CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER

REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the year ended December 31, 2022

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER

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KEITH FABER

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INDEPENDENT AUDITOR'S REPORT

City of Cleveland
Department of Public Utilities
Division of Water
Cuyahoga County
601 Lakeside Avenue
Cleveland, Ohio 44114

To the Honorable Justin M. Bibb, Mayor, Members of City Council and the Audit Committee and the Department of Public Utilities, Division of Water:

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the Department of Public Utilities, Division of Water of the City of Cleveland, Cuyahoga County, Ohio (the Division), as of and for the year ended December 31, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Department of Public Utilities, Division of Water of the City of Cleveland as of December 31, 2022, and the changes in financial position and its cash flows thereof, for the year then ended in accordance with the accounting principles generally accepted in the United States of America

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Division, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Presentation

As discussed in Note A, the financial statements of the Department of Public Utilities, Division of Water of the City of Cleveland, are intended to present the financial position, the changes in financial position, and cash flows, of only that portion of the business-type activities and the major fund of the City of Cleveland that is attributable to the transactions of the Department of Public Utilities, Division of Water. They do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2022, the changes in its financial position or, where applicable, cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- obtain an understanding of internal control relevant to the audit 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 Division's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

June 28, 2023

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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, 2022. Please read this information in conjunction with the Division's financial statements and footnotes that begin on page 18.

The Division services not only the City, but also 69 direct service communities, seven master meter communities and three emergency standby communities. They provide water to approximately 433,000 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 2022, the Division provided services to approximately 117,000 accounts located within Cleveland and approximately 316,000 accounts located in direct service communities. Water provided to each master meter community is metered at community's boundary. Consumers within the City of Cleveland accounted for 23.64% of the Division's metered sales revenue, while the direct service communities accounted for 72.26% and master meter and emergency communities accounted for 4.10% of metered sales revenue.

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.

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

FINANCIAL HIGHLIGHTS

- The Division's net position was $1,746,629,000 and $1,670,514,000 at December 31, 2022 and 2021, respectively. Of these amounts, $410,900,000 and $367,394,000 are unrestricted net position at December 31, 2022 and 2021, respectively and may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's overall net position increased by $76,115,000 during 2022. The increase is primarily attributed to operating income of $84,060,000.

- The total long-term revenue bonds and loans payable of the Division decreased by $42,778,000 due to scheduled principal payments on the bonds and loans which was offset slightly by $590,000 incurred as a result of a new Ohio Water Development Authority (OWDA) loan.

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 18 – 23 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 25 – 54 of this report. Required supplementary information can be found on pages 55 – 58.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION

Provided below is condensed statement of net position information for the Division as of December 31, 2022 and 2021:

	2022	2021
	(Amounts in Thousands)	
Assets:		
Current assets	$ 520,873	$ 496,183
Restricted assets	48,181	47,012
Noncurrent assets	15,424	7,375
Capital assets	1,706,242	1,723,717
Total assets	2,290,720	2,274,287
Deferred outflows of resources	34,002	35,218
Liabilities:		
Current liabilities	87,593	83,370
Long-term obligations	432,321	505,289
Total liabilities	519,914	588,659
Deferred inflows of resources	58,179	50,332
Net Position:		
Net investment in capital assets	1,291,552	1,259,910
Restricted for debt service	44,177	43,210
Unrestricted	410,900	367,394
Total Net Position	1,746,629	1,670,514

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Current Assets: The Division had an increase in current assets of $24,690,000, primarily due to an increase of $24,953,000 in unrestricted cash and cash equivalents and investments. The main reason for the increase was a $16,821,000 decrease in capital outlays. In addition, cash payments to suppliers for goods and services decreased $4,774,000 and cash payments to employees decreased by $5,096,000 due to unfulfilled positions.

Restricted Assets: The Division's restricted assets increased by $1,169,000, primarily attributable to an increase of $967,000 in the debt service fund. The increase is attributed to an increase of $1,565,000 in scheduled bond principal payments in 2023.

Noncurrent Assets: An increase of $8,049,000 in noncurrent assets was primarily credited to a $5,249,000 increase in net Other Post-Employment Benefits (OPEB) asset.

Capital Assets: The Division's capital assets, as of December 31, 2022, amounted to $1,706,242,000 (net of accumulated depreciation). The total net decrease in the Division's capital assets was $17,475,000. A summary of the activity in the Division's capital assets during December 31, 2022, is as follows:

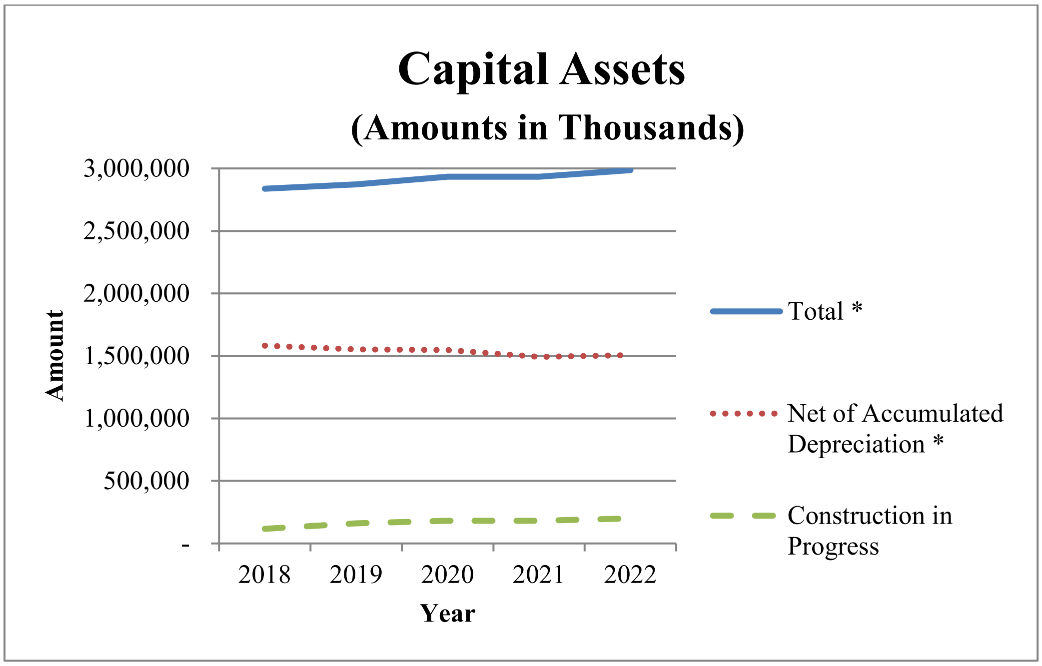
	Balance January 1, 2022	Additions	Reductions	Balance December 31, 2022
		(Amounts in Thousands)		
Land	$ 5,731	$	$	$ 5,731
Land improvements	17,931	160		18,091
Utility plant	2,045,726	40,688	(16,165)	2,070,249
Buildings, structures and improvements	265,873	17,345		283,218
Furniture, fixtures, equipment and vehicles	613,050	15,521	(19,326)	609,245
Construction in progress	217,138	47,695	(64,710)	200,123
Total	3,165,449	121,409	(100,201)	3,186,657
Less: Accumulated depreciation	(1,441,732)	(69,011)	30,328	(1,480,415)
Capital assets, net	$ 1,723,717	$ 52,398	$ (69,873)	$ 1,706,242

Construction in progress had additions and reductions of $47,695,000 and $64,710,000, respectively, resulting in a net decrease of $17,015,000. The reduction is related to assets being placed into service. Major additions to construction in progress included suburban water mains, the East 185th Street rehabilitation, Nottingham sedimentation basins and the Richfield pump station.

