

CITY OF CLEVELAND, OHIO

Single Audit Reports

Year Ended December 31, 2017



CLARK SCHAEFER HACKETT
CPAS & ADVISORS



Dave Yost • Auditor of State

City Council
City of Cleveland
601 Lakeside Avenue
Room 24
Cleveland, Ohio 44114

We have reviewed the *Independent Auditors' Report* of the City of Cleveland, Cuyahoga County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2017 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Cleveland is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

August 7, 2018

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TABLE OF CONTENTS

Schedule of Expenditures of Federal Awards..... 1 – 10

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*..... 11 – 12

Report on Compliance for Each Major Federal Program; Report on Internal
Control Over Compliance; and Report on Schedule of Expenditures of
Federal Awards Required by the Uniform Guidance 13 – 14

Schedule of Findings and Questioned Costs..... 15

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CITY OF CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2017

Federal Grant/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Number	Passed Through to Subrecipients	Federal Expenditures
Department of Agriculture				
Direct Programs:				
Urban and Community Forestry Program 2016	10.675			12,810
Subtotal			-	12,810
Pass-Through Programs:				
Ohio Department of Education Office of Child Nutrition Services:				
Summer Food Service Program for Children 2016	10.559	087593		4,437
Summer Food Service Program for Children 2017	10.559	087593		181,992
Subtotal - Child Nutrition Cluster			-	186,429
Total Department of Agriculture			-	199,239
Department of Health and Human Services				
Direct Programs:				
Healthy Start Initiative Yr 16	93.926		502,636	780,136
Healthy Start Initiative Yr 17	93.926		614,902	981,249
Subtotal			1,117,538	1,761,385
Pass-Through Programs:				
Ohio Department of Health:				
Substance Abuse and Mental Health Services Administration	93.243	1H79TI025119-01		292,656
Substance Abuse and Mental Health Services Administration	93.243	1H79TI026086-01		321,512
Substance Abuse and Mental Health Services Administration	93.243	1H79SM063374-01	279,170	333,318
Subtotal			279,170	947,486
Public Health Emergency Preparedness 2017	93.074	18-100-12-PH-0817		131,348
Public Health Emergency Preparedness 2018	93.074	18-100-12-PH-0918		50,407
Public Health Emergency Preparedness - Emergency Ebola	93.074	18-100-12-EB-0116		6,816
City Readiness Initiative 2017	93.074	18-2-001-2-PH-0817	227,231	392,519
City Readiness Initiative 2018	93.074	18-2-001-2-PH-0918		41,010
Subtotal			227,231	622,100
Immunization Grants 2016	93.268	18-100-1-2-IM-0916		52,098
Subtotal			-	52,098
Immunization Grants 2017	93.539	18-100-1-2-IM-1017		36,822
Subtotal			-	36,822
				(Continued)

CITY OF CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2017

Federal Grant/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Number	Passed Through to Subrecipients	Federal Expenditures
Department of Health and Human Services (Continued):				
Pass-Through Programs (Continued):				
Family Planning Services Title X FY 2017	93.217	18-200-11-RH-0317	40,456	192,642
Family Planning Services Title X FY 2018	93.217	18-200-11-RH-0418	27,941	171,087
Subtotal			<u>68,397</u>	<u>363,729</u>
Family Planning Services Title X FY 2017	93.994	18-200-11-RH-0317		284
Family Planning Services Title X FY 2018	93.994	18-200-11-RH-0418	14,256	87,083
Subtotal			<u>14,256</u>	<u>87,367</u>
HIV Prevention 2016	93.940	18-2-001-2-HP-0916	93,500	98,831
HIV Prevention 2017	93.940	18-200-12-HP-1017	339,540	653,466
Subtotal			<u>433,040</u>	<u>752,297</u>
Sexually Transmitted Diseases Diagnosis & Treatment 2016	93.977	18-2-001-2-ST-0816		2,647
Sexually Transmitted Diseases Diagnosis & Treatment 2017	93.977	18-200-12-ST-0917		102,095
Subtotal			<u>-</u>	<u>104,742</u>
Cuyahoga County Board of Health:				
Block Grants for Prevention and Treatment of Substance Abuse:				
Alcohol, Drug Addiction and Mental Health Service 2017 Treatment	93.959			8,182
Alcohol, Drug Addiction and Mental Health Service 2016 Prevention	93.959			1,077
Alcohol, Drug Addiction and Mental Health Service 2017 Prevention	93.959			65,830
Subtotal			<u>-</u>	<u>75,089</u>
Western Reserve Area Agency on Aging (WRAAA):				
WRAAA OAA/ADRN Project 2016	93.044			5,259
WRAAA OAA/ADRN Project 2017	93.044			174,359
WRAAA Supporting Services 2016	93.044			3,017
WRAAA Supporting Services 2017	93.044			50,661
Subtotal - Aging Cluster			<u>-</u>	<u>233,296</u>
WRAAA Supportive Services/MIPPA 2014	93.071			19,042
Subtotal			<u>-</u>	<u>19,042</u>
WRAAA HEAP Outreach Program FY 2017	93.568			14,747
Subtotal			<u>-</u>	<u>14,747</u>
Cuyahoga County:				
Temporary Assistance to Needy Families	93.558	AG1400113		55,896
Subtotal - TANF Cluster			<u>-</u>	<u>55,896</u>
Total Department of Health and Human Services			<u>2,139,632</u>	<u>5,126,096</u>

(Continued)

CITY OF CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2017

Federal Grant/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Number	Passed Through to Subrecipients	Federal Expenditures
Department of Housing & Urban Development				
Direct Programs:				
CDBG Yr 36	14.218			28,857
CDBG Yr 38	14.218			10,219
CDBG Yr 39	14.218		206,046	477,848
CDBG Yr 40	14.218		977,320	2,431,308
CDBG Yr 41	14.218		450,565	755,640
CDBG Yr 42	14.218		6,219,272	11,978,438
CDBG Yr 43	14.218		2,745,168	2,877,390
Neighborhood Stabilization Program 1	14.218			326
Neighborhood Stabilization Program 3	14.218			59,275
Subtotal - CDBG Entitlement Grant Cluster			10,598,371	18,619,301
ARRA Neighborhood Stabilization Program	14.256			19,989
Subtotal			-	19,989
HOME Investment Partnerships Program 2012	14.239			904,000
HOME Investment Partnerships Program 2013	14.239			135,000
HOME Investment Partnerships Program 2014	14.239			1,339,067
HOME Investment Partnerships Program 2015	14.239			131,704
HOME Investment Partnerships Program 2016	14.239			273,818
HOME Investment Partnerships Program 2017	14.239			25,936
Subtotal			-	2,809,525
Emergency Shelter Grants Program 2014	14.231		52,771	52,771
Emergency Shelter Grants Program 2015	14.231		798,358	798,358
Emergency Shelter Grants Program 2016	14.231		1,366,761	1,394,594
Emergency Shelter Grants Program 2017	14.231			40,529
Subtotal			2,217,890	2,286,252
Housing Opportunities for Persons With AIDS 2015	14.241		263,557	269,856
Housing Opportunities for Persons With AIDS 2016	14.241		376,172	383,761
Housing Opportunities for Persons With AIDS 2017	14.241		385,919	398,529
Subtotal			1,025,648	1,052,146
Empowerment Zones Program	14.246			192,749
Subtotal			-	192,749
Midtown East 59th Street HUD 108	14.248			5,793,431
Dave's Supermarket HUD 108	14.248			2,200,000
Empowerment Zone HUD 108	14.248			2,209,526
Subtotal			-	10,202,957
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		130,899	1,368,788
Subtotal			130,899	1,368,788

(Continued)

CITY OF CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2017

Federal Grant/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Number	Passed Through to Subrecipients	Federal Expenditures
Department of Housing & Urban Development (Continued):				
Pass-through Programs:				
Ohio Department of Development:				
Neighborhood Stabilization Program - State	14.228	A-Z-08-264-1		22,800
Subtotal			-	22,800
Total Department of Housing & Urban Development				
			13,972,808	36,574,507
Department of Justice				
Direct Programs:				
Greater Cleveland Drug Court - Men's Treatment	16.585			52,017
Subtotal			-	52,017
National Forum on Youth Violence	16.819		152,859	170,508
Subtotal			152,859	170,508
Public Safety Partnership and Community Policing Grants:				
Cleveland Universal Hiring II 2013	16.710			393,652
Cleveland Universal Hiring II 2014	16.710			533,490
Federal DOJ-COPS Technology GR FY10	16.710			99,593
Subtotal			-	1,026,735
2013-Edward Byrne Crime Justice Innovation	16.817		119,394	275,577
Subtotal			119,394	275,577
Edward Byrne Memorial Competitive Grant	16.751			8,379,627
Subtotal			-	8,379,627
2014-Edward Byrne Memorial-JAG	16.738			2,793
2015-Edward Byrne Memorial-JAG	16.738		10,211	335,655
2016-Edward Byrne Memorial-JAG	16.738		14,341	120,164
Subtotal			24,552	458,612
Pass-Through Programs:				
Ohio Department of Public Safety:				
2016-Edward Byrne Memorial-NOLETF	16.738	2016-JG-A01-6444		74,210
2015-Edward Byrne Memorial-NOVCC	16.738	2015-JG-A02-6947		14,609
Nationwide Crime Analysis Capability Building Project	16.738	2014-4078-006-01	126,426	126,426
Subtotal			126,426	215,245
Center for Court Innovation:				
2016 Community Court Grant Program	16.738	2015-DC-NY-K002		42,177
Subtotal			-	42,177
Subtotal			150,978	716,034
State of Ohio - Office of Criminal Justice Services:				
Equitable Sharing Program - Asset Forfeiture Program	16.922			1,013,857
Subtotal			-	1,013,857

(Continued)

CITY OF CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2017

Federal Grant/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Number	Passed Through to Subrecipients	Federal Expenditures
Department of Justice (Continued):				
Pass-Through Programs (Continued):				
State of Ohio - Office of Criminal Justice Services:				
Violence Against Women Act Formula Grants :				
OVW Technical Assistance for the Domestic Violence Homicide Reduction Initiative Program				
	16.526	2014-HI-AX-K003		79,522
Subtotal			-	79,522
VAWA Team Approach 2015 Law	16.588	2015-VP-VA2-V041		2,723
VAWA Team Approach 2016 Law	16.588	2016-VP-VA2-V041		103,891
VAWA Team Approach 2015 Safety	16.588	2015-VP-VA2-V042		13,463
VAWA Team Approach 2016 Safety	16.588	2016-VP-VA2-V042		75,077
FY 2015 VAWA Sexual Assault	16.588	2015-VP-VA2-V045	29,946	29,946
FY 2016 VAWA Sexual Assault	16.588	2016-VP-VA2-V045	31,213	31,213
Subtotal			61,159	256,313
Total Department of Justice			484,390	11,970,190
Department of Commerce				
Direct Programs:				
Habitat Conservation - Marine Debris	11.463			25,188
			-	25,188
Pass-Through Programs:				
Ohio Department of Jobs and Family Services:				
U S Department of Commerce, Economic Development Administration:				
Revolving Loan Fund Grant - Economic Adjustment Assistance	11.307	See Footnote 1		3,289,887
Subtotal - Economic Development Cluster			-	3,289,887
Total Department of Commerce			-	3,315,075
Department of Labor				
Pass-Through Programs:				
Cuyahoga County Workforce Investment Board:				
LEAP: Linking to Employment Activities Pre-release Specialized American Job Centers	17.270	PE-27224-15-60-A-39		2,931
Subtotal			-	2,931
Ohio Department of Jobs and Family Services:				
WIOA Adult Program	17.258	G-1617-15-0176		400,431
WIOA Adult Program	17.258	G-1819-15-0177		259,413
Subtotal			-	659,844
				(Continued)

CITY OF CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2017

Federal Grant/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Number	Passed Through to Subrecipients	Federal Expenditures
Department of Labor (Continued):				
Pass-Through Programs (Continued):				
Ohio Department of Jobs and Family Services (Continued):				
WIOA Youth Program	17.259	G-1617-15-0176		34,393
WIOA Youth Program	17.259	G-1819-15-0177		122,515
Subtotal			-	156,908
WIOA Dislocated Worker Program	17.278	G-1617-15-0176		169,481
WIOA Dislocated Worker Program	17.278	G-1819-15-0177		103,143
Subtotal			-	272,624
Subtotal - WIOA Cluster			-	1,089,376
WIOA Sector Partnership - NEG Grant	17.277	G-1617-15-0176		13,648
Subtotal			-	13,648
Workforce Innovation Fund - Wage Pathways	17.283	G-1819-15-0518		22,382
Subtotal			-	22,382
Total Department of Labor			-	1,128,337
Department of Transportation				
Direct Programs:				
Airport Improvement Program	20.106			12,816,016
Subtotal			-	12,816,016
National Infrastructure Investments	20.933			210,447
Subtotal			-	210,447
Pass-Through Programs:				
Highway Planning and Construction:				
Cuy-Fleet Avenue	20.205	See Footnote 2 PID 94629		74,728
East 105th Street/East 93rd Street	20.205	PID 100354		20,000
Subtotal - Highway Planning and Construction Cluster			-	94,728

(Continued)

CITY OF CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2017

Federal Grant/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Number	Passed Through to Subrecipients	Federal Expenditures
Department of Transportation (Continued):				
Pass-Through Programs (Continued):				
Impaired Driving Enforcement Program 2016	20.616	IDEP-2016-18-00-00384-00		5,459
Impaired Driving Enforcement Program 2017	20.616	IDEP-2017-18-00-00421-00		15,400
Cuyahoga County OVI Task Force 2017	20.616	OVITF-2017-18-00-00449-00		2,019
Subtotal			-	22,878
Selective Traffic Enforcement Program 2016	20.600	STEP-2016-18-00-00461-00		17,361
Selective Traffic Enforcement Program 2017	20.600	STEP-2017-18-00-00490-00		16,483
Subtotal			-	33,844
Subtotal - Highway Safety Cluster			-	56,722
Total Department of Transportation			-	13,177,913
Department of Environmental Protection Agency				
Direct Programs:				
Air Pollution Control Program Support 2017	66.001			431,877
Air Pollution Control Program Support 2018	66.001			262,498
Subtotal			-	694,375
Pass-Through Programs:				
Nonpoint Source Implementation Program	66.460	C9975500012		101,762
Subtotal			-	101,762
Total Department of Environmental Protection Agency			-	796,137
Department of Homeland Security				
Direct Programs:				
FEMA Disaster Grant	97.036			29,208
Subtotal			-	29,208
Assistance to Firefighters 2014	97.044			164,778
Subtotal			-	164,778
Staffing for Adequate Fire and Emergency Response 2014	97.083			2,276,593
Subtotal			-	2,276,593
Bio-Watch Program 2017	97.091			325,573
Bio-Watch Program 2018	97.091			107,890
Subtotal			-	433,463
				(Continued)

CITY OF CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2017

Federal Grant/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Number	Passed Through to Subrecipients	Federal Expenditures
Department of Homeland Security (Continued):				
Pass-Through Programs:				
Ohio Environmental Protection Agency: Bio-Watch Program 2016	97.091	EPAFBW16		2,010
Subtotal			-	2,010
Subtotal			-	435,473
Cuyahoga County Department of Justice Affairs:				
Urban Area Security Initiative 2016	97.067	EMW-2016-SS-00104-S01		17,373
Subtotal			-	17,373
Total Department of Homeland Security			-	2,923,425
Department of the Interior Fish and Wildlife Service				
Direct Programs:				
Federal Boating Infrastructure Grant	15.622			400
Total Department of the Interior Fish and Wildlife Service			-	400
Grand Total			\$ 16,596,830	\$ 75,211,319
				(Concluded)

See notes to the Schedule of Expenditures of Federal Awards

**CITY OF CLEVELAND
 CUYAHOGA COUNTY
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2017**

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Cleveland (the "City") and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Uniform Grant Guidance.

Footnote 1: Revolving Loan Fund

Activity in the Economic Adjustment Assistance, CFDA 11.307 revolving loan fund during 2017:

Beginning loans receivable balance as of January 1, 2017	\$1,945,033
Loans made during 2017	381,016
Loan principal repaid on loans issued prior to 2017	(361,399)
Loan loss 2017	(51,310)
Ending loans receivable balance as of December 31, 2017	<u>\$1,913,340</u>
Cash balance on hand in the revolving loan fund as of December 31, 2017	
Cash balance, unobligated	\$1,541,790
Revolving loan committed but not disbursed	<u>200,300</u>
Total unobligated cash and committed but not disbursed cash	<u>1,742,090</u>
Total value of revolving loan portion of the EDA 11.307 program	3,655,430
Less: City's matching share	<u>(365,543)</u>
Total federal value of revolving loan portion as of December 31, 2017	<u>\$3,289,887</u>
Berry Insulation Company	\$92,932
Binkowsky-Dougherty Distribution, LLC	110,728
Certified Aircraft Maintenance, LLC	42,546
Cleveland Whiskey, LLC	118,453
Evergreen Real Estate Corporation	123,134
Green City Growers Cooperative	121,912
Gypsy Brewery, LLC	343,936
Hansa Import House Co.	59,884
Hemingway at 7000 LLC (formerly Hemingway at 6555 LLC)	448,387
Northeast Ohio Neighborhood Real Estate	30,853
Patterson-Britton	49,671
Platform Beers, LLC	240,000
Tremont Athletic Club, LLC	<u>130,904</u>
Total	<u>\$1,913,340</u>

**CITY OF CLEVELAND
 CUYAHOGA COUNTY
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2017**

Footnote 2: Ohio Department of Transportation (CFDA 20.205)

The Ohio Department of Transportation (ODOT) is the organization of state government responsible for developing and maintaining all state and federal roadways in the State of Ohio (State) with the exception of the Ohio Turnpike. In addition to highways, the department also helps develop public transportation and public aviation programs. The Schedule of Expenditures of Federal Awards details expenditures incurred by the City in the year they were paid. Due to the timing of work executed and timing of the reimbursement from ODOT, the expenditures reported on the Schedule of Expenditures of Federal Awards may not coincide with expenditures reported by ODOT.

Amounts reimbursed to the City by ODOT during 2017	\$909,498
Federal Expenditures reported in prior years schedule	(814,770)
Expended and reported by the City in Fiscal Year 2017	\$94,728

Footnote 3: Subrecipients

The City passes certain federal awards received to other governments or not-for-profit agencies (subrecipients). The City reports expenditures of Federal awards to subrecipients when paid in cash.

