CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER

REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the year ended December 31, 2015

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER

TABLE OF CONTENTS

This page intentionally left blank.

<u>INDEPENDENT AUDITORS' REPORT</u>

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Division of Water, Department of Public Utilities, City of Cleveland, Ohio (the Division) as of and for the year ended December 31, 2015 and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

one east fourth street, ste. 1200
cincinnati, oh 45202

www.cshco.com
p. 513.241.3111
f. 513.241.1212

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Division of Water, Department of Public Utilities, City of Cleveland, Ohio, as of December 31, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standards

As discussed in Note J, the Division adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As described in Note A to the basic financial statements, the financial statements present only the Division and do not purport to, and do not present fairly the financial position of the City of Cleveland as of December 31, 2015, and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of net pension liability and pension contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 28, 2016

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the City) Department of Public Utilities, Division of Water (the Division), we offer readers of the Division's financial statements this narrative overview and analysis of the financial activities of the Division for the year ended December 31, 2015. Please read this information in conjunction with the Division's financial statements and footnotes that begin on page 16.

The Division services not only the City, but also sixty-nine direct service communities, eight master meter communities and three emergency standby communities. They provide water to approximately 419,469 city and suburban accounts in the Cleveland metropolitan area. They also sell water to master meter communities that operate their own distribution systems and they provide billing and payment services for the Northeast Ohio Regional Sewer District and other communities.

During 2015, the Division provided services to approximately 123,338 accounts located within Cleveland and approximately 296,131 accounts located in direct service communities. Water provided to each master meter community is metered at each community's boundary. Consumers within the City of Cleveland accounted for 24% of the Division's metered sales revenue, while the direct service and master meter communities accounted for 66% and 10% of metered sales revenue, respectively.

The Division, along with the Division of Utilities Fiscal Control (UFC), provides a complete array of processing services including billing, payment processing, mailing delinquency notices, terminating water service on delinquent accounts and distributing the money collected to the communities. UFC processes approximately 5,000 payments daily, which include bills for water only, sewer only, water and sewer, final notices and delinquent bills.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The Division's net position was $1,397,471,000, and $1,330,599,000 at December 31, 2015, and 2014, respectively. Of these amounts, $325,271,000 and $279,850,000 are unrestricted net position at December 31, 2015, and 2014, respectively and may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's overall net position increased by $66,872,000 in 2015. The increase is primarily attributed to operating income of $64,936,000.

FINANCIAL HIGHLIGHTS (Continued)

- The implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* restated the Division's December 31, 2014, net position from $1,372,821,000 to $1,330,599,000. For further information see Note J.

- The total long-term revenue bonds and loans payable of the Division decreased by $50,250,000 due to scheduled principal payments and the refunding of outstanding bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Division's basic financial statements. The accompanying financial statements present financial information for the City's Division of Water Fund, in which the City accounts for the operations of the Department of Public Utilities, Division of Water.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The basic financial statements of the Division can be found on pages 16 – 21 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to financial statements can be found on pages 23 - 49 of this report. Required supplementary information can be found on pages 50-51.

CONDENSED STATEMENT OF NET POSITION INFORMATION

Provided below is condensed statement of net position information for the Division as of December 31, 2015 and 2014:

	2015	Restated 2014
	(In thousands)	
Assets:		
Capital assets, net	$ 1,731,854	$ 1,738,803
Restricted assets	113,655	137,297
Current assets	403,468	359,633
Total assets	2,248,977	2,235,733
Deferred outflows of resources	52,873	46,602
Total assets and deferred outflows of resources	$ 2,301,850	$ 2,282,335
Net Position, liabilities and deferred inflows of resources:		
Net position:		
Net investment in capital assets	$ 979,643	$ 955,410
Restricted for capital projects	51	99
Restricted for debt service	92,506	95,240
Unrestricted	325,271	279,850
Total net positon	1,397,471	1,330,599
Liabilities:		
Long-term obligations	802,256	849,148
Current liabilities	83,291	83,133
Total liabilities	885,547	932,281
Deferred inflows of resources	18,832	19,455
Total net position, liabilities and deferred inflows of resources	$ 2,301,850	$ 2,282,335

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Current Assets: The Division had an increase in current assets of $43,835,000, due primarily to an increase in unrestricted cash and cash equivalents of $50,395,000. The increase was partially offset by a $12,941,000 reduction in due from other City of Cleveland departments, divisions or funds.

Restricted assets: The Division's restricted assets decreased by $23,642,000, primarily due to vendor payments from revenue bond proceeds.

Deferred outflows of resources: The Division's deferred outflows of resources increased by $6,271,000, primarily due to a $5,260,000 increase in unamortized loss on debt refunding. These items were offset by a $1,529,000 decrease in the market value of the Division's interest rate swaps.

Capital Assets: The Division's investment in capital assets, as of December 31, 2015, amounted to $1,731,854,000 (net of accumulated depreciation). The total decrease in the Division's investment in net capital assets was approximately $6,949,000 or 0.4%. A summary of the activity in the Division's capital assets during December 31, 2015, is as follows:

	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015
	(In thousands)			
Land	$ 5,463	$	$	$ 5,463
Land improvements	17,427			17,427
Utility plant	1,644,691	156,127	(2,034)	1,798,784
Buildings, structures and improvements	262,302	1,807		264,109
Furniture, fixtures, equipment and vehicles	577,995	32,323	(5,415)	604,903
Construction in progress	199,922	41,383	(154,658)	86,647
Total	2,707,800	231,640	(162,107)	2,777,333
Less: Accumulated depreciation	(968,997)	(83,897)	7,415	(1,045,479)
Capital assets, net	$ 1,738,803	$ 147,743	$ (154,692)	$ 1,731,854

