CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER

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

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

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

Effect of Adopting New Accounting Standards

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 28, 2016

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

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

The Division was created in 1906 and charged with the responsibility for the distribution of electricity and related electric service to customers within its service areas. The Division operates a municipal electric system that is the largest in the State of Ohio and the thirty-ninth largest in the United States according to the American Municipal Power Association's statistics for 2013. The Division serves an area that is bound by the City limits and presently serves approximately 73,500 customers.

The Division is one of the very few municipal electric companies in the United States that competes with an investor-owned utility, in this case First Energy Corporation's Cleveland Electric Illuminating Company (CEI).

According to the most recent census estimates, the City's population is 397,000 people. There are approximately 216,000 residential dwelling units and 11,000 commercial units. The Division has distribution facilities in about 60% of the geographical area of the City, primarily on the east side.

The Division obtains substantially all of its power and energy requirements through agreements with various regional utilities and other power suppliers for power delivered through CEI interconnections. The balance of the Division's power and energy requirements are satisfied with production from the Division's three combustion turbine generating units and various arrangements for the exchange of short-term power and energy. To reduce its reliance on the wholesale market, the Division's long-term base load supply will include a mix of power provided by participation in American Municipal Power (AMP) Inc. hydroelectric projects, the Fremont Energy Center, the Prairie State Energy Campus project and new/emerging alternative energy technologies.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The Division's net position was $197,277,000 and $198,384,000 at December 31, 2015 and 2014, respectively. Of these amounts, $28,268,000 and $27,190,000 are unrestricted net position at December 31, 2015 and 2014, respectively, which may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's total net position decreased by $1,107,000 in 2015. The decrease in net position is primarily due to a loss on the disposal of assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL HIGHLIGHTS (Continued)

- The implementation of Governmental Accounting Standards Board (GASB) Statement No. 68 *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* restated the Division's December 31, 2014, net position from $212,390,000 to $198,384,000. For further information see Note L.

- The Division's total long-term bonded debt decreased by $7,500,000 for the year ended December 31, 2015. The decrease is attributed to scheduled payments to bondholders.

- Operating revenue increased by $11,018,000 or 6.1%. Purchased power increased by $7,876,000 or 6.8% and total operating expenses increased by $12,192,000 or 7.1% for 2015.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Division's basic financial statements. The accompanying financial statements present financial information for the City's Division of Cleveland Public Power Fund, in which the City accounts for the operations of the Department of Public Utilities, Division of Cleveland Public Power. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The basic financial statements of the Division can be found on pages 16 - 21 of this report. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 23 – 45 of this report. Required supplementary information can be found on pages 46-47.

CONDENSED STATEMENT OF NET POSITION INFORMATION

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

	2015	Restated 2014
	(In thousands)	
Assets:		
Capital assets, net of accumulated depreciation	$ 353,724	$ 353,620
Restricted assets	21,574	30,342
Current assets	84,203	79,806
Total assets	459,501	463,768
Deferred outflows of resources	18,856	19,496
Total assets and deferred outflows of resources	478,357	483,264
Net Position, liabilities and deferred inflows of resources:		
Net Position:		
Net investment in capital assets	165,505	166,363
Restricted for capital projects	473	482
Restricted for debt service	3,031	4,349
Unrestricted	28,268	27,190
Total net position	197,277	198,384
Liabilities:		
Long-term obligations	248,855	255,224
Current liabilities	29,246	29,656
Total liabilities	278,101	284,880
Deferred Inflows of Resources	2,979	
Total net position, liabilities and deferred inflows of resources	$ 478,357	$ 483,264

Restricted assets*:* The Division's restricted assets decreased by $8,768,000. The decrease is primarily related to use of revenue bond funds for capital project expenses.

Current assets: The Division's current assets increased by $4,397,000 in 2015. The increase is due mainly to an increase of $9,488,000 in unrestricted cash and cash equivalents as well as an increase of $3,192,000 in net accounts receivable, offset by a decrease of $7,936,000 in recoverable costs of purchased power.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