As a subrecipient, the City has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements and that subrecipients achieve the award's performance goals.

Footnote 4: Indirect Cost Rates

The City has elected to not use the 10% de minimis cost rate as covered in 2 CFR 200.414 Indirect (F&A) costs.

Footnote 5: Matching Requirements

Certain Federal programs require the City to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has met its matching requirements. The Schedule does not include the expenditures of non-Federal matching funds.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS****INDEPENDENT AUDITORS' REPORT**

To the Honorable Frank G. Jackson, Mayor, Members of Council and the Audit Committee
City of Cleveland, Ohio:

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cleveland, Ohio ("City") as of and for the year ended December 31, 2017 and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 28, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 28, 2018

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**INDEPENDENT AUDITORS' REPORT**

To the Honorable Frank G. Jackson, Mayor, Members of Council and the Audit Committee
City of Cleveland, Ohio:

Report on Compliance for Each Major Federal Program

We have audited the City of Cleveland, Ohio's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2017. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of compliance requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 28, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 28, 2018

CITY OF CLEVELAND, OHIO
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	None
• Significant deficiency(ies) identified not considered to be material weaknesses?	None
Noncompliance material to the financial statements noted?	None

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	None
• Significant deficiency(ies) identified not considered to be material weaknesses?	None
Type of auditors’ report issued on compliance for major programs:	Unmodified
Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)?	None
Identification of major programs:	
• CFDA 14.248 – Community Development Block Grants Section 108 Loan Guarantees	
• CFDA 20.106 – Airport Improvement Program	
• CFDA 97.083 – Staffing for Adequate Fire and Emergency Response (SAFER)	
Dollar threshold to distinguish between Type A and Type B Programs:	\$2,256,340
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

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CITY OF CLEVELAND, OHIO



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended December 31, 2017

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CITY OF CLEVELAND



Comprehensive Annual Financial Report

For the year ended December 31, 2017

Issued by the
Department of Finance

Sharon Dumas
Director

James E. Gentile, CPA
City Controller

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CITY OF CLEVELAND, OHIO

TABLE OF CONTENTS COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2017

	Page
Introductory Section	
Transmittal Letter	7-24
City Officials	25
City Council	26
Certificate of Achievement for Excellence in Financial Reporting	27
Administrative Organization Chart	28
Financial Highlights	29
 Financial Section	
Independent Auditors' Report	33-35
Management's Discussion and Analysis	37-55
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	58-59
Statement of Activities	60-61
Fund Financial Statements:	
Balance Sheet - Governmental Funds	62
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	63
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities of Governmental Funds	64
Statement of Revenues, Expenditures and Changes in Fund Balances (Budget and Actual) - General Fund	65
Statement of Net Position - Proprietary Funds	66-67
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	68
Statement of Cash Flows - Proprietary Funds	69-70
Statement of Fiduciary Assets and Liabilities	71
Notes to Financial Statements	73-132
Required Supplementary Information:	
Schedule of the City's Proportionate Share of the Net Pension Liability Ohio Public Employees Retirement System	134
Schedule of Contributions – Ohio Public Employees Retirement System	135
Schedule of the City's Proportionate Share of the Net Pension Liability Ohio Police and Fire Pension Fund	136
Schedule of Contributions – Ohio Police and Fire Pension Fund	137
Supplementary Information:	
Combining and Individual Fund Financial Statements and Schedules:	
General Fund:	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund-Legal Appropriation Level	140-147
Nonmajor Governmental Funds:	
Nonmajor Governmental Funds	149-151
Combining Balance Sheet - Nonmajor Governmental Funds	152-159
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	160-167
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Non-GAAP Budgetary Basis) - Budgeted Special Revenue Funds - Legal Appropriation Level	168-171

	Page
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) - Budgeted Debt Service Funds - Legal	
Appropriation Level	172-175
Nonmajor Enterprise Funds:	
Nonmajor Enterprise Funds.....	177
Combining Statement of Net Position - Nonmajor Enterprise Funds.....	178-181
Combining Statement of Revenues, Expenses and Changes in Fund Net Position - Nonmajor Enterprise Funds	182-183
Combining Statement of Cash Flows - Nonmajor Enterprise Funds.....	184-187
Internal Service Funds:	
Internal Service Funds.....	189
Combining Statement of Net Position - All Internal Service Funds.....	190-193
Combining Statement of Revenues, Expenses and Changes in Fund Net Position - All Internal Service Funds	194-195
Combining Statement of Cash Flows - All Internal Service Funds.....	196-199
Agency Funds:	
Agency Funds.....	201
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	202-203
Capital Assets Used in the Operation of Governmental Funds:	
Schedule by Type	206
Schedule by Function and Activity	207
Schedule of Changes by Function and Activity	208
Statistical Section	
Table of Contents	S2
Net Position by Component - Last Ten Years	S3
Changes in Net Position – Last Ten Years	S4
Fund Balances, Governmental Funds – Last Ten Years.....	S5
Changes in Fund Balances, Governmental Funds – Last Ten Years.....	S6
Assessed Valuation and Estimated Actual Values of Taxable Property – Last Ten Years	S7
Property Tax Rates – Direct and Overlapping Governments – Last Ten Years	S8
Property Tax Levies and Collections – Last Ten Years	S9
Principal Taxpayers – Real Estate Tax, 2017 and 2008	S10
Income Tax Revenue Base and Collections – Last Ten Years	S11
Ratio of Outstanding Debt to Total Personal Income and Debt Per Capita – Last Ten Years	S12
Ratio of General Obligation Bonded Debt to Assessed Value and Bonded Debt Per Capita – Last Ten Years	S13
Computation of Direct and Overlapping Governmental Activities Debt	S14
Legal Debt Margin – Last Ten Years	S15
Pledged Revenue Coverage, Airport Revenue Bonds – Last Ten Years	S16
Pledged Revenue Coverage, Power System Revenue Bonds – Last Ten Years.....	S17
Pledged Revenue Coverage, Water System Revenue Bonds – Last Ten Years	S18
Pledged Revenue Coverage, Water Pollution Control Revenue Bonds – Last Two Years.....	S19
Principal Employers, 2017 and 2008.....	S20
Demographic and Economic Statistics – Last Ten Years.....	S21
Full-Time Equivalent City Government Employees by Function/Program – Last Ten Years	S22
Operating Indicators by Function/Program – Last Ten Years	S23
Capital Assets Statistics by Function/Program – Last Ten Years	S24
Schedule of Statistics – General Fund.....	S25

INTRODUCTORY SECTION

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June 28, 2018

Honorable Mayor Frank G. Jackson
City of Cleveland Council and
Citizens of the City of Cleveland, Ohio

Introduction

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Cleveland (the City) for the year ended December 31, 2017. This report, prepared by the Department of Finance, includes the basic financial statements that summarize the various operations and cash flows related to the City's 2017 activities. Our intention is to provide a clear, comprehensive and materially accurate overview of the City's financial position at the close of last year. The enclosed information has been designed to allow the reader to gain an understanding of the City's finances, including financial trends, financial instruments and fund performances. The City has complete responsibility for all information contained in this report.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient, reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles (GAAP) in the United States of America. Because the cost of internal controls should not outweigh their benefits, this comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free of material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Clark, Schaefer, Hackett & Co. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the year ended December 31, 2017, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Clark, Schaefer, Hackett & Co. concluded, based upon its audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the year ended December 31, 2017, are fairly presented in conformity with GAAP. The Independent Auditors' Report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the Independent Auditors' Report.

Structure of this Comprehensive Annual Financial Report

This CAFR is designed to assist the reader in understanding the City's finances. This CAFR consists of the following sections:

- The Introductory Section, which includes this letter of transmittal and contains information pertinent to the City's management and organization.
- The Financial Section contains the Independent Auditors' Report, MD&A, Basic Financial Statements, Required Supplementary Information and various other statements and schedules pertaining to the City's funds and activities.
- The Statistical Section contains numerous tables of financial and demographic information. Much of this information is shown with comparative data for the ten-year period from 2008 through 2017.

References throughout this report to Note 1, Note 2, etc., are to the Notes to Financial Statements included in the Financial Section of this CAFR.

Profile of the Government

The City

The City is a municipal corporation and political subdivision of the State of Ohio. It is located on the southern shore of Lake Erie and is the county seat of Cuyahoga County.

The City is included in the Cleveland-Elyria, OH Metropolitan Statistical Area (MSA), comprised of Cuyahoga, Lake, Lorain, Geauga and Medina counties. This MSA is the 32nd largest of 382 Metropolitan Areas in the United States and the largest Metropolitan Area in the State of Ohio.

The City is located in the northeast part of the state, approximately 150 miles north-east of Columbus. Bordering Lake Erie, The City is home to world-renowned medical facilities, professional sports venues, a casino, Severance Hall, numerous lakefront parks, the Port of Cleveland, the Rock and Roll Hall of Fame and operates the nation's ninth largest water system. Interstate highways I-71, I-480, I-77 and I-90 serve as some of the City's major transportation arteries. The City is rich in educational and medical facilities, including Cleveland State University, Case Western Reserve University, the Cleveland Clinic and University Hospitals of Cleveland.

City Government

The City operates under and is governed by, the Charter which was first adopted by the voters in 1913 and has been and may be further amended by the voters from time to time. The City is also subject to certain general State laws that are applicable to all cities in the State. In addition, under Article XVIII, Section 3 of the Ohio Constitution, the City may exercise all powers of local self-government and may exercise police powers to the extent not in conflict with applicable general State laws. The Charter provides for a mayor-council form of government.

The City's chief executive and administrative officer is the Mayor, elected by the voters for a four-year term. Frank G. Jackson was elected as Mayor of the City in November 2005 and began his first term on January 2, 2006. In November 2017, he was re-elected to a fourth term, which will make him the City's longest serving Mayor. Prior to assuming office as Mayor, Mr. Jackson served as a Ward 5 City Council member for 16 years and in 2002 was elected by the then 21-member City Council (Council) to serve as Council President. Under the Charter, the Mayor may veto any legislation passed by Council, but a veto may be overridden by a two-thirds vote of all members of the Council.

Legislative authority is currently vested in a 17-member Council. Council members serve four year terms and are elected from wards. The present terms of the Mayor and Council members expire on December 31, 2021. The Council fixes compensation of City officials and employees and enacts ordinances and resolutions relating to City services, tax levies, appropriating and borrowing money, licensing and regulating businesses and trades and other municipal functions. The presiding officer is the President of Council, elected by the Council members. Kevin J. Kelley was elected as President of Council in November 2013 and re-elected in November 2017. The Clerk of Council is appointed by Council. The Charter establishes certain administrative departments; the Council may establish divisions within departments or additional departments. The Mayor appoints all of the directors of the City's 12 departments.

The Director of Finance and City Controller believe that, to the best of their knowledge, the data contained in this report present fairly the financial position and results of operations of the various funds of the City. All necessary disclosures are included in this report to enable the reader to understand the City's financial activities.

Financial Reporting Entity

The City has applied guidelines established by Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34*. Provisions outlined in this statement define the operational, functional and organizational units for which the City, "acting as Primary Government", is required to include as part of its reporting entity. The inclusion of a component unit as part of the City's reporting entity requires the appointment of a voting majority of the component unit's board and either (1) the City's ability to impose its will over the component unit or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the City.

Under these provisions, the City's financial reporting entity acts as a single rather than multi-component unit. The provisions permit the entity to include all funds, agencies, boards and commissions that, by definition, comprise components within the primary government itself. For the City, these components include police and fire protection services, waste collection, parks and recreation, health, select social services and general administrative services. Primary enterprise activities owned and operated by the City include a water system, electric distribution system and two airports.

In accordance with GASB Statement No. 61, the Cuyahoga Metropolitan Housing Authority, Cleveland-Cuyahoga Port Authority and Cleveland Municipal School District are defined as related organizations and Gateway Economic Development Corporation of Greater Cleveland is defined as a jointly governed organization. None of these organizations are included within the City's reporting entity.

Internal Control

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure ensures that accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. The internal control structure is designed to provide reasonable assurances that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state and county financial assistance, the City is also responsible for maintaining a rigorous internal control structure that ensures full compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management, external auditors and the internal audit staff of the City. The City is required to undergo an annual audit in conformity with the provisions of the U.S. Office of Management and Budget's Uniform Administration Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). The information related to the Uniform Guidance, including the schedule of federal awards expenditures, findings and recommendations and auditor's reports on the internal control structure and compliance with applicable laws and regulations are included in a separate report.

Accounting and Financial Reporting

The City's accounting system is organized and operated on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. The types of funds to be used are determined by GAAP and the number of individual funds established is determined by sound financial administration. Each fund is a separate accounting entity with its own self-balancing set of accounts, assets, deferred outflows of resources, liabilities, deferred inflows of resources and fund balance. The City's governmental funds include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds. The City's proprietary funds are its Enterprise Funds that provide services to the general public, including utilities and airport service and Internal Service Funds that provide services to City departments, divisions and other governments. The City also maintains Fiduciary Funds to account for assets held by the City in an agent capacity for individuals, private organizations and other governments.

Except for budgetary purposes, the basis of accounting used by the City conforms to GAAP as applicable to governmental units. All governmental funds are accounted for using a current financial resources (current assets, deferred outflows of resources, current liabilities and deferred inflows of resources) measurement focus. The modified accrual basis of accounting is utilized for governmental funds. Revenues are recognized when they are susceptible to accrual (both measurable and available). Expenditures are recognized when the related liability is incurred, except for interest on long-term debt which is recorded when due.

The measurement focus of the City's proprietary funds is on the flow of total economic resources (all assets, deferred outflows of resources, liabilities and deferred inflows of resources). The accrual basis of accounting (revenues are recognized when earned and expenses when incurred) is utilized for the Enterprise and Internal Service Funds.

The City's basis of accounting for budgetary purposes differs from GAAP in that revenues are recognized when received, rather than when susceptible to accrual (measurable and available) and encumbrances and pre-encumbrances are included as expenditures rather than included in fund balances.

Budgeting Procedures

Detailed provisions regulating the City's budget, tax levies and appropriations are set forth in the Ohio Revised Code and the City Charter. The Mayor is required to submit the appropriation budget, called "The Mayor's Estimate" to City Council by February 1 of each year. The Council may adopt a temporary appropriation measure for the first three months of the year, but must adopt a permanent appropriation measure for the fiscal year by April 1. The Cuyahoga County Fiscal Officer must certify that the City's appropriation measure does not exceed the amounts set forth in the County Budget Commission's Certificate of Estimated Resources.

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*, was 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, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, 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, 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 City 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 Statement 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 inter-period equity and creating additional transparency. The City has determined that GASB Statement No. 74 has no impact on its financial statements as of December 31, 2017.

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 City 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 City 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, No. 68 and No. 73. 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 City has implemented GASB Statement No. 82 as of December 31, 2017.

The City maintains budgetary control on a non-GAAP basis at the character level (personnel and related expenditures and other expenditures) within each division. Lower levels within each character are accounted for and reported internally. Lower levels are referred to as the program level. Estimated expenditure amounts must be pre-encumbered and subsequently encumbered prior to the release of purchase orders to vendors or finalization of other contracts. Pre-encumbrances and encumbrances that would exceed the available character level appropriation are not approved or recorded until the Council authorizes additional appropriations or transfers. Unencumbered appropriations lapse at the end of each calendar year. As an additional control over expenditures, the City Charter requires that all contracts in excess of \$50,000 shall first be authorized and directed by ordinance of Council.

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is shown on page 65 as part of the basic financial statements. For other governmental funds with appropriated annual budgets, this comparison is presented in the supplementary information subsection of this report along with more detailed information regarding the General Fund, which starts on page 140.

Factors Affecting Financial Condition

Local Economy

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

The City's economic condition draws strength and stability from its evolving role as the focal point of a growing, changing and substantial regional economy. The City is located at the center of one of the nation's heaviest population concentrations. The Cleveland Metropolitan area is a significant local market, housing 2.1 million people. The City also provides superior links to the global markets. The Cleveland-Cuyahoga Port Authority handles the largest amount of overseas cargo on Lake Erie and includes a Foreign Trade Zone. The City is also well-served with extensive highways and Cleveland Hopkins International Airport is serviced by all major airlines. The re-emergence of downtown Cleveland as a vibrant center for national and regional entertainment and major cultural activities signals a turning point in the City's overall fortunes and is paving the way for further economic expansion that will be significantly more entrepreneurial in scope.

Major Industries, Economic Conditions and Employment

The City, as well as most large urban municipalities across the nation, has faced significant economic challenges in recent years. Like all manufacturing cities across the country, the City has tried to combat the declining industry base with more professional and service industry opportunities. The City's budget basis income tax collections increased 23.6% in 2017 due to an increased income tax rate from 2.0% to 2.5%.

While the City's economy has shifted more toward education and health care services, its manufacturing base has assumed a smaller, yet still vital role. Competitive pressures in manufacturing have limited job creation, but the competitive position of the City based industrial companies has improved.

For 2017, the U.S. Bureau of Labor Statistics (BLS) indicates that the Cleveland area employment base continues to become more diversified. The following table summarizes the percentage of nonfarm employment in the Cleveland area by major industry.

Industry	Percent of Workforce
Education and health services	20.10 %
Trade, transportation and utilities	17.67
Professional and business services	13.73
Government	12.81
Manufacturing	11.52
Leisure and hospitality	9.46
Financial activities	6.30
Other services	3.79
Mining, logging and construction	3.31
Information	1.31
Total	<u>100.00 %</u>

Current Projects and 2017 Accomplishments

The 2017 budget focused on continuing the City's commitment to improve the quality of life of its citizens by strengthening its neighborhoods, fostering a favorable business climate and providing superior services.

