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, 2017

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, 2017 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.

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, 2017, 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.

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, 2017, 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, 2018

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, 2017. 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 Public Power Association's statistics for 2014. The Division serves an area that is bound by the City limits and presently serves approximately 73,000 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 FirstEnergy Corporation's Cleveland Electric Illuminating Company (CEI).

According to the 2016 census estimate, the City's population is 385,809 people. There are approximately 168,306 occupied housing units. The 2012 census estimated that there are 32,679 businesses operating in the City. 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 through CEI's interconnections. 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 the new Blue Creek Wind project.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The Division's net position was $199,901,000 and $197,764,000 at December 31, 2017 and 2016, respectively. Of these amounts, $22,737,000 and $26,886,000 are unrestricted net position at December 31, 2017 and 2016, respectively, which may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's total net position increased by $2,137,000 in 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL HIGHLIGHTS (Continued)

- The Division's total long-term bonded debt decreased by $8,785,000 for the year ended December 31, 2017. The decrease is due to scheduled payments to bondholders.

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 – 46 of this report. Required supplementary information can be found on pages 47 - 48.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION

Provided below is condensed statement of net position information for the Division as of December 31, 2017 and 2016:

	2017	2016
	(Amounts in Thousands)	
Assets:		
Capital assets, net of accumulated depreciation	$ 352,206	$ 353,569
Restricted assets	17,952	18,042
Current assets	79,737	79,376
Total assets	449,895	450,987
Deferred outflows of resources	24,096	23,202
Net Position:		
Net investment in capital assets	173,802	167,356
Restricted for capital projects	487	484
Restricted for debt service	2,875	3,038
Unrestricted	22,737	26,886
Total net position	199,901	197,764
Liabilities:		
Long-term obligations	248,062	248,921
Current liabilities	25,214	26,941
Total liabilities	273,276	275,862
Deferred inflows of resources	814	563

Restricted assets*:* The Division's restricted assets decreased by $90,000. The decrease is primarily related to a $163,000 reduction in debt service funds.

Current assets: The Division's current assets increased by $361,000 in 2017. The increase is mainly due to an addition of $6,158,000 in net accounts receivable and an increase of $4,263,000 in recoverable costs of purchased power, offset by a decrease of $10,969,000 in unrestricted cash and cash equivalents.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Capital assets: The Division's capital assets as of December 31, 2017, amounted to $352,206,000 (net of accumulated depreciation). The total decrease in the Division's net capital assets for the current year was $1,363,000. A summary of the activity in the Division's capital assets during the year ended December 31, 2017, is as follows:

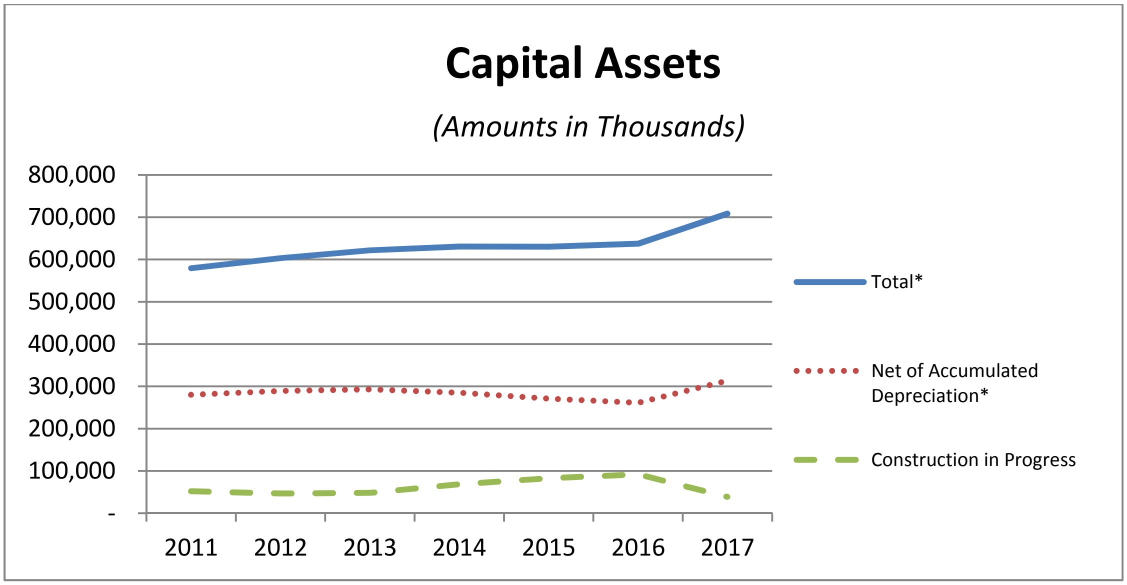
	Balance January 1, 2017	Additions	Reductions	Balance December 31, 2017
	(Amounts in Thousands)			
Land	$ 5,568	$ 6	$	$ 5,574
Land improvements	293	25		318
Utility plant	525,136	62,576		587,712
Buildings, structures and improvements	22,158	700		22,858
Furniture, fixtures, equipment and vehicles	83,994	8,502	(737)	91,759
Construction in progress	92,250	10,632	(64,175)	38,707
Total	729,399	82,441	(64,912)	746,928
Less: Accumulated depreciation	(375,830)	(19,555)	663	(394,722)
Capital assets, net	$ 353,569	$ 62,886	$ (64,249)	$ 352,206

