounts claimed for the suits are excessive and are not fair estimates of the ultimate settlements, if any, of these claims. The City's management is of the opinion that the ultimate settlement of such claims and remediation actions will not result in a material adverse effect on the Divisions' financial position or results of operations.

As of December 31, 1998, the Divisions had capital expenditure purchase commitments outstanding of approximately \$44,810,000.

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
NOTES TO FINANCIAL STATEMENTS-Continued
December 31, 1998 and 1997

NOTE G—EMPLOYEE'S RETIREMENT PLAN

The Divisions adopted GASB Statement No. 27 "Accounting for Pensions of State and Local Government Employees", which establishes standards for the measurement, recognition, and display of pension expense and related liabilities, assets and note disclosures in the financial reports of state and local government employers.

The Divisions contribute to a cost-sharing multiple-employer defined plan, Public Employees Retirement System of Ohio (PERS). The plan provides retirement, disability, health care coverage, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

The funding policy for the above plan is as follows: The Ohio Revised Code provides statutory authority for employee and employer contributions. During 1998, PERS employees contributed 8.5% of their salary to the plan and the Divisions contributed 13.55% of covered payrolls to the plan, of which 4.20% was applied towards the health care program for retirants. The required employer contributions to PERS for the years ending December 31, 1998 and 1997 were \$1,567,796 and \$1,524,400, respectively, equal to 100% of the required employer contributions for each year.

NOTE H—OTHER POST EMPLOYMENT BENEFITS

The Divisions provide post-employment health care benefits, defined by GASB Statement No. 12, through its contribution to the Public Employees Retirement System of Ohio (PERS).

PERS provides post-retirement health care coverage to service retirants with 10 years or more of qualifying Ohio service credit. The post-retirement health care benefits cover disability recipients and primary survivor recipients. A portion of the Divisions' contribution to PERS funds post-retirement health care coverage. During 1998, the Division's portion that was used to fund health care was 4.20% of covered payroll. Post-retirement health care benefits are established by state statute.

The post-retirement health care coverage is financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely. Expenditures for post-employment health care benefits during 1998 for PERS as a whole were approximately \$440,597,000. As of December 31, 1998, the unaudited estimated net assets available for future post-employment health care benefit payments for PERS as a whole were approximately \$9,447,325,000. The number of benefit recipients eligible for post-employment health care benefits at December 31, 1998 for PERS as a whole was 115,579.

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DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
NOTES TO FINANCIAL STATEMENTS-Continued
December 31, 1998 and 1997

NOTE I—DEFERRED COMPENSATION

Eligible employees of the City of Cleveland may elect to participate in the Ohio Public Employees Deferred Compensation Program created in accordance with Internal Revenue Code Section 457. The program allows employees to defer up to 33.3% of their annual salary not to exceed \$7,500 per year until a future date, usually after retirement. The deferred wages and any earned income are not subject to Federal or State income taxes until actually received by the employee.

In 1997, the assets of this program were the property of the City of Cleveland and were recorded in an agency fund of the City. Effective September 1, 1998, the Ohio Public Employees Deferred Compensation Program board implemented a trust to hold the assets of the program in accordance with Internal Revenue Code Section 457. The program assets are now property of the trust, which holds the assets on behalf of the participants. Therefore, in accordance with GASB 32 "Accounting and Financial Reporting for Internal Revenue Service Code Section 457 Deferred Compensation Plans", the assets of this program are no longer reported in an agency fund of the City.

NOTE J—RELATED PARTY TRANSACTIONS

The Divisions are provided various services by other City divisions. Charges are based on actual usage or a reasonable pro rata basis. The more significant expenses included in the statements of income, for the years ended December 31, 1998 and 1997, were as follows:

	1998	1997
City central services including police	\$ 2,931,066	\$ 2,695,447
Electricity purchased	182,404	145,351
Motor vehicle maintenance	244,194	251,366

NOTE K—LANDING FEE ADJUSTMENT AND INCENTIVE COMPENSATION

Under the terms of the airline use agreements, if the annual statement for the preceding term demonstrates that airport revenues over expenses (both as defined) is greater or less than that used in calculating the landing fee for the then current term, such difference shall be charged or credited to the airlines over the remaining billing periods in the current term. The landing fee adjustment for 1998 was a receivable from the airlines in the amount of \$4,080,380, and in 1997, a payable to the airlines of \$512,485.

The airline use agreements also provide an incentive for the City of Cleveland to provide the highest quality management for the airport system. Incentive compensation expense in 1998 was \$2,550,673. The Divisions incurred no incentive compensation expense for 1997.

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
NOTES TO FINANCIAL STATEMENTS-Continued
December 31, 1998 and 1997

NOTE L—PASSENGER FACILITY CHARGES

On November 1, 1992, Cleveland Hopkins International Airport began collecting passenger facility charges (PFC's) subject to Title 14, Code of Federal Regulations, Part 158. PFC's are fees imposed on enplaned passengers by public agencies controlling commercial service airports for the strict purpose of supporting airport planning and development projects. The charge is collected by the airlines and remitted to the airport operator net of an administrative fee to be retained by the airline and refunds to passengers. Under its federally approved program, the airport expects to collect approximately \$105 million of which an estimated 51% will be spent on noise abatement for the residents of communities surrounding the airport and 21% will be spent on the runway expansion. PFC revenues and related interest earnings are recorded as non-operating revenues. Non-capitalized expenses funded by PFC revenues are recorded as operating expenses and totaled approximately \$1,658,000 and \$8,200,000 in 1998 and 1997, respectively.

NOTE M—MAJOR CUSTOMER

In 1998 and 1997, operating revenues from one airline group for landing fees, rental and other charges amounted to approximately 23% and 21%, respectively, of total operating revenue.

NOTE N—SUBSEQUENT EVENTS

In January 1999, the City agreed to purchase the International Exposition ("I-X") Center for \$66.5 million as part of its master plan to expand Hopkins International Airport on this property. As part of the purchase agreement, the City will lease the building back to the owner for 15 years. At the end of these 15 years the City plans on tearing the building down to make way for a new runway. The City will not have to pay approximately \$30 million of the total cost if the previous owner is allowed to lease the building for 15 years. The remaining \$36.5 million will be covered primarily through the sale of bonds to be paid off by surplus revenues from the Divisions, \$6.9 million of which is due immediately with the remaining due by September 1999. Subsequent to the agreement, the City of Brook Park (the city in which the I-X Center is located) announced its intention to acquire the I-X Center through an eminent domain court case. If Brook Park wins this case, the City of Cleveland would be required to sell the I-X Center to Brook Park. The City intends to vigorously defend this case.

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**REPORT OF INDEPENDENT ACCOUNTANTS
ON OTHER FINANCIAL INFORMATION**

The Honorable Michael R. White, Mayor
And Members of Council
City of Cleveland, Ohio

Our report on the audit of the financial statements of the City of Cleveland, Department of Port Control-Divisions of Cleveland Hopkins International and Burke Lakefront Airports as of and for the year ended December 31, 1998 appears on page 1. This audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The following financial information on page 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

June 25, 1999

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
SCHEDULE OF AIRPORT REVENUES AND OPERATING EXPENSES
AS DEFINED IN THE AIRLINE USE AGREEMENTS
For the Year Ended December 31, 1998

	Cleveland Hopkins International	Burke Lakefront	Total
REVENUE			
Airline revenue:			
Landing fees	\$ 22,580,308	\$ -	\$ 22,580,308
Terminal rental	10,666,243		10,666,243
Other	2,739,992		2,739,992
	<u>35,986,543</u>	<u>-</u>	<u>35,986,543</u>
Operating revenues from other sources:			
Concessions	18,694,161	345,135	19,039,296
Rentals	7,426,333	171,576	7,597,909
Landing fees	2,374,705	113,876	2,488,581
Other	1,810,264	116,030	1,926,294
	<u>30,305,463</u>	<u>746,617</u>	<u>31,052,080</u>
Non-operating revenue:			
Interest income	1,219,993	-	1,219,993
	<u>1,219,993</u>	<u>-</u>	<u>1,219,993</u>
TOTAL REVENUE	<u>\$ 67,511,999</u>	<u>\$ 746,617</u>	<u>\$ 68,258,616</u>
OPERATING EXPENSES			
Salaries and wages	\$ 11,141,030	\$ 1,010,703	\$ 12,151,733
Employee benefits	2,876,790	261,040	3,137,830
City Central Services, including police	2,822,922	108,144	2,931,066
Materials and supplies	4,390,644	392,655	4,783,299
Contractual services	10,902,326	356,746	11,259,072
	<u>30,133,712</u>	<u>2,129,288</u>	<u>32,263,000</u>
TOTAL OPERATING EXPENSES	<u>\$ 32,133,712</u>	<u>\$ 2,129,288</u>	<u>\$ 34,263,000</u>

**REPORT OF INDEPENDENT ACCOUNTANTS
ON YEAR 2000 SUPPLEMENTARY INFORMATION**

The Honorable Michael R. White, Mayor
And Members of Council
City of Cleveland, Ohio

The year 2000 supplementary information on page 23 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the Divisions are or will become year 2000 compliant, that the Divisions' year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Divisions do business are or will become year 2000 compliant.

PricewaterhouseCoopers LLP

June 25, 1999

CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS
SUPPLEMENTARY INFORMATION ON YEAR 2000
December 31, 1998

Year 2000 Supplementary Information

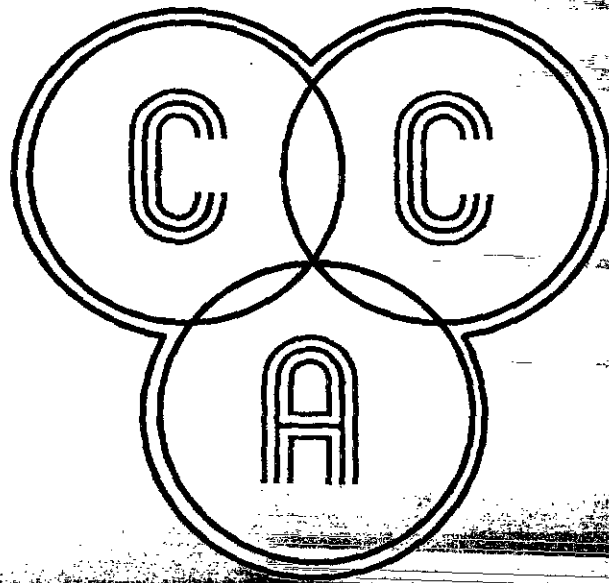
The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Divisions' operations as early as 1999.

The City of Cleveland and the Divisions have developed and adopted a comprehensive strategic plan to address the Year 2000 issue. This plan incorporates a combination of new system implementations and remediation of date sensitive programming code in existing data processing systems.

The Divisions have completed an inventory of computer systems and other electronic equipment that may be affected by the Year 2000 issue and that are necessary to conducting the Divisions' operations. Based on this inventory, the Divisions have identified the following mission critical systems: Access Control, Communications, Airfield Lighting, Runway Conditions and Weather Notification. These systems have been assessed and are in the validation/testing stage as of year-end. Additionally, as part of the strategic plan discussed above, the City of Cleveland is in the process of implementing a new integrated financial and accounting system. This system will be used by the Divisions and all other departments and divisions within the City of Cleveland. This system has been certified by the vendor as being Year 2000 compliant.

Additional disclosures required by Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, are included in the Comprehensive Annual Report for the City of Cleveland.

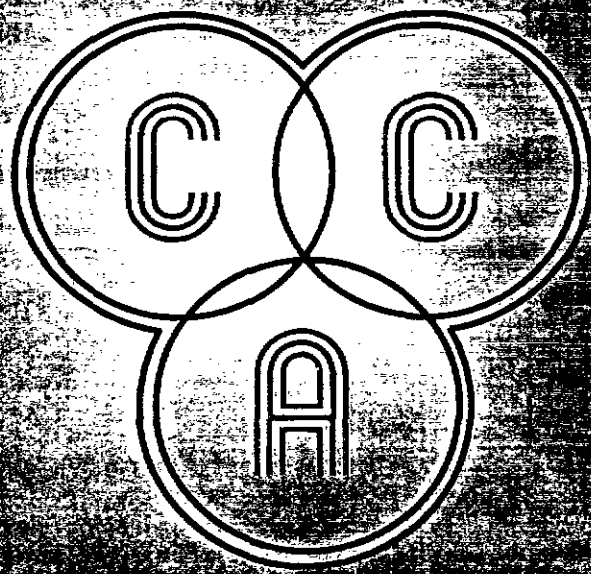
Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Management of the City of Cleveland and the Divisions cannot assure that the Divisions are or will be Year 2000 ready, that the Divisions' remediation efforts will be successful in whole or in part, or that the parties with whom the Divisions do business will be Year 2000 ready.



Central Collection Agency
Division of Taxation
City of Cleveland, Ohio

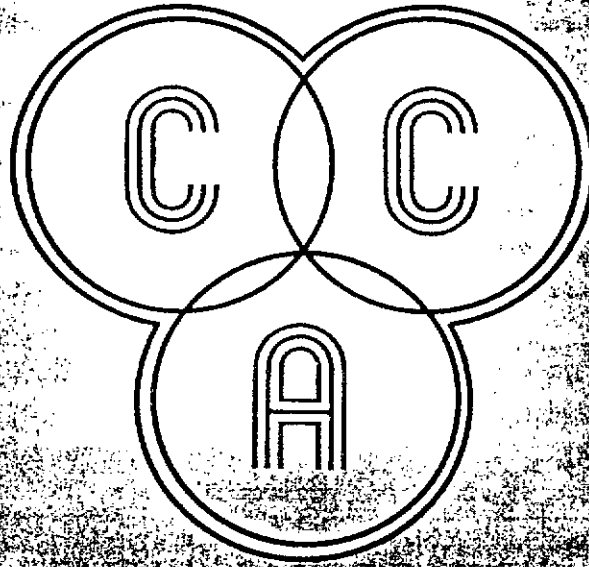
Report on Audit of Financial Statements
for the year ended December 31, 1998

PRICEWATERHOUSECOOPERS 



Central Collection Agency
Division of Taxation

PRICEWATERHOUSECOOPERS 



Central Collection Agency
Division of Taxation
City of Cleveland, Ohio

Report on Audit of Financial Statements
for the year ended December 31, 1998

PRICEWATERHOUSECOOPERS 

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Report of Independent Accountants

Members of Central Collection Agency
Division of Taxation
City of Cleveland, Ohio

In our opinion, the financial statements listed in the accompanying table of contents present fairly, in all material respects, the assets and liabilities of the Central Collection Agency, Division of Taxation, City of Cleveland, Ohio (the "Agency") as of December 31, 1998, and the results of its operations and the cash flows of its internal service fund, and the changes in assets and liabilities of its agency fund for the year then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Agency's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Cleveland, Ohio
April 15, 1999

**CENTRAL COLLECTION AGENCY
DIVISION OF TAXATION
CITY OF CLEVELAND, OHIO
STATEMENT OF ASSETS AND LIABILITIES--ALL FUND TYPES
AS OF DECEMBER 31, 1998**

	Proprietary	Fiduciary	TOTAL	
	Fund Type	Fund Type	(Memorandum Only)	
	Internal Service	Agency	December 31 1998	1997
ASSETS				
Cash and cash equivalents	\$ 743,704	\$ 19,542,080	\$ 20,285,784	\$ 15,352,299
Taxes receivable		56,125,360	56,125,360	46,580,332
Due from other funds of the City of Cleveland	564,067		564,067	1,092,209
Due from member cities		223,765	223,765	242,405
TOTAL ASSETS	\$1,307,771	\$75,891,205	\$77,198,976	\$63,267,245
LIABILITIES				
Accounts payable	\$ 470,469		\$ 470,469	\$ 126,929
Due to other funds of the City of Cleveland	366,119	\$50,134,773	50,500,892	38,347,754
Due to member cities		25,756,432	25,756,432	24,320,538
Accrued wages and benefits	471,183		471,183	472,024
TOTAL LIABILITIES	\$1,307,771	\$75,891,205	\$77,198,976	\$63,267,245

See notes to financial statements.

CENTRAL COLLECTION AGENCY
DIVISION OF TAXATION
CITY OF CLEVELAND, OHIO
STATEMENT OF REVENUES AND EXPENSES—INTERNAL SERVICE FUND
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	For the Years Ended December 31	
	1998	1997
OPERATING REVENUES		
Charges for services	\$4,784,363	\$4,688,285
OPERATING EXPENSES		
Salaries and wages	2,457,240	2,487,748
Employee benefits	654,917	660,612
Postage and office supplies	933,572	773,283
Allocation of City of Cleveland costs	460,106	455,340
Other administrative expenses	1,003,964	922,128
Information system expenses	141,473	141,473
TOTAL OPERATING EXPENSES	5,651,272	5,440,584
OPERATING LOSS	(866,909)	(752,299)
Interest income	866,909	752,299
NET INCOME	\$ 0	\$ 0

See notes to financial statements.