The City achieved the following 2017 programmatic goals and projects:

Department of Community Development

- The Department continued implementing neighborhood strategies to reduce blight and promote recovery from the economic downturn by making or supporting investments throughout Cleveland. Investments include, but are not limited to demolition, housing renovation, home repair, land reutilization, development of new affordable housing, storefront façade improvements, addressing homelessness and needed public services. All approaches are consistent with the Citywide plan to deploy sustainable and green principles.
- The U.S. Department of Housing and Urban Development (HUD) approved its priorities to focus our resources to address Affordable Housing, Homelessness, Non-Homeless Persons with Special Needs, Stabilizing Neighborhood Housing Markets, Non-Housing Community Development and Public Housing. The City receives approximately \$25 million in entitlement funding. This amount represents the eighth largest block grants in the country. Using the City's network of over 80 partners, the City is able to deploy funding to those that need help. Each year, on average, the City's entitlement program benefits over 100,000 residents, 300 housing units and leverages over \$10 million in other resources.
- All housing projects that receive City financial assistance, including tax abatement, are required to meet the City's Green Building Standards (GBS). The GBS incorporates national standards such as Leadership in Energy & Environmental Design (LEED) and Enterprise Community Partners' Green Community Standards.
- Several noteworthy multifamily projects were completed in 2017, including The Lofts at Lion Mills, a 36-unit rehabilitation of an existing building to support affordable housing and Hough Heritage, a 60-unit newly constructed building of affordable housing targeted at a population with income of 60.0% or less than the area wide median income.
- Construction started on several projects that promoted strategic Citywide or neighborhood objectives, including Emerald IX, breaking ground on 66 permanent supportive housing apartment units and Aspen Place, serving low and moderate income households in a 40-unit apartment building.
- The Department addressed lead hazards in 131 units of housing through the Lead Hazard Reduction Demonstration Grant. The City was awarded a new Lead Demonstration Grant in June of 2017 for \$3.4 million.

Department of Building and Housing

- The Department inspected, condemned and razed over 500 structures.
- Initiated 1,539 court cases against negligent property owners.
- Issued 3,780 violation notices.
- Issued 17,865 construction permits valued at \$1.339 billion in new construction.
- Boarded-up and secured 2,871 vacant structures.
- Issued 1,117 condemnation notices.

Department of Economic Development

- The Department received grant and pass through loan funding in excess of \$3.4 million. The grants include DigitalC's MidTown Tech Hive and the Dave's Supermarket on Chester Avenue. The MidTown Tech Hive project features a partnership with DigitalC and the Teaching Institute for Excellence in Science, Technology, Engineering and Math (STEM) to provide co-working space for entrepreneurs, with a focus on the neighborhoods surrounding the Health Tech Corridor.
- The Small Business Administration (SBA) provides recoverable grants to businesses that may face difficulties meeting the SBA's 25.0% equity requirement. The City provides up to \$50,000 of total project cost to each borrower, reducing the business' equity needs to as little as 10.0%. The Department provided \$52,692 in 2017 with total project costs of \$545,000, exhausting the original grant. The County and the City agreed to add an additional amount of \$250,000 each to re-authorize the program in late 2017.
- The Neighborhood Retail Assistance Program provided \$439,500 of assistance for 12 projects that leveraged almost \$1.7 million of total project investment. Vacant storefronts are being replaced by restaurants, cafés and locally-owned retail shops. The small businesses will create 35 new jobs. A few of the loan recipients include Il Rione Pizzeria, Urban Kutz Barbershop and Café Sausalito.
- Under the Vacant Property Initiative (VPI) Program, the City provided approximately \$1.2 million in assistance to 9 borrowers. The total project cost for these borrowers is almost \$29 million and will create over 250 new jobs. A few borrowers include Simon's Supermarket, the Tenk Center and Pioneer Cladding and Glazing.

Department of Public Health (CDPH)

- The Division of Environment inspected approximately 3,100 food operators for a total of approximately 7,200 inspections, 127 pools and 330 schools. The Division responded to over 600 cases where high levels of lead were found in a child's blood. The Division investigated over 5,000 citizen nuisance complaints and issued 1,234 tickets.
- The Division of Health program, Mom's First, served over 1,700 participants in 2017. The infant mortality rate (IMR) for babies in the Mom's First program is 5.4 per 1,000 live births, compared to the overall IMR of 10.2 per 1,000 live births.
- In 2017, the Community Health Worker Certification training program was introduced through the Ohio Board of Nursing. This will directly impact the quality of services provided through this intervention.
- The HIV programs distributed over 99,000 condoms and conducted 11,343 HIV tests. The social media marketing campaigns totaled more than 17.9 million impressions across all media platforms.
- Over 1,200 childhood immunizations and 900 flu shots were administered.
- Behavioral Health had an increase in demand for services, particularly as opiate use continued to grow. CenterPoint, an outpatient alcohol and drug treatment program, has been helping citizens by offering treatment programs.
- Vital statistics issued 58,805 birth certificates and 64,265 death certificates.
- The Division of Air Quality issued four action referrals, 83 notices of violation and 95 resolutions of violation signifying an 87.0% compliance rate on facility inspections.
- The Division of Air Quality completed 286 asbestos inspections, 18 Title V facilities inspections, 13 Federally Enforceable Permit to Install and Operate facility inspections, six unannounced minor facility inspections, 57 gasoline dispensing facilities inspections and five anti-tampering used car dealership inspections.
- The Division of Air Quality investigated over 400 citizen complaints and distributed three Citizen Air Monitoring Program canisters to the community.

- The Department partnered with TV20 and produced the segments that discussed Mom's First and how families can receive services, Safe Sleep, information on mobile food pantry, importance of childhood immunizations, public service announcements on HIV, syphilis as well as seasonal influenza with the importance of receiving a flu vaccine.

Department of Aging

- Provided core services to 5,013 unduplicated clients, seniors and adults with disabilities.
- Secured approximately \$650,000 in grants to support programs for seniors and adults with disabilities.
- The Annual Senior Day attracted more than 2,000 senior citizens. The Annual Cleveland Senior Walk, held in September had over 1,000 participants. The Annual Disability Awareness Day luncheon held in October included over 200 participants.
- Age Friendly Cleveland worked on implementing six age-friendly strategies that will improve the age-friendly features of the City including the falls prevention campaign, age-friendly checklist in city planning, call-in senior center, senior companions, medical equipment exchange and age-friendly event planning guide.

The Office of Equal Opportunity (OEO)

- Under Codified Ordinance No. 188, OEO penalizes contractors that fail to meet the Cleveland Resident Employment Law. Since 2009, over \$398,000 in penalties have been collected for non-compliance with Codified Ordinance No. 188.
- Under Codified Ordinance No. 123.08, OEO is the Citywide Prevailing Wage Coordinator. Since 2011, OEO has established itself as a convener and facilitator of standardized policies and procedures related to prevailing wage. This model of Prevailing Wage Coordinators informally reporting to the Director of OEO to ensure standardization in practices, policies and procedures has been deemed effective. In addition, the implementation of Labor Compliance Tracker (LCP) software has enhanced standardization and effectiveness through technology. As such OEO, through the Director, will continue the role of convener and facilitator.
- OEO has been utilizing two compliance software systems, Business to Government Now (B2GNow) and LCP. Adoption of this technology meets the Mayoral goal of efficiency through technology.
- In 2017, OEO continued to maintain a registry of certified contractors. To date, there are 632 certified contractors in B2GNow. The certification team continues to provide in-depth consultation to applicants assisting them with certification and engaging contractors with doing business with the City. Additionally, the certification team provides business development and outreach through Contractors' Meetings; a platform of sharing information, networking and outreach.

Department of Public Works

- The Division of Recreation served 110,195 nutritious after school and summer meals.
- The Bureau of Cultural Arts had the most artistic entries for the 2017 National Arts Program of anyone in the nation. In 2017, there were 275 entries from the Division of Recreation.
- The Division of Recreation started the Mural Mania program where youth design and paint indoor murals at recreation centers with the guidance of recreation instructors. Murals were painted at Estabrook and Cudell.
- The Division of Recreation sent a youth basketball team to Lithuania to compete in the Children's Games. The team won the silver medal. A team was also sent to Orlando for the Summer Classic and that team placed 2nd also receiving a silver medal.

- In collaboration with the Mayor's Office, the Division of Recreation implemented various Preventative Intervention Opportunities including chess, yoga, visits to the Karamu Theatre, Cleveland rape crisis seminars, photography and dance.
- The Division of Recreation developed a partnership with the Foundry and started rowing and sailing programs. This partnership allows youth to learn the techniques of rowing, sailing, water safety and experience the sports on the water.
- The Division of Recreation had an obstacle course at the Mayor's Night Out Against Crime and had over 150 youth and adult participants.
- The Division of Recreation in partnership with Youth Opportunities Unlimited (YOU), provided worksites for 430 youths during the summer; 371 youths at centers and 59 youths at pools. The City's recreational facilities hosted approximately 12.0% of last year's 3,551 participants of YOU.
- The Division of Park Maintenance serviced 72,837 vacant properties, provided four Citywide cuts to vacant lots and performed 1,465 illegal dumpsite clean-ups.
- The Division of Park Maintenance, Urban Forestry unit, trimmed 3,184 trees, removed 1,344 trees and planted 235 new trees.
- The Division of Motor Vehicle Maintenance (MVM) purchased 110 new vehicles, which included 85 police vehicles, three plow trucks, nine ambulances, two fire trucks, four street sweepers, five waste collection trucks and two leaf box trucks.
- MVM re-evaluated department vehicles and they were rehabbed and reassigned to other departments for use.
- MVM upgraded their computer software programs, which increased technician productivity and assists with logging of their daily activities.
- The Division of Waste Collection collected and disposed of 241,250 tons of debris and recycled 26,915 tons of materials.
- The Division of Streets resurfaced 476,296 square yards of curb-to-curb projects.
- The Division of Traffic Engineering painted 630 miles of lane lines and replaced 1,300 traffic light bulbs. The Division also upgraded traffic signs and 72 intersections to energy efficient Light Emitting Diode (LED) bulbs.

Department of Public Safety

- The Law Enforcement Records Management System (LERMS) for the Division of Police was upgraded in 2017 and now provides enhanced record-keeping and management functions. The robust LERMS platform streamlines police reporting and has allowed for the implementation of Field Based Reporting. Upon completion of Division-wide training in January 2018, all district personnel will have the ability to enter police reports directly to the LERMS from the mobile data terminals located in police patrol vehicles.
- The Division of Police has completely revised its use of force policies. Employing new and innovative approaches to instruction with the traditional classroom setting being augmented with scenario-based action and role play. The use of force training focused on de-escalation, dealing with the mentally ill and people in crisis. In 2017, all officers in the Division were trained and tested on the new use of force policies which went into effect at the beginning of 2018.
- The City of Cleveland Division of Emergency Medical Service (EMS) logistics section replenished over 300 first aid kits utilized by the Division of Police to provide life-saving first aid.

- The Matter of Balance Program continued in 2017 with additional sites, targeting locations where EMS frequently has service calls for falls.
- In 2017, recognizing the opioid epidemic that plagues our community, EMS collaborated with Project Dawn to dispense Project Dawn Kits to the public. Project Dawn Kits provide naloxone to individuals, family members or friends for those at risk of opioid overdose. Naloxone reverses the effects of opioids, (including but not limited to heroin, fentanyl and analogs.) The Project Dawn Kits are dispensed from EMS headquarters during normal business hours as well as from the ambulance while on emergency calls for those at risk of opioid overdose.
- The City and Cuyahoga County Sheriff have reached an agreement to have the Cuyahoga County Sheriff assume all jail duties for the City of Cleveland. By August 2018, it is anticipated that all City jail facilities will be closed and all arrests within the City of Cleveland will be booked, processed and housed at the County jail.
- The Office of Professional Standards continues to make progress in updating their operating procedures for investigations. The responsibility for investigating complaints against Cleveland police officers has been transferred to civilian investigators rather than police officers. The City and the U.S. Department of Justice (DOJ) signed a settlement agreement, known as a Consent Decree, which marks a new way of policing in the City, one built on a strong foundation of progressive change, sustained trust and accountability. The Consent Decree is a reflection of ideas from people and groups across the community – including residents, civil rights organizations, activists, clergy, student groups, business and philanthropic organizations and elected officials, as well as the police unions and the Division of Police.
- The complete civilianization of the Office of Professional Standards investigative staff is working to break down barriers, real or perceived, between the community and the Division of Police. The Office of Professional Standards now provides online access to the complaint process, free parking for complainants and the installation of audio and video cameras in the lobby of every police district.
- The Office of Professional Standards and the Civilian Police Review Board are working closely with the DOJ and the monitoring team to ensure that citizen complaints involving sworn and civilian employees of the Division of Police are thoroughly investigated and resolved. New operating manuals for the Office of Professional Standards and the Civilian Police Review Board have been drafted and staffing levels have been increased to ensure complaints are investigated timely and resolved fairly and impartially. These changes have been implemented to build trust and accountability.
- The Cleveland Division of Animal Care & Control City Dogs Program continues to be a big success. It is anticipated that construction of the new City Kennel to be located at W. 93rd and Detroit Avenue will be completed in December 2018.

Department of Public Utilities

- The Division of Water services not only the City, but also 75 direct service communities, seven master meter communities and three emergency standby communities. They provide water to approximately 418,000 city and suburban accounts in the Cleveland metropolitan area. Of these 418,000 accounts, approximately 114,000 accounts were located within the City; accounting for 23.2% of the Division's metered sales revenue. The Division also sells water to master meter communities that operate their own distribution systems and they provide billing and payment services for the Northeast Ohio Regional Sewer District (NEORS) and other communities. In 2017, the major capital projects for the Division of Water included suburban water main renewal, network upgrades and motor vehicles.
- The Division of Cleveland Public Power (CPP) provided approximately 73,000 residential and business customers in the City with reliable and affordable power. In 2017, CPP sold approximately 1.588 billion Kilowatt hours (kWh) of electricity. In 2017, the major capital projects for the Division of CPP included transformers, motor vehicles and infrastructure related to the Opportunity Corridor.

- The Division of Water Pollution Control maintains the local sanitary sewer and storm water collection system within the City. The system is comprised of over 1,400 miles of sewer lines, more than 44,000 storm drains and 12 pump stations. In 2017, the Division's sewers transported 1,789,836 thousand cubic feet (Mcf's) of water. In 2017, the major capital projects for the Division included sewer installations, connections, replacements and rehabilitation, as well as motor vehicles.

Department of Port Control

- During 2017, Cleveland Hopkins International Airport (CLE) enplaned 4,562,740 passengers and had aircraft landed weight of 5,455,096,000 pounds.
- In 2017, the CLE Airport Inline Baggage System was implemented. It allows for all airline passenger checked bags to be processed in one consolidated system. All airlines now operate with the optimized system, which has allowed for standalone screening machines to be removed from the ticketing lobby and has increased capacity for pedestrian movements and landside operations.
- During 2017, a snow removal equipment facility was substantially completed. This will provide a storage building for all snow removal equipment instead of the equipment being parked in open lots and exposed to the elements.
- The Department is working to provide a redundant electrical feed to the Airport that is required during critical events that affect power to terminal spaces as well as the security checkpoints, vertical circulation, ticketing lobby and bag claim areas. The objective is to provide uninterrupted power to the Airport environment from either of the main substations. This project was substantially completed in 2017.

Department of Law

- Drafted approximately 511 contracts and reviewed 915 contracts for legal form and correctness.
- Prepared and processed 458 pieces of legislation for introduction to City Council.
- Obtained 636 search warrants for Housing Court enforcement actions and helped the Department of Building and Housing obtain legal authorization for 484 demolitions of unsafe structures in the City.
- Responded to 2,330 citizen requests for non-routine public records and responded to 277 subpoenas for public records.
- Implemented the web-based records request system in October 2017. From the time that it was implemented until the end of the year, the City responded to 2,899 public record requests.
- Processed 655 claims for property damage and other losses.
- Represented the City in 859 civil cases pending in various Ohio state and federal courts.
- Prosecuted 1,543 criminal complaints in housing court for failing to comply with the Department of Building and Housing administrative orders at sites with code violations found at properties. Successfully prosecuted civil nuisance abatement actions for numerous properties across the City.
- Processed 2,840 citizen complaints in the prosecutor's office.
- Issued 17,290 misdemeanor charges, of which, 1,314 were domestic-violence and issued 4,579 felony charges, of which, 506 were domestic violence.
- Issued 1,648 operating vehicle impaired charges and 35,662 traffic offense charges.

Office of Capital Projects

- The Office of Capital Projects completed construction on several projects including Cleveland Parkway Drive (Rocky River Drive to East end at cul de sac); East 71st Street (Harvard Avenue to Grant Ave); Harvard Avenue (East 93rd Street to East 116th Street); Scranton Road (Fairfield Avenue to Carter Road); Carter Road (Scranton Road to Columbus Road); Clark Avenue (Lorain Road to West 65th Street); East 152nd Street (Waterloo Road to Woodworth Avenue); and Pearl Road (Brookpark Road to I-71).
- In conjunction with the City's resurfacing program, 764 American with Disability Act (ADA) ramps were installed.
- There were 88 required inspections and inventory of bridges completed.
- The Office of Capital Projects inspected 320 roads, bridges, subdivisions and utility cut projects in the public right of way to ensure quality control.
- The Office of Capital Projects furthered the City's neighborhood revitalization efforts through the implementation, construction and/or rehabilitation of City facilities and infrastructure, design and/or construction was completed on the East Side Maintenance Facility, West Side Market Phase Five parking lot, 205 St. Clair Finance, Ridge Road Transfer Station Truck Scale Phase One as well as several recreation center and park improvements.
- Managed the Towpath Trail Project, including groundbreaking for Stage Three, Steelyard Commons to Liberty Avenue and secured a grant of \$500,000 from the State of Ohio Clean Ohio Trails Fund for Stage One, Harvard Avenue to Steelyard Commons.
- Managed consultants and site selection process for the new Cleveland Police headquarters for the Department of Public Safety.
- Continued oversight of right of way and real estate matters for roads and bridge reconstruction projects including: Hope Memorial Bridge Rehabilitation, Opportunity Corridor, Carter and Scranton Roads, West 73rd Street and Battery Park Avenue Extension, East 152nd Street and West 19th Street.
- Handled real estate transactions needed for various public works and private development projects including: Centric, Cedar Hill Multipurpose Trail, new Lincoln Park gazebo, East 9th Street Rock Boxes, Mt. Pleasant neighborhood historic markers and Flats East Phase Two.
- Negotiated and completed leases or lease renewals with Ohio Means Jobs workforce program headquarters, Cleveland Heights-University Heights City School District for a portion of Roxboro Middle School campus and Cleveland Police commission.
- Oversaw and coordinated real estate matters for the Cleveland Metropolitan School District's master facilities plan, NEORS D Project Clean Lake green and grey infrastructure projects and various projects with the Cleveland Metroparks and City's Department of Public Utilities.