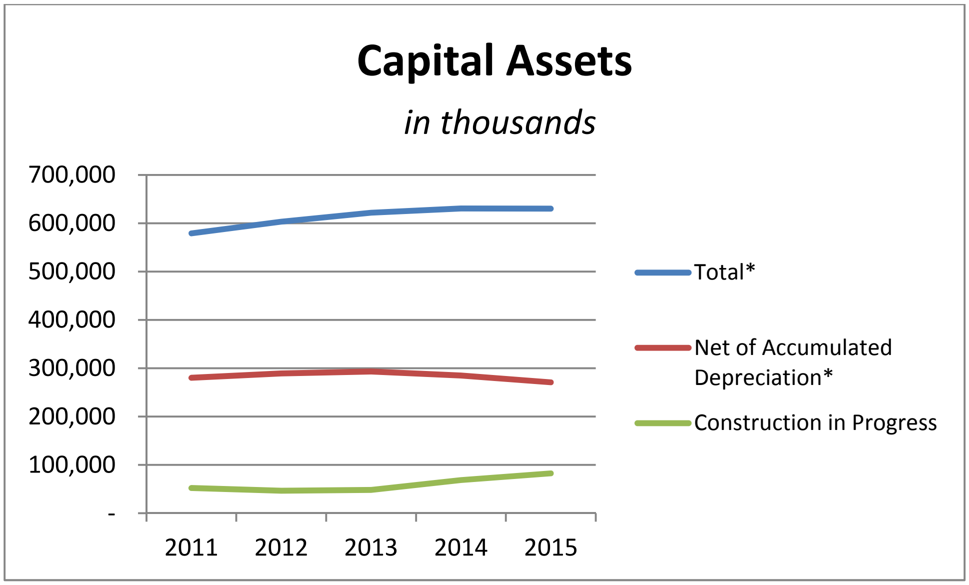
Capital assets: The Division's capital assets as of December 31, 2015, amounted to $353,724,000 (net of accumulated depreciation). The total increase in the Division's net capital assets for the current year was $104,000. A summary of the activity in the Division's capital assets during the year ended December 31, 2015 is as follows:

	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015
	(In thousands)			
Land	$ 5,029	$ 539	$	$ 5,568
Land improvements	305			305
Utility plant	520,125	4,981	(6,635)	518,471
Buildings, structures and improvements	21,315	795		22,110
Furniture, fixtures, equipment and vehicles	83,418	766	(764)	83,420
Construction in progress	68,752	17,731	(3,789)	82,694
Total	698,944	24,812	(11,188)	712,568
Less: Accumulated depreciation	(345,324)	(18,511)	4,991	(358,844)
Capital assets, net	$ 353,620	$ 6,301	$ (6,197)	$ 353,724

The principal additions to construction in progress during 2015 included the following:

- Denison Ave.
- Ridge Road Substation
- Public Square
- Flats East Bank Phase II

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)



* Construction in Progress not included

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

Current liabilities: The decrease in current liabilities of $410,000 in 2015 is mainly due to the decrease of $4,115,000 in due to other City of Cleveland divisions. The decrease was partially offset by an increase in other accrued expenses, mainly due to costs associated with the cleanup of an oil spill that occurred in April, 2015. For further information see Note K.

Pension Liability: During 2015, the Division adopted GASB Statements No. 68 and 71 which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Division's actual financial condition by adding deferred inflows of resources related to pension and the net pension liability to the reported net position and subtracting deferred outflows of resources related to pension.

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

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

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

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

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

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

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

As a result of implementing GASB Statement No. 68, the Division is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2014, from $212,390,000 to $198,384,000.

Long-term obligations: The long-term obligations decrease of $6,369,000 in 2015 is mainly due to scheduled revenue bonds payments of $7,500,000 offset by an increase in accreted interest payable of $2,129,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

At December 31, 2015, the Division had total bonded debt outstanding of $222,273,000. All bonds are backed by the revenues generated by the Division.

The Division issued revenue bonds in the public capital markets in the late 1980's and early 1990's to finance a substantial expansion to its service territory. The Division also issued bonds in April 2008 for system expansion. In 2006, 2010 and 2012, the Division issued bonds to refinance a portion of its long-term debt. In 2014, the Division issued refunding bonds for the purpose of leveling the Division's debt service payments over the life of the debt. This outstanding debt is being retired in accordance with repayment schedules through 2038.

Accreted interest payable will increase every year until 2025, due to interest accruing on the Division's 2008B Capital Appreciation Bonds (CABs). Payments of the accreted amount will begin in 2025.

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

	Balance January 1, 2015	Debt Issued	Debt Retired	Balance December 31, 2015
	(In thousands)			
Revenue Bonds:				
Revenue Bonds 2006 A-1	$ 45,285	$	$	$ 45,285
Revenue Bonds 2006 A-2	6,015		(1,580)	4,435
Revenue Bonds 2008 A	19,040			19,040
Revenue Bonds 2008 B-1	39,735			39,735
Revenue Bonds 2008 B-2	27,903			27,903
Revenue Bonds 2010	14,910		(5,920)	8,990
Revenue Bonds 2014	76,885			76,885
Total	$ 229,773	$ -	$ (7,500)	$ 222,273

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

The bond ratings for the Division's outstanding revenue bonds are as follows:

Moody's Investors Service	Standard & Poor's
A3	A-

The ratio of net revenue available for debt service to debt service requirements (revenue bond coverage) is a useful indicator of the Division's debt position to management, customers and creditors. The Division's revenue bond coverage for 2015 and 2014 was 150% and 147%, respectively. Additional information on the Division's long-term debt can be found in Note B to the basic financial statements on pages 27 - 31.

