CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL

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

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Division of Water Pollution Control, 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 Water Pollution Control, Department of Public Utilities, City of Cleveland, Ohio as of December 31, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standards

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 28, 2016

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the City) Department of Public Utilities, Division of Water Pollution Control (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 basic financial statements and footnotes that begin on page 14.

The Division was created for the purpose of supplying sewer services to customers within the Cleveland metropolitan area. Embarking with a rudimentary system in the late 1800's, the Cleveland Sewer System developed as the City itself expanded. Until the early 1970's, the City operated the entire system and managed all aspects of sewage treatment and disposal.

In 1972, a court order created the Northeast Ohio Regional Sewer District (NEORSD) and transferred the operation of all wastewater treatment plants and interceptors to the NEORSD in December 1973.

The City retained responsibility for the sewer collector system in Cleveland. The Division serves a significant portion of the entire metropolitan area by managing the sanitary sewage and storm water drainage collection system. The sewer collection system transfers sanitary and storm sewage from its point of origin to an interceptor sewer or treatment plant for processing. The system is comprised of over 1,400 miles of sewer lines with attendant catch basins and includes 15 pump/lift stations. The Division is also responsible for the cleaning of 44,000 catch basins and for maintaining two storm detention basins.

The Division currently has 123,338 customer accounts in the City, of which 94.8% are residential and 5.2% commercial. Also, in 2015, the Division's sewers transported 1,790,290 Mcf's (thousand cubic feet) of water.

The Division acts as a custodian of billings and receipts for 17 other agencies including the NEORSD, other municipalities and Dominion East Ohio's residential service line protection plan. Accounts are billed quarterly and payments collected each month are remitted to the appropriate agency by the 15th of the subsequent month.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Division exceeded its liabilities and deferred inflows of resources (net position) by $95,321,000 and $91,641,000 at December 31, 2015 and 2014, respectively. Of these amounts, $21,803,000 and $22,326,000 are unrestricted net position at December 31, 2015 and 2014, respectively, and may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's net position increased by $3,680,000 in 2015. The rise is primarily attributed to an increase in operating revenues of $4,253,000 due to the implementation of a fixed meter charge.

FINANCIAL HIGHLIGHTS (Continued)

- The regular sewage rate was $12.53 per thousand cubic feet in 2015. The homestead sewage rate was $7.43 per thousand cubic feet in 2015. In addition, the newly instituted fixed rate charge will vary from $12.00 to $550.00 per quarter from 2015-2019 based on meter size. These increases will allow for the Division to improve their capital infrastructure.

- The implementation of Governmental Accounting Standards Board (GASB) Statements No. 68 and 71 restated the Division's December 31, 2014 net position from $97,202,000 to $91,641,000. For further information see Note J.

- The Division's total debt decreased in 2015 by $515,000 due to the continuing scheduled debt payments made during the year. The debt is comprised of loans owed to the Ohio Water Development Authority (OWDA) and the Ohio Public Works Commission (OPWC). The loans to OWDA will be repaid in 2017 and the OPWC loans in 2022. The Division issued mortgage revenue bonds in 2016.

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 Pollution Control Fund, in which the City accounts for the operations of the Department of Public Utilities, Division of Water Pollution Control. 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.

The basic financial statements of the Division can be found on pages 14 - 19 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 21 - 39 of this report. Required supplementary information can be found on pages 40-41 of this report.

CONDENSED STATEMENT OF NET POSITION INFORMATION

Provided below are the statements of net position information for the Division as of December 31, 2015 and December 31, 2014:

	2015	Restated 2014
	(In thousands)	
Assets:		
Capital assets, net	$ 74,271	$ 70,538
Restricted assets	617	393
Current assets	137,933	140,314
Total Assets	212,821	211,245
Deferred outflows of resources	1,080	814
Total assets and deferred outflows of resources	213,901	212,059
Net positon, deferred inflows of resources and liabilities:		
Net position:		
Net investment in capital assets	73,518	69,270
Restricted for capital projects		45
Unrestricted	21,803	22,326
Total net position	95,321	91,641
Liabilities:		
Long-term obligations	6,917	7,268
Current liabilities	111,544	113,150
Total liabilities	118,461	120,418
Deferred inflows of resources	119	
Total net position, liabilities and deferred inflows of resources	$ 213,901	$ 212,059