The principal additions to construction in progress during 2017 included the following:

- Opportunity Corridor Phase II
- General Engineering Services
- Underground Cable Reconstruction
- Transformers Series A

In addition, the Lake Road project, totaling $54,765,000, was placed into service. The project's primary purpose was to expand the Lake Road 11.5 kV (Kilovolt) Substation and the 11.5 kV system downtown.

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 $1,727,000 is primarily due to the decrease of $1,080,000 in the current portion of long term debt. In addition, there was a decrease of $568,000 in payable from restricted assets, offset by an increase in the current portion of accrued wages and benefits of $264,000.

Pension Liability: During 2015, the City adopted 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*, which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of these financial statements 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 against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

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

As a result of implementing GASB Statement No. 68, the Division is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Long-term obligations: The long-term obligations decrease of $859,000 in 2017 is mainly due to a decrease of $8,785,000 in revenue bonds payable due to scheduled principal payments, offset by an increase in net pension liability of $5,891,000, along with an increase in accreted interest payable of $2,365,000. The rise in the net pension liability is primarily due to the investment returns not meeting expectations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

At December 31, 2017, the Division had total bonded debt outstanding of $202,173,000. 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, 2012 and 2016, 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, 2017, is summarized in the following table (excluding unamortized discounts, premiums and accreted interest):

	Balance January 1, 2017	Debt Issued	Debt Retired	Balance December 31, 2017
	(Amounts in Thousands)			
Revenue Bonds:				
Revenue Bonds 2008 A	$ 19,040	$	$ (2,065)	$ 16,975
Revenue Bonds 2008 B-1	39,735		(1,020)	38,715
Revenue Bonds 2008 B-2	27,903			27,903
Revenue Bonds 2010	5,370		(5,370)	-
Revenue Bonds 2014	76,885			76,885
Revenue Bonds 2016	42,025		(330)	41,695
Total	$ 210,958	$ -	$ (8,785)	$ 202,173

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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 2017 and 2016 was 152% and 149%, respectively. Additional information on the Division's long-term debt can be found in Note B to the basic financial statements on pages 28 - 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 $199,901,000 and $197,764,000 at December 31, 2017 and 2016, respectively.

Of the Division's net position at December 31, 2017, $173,802,000 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, $487,000 denotes funds restricted for use in capital projects and $2,875,000 represents resources subject to debt service restrictions.

The remaining $22,737,000 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 gain of $2,137,000 in 2017. Provided below are key elements of the Division's results of operations as of and for the years ended December 31, 2017 and 2016:

	2017	2016
	(Amounts in Thousands)	
Operating revenues	$ 194,904	$ 192,967
Operating expenses	187,478	184,910
Operating income (loss)	7,426	8,057
Non-operating revenue (expense):		
Investment income	398	246
Interest expense	(9,510)	(10,004)
Amortization of bond premiums and discounts	821	324
Gain (loss) on disposal of assets	(73)	(1,260)
Other	3,075	3,124
Total non-operating revenue (expense), net	(5,289)	(7,570)
Change in net position	$ 2,137	$ 487

- ***Operating revenues***: In 2017, operating revenues increased by $1,937,000, mostly from an increase of $2,641,000 in revenue from large commercial customers.

- ***Operating expenses:*** In 2017, operating expenses increased by $2,568,000, primarily due to the $2,375,000 increase in operations' cost, offset by a decrease in purchased power of $1,535,000. The growth in operating expenses is primarily attributed to an increase in pension expense of $2,416,000 from 2016.

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 following sections describe major projects likely to impact the Division over the next several years.

Capacity Expansion Program

The Division's Capacity Expansion Program, which includes three major components, was designed to support and improve the Division's electric system reliability and, through increasing system capacity by 80 MW (Megawatt), provide for future load growth opportunities. This program includes the addition of a fourth 138 kV interconnection with the FirstEnergy transmission system (Fourth Interconnect), which was energized in 2011; the extension of the southern 138 kV transmission system (Southern Project); and the expansion of the Lake Road 11.5 kV Substation and the 11.5 kV system downtown (Lake Road Project). In 2008, the Division issued the Series 2008B-1 Bonds to fund the Capacity Expansion Program.

The Lake Road Project includes the construction of a duct line and feeder cables to the 11th Street Substation. The re-feeding of the 11th Street Substation will increase capacity in this area of the 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 11.5kV distribution system located downtown to a portion of the 13.8 kV distribution system situated east and southeast of downtown. The South Marginal Substation was completed and will be energized when the Division's Supervisory Control and Data Acquisition (SCADA) System is placed into service in the 3rd quarter of 2018.