Net Position: Net position serves as a useful indicator of a government's financial position. In the case of the Division, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $197,277,000 and $198,384,000 at December 31, 2015 and 2014, respectively.

Of the Division's net position at December 31, 2015, $165,505,000 reflects the Division's investment in capital assets (e.g., land, buildings, utility plant, furniture, fixtures, vehicles and equipment), net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. 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.

In addition, $473,000 denotes funds restricted for use in capital projects and $3,031,000 represents resources subject to debt service restrictions. The remaining $28,268,000 reflects unrestricted funds available to meet the Division's ongoing obligations to customers and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

The Division had a net loss of $1,107,000 in 2015. Provided below are key elements of the Division's results of operations as of and for the years ended December 31, 2015 and 2014:

	2015	2014
	(In thousands)	
Operating revenues	$ 192,861	$ 181,843
Operating expenses	184,661	172,469
Operating income (loss)	8,200	9,374
Non-operating revenue (expense):		
Investment income	73	37
Interest expense	(10,462)	(9,285)
Amortization of bond premiums and discounts	478	(133)
Gain (loss) on disposal of assets	(2,551)	
Other	3,155	3,995
Total non-operating revenue (expense), net	(9,307)	(5,386)
Change in net position	$ (1,107)	$ 3,988

- ***Operating revenues***: In 2015, operating revenues increased by $11,018,000, mostly from increased power costs passed on to customers through the Energy Adjustment Charge (EAC). There was a 0.1% decrease in KWH sold.

- ***Operating expenses:*** In 2015, operating expenses increased by $12,192,000. The principal component of the increase is related to the $7,876,000 escalation in the cost of purchased power, due to fluctuations in the energy market. Expenses associated with operations grew $3,950,000. The primary component of the increase is related to costs connected to the remediation of an oil spill totaling $5,357,000 (see Note K). Total employee and fringe benefit costs increased by $521,000 or 2.2%. The increases were partially offset by a decrease in bad debt expense of $1,303,000.

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

Non-pension expense: The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB Statement No. 68 are not available. Therefore, 2014 expenses still include pension expense of $2,048,000 computed under GASB Statement No. 27. GASB Statement No. 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB Statement No. 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows of resources. The contractually required contribution is no longer a component of pension expense. Under GASB Statement No. 68, the 2015 statements report pension expense of $1,813,000. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

	(Amounts in 000's)
Total 2015 expenses under GASB 68	$ 197,674
Pension expense under GASB 68	(1,813)
2015 contractually required contribution	2,133
Adjusted 2015 program expenses	197,994
Total 2014 expenses under GASB 27	(181,887)
Increase in expenses not related to pension	$ 16,107

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

As a municipally-owned utility, the Division's mission is to improve the quality of life in the City by providing reliable, affordable energy and energy services to the residents and businesses of the City. The Division is currently evaluating strategic options to address competitive factors likely to impact the Division over the next several years.

The Capacity Expansion Program has been an ongoing project for the Division. Two major components remain and are expected to be completed in the future. The Capacity Expansion Program is designed to support and improve the Division's electric system reliability and provide for future load growth opportunities.

Southern Project: Construction is beginning on the Southern Project. In 2014, the Division acquired easements for the project. The Southern Project includes modification of the Ridge Road Substation to create a ring bus to support the new 138 kV transmission loop which routes from Ridge Road Substation to the newly completed Pofok Substation. A portion of the 138 kV transmission line will be underground. The Division has successfully partnered with the City, Cuyahoga County and the Ohio Department of Transportation to combine the construction of the duct line with a streetscapes project. The joint project lessens the Division's costs while simultaneously reducing construction related disturbances. The design is complete on the duct line and an award was made in January 2014 for the construction of the duct line. The overhead portion of the 138 kV transmission line will complete the loop. Land acquisition is complete and bid package for pole procurement will be ready for bid in May 2016.

FACTORS EXPECTED TO IMPACT THE DIVISION'S FUTURE FINANCIAL POSITION OR RESULTS OF OPERATIONS (CONTINUED)

The Southern Transmission Line: The Southern Transmission Line will be built to provide additional reliability to the Division's system and has an anticipated in service date of the 4th quarter in 2017.

Lake Road Project: The Lake Road Project includes the construction of a duct line and feeder cables to the 11th Street Substation. The refeeding of the 11th Street Substation will increase capacity in this area of downtown and along the corridor between the Lake Road Substation and the 11th Street Substation. In addition, a new step-up substation known as the South Marginal Substation is complete. It provides capacity from the 11.5 kV distribution system located downtown to a portion of the 13.8 kV distribution system situated east and southeast of downtown. The Lake Road Substation was energized and placed into service in the 2nd quarter of 2015.