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

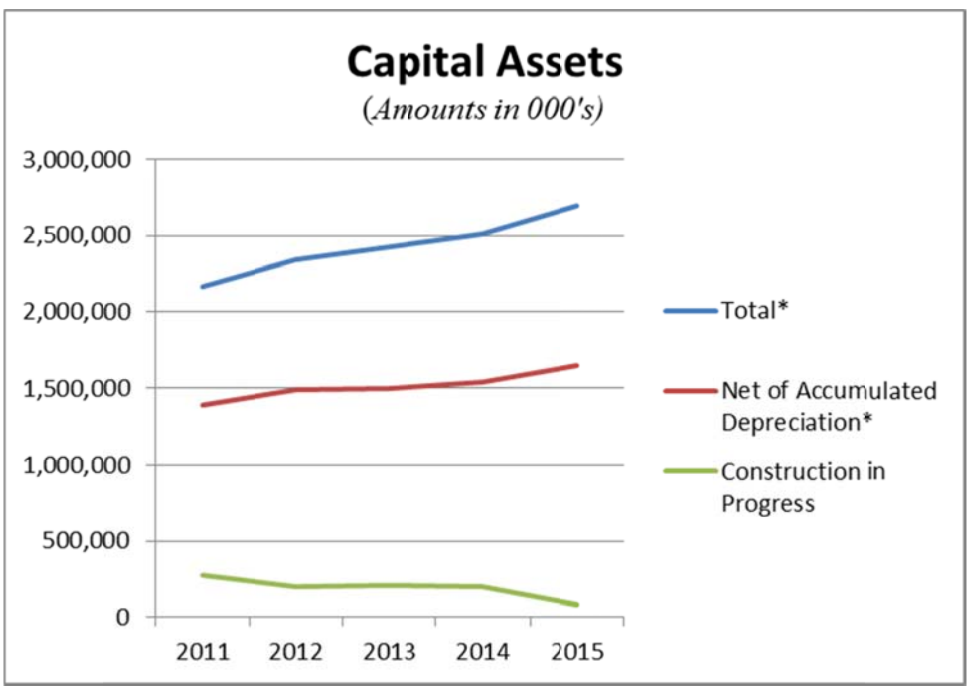
Completed assets placed into service include the $128,333,000 in the Automated Meter & Replacement Program (AMR), $16,229,000 related to the Crown Water Plant and $6,569,000 related to Water Main Rehabilitation which began in 2010. Furniture, fixtures, equipment and vehicles increased by $26,908,000, primarily due to software installation requirements. Additionally, construction in progress had additions and deletions of $41,383,000 and $154,658,000, respectively, resulting in a net decrease of $113,275,000 (See Note D).

Major projects still under construction chiefly consist of engineering services related to renewals of various water mains and the Boosted Third High Pump Station, which is an elevated storage tank regulating water capacity and fire flow fluctuations.

Major events during 2015 affecting the Division's capital assets included the following:

- The Division entered into amended Water Service Agreements with two member communities, Brecksville and Maple Heights and transferred the ownership of their distribution mains to the Division in the amount of $19,974,000, net of accumulated depreciation. These new assets account for 13.5% of the net additions recorded in 2015.

Additional information on the Division's capital assets, including commitments made for future capital expenditures, can be found in Note D to the basic financial statements.



* Construction in Progress not included

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Long-term Obligation**:** In 2015, the factors contributing to the Division's net decrease in long-term obligations of $46,892,000 is primarily due to a decrease in revenue bonds and OWDA loans amounting to $43,170,000 and $7,080,000, respectively offset by an increase in the net pension liability of $1,035,000.

Current Liabilities: In 2015, total current liabilities increased by $158,000. The significant components of the change were increases of $1,095,000 or 2.3% in the current portion of long-term debt and $1,088,000 or 24.8% in accounts payable. The increases were partially offset by a reduction of $1,706,000 or 12.3% in accrued interest payable, due in part to the Division's debt refundings that occurred throughout the year (see Note B).

Pension Liability**:** During 2015, the Division adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Division's actual financial condition by adding deferred inflows of resources related to pension and the net pension liability to the reported net position and subtracting deferred outflows of resources related to pension.

GASB standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB Statement No. 68, the net pension liability equals the Division's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service

2. Minus plan assets available to pay these benefits

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the Division, part of a bargained-for benefit to the employee and should accordingly be reported by the Division as a liability since they received the benefit of the exchange. However, the Division is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

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

As a result of implementing GASB Statement No. 68, the Division is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2014 from $1,372,821,000 to $1,330,599,000.

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Long-term Debt: At the end of 2015, the Division had total long-term debt outstanding of $769,822,000. All bonds are backed by the revenues generated by the Division. The Ohio Water Development Authority (OWDA) loans do not have a lien on revenues of the Division.

The activity in the Division's debt obligations outstanding during the year ended December 31, 2015 is summarized below (excluding unamortized discounts and premiums):

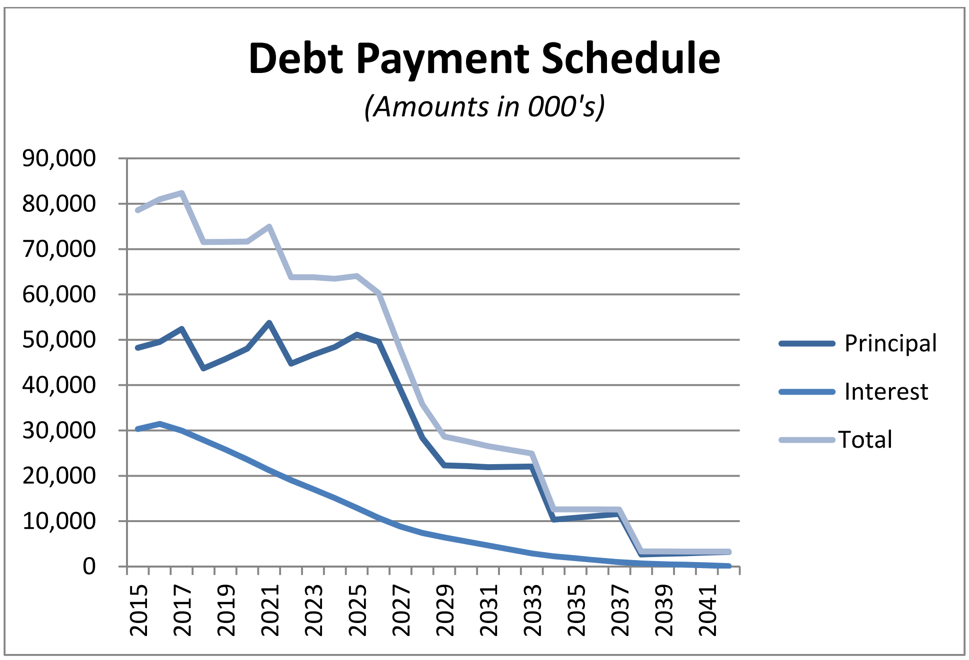
	Balance January 1, 2015	Debt Issued	Debt Retired	Balance December 31, 2015
		(In thousands)		
Long-Term Debt				
Water Revenue Bonds:				
Series G 1993	$ 66,220	$	$ (345)	$ 65,875
Series N 2005	21,865		(17,060)	4,805
Series O 2007	127,660		(121,030)	6,630
Series P 2007	103,990		(9,755)	94,235
Series Q 2008	90,800		(90,800)	-
Series T 2009	57,020		(8,335)	48,685
Series U 2010	54,935			54,935
Series V 2010	26,495			26,495
Series W 2011	44,420		(18,780)	25,640
Series X 2012	44,410			44,410
Series Y 2015		116,205		116,205
Series Z 2015		15,930		15,930
Series AA 2015		90,800		90,800
Second Lien Series A 2012	76,710			76,710
Ohio Water Development Authority Loans	105,547		(7,080)	98,467
Total	$ 820,072	$ 222,935	$ (273,185)	$ 769,822

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

The bond ratings for the Division's outstanding revenue bonds as of December 31, 2015, are as follows:

	Moody's Investors Service	Standard & Poor's
Waterworks Improvement Revenue Bonds	Aa1	AA
Second Lien Water Revenue Bonds	Aa2	AA-

The ratio of net revenue available for debt service to debt service requirements (revenue bond coverage) is a useful indicator of the Division's debt position to management, customers and creditors. The Division's revenue bond coverage for 2015 and 2014 was 215% and 221%, respectively.