Current Assets: During 2015, the Division's current assets decreased by $2,381,000. The primary component was a decrease in net accounts receivable of $3,443,000, offset by an increase of $855,000 in unbilled revenue. The decrease in accounts receivable is attributed to increased collection efforts and continued installations of automated meter readers.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Capital Assets: At December 31, 2015, net capital assets amounted to $74,271,000. This is an increase of $3,733,000 from the prior year, of which $6,829,000 is an increase in construction in progress, offset by an increase in accumulated depreciation of $4,914,000. A summary of the activity in the Division's capital assets during the year ended December 31, 2015 is as follows:

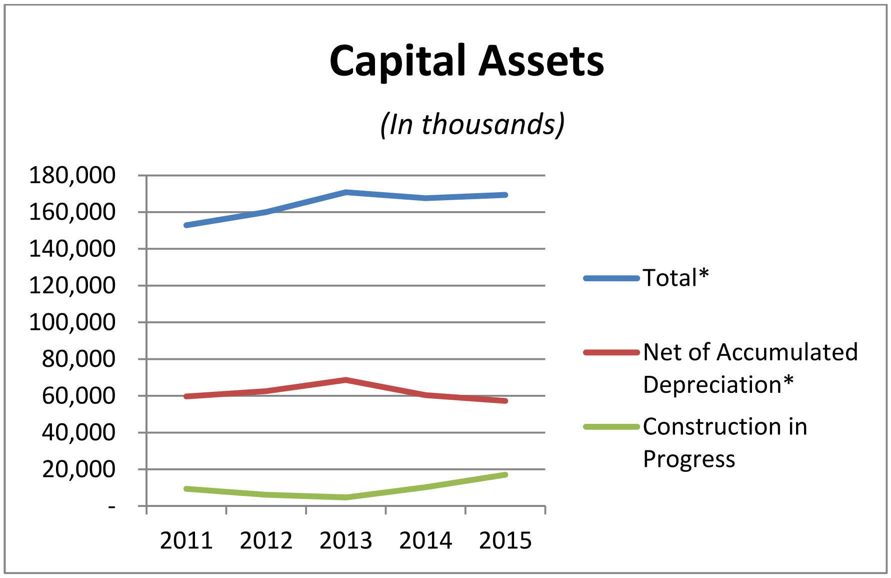
	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015
	(In thousands)			
Land	$ 297	$	$	$ 297
Utility plant	142,919	2,430	(719)	144,630
Buildings, structures and improvements	8,963	56		9,019
Furniture, fixture, equipment and vehicles	15,361	86	(35)	15,412
Construction in progress	10,216	9,259	(2,430)	17,045
Total	177,756	11,831	(3,184)	186,403
Less: Accumulated depreciation	(107,218)	(5,655)	741	(112,132)
Capital assets, net	$ 70,538	$ 6,176	$ (2,443)	$ 74,271

In 2015, the largest capital additions were the Ridgeland Circle Sewer Repair, Gooding Avenue Sewer Replacement, St. Clair Avenue Relining and Wakefield Avenue Sewer.

The major capital projects/expenses for the year included:

- Emergency Sewer Repairs
- Sewer Replacement, Repairing & Rehabilitation
- Massie Avenue Sewer
- Catch Basin & Manholes

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.

Current Liabilities: Current liabilities decreased by $1,606,000 in 2015, mainly due to a decrease in amounts due to other City of Cleveland departments, divisions and funds of $9,838,000, offset by an increase in amounts due for billings on behalf of others of $8,368,000. The rise in amounts due for billings on behalf of others is primarily attributed to an increase in cash and cash equivalents, coupled with an increase in sewer rates.