The Division is focusing its marketing efforts on those sections of the City that were part of its earlier system expansion to increase the density of customers served. As the Division competes with CEI in these areas, density is measured as the number of the Division's customers on a given street versus the total customers available on that street. New customers can be added with little additional expense.

The Division purchases most of its power requirements via contracts in the power markets. The Division is reducing its dependence on the purchased power market by acquiring interests in certain generating facilities. The Division's long-term base load supply will include a mix of power provided by participation in AMP Inc. hydroelectric projects, the Fremont Energy Center, the Prairie State Energy Campus project and new/emerging alternative energy technologies. The Division is currently scheduled to purchase a total of approximately 50 MW from the AMP Inc.'s hydroelectric projects, which are expected to be in operation in 2016. The Division purchases 25 MW from AMP Inc.'s share of the Prairie State Energy Campus project, an Illinois coal-fired generating plant that came on-line in November 2012. The Division also purchases 60-80 MW from the Fremont Energy Center, a 707 MW natural gas-fired generating plant, which came on-line in January 2012. Like other power expenses, the Division's payments for the Prairie State and Fremont projects power will be an operating expense for the Division as purchased power and the cost will be passed through to its customers via an Energy Adjustment Charge (EAC) on its bills. As power costs rise, sales revenue will also increase commensurately through the EAC.

The Division owns and operates approximately 67,000 street lights, including 18,000 that were purchased in 2008 from CEI for $4,000,000. The Division provides street lighting service to its customer, the City of Cleveland, under a published rate schedule. CEI will continue to provide the power to street lights where the Division lacks distribution facilities but will charge an energy-based rate under CEI's tariff for municipally-owned street lights. The Division intends to continue to charge the City the current CEI rate for the newly acquired lights for eight years until September 2016, after which the lights will be billed at the Division's then-current standard rate. In addition to adding a new revenue stream, the transfer will enable the City to avoid future increases in CEI's street lighting tariff charges, potentially affecting the General Fund, and will allow for improved maintenance of the new lights by increasing responsiveness.

In early 2001, Ohio Electric Choice legislation created a new kilowatt-hour excise tax on electric power distributed to end-users of electricity in the State by both investor-owned and municipal utilities. For municipal utilities, the State law requires the utility to remit the tax receipts to the municipality's General Fund. Ordinance No. 1350-14 was passed in December 2014, authorizing the General Fund to return 50% of the excise tax to the Division for calendar years' 2015 and 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FACTORS EXPECTED TO IMPACT THE DIVISION'S FUTURE FINANCIAL POSITION OR RESULTS OF OPERATIONS (CONTINUED)

ADDITIONAL INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENT OF NET POSITION
For the Year Ended December 31, 2015

	(*In thousands*)
	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
CAPITAL ASSETS	
Land	$ 5,568
Land improvements	305
Utility plant	518,471
Buildings, structures and improvements	22,110
Furniture, fixtures, equipment and vehicles	83,420
	629,874
Less: Accumulated depreciation	(358,844)
	271,030
Construction in progress	82,694
CAPITAL ASSETS, NET	353,724
RESTRICTED ASSETS	
Cash and cash equivalents	21,574
TOTAL RESTRICTED ASSETS	21,574
CURRENT ASSETS	
Cash and cash equivalents	57,358
Restricted cash and cash equivalents	2,004
Receivables:	
Accounts receivable - net of allowance for doubtful accounts of $10,154,000 in 2015	9,191
Recoverable costs of purchased power	1,698
Unbilled revenue	2,527
Due from other City of Cleveland departments, divisions or funds	2,850
Materials and supplies - at average cost	8,408
Prepaid expenses	167
TOTAL CURRENT ASSETS	84,203
DEFERRED OUTFLOWS OF RESOURCES	
Unamortized loss on debt refunding	15,844
Pension	3,012
	18,856
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 478,357

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENT OF NET POSITION
For the Year Ended December 31,2015

	(In thousands) 2015
NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	
NET POSITION	
Net investment in capital assets	$ 165,505
Restricted for capital projects	473
Restricted for debt service	3,031
Unrestricted	28,268
TOTAL NET POSITION	197,277
LIABILITIES	
LONG-TERM OBLIGATIONS-excluding amounts due within one year	
Revenue bonds	215,039
Accreted interest payable	13,836
Accrued wages and benefits	437
Other	3,146
Net pension liability	16,397
TOTAL LONG-TERM OBLIGATIONS	248,855
CURRENT LIABILITIES	
Current portion of long-term debt, due within one year	8,055
Accounts payable	10,014
Current payable from restricted assets	2,004
Due to other City of Cleveland departments, divisions or funds	1,099
Accrued interest payable	1,232
Current portion of accrued wages and benefits	2,410
Other accrued expenses	3,392
Customer deposits and other liabilities	1,040
TOTAL CURRENT LIABILITIES	29,246
TOTAL LIABILITIES	278,101
DEFERRED INFLOWS OF RESOURCES	
Excess purchased power costs	2,679
Pension	300
TOTAL DEFERRED INFLOWS OF RESOURCES	2,979
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	$ 478,357

See notes to financial statements.