**CENTRAL COLLECTION AGENCY
DIVISION OF TAXATION
CITY OF CLEVELAND, OHIO
STATEMENT OF CASH FLOWS— INTERNAL SERVICE FUND
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

	For the Years Ended December 31	
	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from member cities	\$4,358,878	\$ 4,553,273
Cash payments to suppliers of goods and services	(1,879,860)	(1,900,858)
Cash payments for employee services and benefits	(3,094,523)	(3,143,226)
Net Cash Used in Operating Activities	(615,505)	(490,811)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned on investments	866,909	752,299
Net Cash Provided By Investing Activities	866,909	752,299
Net Increase In Cash And Cash Equivalents	251,404	261,488
Cash and cash equivalents at beginning of year	492,300	230,812
Cash and cash equivalents at end of year	\$ 743,704	\$ 492,300
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATIONS:		
Operating loss	\$ (866,909)	\$ (752,299)
Adjustments to reconcile operating loss to net cash used in operations:		
Changes in assets and liabilities:		
Decrease in due from other funds of the City of Cleveland	177,297	453,411
Increase (decrease) in accounts payable	343,540	(30,690)
(Decrease) in due to other funds of the City of Cleveland	(268,592)	(155,598)
(Decrease) in accrued wages and benefits	(841)	(5,635)
Total Adjustments	251,404	261,488
Net Cash Used In Operating Activities	\$ (615,505)	\$ (490,811)

See notes to financial statements.

**CENTRAL COLLECTION AGENCY
DIVISION OF TAXATION
CITY OF CLEVELAND, OHIO
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES- AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 1998**

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
ASSETS				
Cash and cash equivalents	\$14,859,999	\$400,173,424	\$395,491,343	\$19,542,080
Taxes receivable	46,580,332	56,125,360	46,580,332	56,125,360
Due from other funds of the City of Cleveland	350,845		350,845	
Due from member cities	242,405	223,765	242,405	223,765
TOTAL ASSETS	\$62,033,581	\$456,522,549	\$442,664,925	\$75,891,205
LIABILITIES				
Due to other funds of the City of Cleveland	\$37,713,043	\$314,517,319	\$302,095,589	\$50,134,773
Due to member cities	24,320,538	142,005,230	140,569,336	25,756,432
TOTAL LIABILITIES	\$62,033,581	\$456,522,549	\$442,664,925	\$75,891,205

See notes to financial statements.

**CENTRAL COLLECTION AGENCY
DIVISION OF TAXATION
CITY OF CLEVELAND, OHIO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998**

NOTE A--DESCRIPTION OF OPERATIONS AND BASIS OF PRESENTATION

The Central Collection Agency, Division of Taxation, City of Cleveland, Ohio (the "Agency") is reported as part of the City of Cleveland's primary government and was created for the purpose of collecting city income taxes and disbursing those funds to the respective member municipalities ("members") after payment of related expenses. Allocations of tax collections to members are based upon information provided by the taxpayers on the returns and supporting data. Such allocations are subject to adjustments in the subsequent year, dependent upon final returns filed by taxpayers and final review by the Agency. Refunds for overpayments are offset against allocated collections as amounts are determined.

Basis of Presentation: The financial statements are presented in accordance with Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification) which requires financial statements by fund type. These financial statements present a columnar total for all fund types included in the statement of assets and liabilities.

Amounts in the "Total (Memorandum Only)" column in the statement of assets and liabilities represent a summation of the combined financial statement line items of the fund types and are presented only for analytical purposes. The summation includes fund types that use different bases of accounting, both restricted and unrestricted amounts, and interfund transactions that have not been eliminated. Consequently, amounts shown in the "Total (Memorandum Only)" column are not comparable to a consolidation and do not represent the total resources available.

The following fund types are used by the Agency:

Proprietary Fund Type--Internal Service Fund: This fund is used to account for the services provided to member municipalities on a cost-reimbursement basis.

Fiduciary Fund Type--Agency Fund: This fund is used to account for assets held by the Agency as an agent for others.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Agency are prepared in conformity with generally accepted accounting principles for local government units as prescribed in statements and interpretations issued by the GASB.

Basis of Accounting: All financial transactions for the Agency Fund are recorded on the modified accrual basis of accounting. Under this accounting method, assets and the related liabilities at the end of the year primarily consist of individual income taxes receivable arising from payroll tax withholdings in December and received within 60 days after year end and a receivable for quarterly and annual payments of income taxes pertaining to net profits, self-employment and residents received 60 days after year end. Financial transactions for the Internal Service Fund are recorded on the accrual basis of accounting; revenues are recognized when earned and measurable, and expenses are recognized as incurred.

Supplies: Supplies are expensed when purchased.

**CENTRAL COLLECTION AGENCY
DIVISION OF TAXATION
CITY OF CLEVELAND, OHIO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998**

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-- Continued

Statement of Cash Flows: The City has adopted the direct method of the statement of cash flows as defined by GASB Statement No. 9 for its Internal Service Fund. In a statement of cash flows, cash receipts and cash payments are classified according to operating, non-capital financing, capital and related financing, and investing activities.

For purposes of this statement, cash and cash equivalents include highly liquid investments with a maturity of three months or less when purchased and all of the Agency's share of the City of Cleveland's pooled cash account.

Allocation of Expenses: The Agency allocates all operating expenses, net of interest income, to members based upon the arithmetic mean of the percentage of each municipality's transactions to total transactions and the percentage of each municipality's revenue to total revenue.

In 1994, the City of Cleveland completed the implementation of the Municipal Income Tax Information System (MITIS™). Costs allocated to other municipalities in 1998 relating to MITIS™ totaled \$ 141,473.

Allocation of Interest Income: Excess funds are invested on a daily basis and interest income earned on such investments is allocated to member municipalities based on the percentage of each municipality's revenue to total revenue. The City of Cleveland receives collections of tax receipts in advance of the regular monthly distribution date, and accordingly, interest income is allocated exclusively to the other members.

NOTE C--INTERFUND TRANSACTIONS

During the course of normal operations, the Agency has numerous transactions between funds including transfers of resources to provide services. Such transactions are generally reflected as due to or due from account balances in the accompanying financial statements.

Individual fund interfund receivables and payables balances as of December 31, 1998 are as follows:

	Interfund Receivables	Interfund Payables
Internal Service Fund:		
Agency Fund	\$ 564,067	
City of Cleveland:		
General Fund		\$ 363,665
Division of Light and Power		1,963
Division of Waste Collection		491
Total Internal Service Fund	\$ 564,067	\$ 366,119
 Agency Fund:		
Internal Service Fund		\$ 564,067
City of Cleveland, General Fund		44,062,850
City of Cleveland, Restricted Income		
Tax Fund		5,507,856
Total Agency Fund		50,134,773
Total All Funds	\$ 564,067	\$ 50,500,892

**CENTRAL COLLECTION AGENCY
DIVISION OF TAXATION
CITY OF CLEVELAND, OHIO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998**

NOTE D--POOLED AND SEGREGATED CASH AND INVESTMENTS

Cash resources of the City of Cleveland are combined to form a pool of cash and investments which is managed by the Treasurer of the City of Cleveland. Investments in the City of Cleveland Pooled Cash Account, in the amount of \$743,704 consist primarily of certificates of deposit, repurchase agreements, U.S. Government securities, the State Treasurer's Asset Reserve Fund ("Star Ohio") and time deposits and are carried at market value which approximates cost. Star Ohio is an investment pool created pursuant to Ohio Statutes and managed by the Treasurer of the State of Ohio. Interest earned on pooled cash and investments is distributed to the appropriate funds utilizing a formula based on weekly average balances of cash and marketable securities of each fund.

Segregated cash amounts of \$19,542,080 are monies directly under the control of the Agency and are used in daily operations with excess monies invested daily in Star Ohio. These investments are carried at market value which approximates cost. Monies due member agencies are disbursed from these funds on a monthly basis.

The Agency's investments with Star Ohio in the amount of \$17,729,643 are not classified by risk categories because these investments do not meet the criteria established by GASB Statement No. 3. The remaining \$1,812,437 are deposits which are insured and collateralized with securities held by the City or by its agent in the City's name. The GASB Statement No. 3 disclosure for the amount in the City of Cleveland Pooled Cash Account is included in the Comprehensive Annual Financial Report for the City of Cleveland.

NOTE E--PENSION AND RETIREMENT PLANS

The City has adopted GASB No. 27 "Accounting for Pensions of State and Local Government Employees," which establishes standards for the measurement, recognition, and display of pension expense and related liabilities, assets and note disclosures in the financial reports of state and local government employers.

The Agency contributes to a cost-sharing multiple-employer defined plan, Public Employees Retirement Systems of Ohio (PERS). The plan provides retirement, disability, health care coverage, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

The funding policy for the plan is as follows:

The Ohio Revised Code provides statutory authority for employee and employer contributions. During 1998, PERS employees contributed 8.5% of their salary to the plan and the Agency contributed 13.55% of covered payrolls to the plan, of which 4.2% was applied towards the health care program for retirees. The required employer contributions to PERS for the years ending December 31, 1998 and 1997 were approximately \$330,000 each year, equal to 100% of the required employer contributions.

**CENTRAL COLLECTION AGENCY
DIVISION OF TAXATION
CITY OF CLEVELAND, OHIO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998**

NOTE F—OTHER POSTEMPLOYMENT BENEFITS

The Agency provides postemployment health care benefits, defined by GASB Statement No. 12, through its contribution to the Public Employees Retirement System of Ohio (PERS).

PERS provides postretirement health care coverage to service retirees with 10 years or more of qualifying Ohio service credit. The postretirement health care benefits cover disability recipients and primary survivor recipients. Postretirement health care coverage is funded by a portion of the Agency's contribution to PERS. During 1998, the Agency's portion that was used to fund health care was 4.2% of covered payroll. Postretirement health care benefits are established by state statute.

The postretirement health care coverage is financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. Expenditures for postemployment health care benefits during 1998 for PERS as a whole, were approximately \$440,597,000. As of December 31, 1998, the unaudited estimated net assets available for future postemployment health care benefit payments for PERS as a whole were approximately \$9,447,325,000. The number of benefit recipients eligible for postemployment health care benefits at December 31, 1998 for PERS as a whole was 115,579.

NOTE G—DEFERRED COMPENSATION

Eligible employees of the City of Cleveland may elect to participate in the Ohio Public Employees Deferred Compensation Program created in accordance with Internal Revenue Code Section 457. The program allows employees to defer up to 33.3% of their annual salary not to exceed \$7,500 per year until a future date, usually after retirement. The deferred wages and any earned income are not subject to Federal or State income taxes until actually received by the employee.

Under the terms of the program, all property and rights purchased with those amounts are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provision of benefits under the plan), subject only to the claims of the City's general creditors. Participants' rights under these plans are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant. The liability related to this compensation plan is included in an agency fund of the City of Cleveland. Additional disclosures as required by Statement No. 2 of the Governmental Accounting Standards Board are included in the Comprehensive Annual Financial Report for the City of Cleveland.

**CENTRAL COLLECTION AGENCY
DIVISION OF TAXATION
CITY OF CLEVELAND, OHIO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998**

NOTE H—RELATED PARTY TRANSACTIONS

The Agency is provided various services by the City of Cleveland. Charges are based on actual use or on a reasonable pro rata basis. The more significant of these costs, as reported in the statement of revenues and expenses of the Internal Service Fund for the year ended December 31, 1998, were as follows:

Data processing	\$ 92,192
City administration	193,947
Office rent	164,592
Printing services	<u>9,375</u>
	<u>\$460,106</u>

NOTE I—DUE FROM MEMBER CITIES

The Agency has recorded certain liabilities in the internal service fund related to compensated absences totaling \$223,765 at December 31, 1998. These liabilities will be reimbursed by the member cities in the year that the liabilities are paid, at which time the related revenue and expense will be recognized and, as such, a receivable due from member cities for the same amount has been recorded in the Agency Fund.

PricewaterhouseCoopers LLP
1500 One Cleveland Center
1375 East Ninth Street
Cleveland OH 44114-1700
Telephone (216) 241 4380
Facsimile (216) 575 0170

**REPORT OF INDEPENDENT ACCOUNTANTS ON YEAR 2000 SUPPLEMENTARY
INFORMATION**

Members of Central Collection Agency
Division of Taxation
City of Cleveland, Ohio

The year 2000 supplementary information on page 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the Agency is or will become year 2000 compliant, that the Agency's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Agency does business are or will become year 2000 compliant.

PricewaterhouseCoopers LLP

Cleveland, Ohio
April 15, 1999

Central Collection Agency
Division Of Taxation
City of Cleveland, Ohio
Supplementary Information on Year 2000
For the year ended December 31, 1998

Year 2000 Supplementary Information

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Agency's operations as early as 1999.

The City of Cleveland and the Agency have developed and adopted a comprehensive strategic plan to address the year 2000 issue. This plan incorporates a combination of new system implementations and remediation of date sensitive programming code in existing data processing systems.

The Agency has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the Agency's operations. Based on this inventory, the Agency has identified the income tax information system as a mission-critical system. This system has been assessed and is in the validation/testing stage as of year-end. Additionally, as part of the strategic plan discussed above, the City of Cleveland is in the process of implementing a new integrated financial and accounting system. This system will be used by the Agency and all other departments and divisions within the City of Cleveland. This system has been certified by the vendor as being year 2000 compliant.

Additional disclosures required by Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, are included in the Comprehensive Annual Report for the City of Cleveland.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management of the City of Cleveland and the Agency cannot assure that the Agency is or will be year 2000 ready, that the Agency's remediation efforts will be successful in whole or in part, or that the parties with whom the Agency does business will be year 2000 ready.

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REPORT OF INDEPENDENT ACCOUNTANTS ON OTHER FINANCIAL INFORMATION

Members of Central Collection Agency
Division of Taxation
City of Cleveland, Ohio

Our report on the audit of the financial statements of the Central Collection Agency, Division of Taxation, City of Cleveland, Ohio, as of and for the year ended December 31, 1998, appears on page 3. This audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The following financial information on pages 16 to 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

Cleveland, Ohio
April 15, 1999

CENTRAL COLLECTION AGENCY
 DIVISION OF TAXATION
 CITY OF CLEVELAND, OHIO
SCHEDULE OF CASH RECEIPTS AND DISTRIBUTION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1998*

Members	Balance Collected and Due Members		Allocation		Total Disbursements and Expenses	Balance Collected and Due Members December 31, 1998*
	January 1, 1998*		Cash Receipts Net	Total Cash Receipts		
Ada	\$ 47,070.80	\$ 692,078.22	\$ 739,149.02	\$ 684,136.29	\$ 12,144.80	\$ 42,867.93
Andover	47,271.90	829,278.81	876,550.71	756,739.75	5,924.85	113,886.11
Bataviah	54,274.37	705,802.17	760,076.54	730,763.88	11,400.20	17,912.46
Burton	14,553.39	285,929.50	300,482.89	276,372.50	9,688.46	14,421.93
Chardon	131,601.58	2,568,643.04	2,700,243.62	2,485,051.79	40,824.06	174,367.77
Cleveland	6,314,374.92	269,095,564.87	275,409,939.79	260,702,391.99	3,155,666.05	11,551,881.75
Creston	13,542.71	265,091.30	278,634.01	260,125.39	7,942.64	10,565.98
Dunkirk	3,963.40	66,851.56	70,814.96	65,921.47	2,330.00	2,563.49
Durclid	2,132,747.07	27,971,517.35	30,104,264.42	28,187,387.32	260,466.08	1,656,411.02
Fairport Harbor	40,996.20	579,506.46	620,502.66	580,090.64	11,014.62	29,397.40
Gates Mills	53,735.18	1,118,672.70	1,172,407.88	1,113,374.18	18,030.58	41,003.20
Geneva	72,150.93	1,167,118.12	1,239,269.05	1,146,946.32	28,985.07	63,337.66
Geneva-on-the-Lake	2,665.77	71,775.80	74,441.57	68,564.75	4,203.49	1,673.33
Grand Rapids	6,188.02	211,893.51	218,081.53	200,036.90	7,112.28	10,932.35
Grand River	48,209.88	307,459.44	355,669.32	333,807.13	3,583.66	18,278.53
Highland Hills	91,316.79	1,343,480.11	1,333,796.90	1,217,672.84	6,711.91	109,412.15
Hunting Valley	16,328.20	504,728.54	521,056.74	505,406.91	7,087.24	41,952.76
Jefferson	47,067.96	723,979.27	771,047.23	716,736.67	12,357.80	8,582.59
Lakewood	7,222.17	123,057.60	130,279.77	119,508.50	1,246.70	9,524.37
Madison	38,049.18	679,027.60	717,076.78	663,945.60	18,270.24	34,860.94
Medina	214,984.49	3,931,450.56	4,146,435.05	3,860,549.66	114,112.29	171,773.10
Mentor	1,659,512.04	23,634,336.90	25,293,848.94	23,437,009.80	211,290.76	1,645,588.38
Mentor-on-the-Lake	28,740.76	599,310.02	628,050.78	578,913.02	17,293.10	31,844.66
Metamora	8,666.29	145,893.84	154,560.13	144,614.39	3,130.47	6,815.27
Middlefield	129,462.68	1,886,985.99	2,016,448.67	1,844,737.30	14,635.53	157,075.84
Northfield	42,711.83	590,285.77	632,997.60	578,235.30	16,135.53	38,626.77
North Bakershire	35,305.14	502,473.37	537,778.51	500,015.20	9,418.09	28,345.22
North Perry	50,149.94	642,188.56	692,338.50	646,031.04	4,691.39	41,616.07
North Randall	117,940.62	1,534,910.74	1,605,651.41	1,532,105.04	16,484.39	102,061.98
North Royalton	397,577.21	5,677,917.69	6,075,494.85	5,693,728.88	147,315.92	234,450.05
Orwell	32,198.86	612,995.11	645,193.97	584,477.32	5,579.71	55,136.94
Palmsville	453,573.28	6,274,847.22	6,728,420.50	6,212,376.91	65,962.46	450,681.13
Peninsula	17,927.91	219,789.11	237,717.02	220,535.99	5,443.47	11,737.56
Perry	23,108.13	415,770.48	438,878.61	398,286.91	2,635.51	37,956.19
Perrysville	9,468.25	157,436.50	166,904.75	155,231.88	3,176.56	8,496.31
Polk	(109.47)	4,173.95	4,064.48	3,909.98	154.50	(0.00)
Rock Creek	5,296.99	93,296.94	98,593.93	90,552.54	3,558.09	4,483.30
Rocky River	403,566.31	6,500,013.95	6,903,580.26	6,411,632.02	129,865.19	362,083.05
Seville	31,737.13	570,629.85	602,366.98	549,258.41	13,506.37	39,602.20
South Russell	42,268.63	845,819.21	888,087.84	810,999.72	21,707.39	55,380.73
Timberlake	4,227.07	70,890.38	75,117.45	68,673.92	3,874.11	2,569.42
Wadsworth	288,817.83	4,450,901.79	4,739,719.62	4,366,998.34	80,756.89	291,964.39
Warrensville Heights	606,361.44	8,207,871.39	8,814,232.83	8,172,305.54	77,951.16	563,976.13
Willoughby	855,916.13	13,155,910.10	14,011,826.23	13,023,073.72	129,746.83	859,005.68
Willoughby Hills	164,193.02	2,765,429.41	2,929,622.43	2,720,237.14	61,606.41	147,778.88
Non-Members	1,568.26	1,568.26	1,568.26	1,568.26		1,568.26
Totals	\$ 14,808,501.17	\$ 392,699,783.80	\$ 407,508,284.97	\$ 383,421,038.97	\$ 4,784,362.85	\$ 19,302,883.15

* Amounts in these columns are net of members share of outstanding liabilities.