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

Governmental Accounting Standards Board 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 $97,202,000 to $91,641,000.

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Long-Term Debt: At the end of 2015, the Division had total debt outstanding of $753,000 associated with four OWDA construction loans and two OPWC construction loans. These loans are payable by revenues generated by the Division.

The activity in the Division’s debt obligations outstanding during the year ended December 31, 2015 is summarized below:

	Balance January 1, 2015	Debt Issued	Debt Retired	Balance December 31, 2015
	(In thousands)			
Ohio Water Development Authority Loans (OWDA)	$ 1,101	$	$ (491)	$ 610
Ohio Public Works Commission Loans (OPWC)	167		(24)	143
Total	$ 1,268	$ -	$ (515)	$ 753

Additional information on the Division’s long-term debt can be found in Note B on pages 24 - 26.

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 $95,321,000 and $91,641,000 at December 31, 2015 and 2014, respectively.

The largest portion of the Division’s net position, $73,518,000 at December 31, 2015, reflects its investment in capital assets (e.g., land, buildings, utility plant, machinery and equipment), net of accumulated depreciation, less any related 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 sources since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of net position, $21,803,000 at December 31, 2015, is unrestricted and 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

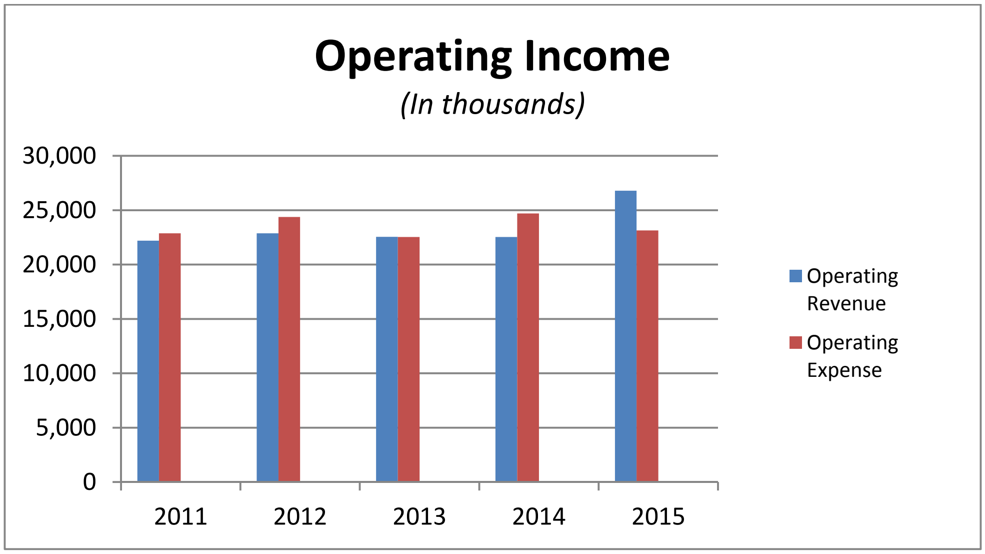
During 2015, the Division's operations increased its net position by $3,680,000. Provided below are the key elements of the Division's results of operations for the years ended December 31, 2015 and 2014:

	2015	2014
	(In thousands)	
Operating revenues	$ 26,800	$ 22,547
Operating expenses	23,142	24,708
Operating income (loss)	3,658	(2,161)
Non-operating revenue (expense):		
Investment income	52	54
Interest expense	(35)	(61)
Other	9	86
Loss on disposal of assets	(4)	
Total non-operating revenue (expense), net	22	79
Increase (decrease) in net position	$ 3,680	$ (2,082)

Operating revenues: Operating revenues amounted to $26,800,000 in 2015, which was an increase of $4,253,000 from the previous year. The increase is primarily the result of the introduction of a fixed rate charge beginning April 1, 2015.

Operating expenses: During 2015, total operating expenses decreased by $1,566,000. The major component was a decrease in bad debt expense of $1,001,000. In addition, charges for motor vehicle maintenance had a reduction of $140,000.