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CITY OF CLEVELAND, OHIO

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

	(In thousands) 2015
OPERATING REVENUES	
Charges for services	$ 192,861
TOTAL OPERATING REVENUES	192,861
OPERATING EXPENSES	
Purchased power	123,799
Operations	24,638
Maintenance	17,713
Depreciation	18,511
TOTAL OPERATING EXPENSES	184,661
OPERATING INCOME (LOSS)	8,200
NON-OPERATING REVENUE (EXPENSE)	
Investment income	73
Interest expense	(10,462)
Amortization of bond premiums and discounts	478
Gain (loss) on disposal of assets	(2,551)
Other	3,155
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	(9,307)
INCREASE (DECREASE) IN NET POSITION	(1,107)
NET POSITION AT BEGINNING OF YEAR, AS RESTATED	198,384
NET POSITION END OF YEAR	$ 197,277

See notes to financial statements.

CITY OF CLEVELAND, OHIO

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

	(In thousands) **2015**
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 195,533
Cash payments to suppliers for goods or services	(19,287)
Cash payments to employees for services	(20,495)
Cash payments for purchased power	(117,233)
Electric excise tax payments to agency fund and other	(5,408)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	33,110
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Electric Deregulation tax receipts	3,068
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	3,068
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(17,296)
Principal paid on long-term debt	(7,500)
Interest paid on long-term debt	(10,410)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(35,206)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received on investments	75
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	75
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,047
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	79,889
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 80,936

CITY OF CLEVELAND, OHIO

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

	(In thousands) 2015
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	
OPERATING INCOME (LOSS)	$ 8,200
Adjustments:	
Depreciation	18,511
(Increase) decrease in assets:	
Accounts receivable, net	(3,192)
Unbilled revenue	63
Recoverable costs of purchased power	7,936
Due from other City of Cleveland departments, divisions or funds	203
Materials and supplies, net	408
Deferred outflows of resources related to pensions	(964)
Increase (decrease) in liabilities:	
Accounts payable	353
Due to other City of Cleveland departments, divisions or funds	(4,115)
Accrued wages and benefits	(161)
Other accrued expenses	2,952
Customer deposits and other liabilities	(97)
Other long-term liabilities	(309)
Net pension liability	343
Deferred inflows of resources from excess purchased power costs	2,679
Deferred inflows of resources related to pensions	300
TOTAL ADJUSTMENTS	24,910
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 33,110

See notes to financial statements.

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Recoverable Costs of Purchased Power: The Division passes through certain power costs to the customer as Energy Adjustment Charges. The power costs related to recoverable costs of purchased power will be billed to customers in future billing periods.

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

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

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

For 2015, total interest costs incurred amounted to $13,921,000, of which $3,458,000 was capitalized, net of interest income of $1,000.

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.

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

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

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

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

NOTE B - DEBT AND OTHER LONG-TERM OBLIGATIONS

Long-term debt outstanding at December 31, 2015 is as follows:

	Interest Rate	Original Issuance	2015
		(In thousands)	
Revenue Bonds:			
Series 2006 A-1, due through 2024	5.00%	$ 95,265	$ 45,285
Series 2006 A-2, due through 2016	5.00%	12,295	4,435
Series 2008 A, due through 2024	4.00%-4.50%	21,105	19,040
Series 2008 B-1, due through 2038	4.00%-5.00%	44,705	39,735
Series 2008 B-2, due through 2038	5.13%-5.40%	27,903	27,903
Series 2010, due through 2017	5.00%	23,915	8,990
Series 2014, due through 2038	5.50%	76,885	76,885
		$ 302,073	$ 222,273
Less:			
Unamortized premium (discount)-current interest bonds (net)			821
Current portion			(8,055)
Total Long-Term Debt			$ 215,039

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

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

	Balance January 1, 2015	Increase	Decrease	Balance December 31, 2015	Due Within One Year
			(In thousands)		
Revenue Bonds:					
Series 2006 A-1, due through 2024	$ 45,285	$	$	$ 45,285	$
Series 2006 A-2, due through 2016	6,015		(1,580)	4,435	4,435
Series 2008 A, due through 2024	19,040			19,040	
Series 2008 B-1, due through 2038	39,735			39,735	
Series 2008 B-2, due through 2038	27,903			27,903	
Series 2010, due through 2017	14,910		(5,920)	8,990	3,620
Series 2014, due through 2038	76,885			76,885	
Total revenue bonds	229,773	-	(7,500)	222,273	8,055
Accrued wages and benefits	3,008	2,411	(2,572)	2,847	2,410
Net pension liability	16,054	343		16,397	
Total	$248,835	$2,754	$(10,072)	$241,517	$10,465