CENTRAL COLLECTION AGENCY
 DIVISION OF TAXATION
 CITY OF CLEVELAND, OHIO
 SCHEDULE OF ALLOCATION OF NET OPERATING EXPENSES
 FOR THE YEAR ENDED DECEMBER 31, 1998

Members	Cost Allocation Percent	MTIS Allocation Percent	Interest Allocation Percent	Cost Allocation Before Interest Income	MTIS Cost Allocation	Interest Income of Municipalities Other Than Cleveland	Allocation of Net Operating Expenses
Ada	0.291630%	0.656968%	0.559915%	\$ 16,069.32	\$ 929.43	\$ 4,853.95	\$ 12,144.80
Andover	0.199991%	0.51026%	0.670915%	11,019.10	721.97	5,816.22	5,934.85
Biacnah	0.280360%	0.638370%	0.571018%	15,447.29	903.12	4,950.21	11,400.20
Burton	0.201419%	0.421324%	0.231327%	11,097.79	596.06	2,005.39	9,688.46
Chardon	1.008601%	2.301896%	2.078118%	55,582.91	3,256.55	18,015.40	40,824.06
Cleveland	57.269370%	0.000000%	0.000000%	3,153,666.05		3,153,666.05	
Creson	0.168726%	0.357251%	0.214468%	9,296.47	505.41	1,859.24	7,942.64
Dunkirk	0.048315%	0.100587%	0.054085%	2,656.57	142.30	468.87	2,330.00
Euclid	7.798638%	19.163689%	22.629005%	429,535.47	27,111.36	196,180.74	260,466.09
Fairport Harbor	0.258855%	0.577234%	0.468840%	14,282.41	816.63	4,064.42	11,014.62
Gates Mills	0.443697%	1.010565%	0.905044%	24,446.82	1,429.67	7,845.91	18,030.58
Geneva	0.639175%	1.30828%	0.944238%	35,217.27	1,953.49	8,185.69	28,985.07
Geneva-on-the-Lake	0.081253%	0.162614%	0.058069%	4,476.84	230.05	503.41	4,203.49
Grand Rapids	0.148095%	0.310063%	0.171429%	8,159.76	438.65	1,486.13	7,112.28
Grand River	0.098178%	0.233718%	0.248745%	5,409.41	330.65	2,156.39	3,583.66
Highland Hills	0.262128%	0.695120%	1.005208%	14,442.75	983.40	8,714.25	6,711.91
Hunting Valley	0.181688%	0.421680%	0.408342%	10,010.64	596.56	3,539.96	7,067.24
Jefferson	0.299065%	0.676120%	0.585724%	16,478.97	956.52	5,077.69	12,357.80
Landale	0.036044%	0.087522%	0.099258%	1,963.96	123.82	863.08	1,246.70
Madison	0.396244%	0.848311%	0.549356%	21,832.25	1,200.41	4,782.42	18,270.24
Medina	2.438518%	5.180084%	3.180677%	134,337.47	7,328.40	27,573.58	114,112.29
Menor	6.434199%	15.904732%	19.120979%	354,511.47	22,500.83	165,761.53	211,250.76
Menor-on-the-Lake	0.369957%	0.786373%	0.484862%	20,383.91	1,112.50	4,203.31	17,293.10
Metamora	0.073363%	0.156794%	0.118033%	3,931.89	221.82	1,023.24	3,130.47
Middlefield	0.473060%	1.198252%	1.526656%	26,174.88	1,695.20	13,234.54	14,635.53
Northfield	0.348843%	0.745759%	0.477561%	19,230.54	1,055.02	4,140.02	16,135.53
North Bakermore	0.222153%	0.496255%	0.406518%	12,240.17	702.06	3,524.14	9,418.09
North Perry	0.156660%	0.398306%	0.519332%	8,631.66	563.78	4,504.05	4,691.39
North Randall	0.465908%	1.120802%	1.240015%	25,648.57	1,585.63	16,749.80	16,484.39
North Royalton	3.218786%	6.919981%	4.593628%	177,348.63	9,789.87	39,822.58	147,315.92
Oswell	0.168624%	0.415743%	0.495934%	9,390.84	588.16	4,299.30	5,579.71
Painesville	1.868972%	4.320351%	5.076564%	102,976.61	6,395.05	44,009.20	65,362.46
Peninsula	0.120109%	0.259555%	0.177817%	6,617.78	367.20	1,541.51	5,443.47
Perry	0.094466%	0.245108%	0.336372%	5,204.79	346.76	2,916.04	2,635.51
Perrysville	0.073515%	0.162730%	0.127371%	4,850.54	230.22	1,104.19	3,176.56
Polk	0.004634%	0.009288%	0.003377%	170.63	29.27	154.50	154.50
Rock Creek	0.072597%	0.150210%	0.075480%	3,999.93	212.51	654.35	3,538.09
Rocky River	3.012941%	6.677349%	5.287311%	166,007.00	9,446.62	45,588.43	129,865.19
Seville	0.300984%	0.633773%	0.461659%	16,583.62	924.91	4,002.16	13,506.37
South Russell	0.475372%	1.023215%	0.684296%	26,192.05	1,447.57	5,932.23	21,707.39
Timberlake	0.075442%	0.151701%	0.057353%	4,156.69	214.61	497.20	3,874.11
Wadsworth	1.921594%	4.310180%	3.609920%	105,875.97	6,097.72	31,216.80	80,756.89
Warrensville Heights	2.313974%	5.670690%	6.640446%	127,495.33	8,022.47	57,566.64	77,951.16
Willoughby	3.792155%	9.243370%	10.643577%	208,940.15	13,076.83	92,270.15	129,746.83
Willoughby Hills	1.391983%	3.044835%	2.237245%	76,694.39	4,507.60	19,395.59	61,608.41
Totals	100.000000%	100.000000%	100.000000%	\$ 5,509,799.56	\$ 141,472.53	\$ 865,909.24	\$ 4,784,362.85

CENTRAL COLLECTION AGENCY
DIVISION OF TAXATION
CITY OF CLEVELAND, OHIO
SCHEDULE OF SUBSEQUENT COLLECTIONS OF NON-TAXPAYER ASSESSED TAXES
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	Gross Collections in 1999 Attributable to 1998	Gross Collections in 1998 Attributable to 1997
Ada	\$ 78,039.59	\$ 73,076.14
Andover	72,016.73	87,783.87
Bratenahl	141,908.65	89,998.00
Burton	39,028.89	35,212.77
Chardon	355,096.76	305,421.82
Cleveland	38,018,824.09	30,657,303.83
Creston	55,295.54	47,328.10
Dunkirk	8,605.94	7,707.23
Euclid	4,714,523.69	4,274,759.08
Fairport Harbor	69,389.66	78,667.62
Gates Mills	224,299.08	203,751.89
Geneva	139,258.59	110,804.34
Geneva-on-the-Lake	16,624.13	7,955.42
Grand Rapids	33,725.82	25,750.66
Grand River	43,767.58	34,594.23
Highland Hills	123,554.22	61,754.11
Hunting Valley	21,650.25	78,794.84
Jefferson	47,460.22	73,191.02
Liberty Center	10,945.96	-
Linndale	9,616.44	11,379.92
Madison	96,407.25	89,149.09
Medina	599,344.52	453,738.41
Mentor	3,124,257.29	2,898,046.51
Mentor-on-the-Lake	89,863.21	62,616.80
Metamora	20,707.84	15,250.37
Middlefield	205,260.59	167,942.76
Northfield	89,488.39	61,583.84
North Baltimore	65,534.95	59,205.96
North Perry	70,236.01	50,127.97
North Randall	206,595.60	129,436.05
North Royalton	1,126,883.54	834,654.03
Orwell	77,899.19	46,156.25
Painesville	781,734.87	653,204.71
Peninsula	33,296.65	23,272.47
Perry	40,595.66	35,404.42
Perrysville	11,218.26	24,042.60
Polk	-	1,305.88
Rock Creek	8,999.34	7,810.69
Rocky River	1,119,538.50	943,553.78
Seville	97,518.83	72,031.01
South Russell	164,872.80	139,532.47
Timberlake	11,907.07	10,438.09
Wadsworth	628,686.05	529,124.53
Warrensville Heights	1,075,539.50	990,668.39
Willoughby	1,728,502.94	1,638,080.12
Willoughby Hills	426,839.14	378,720.45
	<u>\$ 56,125,359.82</u>	<u>\$ 46,580,332.54</u>

CITY OF CLEVELAND, OHIO



**DEPARTMENT OF PARKS, RECREATION, AND PROPERTIES
DIVISION OF PARKING FACILITIES**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the years ended December 31, 1998 and 1997**

CITY OF CLEVELAND, OHIO



**DEPARTMENT OF PARKS, RECREATION, AND PROPERTIES
DIVISION OF PARKING FACILITIES**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the years ended December 31, 1998 and 1997**

REPORT OF INDEPENDENT ACCOUNTANTS

The Honorable Michael R. White, Mayor
and Members of Council
City of Cleveland, Ohio

In our opinion, the accompanying balance sheets and the related statements of operations, changes in equity, and of cash flows present fairly, in all material respects, the financial position of The City of Cleveland, Department of Parks, Recreation and Properties – Division of Parking Facilities, as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the City's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

PricewaterhouseCoopers LLP

June 25, 1999

CITY OF CLEVELAND
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES
BALANCE SHEETS
December 31, 1998 and 1997

	December 31,	
	1998	1997
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,753,101	\$ 1,459,730
Accounts receivable-net of allowance for doubtful accounts of \$12,064,077 in 1998 and \$10,655,000 in 1997.	169,439	265,889
Due from other City of Cleveland departments, divisions or funds	88,018	87,928
Inventory of supplies, at cost	44,808	44,808
TOTAL CURRENT ASSETS	2,055,366	1,858,355
UNAMORTIZED BOND ISSUANCE EXPENSE	1,399,637	1,492,393
RESTRICTED ASSETS		
Cash and cash equivalents	10,332,288	9,647,807
Investments at market	5,359,329	4,375,177
Accrued interest receivable	195,224	205,476
TOTAL RESTRICTED ASSETS	15,886,841	14,228,460
PROPERTY, PLANT AND EQUIPMENT		
Land	12,928,502	12,928,502
Land Improvements	1,263,881	1,263,881
Buildings, structures and improvements	65,200,465	65,124,848
Furniture, fixtures and equipment	693,884	693,884
	80,086,732	80,011,115
Less: accumulated depreciation	7,674,909	5,966,092
PROPERTY, PLANT AND EQUIPMENT, NET	72,411,823	74,045,023
TOTAL ASSETS	\$ 91,753,667	\$ 91,624,231

	December 31,	
	1998	1997
LIABILITIES AND EQUITY		
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 1,715,000	\$ 100,000
Accounts payable	217	24,963
Accrued property taxes	190,140	52,355
Due to other City of Cleveland departments, divisions or funds	16,585	38,659
Accrued interest payable	1,298,208	1,299,448
Accrued wages and benefits	131,311	108,903
TOTAL CURRENT LIABILITIES	<u>3,351,461</u>	<u>1,624,328</u>
PAYABLE FROM RESTRICTED ASSETS	254,145	275,154
LONG TERM DEBT		
Revenue bonds	70,004,536	71,175,938
TOTAL LIABILITIES	<u>73,610,142</u>	<u>73,075,420</u>
EQUITY		
Contributed capital	21,078,641	21,078,641
Retained deficit	(2,935,116)	(2,529,830)
TOTAL EQUITY	<u>18,143,525</u>	<u>18,548,811</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 91,753,667</u>	<u>\$ 91,624,231</u>

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 1998 and 1997

	For the Years Ended December 31,	
	1998	1997
OPERATING REVENUES	\$ 7,253,717	\$ 6,936,455
OPERATING EXPENSES		
Operations	1,791,366	1,570,722
Maintenance	51,898	39,230
Depreciation	1,708,817	1,331,009
TOTAL OPERATING EXPENSES	3,552,081	2,940,961
OPERATING PROFIT	3,701,636	3,995,494
OTHER INCOME (EXPENSE)		
Interest income	983,443	816,755
Interest expense	(4,997,609)	(5,114,160)
Amortization of bond issuance costs	(92,756)	(92,839)
NET LOSS	\$ (405,286)	\$ (394,750)

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 1998 and 1997

	Contributed Capital	Retained Earnings	Total
BALANCE AT JANUARY 1, 1997	\$ 21,078,641	\$ (2,135,080)	\$ 18,943,561
Net loss		(394,750)	(394,750)
BALANCE AT DECEMBER 31, 1997	21,078,641	(2,529,830)	18,548,811
Net loss	--	(405,286)	(405,286)
BALANCE AT DECEMBER 31, 1998	\$ 21,078,641	\$ (2,935,116)	\$ 18,143,525

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 1998 and 1997

	For the Years Ended December 31,	
	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 7,350,077	\$ 6,999,702
Cash payments to suppliers for goods or services	(1,092,231)	(1,230,939)
Cash payments to employees for services	(637,660)	(622,561)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,620,186	5,146,202
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(96,626)	(1,174,637)
Principal paid on long-term debt	(100,000)	(100,000)
Interest paid on long-term debt	(4,455,251)	(4,632,664)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(4,651,877)	(5,907,301)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(5,477,612)	(5,701,252)
Proceeds from sale and maturity of investment securities	4,493,460	6,012,908
Interest received on investments	993,695	814,378
NET CASH PROVIDED BY INVESTING ACTIVITIES	9,543	1,126,034
NET INCREASE IN CASH AND CASH EQUIVALENTS	977,852	364,935
Cash and cash equivalents, beginning of year	11,107,537	10,742,602
Cash and cash equivalents, end of year	\$ 12,085,389	\$ 11,107,537

	For the	
	Years Ended December 31,	
	1998	1997
<hr/>		
RECONCILIATION OF OPERATING PROFIT TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING PROFIT	\$ 3,701,636	\$ 3,995,494
Adjustments to reconcile operating profit to net cash provided by operating activities:		
Depreciation	1,708,817	1,331,009
Change in assets and liabilities:		
Accounts receivable, net	96,450	(25,231)
Due from other City of Cleveland departments, divisions or funds	(90)	88,478
Inventory of supplies	-	(2,388)
Accounts payable	(24,746)	17,537
Accrued property taxes	137,785	(226,617)
Due to other City of Cleveland departments, divisions or funds	(22,074)	(34,947)
Accrued wages and benefits	22,408	2,867
	<hr/>	<hr/>
TOTAL ADJUSTMENTS	1,918,550	1,150,708
	<hr/>	<hr/>
NET CASH PROVIDED BY		
OPERATING ACTIVITIES	\$ 5,620,186	\$ 5,146,202
	<hr/>	<hr/>

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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: Effective January 1, 1998, the Division adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools," which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the Division has stated certain investments at fair value. The effect of the change on the financial statements was not significant, accordingly prior year financial statements were not restated.

Property, Plant and Equipment: Property, plant and equipment is stated on the basis of cost. Maintenance and repair costs are charged to expense as incurred. Depreciation is provided on the straight-line method over the estimated useful lives of the related assets, which range from 5 to 40 years.