Major projects still under construction chiefly consist of suburban water main renewals, Nottingham sedimentation basins, plant enhancement programs and general engineering services.

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

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



* Construction in Progress not included

Current Liabilities: In 2022, total current liabilities increased by $4,223,000. The most significant component of the change was an increase in accounts payable of $2,585,000, primarily attributed to increased construction-related activity at year end. The current portion of long-term debt, due within one year increased by $1,837,000, primarily due to scheduled bond payment obligations. This was partially offset by a decrease in accrued interest payable of $853,000, due to continued principal payments on long-term debt.

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Long-Term Obligations: In 2022, the most significant factor contributing to the Division's net decrease in long-term obligations of $72,968,000 is primarily due to a decrease of $51,920,000 in revenue bonds and OWDA loans payable. The reduction is due to scheduled principal payments and bond premium amortization. Net pension liability decreased by $22,292,000, mainly due to investment returns exceeding expectations. The decreases were partially offset by a $1,302,000 increase in lease liability due to the implementation of GASB Statement No. 87.

Deferred Inflows of Resources: The Division's deferred inflows of resources increased by $7,847,000 in 2022. Pension inflows increased by $17,160,000, primarily due to a $18,281,000 increase in net difference between projected and actual earnings on pension plan investments. OPEB inflows decreased by $9,313,000, primarily due to a $6,839,000 decrease in change in assumptions about future economic or demographic factors.

Net Pension/OPEB Liabilities/(Assets): The net pension liability/(asset) is reported by the Division at December 31, 2022 and is reported pursuant to Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*. In 2018, the Division adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revises accounting for costs and liabilities related to other OPEB. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Division's actual financial condition by adding deferred inflows of resources related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting the net pension asset and the net OPEB asset and deferred outflows of resources related to pension and OPEB.

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

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

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

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

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

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

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

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

As a result of implementing GASB Statement No. 75, the Division is reporting a net OPEB liability/(asset) and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting.

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Long-Term Debt: At the end of 2022, the Division had total long-term debt outstanding of $412,570,000. 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, 2022, is summarized below (excluding unamortized discounts and premiums):

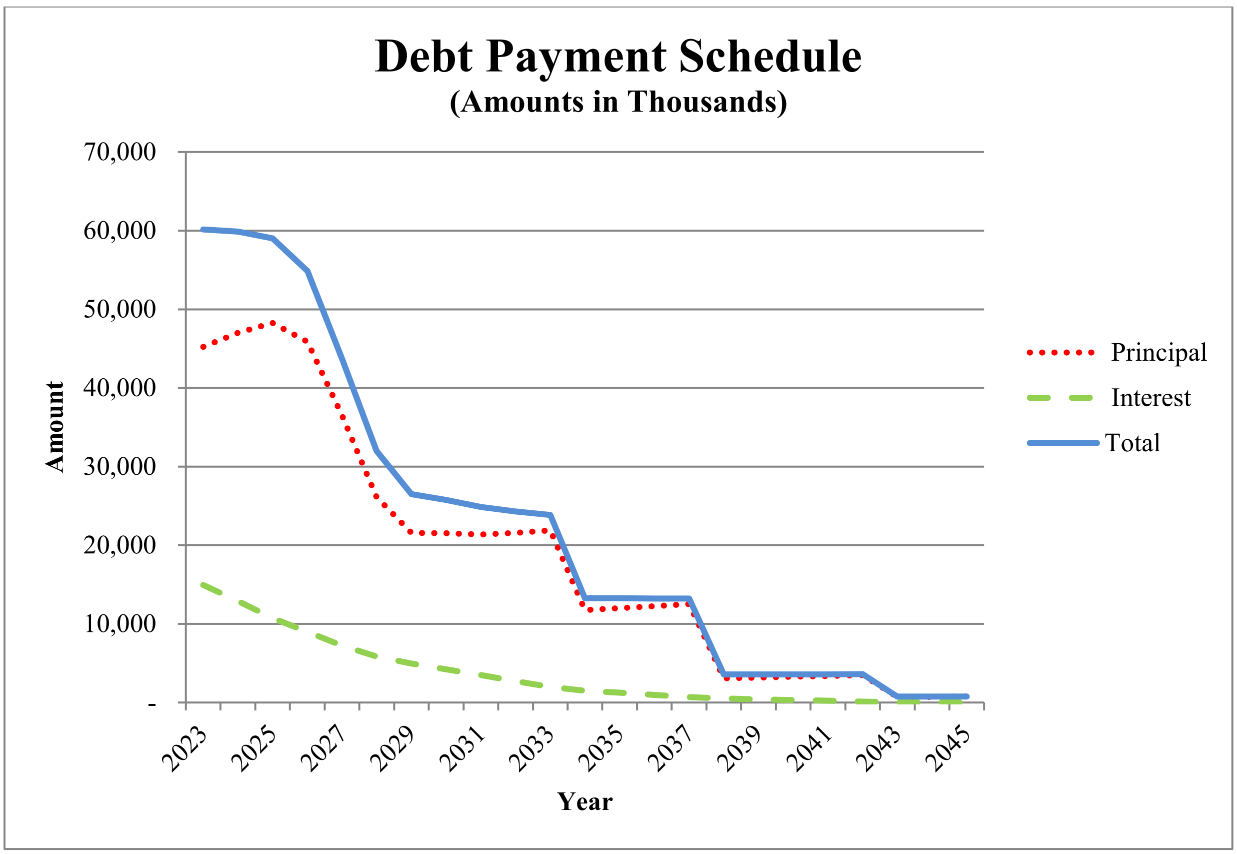
	Balance January 1, 2022	Debt Issued	Debt Retired	Balance December 31, 2022
	(Amounts in Thousands)			
Water Revenue Bonds:				
Series X 2012	$ 1,285	$	$ (1,285)	$ -
Series Y 2015	33,885		(5,275)	28,610
Series BB 2017	15,715			15,715
Series CC 2017	42,880		(6,380)	36,500
Series DD 2019	76,075		(14,225)	61,850
Series EE 2020	15,720		(140)	15,580
Series FF 2020	70,270			70,270
Series GG 2020	98,960		(215)	98,745
Second Lien Series A 2012	7,385		(7,385)	-
Second Lien Series B 2017	42,495			42,495
Ohio Water Development Authority Loans	50,678	590	(8,463)	42,805
Total	$ 455,348	$ 590	$ (43,368)	$ 412,570

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

The bond ratings for the Division's outstanding revenue bonds as of December 31, 2022, are as follows:

	Moody's Investors Services	S&P Global
Waterworks Revenue Bonds	Aa2	AA+
Second Lien Water Revenue Bonds	Aa3	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, investors and creditors. The Division's revenue bond coverage for 2022 and 2021 was 331% and 321%, respectively.



CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Debt service on the Division's bonded debt is expected to minimally impact its operations.

Additional information on the Division's long-term debt can be found in Note B – Debt and Other Long-Term Obligations on pages 29 – 33.

Deferred Outflows of Resources: The Division's deferred outflows of resources decreased by $1,216,000. OPEB outflows decreased $3,915,000, primarily due to a reduction of $3,625,000 in changes in assumptions about future economic or demographic factors. Unamortized loss on debt refunding decreased by $2,319,000 due to scheduled amortization. Pension outflows increased by $5,018,000.

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 $1,746,629,000 and $1,670,514,000 at December 31, 2022 and 2021, respectively.

Of the Division's net position, $1,291,552,000 at December 31, 2022, 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, $44,177,000 at December 31, 2022, represents resources that are subject to external restrictions. These funds are set aside for the payment of revenue bonds.

The remaining balance of unrestricted net position, $410,900,000 at December 31, 2022, 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 2022 by $76,115,000. The following table identifies the key elements of the Division's results of operations for the years ended December 31, 2022 and 2021:

	2022	2021
	(Amounts in Thousands)	
Operating revenues	$ 319,745	$ 325,793
Operating expenses	235,685	212,448
Operating income (loss)	84,060	113,345
Non-operating revenue (expense):		
Investment income	6,527	360
Interest expense	(18,469)	(20,428)
Amortization of bond premiums and discounts	7,305	8,547
Amortization of right to use asset	(108)	
Gain (loss) on disposal of capital assets	(5,163)	(291)
Other	54	40
Total non-operating revenue (expense), net	(9,854)	(11,772)
Income (loss) before capital and other contributions	74,206	101,573
Capital and other contributions	1,909	291
Change in net position	76,115	101,864
Beginning net position	1,670,514	1,568,650
Ending net position	$ 1,746,629	$ 1,670,514

Operating Revenue: In 2022, total operating revenues of the Division decreased by $6,048,000 or 1.9%. The reduction is primarily attributed to a slight decrease in metered consumption and the loss of revenue associated with a transition fee charged to a suburban municipality that ended in 2021. In addition, there was a decrease of $2,842,000 in ancillary revenue, primarily due to not receiving a Workers' Compensation refund in 2022.

Operating Expenses: The overall increase in operating expenses of $23,237,000 in 2022 was mainly attributed to a $25,658,000 increase in operations expense. OPEB expense increased by $31,859,000, primarily related to changes in healthcare terms in 2020 that significantly impacted the 2021 expense amount. Payroll and benefit costs (excluding pension/OPEB) decreased by $2,163,000 due to unfulfilled vacancies. Utilities costs decreased by $1,717,000, mainly due to a decrease of $1,351,000 in sewage-related costs.

There was a $2,112,000 decrease in maintenance expense. Payroll and benefits costs (excluding pension/OPEB) decreased by $2,184,000 due to unfulfilled positions, partially offset by an increase of $727,000 in maintenance costs related to motor vehicles.

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

Non-Operating Revenue: Investment income increased by $6,167,000, primarily due to a significant rise in interest rates. Amortization of bond premiums decreased by $1,242,000 due to scheduled amortizations.

Non-Operating Expense: Interest expense decreased $1,959,000 in 2022 due to scheduled principal payments on bonds and loans. Loss on disposal of capital assets increased by $4,872,000 compared to 2021, primarily due to the retirement of various water equalization tanks due to obsolescence.

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, 2022
(Amounts in Thousands)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
CURRENT ASSETS	
Cash and cash equivalents	$ 406,822
Restricted cash and cash equivalents	5,321
Investments	29,034
Receivables:	
Accounts receivable - net of allowance for doubtful accounts of $18,021	55,556
Unbilled revenue	9,926
Accrued interest receivable	21
Due from other City of Cleveland departments, divisions or funds	2,662
Materials and supplies - at average cost	8,972
Prepaid expenses	2,559
TOTAL CURRENT ASSETS	520,873
RESTRICTED ASSETS	
Cash and cash equivalents	48,043
Accrued interest receivable	138
TOTAL RESTRICTED ASSETS	48,181
NONCURRENT ASSETS	
Net pension asset	1,512
Net OPEB asset	12,624
Right to use asset (net of accumulated amortization)	1,288
	15,424
CAPITAL ASSETS	
Land	5,731
Land improvements	18,091
Utility plant	2,070,249
Buildings, structures and improvements	283,218
Furniture, fixtures, equipment and vehicles	609,245
	2,986,534
Less: Accumulated depreciation	(1,480,415)
	1,506,119
Construction in progress	200,123
CAPITAL ASSETS, NET	1,706,242
TOTAL ASSETS	2,290,720
DEFERRED OUTFLOWS OF RESOURCES	
Unamortized loss on bond refunding	18,983
Pension	14,930
OPEB	89
TOTAL DEFERRED OUTFLOWS OF RESOURCES	34,002

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
STATEMENT OF NET POSITION
December 31, 2022
(Amounts in Thousands)

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$	14,970
Customer deposits and other liabilities		3,140
Accrued wages and benefits		9,644
Due to other City of Cleveland departments, divisions or funds		1,860
Accrued interest payable		7,409
Current portion of leases		44
Payable from restricted assets		5,321
Current portion of long-term debt, due within one year		45,205
TOTAL CURRENT LIABILITIES		87,593
LONG-TERM OBLIGATIONS-excluding amounts due within one year:		
Revenue bonds		359,552
Accrued wages and benefits		1,793
Leases		1,302
OWDA loans		34,070
Net pension liability		35,604
TOTAL LONG-TERM OBLIGATIONS		432,321
TOTAL LIABILITIES		519,914
DEFERRED INFLOWS OF RESOURCES		
Pension		44,953
OPEB		13,226
TOTAL DEFERRED INFLOWS OF RESOURCES		58,179
NET POSITION		
Net investment in capital assets		1,291,552
Restricted for debt service		44,177
Unrestricted		410,900
TOTAL NET POSITION		1,746,629

See notes to financial statements.