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

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

	Principal	Interest	Total
	(In thousands)		
2016	$ 8,055	$ 9,859	$ 17,914
2017	8,455	9,457	17,912
2018	8,845	9,065	17,910
2019	9,255	8,655	17,910
2020	9,685	8,226	17,911
2021 - 2025	51,652	37,908	89,560
2026 - 2030	42,957	46,596	89,553
2031 - 2035	49,293	40,263	89,556
2036 - 2038	34,076	19,656	53,732
Total	$ 222,273	$ 189,685	$ 411,958

The City has pledged future power system revenues, net of specified operating expenses, to repay $222,273,000 in various Public Power System Revenue Bonds issued in various years since 2006. Proceeds from the bonds provided financing for Public Power System improvements. The bonds are payable from Public Power System net revenues and are payable through 2038. Annual principal and interest payments on the bonds are expected to require less than 67% of net revenues. The total principal and interest remaining to be paid on the various Public Power System Revenue Bonds is $411,958,000. Principal and interest paid for the current year and total net revenues were $17,910,000 and $26,784,000, respectively.

Effective October 30, 2014, the City issued $76,885,000 Public Power System Taxable Revenue Refunding Bonds, Series 2014. These bonds were issued to refund $68,745,000 of outstanding Public Power System Bonds for the purpose of restructuring the Division's debt in order to level out the annual principal and interest payments over the life of the Division's bonds. The 2014 Bonds refunded $49,980,000 of outstanding Series 2006A-1 Bonds, $6,280,000 of Series 2006A-2 Bonds, $2,065,000 of Series 2008A Bonds, $2,145,000 of Series 2008B-1 Bonds, $415,000 of Series 2010 Bonds and $7,860,000 of Series 2012 Bonds. Net proceeds of $75,755,473 were placed in an irrevocable trust account to pay the principal and interest on the refunded bonds as it comes due. Consequently, the refunded bonds were defeased and the liability for these bonds has been removed from long-term debt. As a result of this restructuring, the Division will pay approximately $4 million less in annual debt service payments through 2024, with yearly debt service payments of approximately $18 million from 2014 through 2038.

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

The Division has, at various times, defeased certain revenue bonds by placing the proceeds of new bonds into 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 aggregate amount of defeased debt outstanding at December 31, 2015 is as follows:

Bond Issue	2015 (In thousands)
Series 2006A-1	$ 49,980
Series 2006A-2	6,280
Series 2008A	2,065
Series 2008B-1	1,130
Total	$ 59,455

Revenue bonds are payable from the revenues derived from operations of the Public Power System, after the payment of all operating and maintenance expenses (net revenues). The bonds are collateralized by a pledge of and lien on such net revenues and the special funds described below.

The indenture requires that, at all times, the Division will charge rates and fees for the products and services of the Public Power System. Revenues will be at least sufficient to provide funds for the payment in each year of the necessary operating and maintenance expenses of the power system and an amount equal to 1.25 times the payments of principal and interest on the revenue bonds then outstanding and due in that year. As of December 31, 2015, the Division was in compliance with the terms and requirements of the bond indenture. The indenture establishes the following fund accounts for the application of revenues:

Revenue Fund: All revenues will be deposited into this fund and will be used for payment of current operating expenses and deposits into other funds.

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

Debt Service Reserve Fund: Deposits will be made to this fund if the required amount in the debt service reserve fund at any time is less than the debt service reserve requirement. However, the Division has elected, pursuant to provisions of the indenture governing the Division's bonds, to satisfy the bond reserve requirement with a surety bond in an aggregate amount at least equal to the bond reserve requirement. The Series 2014 Bonds are not secured by the debt service reserve fund.

Renewal and Replacement Fund: The balance in this fund is maintained at a minimum of $1,000,000 and is to be applied against the cost of repair or replacement of capital assets in order to maintain the system.

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

Construction Fund: The proceeds from Series 1991, Series 1994 and Series 2008 Bonds of $12,050,000, $79,386,000, and $72,608,000, respectively, were deposited into this fund to be used, along with earnings from investments of amounts held therein, for the payment of capital costs. As of December 31, 2015, the Division had $17,893,000 of outstanding commitments for future construction that will be funded by available bond proceeds and operating revenue. Capital costs include all costs of additions, extensions, renewals, replacements, alterations, betterments and any other capital improvements to the system. Amounts held in this fund are subject to a lien in favor of bondholders and may be used to pay principal of outstanding bonds to the extent that amounts in all other funds are insufficient. No payment needs to be made into a fund if the amounts in such fund are equal to the required fund balance, if any.