Bond Issuance Expense and Discount: Bond issuance expense is carried on the Division's books as an asset and unamortized bond discounts are netted against long-term debt. Both are amortized over the lives of the applicable bonds.

Contributed Capital: Contributed capital represents contributions of land, buildings and equipment from the City of Cleveland which are not subject to mandatory repayment. All contributions received are credited directly to contributed capital.

CITY OF CLEVELAND
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997

NOTE B—LONG-TERM DEBT

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

	Interest Rate	Outstanding Principal Amount	
		1998	1997
Parking Facility Improvement Revenue Bonds:			
Serial Bonds maturing from 1997 through 2013	4.45-6.00%	\$ 37,990,000	\$ 38,090,000
Term Bonds due 2016 through 2022	5.00%	42,915,000	42,915,000
		<u>80,905,000</u>	<u>81,005,000</u>
Less:			
Unamortized advance debt refunding		(8,135,765)	(8,674,932)
Unamortized discount		(1,049,699)	(1,054,130)
Current portion		(1,715,000)	(100,000)
		<u> </u>	<u> </u>
Total Long-Term Debt		<u>\$ 70,004,536</u>	<u>\$ 71,175,938</u>

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

	Principal	Interest	Total
1999	\$ 1,715,000	\$ 4,450,999	\$ 6,165,999
2000	1,795,000	4,374,681	6,169,681
2001	1,875,000	4,293,906	6,168,906
2002	1,965,000	4,207,188	6,172,188
2003	2,075,000	4,104,025	6,179,025
Thereafter	71,480,000	45,796,650	117,276,650
	<u>80,905,000</u>	<u>67,227,449</u>	<u>148,132,449</u>

CITY OF CLEVELAND
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997

NOTE B—LONG-TERM DEBT—Continued

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

The City has pledged the net revenues of the parking facilities, as defined in the trust indenture, as well as the additional pledged revenues which consist of General Fund fines and penalties from parking violations and waivers, fines and court costs stemming from misdemeanor offenses under municipal ordinances, to meet debt service requirements, if necessary. In 1998, no additional pledged revenue was required to meet the debt service on the parking bonds. The trust indenture requires, among other things, that the Division will fix parking rates and will charge and collect fees for the use of the Parking Facilities, and will restrict Operating Expenses.

Defeasance of Parking Facility Improvement Revenue Bonds: In 1996 the Division defeased 1992 Parking Facility Revenue Bonds by placing the proceeds of 1996 Parking Facility Revenue Bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements. The aggregate amount of this defeased debt at December 31, 1998 is \$67,420,000.

CITY OF CLEVELAND
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997

NOTE B—LONG-TERM DEBT—Continued

The remaining proceeds from the bond issuance are restricted investments, as defined in the trust indenture, and are reflected under "Restricted Assets" in the Accompanying balance sheets. The following table shows the composition of these restricted assets (including those which are classified as cash equivalents in the balance sheet) as of December 31, 1998 and 1997:

	Debt Service Fund		Debt Service Reserve Fund	
	December 31,		December 31,	
	1998	1997	1998	1997
Cash	\$ 432	\$ 1,285	\$ 6,180,475	\$ 6,180,475
Mutual funds	2,360,533	13,127	805,105	369,346
U.S. Treasury Bills	2,435,255	3,671,938		
	\$ 4,796,220	\$ 3,686,350	\$ 6,985,580	\$ 6,549,821

	Renewal and Replacement Fund		Construction Fund	
	December 31,		December 31,	
	1998	1997	1998	1997
Cash		\$ 635	\$ 7,918	\$ 18,602
Mutual Funds	\$ 2,403,597	624		7,531
U.S. Treasury Bills		1,210,365	301,097	277,849
U.S. Treasury Notes	998,125	998,177		
U.S. Treasury Bonds		998,125		
Star Ohio			199,080	274,905
	\$ 3,401,722	\$ 3,207,926	\$ 508,095	\$ 578,887

NOTE C—RECEIVABLE FROM GATEWAY ECONOMIC DEVELOPMENT CORPORATION

In accordance with an agreement with Gateway Economic Development Corporation ("Gateway"), Gateway is required to reimburse the City for the excess of the debt service requirements of the 1996 Parking Facility Revenue Bonds attributed to the two Gateway garages over the net revenues generated by the two Gateway garages.

In 1998 and 1997, net revenues generated by the two Gateway garages were less than the debt service requirements attributed to those garages. Debt service requirements due from the Gateway Economic Development Corporation totaled \$12,106,000 and \$10,655,000 at December 31, 1998 and 1997, respectively. Due to the uncertainty of collecting such amounts, an allowance has been recorded to offset the amounts in full.

CITY OF CLEVELAND
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997

NOTE D—DEPOSITS AND INVESTMENTS

In accordance with the provisions of GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements, deposits and investments of the Division are classified to disclose the risk inherent in deposit and investment transactions. The Division's carrying amount of deposits at year-end totaled \$6,321,673. The Division's bank balance was \$6,195,712. Based on the criteria described in GASB Statement No. 3, \$14,805 of the bank balance was insured or collateralized with securities held by the City or by its agent in the City's name. The remaining balance of \$6,180,907 was uninsured and uncollateralized and was invested in a bank investment contract (BIC). This BIC is secured by securities held by the pledging financial institution's trust department but not in the City's name. The Division's investments are classified in the following risk categories:

Type of Investment	(1) Insured or Registered, or Securities Held by the City or its Agent in the City's Name	(2) Uninsured and Unregistered, with Securities Held by the Counterparty's Trust Department or Agent in the City's Name	(3) Uninsured and Unregistered, with Securities Held by the Counterparty, or its Trust Department or Agent but Not in the City's Name	Market Value	Cost
U.S. Treasury Bills		\$ 2,721,468		\$ 2,721,468	\$ 2,700,760
U.S. Treasury Notes		1,013,008		1,013,008	998,125
		<u>\$ 3,734,476</u>		3,734,476	3,698,885
State Treasurer Asset					
Reserve Fund (Star Ohio)				1,811,415	1,811,415
Mutual Funds				<u>5,577,154</u>	<u>5,577,154</u>
				<u>\$ 11,123,045</u>	<u>\$ 11,087,454</u>

Certain investments included above are classified as cash and cash equivalents in the accompanying balance sheets since they have a maturity of three months or less.

Star Ohio is an investment pool created pursuant to Ohio statutes and managed by the Treasurer of the State of Ohio. Star Ohio investments and investments in mutual funds are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 3. Additional information pertaining to GASB Statement No. 3 is included in the Comprehensive Annual Financial Report for the City of Cleveland.

CITY OF CLEVELAND
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997

NOTE E—EMPLOYEE'S RETIREMENT PLAN

The City has adopted Governmental Accounting Standards Board GASB Statement No. 27 "Accounting for Pensions of State and Local Government Employees," which establishes standards for the measurement, recognition, and display of pension expense and related liabilities, assets and note disclosures in the financial reports of state and local government employers.

The Division contributes to a cost-sharing multiple-employer defined plan, Public Employees Retirement System of Ohio (PERS). The plan provides retirement, disability, health care coverage, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

The funding policy for the above plan is as follows:

The Ohio Revised Code provides statutory authority for employee and employer contributions. During 1998, PERS employees contributed 8.5% of their salary to the plan and the Division contributed 13.55% of covered payrolls to the plan, of which 4.20% was applied towards the health care program for retirants. The required employer contributions to PERS for the years ending December 31, 1998 and 1997 were \$69,090 and \$65,268, respectively, equal to 100% of the required employer contributions for each year.

NOTE F—OTHER POST EMPLOYMENT BENEFITS

The Division provides post-employment health care benefits, defined by GASB Statement No. 12, through its contribution to the Public Employees Retirement System of Ohio (PERS).

PERS provides post-retirement health care coverage to service retirants with 10 years or more of qualifying Ohio service credit. The post-retirement health care benefits cover disability recipients and primary survivor recipients. A portion of the Division's contribution to PERS funds post-retirement health care coverage. During 1998, the Division's portion that was used to fund health care was 4.20% of covered payroll. *Post-retirement health care benefits are established by state statute.*

The post-retirement health care coverage is financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely. Expenditures for post-employment health care benefits during 1998 for PERS as a whole were approximately \$440,597,000. As of December 31, 1998, the unaudited estimated net assets available for future post-employment health care benefit payments for PERS as a whole were approximately \$9,447,325,000. The number of benefit recipients eligible for post-employment health care benefits at December 31, 1998 for PERS as a whole was 115,579.

CITY OF CLEVELAND
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES
Notes to Financial Statements-Continued
December 31, 1998 and 1997

NOTE G—DEFERRED COMPENSATION

Eligible employees of the City of Cleveland may elect to participate in the Ohio Public Employees Deferred Compensation Program created in accordance with Internal Revenue Code Section 457. The program allows employees to defer up to 33.3% of their annual salary not to exceed \$7,500 per year until a future date, usually after retirement. The deferred wages and any earned income are not subject to Federal or State income taxes until actually received by the employee.

In 1997, the assets of this program were the property of the City of Cleveland and were recorded in an agency fund of the City. Effective September 1, 1998, the Ohio Public Employees Deferred Compensation Program board implemented a trust to hold the assets of the program in accordance with Internal Revenue Code Section 457. The program assets are now property of the trust, which holds the assets on behalf of the participants. Therefore, in accordance with GASB 32 "Accounting and Financial Reporting for Internal Revenue Service Code Section 457 Deferred Compensation Plans", the assets of this program are no longer reported in an agency fund of the City.

NOTE H—RELATED PARTY TRANSACTIONS

Revenues and Accounts Receivable: The Division provides parking facilities at usual and customary rates to various departments and divisions of the City of Cleveland.

The Division operates certain garages and parking lots on behalf of other City divisions. The professional management fees recorded by the Division to operate the garages and parking lots are as follows:

	1998	1997
Division of Convention Center	\$ 149,417	\$ 142,996
Department of Community Development	410,136	208,166
Municipal Court	22,125	22,125

CITY OF CLEVELAND
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES
Notes to Financial Statements-Continued
December 31, 1998 and 1997

NOTE H—RELATED PARTY TRANSACTIONS—Continued

Operating Expenses: The Division is provided various services by other City divisions. Charges are based on actual usage or on a reasonable pro rata basis. The more significant expenses included in the statements of operations for the years ended December 31, 1998 and 1997 are as follows:

	1998	1997
Parks maintenance	\$ 131,279	\$ 139,167
Motor vehicle maintenance	30,840	32,361

NOTE I—COMMITMENTS AND CONTINGENT LIABILITIES

Various claims are pending against the City involving the Division for personal injuries, property damage and other matters. The City is responsible for the suits and believes that the amounts claimed are excessive and are not fair estimates of the ultimate settlements, if any, of these claims. 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.

NOTE J—LEASES

The Division leases the land for various parking facilities to managing companies under non-cancelable lease agreements, which expire at various times through the year 2056. Revenues generated from such leases totaled \$180,000 in 1998 and 1997. Future minimum rentals on non-cancelable leases are as follows:

1999	\$ 180,000
2000	180,000
2001	180,000
2002	180,000
2003	180,000
Thereafter	7,260,000
	\$ 8,160,000

**REPORT OF INDEPENDENT ACCOUNTANTS
ON YEAR 2000 SUPPLEMENTARY INFORMATION**

The Honorable Michael R. White, Mayor
And Members of Council
City of Cleveland, Ohio

The year 2000 supplementary information on page 17 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the Division is or will become year 2000 compliant, that the Division's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Division does business are or will become year 2000 compliant.

PricewaterhouseCoopers LLP

June 25, 1999

CITY OF CLEVELAND
DEPARTMENT OF PARKS, RECREATION AND PROPERTIES
DIVISION OF PARKING FACILITIES
SUPPLEMENTARY INFORMATION ON YEAR 2000
December 31, 1998

Year 2000 Supplementary Information

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Division's operations as early as 1999.

The City of Cleveland and the Division have developed and adopted a comprehensive strategic plan to address the year 2000 issue. This plan incorporates a combination of new system implementations and remediation of date sensitive programming code in existing data processing systems.

The Division has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the Division's operations. Based on this inventory, the Division has identified the financial and accounting system as a mission-critical system. As part of the strategic plan discussed above, the City of Cleveland is in the process of implementing a new integrated financial and accounting system. This system will be used by the Division and all other departments and divisions within the City of Cleveland. This system has been certified by the vendor as being year 2000 compliant.

Additional disclosures required by Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, are included in the Comprehensive Annual Report for the City of Cleveland.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management of the City of Cleveland and the Division cannot assure that the Division is or will be year 2000 ready, that the Division's remediation efforts will be successful in whole or in part, or that the parties with whom the Division does business will be year 2000 ready.

CITY OF CLEVELAND, OHIO



**DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the years ended December 31, 1998 and 1997**

CITY OF CLEVELAND, OHIO



**DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the years ended December 31, 1998 and 1997**

REPORT OF INDEPENDENT ACCOUNTANTS

The Honorable Michael R. White, Mayor
and Members of Council
City of Cleveland, Ohio

In our opinion, the accompanying balance sheets and the related statements of income and retained earnings and cash flows present fairly, in all material respects, the financial position of The City of Cleveland, Department of Public Utilities - Division of Water as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the City's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

June 25, 1999

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
BALANCE SHEETS
December 31, 1998 and 1997

	December 31,	
	1998	1997
ASSETS		
PROPERTY, PLANT AND EQUIPMENT		
Land	\$ 5,279,380	\$ 5,279,380
Land Improvements	13,362,846	10,917,446
Utility plant in service	656,059,464	635,991,328
Buildings, structures and improvements	140,897,698	127,356,831
Furniture, fixtures and equipment	55,669,759	51,089,972
	871,269,147	830,634,957
Less: accumulated depreciation	249,803,799	229,829,947
	621,465,348	600,805,010
Construction in progress	167,557,614	127,903,396
PROPERTY, PLANT AND EQUIPMENT, NET	789,022,962	728,708,406
RESTRICTED ASSETS		
Cash and cash equivalents	272,754,185	160,264,216
Investments at market	69,751,908	99,502,554
Accrued interest receivable	1,601,171	1,425,134
TOTAL RESTRICTED ASSETS	344,107,264	261,191,904
UNAMORTIZED BOND ISSUANCE EXPENSE	6,717,971	4,951,806
CURRENT ASSETS		
Cash and cash equivalents	52,135,632	17,150,583
Investments at market	51,094,847	80,931,898
Accounts receivable-net of allowance for doubtful accounts of \$1,147,301 in 1998 and \$946,024 in 1997	17,059,174	13,056,179
Unbilled revenue	19,516,674	18,384,024
Due from other City of Cleveland departments, divisions or funds	3,072,559	2,655,457
Accrued interest receivable	802,750	1,625,975
Materials and supplies-at average cost, net of allowance for obsolescence of \$616,081 in 1998 and \$624,191 in 1997	4,109,957	3,767,976
Prepaid expenses	425,431	509,392
TOTAL CURRENT ASSETS	148,217,024	138,081,484
TOTAL ASSETS	\$1,288,065,221	\$1,132,933,600

	December 31,	
	1998	1997
EQUITY AND LIABILITIES		
EQUITY		
Contributions in aid of construction	\$ 2,406,873	\$ 2,406,873
Retained earnings	524,804,112	460,068,052
TOTAL EQUITY	<u>527,210,985</u>	<u>462,474,925</u>
LIABILITIES		
LONG TERM DEBT-excluding amounts due within one year:		
Mortgage revenue bonds	693,099,315	605,808,326
Construction bonds	302,277	578,766
TOTAL LONG-TERM DEBT	<u>693,401,592</u>	<u>606,387,092</u>
PAYABLE FROM RESTRICTED ASSETS	10,793,650	12,427,420
CURRENT LIABILITIES		
Current portion of long-term debt	17,456,489	14,242,571
Accounts payable	2,252,564	2,131,058
Due to other City of Cleveland departments, divisions or funds	3,402,075	2,847,355
Accrued expenses	625,000	650,000
Accrued interest payable	18,866,016	18,584,724
Accrued wages and benefits	12,184,441	11,567,536
Customer deposits and other liabilities	1,872,409	1,620,919
TOTAL CURRENT LIABILITIES	<u>56,658,994</u>	<u>51,644,163</u>
TOTAL LIABILITIES	<u>760,854,236</u>	<u>670,458,675</u>
TOTAL EQUITY AND LIABILITIES	<u>\$1,288,065,221</u>	<u>\$1,132,933,600</u>

See notes to financial statements.