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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, 2022
(Amounts in Thousands)

OPERATING REVENUES	
Charges for services	$ 319,745
TOTAL OPERATING REVENUES	319,745
OPERATING EXPENSES	
Operations	96,546
Maintenance	70,128
Depreciation	69,011
TOTAL OPERATING EXPENSES	235,685
OPERATING INCOME (LOSS)	84,060
NON-OPERATING REVENUE (EXPENSE)	
Investment income	6,527
Interest expense	(18,469)
Amortization of bond premiums and discounts	7,305
Amortization of right to use asset	(108)
Gain (loss) on disposal of assets	(5,163)
Other	54
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	(9,854)
INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	74,206
Capital and other contributions	1,909
INCREASE (DECREASE) IN NET POSITION	76,115
NET POSITION, BEGINNING OF YEAR	1,670,514
NET POSITION, END OF YEAR	$ 1,746,629

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, 2022
(Amounts in Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 294,352
Cash payments to suppliers for goods or services	(100,858)
Cash payments to employees for services	(81,819)
Cash received from fees for services	22,508
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	134,183
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from loans	588
Acquisition and construction of capital assets	(57,073)
Principal paid on long-term debt	(43,368)
Principal paid on long-term lease agreements	(50)
Interest paid on long-term debt	(16,943)
Interest paid on long-term lease agreements	(58)
Capital grant proceeds	1,909
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(114,995)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investment securities	(319,135)
Proceeds from sale and maturity of investment securities	288,949
Interest received on investments	7,521
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(22,665)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,477)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	463,663
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 460,186

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
STATEMENT OF CASH FLOWS
For the year ended December 31, 2022
(Amounts in Thousands)

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

OPERATING INCOME (LOSS)	$	84,060
Adjustments		
Depreciation		69,011
(Increase) decrease in assets:		
Accounts receivable, net		(119)
Unbilled revenue		442
Due from other City of Cleveland departments, divisions or funds		(88)
Materials and supplies, net		(1,524)
Prepaid expenses		1,145
Net pension asset		(1,512)
Net OPEB asset		(5,249)
(Increase) decrease in deferred outflows of resources:		
Pension		(5,018)
OPEB		3,915
Increase (decrease) in liabilities:		
Accounts payable		2,585
Customer deposits and other liabilities		425
Accrued wages and benefits		256
Due to other City of Cleveland departments, divisions or funds		299
Net pension liability		(22,292)
Increase (decrease) in deferred inflows of resources:		
Pension		17,160
OPEB		(9,313)
TOTAL ADJUSTMENTS		50,123
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$	134,183

SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:

Accounts payable related to capital assets	$	5,321

See notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2022

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 2017, GASB Statement No. 87, *Leases*, was issued. This Statement is effective for the reporting periods beginning after June 15, 2021. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. As required, the Division has implemented GASB Statement No. 87 as of December 31, 2022.

In January of 2020, GASB Statement No. 92, *Omnibus 2020, w*as issued. This Statement is effective for reporting periods beginning after June 15, 2021. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. As required, the Division has implemented GASB Statement No. 92 as of December 31, 2022.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2022

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

In addition, certain 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.

Inventory of Supplies: The Division's inventory is valued at average cost. Inventory costs are charged to operations when consumed.

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

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

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.

Leases: The Division follows the provisions of GASB Statement No. 87 *Leases,* which requires governmental entities to recognize their long-term lease agreements on the financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The Division has invested funds in the STAR Ohio during 2022. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the U.S. Securities and Exchange Commission (SEC) as an investment company, but has adopted GASB Statement No. 79, *Certain External Investment Pools and Pool Participants,* for the purpose of measuring the value of shares in STAR Ohio. The Division measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV share that approximates fair value.

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 their acquisition value on the date contributed. Depreciation is computed by allocating the cost of capital assets less any applicable salvage value 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

Right-to-use lease assets are amortized over the shorter of the lease term or useful life of the underlying asset.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2022

NOTE B – DEBT AND OTHER LONG-TERM OBLIGATIONS

Debt outstanding at December 31, 2022, is as follows:

	Interest Rate	Original Issuance	2022
		(Amounts in Thousands)	
Water Revenue Bonds:			
Series Y 2015 due through 2028	4.00% - 5.00%	$ 116,205	$ 28,610
Series BB 2017 due through 2032	5.00%	15,760	15,715
Series CC 2017 due through 2028	5.00%	54,730	36,500
Series DD 2019 due through 2033	2.00% - 5.00%	97,160	61,850
Series EE 2020 due through 2042	1.32% - 3.21%	15,815	15,580
Series FF 2020 due through 2033	5.00%	70,270	70,270
Series GG 2020 due through 2037	0.45% - 2.28%	99,145	98,745
Second Lien Series B 2017 due through 2027	5.00%	43,095	42,495
Ohio Water Development Authority Loans payable annually through 2045, direct borrowing	0.00% - 3.00%	157,996	42,805
		$ 670,176	412,570
Adjustments:			
Unamortized discount and premium			26,257
Current portion			(45,205)
Total Long-Term Debt			$ 393,622

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2022

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

Summary: Changes in long-term obligations for the year ended December 31, 2022, are as follows:

	Balance January 1, 2022 (as restated)	Increase	Decrease	Balance December 31, 2022	Due Within One Year
			(Amounts in Thousands)		
Water Revenue Bonds:					
Series X 2012 due through 2022	$ 1,285	$	$ (1,285)	$ -	$
Series Y 2015 due through 2028	33,885		(5,275)	28,610	5,535
Series BB 2017 due through 2032	15,715			15,715	1,240
Series CC 2017 due through 2028	42,880		(6,380)	36,500	6,710
Series DD 2019 due through 2033	76,075		(14,225)	61,850	14,950
Series EE 2020 due through 2042	15,720		(140)	15,580	145
Series FF 2020 due through 2033	70,270			70,270	
Series GG 2020 due through 2037	98,960		(215)	98,745	220
Second Lien Series A 2012 due through 2022	7,385		(7,385)	-	
Second Lien Series B 2017 due through 2027	42,495			42,495	7,670
Ohio Water Development Authority Loans payable annually through 2045, direct borrowing	50,678	590	(8,463)	42,805	8,735
Total revenue bonds/loans	455,348	590	(43,368)	412,570	45,205
Accrued wages and benefits	11,181	9,586	(9,330)	11,437	9,644
Net pension liability	57,896		(22,292)	35,604	
Leases	1,396		(50)	1,346	44
Total	$ 525,821	$ 10,176	$ (75,040)	$ 460,957	$ 54,893

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:

	Bonds Principal	OWDA Loans (Direct Borrowing) Principal	Interest	Total
	(Amounts in Thousands)			
2023	$ 36,470	$ 8,735	$ 14,943	$ 60,148
2024	38,395	8,601	12,886	59,882
2025	39,805	8,452	10,756	59,013
2026	40,470	5,413	8,967	54,850
2027	31,625	4,874	7,218	43,717
2028-2032	102,430	9,703	21,262	133,395
2033-2037	67,485	2,935	6,393	76,813
2038-2042	13,085	3,307	1,554	17,946
2043-2045		2,182	93	2,275
Total	$ 369,765	$ 54,202	$ 84,072	$ 508,039

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 is 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 2022, the Division expended $590,000 on the Richfield Water Tower project which is funded by a 2.4% OWDA loan in the amount of $11,986,653 maturing in January 2046. Payments on this loan begin July 1, 2026 and are included in the debt service schedule above.