Construction is underway on the Southern Project. The Southern Project includes the recently completed modification of the Ridge Road Substation to create a ring bus to support the new 138 kV transmission loop which will run from the Ridge Road Substation to the Pofok Substation. The Division has successfully partnered with the City, Cuyahoga County, and the Ohio Department of Transportation to combine the construction of an underground segment of the transmission line with a roadway project. The overhead portion of the 138 kV transmission line will complete the loop and was recently bid out for contruction. The construction contract for the Southern Project was awarded to J.W. Didado Electric Inc. in November of 2017 and is currently scheduled for completion by March 1, 2019.

Power Supply

The Division participates in a diverse mix of resources including coal-fired, natural gas-fueled, hydroelectric, bioenergy, solar, and wind generation. Participation in many of these resources is through the Division's membership in American Municipal Power (AMP) including: the Prairie State Energy Campus coal-fired generation project, AMP Hydro Phase 1 units (Cannelton/Smithland/Willow Island) and Phase 2 units (Meldahl/Greenup), AMP Fremont Energy Center (AFEC) combined cycle facility, and the Blue Creek Wind Project. All five AMP hydroelectric projects are in commercial operation. Additionally, the Division has allocations of power from two New York Power Authority hydroelectric projects and several behind-the-meter resources including the Collinwood bioenergy generator, CV Kinsman solar, Division-owned diesel generators, and the West 41st Street/Collinwood Combustion Turbines (CTs). For 2017, about 21% of the Division's energy is being supplied from renewable sources including hydroelectric, wind and bioenergy, and the Division has voluntarily pursued renewable goals which are consistent with the Ohio state-mandated Renewable Portfolio Standard (RPS) targets applicable to investor-owned utilities (IOUs).

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

The Division's power supply portfolio is also made up of a variety of market energy purchases of various sizes, terms, and delivery locations. These market purchases, often referred to as "block power" purchases because of their standard market types, are often procured as part of the Division's current market purchases, including block power purchased around-the-clock (7x24), weekday peak periods (5x16), weekend peak periods (2x16) and off-peak periods at night (7x8). These blocks can be procured by AMP on the Division's behalf with the cost plus a service charge directly passed through to the Division. Alternatively, the Division has the option to contract directly with third parties.

Generation Projects

The Division has chosen to participate in generation projects in order to (i) diversify its power supply portfolio and increase use of renewable energy, (ii) secure long-term stable sources of power, (iii) explore local generation opportunities where transmission congestion costs are mostly avoided, and (iv) mitigate the costs of meeting its resource adequacy obligations.

The generation projects through AMP in which the Division participates are Blue Creek Wind, AMP Fremont Energy Center, AMP Hydro Phase 1/Phase 2, and Prairie State. The following sections describe these projects.

Blue Creek Wind Project
In June 2012, the Division entered into an agreement with AMP to purchase 10 MW of energy, capacity and Renewable Energy Credits (REC's) from the Blue Creek Wind Project. The 304 MW Blue Creek Wind Project was developed, and is owned, by Iberdrola Renewables, LLC and is located in northwestern Ohio in Van Wert and Paulding counties. The project began commercial operation in June 2012. AMP purchases up to 54 MW from the project on behalf of its members through a Renewable Wind Energy Power Purchase Agreement with Blue Creek Wind Farm, LLC.

AMP Fremont Energy Center
AMP and two of its member agencies in Michigan and Virginia own the AMP Fremont Energy Center (AFEC), a 707 MW natural gas-fired combined cycle generating plant in Fremont, Ohio. Of the 707 MW, 544 MW is available as an intermediate power source during on-peak hours, and an additional 163 MW of duct-firing is available for use during peak demand times. AMP purchased the facility in 2011 from FirstEnergy Generation Corporation and completed construction and commissioning. The plant went into commercial operation in January 2012. The Division, through a membership participation agreement with AMP, has entitlement to approximately 79 MW of intermediate and peaking power output from AFEC.

AMP Hydro Projects
In December 2007, the Division entered into an agreement with AMP to purchase 35 MW of hydroelectric power from three planned AMP run-of-the-river hydroelectric projects (AMP Hydro Phase 1) to be constructed on the Ohio River. These include both the Cannelton and Smithland projects in Kentucky, as well as the Willow Island project in West Virginia.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

The Cannelton project is located on the Kentucky south shore of the Ohio River at the existing U.S. Army Corps of Engineers Cannelton Locks and Dam. The Cannelton project includes three 29.3 MW bulb-type generators with a combined capacity of approximately 88 MW. In addition to the powerhouse and other equipment, the project includes a 1,000-foot transmission line to the point of interconnection. The first unit of the Cannelton Project entered commercial operation in January 2016, the second unit entered commercial operation in March 2016 and the third entered commercial operation in June 2016.