Debt service on the Division's bonded debt will begin declining in 2018 and is expected to minimally impact its operations.

Additional information on the Division's long-term debt can be found in Note B on pages 27 - 36.

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Net Position: Net position serves as a useful indicator of a government's financial position. In the case of the Division, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by $1,397,471,000 and $1,330,599,000 at December 31, 2015 and 2014, respectively.

Of the Division's net position, $979,643,000 at December 31, 2015, reflects its investment in capital assets, net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. The Division uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the Division's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Division's net position, $92,557,000 at December 31, 2015, represents resources that are subject to external restrictions. These funds are set aside for the payment of revenue bonds and capital projects. The remaining balance of unrestricted net position, $325,271,000, at December 31, 2015, may be used to meet the Division's ongoing obligations to customers and creditors.

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

The Division's net position increased during 2015 by $66,872,000. The following table identifies the key elements of the Division's results of operations as of and for the years ended December 31, 2015, and 2014:

	2015	2014
	(In thousands)	
Operating revenues	$ 301,276	$ 303,408
Operating expenses	236,340	225,187
Operating income (loss)	64,936	78,221
Non-operating revenue (expense):		
Investment income	439	774
Interest expense	(23,616)	(28,138)
Amortization of bond premiums and discounts	5,060	4,835
Gain (loss) on disposal of capital assets	(19)	(26)
Other	73	
Total non-operating revenue (expense), net	(18,063)	(22,555)
Income (loss) before capital and other contributions	46,873	55,666
Capital and other contributions	19,999	29,391
Change in net position	$ 66,872	$ 85,057

Operating revenue: In 2015, total operating revenues of the Division decreased $2,132,000 or 0.7%. The reduction is primarily attributed to water pumpage decreases of approximately 358,000 MCF (thousand cubic feet) or 3.3% as compared to 2014.

Operating expenses: In 2015, the overall increase in operating expenses of $11,153,000 was primarily due to $5,705,000 and $6,717,000 increases in operating and maintenance costs, respectively. A rise of $4,196,000 in bad debt expense was the principal factor for the upturn in operating expenses. Maintenance outlays increased largely due to an escalation in supply costs.

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

Non-operating revenue (expense): Net non-operating revenue (expense) decreased by $4,492,000 in 2015. The primary source of the decrease was a reduction in interest expense of $4,522,000 related to the Division's debt refunding (see Note B).

Capital and other contributions: In 2015, capital and other contributions decreased by $9,392,000 as compared to 2014. The Division acquired two suburban distribution mains totaling $19,974,000, net of accumulated depreciation.

Non-pension expenses: The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB Statement No. 68 is not available. Therefore, 2014 expenses still include pension expense of $6,175,000 computed under GASB Statement No. 27. GASB Statement No. 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB Statement No. 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows of resources. The contractually required contribution is no longer a component of pension expense. Under GASB Statement No. 68, the 2015 statements report pension expense of $5,464,000. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

	(Amounts in 000's)
Total 2015 expenses under GASB 68	$ 259,975
Pension expense under GASB 68	(5,464)
2015 contractually required contribution	6,064
Adjusted 2015 program expenses	260,575
Total 2014 expenses under GASB 27	(253,351)
Increase in expenses not related to pension	$ 7,224

ADDITIONAL INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
STATEMENT OF NET POSITION
December 31, 2015

	(*In thousands*)
	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
CAPITAL ASSETS	
Land	$ 5,463
Land improvements	17,427
Utility plant	1,798,784
Buildings, structures and improvements	264,109
Furniture, fixtures, equipment and vehicles	604,903
	2,690,686
Less: Accumulated depreciation	(1,045,479)
	1,645,207
Construction in progress	86,647
CAPITAL ASSETS, NET	1,731,854
RESTRICTED ASSETS	
Cash and cash equivalents	113,646
Accrued interest receivable	9
TOTAL RESTRICTED ASSETS	113,655
CURRENT ASSETS	
Cash and cash equivalents	286,286
Restricted cash and cash equivalents	3,686
Investments	10,008
Receivables:	
Accounts receivable - net of allowance for doubtful accounts $14,786,000 in 2015	53,690
Unbilled revenue	35,136
Due from other City of Cleveland departments, divisions or funds	4,454
Accrued interest receivable	1
Materials and supplies - net of allowance for obsolescence of $79,000	9,476
Prepaid expenses	731
TOTAL CURRENT ASSETS	403,468
DEFERRED OUTFLOWS OF RESOURCES	
Derivative instruments-interest rate swaps	17,926
Unamortized loss on bond refunding	26,232
Pension	8,715
TOTAL DEFERRED OUTFLOWS OF RESOURCES	52,873
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 2,301,850

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
STATEMENT OF NET POSITION
December 31, 2015

	(*In thousands*) 2015
NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	
NET POSITION	
Net investment in capital assets	$ 979,643
Restricted for capital projects	51
Restricted for debt service	92,506
Unrestricted	325,271
TOTAL NET POSITION	1,397,471
LIABILITIES	
LONG-TERM OBLIGATIONS-excluding amounts due within one year	
Revenue bonds	660,376
OWDA loans	91,045
Accrued wages and benefits	1,403
Net pension liability	49,432
TOTAL LONG-TERM OBLIGATIONS	802,256
CURRENT LIABILITIES	
Current portion of long-term debt, due within one year	49,532
Accounts payable	5,471
Current payable from restricted assets	3,686
Due to other City of Cleveland departments, divisions or funds	3,170
Accrued interest payable	12,182
Current portion of accrued wages and benefits	7,543
Customer deposits and other liabilities	1,707
TOTAL CURRENT LIABILITIES	83,291
TOTAL LIABILITIES	885,547
DEFERRED INFLOWS OF RESOURCES	
Derivative instruments-interest rate swaps	17,926
Pension	906
TOTAL DEFERRED INFLOWS OF RESOURCES	18,832
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	$ 2,301,850

See notes to financial statements.