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



Non-operating revenues and expenses: In 2015, non-operating revenue (expense) decreased by $57,000. The decrease was primarily attributed to a $77,000 decrease in other revenues, due to lower scrap metal receipts, offset by a $26,000 decrease in interest expense due to continuing loan repayments.

Non-pension expenses: The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB Statement No. 68 is not available. Therefore, 2014 expenses still include pension expense of $814,000 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 $720,000. 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	$	23,181
Pension expense under GASB 68		(720)
2015 contractually required contribution		731
Adjusted 2015 program expenses		23,192
Total 2014 expenses under GASB 27		(24,769)
Decrease in expenses not related to pension	$	(1,577)

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

Effective April 14, 2016, the Division issued $32,390,000 Water Pollution Control Revenue Bonds, Series 2016 (Green Bonds). The proceeds will be used to provide funds for improvements to the system, to fund the required deposit to the debt service reserve fund and to pay the costs of issuing the bonds. The 2016 Bonds are the first series of bonds issued by the Division and are special obligations of the City issued and secured under a new Master Trust Agreement. The bonds are payable solely from the net revenues of the Division and from money in the Special Funds established in the Trust Agreement.

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 POLLUTION CONTROL
STATEMENT OF NET POSITION
December 31, 2015

	(In thousands)
	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
CAPITAL ASSETS	
Land	$ 297
Utility plant	144,630
Buildings, structures and improvements	9,019
Furniture, fixtures, equipment and vehicles	15,412
	169,358
Less: Accumulated depreciation	(112,132)
	57,226
Construction in progress	17,045
CAPITAL ASSETS, NET	74,271
RESTRICTED ASSETS	
Cash and cash equivalents	617
CURRENT ASSETS	
Cash and cash equivalents	50,193
Receivables:	
Accounts receivable - net of allowance for doubtful accounts of $2,631,000 in 2015	83,430
Unbilled revenue	3,743
Due from other City of Cleveland departments, divisions or funds	143
Accrued interest receivable	1
Prepaid expenses	5
Materials and supplies	418
TOTAL CURRENT ASSETS	137,933
DEFERRED OUTFLOWS OF RESOURCES	
Pension	1,080
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 213,901

CITY OF CLEVELAND, OHIO

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

		(*In thousands*) 2015
NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
NET POSITION		
Net investment in capital assets	$	73,518
Unrestricted		21,803
TOTAL NET POSITION		95,321
LIABILITIES		
LONG-TERM OBLIGATIONS-excluding amounts due within one year:		
OWDA loans		152
OPWC loans		119
Accrued wages and benefits		135
Net pension liability		6,511
TOTAL LONG-TERM OBLIGATIONS		6,917
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year		482
Accounts payable		176
Construction payable		903
Amounts due for billing on behalf of others		104,112
Due to other City of Cleveland departments, divisions or funds		4,399
Current portion of accrued wages and benefits		1,256
Customer deposits and other liabilities		216
TOTAL CURRENT LIABILITIES		111,544
TOTAL LIABILITIES		118,461
DEFERRED INFLOWS OF RESOURCES		
Pension		119
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	$	213,901

See notes to financial statements.

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CITY OF CLEVELAND, OHIO

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

	(In thousands) **2015**
OPERATING REVENUES	
Charges for services	$ 26,800
TOTAL OPERATING REVENUES	26,800
OPERATING EXPENSES	
Operations	9,236
Maintenance	8,241
Depreciation	5,665
TOTAL OPERATING EXPENSES	23,142
OPERATING INCOME (LOSS)	3,658
NON-OPERATING REVENUE (EXPENSE)	
Investment income	52
Interest expense	(35)
Other	9
Loss on disposal of assets	(4)
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	22
INCREASE (DECREASE) IN NET POSITION	3,680
NET POSITION AT BEGINNING OF YEAR, AS RESTATED	91,641
NET POSITION, END OF YEAR	$ 95,321

See notes to financial statements.