The Smithland project is located at the existing U.S. Army Corps of Engineers Smithland Navigation Locks and Dam. The plant's configuration and equipment is similar to Cannelton's, but includes three 25.3 MW bulb-type generators with a total capacity of approximately 76 MW and a two mile transmission line to the point of interconnection. The Smithland Project entered commercial operation in summer of 2017.

The Willow Island project in West Virginia is located at the existing U.S. Army Corps of Engineers Willow Island Lock and Dam. The plant design and technology is similar to the other two projects but includes two 22 MW generators with a total capacity of approximately 44 MW. The project includes a 1.6 mile transmission line to the point of interconnection. Willow Island Project entered commercial operation in 2016.

Together these projects are expected to produce 208 MW, of which 35 MW is allocated to the Division. In March 2010, the Division executed agreements with AMP to participate in two additional AMP run-of-the-river hydroelectric projects (AMP Hydro Phase 2) on the Ohio River. The first is the Meldahl Project, a 105 MW three-unit hydroelectric generation facility located on the Kentucky side of the Ohio River. The Meldahl Project entered commercial operation in April 2016. The second project is the Greenup Project, an existing 70 MW plant owned by the City of Hamilton, Ohio. The Division has contracted to receive 15 MW from the Meldahl-Greenup Projects, for a total of 50 MW (when combined with AMP Hydro Phase 1) from the five AMP hydroelectric projects.

Prairie State Energy Campus

AMP has a 23% ownership interest in the Prairie State Energy Campus in Illinois, a pulverized coal plant consisting of two generating units with a total rating of 1,582 MW. AMP is entitled to 368 MW as an owner of the facility in partnership with public power agencies and cooperatives in Illinois, Indiana, Kentucky, and Missouri. The project is a "mouth-of-the mine" project that includes entitlement to 200 million tons of coal reserves in an adjacent coal mine. The project was developed by Peabody Energy and went into commercial operation in 2012. The Division purchases 25 MW from the Prairie State project through a participation agreement with AMP.

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, 2017
(Amounts in Thousands)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CAPITAL ASSETS		
Land	$	5,574
Land improvements		318
Utility plant		587,712
Buildings, structures and improvements		22,858
Furniture, fixtures, equipment and vehicles		91,759
		708,221
Less: Accumulated depreciation		(394,722)
		313,499
Construction in progress		38,707
CAPITAL ASSETS, NET		352,206
RESTRICTED ASSETS		
Cash and cash equivalents		17,937
Accrued interest receivable		15
TOTAL RESTRICTED ASSETS		17,952
CURRENT ASSETS		
Cash and cash equivalents		38,665
Restricted cash and cash equivalents		22
Receivables:		
Accounts receivable - net of allowance for doubtful accounts of $7,901,000 in 2017		17,114
Recoverable costs of purchased power		8,252
Unbilled revenue		2,742
Due from other City of Cleveland departments, divisions or funds		3,223
Materials and supplies - at average cost		9,466
Prepaid expenses		253
TOTAL CURRENT ASSETS		79,737
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on debt refunding		12,600
Pension		11,496
TOTAL DEFERRED OUTFLOWS OF RESOURCES		24,096

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENT OF NET POSITION
For the Year Ended December 31, 2017
(Amounts in Thousands)

NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	
NET POSITION	
Net investment in capital assets	$ 173,802
Restricted for capital projects	487
Restricted for debt service	2,875
Unrestricted	22,737
TOTAL NET POSITION	199,901
LIABILITIES	
LONG-TERM OBLIGATIONS-excluding amounts due within one year	
Accrued wages and benefits	146
Accreted interest payable	18,445
Revenue bonds	197,874
Net pension liability	29,488
Other	2,109
TOTAL LONG-TERM OBLIGATIONS	248,062
CURRENT LIABILITIES	
Accounts payable	11,886
Other accrued expenses	446
Customer deposits and other liabilities	1,018
Current portion of accrued wages and benefits	2,648
Due to other City of Cleveland departments, divisions or funds	378
Accrued interest payable	1,111
Current payable from restricted assets	22
Current portion of long-term debt, due within one year	7,705
TOTAL CURRENT LIABILITIES	25,214
TOTAL LIABILITIES	273,276
DEFERRED INFLOWS OF RESOURCES	
Pension	814
TOTAL DEFERRED INFLOWS OF RESOURCES	814

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, 2017
(Amounts in Thousands)

OPERATING REVENUES		
Charges for services	$	194,904
TOTAL OPERATING REVENUES		194,904
OPERATING EXPENSES		
Purchased power		123,374
Operations		27,354
Maintenance		17,195
Depreciation		19,555
TOTAL OPERATING EXPENSES		187,478
OPERATING INCOME (LOSS)		7,426
NON-OPERATING REVENUE (EXPENSE)		
Investment income		398
Interest expense		(9,510)
Amortization of bond premiums and discounts		821
Gain (loss) on disposal of assets		(73)
Other		3,075
TOTAL NON-OPERATING REVENUE (EXPENSE), NET		(5,289)
INCREASE (DECREASE) IN NET POSITION		2,137
NET POSITION AT BEGINNING OF YEAR		197,764
NET POSITION END OF YEAR	$	199,901