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CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
STATEMENTS OF INCOME AND RETAINED EARNINGS
For the Years Ended December 31, 1998 and 1997

	For the Years Ended December 31,	
	1998	1997
OPERATING REVENUES	\$ 192,628,441	\$ 176,466,292
OPERATING EXPENSES		
Operations	84,514,083	83,011,147
Maintenance	18,408,957	17,275,286
Depreciation	20,997,230	20,305,857
TOTAL OPERATING EXPENSES	123,920,270	120,592,290
OPERATING INCOME	68,708,171	55,874,002
OTHER INCOME (EXPENSE)		
State insurance refund	4,365,031	
Interest income	11,392,995	10,684,610
Interest expense	(18,628,056)	(21,223,682)
Amortization of bond issuance expense and discount	(1,102,081)	(1,136,559)
TOTAL OTHER INCOME (EXPENSE), NET	(3,972,111)	(11,675,631)
NET INCOME	64,736,060	44,198,371
RETAINED EARNINGS, beginning of year	460,068,052	415,869,681
RETAINED EARNINGS, end of year	\$ 524,804,112	\$ 460,068,052

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 1998 and 1997

	For the Years Ended December 31,	
	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 192,677,742	\$ 177,860,801
Cash payments to suppliers for goods or services	(44,922,937)	(39,292,871)
Cash payments to employees for services	(62,130,838)	(59,352,631)
Cash receipts from customers deposits, net	251,489	249,453
NET CASH PROVIDED BY OPERATING ACTIVITIES	85,875,456	79,464,752
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
State insurance refund	4,365,031	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(77,450,406)	(57,626,900)
Proceeds from bond issue	302,374,668	
Cash paid to escrow agent for refunding	(202,372,225)	
Principal paid on long-term debt	(14,242,571)	(13,290,722)
Interest paid on long-term debt	(35,552,610)	(37,635,784)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(27,243,144)	(108,553,406)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(203,798,746)	(177,758,057)
Proceeds from sale and maturity of investment securities	263,386,443	116,360,967
Interest received on investments	24,889,978	19,332,716
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	84,477,675	(42,064,374)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	147,475,018	(71,153,028)
Cash and cash equivalents, beginning of year	177,414,799	248,567,827
Cash and cash equivalents, end of year	\$ 324,889,817	\$ 177,414,799

For the
Years Ended December 31,
1998 1997

**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES:**

OPERATING INCOME	\$ 68,708,171	\$ 55,874,002
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	20,997,230	20,305,857
Loss on disposal of fixed assets	461,201	1,343,379
Change in assets and liabilities:		
Accounts receivable, net	(4,002,995)	(1,138,937)
Unbilled revenue	(1,132,650)	(448,354)
Due from other City of Cleveland departments, divisions or funds	(417,102)	3,016,947
Materials and supplies, net	(341,981)	140,162
Prepaid expenses	83,961	(36,056)
Accounts payable	121,506	(554,688)
Due to other City of Cleveland departments, divisions or funds	554,720	915,785
Accrued expenses	(25,000)	300,000
Accrued wages and benefits	616,905	(502,798)
Customer deposits and other liabilities	251,490	249,453
TOTAL ADJUSTMENTS	<u>17,167,285</u>	<u>23,590,750</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 85,875,456</u>	<u>\$ 79,464,752</u>

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Division of Water ("Division") is reported as an enterprise fund of the City of Cleveland's Department of Public Utilities and is reported as part of the City of Cleveland's ("City") primary government. The Division was created for the purpose of supplying water services to customers within the Cleveland metropolitan area. The following is a summary of the more significant accounting policies.

Revenues: Revenues are derived primarily from sales of water to residential, commercial and industrial customers based upon actual water consumption. Water rates are authorized by City Council and billings are made on a cycle basis. Estimates for services between the ends of the various cycles and the end of the year are recorded as unbilled revenue.

Statement of Cash Flows: The Division adopted the direct method of reporting for the statement of cash flows as defined by the Governmental Accounting Standards Board ("GASB") Statement No. 9. In a statement of cash flows, cash receipts and cash payments are classified according to operating, non-capital financing, capital and related financing, and investing activities.

Cash and Cash Equivalents: Cash and cash equivalents represent cash on hand and cash deposits maintained by the City Treasurer on behalf of the Division. Cash equivalents are defined as highly liquid investments with a maturity of three months or less when purchased and include certificates of deposit, U.S. Treasury bills, Star Ohio (See Note I) and repurchase agreements. The City's policy is to enter into repurchase agreements with local commercial banks and to obtain confirmation of securities pledged.

Investments: Effective January 1, 1998, the Division adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools," which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the Division has stated certain investments at fair value. The effect of the change on the financial statements was not significant, accordingly prior year financial statements were not restated.

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

Property, Plant and Equipment: Property, plant and equipment is stated on the basis of cost. Maintenance and repair costs are charged to expense as incurred. Depreciation is provided on the straight-line method at rates designed to amortize the cost of depreciable assets over their estimated useful lives which range from 5 to 100 years.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 1998 and 1997

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

The Division's policy is to capitalize interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest is included in the cost of the assets and is depreciated on the straight-line basis over the estimated useful lives of such assets. The Division applies Statement of Financial Accounting Standards No. 62 for Series C, D, E, F, G, H and I Mortgage Revenue Bonds. This statement requires capitalization of interest cost of the eligible borrowings less interest earned on investment of the related bond proceeds from the date of borrowing until the assets constructed from the bond proceeds are ready for their intended use.

For 1998 and 1997, total interest expense incurred amounted to \$37,434,203 and \$38,607,933, respectively, which was reduced by \$18,806,147 and \$17,384,251, respectively, of interest expense capitalized. For 1998 and 1997, total interest income earned amounted to \$24,242,790 and \$20,908,459, respectively, which was reduced by \$12,849,795 and \$10,223,849, respectively, of interest income capitalized.

Bond Issuance Expense and Discount and Advance Debt Refunding: Bond issuance expense is carried on the Division's books as an asset and unamortized bond discounts are netted against long-term debt. Both are amortized over the lives of the applicable bonds. Unamortized advance debt refunding is netted against long-term debt and is amortized over the lives of the refunded bonds.

Contributions in Aid of Construction: Contributions in aid of construction represent federal grants which are not subject to repayment.

Reclassifications: Certain reclassifications have been made to the 1997 amounts to conform to the 1998 presentation.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 1998 and 1997

NOTE B—LONG-TERM DEBT

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

	Interest Rate	Outstanding Principal Amount	
		1998	1997
Waterworks Improvement First Mortgage Revenue Bonds:			
Series A, 1977:			
Term bonds due through 2008	6.13%	\$ 12,905,000	\$ 12,905,000
Series D, 1986:			
Serial Bonds maturing through 1999	7.00	3,610,000	6,985,000
Term Bonds due through 2015	5.00	15,350,000	15,350,000
		<u>18,960,000</u>	<u>22,335,000</u>
Series E, 1987:			
Serial Bonds	6.80		3,050,000
Term Bonds	6.00		12,285,000
			<u>15,335,000</u>
Series F, 1992:			
Serial Bonds maturing through 2007	5.50-6.25	38,830,000	35,900,000
Term Bonds due through 2016	6.25	53,615,000	136,685,000
		<u>92,445,000</u>	<u>172,585,000</u>
Series G, 1993:			
Serial Bonds maturing through 2009	4.60-5.50	108,500,000	112,110,000
Term Bonds due through 2021	5.50	107,760,000	107,760,000
		<u>216,260,000</u>	<u>219,870,000</u>
Series H, 1996:			
Serial Bonds maturing through 2014	4.20-5.70	100,690,000	106,325,000
Term Bonds due through 2026	5.75	1,670,000	98,560,000
		<u>102,360,000</u>	<u>204,885,000</u>
Series I, 1998:			
Serial Bonds maturing through 2018	4.00-5.25	179,670,000	-
Term Bonds due through 2018	5.00	125,980,000	-
		<u>305,650,000</u>	
Ohio Water Development Authority Loan, payable semi-annually through 2000	9.47	578,765	831,337
		<u>749,158,765</u>	<u>648,746,337</u>
Add: Unamortized premium		155,100	264,026
Less:			
Unamortized advance debt refunding		(32,525,921)	(19,258,802)
Unamortized discount		(5,929,863)	(9,121,898)
Current portion		(17,456,489)	(14,242,571)
		<u>(55,912,273)</u>	<u>(42,623,271)</u>
Total Long-Term Debt		<u>\$ 693,401,592</u>	<u>\$ 606,387,092</u>

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 1998 and 1997

NOTE B—LONG-TERM DEBT—Continued

Minimum principal and interest payments on long-term debt for the next five years are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 17,456,489	\$ 30,903,319	\$ 48,359,808
2000	18,567,276	38,997,254	57,564,530
2001	20,605,000	38,017,150	58,622,150
2002	21,910,000	36,878,590	58,788,590
2003	23,310,000	35,636,736	58,946,736
Thereafter	647,310,000	364,595,947	1,011,905,947
	<u>\$ 749,158,765</u>	<u>\$ 545,028,996</u>	<u>\$ 1,294,187,761</u>

Waterworks Improvement and Refunding Revenue Bonds, Series I, 1998: Effective August 1, 1998, the Division of Water issued \$305,650,000 of Waterworks Improvement and Refunding Revenue Bonds, Series I, 1998. The proceeds were used to pay a portion of the costs of various Waterworks System capital improvements, to fund a deposit to the Debt Service Reserve Fund, to advance refund certain Series E, 1987 Bonds, Series F, 1992A Bonds and Series H, 1996 bonds (the "Refunded Bonds"), and to pay the costs of issuance of the Series I Bonds.

Net proceeds of \$172,372,225 were placed in an irrevocable escrow account which, including interest earned, will be used to pay the principal, interest and redemption premium on the Refunded Bonds. The Refunded Series E, 1987 bonds were redeemed prior to maturity on November 1, 1998 at a redemption price of 100%. The Series F, 1992A bonds maturing on January 2007, 2011 and 2015 will be redeemed prior to maturity on January 1, 2002 at a redemption price of 102%. The Series H, 1996 Bonds maturing January 1, 2014, 2016, 2021 and 2026 will be redeemed prior to maturity on January 1, 2006 at a redemption price of 102%. The proceeds are invested in non-callable United States Treasury Obligations. As a result, the Refunded Bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt. The total aggregate principal amount of bonds refunded by the Series I Bonds was \$162,940,000.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 1998 and 1997

NOTE B—LONG-TERM DEBT—Continued

Simultaneously with the issuance of the Series I bonds, the Division of Water paid \$30,000,000 of cash on hand to defease outstanding Series F, 1992 bonds (the "Defeased Bonds"). The money was placed in an irrevocable escrow account which, including interest earned, will be used to pay the principal, interest and redemption premium on the Defeased Bonds. Series F, 1992 A & B Bonds maturing January 1, 2011 in the total principal amount of \$28,055,000 will be redeemed on January 1, 2002 at a redemption price of 102%. The cash has been invested in non-callable United States Treasury Obligations. As a result, the Defeased Bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt.

The advance refunding and cash defeasance resulted in a difference between the reacquisition price and the net carrying amount of the debt of \$14,867,420. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to interest expense through the year 2025 using a method of amortization which approximates the effective interest method. The City completed the advance refunding and cash defeasance to reduce its total debt service payments over the next 28 years by \$9,022,658 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$8,287,219.

Defeasance of Waterworks Improvement First Mortgage Revenue Bonds: In addition to the defeased debt described above, in prior years, the City defeased certain Waterworks Improvement First Mortgage Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements.

The aggregate amount of defeased debt outstanding at December 31, 1998 is as follows:

<u>Waterworks Improvement Bond Issue</u>	<u>Amount of Defeased Waterworks Revenue Bonds Outstanding</u>
Series F, 1992	\$183,140,000
Series H, 1996	\$102,340,000

Waterworks Improvement First Mortgage Revenue Bonds: Mortgage revenue bonds, Series A, 1977, Series D, 1986, Series E, 1987, Series F, 1992, Series G, 1993, Series H, 1996 and Series I, 1998 are payable from the revenues derived from operations of the waterworks system, after the payment of all operating and maintenance expenses (net revenues). The bonds are collateralized by a pledge of and lien on such net revenues plus a first mortgage lien upon all property of the waterworks system, including any improvements, additions, replacements and extensions thereto.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 1998 and 1997

NOTE B—LONG-TERM DEBT—Continued

The Division's indentures have certain restrictive covenants and principally require that bond reserve funds be maintained and charges for fees to customers be in sufficient amounts, as defined, to satisfy the obligations under the indenture agreements. In addition, special provisions exist regarding covenant violations, redemption of principal and maintenance of properties in good condition.

The indenture requires that at all times the Division will charge rates and fees for the products and services of the waterworks system, so that revenues will be at least sufficient to provide funds for the payment in each year of the necessary operating and maintenance expenses of the waterworks system and the greater of (1) an amount equal to 1.25 times the payments of principal, premium, if any, and interest on the revenue bonds then outstanding due in that year or (2) an amount sufficient to maintain the required balances in all funds and accounts created under the mortgage.

The indenture establishes the following fund accounts for the application of revenues:

Revenue Fund: All revenues will be deposited into this fund and will be used for payment of current operating expenses and deposits into other funds. On the 25th day of each month, an amount equal to one-sixth of the operating expenses, before depreciation, for the preceding fiscal year must be maintained in this fund.

Debt Service Fund: Deposits will be made from the revenue fund to cover succeeding principal and interest payments as they become due on the Series A, D, E, F, G, H and I bonds.

Debt Service Reserve Fund: Deposits will be made to this fund if the amount in the debt service fund at any time is less than the debt service requirement. Amounts in the fund as of December 31, 1998 and 1997 were deposited from the proceeds of the Series A, B, E, F, H and I bonds and represent the maximum annual debt service requirement of these bonds.

Contingency Fund: The balance in this fund must be maintained at \$3,500,000.

Construction Fund: Proceeds in amounts of \$35,425,000, \$48,534,218, \$134,453,009, \$153,354,284, \$134,222,956 and \$123,255,427 from the Series A, C, E, F, H and I bonds, respectively, were deposited to this fund to be used, along with earnings from investments of amounts held therein, for the payment of capital costs. As of December 31, 1998 and 1997, the Division had \$55,995,670 and \$89,907,537 of outstanding commitments for future construction costs which will be funded by available bond proceeds and operating revenues. Capital costs include all costs of additions, extensions, renewals, replacements, alterations, betterments and any other capital improvements to the waterworks system. Amounts held in this fund are subject to a lien in favor of bondholders and may be used to pay principal of outstanding Series A, C, E, F, H and I bonds to the extent that amounts in all other funds are insufficient. No payment need be made into a fund if the amounts in such fund are equal to the required fund balance, if any. As of December 31, 1998 and 1997 the Division was in compliance with the terms and requirements of the bond indenture.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 1998 and 1997

NOTE B—LONG-TERM DEBT—Continued

Amounts held in any fund may be invested by the City Treasurer or the Trustee in permitted investments. Their use of certain funds is limited by the bond indenture and, accordingly, are classified as restricted assets. Except for the cash and cash equivalents and investments generated by the Revenue Fund, which accounts for the Division's normal operations, the following shows the assets for active fund balances as of December 31, 1998 and 1997. This is comprised of cash and cash equivalents and investments totaling \$272,754,185 and \$69,751,908, respectively, for 1998 and \$160,264,216 and \$99,502,554, respectively, for 1997. Components of these restricted assets at December 31, are as follows:

	Debt Service Fund		Debt Service Reserve Fund	
	December 31,		December 31,	
	1998	1997	1998	1997
Cash		\$ 1,368,089		
Repurchase	\$ 34,602,000			
U.S. Treasury Bonds	12,903,925	12,898,806		
Bank Investment Contract			\$ 53,238,130	\$ 53,238,130
T-Bills		31,470,857	6,736,392	
	\$ 47,505,925	\$ 45,737,752	\$ 59,974,522	\$ 53,238,130
	Contingency Fund		Construction Fund	
	December 31,		December 31,	
	1998	1997	1998	1997
Mutual Funds			\$ 945,629	\$ 898,927
U.S. Agency Securities			26,244,150	33,226,187
Star Ohio	\$ 948,980	\$ 948,980	3,169,654	3,533,414
Bank Investment Contract	2,551,020	2,551,020		
Guaranteed Investment Contract			201,166,213	119,632,360
	\$ 3,500,000	\$ 3,500,000	\$ 231,525,646	\$ 157,290,888

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 1998 and 1997

NOTE C—EMPLOYEES' RETIREMENT PLAN

The City has adopted GASB Statement No. 27 "Accounting for Pensions of State and Local Government Employees," which establishes standards for the measurement, recognition, and display of pension expense and related liabilities, assets and note disclosures in the financial reports of state and local government employers.

The Division contributes to a cost-sharing multiple-employer defined plan, Public Employees Retirement System of Ohio ("PERS"). The plan provides retirement, disability, health care coverage, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

The funding policy for the above plan is as follows: The Ohio Revised Code provides statutory authority for employee and employer contributions. During 1998, PERS employees contributed 8.5% of their salary to the plan and the Division contributed 13.55% of covered payrolls to the plan, of which 4.2% was applied towards the health care program for retirants. The required employer contributions to PERS for the years ending December 31, 1998 and 1997 were \$6,001,227 and \$6,161,464, respectively, equal to 100% of the required employer contributions for each year.

NOTE D—DEFERRED COMPENSATION

Eligible employees of the City of Cleveland may elect to participate in the Ohio Public Employees Deferred Compensation Program created in accordance with Internal Revenue Code Section 457. The program allows employees to defer up to 33.3% of their annual salary not to exceed \$7,500 per year until a future date, usually after retirement. The deferred wages and any earned income are not subject to Federal or State income taxes until actually received by the employee.