This page intentionally left blank.

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2015

	(*In thousands*) 2015
OPERATING REVENUES	
Charges for services	$ 301,276
TOTAL OPERATING REVENUES	301,276
OPERATING EXPENSES	
Operations	104,991
Maintenance	60,990
Depreciation	70,359
TOTAL OPERATING EXPENSES	236,340
OPERATING INCOME (LOSS)	64,936
NON-OPERATING REVENUE (EXPENSE)	
Investment income	439
Interest expense	(23,616)
Amortization of bond premiums and discounts	5,060
Gain (loss) on disposal of capital assets	(19)
Other	73
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	(18,063)
INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	46,873
Capital and other contributions	19,999
INCREASE (DECREASE) IN NET POSITION	66,872
NET POSITION AT BEGINNING OF YEAR, AS RESTATED	1,330,599
NET POSITION AT END OF YEAR	$ 1,397,471

See notes to financial statements.

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015

		(In thousands) **2015**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$	300,120
Cash payments to suppliers for goods or services		(85,021)
Cash payments to employees for services		(72,584)
Other		(503)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		142,012
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grants		25
NET CASH PROVIDED BY(USED FOR) NONCAPITAL FINANCING ACTIVITIES		25
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds, loans and notes		234,518
Acquisition and construction of capital assets		(37,057)
Principal paid on long-term debt		(138,996)
Interest paid on long-term debt		(29,520)
Cash paid to escrow agent for refunding		(144,782)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES		(115,837)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities		(5)
Interest received on investments		503
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES		498
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		26,698
CASH AND CASH EQUIVALENTS, beginning of year		376,920
CASH AND CASH EQUIVALENTS, end of year	$	403,618

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015

		(In thousands) **2015**
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$	64,936
Adjustments:		
Depreciation		70,359
(Increase) decrease in assets:		
Accounts receivable, net		(3,282)
Unbilled revenue		(2,311)
Due from other City of Cleveland departments, divisions or funds		12,941
Materials and supplies, net		(1,400)
Prepaid expenses		527
(Increase) decrease in deferred outflows of resources - pension		(2,540)
Increase (decrease) in liabilities:		
Accounts payable		1,088
Due to other City of Cleveland departments, divisions or funds		(572)
Other accrued expenses		(376)
Accrued wages and benefits		(71)
Customer deposits and other liabilities		772
Net pension liability		1,035
Increase (decrease) in deferred inflows of resources - pension		906
TOTAL ADJUSTMENTS		77,076
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$	142,012

SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Contribution of capital assets	$	19,974

See notes to financial statements.

This page intentionally left blank.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Division of Water (the Division) is reported as an Enterprise Fund of the City of Cleveland's Department of Public Utilities and is a part of the City of Cleveland's (the City) primary government. The Division was created for the purpose of supplying water services to customers within the metropolitan area. The following is a summary of the more significant accounting policies.

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

In June of 2012, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* was issued. This Statement is effective for fiscal periods beginning after June 15, 2014. GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or similar arrangements meeting certain criteria. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. As required, the Division has implemented GASB Statement No. 68 as of December 31, 2015.

In November of 2013, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* was issued. This Statement is effective for fiscal periods beginning after June 15, 2014. The objective of this Statement is to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. As required, the Division has implemented GASB Statement No. 71 as of December 31, 2015.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Revenues: Revenues are derived primarily from sales of water to residential, commercial and industrial customers based upon actual water consumption and from a fixed charge based upon meter size. Water rates are authorized by City Council and billings are made on a cyclical basis. Estimates for services between the ends of the various cycles and the end of the year are recorded as unbilled revenue.

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

Cash and Cash Equivalents: Cash and cash equivalents represent cash on hand and cash deposits maintained by the City Treasurer on behalf of the Division. Cash equivalents are defined as highly liquid investments with a maturity of three months or less when purchased and include certificates of deposit, U.S. Treasury bills, State Treasury Asset Reserve of Ohio (STAROhio) and repurchase agreements. The City's policy is to enter into repurchase agreements with local commercial banks and to obtain confirmation of securities pledged.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City has invested funds in STAROhio during 2015. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2015.

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

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

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

The Division's policy is to capitalize interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest is included in the cost of the assets and is depreciated on the straight-line basis over the estimated useful lives of such assets. The Division applies GASB guidance pertaining to capitalization of interest costs for its revenue bonds. This statement requires capitalization of interest cost of eligible borrowings, less interest earned on investment of the related bond proceeds from the date of borrowing until the assets constructed from the bond proceeds are ready for their intended use.

For 2015, total interest costs incurred amounted to $30,208,000, of which $6,563,000 was capitalized, net of interest income of $29,000.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Interfund Transactions: During the course of normal operations the Division has numerous transactions between other City divisions and departments. Unpaid amounts at year end are generally reflected as due to or due from in the accompanying financial statements.

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

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

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

NOTE B – DEBT AND OTHER LONG-TERM OBLIGATIONS

Debt outstanding at December 31, 2015 is as follows:

	Interest Rate	Original Issuance	2015
		(In thousands)	
Water Revenue Bonds:			
Series G 1993 due through 2021	5.50%	$ 228,170	$ 65,875
Series N 2005 due through 2016	4.00%-5.00%	64,480	4,805
Series O 2007 due through 2017	5.00%	143,570	6,630
Series P 2007 due through 2028	4.50%-5.00%	135,410	94,235
Series T 2009 due through 2021	4.00%-5.00%	84,625	48,685
Series U 2010 due through 2033	Variable	54,935	54,935
Series V 2010 due through 2033	Variable	26,495	26,495
Series W 2011 due through 2026	2.00%-5.00%	82,090	25,640
Series X 2012 due through 2042	3.63%-5.00%	44,410	44,410
Series Y 2015 due through 2037	4.00%-5.00%	116,205	116,205
Series Z 2015 due through 2019	2.00%-5.00%	15,930	15,930
Series AA 2015 due through 2033	Variable	90,800	90,800
Second Lien Series A 2012 due 2027	4.00%-5.00%	76,710	76,710
Ohio Water Development Authority Loans			
payable annually through 2033	0.00%-4.14%	152,767	98,467
		$ 1,316,597	769,822
Adjustments:			
Unamortized discount and premium			31,131
Current portion			(49,532)
Total Long-Term Debt			$ 751,421

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2015

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

Summary: Changes in long-term obligations for the year ended December 31, 2015 are as follows:

	Balance January 1, 2015	Increase	Decrease	Balance December 31, 2015	Due Within One Year
			(In thousands)		
Water Revenue Bonds:					
Series G 1993 due through 2021	$ 66,220	$	$ (345)	$ 65,875	$ 9,575
Series N 2005 due through 2016	21,865		(17,060)	4,805	4,805
Series O 2007 due through 2017	127,660		(121,030)	6,630	3,235
Series P 2007 due through 2028	103,990		(9,755)	94,235	5,515
Series Q 2008 due through 2033	90,800		(90,800)	-	
Series T 2009 due through 2021	57,020		(8,335)	48,685	595
Series U 2010 due through 2033	54,935			54,935	
Series V 2010 due through 2033	26,495			26,495	
Series W 2011 due through 2026	44,420		(18,780)	25,640	17,560
Series X 2012 due through 2042	44,410			44,410	
Series Y 2015 due through 2037		116,205		116,205	
Series Z 2015 due through 2019		15,930		15,930	825
Series AA 2015 due through 2033		90,800		90,800	
Second Lien Series A 2012 due through 2027	76,710			76,710	
Ohio Water Development Authority Loans payable annually through 2033	105,547		(7,080)	98,467	7,422
Total revenue bonds/loans	820,072	222,935	(273,185)	769,822	49,532
Accrued wages and benefits	9,017	7,558	(7,629)	8,946	7,543
Net pension liability	48,397	1,035		49,432	
Total	$ 877,486	$ 231,528	$ (280,814)	$ 828,200	$ 57,075

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

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

	Principal	Interest	Total
		(In thousands)	
2016	$ 49,532	$ 31,944	$ 81,476
2017	52,381	29,983	82,364
2018	43,669	27,871	71,540
2019	45,781	25,809	71,590
2020	48,061	23,596	71,657
2021-2025	244,671	85,404	330,075
2026-2030	161,377	38,890	200,267
2031-2035	87,000	15,386	102,386
2036-2040	31,085	3,934	35,019
2041-2042	6,265	317	6,582
Total	$ 769,822	$ 283,134	$ 1,052,956

The above schedule of minimum principal and interest payments on long-term debt includes the amortization on eleven loans provided to the City by the Ohio Water Development Authority (OWDA).

OWDA provided the City with the amount expected to be financed, the interest rate, initial repayment date and other significant items(s) for each of the eleven loans. From the information received, the City prepared a detailed amortization schedule for each loan based upon the amount expected to be financed. However, the amortization schedule is tentative and will be adjusted if, and when, OWDA revises the amount to be financed.

Further, OWDA requires the City to begin making semi-annual payments for each loan based on the agreed upon initial repayment date, regardless of whether the City has received all loan proceeds or has completed the project(s).

In 2015, the Division did not take out any new loans. OWDA completed an interest rate buy-down which will result in interest rate savings on current loans. Market rate loans with interest rates higher than 4.0% will see a reduction in rates to 4.0% while rates over 3.0% on OWDA loans will be reduced to 3.0%. The buy-down commenced retroactively to the January 1, 2016 payment.

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

At December 31, 2015, the amount financed on these eleven loan projects, less principal payments made, totaled $98,467,000 and is reflected in the debt service payment schedule.

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

The Division had the following amounts of defeased debt outstanding at December 31, 2015:

Series N, 2005	$16,155,000
Series O, 2007	87,950,000

In 1996, the City authorized the adoption of the eighth supplemental indenture to amend and restate the existing indenture, subject to the receipt of consent of the requisite number of bondholders. With the issuance of the Series J bonds, the City reached the 66.7% consent required to enact the Amended and Restated Indenture. Effective October 5, 2001, all outstanding bonds were and any future bonds are secured by the Amended and Restated Indenture. Under the new indenture, the bonds are no longer secured by a mortgage lien. All bonds are secured by the Division's net revenues and by the pledged funds.

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

The indenture requires that at all times the Division will charge rates and fees for the products and services of the waterworks system, so that revenues will be at least sufficient to provide funds for the payment in each year of the necessary operating and maintenance expenses of the waterworks system and the greater of (1) an amount equal to 1.25 times the payments of principal, premium, if any, and interest on the revenue bonds then outstanding due in that year or (2) an amount sufficient to maintain the required balances in all funds and accounts created under the indenture. As of December 31, 2015, the Division was in compliance with the terms and requirements of the bond indenture.

The indenture establishes the following fund accounts for the application of revenues:

Revenue Fund: All revenues will be deposited into this fund and will be used for payment of current operating expenses and deposits into other funds. An amount equal to one-sixth of the operating expenses, before depreciation, for the preceding fiscal year must be maintained in this fund.

Debt Service Fund: Deposits will be made from the revenue fund to cover succeeding principal and interest payments as they become due on the revenue bonds.

Debt Service Reserve Fund: Deposits will be made to this fund if the amount in the debt service fund at any time is less than the debt service reserve requirement. Amounts in the fund were deposited from the proceeds of the revenue bonds secured by the reserve fund and represent the maximum annual debt service requirement of these bonds. Not all series of bonds are covered by the reserve fund.

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

Contingency Fund: The balance in this fund must be maintained at $3,500,000.

Construction Fund: Proceeds from the various series of revenue bonds were deposited into this fund to be used, along with earnings from investments of amounts held therein, for the payment of capital costs. Capital costs include all costs of additions, extensions, renewals, replacements, alterations, betterments and any other capital improvements to the waterworks system. Amounts held in this fund are subject to a lien in favor of bondholders and may be used to pay principal of outstanding revenue bonds to the extent that amounts in all other funds are insufficient. No payments need be made into a fund if the amounts in such fund are equal to the required fund balance, if any.

Amounts held in any fund may be invested by the City Treasurer or the trustee in permitted investments. However, the use of funds is limited by the bond indenture and accordingly, the funds are classified as restricted assets in the accompanying financial statements.

Effective May 27, 2015, the City issued Water Revenue Bonds, Series Y, 2015 in the amount of $116,205,000. The bonds were issued to refund $117,950,000 of outstanding Series O Water Revenue Bonds, 2007 maturing on and after January 1, 2018. Bond proceeds in the amount of $94,602,752 along with $1,465,833 from the Series O Debt Service fund were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds when due. Certain of the Series O Bonds in the amount of $30,000,000 were tendered by the bondholder for purchase by the City and cancelled in lieu of being refunded. As a result of the refunding, the refunded bonds were defeased and the liability for those bonds has been removed from long-term debt. The City completed the refunding in order to achieve debt service savings of approximately $13,252,000 and realized an economic gain (the difference between the present values of the old and new debt service) of $12,176,000 or 10.3%.