CITY OF CLEVELAND, OHIO

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

	(In thousands) 2015
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 24,421
Cash payments to suppliers for goods or services	(8,897)
Cash payments to employees for services	(8,893)
Agency activity on behalf of other sewer authorities	4,003
Other	(9)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	10,625
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(9,562)
Principal paid on long-term debt	(515)
Interest paid on long-term debt	(35)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(10,112)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received on investments	51
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	51
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	564
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	50,246
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 50,810

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
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)	$	3,658
Adjustments		
Depreciation		5,665
(Increase) decrease in assets:		
Accounts receivable, net		3,443
Unbilled revenue		(855)
Due from other City of Cleveland departments, divisions or funds		145
Prepaid expenses		(5)
Materials and supplies, net		(6)
(Increase) decrease in deferred outflows of resources - pension		(266)
Increase (decrease) in liabilities:		
Accounts payable		7
Amounts due for billings on behalf of others		8,368
Due to other City of Cleveland departments, divisions or funds		(9,838)
Accrued wages and benefits		47
Other accrued expenses		(46)
Customer deposits and other liabilities		53
Net pension liability		136
Increase (decrease) in deferred inflows of resources - pension		119
TOTAL ADJUSTMENTS		6,967
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$	10,625

See notes to financial statements.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Division of Water Pollution Control (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 sewer services to customers within the metropolitan area. The following is a summary of the more significant accounting policies.

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

In June of 2012, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* was issued. This Statement is effective for fiscal periods beginning after June 15, 2014. GASB Statement No. 68 replaces the requirements of 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 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 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.

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

- Net investment in capital assets.

- Remaining unrestricted amount.

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 sewer services to residential, commercial and industrial customers based upon actual water consumption. Sewer 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.

Accounts Receivables: The Division's share of the accounts receivable balance is $11,710,000, net of allowance for doubtful accounts of $2,631,000. The remaining accounts receivable balance of $71,720,000 belongs to the Northeast Ohio Regional Sewer District and other municipalities in the Greater Cleveland Region and are offset by corresponding amounts in due for billings on behalf of others.

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

Cash and Cash Equivalents: Cash and cash equivalents represent cash on hand and cash deposits maintained by the City Treasurer on behalf of the Division. Cash equivalents are defined as highly liquid investments with maturity of three months or less when purchased and include certificates of deposit, U.S. Treasury bills, State Treasury Asset Reserve of Ohio (STAROhio), 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 rates.

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

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 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
Building, structures and improvements	5 to 60 years
Furniture, fixtures, equipment and vehicles	3 to 60 years

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

NOTE B - LONG-TERM OBLIGATIONS

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

	Interest Rate	Original Issuance (In thousands)	2015
Ohio Water Development Authority (OWDA) Loans payable annually through 2017	4.04% - 4.18%	$ 7,897	$ 610
Ohio Public Works Commission (OPWC) Loans payable annually through 2022	0.00%	481	143
		$ 8,378	753
Less:			
Current portion			(482)
Total Long-Term Debt			$ 271

NOTE B - 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)		
Ohio Water Development Authority (OWDA) Loans payable annually through 2017	$ 1,101	$	$ (491)	$ 610	$ 458
Ohio Public Works Commission (OPWC) Loans payable annually through 2022	167		(24)	143	24
Total loans	1,268	-	(515)	753	482
Accrued wages and benefits	1,344	1,251	(1,204)	1,391	1,256
Net Pension Liability	6,375	136		6,511	
Total	$ 8,987	$ 1,387	$ (1,719)	$ 8,655	$ 1,738

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.

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

	Principal	Interest	Total
		(In thousands)	
2016	$ 482	$ 11	$ 493
2017	177	2	179
2018	24		24
2019	24		24
2020	24		24
2021-2022	22		22
Total	$ 753	$ 13	$ 766

NOTE B - LONG-TERM OBLIGATIONS (Continued)

In 2015, OWDA completed an interest rate buy-down which will result in interest rate savings on current loans. Market rate loans with interest rates higher than 4.0% will see a reduction in rates to 4.0% while rates over 3.0% on OWDA loans will be reduced to 3.0%. The buy-down commenced retroactively to the January 1, 2016 payment.