In 1997, the assets of this program were the property of the City of Cleveland and were recorded in an agency fund of the City. Effective September 1, 1998, the Ohio Public Employees Deferred Compensation Program board implemented a trust to hold the assets of the program in accordance with Internal Revenue Code Section 457. The program assets are now property of the trust, which holds the assets on behalf of the participants. Therefore, in accordance with GASB 32 "Accounting and Financial Reporting for Internal Revenue Service Code Section 457 Deferred Compensation Plans", the assets of this program are no longer reported in an agency fund of the City.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 1998 and 1997

NOTE E—CONTINGENT LIABILITIES

Various claims are pending against the City involving the Division for personal injuries, property damage and other matters. The City is responsible for the suits and believes that the amounts claimed are excessive and are not fair estimates of the ultimate settlements, if any, of these claims. 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.

NOTE F—RELATED PARTY TRANSACTIONS

Revenues and Accounts Receivable: The Division provides water services to the City of Cleveland, including its various departments and divisions. Standard consumption rates are charged, except for the Division of Fire, public buildings and certain other facilities owned by the City of Cleveland, which by ordinance, are provided free water services.

The Division performs billing and collection services for the Division of Water Pollution Control for a fee. This fee is based on the number of billings made on behalf of that division during the year at the same rates as charged to other users of the billing system. Revenue realized from the Division of Water Pollution Control for such services was approximately \$2,151,000 and \$2,114,000 in 1998 and 1997, respectively.

The Division provides miscellaneous services to other departments and divisions of the City. Revenue realized from such services was approximately \$3,458,000 and \$3,344,000 in 1998 and 1997, respectively.

Operating Expenses: The Division is provided various intra-city services. Charges are based on actual use or on a reasonable pro rata basis. The more significant costs, included in the statements of income, for the years ended December 31 were as follows:

	1998	1997
Electricity purchases	\$ 12,645,000	\$ 10,186,000
Street construction and maintenance	618,000	1,429,000
City administration	1,427,000	1,534,000
Motor vehicle maintenance	2,325,000	2,122,000
Telephone exchange	396,000	266,000
Utilities Administration and Fiscal Control	1,498,000	1,498,000

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 1998 and 1997

NOTE G—CUYAHOGA COUNTY REAL PROPERTY TAXES

The Division is required by ordinance to keep records of the estimated property taxes which would be payable to Cuyahoga County were it subject to such taxes. The estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately \$2,830,000 and \$2,410,000 for the years ended December 31, 1998 and 1997, respectively.

NOTE H—OTHER POST EMPLOYMENT BENEFITS

The Division provides post-employment health care benefits, defined by GASB Statement No. 12, through its contribution to the Public Employees Retirement System of Ohio ("PERS").

PERS provides post-retirement health care coverage to service retirees with 10 years or more of qualifying Ohio service credit. The post-retirement health care benefits cover disability recipients and primary survivor recipients. Post-retirement health care coverage is funded by a portion of the Division's contribution to PERS. During 1998, the Division's portion that was used to fund health care was 4.2% of covered payroll. Post-retirement health care benefits are established by state statute.

The post-retirement health care coverage is financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely. Expenditures for post-employment health care benefits during 1998 for PERS as a whole were approximately \$440,597,000. As of December 31, 1998, the unaudited estimated net assets available for future post-employment health care benefit payments for PERS as a whole were approximately \$9,447,325,000. The number of benefit recipients eligible for post-employment health care benefits at December 31, 1998 for PERS as a whole was 115,579.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 1998 and 1997

NOTE I—DEPOSITS AND INVESTMENTS

In accordance with the provisions of GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," deposits and investments of the Division are classified to disclose the risk inherent in deposit and investment transactions. The Division's carrying amount of deposits at year-end totaled \$65,417,672. The Division's bank balance was \$57,167,284. Of this amount, \$208,605 was insured or collateralized with securities held by the City or by its agent in the City's name. The Division had invested \$55,789,149 in Bank Investment Contracts ("BIC") secured by repurchase agreements of government securities held as collateral by the City's trustee in the name of the trustee. The remaining balance of \$1,169,530 was secured by a collateral pool held at the Federal Reserve Bank in the name of the respective depository bank which pledges a pool of collateral against all public deposits it holds. The Division's investments are classified in the following risk categories:

Type of Investment	(1) Insured or Registered, or Securities Held by the City or its Agent in the City's Name	(2) Uninsured and Unregistered, with Securities Held by the Counterparty's Trust Department or Agent in the City's Name	(3) Uninsured and Unregistered, with Securities Held by the Counterparty, or its Trust Department or Agent but Not in the City's Name	Market Value	Cost
Repurchase Agreements			\$ 34,602,000	\$ 34,602,000	\$ 34,602,000
U.S. Government Bonds		\$ 13,969,662		13,969,662	12,898,806
U.S. Government T-Bills		6,758,244		6,758,244	6,735,771
U.S. Agency Securities	\$ 93,142,508			93,142,508	91,927,745
	<u>\$ 93,142,508</u>	<u>\$ 20,727,906</u>	<u>\$ 34,602,000</u>	148,472,414	146,164,322
State Treasurer Asset					
Reserve fund (Star Ohio)				9,234,158	9,234,158
Investment in Mutual Funds				21,446,115	21,446,115
Guaranteed Investment Contract				201,166,213	201,166,213
				<u>\$ 380,318,900</u>	<u>\$ 378,010,808</u>

Certain investments included above are classified as cash and cash equivalents in the accompanying balance sheets since they have a maturity of three months or less.

Star Ohio is an investment pool created pursuant to Ohio statutes and managed by the Treasurer of the State of Ohio. Star Ohio investments, guaranteed investment contracts and investments in mutual funds are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 3.

Additional information pertaining to GASB Statement No. 3 is included in the Comprehensive Annual Financial Report for the City of Cleveland.

**REPORT OF INDEPENDENT ACCOUNTANTS
ON YEAR 2000 SUPPLEMENTARY INFORMTION**

The Honorable Michael R. White, Mayor
And Members of Council
City of Cleveland, Ohio

The year 2000 supplementary information on page 20 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the City of Cleveland, Department of Public Utilities - Division of Water (the "Division") is or will become year 2000 compliant, that the Division's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Division does business are or will become year 2000 compliant.

PricewaterhouseCoopers LLP

June 25, 1999

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
Supplementary Information on Year 2000
December 31, 1998

Year 2000 Supplementary Information

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Division's operations as early as 1999.

The City of Cleveland and the Division have developed and adopted a comprehensive strategic plan to address the year 2000 issue. This plan incorporates a combination of new system implementations and remediation of date sensitive programming code in existing data processing systems.

The Division has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the Division's operations. Based on this inventory, the Division has identified the water purification, pumping and billing systems as mission-critical systems. These systems have been assessed and are in the validation/testing stage as of year-end. Additionally, as part of the strategic plan discussed above, the City of Cleveland is in the process of implementing a new integrated financial and accounting system. This system will be used by the Division and all other departments and divisions within the City of Cleveland. This system has been certified by the vendor as being year 2000 compliant.

Additional disclosures required by Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, are included in the Comprehensive Annual Report for the City of Cleveland.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management of the City of Cleveland and the Division cannot assure that the Division is or will be year 2000 ready, that the Division's remediation efforts will be successful in whole or in part, or that the parties with whom the Division does business will be year 2000 ready.

CITY OF CLEVELAND, OHIO



**DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the years ended December 31, 1998 and 1997**

CITY OF CLEVELAND, OHIO



**DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the years ended December 31, 1998 and 1997**

REPORT OF INDEPENDENT ACCOUNTANTS

The Honorable Michael R. White, Mayor
and Members of Council
City of Cleveland, Ohio

In our opinion, the accompanying balance sheets and the related statements of income and retained earnings and cash flows present fairly, in all material respects, the financial position of the City of Cleveland, Department of Public Utilities - Division of Water Pollution Control as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the City's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

June 25, 1999

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
BALANCE SHEETS
December 31, 1998 and 1997

	December 31,	
	1998	1997
ASSETS		
PROPERTY, PLANT AND EQUIPMENT		
Land	\$ 296,876	\$ 296,876
Utility plant in service	95,007,110	89,145,968
Furniture, fixtures and equipment	106,804	106,804
	95,410,790	89,549,648
Less: accumulated depreciation	38,908,137	36,044,328
	56,502,653	53,505,320
Construction in progress	6,686,859	8,853,508
PROPERTY, PLANT AND EQUIPMENT, NET	63,189,512	62,358,828
RESTRICTED ASSETS		
Cash and cash equivalents	195,605	56,366
Loans receivable	580,631	582,393
TOTAL RESTRICTED ASSETS	776,236	638,759
CURRENT ASSETS		
Cash and cash equivalents	8,807,075	12,234,297
Investments at market	17,382,357	10,529,197
Accounts receivable	29,846,011	26,887,538
Unbilled revenue	1,914,671	1,762,659
Due from other City of Cleveland departments, divisions or funds	836,447	316,596
Accrued interest receivable	160,490	263,250
Materials and supplies-at average cost	206,480	151,417
TOTAL CURRENT ASSETS	59,153,531	52,144,954
TOTAL ASSETS	\$ 123,119,279	\$ 115,142,541

	December 31,	
	1998	1997
EQUITY AND LIABILITIES		
EQUITY		
Contributions in aid of construction	\$ 39,455,773	\$ 39,258,318
Contributed capital	3,444,600	3,444,600
Retained earnings	30,870,811	26,580,370
TOTAL EQUITY	<u>73,771,184</u>	<u>69,283,288</u>
LIABILITIES		
LONG TERM DEBT-excluding amounts due within one year	7,704,842	7,653,207
PAYABLE FROM RESTRICTED ASSETS	582,736	763,226
CURRENT LIABILITIES		
Current portion of long-term debt	638,494	277,065
Accounts payable	900,445	502,252
Amounts due for billings on behalf of others	35,563,681	32,484,124
Due to other City of Cleveland departments, divisions or funds	2,547,407	2,803,076
Accrued expenses	54,989	60,608
Accrued wages and benefits	1,355,501	1,315,695
TOTAL CURRENT LIABILITIES	<u>41,060,517</u>	<u>37,442,820</u>
TOTAL LIABILITIES	<u>49,348,095</u>	<u>45,859,253</u>
TOTAL EQUITY AND LIABILITIES	<u>\$ 123,119,279</u>	<u>\$ 115,142,541</u>

See notes to financial statements.

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CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENTS OF INCOME AND RETAINED EARNINGS
For the Years Ended December 31, 1998 and 1997

	For the Years Ended December 31,	
	1998	1997
OPERATING REVENUES	\$ 18,464,602	\$ 17,182,236
OPERATING EXPENSES		
Operations	5,944,088	5,910,330
Maintenance	6,790,590	7,392,616
Depreciation	2,863,808	2,641,403
TOTAL OPERATING EXPENSES	15,598,486	15,944,349
OPERATING INCOME	2,866,116	1,237,887
OTHER INCOME (EXPENSE)		
State insurance refund	649,917	
Interest income	1,369,905	1,241,323
Interest expense	(595,497)	(212,639)
TOTAL OTHER INCOME, NET	1,424,325	1,028,684
NET INCOME	4,290,441	2,266,571
RETAINED EARNINGS, beginning of year	26,580,370	24,313,799
RETAINED EARNINGS, end of year	\$ 30,870,811	\$ 26,580,370

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 1998 and 1997

	For the Years Ended December 31,	
	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 18,010,674	\$ 16,583,164
Cash payments to suppliers for goods or services	(6,653,777)	(6,094,323)
Cash payments to employees for services	(6,454,686)	(6,454,872)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,902,211	4,033,969
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State insurance refund	\$ 649,917	
Agency activity on behalf of other sewer authorities, net	398,582	(381,756)
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	1,048,499	(381,756)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(3,677,527)	(7,025,994)
Principal paid on long-term debt	(513,813)	(693,323)
Proceeds from water pollution control loan	926,877	5,197,564
Interest paid on long-term debt	(595,497)	(212,639)
Capital grant proceeds (uses)	1,762	(494,965)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(3,858,198)	(3,229,357)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(23,351,245)	(17,471,855)
Proceeds from sale and maturity of investment securities	16,498,085	13,884,347
Interest received on investments	1,472,665	1,119,144
NET CASH USED FOR INVESTING ACTIVITIES	(5,380,495)	(2,468,364)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,287,983)	(2,045,508)
Cash and cash equivalents, beginning of year	12,290,663	14,336,171
Cash and cash equivalents, end of year	\$ 9,002,680	\$ 12,290,663

	For the	
	Years Ended December 31,	
	1998	1997
	<hr/>	
RECONCILIATION OF OPERATING INCOME TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME	\$ 2,866,116	\$ 1,237,887
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,863,808	2,641,403
Change in assets and liabilities:		
Accounts receivable, net	(277,498)	(405,970)
Unbilled revenue	(152,012)	(122,517)
Due from other City of Cleveland departments, divisions or funds	(519,851)	87,501
Materials and supplies	(55,063)	35,057
Accounts payable	398,193	195,789
Due to other City of Cleveland departments, divisions or funds	(255,669)	313,954
Accrued expenses	(5,619)	(813)
Accrued wages and benefits	39,806	51,678
TOTAL ADJUSTMENTS	<hr/> 2,036,095	<hr/> 2,796,082
NET CASH PROVIDED BY OPERATING ACTIVITIES	<hr/> \$ 4,902,211	<hr/> \$ 4,033,969

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Division of Water Pollution Control ("Division") is reported as an enterprise fund of the City of Cleveland's Department of Public Utilities and is reported as part of the City of Cleveland's ("City") primary government. The Division was created for the purpose of providing sewage services to customers and to maintain the local sewer system of the City of Cleveland. The following is a summary of the more significant accounting policies.

Revenues: Revenues are derived primarily from sales of sewage services to residential, commercial and industrial customers based upon actual water consumption. Sewage rates are authorized by City Council and billings are made on a cycle basis. Estimates for services between the ends of the various cycles and the end of the year are recorded as unbilled revenue.

The Division of Water provides billing and collection services for sewage fees and assessments charged by the Division and other municipalities. The accounts receivable from users, cash received in payment thereof and the liability for amounts billed on behalf of these systems, but not remitted, are included in the accounts of the Division. The Division's share of cash and investments is \$15,828,066 and \$12,395,030 for 1998 and 1997, respectively. The Division's share of the accounts receivable balance is \$3,133,653 and \$2,856,155, net of allowance for doubtful accounts of \$150,299 and \$193,954 for 1998 and 1997, respectively.

Statement of Cash Flows: The Division adopted the direct method of reporting for the statement of cash flows as defined by the Governmental Accounting Standards Board ("GASB") Statement No. 9. In a statement of cash flows, cash receipts and cash payments are classified according to operating, non-capital financing, capital and related financing, and investing activities.

Cash and Cash Equivalents: Cash and cash equivalents represent cash on hand and cash deposits maintained by the City Treasurer on behalf of the Division. Cash equivalents are defined as highly liquid investments with a maturity of three months or less when purchased and include certificates of deposit, U. S. Treasury bills, Star Ohio (See Note I) and repurchase agreements. The City's policy is to enter into repurchase agreements with local commercial banks and to obtain confirmation of securities pledged.

Investments: Effective January 1, 1998, the Division adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools," which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the Division has stated certain investments at fair value. The effect of the change on the financial statements was not significant, accordingly prior year financial statements were not restated.

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 loan agreements.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS-Continued
December 31, 1998 and 1997

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Property, Plant and Equipment: Property, plant and equipment is stated on the basis of cost. Maintenance and repair costs are charged to expense as incurred. Depreciation is provided on the straight-line method at rates designed to amortize the cost of depreciable assets over their estimated useful lives which range from 6 to 75 years.

Contributed Capital: Contributed capital represents contributions from the City of Cleveland which are not subject to mandatory repayment.

Contributions in Aid of Construction: Contributions in aid of construction represent federal and other grants which are not subject to repayment. The Division participates in the State Issue 2 program and the Local Transportation Improvement Program. Through these programs, the State of Ohio ("State") provides financial assistance to the Division for its storm water detention facilities. The Ohio Public Works Commission ("OPWC") is the State agency which oversees the allocation of State bond proceeds and tax revenue to selected projects which have met funding requirements. Upon approval by the OPWC, the Division and the State create project agreements establishing each entity's financial contribution toward each project. As of December 31, 1998, and 1997 the State funded \$5,399,977 and \$5,202,522, respectively, for storm water detention facilities.

Reclassifications: Certain reclassifications have been made to the 1997 amounts to conform to the 1998 presentation.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS-Continued
December 31, 1998 and 1997

NOTE B—LONG TERM DEBT

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

	Interest Rate	Outstanding Principal Amount	
		1998	1997
Ohio Water Development Authority Construction Loans due in annual installments of \$281,908 including interest, through 2003	5.25-6.25%	\$ 1,077,639	\$ 1,280,266
Water Pollution Control loans-due in annual installments of \$7,869 to \$175,293 including interest, through 2017	4.04-4.18%	7,265,697	6,650,006
		8,343,336	7,930,272
Less: current portion		638,494	277,065
Total Long-Term Debt		\$ 7,704,842	\$ 7,653,207

Minimum principal and interest payments on long-term debt for the next five years are as follows:

	Principal	Interest	Total
1999	\$ 638,494	\$ 180,651	\$ 819,145
2000	518,103	338,041	856,144
2001	544,259	312,311	856,570
2002	571,789	285,233	857,022
2003	460,793	255,784	716,577
Thereafter	5,609,898	1,661,034	7,270,932
	\$ 8,343,336	\$ 3,033,054	\$ 11,376,390

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS-Continued
December 31, 1998 and 1997

NOTE B—LONG TERM DEBT—Continued

The Ohio Water Development Authority Construction Loans are payable from the revenues derived from operations of the Water Pollution Control system.