At the same time the City sold the Series Y Bonds, the City also sold $15,930,000 Water Revenue Bonds, Series Z, 2015 on a forward delivery basis. The Series Z Bonds were issued effective October 5, 2015 to refund $16,155,000 of outstanding Water Revenue Bonds, Series N, 2005. Bond proceeds in the amount of $16,350,095 along with $195,096 from the Series N Debt Service fund were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds on January 1, 2016. As a result, the refunded bonds were defeased and the liability for those bonds has been removed from long-term debt. The City completed this refunding in order to achieve debt service savings of approximately $1,039,000 and realized an economic gain (the difference between the present values of the old and new debt service) of $663,000 or 4.1%.

Also on May 27, 2015, the City issued $90,800,000 Water Revenue Bonds, Series AA, 2015. These bonds were issued to refund the outstanding $90,800,000 Water Revenue Bonds, Series Q, 2008 upon the expiration of the existing letter of credit. The Bonds were directly purchased by Bank of America Merrill Lynch as variable rate bonds with the City paying 65.1% of the one month LIBOR rate plus a spread.

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

Upon the mandatory tender by the direct purchasers of the Water Revenue Bonds, Series U, 2010 and the Water Revenue Bonds, Series V, 2010, the Division entered into new direct purchase agreements on both series of bonds. Effective November 1, 2013, the $54,935,000 Water Series U Bonds were directly purchased by PNC Bank, National Association and subsequently, on December 2, 2013, the $26,495,000 Water Series V Bonds were also directly purchased by PNC Bank. The Division will be paying an interest rate equal to 65.001% of one month LIBOR plus a spread for the next three years.

In conjunction with the issuance of the Water Revenue Bonds, Second Lien Series A 2012 in October 2012, the Division established a Subordinate Bonds Indenture. Bonds issued under this indenture are special obligations of the City payable solely from and secured solely by a pledge of and lien on the Subordinate Pledged Revenues and the Subordinate Pledged funds. The Subordinate Pledged Revenues generally consist of the net revenues of the Division which remain after the payment of all operating expenses and the deposit of all funds required to be made on behalf of the Senior Lien Bonds. Bonds issued under this indenture are subordinate to those issued as senior lien bonds under the Division's Amended and Restated Indenture.

The City has pledged future water system revenues, net of specified operating expenses, to repay $671,355,000 in various Senior Lien Water Revenue Bonds and Subordinate Lien Bonds issued in various years since 1993. Proceeds from the bonds provided financing for Water System improvements. The bonds are payable from Water System net revenues and are payable through 2042. Annual principal and interest payments on the bonds are expected to require less than 48% of net revenues. The total principal and interest remaining to be paid on the various Senior and Subordinate Lien Water Revenue Bonds is $937,735,000. Principal and interest paid for the current year on the Senior Lien Bonds and total net revenues were $65,025,000 and $135,734,000, respectively.

Interest Rate Swap Transactions:

Upon the refunding of the Series M Bonds in 2009, the Division's swap became associated with the Series Q, Series R and Series S Bonds. When the Series R and Series S Bonds were refunded in 2010, the swap associated with these bonds was transferred to a portion of the new Series U and Series V Bonds. The portion of the swap associated with Series Q remained unchanged. The Series Q Bonds were refunded in 2015 and the swap associated with these bonds was transferred to the new Series AA Bonds.

<u>Terms:</u> Simultaneously with the issuance of the City's $175,000,000 Water Revenue Bonds, Series M on August 10, 2004, the City entered into floating to fixed rate swap agreements with notional amounts equal to the total declining balance of the Series M Bonds. Bear Stearns Financial Products Inc. (Bear Stearns) (which has since been acquired by JPMorgan Chase Bank, N.A. (JPM) was the counterparty on a two-thirds pro-rata share of the transaction and Morgan Stanley Capital Services Inc. (Morgan Stanley) was the counterparty on a one-third pro-rata share of the transaction.

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

Under the original swap agreements for the Series M Bonds, the Water System was the fixed rate payor, paying a fixed rate of 3.533%. Each counterparty was a floating rate payor, with each paying the Water System 61.25% of one month LIBOR plus a spread of 28 basis points. Net payments were exchanged semiannually on January 1 and July 1. The obligation of the Water System to make periodic payments (but not any termination payment) was secured by a pledge of and lien on the net revenues of the Water System on a parity with the pledge and lien securing the payment of debt service on the bonds. Both the bond debt service payments on the Series M bonds and the periodic swap payments were insured by Financial Security Assurance (FSA).

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

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

<u>Basis Risk</u>: By entering into swaps based upon the 30 day LIBOR rate of interest, the City has undertaken basis risk associated with a change in tax rates and structure. While the average relationship between Securities Industry and Financial Markets Association (SIFMA) (tax-exempt) and LIBOR (taxable) interest rates has been 67%, this relationship may not always apply. If the payments received from the counterparties are less than the amount paid on the variable rate bonds, the Water System must make up the difference in addition to paying the fixed rate resulting from the swap. As a result of the turmoil in the financial markets beginning in 2008, the SIFMA/LIBOR ratio has been both significantly higher and lower than 67% for large periods of time. In addition, a reduction in federal income tax rates might increase the percentage relationship between SIFMA and LIBOR and may potentially increase the cost of the financing.

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

Counterparty Risk: The City selected highly rated counterparties in order to minimize this risk. However, in the wake of the subprime mortgage crisis, Bear Stearns was acquired by JPM. The portion of the City's swap with Bears Stearns as the counterparty has been assumed by JPM. Over the long-term it is possible that the credit strength of JPM and/or Morgan Stanley could change and this event could trigger a termination payment on the part of the City.

Termination Risk: The swap agreement may be terminated prior to its stated termination date under certain circumstances. Upon termination, a payment may be owed by the City to JPM and Morgan Stanley, or by JPM and Morgan Stanley to the City, depending upon the prevailing economic circumstances at the time of the termination.

Fair Value: The fair value of the swaps (including accrued amounts) at December 31, 2015 as reported by JPM and Morgan Stanley totaled $17,926,000, which would be payable by the City.

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

	Changes in Fair Value		Fair Value at December 31, 2015		
	Classification	**Amount**	**Classification**	**Amount**	**Notional**
			(In thousands)		
Hedging Derivatives:					
Floating to fixed interest rate swaps					
2015 AA Water Swap	Deferred inflow	$ 997	Debt	$ (4,419)	$ 52,530
2010 U Water Swap	Deferred inflow	360	Debt	(9,026)	54,735
2010 V Water Swap	Deferred inflow	172	Debt	(4,481)	26,295

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

The following table presents the objective and significant terms of the Division's derivative instruments at December 31, 2015, along with the credit rating of each swap counterparty.