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, 2017
(Amounts in Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 189,365
Cash payments to suppliers for goods or services	(18,053)
Cash payments to employees for services	(20,582)
Cash payments for purchased power	(126,942)
Electric excise tax payments to agency fund and other	(5,761)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	18,027
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Electric excise tax receipts	2,980
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	2,980
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(15,236)
Principal paid on long-term debt	(8,785)
Interest paid on long-term debt	(9,117)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(33,138)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received on investments	494
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	494
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,637)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	68,261
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 56,624

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017
(Amounts in Thousands)

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

OPERATING INCOME (LOSS)	$ 7,426
Adjustments:	
Depreciation	19,555
(Increase) decrease in assets:	
Accounts receivable, net	(6,158)
Recoverable costs of purchased power	(4,263)
Unbilled revenue	(126)
Due from other City of Cleveland departments, divisions or funds	(714)
Materials and supplies, net	(617)
Prepaid expenses	(20)
(Increase) decrease in deferred outflows of resources - pensions	(2,416)
Increase (decrease) in liabilities:	
Accounts payable	88
Other accrued expenses	(139)
Customer deposits and other liabilities	(74)
Accrued wages and benefits	(3)
Due to other City of Cleveland departments, divisions or funds	(331)
Other long-term liabilities	(323)
Net pension liability	5,891
Increase (decrease) in deferred inflows of resources - pensions	251
TOTAL ADJUSTMENTS	10,601
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 18,027

SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:

Contributions and accounts payable related to capital assets	$ 22

See notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

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 2015, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement* 68, *and Amendments to Certain Provisions of GASB Statements 67 and 68* were issued. This Statement is effective for fiscal periods beginning after June 15, 2015 —except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB Statement No. 68. It also amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, and GASB Statement No. 68 for pension plans and pensions that are within their respective scopes. As required, the Division has implemented GASB Statement No. 73 as of December 31, 2017.

In June of 2015, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (OPEB), was issued. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. This Statement replaces GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, GASB Statement No. 43 and GASB Statement No. 50, *Pension Disclosures – an Amendment of GASB Statements No. 25 and No. 27*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity and creating additional transparency. The Division has determined that GASB Statement No. 74 has no impact on its financial statements as of December 31, 2017.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In January of 2016, GASB Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14* was issued. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. This Statement amends the blending requirements established in paragraph 53 of GASB Statement No. 14, *The Financial Reporting Entity,* as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an Amendment of GASB Statement No. 14.* The Division has determined that GASB Statement No. 80 has no impact on its financial statements as of December 31, 2017.

In March of 2016, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, was issued. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The Division has determined that GASB Statement No. 81 has no impact on its financial statements as of December 31, 2017.

In March of 2016, GASB Statement No. 82, *Pension Issues an Amendment of GASB Statements No. 67, No. 68, and No. 73* was issued. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The objective of this Statement is to address certain issues that have been raised with respect to GASB Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. As required, the Division has implemented GASB Statement No. 82 as of December 31, 2017.

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.

The Division transfers electric excise tax revenue from billed customers on a monthly basis to an agency fund in the City. Additional electric excise tax revenue from large customers is invoiced separately and deposited directly into the City's Agency fund.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The Division has invested funds in the STAR Ohio during 2017. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted GASB Statement No. 79 for the purpose of measuring the value of shares in STAR Ohio. The Division measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV share that approximates fair value.

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

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 their acquisition value on the date contributed. 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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Division's policy is to capitalize interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest is included in the cost of the assets and is depreciated on the straight-line basis over the estimated useful lives of such assets. The Division applies 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 2017, total interest costs incurred amounted to $13,116,000, of which $3,500,000 was capitalized, net of interest income of $106,000.

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

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.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2017

NOTE B - DEBT AND OTHER LONG-TERM OBLIGATIONS

Long-term debt outstanding at December 31, 2017, is as follows:

	Interest Rate	Original Issuance	2017
		(Amounts in Thousands)	
Revenue Bonds:			
Series 2008 A, due through 2024	4.00%-4.50%	$ 21,105	$ 16,975
Series 2008 B-1, due through 2038	4.00%-5.00%	44,705	38,715
Series 2008 B-2, due through 2038	5.13%-5.40%	27,903	27,903
Series 2014, due through 2038	5.50%	76,885	76,885
Series 2016, due through 2024	2.50-5.00%	42,025	41,695
		$ 212,623	$ 202,173
Less:			
Unamortized premium (discount)-current interest bonds (net)			3,406
Current portion			(7,705)
Total Long-Term Debt			$ 197,874

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2017

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

Summary: Changes in long-term obligations for the year ended December 31, 2017, are as follows:

	Balance January 1, 2017	Increase	Decrease	Balance December 31, 2017	Due Within One Year
			(Amounts in Thousands)		
Revenue Bonds:					
Series 2008 A, due through 2024	$ 19,040	$	$ (2,065)	$ 16,975	$ 2,115
Series 2008 B-1, due through 2038	39,735		(1,020)	38,715	1,140
Series 2008 B-2, due through 2038	27,903			27,903	
Series 2010, due through 2017	5,370		(5,370)	-	
Series 2014, due through 2038	76,885			76,885	
Series 2016, due through 2024	42,025		(330)	41,695	4,450
Total revenue bonds	210,958	-	(8,785)	202,173	7,705
Accrued wages and benefits	2,797	2,381	(2,384)	2,794	2,648
Net pension liability	23,597	5,891		29,488	
Total	$ 237,352	$ 8,272	$ (11,169)	$ 234,455	$ 10,353

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

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

	Principal	Interest	Total
	(Amounts in Thousands)		
2018	$ 7,705	$ 8,885	$ 16,590
2019	8,060	8,532	16,592
2020	8,430	8,164	16,594
2021	10,135	7,778	17,913
2022	10,615	7,299	17,914
2023-2027	47,547	42,008	89,555
2028-2032	45,084	44,472	89,556
2033-2037	52,789	36,764	89,553
2038	11,808	6,103	17,911
	$ 202,173	$ 170,005	$ 372,178

The City has pledged future power system revenues, net of specified operating expenses, to repay $202,173,000 in Public Power System Revenue Bonds issued in various years since 2008. 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 66% of net revenues. The total principal and interest remaining to be paid on the various Public Power System Revenue Bonds is $372,178,000. Principal and interest paid for the current year and total net revenues were $17,902,000 and $27,265,000, respectively.

On December 14, 2016, the City issued $42,025,000 Public Power System Revenue Refunding Bonds, Series 2016. These bonds were issued to refund $45,285,000 of outstanding Series 2006A-1 Public Power System Bonds. Net proceeds of the bonds in the amount of $45,649,796 were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds on January 13, 2017. The refunded 2006A-1 Bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt. The City completed the refunding in order to achieve debt service savings of approximately $3,965,000 and an economic gain (the difference between the present values of the old and new debt service) of $3,647,000 or 8.05%.

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.

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

The Division had no defeased debt outstanding at December 31, 2017.

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, 2017, 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. In the past, 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 and Series 2016 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.

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, 2017, the Division had $13,484,000 of outstanding commitments for future construction costs that will be funded by available bond proceeds. 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, 2017, the Division's carrying amount of deposits totaled $15,853,000 and the Division's bank balances totaled $15,829,000. 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*, $15,829,000 of the bank balances at December 31, 2017, was insured or collateralized with securities held by the City or by its agent in the City's name.

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

Investments: In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, the City reports its investments at fair value based on quoted market values, where applicable and recognized the corresponding change in the fair value of the investments recorded in investment earnings in the year in which the change occurs. The City's investment policies are governed by State Statutes and City ordinances which authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; State Treasurer Asset Reserve Fund (STAR Ohio); commercial paper; US Government Money Market Mutual Funds; guaranteed investment contracts; manuscript debt; bonds and other State of Ohio obligations; certificates of deposit; and repurchase transactions. Such repurchase transactions must be purchased from financial institutions or registered broker/dealers. 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 the portfolio value.

The City categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

The following is a summary of the fair value hierarchy of the fair value of investments of the Division (excluding STAR Ohio and money market mutual funds) as of December 31, 2017:

Type of Investment	Fair Value	Fair Value Measurements Using Level 2
	(Amounts in Thousands)	
Commercial Paper	$ 343	$ 343
Total Investments	$ 343	$ 343

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, 2017, include STAR Ohio, commercial paper and money market mutual funds. Investments in STAR Ohio 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 STAR Ohio 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, 2017, which include those classified as cash and cash equivalents in the Statement of Net Position in accordance with the provisions of GASB Statement No. 9 *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Accounting*, since they have a maturity of three months or less:

Type of Investment	2017 Value	2017 Cost	Investment Maturities Less than One Year
	(Amounts in Thousands)		
STAR Ohio	$ 23,395	$ 23,395	$ 23,395
Commercial Paper	343	343	343
Money Market Mutual Funds	17,033	17,033	17,033
Total Investments	40,771	40,771	40,771
Total Deposits	15,853	15,853	15,853
Total Deposits and Investments	$ 56,624	$ 56,624	$ 56,624

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

As of December 31, 2017, the investments in STAR Ohio, commercial paper and money market mutual funds are approximately 57.4%, .8% and 41.8%, respectively, of the Division's total investments.