Water Pollution Control Loans: Under Title VI of the Clean Water Act, Congress created the State Revolving Fund ("SRF"). The SRF program provides federal capitalization grants to states, that along with 20 percent state matching funds, are used to capitalize state level revolving loan funds. Besides the traditional types of municipal wastewater treatment projects, Congress expanded the potential use of SRF funds to include correction of combined sewer overflows, major sewer rehabilitation and new collector sewers.

In Ohio, this SRF program is known as the Water Pollution Control Loan Fund and is jointly administered by the Ohio EPA and the Ohio Water Development Authority. Principal balances on loans increase as project costs are incurred. Interest accrues on principal amounts outstanding during the construction period and is combined with the principal balance upon completion of the project. The repayment period for each loan commences no later than the 1st January or July following the expected completion date of the project to which it relates utilizing an estimate of total eligible project costs as the preliminary loan amount. Construction loans and design loans are to be repaid in semi-annual payments of principal and interest over a period of twenty years and five years, respectively. The Division had five SRF loan awards related to projects, one of which was not complete as of December 31, 1998.

NOTE C—EMPLOYEES' RETIREMENT PLAN

The City has adopted GASB Statement No. 27 Accounting for Pensions of State and Local Government Employees, which establishes standards for the measurement, recognition, and display of pension expense and related liabilities, assets and note disclosures in the financial reports of state and local government employers.

The Division contributes to a cost-sharing multiple-employer defined plan, Public Employees Retirement System of Ohio ("PERS"). The plan provides retirement, disability, health care coverage, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

The funding policy for the above plan is as follows: The Ohio Revised Code provides statutory authority for employee and employer contributions. During 1998, PERS employees contributed 8.5% of their salary to the plan and the Division contributed 13.55% of covered payrolls to the plan, of which 4.2% was applied towards the health care program for retirants. The required employer contributions to PERS for the years ending December 31, 1998 and 1997 were \$657,772 and \$639,478, respectively, equal to 100% of the required employer contributions for each year.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS-Continued
December 31, 1998 and 1997

NOTE D--DEFERRED COMPENSATION

Eligible employees of the City of Cleveland may elect to participate in the Ohio Public Employees Deferred Compensation Program created in accordance with Internal Revenue Code Section 457. The program allows employees to defer up to 33.3% of their annual salary not to exceed \$7,500 per year until a future date, usually after retirement. The deferred wages and any earned income are not subject to Federal or State income taxes until actually received by the employee.

In 1997, the assets of this program were the property of the City of Cleveland and were recorded in an agency fund of the City. Effective September 1, 1998, the Ohio Public Employees Deferred Compensation Program board implemented a trust to hold the assets of the program in accordance with Internal Revenue Code Section 457. The program assets are now property of the trust, which holds the assets on behalf of the participants. Therefore, in accordance with GASB 32 *"Accounting and Financial Reporting for Internal Revenue Service Code Section 457 Deferred Compensation Plans"*, the assets of this program are no longer reported in an agency fund of the City.

NOTE E--CONTINGENT LIABILITIES

Various claims are pending against the City involving the Division for personal injuries, property damage and other matters. The City is responsible for the suits and believes that the amounts claimed are excessive and are not fair estimates of the ultimate settlements, if any, of these claims. 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.

NOTE F--RELATED PARTY TRANSACTIONS

The Division provides sewage services to the City of Cleveland, including its various departments and divisions. All non self-supporting municipal functions of the City are provided free sewage service.

The Division of Water performs billing and collection services for the Division. The fee for these services was based on the number of billings made on behalf of the Division during the year at the same rates as charged to other users of the billing system. In 1998 and 1997, the expense of billing services was approximately \$2,151,000 and \$2,114,000, respectively.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS—Continued
December 31, 1998 and 1997

NOTE F—RELATED PARTY TRANSACTIONS—Continued

The Division is provided various other intra-city services. Charges are based on actual use or on a reasonable pro rata basis. The more significant costs, included in the statements of income, for the years ended December 31 were as follows:

	1998	1997
Employee and other services provided		
by the Division of Water	\$ 454,000	\$ 341,000
City administration	205,000	207,000
Motor vehicle maintenance	363,000	316,000
Street maintenance	218,000	221,000
Electricity	166,000	143,000
Utilities Administration and Fiscal Control	169,000	169,000

NOTE G—CUYAHOGA COUNTY REAL PROPERTY TAXES

The Division is required by ordinance to keep records of the estimated property taxes which would be payable to Cuyahoga County were it subject to such taxes. For the year ended December 31, 1998 and 1997, the estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately \$17,551 and \$18,200, respectively.

NOTE H—OTHER POST EMPLOYMENT BENEFITS

The Division provides post-employment health care benefits, defined by GASB Statement No. 12, through its contribution to the Public Employees Retirement System of Ohio ("PERS").

PERS provides post-retirement health care coverage to service retirants with 10 years or more of qualifying Ohio service credit. The post-retirement health care benefits cover disability recipients and primary survivor recipients. Post-retirement health care coverage is funded by a portion of the Division's contribution to PERS. During 1998, the Division's portion that was used to fund health care was 4.2% of covered payroll. Post-retirement health care benefits are established by state statute.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS—Continued
December 31, 1998 and 1997

NOTE H—OTHER POST EMPLOYMENT BENEFITS—Continued

The post-retirement health care coverage is financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely. Expenditures for post-employment health care benefits during 1998 for PERS as a whole were approximately \$440,597,000. As of December 31, 1998, the unaudited estimated net assets available for future post-employment health care benefit payments for PERS as a whole were approximately \$9,447,325,000. The number of benefit recipients eligible for post-employment health care benefits at December 31, 1998 for PERS as a whole was 115,579.

NOTE I—DEPOSITS AND INVESTMENTS

In accordance with the provisions of GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," deposits and investments of the Division are classified to disclose the risk inherent in deposit and investment transactions. The Division's carrying amount of deposits at year-end totaled \$1,498,245. The Division's bank balance was \$608,293 and was insured or collateralized with securities held by the City or by its agent in the City's name. The Division's investments are classified in the following risk categories:

Type of Investment	(1)	(2)	(3)	Market Value	Cost
	Insured or Registered, or Securities Held by the City or its Agent in the City's Name	Uninsured and Unregistered, with Securities Held by the Counterparty's Trust Department or Agent in the City's Name	Uninsured and Unregistered, with Securities Held by the Counterparty, or Its Trust Department or Agent but Not in the City's Name		
U.S. Agency Securities	\$ 17,382,357			\$ 17,382,357	\$ 17,366,108
	\$ 17,382,357			17,382,357	17,366,108
State Treasurer Asset Reserve Fund (Sar Ohio)				7,504,435	7,504,435
				\$ 24,886,792	\$ 24,870,543

Certain investments included above are classified as cash and cash equivalents in the accompanying balance sheets since they have a maturity of three months or less.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS-Continued
December 31, 1998 and 1997

NOTE I—DEPOSITS AND INVESTMENTS—Continued

Star Ohio is an investment pool created pursuant to Ohio statutes and managed by the Treasurer of the State of Ohio. Star Ohio investments, guaranteed investment contracts and investments in mutual funds are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 3.

Additional information pertaining to GASB Statement No. 3 is included in the Comprehensive Annual Financial Report for the City of Cleveland.

**REPORT OF INDEPENDENT ACCOUNTANTS
ON YEAR 2000 SUPPLEMENTARY INFORMATION**

The Honorable Michael R. White, Mayor
And Members of Council
City of Cleveland, Ohio

The year 2000 supplementary information on page 17 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the City of Cleveland, Department of Public Utilities - Division of Water Pollution Control (the "Division") is or will become year 2000 compliant, that the Division's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Division does business are or will become year 2000 compliant.

PricewaterhouseCoopers LLP

June 25, 1999

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
Supplementary Information on Year 2000
December 31, 1998

Year 2000 Supplementary Information

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Division's operations as early as 1999.

The City of Cleveland and the Division have developed and adopted a comprehensive strategic plan to address the year 2000 issue. This plan incorporates a combination of new system implementations and remediation of date sensitive programming code in existing data processing systems.

The Division has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the Division's operations. Based on this inventory, the Division has identified the water billing system as a mission-critical system. This system is in the final stages of remediation with comprehensive testing scheduled for July 1999. Additionally, as part of the strategic plan discussed above, the City of Cleveland is in the process of implementing a new integrated financial and accounting system. This system will be used by the Division and all other departments and divisions within the City of Cleveland. This system has been certified by the vendor as being year 2000 compliant.

Additional disclosures required by Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, are included in the Comprehensive Annual Report for the City of Cleveland.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management of the City of Cleveland and the Division cannot assure that the Division is or will be year 2000 ready, that the Division's remediation efforts will be successful in whole or in part, or that the parties with whom the Division does business will be year 2000 ready.

CITY OF CLEVELAND, OHIO



**DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the years ended December 31, 1998 and 1997**

CITY OF CLEVELAND, OHIO



**DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the years ended December 31, 1998 and 1997**

REPORT OF INDEPENDENT ACCOUNTANTS

The Honorable Michael R. White, Mayor
and Members of Council
City of Cleveland, Ohio

In our opinion, the accompanying balance sheets and the related statements of income and retained earnings and cash flows present fairly, in all material respects, the financial position of The City of Cleveland, Department of Public Utilities - Division of Cleveland Public Power as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the City's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

June 25, 1999

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
BALANCE SHEETS
December 31, 1998 and 1997

	December 31,	
	1998	1997
ASSETS		
PROPERTY, PLANT AND EQUIPMENT		
Land	\$ 4,813,482	\$ 4,813,482
Land Improvements	1,918,882	1,918,882
Utility plant in service	289,212,769	229,079,098
Buildings, structures and improvements	31,087,568	29,112,280
Furniture, fixtures and equipment	6,138,450	4,490,414
	333,171,151	269,414,156
Less: accumulated depreciation	92,965,688	85,732,493
	240,205,463	183,681,663
Construction in progress	50,657,360	92,927,887
Idle generation facilities-net of accumulated depreciation of \$31,736,586 in 1998 and \$30,667,212 in 1997	723,367	1,796,582
PROPERTY, PLANT AND EQUIPMENT, NET	291,586,190	278,406,132
RESTRICTED ASSETS		
Cash and cash equivalents	15,700,453	14,084,649
Investments at market	17,698,363	31,957,841
Accrued interest receivable	288,668	430,322
TOTAL RESTRICTED ASSETS	33,687,484	46,472,812
UNAMORTIZED BOND ISSUANCE EXPENSE	2,934,660	3,342,982
CURRENT ASSETS		
Cash and cash equivalents	7,084,987	10,615,942
Investments at market	18,544,113	4,953,800
Accounts receivable-net of allowance for doubtful accounts of \$376,514 in 1998 and \$393,842 in 1997	13,864,481	11,808,391
Unbilled revenue	1,618,764	1,771,917
Due from other City of Cleveland departments, divisions or funds	1,292,159	1,780,993
Materials and supplies-at average cost, net of allowance for obsolescence of \$684,590 in 1998 and 1997	9,421,655	9,696,518
Prepaid expenses	41,287	37,057
Accrued interest receivable	196,745	184,878
TOTAL CURRENT ASSETS	52,064,191	40,849,496
TOTAL ASSETS	\$ 380,272,525	\$ 369,071,422

	December 31,	
	1998	1997
EQUITY AND LIABILITIES		
EQUITY		
Contributed capital	\$ 12,183,460	\$ 12,183,460
Retained earnings	108,707,659	93,024,757
TOTAL EQUITY	<u>120,891,119</u>	<u>105,208,217</u>
LIABILITIES		
LONG TERM DEBT-excluding amounts due within one year:		
Mortgage revenue bonds	234,897,767	238,273,386
Capital lease obligation	1,041,574	-
PAYABLE FROM RESTRICTED ASSETS	1,816,764	6,403,494
CURRENT LIABILITIES		
Current portion of mortgage revenue bonds	6,130,000	6,465,000
Current portion of capital lease obligation	497,655	-
Accounts payable	5,861,057	5,389,037
Due to other City of Cleveland departments, divisions or funds	2,229,161	836,173
Accrued interest payable	1,746,644	1,790,410
Accrued wages and benefits	4,349,330	3,972,854
Accrued expenses and other liabilities	811,454	732,851
TOTAL CURRENT LIABILITIES	<u>21,625,301</u>	<u>19,186,325</u>
TOTAL LIABILITIES	<u>259,381,406</u>	<u>263,863,205</u>
TOTAL EQUITY AND LIABILITIES	<u>\$ 380,272,525</u>	<u>\$ 369,071,422</u>

See notes to financial statements.

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CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENTS OF INCOME AND RETAINED EARNINGS
For the Years Ended December 31, 1998 and 1997

	For the Years Ended December 31,	
	1998	1997
OPERATING REVENUES	\$120,279,555	\$ 110,285,340
OPERATING EXPENSES		
Purchased power	58,686,184	49,565,886
Operations	14,154,397	12,937,102
Maintenance	14,818,023	14,512,762
Depreciation	9,170,504	9,367,848
TOTAL OPERATING EXPENSES	96,829,108	86,383,598
OPERATING INCOME	23,450,447	23,901,742
OTHER INCOME (EXPENSE)		
Interest income	1,616,129	1,378,355
Interest expense	(12,406,076)	(9,697,519)
Amortization of bond issuance expense and discount	(2,703,798)	(2,965,137)
State insurance refund	1,360,440	
Other	4,365,760	1,355,660
TOTAL OTHER INCOME (EXPENSE), NET	(7,767,545)	(9,928,641)
NET INCOME	15,682,902	13,973,101
RETAINED EARNINGS, beginning of year	93,024,757	79,051,656
RETAINED EARNINGS, end of year	\$108,707,659	\$ 93,024,757

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 1998 and 1997

	For the Years Ended December 31,	
	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 125,119,079	\$ 110,829,596
Cash payments to suppliers for goods or services	(15,246,969)	(12,888,664)
Cash payments to employees for services	(18,112,911)	(15,581,622)
Cash payments for purchased power	(58,027,154)	(49,708,487)
Cash refunds of customer deposits, net	65,523	28,709
NET CASH PROVIDED BY OPERATING ACTIVITIES	33,797,568	32,679,532
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State insurance refund	1,360,440	
Cash received from litigation settlement	3,000,000	
Other	1,365,760	1,355,660
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	5,726,200	1,355,660
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(24,384,330)	(32,601,534)
Principal paid on long-term debt	(6,465,000)	(6,190,000)
Interest paid on long-term debt	(14,332,059)	(14,371,434)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(45,181,389)	(53,162,968)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(49,571,872)	(82,403,131)
Proceeds from sale and maturity of investment securities	50,241,037	94,534,069
Interest received on investments	3,073,305	4,330,123
NET CASH PROVIDED BY INVESTING ACTIVITIES	3,742,470	16,461,061
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,915,151)	(2,666,715)
Cash and cash equivalents, beginning of year	24,700,591	27,367,306
Cash and cash equivalents, end of year	\$ 22,785,440	\$ 24,700,591

For the
Years Ended December 31,
1998 1997

**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES:**

	\$ 23,450,447	\$ 23,901,742
OPERATING INCOME	\$ 23,450,447	\$ 23,901,742
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	9,170,504	9,367,848
Loss on disposal of fixed assets		56,114
Change in assets and liabilities:		
Accounts receivable, net	(2,056,090)	36,722
Unbilled revenue	153,153	(137,805)
Due from other City of Cleveland departments, divisions or funds	488,834	(146,543)
Materials and supplies, net	274,863	(89,751)
Prepaid expenses	(4,230)	14,061
Accounts payable	472,020	(441,198)
Due to other City of Cleveland departments, divisions or funds	1,392,988	218,865
Accrued wages and benefits	376,476	(151,464)
Accrued expenses and other liabilities	78,603	50,941
TOTAL ADJUSTMENTS	10,347,121	8,777,790
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 33,797,568	\$ 32,679,532

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Division of Cleveland Public Power ("Division") is reported as an enterprise fund of the City of Cleveland's Department of Public Utilities and is reported as part of the City of Cleveland's ("City") primary government. The Division was created for the purpose of supplying electrical services to customers within the City of Cleveland. To provide electrical services to its customers, the Division purchases electrical power under the terms of various short-term, limited-term and long-term contracts. The following is a summary of the more significant accounting policies.

Revenues: Revenues are derived primarily from sales of electricity to residential and commercial customers based upon actual consumption. Electricity rates are authorized by City Council and billings are made on a cycle basis. Estimates for services between the ends of the various cycles and the end of the year are recorded as unbilled revenue.

Statement of Cash Flows: The Division adopted the direct method of reporting for the statement of cash flows as defined by the Governmental Accounting Standards Board ("GASB") Statement No. 9. In a statement of cash flows, cash receipts and cash payments are classified according to operating, non-capital financing, capital and related financing, and investing activities.