Office of Sustainability

- Renewed EnergyCAP Utility Data Management Software and managed and reported on utility and energy data for all City facilities. Since 2010, the City is using 9.0% less energy per square foot of building space, saving more than \$4 million per year.
- The City is recognized as a SolSmart Bronze City for advancing solar energy growth. The City achieved this recognition partly for completing a solar guide, making it easier for residents and businesses to go solar.
- Continued implementation of Mayor Jackson's Sustainable Cleveland 2019 initiative, including hosting the ninth annual Sustainable Cleveland Summit and celebrating the Year of Vibrant Green Space throughout 2017.

- Promoted green building by continuing to implement the Sustainable Municipal Building Policy that was adopted in 2013. This policy requires that green building practices are incorporated into the siting, design, construction, remodeling, repair, maintenance, operation and deconstruction of all City facilities.
- Procured 11 water bottle filling stations and replacement filters for the City facilities, including eight recreation centers.
- Secured or managed the following grants: \$442,000 from the U.S. Environmental Protection Agency (EPA) to install approximately 20,000 square feet of permeable pavers and plant 150 trees at Marion Motley Park; \$350,000 from the U.S. EPA and City of Cleveland Community Cost Share to install four bio-retention cells at Wildwood Park to improve water quality at nearby beaches; \$250,000 from NEORSD to install a rain collection system at the new City Kennel; \$110,000 from Partners for Places and the Gund Foundation to support an update to the Cleveland Climate Action Plan and neighborhood climate action projects, with a focus on equity and engagement; \$100,000 from the U.S. Forest Service to plant approximately 150 trees in the Cudell and Buckeye-Shaker neighborhoods; \$50,000 from the Ohio Development Services Agency for a feasibility study assessing potential for alternative fuel use, including electric vehicles, in the City's fleet; and \$5,000 from the Cuyahoga County Solid Waste District for recycling education.
- Continued implementation of the City's Bikeway Implementation Plan by adding 13 miles of bikeway.

2018 Budget

During 2017, the City started the process of enhancing City services using the additional income tax dollars resulting from a 0.5% income tax increase that was passed in November 2016. Some of the major City Departments that had service enhancements include the Department of Public Safety, Public Works, Public Health and the Mayor's Office of Capital Projects. The enhanced services will continue in 2018.

The estimate of receipts and expenditures for all General Fund departments and divisions for the 2018 budget are:

- Total revenues and other financing sources are projected to increase from \$615.2 million in 2017 to \$623.5 million in 2018. This increase is predominantly attributed to the collection of a full year of income tax at the 2.5% rate, as opposed to 2017, which received income tax collections at this rate for 11 of the 12 months.
- Total expenditures and other financing uses are estimated to increase from \$595.8 million in 2017 to \$622.9 million in 2018. This increase, again, can be attributed to the increase in income tax receipts as the City will provide additional and enhanced services. The Division of Police plans to hire 150 police officers in 2018 and an additional 100 officers in the first quarter of 2019. A minimum of four academy classes are planned during 2018. The Division of Fire will hire 80 personnel to maintain staff levels and account for attrition. The Division of Emergency Medical Service added three new EMS bases to the city neighborhoods and will add 48 new Emergency Medical Technicians/paramedics, including promoting five supervisors to oversee field operations. The Division of Animal Care and Control will open a new \$4 million kennel in 2018. The Office of Professional Standards will enhance operations to meet the citizen complaint goals of the Department of Justice by a staff increase of one senior investigator, two full-time investigators and a community engagement coordinator. The Cleveland Department of Public Health will focus on addressing and preventing lead poisoning, reducing infant mortality and HIV and sexually transmitted disease rates, impacting the opiate epidemic, improving our environment and becoming a fully accredited local health department. The Department of Public Works will continue using its enhanced budget to maintain staff added in 2017 and continue improving city services such as street sweeping, pothole repair, waste collection, leaf removal and more. The Department of Building and Housing will continue to implement and create healthy neighborhoods by increasing rental registration to 57,000 rental units, systematically inspecting rental units for life, safety and lead issues and razing structures through the Safe Routes to School Demolition Program.

Long-term financial planning:

The City has a long-term goal of increasing the Rainy Day Reserve Fund to 10.0% of General Fund budgetary expenditures and other financing uses (approximately \$59.6 million). The fund balance in the Rainy Day Reserve Fund at December 31, 2017 was \$26.0 million. This will allow the City to obtain the lowest rates possible when issuing debt and also withstand economic downturns with minimum disruptions to City services. The City also has a goal of having a structurally balanced budget where the cost to run the City is in line with the revenue collected. A structurally balanced budget allows the City to eliminate the dependency on a carry-over balance. The City was able to achieve a structurally balanced budget for 2017 and 2018.

The following projects currently underway will provide the momentum necessary to continue rebuilding the City's economic base:

- The Cleveland Clinic and Case Western Reserve University continued construction. This project is intended to burnish the City's image as a center of medicine and medical education. The four-story building will house the Cleveland Clinic Lerner College of Medicine, Case Western Reserve University's School of Medicine, School of Dental Medicine and Frances Payne Bolton School of Nursing. It will include a free-standing, two or three story dental clinic. The Health Education Campus is scheduled to open in the summer of 2019.

Business Incentives and creating Economic Development

Note 20 – Tax Abatements are a requirement in the City's CAFR, based upon GASB Statement No. 77, *Tax Abatement Disclosures*. This footnote disclosure focuses on lost tax dollars and the costs to government entities. The following will reveal the benefits derived from offering business incentives.

Department of Economic Development

In partnership with Hemingway Development, Dave's Supermarket will be constructing a brand new grocery store located at the corner of East 61st Street and Chester Avenue. This 60,000 square foot new construction supermarket will be part of the Hemingway Development's Link59 campus. The one-story building will include approximately 50,000 square feet for the grocery store and approximately 10,000 square feet of mezzanine space for a pharmacy, bank and neighborhood gathering space. The total development cost for the project is approximately \$16.7 million. In order to fund a gap in the construction budget, the City provided multiple incentives including a 10 year, 75.0% tax abatement, HUD 108, Stormwater Ohio Development Services Agency and Vacant Property Initiative loans. The project estimates the retention of 115 full-time equivalent jobs in the City, with an annual payroll of \$3.9 million.

In addition, new developments are coming to the East Side Market, which is a City-owned building located on the corner of East 105th Street and St. Clair Avenue. It operated as a public market until 2007 and has since been vacant. Northeast Ohio Neighborhood Health Services, Inc. (NEON), responded to a request for proposal to lease the East Side Market from the City and plans to sublease space out to food related businesses. The 19,620 square foot building will become a full service grocery store, occupying a minimum of 60.0% of the building. NEON will also open a health and wellness center. The building will also include a number of other amenities as well, including a café style eatery, demonstration kitchen, event space, specialty kiosks, refrigerated storage and distribution space for lease to neighborhood entities, farmer's market vendor spaces and free Wi-Fi. Total project costs for redevelopment are estimated at \$4.3 million. The Department of Economic Development helped provide a 10 year, 75.0% tax abatement for the new grocery location. The project estimates to create approximately 25 full-time jobs with an estimated payroll of \$520,000.

Department of Community Development

The Community Reinvestment Area (CRA) Program is a direct incentive tax exemption program benefiting property owners who renovate existing or construct new residential buildings to encourage revitalization of the existing housing stock and the development of new structures. This program permits municipalities or counties to designate areas where housing investment has been discouraged.

The tax abatement process starts with the applicant completing an application with supporting documentation of the completed construction/rehabilitation work.

The City reviews the application to ensure the applicant meets program requirements; if the application is in compliance with the program requirements the City will approve and grant the tax abatement. The City notifies and provides a copy of the instrument granting the tax exemption to the Cleveland Municipal School District. The City forwards the application to the Cuyahoga County Fiscal Officer office for further processing. The Cuyahoga County Appraisal Department under the County Fiscal Officer, assigns taxable values to new construction or remodel residential property.

The tax abatement program is an important and useful tool; for developers as an attractive incentive for promoting home sales; for homebuyers by making homeownership more affordable; and for the City, helping to make it a city of choice.

Monitoring incentives:

The City is required by Statute, to file online annually, by March 31st, all CRA tax abatement information with the State of Ohio.

The City pursuant to various sections (5709 and 3735) under the Ohio Revised Code, established a housing council. This housing council consists of seven members: two are appointed by the Mayor, one member is appointed by the Planning Commission, two members are appointed by City Council and two are appointed from the other members of the housing council. They serve three year terms. Their purpose is to look at the property conditions of the residential properties that have been granted CRA incentives.

Tax abatement is available to both homeowners and developers. Work must be completed under a permit issued by the City's Department of Building and Housing on property located in the City only. During 2016, the length or term of abatement would vary from 10 to 15 years depending on the type of project respectively. For tax abatements processed after August 8, 2017, pursuant to Ordinance # 244-17, passed May 22, 2017 and effective May 24, 2017, the term for all projects eligible for CRA tax abatement is 15 years.

The Residential Property Tax Abatement Program aims to:

- Stimulate community revitalization
- Retain city residents and attract new residents
- Attract homeowners
- Reduce development costs for homeownership and rental projects

Residents and developers seeking tax abatement for residential projects must meet Cleveland GBS.

The GBS is designed to save homeowners money on utilities and support local green jobs, while also improving the health of the community and reduce our collective contribution to climate change. GBS also creates direct benefits for developers and builders, including cost savings from efficient operation, a marketing advantage and public recognition for high performance homes. Tax abatement has contributed to the development of 22,228 units of housing dating back to 1994. Since 2010 (the first year of GBS), 4,232 GBS units were completed. In 2016, a total of 1,012 units met the GBS.

- Single family – 62 new construction, 79 rehabs
- Multi-family – 232 new construction, 639 rehabs

The City has offered tax abatements to various affordable housing development projects. The tax abatement program has made affordable low income housing development projects more affordable to operate and to pass savings on to tenants by providing lower rents. These types of housing development projects are not financially feasible without the total funding package that includes tax abatement.

The City has additional development programs that do not meet the requirements of GASB Statement No. 77.

Major Initiatives

As the City plans ahead to achieve increased municipal efficiencies and enhanced infrastructure coordination, the Mayor has launched the following initiatives:

- *Connecting Cleveland 2020 Citywide Plan* – a plan for the future of the City and its neighborhoods. It seeks to create great neighborhoods by creating “connections” between people, places and opportunities. It is developing buildings as well as developing people and communities. It means linking the physical and the social in order to create a community that is truly viable and sustainable. The plan lays out a practical vision to achieve its goals through a strategy that builds on the City’s unique assets and the assets in each of its diverse neighborhoods.
- *Mayor Frank G. Jackson Scholarship Program* – improving the quality of life for all residents has been the driving force behind the goals Mayor Jackson has set for his administration. The key to this effort is ensuring that all children have access to a high quality education. As such, due to the generous contributions through the United Way Combined Campaign, the Mayor established several scholarship programs to support the City employees, their children and Cleveland Municipal School District students interested in pursuing a full-time college education.
- *Sustainable Cleveland 2019* – a 10-year initiative facilitated by the Office of Sustainability that engages people from all walks of life, working together to design and develop a thriving and resilient region. Working groups emerge from the annual Sustainable Cleveland 2019 summits and focus on different topics to build a brighter future for Cleveland. Since 2013, the City has implemented its sustainable building policy on new construction, renovations and Fix it First projects. This policy sets the standard of LEED silver for new construction.
- *Clean Cleveland* – is a systematic delivery system designed to deliver service more efficiently and improve quality of service to Cleveland neighborhoods, without spending more money. Departments and divisions coordinate across boundaries to provide services, not limited to vacant structure clean-up, waste collection, street sweeping, graffiti removal, hydrant painting and abandoned structure board up or demolition.

Awards and Acknowledgements

The Independent Audit: The City Charter requires an annual audit of the financial statements of all accounts of the City by an Independent Certified Public Accountant. Accordingly, this year’s audit was completed by Clark, Schaefer, Hackett & Co. The year ended December 31, 2017, represents the 37th consecutive year the City has prepared a CAFR. In addition to the independent auditors, the City maintains its own Internal Audit Division. Along with the duty of assisting the independent auditors, the Internal Audit Division is responsible for strengthening and reviewing the City’s internal controls. The Internal Audit Division performs its own independent operational and financial audits of the City’s many funds, departments and divisions. We believe that the City’s internal control structure adequately safeguards its assets and provides reasonable assurance of proper recording of all financial transactions.

Government Finance Officers Association (GFOA) Certificate of Achievement Award: The GFOA of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Cleveland, Ohio for its CAFR for the fiscal year ended December 31, 2016. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

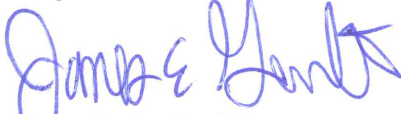
In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, the contents of which conform to program standards. Such CAFR’s must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The City has received a Certificate of Achievement for the last 33 years (years ended 1984 – 2016). We believe our current report continues to conform to the Certificate of Achievement program requirements and we are submitting it to the GFOA.

Acknowledgements: The preparation of this report could not have been accomplished without the efficient and dedicated service of the Finance Department, particularly the Division of Financial Reporting and Control. We would also like to thank the Mayor, the cabinet and members of City Council. Without their continued support, the Department of Finance could not have maintained the financial management practices required to ensure the financial integrity of the City. We would like to thank the representatives of Clark, Schaefer, Hackett & Co. for their efforts and professional conduct throughout the audit engagement.

Very truly yours,



Sharon Dumas, Director
Department of Finance



James E. Gentile, CPA
City Controller

CITY OF CLEVELAND, OHIO

City Officials
Frank G. Jackson, Mayor

EXECUTIVE STAFF

Sharon DumasDirector, Department of Finance/Acting Chief of Staff
Darnell Brown.....Chief Operating Officer
Valarie J. McCall Chief of Government and International Affairs/Acting Chief of Communications
Monyka S. Price, M.A.Ed., M.Ed Chief of Education
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Tracy Martin-ThompsonChief of Prevention, Intervention and Opportunity for Youth and Young Adults
Barbara A. LanghenryDirector, Department of Law
Michael C. McGrath.....Director, Department of Public Safety

ADMINISTRATION

Mary McNamaraDirector, Department of Aging
Ayonna Blue Donald.....Director, Department of Building and Housing
Freddy L. Collier, Jr.Director, City Planning Commission
Barry WithersInterim Secretary, Civil Service Commission
Dan WilliamsDirector, Media Relations
Tania Menesse.Director, Department of Community Development
Grady Stevenson Director, Community Relations Board
David Ebersole..... Director, Department of Economic Development
Merle Gordon..... Director, Department of Public Health
Melissa K. Burrows, Ph.D.....Director, Office of Equal Opportunity
Michael E. Cox Director, Department of Public Works
Nycole West Director, Department of Human Resources
Robert W. Kennedy..... Director, Department of Port Control
Matthew L. Spronz.....Director, Mayor’s Office of Capital Projects
Robert L. DavisDirector, Department of Public Utilities
Sabra T. Pierce Scott.....Director, Mayor’s Office of Quality Control and Performance Management
Grace A. Kilbane.....Executive Director, Workforce Development Board

CITY OF CLEVELAND, OHIO

City Council

Kevin J. Kelley	President of Council / Ward 13
Phyllis E. Cleveland	Majority Leader / Ward 5
Blaine A. Griffin.....	Majority Whip / Ward 6
Patricia J. Britt	City Clerk, Clerk of Council
Joseph T. Jones	Ward 1
Kevin L. Bishop.....	Ward 2
Kerry McCormack.....	Ward 3
Kenneth L. Johnson	Ward 4
Basheer S. Jones	Ward 7
Michael D. Polensek.....	Ward 8
Kevin Conwell.....	Ward 9
Anthony T. Hairston.....	Ward 10
Dona Brady.....	Ward 11
Anthony Brancatelli.....	Ward 12
Jasmin Santana	Ward 14
Matthew Zone	Ward 15
Brian Kazy	Ward 16
Martin J. Keane	Ward 17



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Ohio**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2016