The Ohio Water Development Authority and Ohio Public Works Commission Loans are being paid from the revenues derived from operations of the Division.

Water Pollution Control Loans: Under Title VI of the Clean Water Act, Congress created the State Revolving Fund (SRF). The SRF program provides federal capitalization grants to states, in addition to the 20% state matching funds, in order to capitalize state level revolving loan funds. Besides the traditional types of municipal wastewater treatment projects, Congress expanded the potential use of SRF funds to include correction of combined sewer overflows, major sewer rehabilitation and new collector sewers.

In Ohio, this SRF program is known as the Water Pollution Control Loan Fund and is jointly administered by the Ohio EPA and the Ohio Water Development Authority. Principal balances on loans increase as project costs are incurred. Interest accrues on principal amounts outstanding during the construction period and is combined with the principal balance upon completion of the project. The repayment period for each loan commences no later than the 1st of January or July following the expected completion dates of the project to which it relates utilizing an estimate of total eligible project costs as the preliminary loan amount. Construction loans and design loans are to be repaid in semi-annual payments of principal and interest over a period of twenty years and five years, respectively. The Division had four SRF loan awards related to projects as of December 31, 2015.

In addition, the Division had two OPWC loan awards as of December 31, 2015. The loan related projects are for sewer repair and replacement at the Hamlet and Adolpha Streets intersection and a storm water detention basin project at Kerruish Park. Both loans are interest-free and principal repayment will be made from the Division’s operating revenues.

NOTE C - DEPOSITS AND INVESTMENTS

Deposits: The Division’s carrying amount of deposits at December 31, 2015 totaled $1,711,000 and the Division’s bank balances were approximately $3,380,000. 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,* $3,380,000 of the bank balances at December 31, 2015 was insured or collateralized with securities held by the City or by its agent in the City’s name.

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

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

Investments: The City's investment policies are governed by State statutes and City ordinances which authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; State Treasurer Asset Reserve Fund (STAROhio); commercial paper; US Government Money Market Mutual Funds; guaranteed investment contracts; manuscript debt; bonds and other State of Ohio obligations; certificates of deposit; and repurchase transactions. Such repurchase transactions must be purchased from financial institutions or registered broker/dealers. 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.

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

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

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

***Credit Risk*:** The Division's investments as of December 31, 2015 include STAROhio and mutual funds. The Division maintains the highest ratings for their investments. Investments in STAROhio and the PNC Treasury Money Market 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.

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 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	$ 27,004	$ 27,004	$ 27,004
Mutual Funds	22,095	22,095	22,095
Total Investments	49,099	49,099	49,099
Total Deposits	1,711	1,711	1,711
Total Deposits and Investments	$ 50,810	$ 50,810	$ 50,810

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 and mutual funds are 55% and 45%, 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	$ 297	$	$	$ 297
Construction in progress	10,216	9,259	(2,430)	17,045
Total capital assets, not being depreciated	10,513	9,259	(2,430)	17,342
Capital assets, being depreciated:				
Utility plant	142,919	2,430	(719)	144,630
Buildings, structures and improvements	8,963	56		9,019
Furniture, fixtures, equipment and vehicles	15,361	86	(35)	15,412
Total capital assets, being depreciated	167,243	2,572	(754)	169,061
Less: Accumulated depreciation	(107,218)	(5,655)	741	(112,132)
Total capital assets being depreciated, net	60,025	(3,083)	(13)	56,929
Capital assets, net	$ 70,538	$ 6,176	$ (2,443)	$ 74,271

Commitments: The Division had outstanding commitments of approximately $6,883,000 for future capital expenses 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's cannot control benefit terms or the manner in which pensions are financed; however, the Division does receive the benefit of employees' services in exchange for compensation including pension.