NOTE D - CAPITAL ASSETS

Capital Asset Activity: Capital asset activity for the year ended December 31, 2017, was as follows:

	Balance January 1, 2017	Additions	Reductions	Balance December 31, 2017
	(Amounts in Thousands)			
Capital assets, not being depreciated:				
Land	$ 5,568	$ 6	$	$ 5,574
Construction in progress	92,250	10,632	(64,175)	38,707
Total capital assets, not being depreciated	97,818	10,638	(64,175)	44,281
Capital assets, being depreciated:				
Land improvements	293	25		318
Utility plant	525,136	62,576		587,712
Buildings, structures and improvements	22,158	700		22,858
Furniture, fixtures, equipment and vehicles	83,994	8,502	(737)	91,759
Total capital assets, being depreciated	631,581	71,803	(737)	702,647
Less: Accumulated depreciation	(375,830)	(19,555)	663	(394,722)
Total capital assets being depreciated, net	255,751	52,248	(74)	307,925
Capital assets, net	$ 353,569	$ 62,886	$ (64,249)	$ 352,206

Commitments: The Division has outstanding commitments of approximately $20,867,000 for future capital expenditures at December 31, 2017. It is anticipated that these commitments will be financed from the Division's cash balances; however, at the discretion of the Division, additional long-term debt may be issued in the future to finance a portion of the costs.

NOTE E - DEFINED BENEFIT PENSION PLAN

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

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

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

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

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

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

NOTE E - DEFINED BENEFIT PENSION PLAN (Continued)

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

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 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 3.0% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3.0%.

NOTE E - DEFINED BENEFIT PENSION PLAN (Continued)

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

	State and Local	
2017 Statutory Maximum Contribution Rates		
Employer	14.0	%
Employee	10.0	
2017 Actual Contribution Rates		
Employer:		
Pension	13.0	
Post-employment Health Care Benefits	1.0	
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 $2,180,000 for 2017. 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, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Following is information related to the proportionate share and pension expense:

	OPERS (Amounts in Thousands)	
Proportionate Share of the Net Pension Liability	$	29,488
Proportion of the Net Pension Liability		0.124709%
Change in proportion		(0.014701)%
Pension Expense	$	6,173

NOTE E - DEFINED BENEFIT PENSION PLAN (Continued)

At December 31, 2017, the Division's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS (Amounts in Thousands)	
Deferred Outflows of Resources		
Net difference between projected and actual earnings on pension plan investments	$	4,775
Differences between expected and actual economic experience		38
Change in assumptions		4,503
Division's contributions subsequent to the measurement date		2,180
Total Deferred Outflows of Resources	$	11,496
Deferred Inflows of Resources		
Differences between expected and actual experience	$	217
Change in Division's proportionate share		597
Total Deferred Inflows of Resources	$	814

The $2,180,000 reported as deferred outflows of resources related to pension resulting from the 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, 2018. 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 Thousands)	
Year Ending December 31:		
2018	$	3,410
2019		3,580
2020		1,647
2021		(127)
2022		(3)
Thereafter		(5)
Total	$	8,502

NOTE E - DEFINED BENEFIT PENSION PLAN (Continued)

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	December 31, 2016 Valuation	December 31, 2015 and prior valuations
Wage Inflation	3.25%	3.75%
Future Salary Increases, including inflation	3.25% to 10.75% including wage inflation	4.25% to 10.05% including wage inflation
COLA or Ad Hoc COLA	3.25%, simple	3%, simple
	Pre 1/7/2013 retirees: 3%, simple	Pre 1/7/2013 retirees: 3%, simple
	Post 1/7/2013 retires: 3%, simple	Post 1/7/2013 retires: 3%, simple
	through 2018, then 2.15%, simple	through 2018, then 2.8%, simple
Investment Rate of Return	7.5%	8%
Actuarial Cost Method	Individual Entry Age	Individual Entry Age
Mortality Tables	RP-2014	RP-2000

Mortality rates are based on the RP-2014 Healthy Annuitant Mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

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

NOTE E - DEFINED BENEFIT PENSION PLAN (Continued)

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the Voluntary Employees' Beneficiary Association Trust (VEBA Trust). However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. 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 annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3% for 2016.

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 2016 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 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other investments	18.00	4.92
Total	100.00 %	5.66 %

Discount Rate: The discount rate used to measure the total pension liability was 7.5%. 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.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2017

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 7.5%, 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 (6.5%) or one-percentage-point higher (8.5%) than the current rate:

	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
		(Amounts in Thousands)	
Division's proportionate share of the net pension liability	$ 45,105	$ 29,488	$ 16,470

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

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, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Please see the Plan Statement in the OPERS 2016 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 OPERS Board of Trustees (OPERS 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, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

NOTE F – OTHER POSTEMPLOYMENT BENEFITS *(*Continued)

***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 covered payroll of active members. In 2017, State and Local employers contributed at a rate of 14.0% of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0% during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.0% for both plans. The OPERS 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 for Member-Directed Plan participants for 2017 was 4.0%.

The Division's actual contributions to OPERS to fund postemployment benefits were $168,000 in 2017, $338,000 in 2016 and $362,000 in 2015. The required payments due in 2017, 2016 and 2015 have been made.