At December 31, 2022, the amount financed on the eleven loan projects, less principal payments made, totaled $54,202,000 and is reflected in the debt service payment schedule. However, the total of the actual loan balances received by the Division was $42,805,000 as reflected on the schedules of long-term debt outstanding and changes in long-term debt obligations as of December 31, 2022. The difference of $11,397,000 will be received or accrued in future years as the funds are drawn down.

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

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 amount of defeased debt outstanding at December 31, 2022:

Series Y, 2015	$76,060,000

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 and any future bonds were 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 may be maintained for certain series of bonds and charges for fees to customers must be sufficient in amount, 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, 2022, 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.

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

Debt Service Reserve Fund: Deposits will be made to this fund if the amount in the debt service fund reserve 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 represented the maximum annual debt service requirement of these bonds. However, not all series of bonds are covered by the reserve fund. Currently, there were no series of bonds covered by a reserve fund.

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.

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 $369,765,000 in various Senior Lien Water Revenue Bonds and Subordinate Lien Bonds issued in various years since 2015. 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 37.0% of net revenues. The total principal and interest remaining to be paid on the various Senior and Subordinate Lien Water Revenue Bonds is $447,414,000. Amounts deposited for principal and interest in the current year on the Senior Lien Bonds and total net revenues were $41,482,000 and $137,288,000, respectively.

NOTE C – DEPOSITS AND INVESTMENTS

Deposits: The carrying amount of the Division's deposits at December 31, 2022, totaled $13,265,000 and the Division's bank balances were $11,930,000 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*, $11,930,000 of the bank balances at December 31, 2022, 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.

Investments: In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, the City reports its investments at fair value based on quoted market values, where applicable and recognized the corresponding change in the fair value of the investments recorded in investment earnings in the year in which the change occurs. The City's investment policies are governed by state Statutes and City ordinances which authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; State Treasurer Asset Reserve Fund (STAR Ohio); 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.

NOTE C – DEPOSITS AND INVESTMENTS (Continued)

The following is a summary of the fair value hierarchy of the fair value of investments of the Division (excluding Star Ohio and money market mutual funds) as of December 31, 2022:

Type of Investment	Fair Value	Fair Value Measurement Using Level 1
	(Amounts in Thousands)	
U.S. Treasury Notes	$ 29,034	$ 29,034
Total Investments	$ 29,034	$ 29,034

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, 2022, include STAR Ohio and money market mutual funds. Investments in the U.S. Treasury Notes carry a Moody's rating of Aaa. Investments in STAR Ohio, Government Obligations Fund and the First American Government Obligations Fund carry a rating of AAAm, which is the highest money market fund rating given by S & P Global. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2022

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, 2022, 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, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Accounting*, since they have a maturity of three months or less:

Type of Investment	2022 Value	2022 Cost	Investment Maturities: Less than One Year	Investment Maturities: 1 - 5 Years
	(Amounts in Thousands)			
U.S. Treasury Notes	$ 29,034	$ 30,186	$ 9,614	$ 19,420
STAR Ohio	392,411	392,411	392,411	
Money Market Mutual Funds	54,510	54,510	54,510	
Total Investments	475,955	477,107	456,535	19,420
Total Deposits	13,265	13,265	13,265	
Total Deposits and Investments	$ 489,220	$ 490,372	$ 469,800	$ 19,420

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

As of December 31, 2022, the investments in US. Treasury Notes, STAR Ohio and money market mutual funds are approximately 6.1%, 82.4% and 11.5%, respectively, of the Division’s total investments.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2022

NOTE D – CAPITAL ASSETS

Capital Asset Activity: Capital asset activity for the year ended December 31, 2022 was as follows:

	Balance January 1, 2022	Additions	Deletions	Balance December 31, 2022
	(Amounts in Thousands)			
Capital assets, not being depreciated				
Land	$ 5,731	$	$	$ 5,731
Construction in progress	217,138	47,695	(64,710)	200,123
Total capital assets, not being depreciated	222,869	47,695	(64,710)	205,854
Capital assets, being depreciated				
Land improvements	17,931	160		18,091
Utility plant	2,045,726	40,688	(16,165)	2,070,249
Buildings, structures and improvements	265,873	17,345		283,218
Furniture, fixtures, equipment and vehicles	613,050	15,521	(19,326)	609,245
Total capital assets, being depreciated	2,942,580	73,714	(35,491)	2,980,803
Less: Accumulated depreciation	(1,441,732)	(69,011)	30,328	(1,480,415)
Total capital assets being depreciated, net	1,500,848	4,703	(5,163)	1,500,388
Capital assets, net	$ 1,723,717	$ 52,398	$ (69,873)	$ 1,706,242

Commitments: The Division has outstanding commitments at December 31, 2022, of approximately $211,033,000 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 PLANS

Net Pension Liability/(Asset): The net pension liability/(asset) reported on the statement of net position represents a liability/(asset) 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 liability/(asset) because it was created as a result of employment exchanges that already have occurred.

The net pension liability/(asset) 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/(asset) calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments (COLA) and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

GASB Statement No. 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State Statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State Statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability/(asset). Resulting adjustments to the net pension liability/(asset) 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/(asset) on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in accrued wages and benefits on both the accrual and modified accrual bases of accounting.

Ohio Public Employees Retirement System (OPERS): The Division's employees participate in 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.

NOTE E – DEFINED BENEFIT PENSION PLANS (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual COLA to members of the Traditional Plan. Authority to establish and amend benefits is provided by Chapter 145 of the ORC. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting https://www.opers.org/financial/reports.shtml, by writing to the OPERS, 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, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS' Annual Comprehensive Financial Report 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 COLA is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3.0% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3.0%.

NOTE E – DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy: The ORC provides statutory authority for member and employer contributions. For 2022, member contribution rates were 10.0% and employer contribution rates were 14.0%.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Division's contractually required contribution was $8,395,000 for 2022. All required payments have been made.