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

NOTE C - DEPOSITS AND INVESTMENTS

Deposits: At December 31, 2015, the Division's carrying amount of deposits totaled $12,765,000 and the Division's bank balances totaled $13,382,000. The differences represent positions in pooled bank accounts and normal reconciling items. Based on the criteria described in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*, $13,382,000 of the bank balances at December 31, 2015, was insured or collateralized with securities held by the City or by its agent in the City's name.

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

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

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

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

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

Type of Investment	2015 Fair Value	2015 Cost	Investment Maturities Less than One Year
		(In thousands)	
STAROhio	$ 46,109	$ 46,109	$ 46,109
Commercial Paper	1,136	1,136	1,136
Mutual Funds	20,926	20,926	20,926
Total Investments	68,171	68,171	68,171
Total Deposits	12,765	12,765	12,765
Total Deposits and Investments	$ 80,936	$ 80,936	$ 80,936

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

As of December 31, 2015, the investments in STAROhio, commercial paper and mutual funds are approximately 67%, 2% and 31%, respectively, of the Division’s total investments.

NOTE D - CAPITAL ASSETS

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

	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015
	(In thousands)			
Capital assets, not being depreciated:				
Land	$ 5,029	$ 539	$	$ 5,568
Construction in progress	68,752	17,731	(3,789)	82,694
Total capital assets, not being depreciated	73,781	18,270	(3,789)	88,262
Capital assets, being depreciated:				
Land improvements	305			305
Utility plant	520,125	4,981	(6,635)	518,471
Buildings, structures and improvements	21,315	795		22,110
Furniture, fixtures, equipment and vehicles	83,418	766	(764)	83,420
Total capital assets, being depreciated	625,163	6,542	(7,399)	624,306
Less: Accumulated depreciation	(345,324)	(18,511)	4,991	(358,844)
Total capital assets being depreciated, net	279,839	(11,969)	(2,408)	265,462
Capital assets, net	$ 353,620	$ 6,301	$ (6,197)	$ 353,724

Commitments: The Division has outstanding commitments of approximately $37,608,000 for future capital expenditures at December 31, 2015. It is anticipated that these commitments will be financed from the Division's cash balances; however, at the discretion of the Division, additional long-term debt may be issued in the future to finance a portion of the costs.

NOTE E - DEFINED BENEFIT PENSION PLAN

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

NOTE E - DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

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

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

NOTE E - DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

NOTE E - DEFINED BENEFIT PENSION PLAN (Continued)

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

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Division's contractually required contribution was $2,133,000 for 2015. All required payments have been made.

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

	OPERS (Amounts in 000's)
Proportionate Share of the Net Pension Liability	$ 16,397
Proportion of the Net Pension Liability	0.136385%
Pension Expense	$ 1,813

NOTE E - DEFINED BENEFIT PENSION PLAN (Continued)

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

	OPERS (Amounts in 000's)
Deferred Outflows of Resources	
Net difference between projected and actual earnings on pension plan investments	$ 879
Division's contributions subsequent to the measurement date	2,133
Total Deferred Outflows of Resources	$ 3,012
Deferred Inflows of Resources	
Differences between expected and actual experience	$ 300

The $2,133,000 reported as deferred outflows of resources related to pension resulting from Division's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	OPERS (Amounts in 000's)
2016	$ 85
2017	85
2018	194
2019	215
Total	$ 579

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

NOTE E - DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

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

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

NOTE E - DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

	1% Decrease 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
		(Amounts in 000's)	
Division's proportionate share of the net pension liability	$ 30,269	$ 16,397	$ 4,716

NOTE F – OTHER POSTEMPLOYMENT BENEFITS

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

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

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

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

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

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

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

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

NOTE F – OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

The Division's actual contributions to OPERS to fund postemployment benefits were $362,000 in 2015, $350,000 in 2014 and $193,000 in 2013. The required payments due in 2015, 2014 and 2013 have been made.

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT

Contingent Liabilities: The City is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio. The City's share was 80,000 kilowatts of a total 771,281 kilowatts, giving the City a 10.37% share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. These costs were therefore deemed impaired and participants were obligated to pay costs already incurred. In prior years, the payment of these costs was not considered probable due to AMP's pursuit of legal action to void them. As a result of a March 31, 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The City's estimated share at March 31, 2014 of the impaired costs is $13,813,694. The City received a credit of $6,447,719 related to their participation in the AMP Fremont Energy Center (AFEC) Project, and another credit of $3,617,994 related to the AMPGS costs deemed to have future benefit for the project participants, leaving a net impaired cost estimate of $3,747,981. Because payment is now probable and reasonably estimable, the City is reporting a payable to AMP in its business-type activities and in its electric enterprise fund for these impaired costs. AMP financed these costs on its revolving line of credit. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact the City's liability. These amounts will be recorded as they become estimable. Since March 31, 2014, the City has made payments of $511,070 to AMP toward its net impaired cost estimate. Also since March 31, 2014, the City's allocation of additional costs incurred by the project is $106,370 and interest expense incurred on AMP's line-of-credit of $52,712, resulting in a net impaired cost estimate at December 31, 2015, of $3,395,993.