Cash and Cash Equivalents: Cash and cash equivalents represent cash on hand and cash deposits maintained by the City Treasurer on behalf of the Division. Cash equivalents are defined as highly liquid investments with a maturity of three months or less when purchased and include certificates of deposit, U.S. Treasury bills, Star Ohio (See Note J) and repurchase agreements. The City's policy is to enter into repurchase agreements with local commercial banks and to obtain confirmation of securities pledged.

Investments: Effective January 1, 1998, the Division adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools," which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the Division has stated certain investments at fair value. The effect of the change on the financial statements was not significant, accordingly prior year financial statements were not restated.

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

Property, Plant and Equipment: Property, plant and equipment are stated on the basis of cost. Maintenance and repair costs are charged to expense as incurred. Depreciation is provided on the straight-line method designed to amortize the cost of depreciable assets over their estimated useful lives, which range from 5 to 50 years.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 1998 and 1997

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

The Division's policy is to capitalize interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest is included in the cost of the assets and is depreciated on the straight-line basis over the estimated useful lives of such assets. The Division applies Statement of Financial Accounting Standards No. 62 for Series 1991, Series 1994 and Series 1996 Mortgage Revenue Bonds. This statement requires capitalization of interest cost of the eligible borrowings less interest earned on investment of the related bond proceeds from the date of borrowing until the assets constructed from the bond proceeds are ready for their intended use.

For 1998 and 1997 total interest expense incurred amounted to \$14,797,331 and \$15,068,577, respectively, which was reduced by \$2,391,255 and \$5,371,058, respectively, of interest expense capitalized. Total interest income earned amounted to \$3,170,503 and \$3,792,976, respectively, which was reduced by \$1,554,374 and \$2,414,621, respectively, of interest income capitalized.

Bond Issuance Expense and Discount and Advance Debt Refunding: Bond issuance expense is carried on the Division's books as an asset and unamortized bond discounts are netted against long-term debt. Both are amortized over the lives of the applicable bonds. Unamortized advanced debt refunding is netted against long-term debt and is amortized over the lives of the refunded bonds.

Contributed Capital: Contributed capital represents federal grants and contributions from the City of Cleveland which are not subject to mandatory repayment.

Reclassifications: Certain reclassifications have been made to the 1997 amounts to conform to the 1998 presentation.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 1998 and 1997

NOTE B—LONG-TERM DEBT

Mortgage revenue bonds outstanding at December 31, are as follows:

	Interest Rate	Outstanding Principal Amount	
		1998	1997
Public Power Improvement First Mortgage Revenue Bonds:			
Series 1991:			
Serial Bonds maturing through 2006	5.85-6.63%	\$ 16,395,000	\$ 17,950,000
Term bonds due through 2017	7.00	42,315,000	42,315,000
		<u>58,710,000</u>	<u>60,265,000</u>
Series 1994:			
Serial Bonds maturing through 2007	5.60-6.50	46,845,000	51,090,000
Term Bonds due through 2015	7.00	12,935,000	12,935,000
Zero Coupon Bonds due through 2013		48,335,000	48,335,000
		<u>108,115,000</u>	<u>112,360,000</u>
Series 1996:			
Serial Bonds maturing through 2011	5.00-6.00	7,725,000	8,390,000
Term Bonds due through 2024	5.00-5.25	114,655,000	114,655,000
		<u>122,380,000</u>	<u>123,045,000</u>
		<u>289,205,000</u>	<u>295,670,000</u>
Less:			
Unamortized advance debt refunding		(11,931,520)	(12,390,425)
Unamortized discount - zero coupon bonds		(25,618,921)	(27,232,712)
Unamortized discount - current interest bonds		(10,626,792)	(11,308,477)
Current portion		(6,130,000)	(6,465,000)
		<u>\$ 234,897,767</u>	<u>\$ 238,273,386</u>

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 1998 and 1997

NOTE B—LONG-TERM DEBT—Continued

Effective January 1999, the Division issued \$44,840,000 Public Power System Revenue Bonds, Series 1998. The proceeds from the bonds will be used to advance refund certain Series 1991 and 1994 revenue bonds.

Minimum principal and interest payments on mortgage revenue bonds for the next five years are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 6,130,000	\$ 13,973,154	\$ 20,103,154
2000	6,465,000	13,624,909	20,089,909
2001	6,855,000	13,248,821	20,103,821
2002	7,255,000	12,840,203	20,095,203
2003	8,390,000	12,399,990	20,789,990
Thereafter	254,110,000	143,003,543	397,113,543
	<u>\$ 289,205,000</u>	<u>\$ 209,090,620</u>	<u>\$ 498,295,620</u>

Defeasance of Public Power Improvement Revenue Bonds: In 1996 the City defeased a portion of the Series 1994 Revenue Bonds by placing the proceeds of Series 1996 Revenue Bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. The aggregate amount of this defeased debt at December 31, 1998 is \$102,710,000.

Public Power Improvement First Mortgage Revenue Bonds: Mortgage Revenue Bonds Series 1991, Series 1994 and Series 1996 are payable from the revenues derived from operations of the public power system, after the payment of all operating and maintenance expenses (net revenues). The bonds are collateralized by a pledge of and lien on such net revenues plus a first mortgage lien upon all property of the public power system, including any improvements, additions, replacements and extension thereto.

The indenture requires that at all times the Division will charge rates and fees for the products and services of the public power system. Revenues will be at least sufficient to provide funds for the payment in each year of the necessary operating and maintenance expenses of the public power system and an amount equal to 1.25 times the payments of principal and interest on the revenue bonds then outstanding due in that year. The indenture establishes the following fund accounts for the application of revenues.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 1998 and 1997

NOTE B—LONG-TERM DEBT—Continued

Revenue Fund: All revenues will be deposited into this fund and will be used for payment of current operating expenses and deposits into other funds.

Debt Service Fund: Monthly deposits will be made from the revenue fund to cover succeeding principal and interest payments as they become due on the Series 1991, Series 1994 and Series 1996 Bonds.

Debt Service Reserve Fund: Deposits will be made to this fund if the amount in the debt service fund at any time is less than the debt service requirement. However, the City has elected, pursuant to provisions of the indenture governing the Division's bonds, to satisfy the bond reserve requirement with a surety bond in an aggregate amount at least equal to the bond reserve requirement.

Renewal and Replacement Fund: The balance in this fund is maintained at \$1,000,000 to be applied against the cost of repair or replacement of capital assets in order to maintain the system.

Construction Fund: The proceeds from the Series 1994A and Series 1991 bonds of \$79,386,275 and \$12,050,066, respectively, were deposited to this fund to be used, along with earnings from investments of amounts held therein, for the payment of capital costs. As of December 31, 1998 and 1997, the Division had \$9,542,269 and \$12,555,847, respectively, of outstanding commitments for future construction costs which will be funded by available bond proceeds and operating revenue. Capital costs include all costs of additions, extensions, renewals, replacements, alterations, betterments and any other capital improvements to the system. Amounts held in this fund are subject to a lien in favor of bondholders and may be used to pay principal of outstanding bonds to the extent that amounts in all other funds are insufficient. No payment needs to be made into a fund if the amounts in such fund are equal to the required fund balance, if any. As of December 31, 1998 and 1997, the Division was in compliance with the terms and requirements of the bond indenture.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 1998 and 1997

NOTE B—LONG-TERM DEBT—Continued

Amounts held in any fund may be invested by the City Treasurer or the Trustee in permitted investments. Their use of certain funds is limited by the bond indenture and, accordingly, the amounts are classified as restricted assets. Except for the cash and cash equivalents and investments generated by the Revenue Fund, which accounts for the Division's normal operations, the following shows the assets for active fund balances as of December 31, 1998 and 1997. This is comprised of cash and cash equivalents and investments totaling \$15,700,453 and \$17,698,363, respectively, for 1998 and \$14,084,649 and \$31,957,841, respectively, for 1997. Components of these restricted assets at December 31 are as follows:

	Debt Service Fund		Debt Service Reserve Fund	
	December 31,		December 31,	
	1998	1997	1998	1997
Money Market Mutual Fund	\$ 415,316	\$ 17,077	\$ -	\$ 5,619,908
U.S. Treasury Bills	5,745,553			
U.S. Treasury Notes		3,736,493		
	\$ 6,160,869	\$ 3,753,570	\$ -	\$ 5,619,908

	Renewal and Replacement Fund		Construction Fund	
	December 31,		December 31,	
	1998	1997	1998	1997
Cash				\$ 1,966,705
Money Market Mutual Fund	\$ 1,000,000	\$ 6,256	\$ 12,779,259	2,990,675
U.S. Treasury Bills		993,744		6,531,824
Star Ohio			692,927	647,999
U.S. Treasury Notes			12,765,761	23,531,809
	\$ 1,000,000	\$ 1,000,000	\$ 26,237,947	\$ 35,669,012

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 1998 and 1997

NOTE B—LONG-TERM DEBT—Continued

Capital Lease Obligation: The Division leases certain of its equipment under non-cancelable capital leases. A schedule of future minimum lease payments under capital leases at December 31, 1998 included in long-term debt is as follows:

1999	\$ 563,844
2000	660,856
2001	<u>434,344</u>
Net minimum lease payments	1,659,044
Less amount representing interest	<u>119,815</u>
Present value of net minimum lease payments	<u><u>\$ 1,539,229</u></u>

Capitalized lease property included in property and equipment at December 31, 1998 totals \$1,868,376.

NOTE C—EMPLOYEES' RETIREMENT PLAN

The City has adopted GASB Statement No. 27 "Accounting For Pensions of State and Local Government Employees", which establishes standards for the measurement, recognition, and display of pension expense and related liabilities, assets and note disclosures in the financial reports of state and local government employers.

The Division contributes to a cost-sharing multiple-employer defined plan, Public Employees Retirement System of Ohio (PERS). The plan provides retirement, disability, health care coverage, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

The funding policy for the above plan is as follows: The Ohio Revised Code provides statutory authority for employee and employer contributions. During 1998, PERS employees contributed 8.5% of their salary to the plan and the Division contributed 13.55% of covered payrolls to the plan, of which 4.20% was applied towards the health care program for retirants. The required employer contributions to PERS for the years ending December 31, 1998 and 1997 were \$2,219,092 and \$2,171,104, respectively, equal to 100% of the required contributions for each year.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 1998 and 1997

NOTE D—DEFERRED COMPENSATION

Eligible employees of the City of Cleveland may elect to participate in the Ohio Public Employees Deferred Compensation Program created in accordance with Internal Revenue Code Section 457. The program allows employees to defer up to 33.3% of their annual salary not to exceed \$7,500 per year until a future date, usually after retirement. The deferred wages and any earned income are not subject to Federal or State income taxes until actually received by the employee.

In 1997, the assets of this program were the property of the City of Cleveland and were recorded in an agency fund of the City. Effective September 1, 1998, the Ohio Public Employees Deferred Compensation Program board implemented a trust to hold the assets of the program in accordance with Internal Revenue Code Section 457. The program assets are now property of the trust, which holds the assets on behalf of the participants. Therefore, in accordance with GASB 32 "*Accounting and Financial Reporting for Internal Revenue Service Code Section 457 Deferred Compensation Plans*", the assets of this program are no longer reported in an agency fund of the City.

NOTE E—IDLE GENERATION FACILITIES

In April 1977, the Division closed its generation plant and since that time the Division's revenues have been derived primarily from the distribution of purchased power. With the present availability of competitively priced purchased power, the plant will remain idle.

The Division continues its past practice of depreciating the plant at rates which will complete the amortization of the plant by approximately 1999. Revenues from consumption rates charged are sufficient to cover depreciation, maintenance and other overhead charges.

NOTE F—RELATED PARTY TRANSACTIONS

Revenues and Accounts Receivable: The Division provides electricity to the City of Cleveland, including its various departments and divisions. The usual and customary rates are charged.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 1998 and 1997

NOTE F—RELATED PARTY TRANSACTIONS—Continued

Operating Expenses: The Division is provided various intra-city services. Charges are based on actual usage or on a reasonable pro rata basis. The more significant of these costs, included in the statements of income, for the years ended December 31 were as follows:

	1998	1997
City administration	\$ 600,000	\$ 836,000
Motor vehicle maintenance	350,000	270,000
Employee and other services provided		
by the Division of Water	391,000	351,000
Utilities Administration and Fiscal Control	443,000	443,000

NOTE G—CONTINGENT LIABILITIES

Various claims are pending against the City involving the Division for personal injuries, property damage and other matters. The City is responsible for the suits and believes that the amounts claimed are excessive and are not fair estimates of the ultimate settlements, if any, of these claims. 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.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 1998 and 1997

NOTE H—CUYAHOGA COUNTY REAL PROPERTY TAXES

The Division is required by ordinance to keep records of the estimated property taxes which would be payable to Cuyahoga County were it subject to such taxes. For the years ended December 31, 1998 and 1997 the estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately \$692,000 and \$647,000, respectively.

NOTE I—OTHER POST EMPLOYMENT BENEFITS

The Division provides post-employment health care benefits, defined by GASB Statement No. 12, through its contribution to the Public Employees Retirement System of Ohio (PERS).

PERS provides post-retirement health care coverage to service retirants with 10 years or more of qualifying Ohio service credit. The post-retirement health care benefits cover disability recipients and primary survivor recipients. Post-retirement health care coverage is funded by a portion of the Division's contribution to PERS. During 1998, the Division's portion that was used to fund health care was 4.20% of covered payroll. Post-retirement health care benefits are established by state statute.

The post-retirement health care coverage is financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely. Expenditures for post-employment health care benefits during 1998 for PERS as a whole were approximately \$440,597,000. As of December 31, 1998, the unaudited estimated net assets available for future post-employment health care benefit payments for PERS as a whole were approximately \$9,447,325,000. The number of benefit recipients eligible for post-employment health care benefits at December 31, 1998 for PERS as a whole was 115,579.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 1998 and 1997

NOTE J—DEPOSITS AND INVESTMENTS

In accordance with the provisions of GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," deposits and investments of the Division are classified to disclose the risk inherent in deposit and investment transactions. The Division's carrying amount of deposits at year-end totaled \$929,774. The Division's bank balance was \$1,399,330 and was insured or collateralized with securities held by the City or by its agent in the City's name. The Division's investments are classified in the following risk categories:

Type of Investment	(1)	(2)	(3)	Market Value	Cost
	Insured or Registered, or Securities Held by the City or its Agent in the City's Name	Uninsured and Unregistered, with Securities Held by the Counterparty's Trust Department or Agent in the City's Name	Uninsured and Unregistered, with Securities Held by the Counterparty, or its Trust Department or Agent but Not in the City's Name		
U.S. Treasury Bills.....		\$ 5,745,553		\$ 5,745,553	\$ 5,626,299
U.S. Treasury Notes.....		12,765,761		12,765,761	12,761,434
U.S. Agency Obligations.....	\$ 18,647,515	-		18,647,515	18,544,112
	<u>\$ 18,647,515</u>	<u>\$ 18,511,314</u>		37,158,829	36,931,845
State Treasurer Asset					
Reserve Fund (Star Ohio).....				5,825,596	5,825,596
Investment in Mutual Funds.....				15,113,717	15,113,717
				<u>\$ 58,098,142</u>	<u>\$ 57,871,158</u>

Certain investments included above are classified as cash and cash equivalents in the accompanying balance sheets since they have a maturity of three months or less.

Star Ohio is an investment pool created pursuant to Ohio statutes and managed by the Treasurer of the State of Ohio. Star Ohio investments and investments in mutual funds are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 3. Additional information pertaining to GASB Statement No. 3 is included in the Comprehensive Annual Financial Report for the City of Cleveland.

**REPORT OF INDEPENDENT ACCOUNTANTS
ON YEAR 2000 SUPPLEMENTARY INFORMATION**

The Honorable Michael R. White, Mayor
And Members of Council
City of Cleveland, Ohio

The year 2000 supplementary information on page 20 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the City of Cleveland, Department of Public Utilities - Division of Cleveland Public Power (the "Division") is or will become year 2000 compliant, that the Division's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Division does business are or will become year 2000 compliant.

PricewaterhouseCoopers LLP

June 25, 1999

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
Supplementary Information on year 2000
December 31, 1998

Year 2000 Supplementary Information

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Division's operations as early as 1999.

The City of Cleveland and the Division have developed and adopted a comprehensive strategic plan to address the year 2000 issue. This plan incorporates a combination of new system implementations and remediation of date sensitive programming code in existing data processing systems.

The Division has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the Division's operations. Based on this inventory, the Division has identified the internal and external electrical grid and inventory management systems as mission critical systems. These systems have been assessed and are in the validation/testing stage as of year-end. Additionally, as part of the strategic plan discussed above, the City of Cleveland is in the process of implementing a new integrated financial and accounting system. This system will be used by the Division and all other departments and divisions within the City of Cleveland. This system has been certified by the vendor as being year 2000 compliant.

Additional disclosures required by Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, are included in the Comprehensive Annual Report for the City of Cleveland.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management of the City of Cleveland and the Division cannot assure that the Division is or will be year 2000 ready, that the Division's remediation efforts will be successful in whole or in part, or that the parties with whom the Division does business will be year 2000 ready.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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CITY OF CLEVELAND
CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

By: *Susan Babbitt*

Date: FEBRUARY 3, 2000