Pension Liability/(Asset), Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: The net pension liability/(asset) for OPERS was measured as of December 31, 2021 and the total pension liability/(asset) used to calculate the net pension liability/(asset) was determined by an actuarial valuation as of that date. Following is information related to the proportionate share and pension expense:

	OPERS	
	Traditional	Combined
	(Amounts in Thousands)	
Proportionate Share of the Net Pension Liability/(Asset)	$ 35,604	$ (1,512)
Proportion of the Net Pension Liability/(Asset)	0.409225%	0.383853%
Changes in Proportion	(0.010411)%	(0.019824)%
Pension Expense	$ (6,753)	$ (57)

NOTE E – DEFINED BENEFIT PENSION PLANS (Continued)

At December 31, 2022, the Division's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Traditional	Combined
	(Amounts in Thousands)	
Deferred Outflows of Resources		
Differences between expected and actual economic experience	$ 1,815	$ 9
Changes in assumptions	4,452	76
Change in Division's proportionate share and difference in employer contributions	136	47
Division's contributions subsequent to the measurement date	8,135	260
Total Deferred Outflows of Resources	$ 14,538	$ 392
Deferred Inflows of Resources		
Differences between expected and actual economic experience	$ 781	$ 169
Net difference between projected and actual earnings on pension plan investments	42,350	324
Change in Division's proportionate share and difference in employer contributions	1,288	41
Total Deferred Inflows of Resources	$ 44,419	$ 534

The $8,395,000 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/(increase) of the net pension liability/(asset) in the year ending December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	Traditional	Combined
	(Amounts in Thousands)	
Year Ending December 31:		
2023	$ (6,384)	$ (101)
2024	(14,937)	(139)
2025	(9,958)	(91)
2026	(6,737)	(67)
2027		(7)
Thereafter		3
Total	$ (38,016)	$ (402)

NOTE E – DEFINED BENEFIT PENSION PLANS (Continued)

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability/(asset) in the December 31, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	December 31, 2021
Wage Inflation	2.75%
Future Salary Increases, including inflation	
Traditional Plan	2.75% – 10.75%
Combined Plan	2.75% – 8.25%
COLA or Ad Hoc COLA	2.75%, simple
	Pre 1/7/2013 retirees: 3.00%, simple
	Post 1/7/2013 retirees: 3.00%, simple
	Through 2022, then 2.05%, simple
Investment Rate of Return	6.90%
Actuarial Cost Method	Individual Entry Age

Pre-retirement mortality rates are based on 130% of the Pub-2010 General Employee Mortality tables (males and females) for State and Local Government divisions and 170% of the Pub-2010 Safety Employee Mortality tables (males and females) for the Public Safety and Law Enforcement divisions. Post-retirement mortality rates are based on 115% of the PubG-2010 Retiree Mortality Tables (males and females) for all divisions. Post-retirement mortality rates for disabled retirees are based on the PubNS-2010 Disabled Retiree Mortality Tables (males and females) for all divisions. For all of the previously described tables, the base year is 2010 and mortality rates for a particular calendar year are determined by applying the MP-2020 mortality improvement scales (males and females) to all of these tables.

The most recent experience study was completed for the five-year period ended December 31, 2020.

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.

NOTE E – DEFINED BENEFIT PENSION PLANS (Continued)

The allocation of investment assets with the Defined Benefit Portfolio is approved by the Board of Trustees (the Board) as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2021 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Geometric)
Fixed Income	24.00 %	1.03 %
Domestic Equities	21.00	3.78
Real Estate	11.00	3.66
Private Equity	12.00	7.43
International Equities	23.00	4.88
Risk Parity	5.00	2.92
Other Investments	4.00	2.85
Total	100.00 %	4.21 %

Discount Rate: The discount rate used to measure the total pension liability was 6.9%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Division's Proportionate Share of the Net Pension Liability/(Asset) to Changes in the Discount Rate: The following table presents the Division's proportionate share of the net pension liability/(asset) calculated using the current period discount rate assumption of 6.9%, as well as what the Division's proportionate share of the net pension liability/(asset) would be if it were calculated using a discount rate that is one-percentage-point lower (5.9%) or one-percentage-point higher (7.9%) than the current rate:

	1% Decrease 5.9%	Current Discount Rate 6.9%	1% Increase 7.9%
	(Amounts in Thousands)		
Division's proportionate share of the net pension liability/ (asset)			
Traditional Plan	$ 93,872	$ 35,604	$ (12,882)
Combined Plan	(1,129)	(1,512)	(1,812)

NOTE F – DEFINED BENEFIT OPEB PLANS

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

The net OPEB liability/(asset) represents the Division's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB liability/(asset) 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 these estimates annually.

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

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

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

Plan Description – OPERS: OPERS administers three separate pension plans: the Traditional Pension Plan, a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan, a defined contribution plan; and the Combined Plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

NOTE F – DEFINED BENEFIT OPEB PLANS (Continued)

In order to qualify for postemployment health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of OPEB as described in GASB Statement No. 75. See OPERS' Annual Comprehensive Financial Report referenced below for additional information.

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

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

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2022, state and local employers contributed at a rate of 14.0% of earnable salary. This is the maximum employer contribution rates permitted by the ORC. Active member contributions do not fund health care.

Each year, the Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 0.0% for both plans in 2022. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2021 was 4.0%.

For the year ended December 31, 2022, OPERS did not allocate any employer contributions to the OPEB plan.

NOTE F – DEFINED BENEFIT OPEB PLANS (Continued)

OPEB Liability/(Asset), OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: The net OPEB liability/(asset) and total OPEB liability/(asset) were determined by an actuarial valuation as of December 31, 2020, rolled forward to the measurement date of December 31, 2021, by incorporating the expected value of health care cost accruals, the actual health care payment and interest accruals during the year. The Division's proportion of the net OPEB liability/(asset) was based on the Division's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	OPERS (Amounts in Thousands)	
Proportionate Share of the Net OPEB Liability/(Asset)	$	(12,624)
Proportion of Net OPEB Liability /(Asset):		0.403050%
Change in Proportion Share		(0.010887%)
OPEB Expense	$	(10,904)

At December 31, 2022, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	OPERS (Amounts in Thousands)	
Deferred Outflows of Resources		
Change in Division's proportionate share and difference in employer contributions	$	89
Total Deferred Outflows of Resources	$	89
Deferred Inflows of Resources		
Differences between expected and actual economic experience	$	1,915
Net difference between projected and actual earnings on OPEB plan investments		6,018
Change in assumptions		5,110
Change in Division's proportionate share and difference in employer contributions		183
Total Deferred Inflows of Resources	$	13,226

NOTE F – DEFINED BENEFIT OPEB PLANS (Continued)

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

	OPERS (Amounts in Thousands)	
Year Ending December 31:		
2023	$	(8,097)
2024		(2,861)
2025		(1,315)
2026		(864)
Total	$	(13,137)

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

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability/(asset) was determined by an actuarial valuation as of December 31, 2020, rolled forward to the measurement date as of December 31, 2021. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB Statement No. 74, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*:

Wage Inflation	2.75%
Projected Salary Increases, including inflation	2.75% to 10.75%
Single Discount Rate:	
Current Measurement Date	6.00%
Prior Measurement Date	6.00%
Investment Rate of Return	6.00%
Municipal Bond Rate:	
Current Measurement Date	1.84%
Prior Measurement Date	2.00%
Health Care Cost Trend Rate:	
Current Measurement Date	5.50%, initial 3.50% ultimate in 2034
Prior Measurement Date	8.50%, initial 3.50% ultimate in 2035
Actuarial Cost Method	Individual Entry Age

NOTE F – DEFINED BENEFIT OPEB PLANS (Continued)

Pre-retirement mortality rates are based on 130% of the Pub-2010 General Employee Mortality tables (males and females) for State and Local Government divisions and 170% of the Pub-2010 Safety Employee Mortality tables (males and females) for the Public Safety and Law Enforcement divisions. Post-retirement mortality rates are based on 115% of the PubG-2010 Retiree Mortality Tables (males and females) for all divisions. Post-retirement mortality rates for disabled retirees are based on the PubNS-2010 Disabled Retiree Mortality Tables (males and females) for all divisions. For all of the previously described tables, the base year is 2010 and mortality rates for a particular calendar year are determined by applying the MP-2020 mortality improvement scales (males and females) to all of these tables.