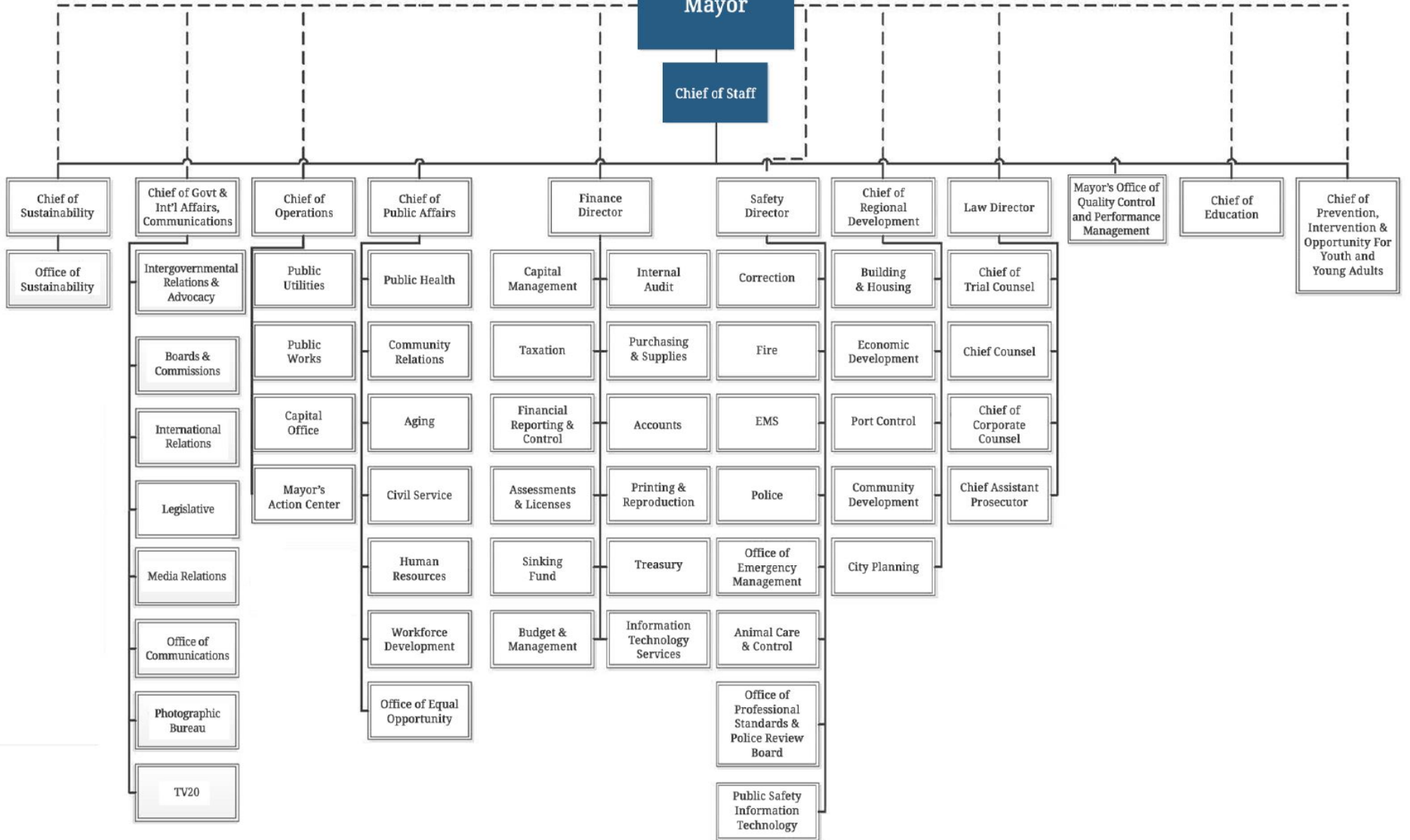
Christopher P. Morill

Executive Director/CEO

Citizens of
City of
Cleveland

Mayor

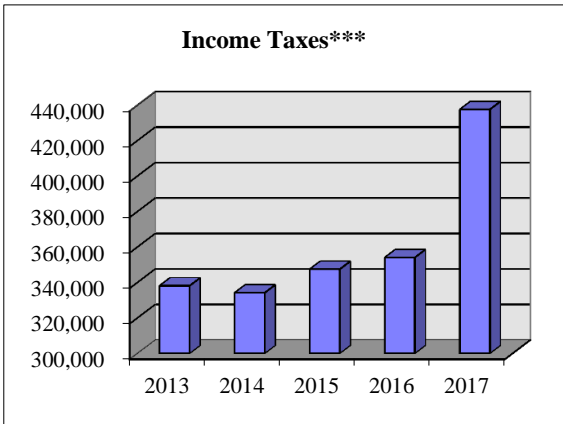
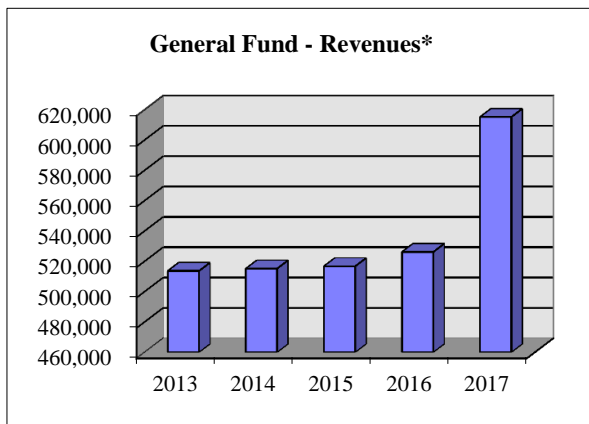
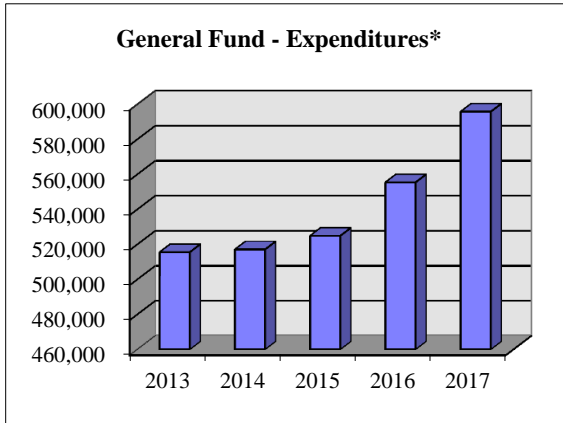
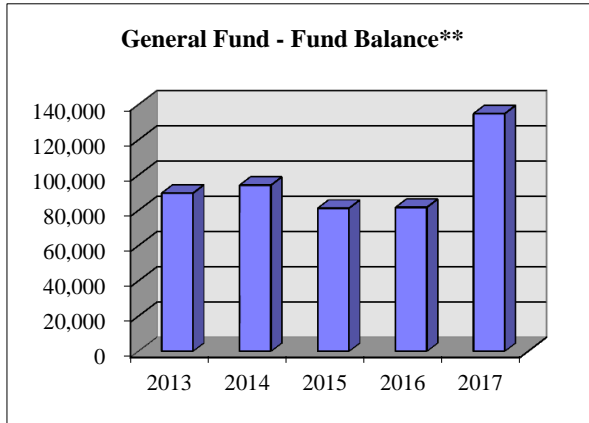
Chief of Staff



CITY OF CLEVELAND, OHIO

FINANCIAL HIGHLIGHTS

(Amounts in Thousands)



For Year Ended	General Fund Fund Balance**	General Fund Revenues*	General Fund Expenditures*	Income Taxes***
2013	89,748	513,698	515,594	338,229
2014	94,327	515,233	517,156	334,264
2015	81,209	516,783	524,938	347,565
2016	81,722	526,199	555,470	354,151
2017	134,860	615,244	595,844	437,676

* *Budget Basis* - General Fund revenues and expenditures include other financing sources (uses).

** *GAAP Basis*.

*** *Budget Basis* - Income Taxes includes General Fund and Restricted Income Tax Fund.

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Honorable Frank G. Jackson, Mayor, Members of Council and the Audit Committee
City of Cleveland, Ohio:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cleveland, Ohio (the "City") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic 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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cleveland, Ohio, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows and the budgetary comparison for the General Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 liabilities 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and schedules, capital assets schedules, introductory section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules and capital assets schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2018 on our consideration of the City of Cleveland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Cleveland's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 28, 2018

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CITY OF CLEVELAND, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Cleveland (the City) we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2017. Please read this information in conjunction with the City's financial statements and footnotes that begin on page 58.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at December 31, 2017 by approximately \$2.692 billion (net position). Of this amount, \$114.6 million (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- Of the approximately \$2.692 billion of net position, governmental activities accounted for approximately \$446.7 million of net position, while business-type activities net position accounted for approximately \$2.245 billion.
- The City's net position increased by \$137.4 million as compared to 2016. The governmental activities net position increased by \$28.5 million and the business-type activities net position increased by \$108.9 million.
- At the end of the current year, unassigned fund balance for the General Fund was \$92.7 million, which represents the amount available for spending at the City's discretion. The unassigned fund balance equals 17.0% of the total General Fund expenditures and other financing uses.
- In 2017, the City's total long-term debt and other long-term debt-related obligations, excluding premiums, accreted interest and discounts decreased by \$125.6 million. The decrease indicates that the City's debt service payments and debt refunded or defeased exceeded new debt issued in 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of five components: (1) government-wide financial statements, (2) fund financial statements, (3) General Fund budget and actual statement, (4) notes to the financial statements and (5) required supplementary information. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

The statement of net position presents financial information on all of the City's assets, liabilities and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City principally include: General Government; Public Works; Public Safety; Community Development; Building and Housing;

Public Health and Economic Development. The business-type activities of the City principally include: water; electricity; and airport facilities.

The government-wide financial statements can be found on pages 58-61 of this report.

Fund financial statements. 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. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City presents 31 individual governmental funds on a modified accrual basis. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other 30 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annually appropriated budget for its General Fund, Enterprise and Internal Service Funds. The City adopts an annually appropriated budget for some of its Special Revenue and Debt Service Funds. The General Fund budgetary comparison has been provided as a separate financial statement to demonstrate compliance with its budget.

The basic governmental fund financial statements can be found on pages 62-65 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. The first type is Enterprise Funds. They are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for its water, electric, airport, sewer, public auditorium, markets, parking lots, cemeteries and golf course operations. The second type of proprietary fund the City uses is Internal Service Funds to account for its motor vehicle maintenance, printing and reproduction, postal services, utilities administration, sinking fund administration, municipal income tax administration, telephone exchange, radio communications operations, workers' compensation reserve, health self-insurance fund and prescription self-insurance fund. Internal Service Funds are an accounting device used to accumulate and allocate costs internally throughout the City's various functions. Because most of the internal services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements, except for the Utilities Administration Fund which has been classified as a business-type activity.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Division of Water, Cleveland Public Power and Department of Port Control Funds, which are considered to be major funds of the City. Conversely, Internal Service Funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the nonmajor Enterprise and Internal Service Funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 66-70 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City’s own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. All of the City’s fiduciary funds are Agency Funds.

The basic fiduciary fund financial statement can be found on page 71 of this report.

Notes to the financial statements. The notes provide additional information that is essential to achieve a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 73-132 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Information regarding the government-wide net position of the City is provided below:

**Summary Statements of Net Position
as of December 31, 2017 and 2016**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	(Amounts in Thousands)					
	2017	2016	2017	2016	2017	2016
Assets:						
Current and other assets	\$ 839,764	\$ 761,797	\$ 1,182,124	\$ 1,164,818	\$ 2,021,888	\$ 1,926,615
Capital assets	<u>1,249,228</u>	<u>1,244,467</u>	<u>3,048,697</u>	<u>3,025,511</u>	<u>4,297,925</u>	<u>4,269,978</u>
Total assets	2,088,992	2,006,264	4,230,821	4,190,329	6,319,813	6,196,593
Deferred outflows of resources	212,428	202,042	133,406	124,269	345,834	326,311
Liabilities:						
Pension	726,412	661,360	177,738	140,764	904,150	802,124
Long-term obligations	878,549	879,198	1,699,189	1,817,648	2,577,738	2,696,846
Other liabilities	<u>162,830</u>	<u>158,770</u>	<u>225,696</u>	<u>201,525</u>	<u>388,526</u>	<u>360,295</u>
Total liabilities	1,767,791	1,699,328	2,102,623	2,159,937	3,870,414	3,859,265
Deferred inflows of resources	86,890	90,773	16,171	18,088	103,061	108,861
Net position:						
Net investment in capital assets	719,579	722,785	1,482,861	1,367,544	2,202,440	2,090,329
Restricted	161,003	155,224	214,161	236,772	375,164	391,996
Unrestricted	<u>(433,843)</u>	<u>(459,804)</u>	<u>548,411</u>	<u>532,257</u>	<u>114,568</u>	<u>72,453</u>
Total net position	<u>\$ 446,739</u>	<u>\$ 418,205</u>	<u>\$ 2,245,433</u>	<u>\$ 2,136,573</u>	<u>\$ 2,692,172</u>	<u>\$ 2,554,778</u>

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 revised accounting for pension costs and liabilities. For reasons discussed below, many end users of these financial statements will gain a clearer understanding of the City’s actual financial condition by adding deferred inflows of resources related to pension and the net pension liability to the reported net position and subtracting deferred outflows of resources related to pension.

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

Under the new standards required by GASB Statement No. 68, the net pension liability equals the City’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 City’s, part of a bargained-for benefit to the employee and should accordingly be reported by the City as a liability since they received the benefit of the exchange. However, the City 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 City. 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 City’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 City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

As noted earlier, net position may serve, over time, as a useful indicator of a government’s financial position. The City’s assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by approximately \$2.692 billion at the close of the most recent fiscal year. This represents an increase of 5.4% in 2017. Of the City’s net position, 16.6% represents its governmental net position and 83.4% represents its business-type net position.

Of the net position from governmental activities, \$719.5 million represents its investment in capital assets (e.g., land, land improvements, buildings, infrastructure, furniture, fixtures, equipment and vehicles), net of accumulated depreciation, less any related, still-outstanding debt issued to acquire, construct or improve those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City'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. Another significant portion of net position, \$161.0 million, represents resources that are subject to external restrictions on how they may be used. The deficit of \$433.8 million is due to net pension liability.

In 2017, the total assets and deferred outflows of resources from governmental activities increased by \$93.1 million. This increase is primarily attributed to increases in deferred outflows of resources of \$10.4 million and cash and cash equivalents of \$111.3 million offset by a decrease in grants receivable of \$24.2 million. The increase in cash and cash equivalents is primarily attributed to an increase in income tax receipts due to the income tax rate increase from 2.0% to 2.5% and the City starting to collect Sin Tax money again from the County in 2017. The increase in deferred outflows of resources is mainly attributed to changes in assumptions for the OPERS pension. In addition, assessments receivable increased over the prior year due to a reclassification from accounts receivable to more accurately present these elements.

Also in 2017, the total liabilities and deferred inflows of resources from governmental activities increased by \$64.6 million. This was caused primarily by an increase in net pension liability of \$65.1 million.

Of the business-type net position, \$1.483 billion represents its investment in capital assets, net of accumulated depreciation, less any related, still-outstanding debt issued to acquire, construct or improve those assets. These capital assets are used to provide services to their customers. Consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional \$214.1 million of net position is subject to external restrictions on their use. The remaining balance of \$548.4 million is unrestricted and may be used to meet the City's ongoing obligations to customers and creditors.

In 2017, business-type total assets and deferred outflows of resources increased by \$49.6 million. This increase is primarily due to an increase of cash and cash equivalents of \$53.8 million, accounts receivable of \$17.6 million, capital assets of \$23.2 million and deferred outflow of resources of \$9.1 million offset by a decrease in restricted cash and cash equivalents of \$33.2 million and unbilled revenue of \$24.2 million. The Division of Water continued to hold strong results, reporting an increase in unrestricted cash and cash equivalents of \$45.1 million over the prior year. The increase in deferred outflows of resources is mainly attributed to changes in assumptions for the OPERS pension.

Business-type total liabilities and deferred inflows of resources decreased by \$59.2 million due to a decrease in long-term obligations of \$118.5 million offset by an increase in pension liability of \$37.0 million attributed to investment returns not meeting expectations and changes in assumptions, accounts payable of \$18.4 million and due to other governments of \$9.4 million. The decrease to long-term obligations is primarily due to the Division of Airport's retirement of debt of \$39.8 million and the Division of Water's net change in debt of \$71.8 million.

At the end of the current year, the City is able to report positive balances in total net position for both its governmental activities and its business-type activities. Information regarding government-wide changes in net position is provided below:

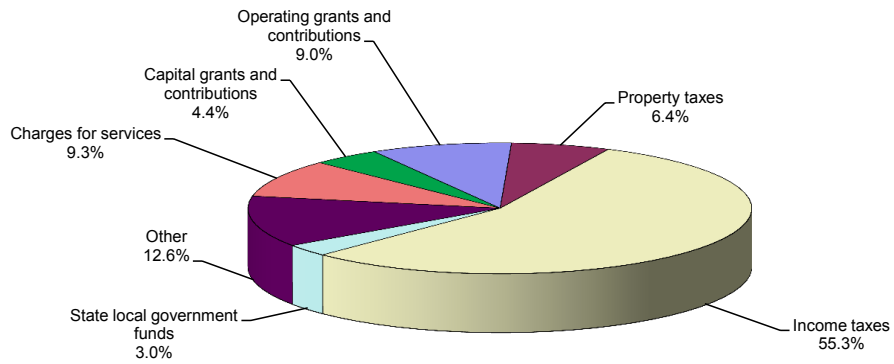
**Changes in Net Position
For the Years Ended December 31, 2017 and 2016**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2017	2016	(Amounts in Thousands)		2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 76,132	\$ 77,247	\$ 684,374	\$ 687,644	\$ 760,506	\$ 764,891
Operating grants and contributions	74,011	114,757	9,154	5,427	83,165	120,184
Capital grants and contributions	35,875	87,444	112,091	38,052	147,966	125,496
General revenues:						
Income taxes	451,929	359,668			451,929	359,668
Property taxes	51,985	28,634			51,985	28,634
Other taxes	46,704	48,945			46,704	48,945
Shared revenues	37,428	35,888			37,428	35,888
State local government funds	24,331	24,061			24,331	24,061
Unrestricted investment earnings	4,392	1,801	13	7	4,405	1,808
Other	14,374	14,906	8	11	14,382	14,917
Total revenues	<u>817,161</u>	<u>793,351</u>	<u>805,640</u>	<u>731,141</u>	<u>1,622,801</u>	<u>1,524,492</u>
Expenses:						
General Government	160,117	139,022			160,117	139,022
Public Works	137,256	119,019			137,256	119,019
Public Safety	357,248	383,453			357,248	383,453
Community Development	28,555	32,173			28,555	32,173
Building and Housing	14,240	14,111			14,240	14,111
Public Health	18,038	16,110			18,038	16,110
Economic Development	36,189	37,913			36,189	37,913
Interest on debt	28,630	27,596			28,630	27,596
Water			293,148	270,014	293,148	270,014
Electricity			197,613	196,092	197,613	196,092
Airport facilities			172,383	172,254	172,383	172,254
Nonmajor activities			41,990	39,501	41,990	39,501
Total expenses	<u>780,273</u>	<u>769,397</u>	<u>705,134</u>	<u>677,861</u>	<u>1,485,407</u>	<u>1,447,258</u>
Changes in net position before transfers	36,888	23,954	100,506	53,280	137,394	77,234
Transfers	<u>(8,354)</u>	<u>(4,591)</u>	<u>8,354</u>	<u>4,591</u>	<u>-</u>	<u>-</u>
Changes in net position	28,534	19,363	108,860	57,871	137,394	77,234
Net position at beginning of year	<u>418,205</u>	<u>398,842</u>	<u>2,136,573</u>	<u>2,078,702</u>	<u>2,554,778</u>	<u>2,477,544</u>
Net position at end of year	<u>\$ 446,739</u>	<u>\$ 418,205</u>	<u>\$ 2,245,433</u>	<u>\$ 2,136,573</u>	<u>\$ 2,692,172</u>	<u>\$ 2,554,778</u>

Governmental activities increased the City's net position by \$28.5 million as compared to a \$19.3 million increase in 2016. The increase is primarily attributed to increases in income tax revenue of \$92.3 million, due to an increase in the income tax rate from 2.0% to 2.5% and property tax of \$23.4 million due to a large delinquent balance written off by the County in 2016. The increase was offset by a decrease in operating grants and contributions of \$40.7 million or 35.5% due to the completion and close out in 2017 of the Republican National Convention grant. Capital grants and contributions also decreased \$51.6 million due to the infrastructure renovations at Public Square completed in 2016.