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

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

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

NOTE E – DEFINED BENEFIT PENSION PLAN (Continued)

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

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 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 Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	**Group B** 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	**Group C** Members not in other Groups and members hired on or after January 7, 2013
State and Local	**State and Local**	**State and Local**
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	**Formula:** 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	**Formula:** 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

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

NOTE E – DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy: The Ohio Revised Code (ORC) 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 payrolls. The Division's contractually required contribution was $731,000 for 2015. All required payments have been made.

NOTE E – DEFINED BENEFIT PENSION PLAN (Continued)

Pension Liabilities, Pension Expense, and 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	$ 6,511
Proportion of the Net Pension Liability	0.054153%
Pension Expense	$ 720

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	$ 349
Division's contributions subsequent to the measurement date	731
Total Deferred Outflows of Resources	$ 1,080
Deferred Inflows of Resources	
Differences between expected and actual experience	$ 119

NOTE E – DEFINED BENEFIT PENSION PLAN (Continued)

The $731,000 reported as deferred outflows of resources related to pension resulting from the Division's contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS (Amounts in 000's)
Year Ending December 31:	
2016	$ 34
2017	34
2018	77
2019	85
Total	$ 230

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 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.

NOTE E – DEFINED BENEFIT PENSION PLAN (Continued)

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 portfolios 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.

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.

NOTE E – DEFINED BENEFIT PENSION PLAN (Continued)

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%	Discount Rate 8.00%	1% Increase 9.00%
		(Amounts in 000's)	
Division's proportionate share of the net pension liability	$ 12,019	$ 6,511	$ 1,873

NOTE F – OTHER POSTEMPLOYMENT BENEFITS

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

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

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

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

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

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

NOTE F – OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 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 $126,000 in 2015, $138,000 in 2014 and $67,000 in 2013. The required payments due in 2015, 2014 and 2013 have been made.

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT

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

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

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

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

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

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

NOTE H - RELATED PARTY TRANSACTIONS

Revenues and Accounts Receivable: The Division provides sewer 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 sewer services. Billing, collection and various other services for the Division are performed by the Division of Water for a fee. This fee is primarily based on the number of billings made on behalf of the Division during the year at the same rates as charged to other users of the billing system. These fees were approximately $2,929,000 in 2015.

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 year ended December 31, 2015, was as follows:

	(Amounts in 000's)
Electricity purchases	$ 238
Street construction and maintenance	66
City Administration	1,021
Motor Vehicle Maintenance	269
Utilities Administration and Utilities Fiscal Control	837

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 $23,000 for the year ended December 31, 2015.

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

For 2015, the Division implemented the 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	$ 97,202	$ (5,561)	$ 91,641

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.

NOTE K – SUBSEQUENT EVENTS

Effective April 14, 2016, the Division issued $32,390,000 Water Pollution Control Revenue Bonds, Series 2016 (Green Bonds). The proceeds will be used to provide funds for improvements to the system, to fund the required deposit to the debt service reserve fund and to pay the costs of issuing the bonds. The 2016 Bonds are the first series of bonds issued by the Division and are special obligations of the City issued and secured under a new Master Trust Agreement. The bonds are payable solely from the net revenues of the Division and from money in the Special Funds established in the Trust Agreement.

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

		2014		2013
		(Amounts in 000's)		
Division's Proportion of the Net Pension Liability		0.054153%		0.054153%
Division's Proportionate Share of the Net Pension Liability (Asset)	$	6,511	$	6,375
Division's Covered-Employee Payroll	$	6,783	$	6,138
Division's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll		95.99%		103.86%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		86.45%		86.36%

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

City of Cleveland
Department of Public Utilities
Division of Water Pollution Control
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	$ 731	$ 814	$ 798
Contributions in Relation to the Contractually Required Contributions	(731)	(814)	(798)
Contribution Deficiency (Excess)	$ -	$ -	$ -
Division's Covered-Employee Payroll	$ 6,092	$ 6,783	$ 6,138
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.