The most recent experience study was completed for the five-year period ended December 31, 2020.

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

The allocation of investment assets with the Health Care Portfolio is approved by the Board as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2021 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Geometric)
Fixed Income	34.00 %	0.91 %
Domestic Equities	25.00	3.78
Real Estate Investment Trust	7.00	3.71
International Equities	25.00	4.88
Risk Parity	2.00	2.92
Other Investments	7.00	1.93
Total	100.00 %	3.45 %

NOTE F – DEFINED BENEFIT OPEB PLANS (Continued)

During 2021, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio was a gain of 14.3% for 2021.

Discount Rate: A single discount rate of 6.00% was used to measure the total OPEB liability/(asset) on the measurement date of December 31, 2021. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on the actuarial assumed rate of return on the health care investment portfolio of 6.00% and a municipal bond rate of 1.84%. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through the year 2121. As a result, the actuarial assumed long-term expected rate of return on health care investments was applied to projected costs through the year 2121, the duration of the projection period through which projected health care payments are fully funded.

Sensitivity of the Division's Proportionate Share of the Net OPEB Liability/(Asset) to Changes in the Discount Rate: The following table presents the Division's proportionate share of the net OPEB liability/(asset) calculated using the single discount rate of 6.00%, as well as what the Division's proportionate share of the net OPEB liability/(asset) would be if it were calculated using a discount rate that is one-percentage-point lower 5.00% or one-percentage-point higher 7.00% than the current rate:

	1% Decrease 5.00%	Current Discount Rate 6.00%	1% Increase 7.00%
		(Amounts in Thousands)	
Division's proportionate share of the net OPEB liability/(asset)	$ (7,424)	$ (12,624)	$ (16,940)

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

NOTE F – DEFINED BENEFIT OPEB PLANS (Continued)

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2022 is 5.50%. If this trend continues for future years, the projection indicates that years from now virtually all expenses will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuarial projected premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.50% in the most recent valuation.

	1% Decrease 2.50%	Current Discount Rate 3.50%	1% Increase 4.50%
	(Amounts in Thousands)		
Division's proportionate share of the net OPEB liability/(asset)	$ (12,761)	$ (12,624)	$ (12,462)

NOTE G – LEASES

In June 2017, the GASB issued Statement No. 87, *Leases.* The Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources (*based on contract provisions*). Under this Statement, a lessor is required to recognize a lease receivable and deferred inflow of resources while a lessee is required to recognize a lease liability and deferred outflow of resources for each contract whose terms meet the definition of a lease. This recognition is intended to enhance the relevance and consistency of information about governments' leasing activities.

Leases Scope:

GASB 87 - Scope

Per GASB Statement No. 87, a lease is defined as, "A contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction." A contract conveys control if the user of the underlying asset possesses both: the right to obtain present service capacity and the right to determine the nature and manner of its use. The transaction is "exchange-like" when both parties receive and sacrifice something of approximate equal value.

Accounting treatment for leases required by the Statement applies to non-financial assets. Assets that are non-financial in nature including intangible assets, biological assets, inventory leases, supply contracts, and service concession arrangements are considered out of scope.

Accounting Treatment at Adoption: The Division is a lessee in all non-cancellable leases. In accordance with the GASB Statement No. 87, leases that commenced before the adoption date of January 1, 2022, are considered to have commenced on this date. All leases with base rent payments adjusted by an index or rate (e.g., Consumer Price Index) have measured their liabilities based upon the most recent adjustment as of January 1, 2022, unless otherwise noted.

NOTE G – LEASES (Continued)

Measurement of Lease Amounts as a Lessee:

The Division recognizes a lease liability and an intangible right-to-use (RTU) asset at the beginning of a lease. Lease liabilities are measured based on net present value of the future lease payments at inception using the rate explicit in the contract, the rate implicit in the contract, or the Division's incremental borrowing rate which is estimated using the Federal Home Loan Bank Community Development Advance (FHLB CDA) rate + 2.00% plus any lease incentives from the lessor. The lease liability is also measured with the inclusion of amounts required to be paid by the lessee under residual value guarantees, exercise price of a purchase option, and lease termination penalties – these are included only if there is reasonable certainty in the requirement to make such payments.

The RTU asset is measured at inception by adding to the lease liability net amounts exchanged with the lessor at or before commencement of the lease term and initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Other Conditions:

The Division assumes optional extension terms present in lease agreements will be exercised unless optional extension periods have undefined future payment terms - these terms are excluded in the calculation of lease term length unless otherwise noted. The Division did not incur expense related to residual value guarantees nor did the Division exercise a purchase option.

Short-term Leases:

For short-term lease contracts – defined as having a maximum possible term of 12 months or less - the Division recognizes expense based on the payment provisions of the lease contract.

Division as a Lessee:

General Description of Lessee Leasing Arrangements:

The Division leases communications sites from various non-governmental and governmental lessors. These leases have term end dates ranging from September 8, 2023 to November 30, 2045. The leases require fixed rent payments that escalate on the basis of CPI or a fixed percentage year-over-year.

Outflows Recognized in FY22 from Leases:

For fiscal year 2022, the Division recognized $108,000 and $63,000 for lease expense and interest expense, respectively.

Total Amount of Lease Assets and Accumulated Amortization:

For fiscal year 2022, the amount of RTU assets and related accumulated amortization were $1,396,000 and $108,000, respectively.

NOTE G – LEASES (Continued)

Schedule of Future Payments:

The table below represents the future expected minimum principal and interest amounts to be paid for the existing, in-scope GASB 87 leases:

Water Maturity Schedule
(Amounts in Thousands)

Year Ending December 31:	Principal	Interest
2023	$ 44	$ 61
2024	43	60
2025	47	57
2026	50	55
2027	53	53
2028 - 2032	317	223
2033 - 2037	374	144
2038 - 2042	366	50
2043 - 2047	52	3

Variable Outflows:

Variable outflows not fixed in substance are excluded from the measurement of the lease liability and are recognized as lease expenses in the period in which the obligation for those payments is incurred. For fiscal year 2022, the Division recognized $4,000 for variable outflows related to a prior period rent payment shortfall.