Business-type activities increased the City's net position by \$108.9 million in 2017 compared to \$57.9 million increase in 2016. The increase is primarily attributed to an increase in capital grants and contributions of \$74.0 million due to the Division of Water's acquisitions of watermain lines from the Cities of Cleveland Heights, Beachwood, Macedonia and Valley View amounting to \$45.8 million and the Divisions' of Port Control receiving awards in the amount of \$34.5 million from the Federal Airport Improvement, Transportation Security Administration Law Enforcement Officer and Canine Grants. Also, an increase in operating grants and contributions of \$3.7 million is due to the increase of investment income for the Division of Water.

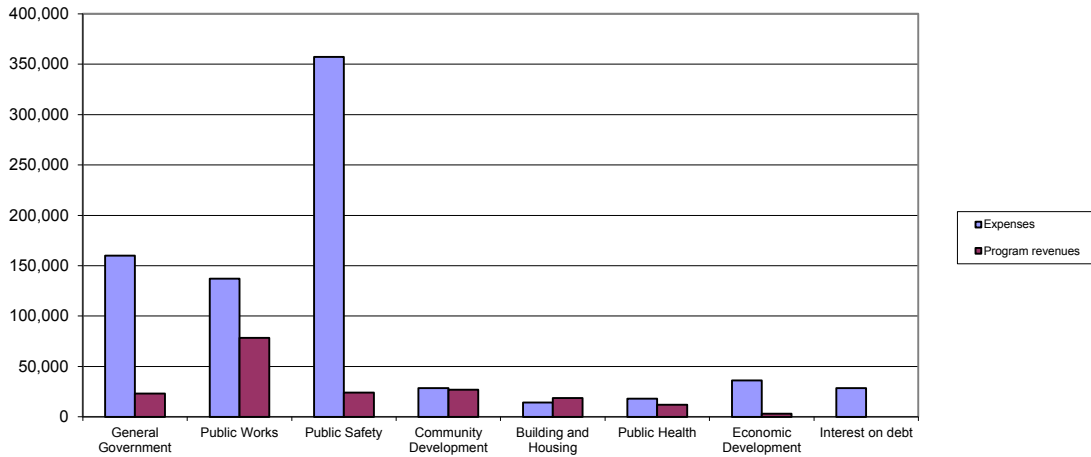
Revenues by Source - Governmental Activities



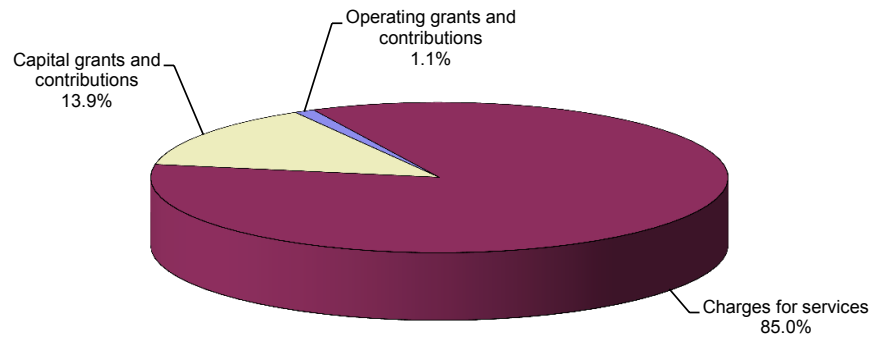
Other includes other taxes, shared revenues, unrestricted investment earnings and other general revenues.

Expenses and Program Revenues - Governmental Activities

(Amounts in Thousands)

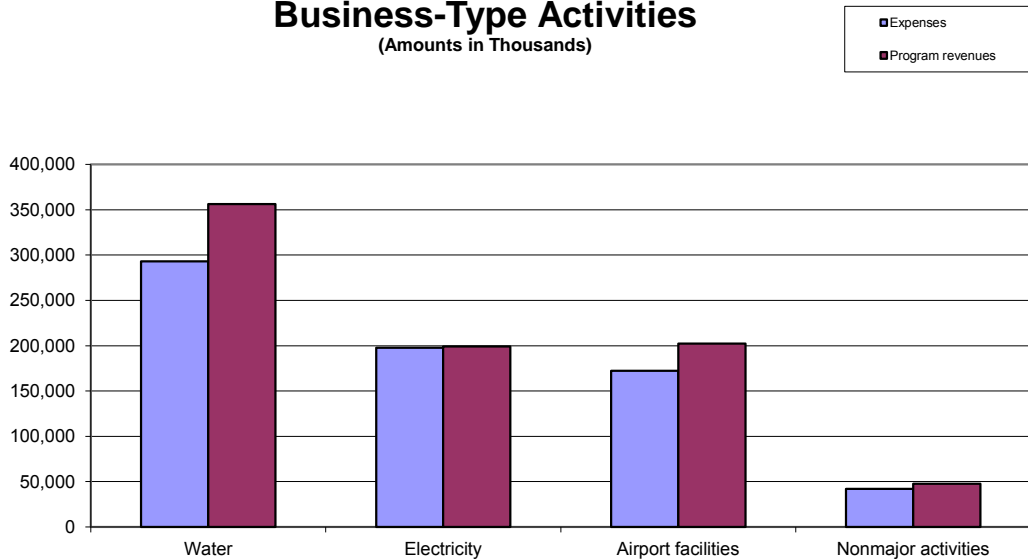


Revenues by Source - Business-Type Activities



Expenses and Program Revenues - Business-Type Activities

(Amounts in Thousands)



Business-type activities are principally accounted for in the City's Enterprise Funds. The City operates three major Enterprise Funds encompassing two airports, a water system and an electric distribution system. The City also operates other Enterprise Funds consisting of a sewer system, cemeteries, a public auditorium, municipal parking lots and public market facilities. The City owns two golf courses whose management and operations are currently leased to outside entities. The operating results of the City's Major Enterprise Funds are discussed below.

Division of Water: The Division operates a major public water supply system, the ninth largest in the United States that serves not only the City, but also 75 direct service, seven master meter and three emergency standby suburban municipalities in Cuyahoga, Medina, Summit, Portage, Lake and Geauga Counties. They provide water to approximately 418,000 city and suburban accounts in the Cleveland Metropolitan Area. Operating revenue in 2017 decreased to \$301.5 million from \$310.1 million in 2016. The reduction is primarily attributed to a decrease in unbilled revenue and partially offset by an increase in fixed fee revenue. Operating expenses, exclusive of depreciation, increased approximately 14.0% to \$185.4 million compared to \$162.6 million in 2016.

Division of Cleveland Public Power: The Division supplies electrical service to approximately 73,000 customers in the City. The Division is responsible for supplying, transmitting and distributing electricity and providing related electrical services to customers within its service area. The Division's 2017 operating revenue increased by 1.0% to \$194.9 million from \$193.0 million in 2016. Purchased power expense decreased by 1.2% to \$123.4 million in 2017 from \$124.9 million in 2016. Operating expenses, exclusive of depreciation and purchased power increased 6.9% to \$44.5 million compared to \$41.7 million in 2016.

Department of Port Control: The City's Department of Port Control includes the Divisions of Cleveland Hopkins International Airport and Burke Lakefront Airport. During 2017, 27 passenger airlines provided scheduled airline service at Cleveland Hopkins International Airport. Burke Lakefront Airport, a federally certified commercial and general aviation reliever airport, provides the majority of its services to air taxi operators serving the City's downtown business activities. The airports' operating income decreased \$1.8 million in 2017 largely due to decreased landing fees from signatory airlines offset by an increase in concession revenue related to rideshare income. Total operating expenses for 2017 increased \$4.5 million primarily due to higher pension retirement benefits. The Divisions' capital and other contributions increased by \$25.7 million related to the Airport Improvement Program Grants.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current year, the City's governmental funds reported combined ending fund balances of \$504.0 million, an increase of \$75.9 million and approximately 17.7% in comparison with the prior year. The components of the governmental fund balances include an unassigned balance of \$92.7 million, which indicates the amount available for spending at the City's discretion. An additional \$296.3 million of fund balance is available for expenditures that are legally restricted for a particular purpose. An additional \$72.8 million is committed to fund specific purposes and cannot be reassigned without legislative approval. The remaining assigned balance of \$42.2 million represents funds that the City intends to use for a specific purpose.

The General Fund is the chief operating fund of the City. At the end of the current year, the unassigned fund balance of the General Fund was \$92.7 million and the total fund balance was \$134.9 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures and transfers out. Unassigned fund balance represents 17.0% of total General Fund expenditures and other financing uses, while total fund balance represents approximately 24.8% of that same amount.

A two-year comparison of General Fund activity is shown below. The revenues, expenditures and changes in fund balance shown in these comparisons are presented on the modified accrual basis of accounting applicable to governmental funds.

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance Information - GAAP Basis
2017 and 2016

(Amounts in Thousands)

	<u>2017</u>	<u>2016</u>
Revenues:		
Income taxes	\$ 397,564	\$ 315,731
Property taxes	33,842	32,421
State local government funds	24,375	24,431
Other taxes	46,683	48,945
Other shared revenues	16,904	15,846
Licenses and permits	17,218	18,391
Charges for services	36,114	34,010
Fines, forfeits and settlements	11,280	11,417
Investment earnings	1,854	860
Grants	1,302	59
Miscellaneous	4,833	11,450
Total revenues	<u>591,969</u>	<u>513,561</u>
Expenditures:		
General Government	92,883	89,973
Public Works	71,107	64,821
Public Safety	316,948	304,498
Community Development	290	181
Building and Housing	10,380	8,915
Public Health	6,336	5,751
Economic Development	1,573	1,609
Other	6,640	7,388
Capital outlay	2,378	585
Principal retirement		250
Total expenditures	<u>508,535</u>	<u>483,971</u>
Excess (deficiency) of revenues over (under) expenditures	83,434	29,590
Other financing sources (uses):		
Transfers in		1,617
Transfers out	(35,546)	(30,988)
Sale of City assets	5,250	294
Net change in fund balance	53,138	513
Fund balance at beginning of year	<u>81,722</u>	<u>81,209</u>
Fund balance at end of year	<u>\$ 134,860</u>	<u>\$ 81,722</u>

Analysis of General Fund Revenues

General Fund revenues and other sources totaled \$597.2 million in 2017, an increase of approximately \$81.7 million from 2016. A discussion of each of the major types of General Fund revenues follows.

Municipal Income Taxes

Ohio law authorizes a municipal income tax both on corporate income (net profits from the operation of a business or profession) and employee wages, salaries and other compensation at a rate of up to 1% without voter authorization and at a rate above 1% with voter authorization. In 2016, the voters in the City approved increases of one-half of one percent to the rate of the income tax, bringing it to the current 2.5% rate. By the terms of the 1981 voter approval, as amended in 1985, one-ninth of the receipts of the total 2.5% tax (the Restricted Income Tax) must be used only for capital improvements, debt service or obligations issued for capital improvements or the payment of past deficits. The remaining eight-ninths of the municipal income tax is recorded in the General Fund and is pledged to and may also be used for, debt service on General Obligation Bonds of the City, to the extent required and certain other obligations of the City.

The income tax is also imposed on gross salaries and wages earned in the City by non-residents of the City and on salaries, wages and other compensation of City residents earned within or outside the City. The income tax liability of a City resident employed outside the City is reduced by a credit equal to 100% of the tax paid to the municipality in which the City resident is employed. The tax on business profits is imposed on that part of profits attributable to business conducted within the City. In 2017, approximately 92% of the total income taxes paid to the City were derived from non-residents employed in the City and business profits.

Income tax revenue increased approximately \$81.8 million in 2017, primarily due to the increased income tax rate.

Property Taxes

Taxes collected from real property in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year. Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year.

The “assessed valuation” of real property is fixed at 35% of true value and is determined pursuant to rules of the State Tax Commissioner. An exception is that real property devoted exclusively to agricultural use is to be assessed at not more than 35% of its current agricultural use value. Real property devoted exclusively to forestry or timber growing is taxed at 50% of the local tax rate multiplied by the assessed value.

The assessed values of taxable property in the City for the past two years were as follows:

Tax Collection Year	Real Property	Public Utility Tangible Personal	Total Assessed Valuation
(Amounts in Thousands)			
2017	\$ 4,240,407	\$ 387,919	\$ 4,628,326
2016	\$ 4,257,595	\$ 331,843	\$ 4,589,438

Property tax revenue increased by \$1.4 million as a result of an increase in residential property valuations.

State Local Government Funds, Other Taxes and Other Shared Revenues

State Local Government Funds, Other Taxes and Other Shared Revenues include taxes levied and collected by the State of Ohio or counties and partially redistributed to the City and other political subdivisions. Other Taxes and Other Shared Revenues include state income, sales, admission, motor vehicle, parking, hotel, commercial activity, corporate franchise, casino, homestead and rollback, public utility, estate and cigarette taxes as well as liquor fees. State Local Government Funds revenue decreased by \$56,000 or 0.2% due to the State’s decision to redirect some of the fund’s collections to villages and townships in 2017. Other Taxes decreased by \$2.3 million or 4.6% from 2016 levels primarily as a result of decreases in admission tax receipts and hotel tax revenues. Other Shared Revenues increased by \$1.1 million or 6.7% from 2016 levels primarily as a result of the Highland Hills Joint Economic Development Zone Shared Income Tax Revenue.

The State Local Government Funds (LGF) are major sources of non-tax General Fund revenue. Through these funds, Ohio subdivisions share in a portion of the State’s collection of the sales tax, use tax, personal income tax, corporate franchise tax and public utilities excise tax. The percentages of the five taxes supporting these funds have varied over the years. At times, the dollar amount in the funds has been capped at specified levels.

Pursuant to statutory law in Ohio, State LGF revenues are divided into county and municipal portions. The county portion, the larger of the two, is distributed to each of the State’s 88 counties and is allocated based upon a statutory formula utilizing county population and county municipal property values. Once received by a county, the funds can either be distributed to all subdivisions using the statutory formula or the county and its subdivisions may agree upon an alternate method for allocating the funds. Cuyahoga County and its recipient communities have chosen the latter method which is comprised of a base allocation and an excess allocation. The excess allocation takes into account such factors as assessed value per capita, per capita income, population density and the number of individuals receiving public assistance. The municipal portion of the LGF is distributed directly by the State to those municipalities that collect an income tax. A municipality receives its share of the funds based upon its percentage of total municipal income taxes collected throughout the state in a given year.

Analysis of General Fund Expenditures

General Fund expenditures and other financing uses totaled \$544.1 million in 2017, an increase of 5.7% from 2016. The amount of expenditures and other uses by function on a GAAP basis, including the increases (decreases) over the prior year, are shown in the following table:

<u>Expenditures and Other Financing Uses</u>	<u>Actual 2017</u>	<u>% of Total</u>	<u>Actual 2016</u>	<u>% of Total</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
(Amounts in Thousands)						
Current:						
General Government	\$ 92,883	17.07	\$ 89,973	17.47	\$ 2,910	3.23
Public Works	71,107	13.07	64,821	12.59	6,286	9.70
Public Safety	316,948	58.25	304,498	59.13	12,450	4.09
Community Development	290	0.05	181	0.04	109	60.22
Building and Housing	10,380	1.91	8,915	1.73	1,465	16.43
Public Health	6,336	1.17	5,751	1.12	585	10.17
Economic Development	1,573	0.29	1,609	0.31	(36)	(2.24)
Other	6,640	1.22	7,388	1.43	(748)	(10.12)
Capital Outlay	2,378	0.44	585	0.11	1,793	306.50
Principal retirement		0.00	250	0.05	(250)	(100.00)
Transfers Out	<u>35,546</u>	6.53	<u>30,988</u>	6.02	<u>4,558</u>	14.71
Total Expenditures and Other Financing Uses	<u>\$ 544,081</u>		<u>\$ 514,959</u>		<u>\$ 29,122</u>	

The total expenditures and other financing uses increased by \$29.1 million. The growth was primarily caused by increases in Public Works and Public Safety. The increase in Public Works was due to increases in salaries and benefits, motor vehicle maintenance charges and waste disposal and fees. Public Safety had increases in salaries and benefits, interdepartmental service charges and costs associated with the transfer of operations at the City jails to Cuyahoga County.

Proprietary Funds. The City’s proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net position of the Division of Water, Cleveland Public Power and the Department of Port Control Funds amounted to \$391.5 million, \$22.7 million and \$102.9 million, respectively, at December 31, 2017. The change in net position for each of the respective funds amounted to increases of \$64.2 million, \$2.1 million and \$29.5 million during 2017. Other factors concerning the finances of the City’s proprietary funds have already been addressed in the discussion of the City’s business-type activities.

Major Functional Expense Categories. A discussion of the City’s major functional expense categories follows:

Employees and Labor Relations

As of December 31, 2017 and 2016, the City had approximately 7,002 and 6,750 full-time employees, respectively. Of the 7,002 full-time employees, approximately 5,176 full-time employees are represented by 39 collective bargaining units. The largest collective bargaining units, together with the approximate number of employees represented by such units, include the American Federation of State, County and Municipal Employees, Local 100 – 1,061 members; Cleveland Police Patrolmen’s Association (CPPA) – 1,187 members; the Association of Cleveland Firefighters – 727 members; Municipal Foreman and Laborers Union, Local 1099 – 413 members; and Local 507 – 341 members.

There have been no significant labor disputes or work stoppages in the City within the last 34 years.

The Council, by ordinance, establishes schedules of salaries, wages and other economic benefits for City employees. Generally, the terms of these ordinances have been the product of negotiations with representatives of the employees or bargaining units and increases in economic benefits have normally been provided on an annual basis.

Chapter 4117 of the Ohio Revised Code (the Collective Bargaining Law), establishes procedures for and regulates public employer-employee collective bargaining and labor relations for the City and other state and local governmental units in Ohio. The Collective Bargaining Law creates a three-member State Employment Relations Board (the SERB), which administers and enforces the Collective Bargaining Law. Among other things, the Collective Bargaining Law: (i) creates rights and obligations of public employers, public employees and public employee organizations with respect to labor relations; (ii) defines the employees it covers; (iii) establishes methods for (a) the recognition of employees and organizations as exclusive representatives for collective bargaining and (b) the determination of bargaining units; (iv) establishes matters for which collective bargaining is either required, prohibited or optional; (v) establishes procedures for bargaining and the resolution of disputes, including negotiation, mediation and fact finding; and (vi) permits all covered employees to strike, except certain enumerated classes of employees, such as police and fire personnel.

Over the past two years, the total salaries and wages paid to the City’s employees from all funds were as follows:

<u>Year</u>	<u>Amount Paid</u>	
	<u>(Amounts in Thousands)</u>	
2017	\$	439,600
2016	\$	440,194

In 2017, there was a minor decrease in salaries and wages payable due to attrition, with new hires having a lower starting salary than those retiring.