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT

Contingent Liabilities: The Division is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project was intended to develop a pulverized coal power plant in Meigs County, Ohio. The Division's project share was 80,000 kilowatts (kW) of a total 771,281 kW, giving the City a 10.37% project 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. All project costs incurred prior to the cancellation and related to the cancellation were therefore deemed impaired and participants were obligated to pay those incurred costs. Prior to 2014 payment of these costs was not required due to AMP's pursuit of legal action to collect them from Bechtel Corporation (Bechtel). As a result of a March 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.

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

The Division's estimated share of the impaired costs at March 31, 2014, was $13,813,694. The Division 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, classified as Plant Held for Future Use (PHFU), leaving an estimated net impaired costs balance of $3,747,981. Because payment is now probable and reasonably estimable, the Division 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 Division's net impaired cost balance either positively or negatively. These amounts will be recorded as they become estimable.

In late 2016, AMP reached a settlement in the Bechtel litigation. On December 8, 2016, at the AMPGS Participants meeting, options for the allocation of the Settlement funds were approved. The AMPGS Participants and the AMP Board of Trustees voted to allocate the Settlement among the participants and the AMP General Fund based on each participant's original project share in kW including the AMP General Fund's project share.

Since March 31, 2014, the Division has made payments of $1,309,050 to AMP toward its net impaired cost estimate. Also since March 31, 2014, the Division's allocation of additional costs incurred by the project is $164,676 and interest expense incurred on AMP's line-of-credit of $148,939. As part of the Bechtel Settlement, the Division received a credit of $394,149 against its stranded cost liability, resulting in a net impaired cost estimate at December 31, 2017, of $2,358,397. The Division does have a potential PHFU Liability of $3,788,482 resulting in a net total potential liability of $6,146,879, assuming the assets making up the PHFU (principally the land comprising the Meigs County site) has no value and also assuming the Division's credit balance would earn zero interest. Stranded costs as well as PHFU costs are subject to change, including future borrowing costs on the AMP line of credit. Activities include negative items such as property taxes as well as positive items like revenue from leases or sale of all or a portion of the Meigs County site property.

The Division intends to recover these costs and repay AMP over the next 12 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, *Items Previously Reported as Assets and Liabilities*. The Division 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.

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 2017.

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

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

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

The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses, regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Claims liability for the Division is 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 year ended December 31, 2017, are as follows:

		(Amounts in Thousands)
City Administration	$	1,670
Telephone Exchange		1,687
Utilities Administration and Fiscal Control		1,969
Division of Water		427
Motor Vehicle Maintenance		468

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2017

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 $1,195,000 for the year ended December 31, 2017.

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 $5,232,000 for this tax in 2017, of which $6,921 was remitted to the State. Ordinance No. 103-17, passed April 5, 2017, directed that 50% of the proceeds go to the Division in 2017.

NOTE K – SUBSEQUENT EVENTS

Effective June 27, 2018, the Division issued $47,245,000 of Public Power System Revenue Refunding Bonds, Series 2018. These bonds were sold to currently refund $52,435,000 of outstanding 2008 Public Power System Revenue Refunding Bonds for debt service savings. As a result of the refunding, the Division will realize $5.0 million of net present value debt service savings.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
Required Supplementary Information
Schedule of the Division's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System
Last Four Measurement Years (1), (2)

	2017	2016	2015	2014
	(Amounts in Thousands)			
Division's Proportion of the Net Pension Liability	0.124709%	0.139410%	0.136385%	0.136385%
Division's Proportionate Share of the Net Pension Liability (Asset)	$ 29,488	$ 23,597	$ 16,397	$ 16,054
Division's Covered Payroll	$ 16,542	$ 17,775	$ 17,067	$ 15,462
Division's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	178.26%	132.75%	96.07%	103.83%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%

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

(2) Information prior to 2013 was not available. The Division will continue to present information for years available until a full ten-year trend is compiled.

Notes to Schedule:

Change in assumptions. In 2017, changes in assumptions were made based upon an updated experience study that was completed for the five-year period ended December 31, 2015. Significant changes included a reduction of the discount rate from 8.0% to 7.5%, a reduction in the wage inflation rate from 3.75% to 3.25% and transition from the RP-2000 mortality tables to the RP-2014 mortality tables.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
Required Supplementary Information (Continued)
Schedule of Contributions
Ohio Public Employees Retirement System
Last Five Years (1)

	2017	2016	2015	2014	2013
		(Amounts in Thousands)			
Contractually Required Contributions	$ 2,180	$ 1,985	$ 2,133	$ 2,048	$ 2,010
Contributions in Relation to the Contractually Required Contributions	(2,180)	(1,985)	(2,133)	(2,048)	(2,010)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Division's Covered Payroll	$ 16,769	$ 16,542	$ 17,775	$ 17,067	$ 15,462
Contributions as a Percentage of Covered Payroll	13.00%	12.00%	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.