Bonds	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
Water Series AA	Pay Fixed Interest Rate Swap	Hedge of changes in cash flow on the Series AA Water System Bonds	$ 34,290,000	8/10/2004	1/1/2021	Pay 3.553%, receive 61.25% of LIBOR + 28 bps	Aa2/A+/A+
Water Series AA	Pay Fixed Interest Rate Swap	Hedge of changes in cash flow on the Series AA Water System Bonds	$ 18,240,000	8/10/2004	1/1/2021	Pay 3.5975%, receive 61.25% of LIBOR + 28 bps	A3/BBB+/A
Water Series U	Pay Fixed Interest Rate Swap	Hedge in changes in cash flow on the Series U Water System Bonds	$ 54,735,000	2/12/2009	1/1/2033	Pay 3.553%, receive 61.25% of LIBOR + 28 bps	Aa2/A+/A+
Water Series V	Pay Fixed Interest Rate Swap	Hedge in changes in cash flow on the Series V Water System Bonds	$ 26,295,000	2/12/2009	1/1/2033	Pay 3.5975%, receive 61.25% of LIBOR + 28 bps	A3/BBB+/A

The following table presents the aggregate debt service requirements on the Division's hedged debt and net receipts/payments on the associated hedging derivative instruments as of December 31, 2015. These amounts assume that the interest rates on variable rate bonds and the reference rates in existence as of December 31, 2015 remain the same for the life of the hedging agreement. However, these rates will vary over time and the actual interest payments on the variable rate bonds and the net receipts/payments on the hedging derivative instruments will deviate from the numbers presented.

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

Fiscal Year Ending December 31	Principal	Interest	Hedging Derivatives, Net	Total
		(In thousands)		
2016	$	$ 1,080	$ 4,019	$ 5,099
2017		1,079	3,982	5,061
2018		1,080	3,671	4,751
2019		1,080	3,277	4,357
2020		1,080	2,863	3,943
2021-2025	66,105	4,352	7,534	77,991
2026-2030	70,055	1,892	725	72,672
2031-2033	36,070	238	58	36,366
Total	$ 172,230	$ 11,881	$ 26,129	$ 210,240

Ohio Water Development Authority (OWDA) Loans: These loans are payable from net revenues derived from the Waterworks System. These obligations do not have a lien on revenues of the Division. The current loans are being paid directly to the contractor by the State of Ohio, but accounted for as if the Division received and disbursed those monies.

NOTE C – DEPOSITS AND INVESTMENTS

Deposits: The carrying amount of the Division's deposits at December 31, 2015 totaled $1,650,000 and the Division's bank balances were $6,672,000 respectively. The differences represent positions in pooled bank accounts and normal reconciling items. Based on the criteria described in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*, $6,672,000 of the bank balances at December 31, 2015 was insured or collateralized with securities held by the City or by its agent in the City's name.

Custodial credit risk for deposits is the risk that in the event of bank failure, the Division will not be able to recover deposits or collateral for securities that are in possession of an outside party. At year end, the Division's deposits were fully insured or collateralized. All deposits are collateralized with eligible securities pledged and deposited either with the City or with a qualified trustee by the financial institution as security for repayment of all public monies deposited in the financial institution whose market value at all times is equal to at least 110% of the carrying value of the deposits being secured.

NOTE C – DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

Credit Risk: The Division's investments as of December 31, 2015 include U.S. Treasury Notes, STAROhio, commercial paper and mutual funds. The Division maintains the highest ratings for their investments. Investments in the U.S. Treasury Notes carry a Moody's rating of Aaa, which is the highest rating given by Moody's. Investments in STAROhio, the PNC Treasury Money Market Fund and the First American Government Obligations Fund carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Division's investment in U.S. Bank N.A. Open Commercial Paper carries a Standard & Poor's rating of A-1+.

NOTE C – DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk: The Division places a limitation on the amount it may invest in any one issuer to help minimize the concentration of credit risk. The Division had the following investments at December 31, 2015, which include those classified as cash and cash equivalents in the Statement of Net Position in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

Type of Investment	2015 Fair Value	2015 Cost	Investment Maturities: Less than One Year	Investment Maturities: 1 - 5 Years
		(In thousands)		
U.S. Treasury Notes	$ 10,008	$ 9,995	$	$ 10,008
STAROhio	276,546	276,546	276,546	
Commercial Paper	107,524	107,524	107,524	
Mutual Funds	17,898	17,898	17,898	
Total Investments	411,976	411,963	401,968	10,008
Total Deposits	1,650	1,650	1,650	
Total Deposits and Investments	$ 413,626	$ 413,613	$ 403,618	$ 10,008

These amounts are monies invested by the City Treasurer on behalf of the Division and are used in daily operations with excess monies invested daily in STAROhio and mutual funds. These investments are carried at cost which approximates market value.

As of December 31, 2015, the investments in U.S. Treasury Notes, STAROhio, commercial paper, and mutual funds are approximately 3%, 67%, 26% and 4%, respectively, of the Division's total investments.

NOTE D – CAPITAL ASSETS

Capital Asset Activity: Capital asset activity for the year ended December 31, 2015 was as follows:

	Balance January 1, 2015	Additions	Deletions	Balance December 31, 2015
	(In thousands)			
Capital assets, not being depreciated:				
Land	$ 5,463	$	$	$ 5,463
Construction in progress	199,922	41,383	(154,658)	86,647
Total capital assets, not being depreciated	205,385	41,383	(154,658)	92,110
Capital assets, being depreciated:				
Land improvements	17,427			17,427
Utility plant	1,644,691	156,127	(2,034)	1,798,784
Buildings, structures and improvements	262,302	1,807		264,109
Furniture, fixtures, equipment and vehicles	577,995	32,323	(5,415)	604,903
Total capital assets, being depreciated	2,502,415	190,257	(7,449)	2,685,223
Less: Accumulated depreciation	(968,997)	(83,897)	7,415	(1,045,479)
Total capital assets being depreciated, net	1,533,418	106,360	(34)	1,639,744
Capital assets, net	$ 1,738,803	$ 147,743	$ (154,692)	$ 1,731,854

Commitments: The Division has outstanding commitments at December 31, 2015, of approximately $105,585,000 for future capital expenditures. It is anticipated that these commitments will be financed from the Division's cash balances; however, at the discretion of the Division, additional long-term debt may be issued in the future to finance a portion of the costs.