GENERAL FUND BUDGETARY ANALYSIS

In 2017, the principal differences between the original and final revenue and other sources budget included a \$7.1 million increase in miscellaneous which was a result of reimbursement of costs associated with the Republican National Convention. There was a decrease of \$5.9 million in the Public Safety budgeted expenditures which was attributed to changes in anticipated staffing. As well as a \$22.0 million increase in capital outlay due to the costs associated with vehicles, residential demolition, commercial demolition and residential rehabilitation.

The major differences between the final amended budget and the actual total revenues were decreases of \$8.3 million in income taxes and increases of \$5.8 million in other taxes. Income taxes decreased due to the change in the deadline of filing the final return for the net profit return. The increase in other taxes was primarily attributed to admissions tax, motor vehicle lessor tax and parking tax collections.

The major differences between the final amended budget and the actual total expenditures were decreases of \$10.4 million in General Government, \$4.3 million in Public Works and \$15.5 million in Public Safety all due to anticipated additional staffing.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets: The City's capital assets for its governmental and business-type activities as of December 31, 2017, amounts to \$4.298 billion (net of accumulated depreciation). This capital assets balance includes land; land improvements; utility plant; buildings, structures and improvements; furniture, fixtures, equipment and vehicles; infrastructure; and construction in progress. The total increase in the City's capital assets for the current fiscal year was 0.65% (a .38% increase for governmental activities and a .77% increase for business-type activities). A summary of the City's capital assets at December 31, 2017 is as follows:

	<u>Capital Assets, Net of Accumulated Depreciation</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	(Amounts in Thousands)		
Land	\$ 67,240	\$ 192,202	\$ 259,442
Land improvements	74,327	68,686	143,013
Utility plant		1,665,481	1,665,481
Buildings, structures and improvements	346,595	292,167	638,762
Furniture, fixtures, equipment and vehicles	82,209	187,240	269,449
Infrastructure	437,533	351,000	788,533
Construction in progress	<u>241,324</u>	<u>291,921</u>	<u>533,245</u>
Total	<u>\$ 1,249,228</u>	<u>\$ 3,048,697</u>	<u>\$ 4,297,925</u>

Additions to construction in progress during the current fiscal year affecting the City's capital assets included the following:

- The Division of Cleveland Public Power incurred \$10.6 million of capital additions relating to the Opportunity Corridor Phase II, General Engineering Services, Underground Cable Reconstruction and Transformers Series A.
- The Division of Water incurred \$35.3 million of capital additions mainly consisting of Suburban Watermain Renewals and related engineering services, AMR Phase II, Water Towers and Third High Pump Station.

- The Department of Port Control capital improvements totaled approximately \$46.9 million. Major projects were Snow Removal Equipment and Vehicle Maintenance Building Additions Project, Snow Removal Equipment Acquisition, CLE Inline Baggage System Project, Main Substation (MS) One and Two Electrical Distribution Enhancement Phase II, North Airfield Improvements Project Phase I and Airport Signage Program within the Cleveland Airport System environment.
- The Division of Water Pollution Control had capital improvements of \$17.3 million. The largest capital additions were the Emergency Sewer Repairs, Catch Basins & Manholes and Massie Avenue Sewer.
- Major capital projects for Governmental Activities included land improvements, vehicles and equipment, various computer system upgrades and infrastructure improvements.

The primary sources for financing the City's Capital Improvement Projects are general obligation bond proceeds, certificates of participation proceeds, urban renewal bond proceeds, revenue bond proceeds, proceeds from capital leases, interest earned on funds during the construction period, restricted income taxes and funds from the State Issue 2 and Local Transportation Improvement Programs. The City has three primary goals relating to its Capital Improvements: (1) preservation and revitalization of the City's neighborhoods, (2) economic development and job creation and (3) providing cost-effective, basic City services to Cleveland residents and the business community. Additional information on the City's capital assets, including commitments made for future capital expenditures, can be found in Note 14 – Capital Assets.

Long-term debt and certain other obligations: At the end of the current fiscal year, the City had total long-term debt and certain other obligations outstanding of \$2.291 billion as shown below. General Obligation Bonds are typically issued for general governmental activities and are backed by the full faith and credit of the City. Revenue bonds are typically recorded in the applicable Enterprise Fund and are supported by the revenues generated by the respective Enterprise Fund. The remainder of the City's debt represents bonds or notes secured solely by specified revenue sources.

The activity in the City's debt obligations outstanding during the year ended December 31, 2017 is summarized below (excluding unamortized discounts, premiums and accreted interest).

	Balance January 1, <u>2017</u>	Debt Issued	Debt Refunded or Defeased	Debt Retired	Balance December 31, <u>2017</u>
	(Amounts in Thousands)				
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 233,900	\$	\$	\$ (22,500)	\$ 211,400
Urban Renewal Bonds	1,615			(780)	835
Subordinated Income Tax Refunding Bonds	35,275			(2,315)	32,960
Subordinate Lien Income Tax Bonds	258,160	142,850	(95,300)	(9,425)	296,285
Non-Tax Revenue Bonds	60,328			(3,623)	56,705
Annual Appropriation Bonds	9,745			(290)	9,455
Certificates of Participation	99,100			(6,800)	92,300
Capital Lease Obligations	7,344			(2,981)	4,363
Note/Loans Payable	1,671			(327)	1,344
	<u>707,138</u>	<u>142,850</u>	<u>(95,300)</u>	<u>(49,041)</u>	<u>705,647</u>
Total Governmental Activities					
<u>Business –Type Activities:</u>					
Revenue Bonds	1,617,778	113,585	(133,010)	(96,860)	1,501,493
Loans Payable	91,316			(7,838)	83,478
	<u>1,709,094</u>	<u>113,585</u>	<u>(133,010)</u>	<u>(104,698)</u>	<u>1,584,971</u>
Total Business –Type Activities					
Total	<u>\$ 2,416,232</u>	<u>\$ 256,435</u>	<u>\$ (228,310)</u>	<u>\$ (153,739)</u>	<u>\$ 2,290,618</u>

Funds used to meet the debt service requirements of the City's General Obligation Bonds are from certain ad valorem taxes, restricted income taxes and interest earnings. Ad valorem taxes, the primary source of funds, amounted to \$17.6 million in 2017 which represents approximately 53.0% of the debt service requirements on the General Obligation Bonds. These taxes were derived from a levy of \$4.35 per \$1,000 of assessed property. The remaining 47.0% of debt service requirements is retired from a portion of the City's restricted income tax proceeds, homestead and rollback reimbursement from the State, interest earnings and other miscellaneous revenue sources generated within the Debt Service Funds.

The City issues its General Obligation Bonds within the context of its Capital Improvement Program. Programs which have benefited due to the issuance of general obligation debt include, but are not limited to, public facilities improvements, bridge and roadway improvements, recreation facilities, cemeteries and urban redevelopment. The City's Enterprise Funds implement their own individual Capital Improvement Programs and issue revenue bond and note debt necessary to fund their programs.

The City's bond ratings for governmental and revenue bonds are as follows as of December 31, 2017:

	Moody's Investors Service	Standard & Poor's	Fitch Ratings
General Obligation Bonds**	A1	AA+	A+
Subordinate Lien Income Tax Bonds**	A1	AA+	N/A
Non-tax Revenue Bonds	A2	A	N/A
Stadium Certificates of Participation	A3	A	N/A
Waterworks Improvement Revenue Bonds***	Aa1	AA+	N/A
Second Lien Water Revenue Bonds***	Aa2	AA	N/A
Public Power System Revenue Bonds	A3	A-	N/A
Airport System Revenue Bonds	Baa1	A-	BBB+
Parking Facility Refunding Revenue Bonds (Insured Ratings)*	A2	AA	N/A
Water Pollution Control Revenue Bonds	Aa3	A+	N/A

* Parking Facilities' bonds only carry an insured rating.

** On May 24, 2017 S&P Global Ratings raised its rating on the City's General Obligation Bonds and Subordinate Lien Income Tax Bonds to AA+ from AA.

*** On August 9, 2017 S&P Global Ratings raised its rating on the City's Water Revenue Bonds to AA+ and its rating on the Subordinate Lien Water Revenue Bonds to AA.

The ratio of net general bonded debt to assessed valuation and the amount of bonded debt per capita are useful indicators of the City's debt position to management, citizens and investors. Net general bonded debt is total general bonded debt supported by taxes less amounts available in the Debt Service Fund. This data at December 31, 2017 was:

Net General Bonded Debt:	\$206,385,000
Ratio of Net Bonded Debt to Assessed Valuation:	4.46%
Net General Bonded Debt Per Capita:	\$520.10

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.50% of the assessed value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.50% of total assessed value of property. The City's total debt limit (10.50%) is \$485,974,208 and unvoted debt limit (5.50%) is \$254,557,918. At December 31, 2017, the City had capacity under the indirect debt limitation calculation per the Ohio Revised Code to issue approximately \$100 million in additional unvoted debt. However, these debt limitations are not expected to affect the financing of any currently planned facilities or services.

In addition, the City has entered into various derivative or hedging agreements. Derivative instruments are contracts, the value of which depends on, or derives from, the value of an underlying asset, index or rate. The most common types of derivatives used by governments are interest rate swaps and interest rate locks. A detailed description of each outstanding derivative, including its terms, objectives, risks and fair value, can be found in Note 5 – Debt and Other Long-Term Obligations.

The City reports a deferred outflow of resource and a liability in the amount of the fair value of the interest rate swaps, which reflect the prevailing interest rate environment at December 31, 2017 and an investment loss or gain as appropriate, based on the change in fair value. The specific terms and conditions of each swap have been provided by the respective counterparty for each swap and confirmed by the City's financial advisor.

Additional information on the City's long-term debt can be found in Note 5 – Debt and Other Long-Term Obligations.

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

The City, like all municipalities both local and national, continues to face the challenges of economic recession. Basic operating costs continue to rise due to negotiated salary increases, higher benefit costs and federal and state mandates being placed upon municipalities at the same time federal and state funding is being reduced.

Over the last several years, the City has seen significant reductions in funding from the federal and state governments. To offset these reductions, the City continues to focus on stimulating economic and community development throughout its core business districts and neighborhoods to strengthen its housing stock value and ensure a strong local job market.

Other Impacting Factors

- Effective November 1, 2017, the City entered into an agreement to cease its jail operations at its City Jails and the Cleveland House of Corrections and to contract with Cuyahoga County to provide the City with prisoner booking, housing and other related services.

NEED ADDITIONAL INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City'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.

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BASIC FINANCIAL STATEMENTS

CITY OF CLEVELAND, OHIO

STATEMENT OF NET POSITION

DECEMBER 31, 2017

(Amounts in Thousands)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 482,483	\$ 592,831	\$ 1,075,314
Investments	3,025	20,051	23,076
Receivables:			
Taxes	142,402		142,402
Accounts	13,446	211,084	224,530
Recoverable costs of purchased power		8,252	8,252
Grants	8,697		8,697
Loans	144,154		144,154
Unbilled revenue		21,162	21,162
Accrued interest	186	37	223
Assessments	38,780		38,780
Less: Allowance for doubtful accounts	(32,728)	(28,922)	(61,650)
Receivables, net	<u>314,937</u>	<u>211,613</u>	<u>526,550</u>
Internal balances	(362)	362	-
Due from other governments	38,304	12,463	50,767
Inventory of supplies	1,106	21,362	22,468
Prepaid expenses and other assets	271	1,517	1,788
Restricted assets:			
Cash and cash equivalents		319,468	319,468
Accrued interest receivable		218	218
Accrued passenger facility charge		2,239	2,239
Total restricted assets	<u>-</u>	<u>321,925</u>	<u>321,925</u>
Capital assets:			
Land and construction in progress	308,564	484,123	792,687
Other capital assets, net of accumulated depreciation	940,664	2,564,574	3,505,238
Total capital assets	<u>1,249,228</u>	<u>3,048,697</u>	<u>4,297,925</u>
Total assets	<u>2,088,992</u>	<u>4,230,821</u>	<u>6,319,813</u>
DEFERRED OUTFLOWS OF RESOURCES			
Derivative instruments-interest rate swaps		11,107	11,107
Loss on refunding	17,752	52,469	70,221
Pension	194,676	69,830	264,506
Total deferred outflows of resources	<u>212,428</u>	<u>133,406</u>	<u>345,834</u>

The notes to financial statements are an integral part of this statement.

CITY OF CLEVELAND, OHIO

STATEMENT OF NET POSITION

DECEMBER 31, 2017

(Amounts in Thousands)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
LIABILITIES			
Accounts payable	\$ 19,883	\$ 50,829	\$ 70,712
Accrued wages and benefits	25,540	8,976	34,516
Claims payable	8,805		8,805
Due to other governments	98,626	134,775	233,401
Accrued interest payable	4,181	24,193	28,374
Unearned revenue	5,795	120	5,915
Liabilities payable from restricted assets		6,803	6,803
Long-term obligations:			
Due within one year	104,944	104,330	209,274
Due in more than one year	773,605	1,594,859	2,368,464
Pension	<u>726,412</u>	<u>177,738</u>	<u>904,150</u>
Total liabilities	<u>1,767,791</u>	<u>2,102,623</u>	<u>3,870,414</u>
DEFERRED INFLOWS OF RESOURCES			
Property tax	51,616		51,616
Special assessment - TIF	7,619		7,619
Derivative instruments-interest rate swaps	8	11,197	11,205
Pension	<u>27,647</u>	<u>4,974</u>	<u>32,621</u>
Total deferred inflows of resources	<u>86,890</u>	<u>16,171</u>	<u>103,061</u>
NET POSITION			
Net investment in capital assets	719,579	1,482,861	2,202,440
Restricted for:			
Capital	46,593	509	47,102
Debt service	39,431	200,189	239,620
Loans	28,929		28,929
Other purposes	46,050	13,463	59,513
Unrestricted	<u>(433,843)</u>	<u>548,411</u>	<u>114,568</u>
Total net position	<u>\$ 446,739</u>	<u>\$ 2,245,433</u>	<u>\$ 2,692,172</u>

CITY OF CLEVELAND, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(Amounts in Thousands)

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Functions/Programs:			
Governmental activities:			
General Government	\$ 160,117	\$ 19,573	\$ 3,343
Public Works	137,256	18,408	24,106
Public Safety	357,248	17,803	6,144
Community Development	28,555	777	26,173
Building and Housing	14,240	16,377	2,413
Public Health	18,038	3,091	8,809
Economic Development	36,189	103	3,023
Interest on debt	28,630		
Total governmental activities	<u>780,273</u>	<u>76,132</u>	<u>74,011</u>
Business-type activities:			
Water	293,148	301,621	4,087
Electricity	197,613	194,904	4,105
Airport facilities	172,383	145,206	314
Nonmajor activities:			
Sewer	27,577	29,392	428
Public Auditorium	2,769	958	1
Westside Market	2,362	1,477	10
Eastside Market	61		
Municipal Parking Lots	6,714	9,311	138
Cemeteries	2,261	1,505	58
Golf Courses	246		13
Total business-type activities	<u>705,134</u>	<u>684,374</u>	<u>9,154</u>
Total	<u>\$ 1,485,407</u>	<u>\$ 760,506</u>	<u>\$ 83,165</u>

General revenues:
Income taxes
Property taxes
Other taxes
Shared revenues
State local government funds
Unrestricted investment earnings
Other
Transfers
Total general revenues and transfers
Change in net position
Net position at beginning of year
Net position at end of year

The notes to financial statements are an integral part of this statement.

<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Positon</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ 34	\$ (137,167)	\$	\$ (137,167)
35,744	(58,998)		(58,998)
97	(333,204)		(333,204)
	(1,605)		(1,605)
	4,550		4,550
	(6,138)		(6,138)
	(33,063)		(33,063)
	(28,630)		(28,630)
<u>35,875</u>	<u>(594,255)</u>	<u>-</u>	<u>(594,255)</u>
50,693		63,253	63,253
189		1,585	1,585
56,757		29,894	29,894
4,376		6,619	6,619
		(1,810)	(1,810)
		(875)	(875)
		(61)	(61)
76		2,811	2,811
		(698)	(698)
		(233)	(233)
<u>112,091</u>	<u>-</u>	<u>100,485</u>	<u>100,485</u>
<u>\$ 147,966</u>	<u>(594,255)</u>	<u>100,485</u>	<u>(493,770)</u>
	451,929		451,929
	51,985		51,985
	46,704		46,704
	37,428		37,428
	24,331		24,331
	4,392	13	4,405
	14,374	8	14,382
	(8,354)	8,354	-
	<u>622,789</u>	<u>8,375</u>	<u>631,164</u>
	28,534	108,860	137,394
	418,205	2,136,573	2,554,778
	<u>\$ 446,739</u>	<u>\$ 2,245,433</u>	<u>\$ 2,692,172</u>

CITY OF CLEVELAND, OHIO

**BALANCE SHEET-GOVERNMENTAL FUNDS
DECEMBER 31, 2017
(Amounts in Thousands)**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 117,631	\$ 320,582	\$ 438,213
Investments		3,025	3,025
Receivables:			
Taxes	109,594	32,808	142,402
Accounts	13,420		13,420
Grants	249	8,448	8,697
Loans		144,154	144,154
Accrued interest	9	177	186
Assessments	33,826	4,954	38,780
Less: Allowance for doubtful accounts	<u>(32,728)</u>		<u>(32,728)</u>
Receivables, net	<u>124,370</u>	<u>190,541</u>	<u>314,911</u>
Due from other funds	2,414	7,839	10,253
Due from other governments	<u>20,912</u>	<u>17,392</u>	<u>38,304</u>
TOTAL ASSETS	<u>\$ 265,327</u>	<u>\$ 539,379</u>	<u>\$ 804,706</u>
LIABILITIES			
Accounts payable	\$ 7,449	\$ 11,642	\$ 19,091
Accrued wages and benefits	22,866	2,049	24,915
Due to other governments	3,884	94,026	97,910
Unearned revenue	65	5,730	5,795
Due to other funds	<u>3,591</u>	<u>9,974</u>	<u>13,565</u>
Total liabilities	<u>37,855</u>	<u>123,421</u>	<u>161,276</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow	<u>92,612</u>	<u>46,816</u>	<u>139,428</u>
Total deferred inflows of resources	<u>92,612</u>	<u>46,816</u>	<u>139,428</u>
FUND BALANCES			
Restricted		296,361	296,361
Committed		72,770	72,770
Assigned	42,168	11	42,179
Unassigned	<u>92,692</u>		<u>92,692</u>
Total fund balances	<u>134,860</u>	<u>369,142</u>	<u>504,002</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 265,327</u>	<u>\$ 539,379</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities (excluding internal service fund capital assets) are not financial resources and, therefore, are not reported in the funds.	1,245,489
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	80,193
Long-term liabilities, including bonds and claims payable, are not due and payable in the current period and therefore are not reported in the funds.	(852,046)
The assets, liabilities and deferred outflows/inflows of resources of most of the internal service funds are included in the governmental activities in the statement of net position.	18,466
The net pension liability is not due and payable in the current period; (excluding internal service fund net pension liability) therefore the liability and related deferred inflows/outflows of resources are not reported in governmental funds:	<u>(549,365)</u>
Net position of governmental activities	<u>\$ 446,739</u>

The notes to financial statements are an integral part of this statement.