The City intends to recover these costs and repay AMP over the next 14 years through a power cost adjustment, thus this incurred cost has been capitalized and reported as a regulated asset, as allowed by GASB Statement No. 65. The City intends to recover 50% of these costs from the customers through the Energy Adjustment Charge passed along to customer's monthly bills.

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

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

Risk Management: The Division is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Division carries insurance to cover particular liabilities and property protection. Otherwise, the Division is generally self-insured. There were no significant decreases in any insurance coverage in 2015.

The City provides the choice of four separate health insurance plans to its employees. On April 1, 2014, the City became self-insured for three of the four health care plans offered while one health care plan continues to be provided to employees through commercial insurance. The Division is charged a monthly rate per employee by type of coverage. The City participates in the State of Ohio's Workers' Compensation retrospective rating program. As the result of a claim incurred in 2013, the expense for workers compensation increased.

In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs) and other economic and social factors.

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

NOTE H - RELATED PARTY TRANSACTIONS

Revenues and Accounts Receivable: The Division provides services to the City, including its various departments and divisions. The usual and customary rates are charged to all City departments and divisions.

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

		(In thousands)
City Administration	$	1,739
Telephone Exchange		1,425
Utilities Administration and Fiscal Control		1,506
Motor Vehicle Maintenance		388

NOTE I - CUYAHOGA COUNTY REAL PROPERTY TAXES

The Division is required by ordinance to keep records of the estimated property taxes which would be payable to Cuyahoga County were it subject to such taxes. The estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately $1,036,000 for the year ended December 31, 2015.

NOTE J - KILOWATT PER HOUR TAX

In May 2001, the Division started billing its customers the electric deregulation kilowatt-hour tax according to the laws of the State of Ohio. This law requires the Division to remit the proceeds to the City's General Fund, except for any proceeds attributable to sales outside the City which are remitted to the State of Ohio. The Division billed $5,363,000 for this tax in 2015, of which $10,322 was remitted to the State. Ordinance No. 1350-14, passed December 2014, also directed 50% of the proceeds of the tax to the General Fund in 2015 and 2016.

NOTE K – ENVIRONMENTAL OBLIGATIONS

On April 3, 2015, an oil spill occurred at the Division's Lake Road generating plant, a coal-fired plant that ceased operations in 1978. The oil leaked from a tank within the plant into a sump area and was discharged into Lake Erie. The United States Coast Guard (Coast Guard) initiated cleanup efforts which were then assumed by the Division in a coordinated effort with the Coast Guard, United States Environmental Protection Agency (EPA), Ohio Environmental Protection Agency and other agencies. The cleanup of the water and shoreline was complete by late April and the cleanup work shifted to the interior of the plant. It was determined there were additional liquids in tanks and containers requiring removal, some of which were located in areas containing friable asbestos. The City entered into a settlement agreement with the EPA that committed the Division to completing specified remedial measures and no penalties would be imposed. A work plan was developed and approved by the EPA to remediate the asbestos in the work areas to permit removal of the materials. This work is currently underway.

The cleanup work has been performed through contracts with Clean Harbors and Chemtron Corp. The total cost is unknown at this point but is not expected to exceed $5.4 million. The Division has accrued liabilities totaling $3,443,000 as of December 31, 2015, related to the cleanup. The amount of the liabilities is derived from the remaining contract amounts at year end, accounts payable and a $496,000 obligation due to the Coast Guard for the initial cleanup work performed.

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

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

	December 31, 2014	Restatement	Restated December 31, 2014
		(Amounts in 000's)	
Net position	$ 212,390	$ (14,006)	$ 198,384

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

City Of Cleveland
Department of Public Utilities
Division of Cleveland Public Power
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System
Last Two Measurement Years (1), (2)

	2014	2013
	(Amounts in 000's)	
Division's Proportion of the Net Pension Liability	0.136385%	0.136385%
Division's Proportionate Share of the Net Pension Liability (Asset)	$ 16,397	$ 16,054
Division's Covered-Employee Payroll	$ 17,067	$ 15,462
Division's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	96.07%	103.83%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.45%	86.36%

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

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

	2015	2014	2013
		(Amounts in 000's)	
Contractually Required Contributions	$ 2,133	$ 2,048	$ 2,010
Contributions in Relation to the Contractually Required Contributions	(2,133)	(2,048)	(2,010)
Contribution Deficiency (Excess)	$ -	$ -	$ -
Division's Covered-Employee Payroll	$ 17,775	$ 17,067	$ 15,462
Contributions as a Percentage of Covered- Employee Payroll	12.00%	12.00%	13.00%

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