NOTE H – CONTINGENT LIABILITIES AND RISK MANAGEMENT

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

Risk Management: The Division is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Division is generally self-insured. No material losses, including incurred but not reported losses, occurred in 2022.

The City provides the choice of two separate health insurance plans to its employees. The operating funds are charged a monthly rate per employee by type of coverage. The City participates in the State of Ohio workers' compensation retrospective rating program.

NOTE H – CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

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

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

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

NOTE I – 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 from the Division of Water Pollution Control for such services was approximately $2,258,000 in 2022. The Division also provides miscellaneous services to other departments and divisions of the City. Revenue realized from such services was approximately $1,813,000 in 2022.

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, 2022 was as follows:

		(Amounts in Thousands)
Electricity Purchases	$	16,695
Utilities Administration and Utilities Fiscal Control		9,781
City Administration		4,752
Motor Vehicle Maintenance		3,891
Telephone Exchange		494

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2022

NOTE J – CUYAHOGA COUNTY REAL PROPERTY TAXES

The Division is required by ordinance to keep records of the estimated property taxes which would be payable to Cuyahoga County were it subject to such taxes. The estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately $4,867,000 for December 31, 2022.

NOTE K – SUBSEQUENT EVENTS

The Division was the recipient of multiple loan awards from the OWDA beginning in 2023. They comprise both a principal forgiveness portion totaling $13,463,000 and a loan repayment portion totaling $12,027,000. The loan repayment term is for 20 years at a 0% interest rate and the first repayment is due on January 1, 2024.

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

Required Supplementary Information

Schedule of the Division's Proportionate Share of the Net Pension Liability/(Asset)
Ohio Public Employees Retirement System
Last Nine Years (1), (2)

	Division's Proportion of the Net Pension Liability/ (Asset)	Division's Proportionate Share of the Net Pension Liability/ (Asset)	Division's Covered Payroll	Division's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability/(Asset)
		(Amounts in Thousands)			
Traditional:					
2014	0.411161 %	$ 48,397	$ 46,600	103.86 %	86.36 %
2015	0.411161	49,432	51,458	96.06	86.45
2016	0.396321	69,902	50,533	138.33	81.08
2017	0.379883	87,844	50,392	174.32	77.25
2018	0.395659	62,889	52,731	119.26	84.66
2019	0.407826	111,359	58,257	191.15	74.70
2020	0.403071	78,470	60,729	129.21	82.17
2021	0.419953	57,896	63,193	91.62	86.88
2022	0.409225	35,604	64,879	54.88	92.62
Combined:					
2022	0.383853	(1,512)	64,879	(2.33)	169.88

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

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

Note to Schedule:
Change in assumptions. There were not changes in the methods or assumptions used in the calculation of actuarial determined contributions for 2014-2016. For 2017, the following were the most significant changes in assumptions that affected the total pension liability since the prior measurement date: (a) a reduction of the discount rate from 8.0% to 7.5%, (b) for defined benefit investments, decreasing the wage inflation rate from 3.75% to 3.25% and (c) changing the future salary increases from a range of 4.25%-10.05% to 3.25%-10.75%. There were no changes in assumption in 2018. For 2019, the following was the most significant change that affected the total pension since the prior measurement date: (a) the assumed rate of return and discount rate were reduced from 7.5% to 7.2%. There were no changes in assumptions in 2020 and 2021. For 2022, the most significant changes of assumptions that affected the total pension liability/(asset) since the prior measurement date was the assumed rate of return and discount rate were reduced from 7.2% down to 6.9%.

In 2022, the Division presented the Combined Pension Plan separately. In prior years it was netted with the Traditional Pension Plan.

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

Required Supplementary Information (Continued)

Schedule of Contributions - Net Pension Liability/(Asset)
Ohio Public Employees Retirement System
Last Ten Years (1)

	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Division's Covered Payroll	Contributions as a Percentage of Covered Payroll
			(Amounts in Thousands)		
2013	$ 6,058	$ (6,058)	$ -	$ 46,600	13.00 %
2014	6,175	(6,175)	-	51,458	12.00
2015	6,064	(6,064)	-	50,533	12.00
2016	6,047	(6,047)	-	50,392	12.00
2017	6,855	(6,855)	-	52,731	13.00
2018	8,156	(8,156)	-	58,257	14.00
2019	8,502	(8,502)	-	60,729	14.00
2020	8,847	(8,847)	-	63,193	14.00
2021	9,083	(9,083)	-	64,879	14.00
2022	8,395	(8,395)	-	59,964	14.00

(1) Represents Division’s calendar year.

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

Required Supplementary Information (Continued)

Schedule of the Division's Proportionate Share of the Net OPEB Liability / (Asset)
Ohio Public Employees Retirement System
Last Six Years (1), (2)

	Division's Proportion of the Net OPEB Liability / (Asset)	Division's Proportionate Share of the Net OPEB Liability / (Asset)	Division's Covered Payroll	Division's Proportionate Share of the Net OPEB Liability / (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability / (Asset)
			(Amounts in Thousands)		
2017	0.373155 %	$ 37,690	$ 50,392	74.79 %	54.04 %
2018	0.389228	42,077	52,731	79.80	54.14
2019	0.403070	51,511	58,257	88.42	46.33
2020	0.397503	53,900	60,729	88.75	47.80
2021	0.413937	(7,375)	63,193	(11.67)	115.57
2022	0.403050	(12,624)	64,879	(19.46)	128.23

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

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

Note to Schedule:

In 2018, the single discount rate changed from 4.23% to 3.85%. In 2019, the single discount rate changed from 3.85% to 3.96%, the investment rate changed from 6.50% to 6.00% and the health care cost trend rate changed from 7.5% initial to 10.0% initial. In 2020, the single discount rate changed from 3.96% to 3.16% and the health care cost trend rate changed from 10.0% initial, 3.25% ultimate in 2029 to 10.5% initial, 3.50% ultimate in 2030. In 2021, the single discount rate changed from 3.16% to 6.00% and the health care cost trend rate changed from 10.50% initial, 3.50% ultimate in 2030 to 8.50% initial, 3.50% ultimate in 2035. Also in 2021, the net OPEB liability changed to a net OPEB asset. In 2022, the health care cost trend rate changed from 8.50% initial, 3.50% ultimate in 2035 to 5.50% initial, 3.50% ultimate in 2034.

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

Required Supplementary Information (Continued)

Schedule of Contributions - Net OPEB Liability/(Asset)
Ohio Public Employees Retirement System
Last Seven Years (1), (2), (3)

	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Division's Covered Payroll	Contributions as a Percentage of Covered Payroll
	(Amounts in Thousands)				
2016	$ 1,008	$ (1,008)	$ -	$ 50,392	2.00 %
2017	527	(527)	-	52,731	1.00
2018	-	-	-	58,257	0.00
2019	-	-	-	60,729	0.00
2020	-	-	-	63,193	0.00
2021	-	-	-	64,879	0.00
2022	-	-	-	59,964	0.00

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

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

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