NOTE E – DEFINED BENEFIT PENSION PLAN

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

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

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

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

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

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

NOTE E – DEFINED BENEFIT PENSION PLAN (Continued)

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

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2014. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

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

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

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

NOTE E – DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy: The Ohio Revised Code provides statutory authority for member and employer contributions as follows:

	State and Local
2015 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2015 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
Total Employer	14.0 %
Employee	10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Division's contractually required contribution was $6,064,000 for 2015. All required payments have been made.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: The net pension liability for OPERS was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Division's proportion of the net pension liability was based on the Division's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS (Amounts in 000's)
Proportionate Share of the Net Pension Liability	$ 49,432
Proportion of the Net Pension Liability	0.411161%
Pension Expense	$ 5,464

NOTE E – DEFINED BENEFIT PENSION PLAN (Continued)

At December 31, 2015, the Division's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS (Amounts in 000's)
Deferred Outflows of Resources	
Net difference between projected and actual earnings on pension plan investments	$ 2,651
Division's contributions subsequent to the measurement date	6,064
Total Deferred Outflows of Resources	$ 8,715
Deferred Inflows of Resources	
Differences between expected and actual experience	$ 906

The $6,064,000 reported as deferred outflows of resources related to pension resulting from the Division's contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	OPERS (Amount in 000's)
2016	$ 255
2017	255
2018	584
2019	651
Total	$ 1,745

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

NOTE E – DEFINED BENEFIT PENSION PLAN (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75%
Future Salary Increases, including inflation	4.25% to 10.05% including wage inflation
COLA or Ad Hoc COLA	3%, simple
Investment Rate of Return	8%
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120% of the disabled female mortality rates were used set forward two years. For females, 100% of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

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

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95% for 2014.

NOTE E – DEFINED BENEFIT PENSION PLAN (Continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.31 %
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other investments	18.00	4.59
Total	100.00 %	5.28 %

Discount Rate: The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Division's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following table presents the Division's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8%, as well as what the Division's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7%) or one-percentage-point higher (9%) than the current rate:

	1% Decrease 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
		(Amounts in 000's)	
Division's proportionate share of the net pension liability	$ 91,253	$ 49,432	$ 14,218

NOTE F – OTHER POSTEMPLOYMENT BENEFITS

***Plan Description - Ohio Public Employees Retirement System*:** All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains two cost-sharing multiple-employer defined benefit post-employment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45. Please see the Plan Statement in the OPERS 2014 CAFR for details.

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

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/financial/reports.shtml#CAFR, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

***Funding Policy -Ohio Public Employees Retirement System*:** The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, State and Local employers contributed at a rate of 14.0% of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0% for both plans. The Board is also authorized to establish rules for the retiree

NOTE F – OTHER POSTEMPLOYMENT BENEFITS (Continued)

or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5%.

The Division's actual contributions to OPERS to fund postemployment benefits were $1,032,000 in 2015, $1,055,000 in 2014 and $532,000 in 2013. The required payments due in 2015, 2014 and 2013 have been made.

NOTE G – CONTINGENT LIABILITIES AND RISK MANAGEMENT

Contingent Liabilities: Various claims are pending against the City involving the Division for personal injuries, property damage and other matters. The City is responsible for the suits. The City's management is of the opinion that ultimate settlement of such claims will not result in a material adverse effect on the Division's financial position, results of operations or cash flows.

Risk Management: The Division is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Division is generally self-insured. No material losses, including incurred but not reported losses, occurred in 2015.

The City provides the choice of four separate health insurance plans to its employees. On April 1, 2014, the City became self-insured for three of the four health care plans offered while one health care plan continues to be provided to employees through commercial insurance. The Division is charged a monthly rate per employee by type of coverage. The City participates in the State of Ohio workers' compensation retrospective rating program.

In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported.

The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs) and other economic and social factors.

The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses, regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Claims liability for the Division is immaterial.

NOTE H – RELATED PARTY TRANSACTIONS

Revenues and Accounts Receivable: The Division provides water services to the City, including its various departments and divisions. Standard consumption rates are charged, except for the Division of Fire, public buildings and certain other facilities owned by the City, which by ordinance are provided free water services.

The Division performs billing, collection and various 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 $2,929,000 in 2015. The Division also provides miscellaneous services to other departments and divisions of the City. Revenue realized from such services was approximately $1,027,000 in 2015.

Operating Expenses: The Division utilizes various intra-city services. Charges are based on actual use or on a reasonable pro-rata basis. The more significant costs for the year ended December 31, 2015 was as follows:

	(In thousands)
Electricity purchases	$ 15,900
City administration	4,084
Motor Vehicle Maintenance	2,445
Telephone Exchange	1,239
Utilities Administration and Utilities Fiscal Control	6,023
Radio Communication	177

NOTE I – CUYAHOGA COUNTY REAL PROPERTY TAXES

The Division is required by ordinance to keep records of the estimated property taxes which would be payable to Cuyahoga County were it subject to such taxes. The estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately $5,738,000 for December 31, 2015.

NOTE J – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

For 2015, the Division implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.* GASB Statement No. 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expenses. The implementation of this pronouncement had the following effect on net position as reported December 31, 2014:

	December 31, 2014	Restatement	Restated December 31, 2014
		(Amounts in 000's)	
Net position	$ 1,372,821	$ (42,222)	$ 1,330,599

Other than employer contributions subsequent to the measurement date, the Division made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

City Of Cleveland
Department of Public Utilities
Division of Water

Required Supplementary Information

Schedule of the Division's Proportionate Share of the Net Pension Liability

Ohio Public Employees Retirement System

Last Two Measurement Years (1), (2)

	2014	2013
	(Amounts in 000's)	
Division's Proportion of the Net Pension Liability	0.411161%	0.411161%
Division's Proportionate Share of the Net Pension Liability (Asset)	$ 49,432	$ 48,397
Division's Covered-Employee Payroll	$ 51,458	$ 46,600
Division's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	96.06%	103.86%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.45%	86.36%

(1) Information presented based on measurement periods ended December 31.
(2) Information prior to 2013 is not available.

City of Cleveland
Department of Public Utilities
Division of Water
Required Supplementary Information
Schedule of Contributions
Ohio Public Employees Retirement System
Last Three Years (1)

	2015	2014	2013
		(Amounts in 000's)	
Contractually Required Contributions	$ 6,064	$ 6,175	$ 6,058
Contributions in Relation to the Contractually Required Contributions	(6,064)	(6,175)	(6,058)
Contribution Deficiency (Excess)	$ -	$ -	$ -
Division's Covered-Employee Payroll	$ 50,533	$ 51,458	$ 46,600
Contributions as a Percentage of Covered - Employee Payroll	12.00%	12.00%	13.00%

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