CITY OF CLEVELAND, OHIO

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands)

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:			
Income taxes	\$ 397,564	\$ 49,695	\$ 447,259
Property taxes	33,842	17,631	51,473
State local government funds	24,375		24,375
Other taxes	46,683		46,683
Other shared revenues	16,904	44,175	61,079
Licenses and permits	17,218	2,189	19,407
Charges for services	36,114	3,063	39,177
Fines, forfeits and settlements	11,280	3,019	14,299
Investment earnings	1,854	2,293	4,147
Grants	1,302	78,775	80,077
Contributions		1,704	1,704
Miscellaneous	<u>4,833</u>	<u>6,785</u>	<u>11,618</u>
Total revenues	<u>591,969</u>	<u>209,329</u>	<u>801,298</u>
EXPENDITURES:			
Current:			
General Government	92,883	7,489	100,372
Public Works	71,107	27,121	98,228
Public Safety	316,948	5,535	322,483
Community Development	290	25,537	25,827
Building and Housing	10,380	2,836	13,216
Public Health	6,336	10,046	16,382
Economic Development	1,573	34,175	35,748
Other	6,640		6,640
Capital outlay	2,378	83,510	85,888
Debt service:			
Principal retirement		49,041	49,041
Interest		30,000	30,000
General Government		971	971
Other		<u>1,069</u>	<u>1,069</u>
Total expenditures	<u>508,535</u>	<u>277,330</u>	<u>785,865</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>83,434</u>	<u>(68,001)</u>	<u>15,433</u>
OTHER FINANCING SOURCES (USES):			
Transfers in		81,122	81,122
Transfers out	(35,546)	(47,642)	(83,188)
Premium on bonds		21,916	21,916
Payment to refund bonds		(108,761)	(108,761)
Sale of City assets	5,250	1,323	6,573
Issuance of refunding bonds		<u>142,850</u>	<u>142,850</u>
Total other financing sources (uses)	<u>(30,296)</u>	<u>90,808</u>	<u>60,512</u>
NET CHANGE IN FUND BALANCES	53,138	22,807	75,945
FUND BALANCES AT BEGINNING OF YEAR	<u>81,722</u>	<u>346,335</u>	<u>428,057</u>
FUND BALANCES AT END OF YEAR	<u>\$ 134,860</u>	<u>\$ 369,142</u>	<u>\$ 504,002</u>

The notes to financial statements are an integral part of this statement.

CITY OF CLEVELAND, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES OF GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts in Thousands)

Amounts reported for governmental activities in the statement of activities (pages 60 and 61) are different because:

Net change in fund balances - total governmental funds (page 63)	\$ 75,945
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	7,080
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(10,129)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences, including accrued interest, in the treatment of long-term debt and related items.	(2,063)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(389)
Contractually required contributions are reported as expenditures in the governmental funds; however, the statement of net position reports these amounts as deferred outflows of resources, except for changes in the net pension liability which are reported as pension expense in the statement of activities.	(52,678)
The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>10,768</u>
Change in net position of governmental activities (pages 60 and 61)	<u>\$ 28,534</u>

The notes to financial statements are an integral part of this statement.

CITY OF CLEVELAND, OHIO

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES (BUDGET AND ACTUAL) - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual*</u>	<u>Variance- Positive (Negative)</u>
REVENUES:				
Income taxes	\$ 397,338	\$ 397,338	\$ 389,046	\$ (8,292)
Property taxes	32,571	32,571	33,842	1,271
State local government funds	26,990	26,990	24,374	(2,616)
Other taxes	39,981	40,981	46,770	5,789
Other shared revenues	13,010	13,010	12,900	(110)
Licenses and permits	15,669	15,669	17,291	1,622
Charges for services	34,575	34,575	36,675	2,100
Fines, forfeits and settlements	9,457	9,457	11,259	1,802
Investment earnings	780	780	1,658	878
Grants	417	417	1,065	648
Miscellaneous	29,545	36,647	35,114	(1,533)
Total revenues	<u>600,333</u>	<u>608,435</u>	<u>609,994</u>	<u>1,559</u>
EXPENDITURES:				
Current:				
General Government	101,978	103,463	93,055	10,408
Public Works	73,607	73,917	69,572	4,345
Public Safety	349,468	343,598	328,097	15,501
Community Development	314	319	284	35
Building and Housing	12,264	11,919	10,565	1,354
Public Health	8,781	8,041	6,847	1,194
Economic Development	1,702	1,702	1,576	126
Other	20,909	21,688	20,279	1,409
Capital outlay		21,976	21,898	78
Total expenditures	<u>569,023</u>	<u>586,623</u>	<u>552,173</u>	<u>34,450</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>31,310</u>	<u>21,812</u>	<u>57,821</u>	<u>36,009</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	4,500	4,500		(4,500)
Transfers out	(38,294)	(44,294)	(43,671)	623
Sale of City assets	2,500	7,750	5,250	(2,500)
Total other financing sources (uses)	<u>(31,294)</u>	<u>(32,044)</u>	<u>(38,421)</u>	<u>(6,377)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>16</u>	<u>(10,232)</u>	<u>19,400</u>	<u>29,632</u>
DECERTIFICATION OF PRIOR YEAR ENCUMBRANCES AND PRE-ENCUMBRANCES			<u>515</u>	<u>515</u>
NET CHANGE IN FUND BALANCE	16	(10,232)	19,915	30,147
FUND BALANCE AT BEGINNING OF YEAR	<u>12,936</u>	<u>12,936</u>	<u>12,936</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 12,952</u>	<u>\$ 2,704</u>	<u>\$ 32,851</u>	<u>\$ 30,147</u>

* On budgetary basis of accounting (see Note 2 - Summary of Significant Accounting Policies, "D" Budgetary Procedures).

The notes to financial statements are an integral part of this statement.

CITY OF CLEVELAND, OHIO

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2017
(Amounts in Thousands)**

	Business Type Activities - Enterprise Funds				Total Enterprise Funds	Governmental Activities - Internal Service Funds
	Division of Water	Cleveland Public Power	Department of Port Control	Nonmajor Enterprise Funds		
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 385,434	\$ 38,665	\$ 91,622	\$ 75,416	\$ 591,137	\$ 45,964
Restricted cash and cash equivalents	2,178	22	4,603	2,463	9,266	
Investments	20,051				20,051	
Receivables:						
Accounts	70,281	25,015	10,996	104,792	211,084	26
Recoverable costs of purchased power		8,252			8,252	
Unbilled revenue	10,478	2,742	5,871	2,071	21,162	
Accrued interest	17			20	37	
Less: Allowance for doubtful accounts	(16,947)	(7,901)	(874)	(3,200)	(28,922)	
Receivables, net	63,829	28,108	15,993	103,683	211,613	26
Due from other funds	4,524	3,223	18	55	7,820	3,057
Due from other governments	25		10,821	1,617	12,463	
Inventory of supplies	8,390	9,466	2,901	605	21,362	1,106
Prepaid expenses and other assets	767	253	467		1,487	301
Total current assets	485,198	79,737	126,425	183,839	875,199	50,454
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	67,470	17,937	192,663	32,132	310,202	
Accrued interest receivable	52	15	125	26	218	
Accrued passenger facility charges			2,239		2,239	
Total restricted assets	67,522	17,952	195,027	32,158	312,659	-
Capital assets:						
Land	5,443	5,574	167,457	13,728	192,202	663
Land improvements	17,614	318	94,931	11,538	124,401	179
Utility plant	1,918,584	587,712		156,807	2,663,103	
Buildings, structures and improvements	261,647	22,858	348,058	109,449	742,012	4,444
Furniture, fixtures, equipment and vehicles	601,986	91,759	58,681	23,833	776,259	18,701
Infrastructure			1,016,148		1,016,148	
Construction in progress	87,930	38,707	111,900	53,384	291,921	
Less: Accumulated depreciation	(1,183,894)	(394,722)	(979,156)	(200,478)	(2,758,250)	(19,347)
Total capital assets, net	1,709,310	352,206	818,019	168,261	3,047,796	4,640
Total noncurrent assets	1,776,832	370,158	1,013,046	200,419	3,360,455	4,640
Total assets	2,262,030	449,895	1,139,471	384,258	4,235,654	55,094
DEFERRED OUTFLOWS OF RESOURCES						
Derivative instruments-interest rate swaps	11,107				11,107	
Loss on refunding	24,486	12,600	14,707	676	52,469	
Pension	34,239	11,496	13,856	6,106	65,697	10,921
Total deferred outflows of resources	69,832	24,096	28,563	6,782	129,273	10,921

CITY OF CLEVELAND, OHIO

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

DECEMBER 31, 2017

(Amounts in Thousands)

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Division of Water	Cleveland Public Power	Department of Port Control	Nonmajor Enterprise Funds	Total Enterprise Funds	
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 16,353	\$ 13,350	\$ 18,129	\$ 3,516	\$ 51,348	\$ 2,444
Accrued wages and benefits	8,326	2,648	4,712	1,470	17,156	12,940
Claims payable					-	8,805
Due to other funds	1,845	378	767	4,462	7,452	113
Due to other governments			5,574	129,201	134,775	716
Accrued interest payable	8,362	1,111	14,253	467	24,193	
Current payable from restricted assets	2,178	22	4,603		6,803	
Current portion of long-term obligations	44,314	7,705	38,535	3,794	94,348	
Unearned revenue				120	120	
Total current liabilities	<u>81,378</u>	<u>25,214</u>	<u>86,573</u>	<u>143,030</u>	<u>336,195</u>	<u>25,018</u>
Noncurrent liabilities:						
Accrued wages and benefits	575	146	208	87	1,016	382
Construction loans payable	75,475			70	75,545	
Accreted interest payable		18,445			18,445	
Revenue bonds payable	565,687	197,874	682,936	51,121	1,497,618	
Pension	87,844	29,488	34,594	16,267	168,193	25,873
Other		2,109			2,109	
Total noncurrent liabilities	<u>729,581</u>	<u>248,062</u>	<u>717,738</u>	<u>67,545</u>	<u>1,762,926</u>	<u>26,255</u>
Total liabilities	<u>810,959</u>	<u>273,276</u>	<u>804,311</u>	<u>210,575</u>	<u>2,099,121</u>	<u>51,273</u>
DEFERRED INFLOWS OF RESOURCES						
Derivative instruments-interest rate swaps	11,107			90	11,197	
Pension	2,435	814	1,000	444	4,693	759
Total deferred inflows of resources	<u>13,542</u>	<u>814</u>	<u>1,000</u>	<u>534</u>	<u>15,890</u>	<u>759</u>
NET POSITION						
Net investment in capital assets	1,051,909	173,802	121,011	135,238	1,481,960	4,640
Restricted for capital projects	1	487	21		509	
Restricted for debt service	63,904	2,875	125,289	8,121	200,189	
Restricted for passenger facility charges			13,463		13,463	
Unrestricted	<u>391,547</u>	<u>22,737</u>	<u>102,939</u>	<u>36,572</u>	<u>553,795</u>	<u>9,343</u>
Total net position	<u>\$ 1,507,361</u>	<u>\$ 199,901</u>	<u>\$ 362,723</u>	<u>\$ 179,931</u>	<u>2,249,916</u>	<u>\$ 13,983</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					<u>(4,483)</u>	
NET POSITION OF BUSINESS-TYPE ACTIVITIES					<u>\$ 2,245,433</u>	

The notes to financial statements are an integral part of this statement.

CITY OF CLEVELAND, OHIO

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands)

	Business-Type Activities - Enterprise Funds				Total Enterprise Funds	Governmental Activities - Internal Service Funds
	Division of Water	Cleveland Public Power	Department of Port Control	Nonmajor Enterprise Funds		
OPERATING REVENUES:						
Charges for services	\$ 301,453	\$ 194,904	\$ 145,206	\$ 42,643	\$ 684,206	\$ 152,561
Total operating revenue	<u>301,453</u>	<u>194,904</u>	<u>145,206</u>	<u>42,643</u>	<u>684,206</u>	<u>152,561</u>
OPERATING EXPENSES:						
Operations	120,860	27,354	80,804	22,297	251,315	140,125
Maintenance	64,507	17,195	4,595	9,239	95,536	3,158
Purchased power		123,374			123,374	
Depreciation	77,835	19,555	53,576	9,128	160,094	624
Total operating expenses	<u>263,202</u>	<u>187,478</u>	<u>138,975</u>	<u>40,664</u>	<u>630,319</u>	<u>143,907</u>
OPERATING INCOME (LOSS)	<u>38,251</u>	<u>7,426</u>	<u>6,231</u>	<u>1,979</u>	<u>53,887</u>	<u>8,654</u>
NON-OPERATING REVENUES (EXPENSES):						
Investment income (loss)	4,518	398	1,579	914	7,409	232
Interest expense	(25,535)	(9,510)	(28,013)	(1,195)	(64,253)	
Passenger facility charges			18,511		18,511	
Gain (loss) on disposal of capital assets	(2,250)	(73)			(2,323)	
Other revenues (expenses)	3,386	3,896	(3,235)	301	4,348	
Total non-operating revenues (expenses)	<u>(19,881)</u>	<u>(5,289)</u>	<u>(11,158)</u>	<u>20</u>	<u>(36,308)</u>	<u>232</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	18,370	2,137	(4,927)	1,999	17,579	8,886
Capital contributions and other contributions	45,810		34,472	10,781	91,063	34
Transfers in				1,466	1,466	600
Change in net position	<u>64,180</u>	<u>2,137</u>	<u>29,545</u>	<u>14,246</u>	<u>110,108</u>	<u>9,520</u>
NET POSITION AT BEGINNING OF YEAR	<u>1,443,181</u>	<u>197,764</u>	<u>333,178</u>	<u>165,685</u>		<u>4,463</u>
NET POSITION AT END OF YEAR	<u>\$ 1,507,361</u>	<u>\$ 199,901</u>	<u>\$ 362,723</u>	<u>\$ 179,931</u>		<u>\$ 13,983</u>
Adjustment to reflect consolidation of internal service fund activities related to enterprise funds					<u>(1,248)</u>	
CHANGE IN NET POSITION OF BUSINESS-TYPE ACTIVITIES					<u>\$ 108,860</u>	

The notes to financial statements are an integral part of this statement.

CITY OF CLEVELAND, OHIO

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Amounts in Thousands)**

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Division of Water	Cleveland Public Power	Department of Port Control	Nonmajor Enterprise Funds	Total Enterprise Funds	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash received from customers	\$ 325,994	\$ 189,365	\$ 152,196	\$ 43,968	\$ 711,523	\$ 153,156
Cash payments to suppliers for goods or services	(88,434)	(18,053)	(48,470)	(16,532)	(171,489)	(115,494)
Cash payments to employees for services	(74,270)	(20,582)	(30,978)	(12,952)	(138,782)	(24,815)
Cash payments for purchased power		(126,942)			(126,942)	
Agency activity on behalf of other sewer authorities				606	606	
Other	(396)	(5,761)		(54)	(6,211)	
Net cash provided by (used for) operating activities	162,894	18,027	72,748	15,036	268,705	12,847
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Cash received through transfers from other funds				1,466	1,466	600
Cash received for royalties				13	13	
Cash received from electric excise tax		2,980			2,980	
Net cash provided by (used for) noncapital financing activities	-	2,980	-	1,479	4,459	600
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Cash receipts for passenger facility charges			18,193		18,193	
Proceeds from sale of revenue bonds, loans and notes	134,798				134,798	
Acquisition and construction of capital assets	(39,740)	(15,236)	(58,476)	(18,095)	(131,547)	(434)
Principal paid on long-term debt	(52,381)	(8,785)	(39,765)	(3,767)	(104,698)	
Interest paid on long-term debt	(28,267)	(9,117)	(30,168)	(2,713)	(70,265)	
Cash paid to escrow agent for refunding	(143,598)				(143,598)	
Capital grant proceeds			32,189	2,276	34,465	
Net cash provided by (used for) capital and related financing activities	(129,188)	(33,138)	(78,027)	(22,299)	(262,652)	(434)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of investment securities	(20,079)				(20,079)	
Proceeds from sale and maturity of investment securities	10,491		11,997		22,488	
Interest received on investments	4,522	494	1,613	936	7,565	232
Net cash provided by (used for) investing activities	(5,066)	494	13,610	936	9,974	232
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,640	(11,637)	8,331	(4,848)	20,486	13,245
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	426,442	68,261	280,557	114,859	890,119	32,719
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 455,082	\$ 56,624	\$ 288,888	\$ 110,011	\$ 910,605	\$ 45,964

(Continued)

CITY OF CLEVELAND, OHIO

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands)

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Division of Water	Cleveland Public Power	Department of Port Control	Nonmajor Enterprise Funds	Total Enterprise Funds	
RECONCILIATION OF OPERATING						
INCOME (LOSS) TO NET CASH PROVIDED						
BY (USED FOR) OPERATING ACTIVITIES:						
Operating income (loss)	\$ 38,251	\$ 7,426	\$ 6,231	\$ 1,979	\$ 53,887	\$ 8,654
Adjustment to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation	77,835	19,555	53,576	9,128	160,094	624
Noncash capital expense				213	213	
(Increase) Decrease in Assets:						
Receivables, net	30,977	(6,284)	(3,980)	(7,870)	12,843	1
Prepaid expenses and other assets	(232)	(4,283)	25		(4,490)	(282)
Due from other funds	(721)	(714)	(18)	323	(1,130)	3,500
Inventory of supplies	409	(617)	(370)	(181)	(759)	(58)
(Increase) Decrease in Deferred Outflows of Resources:						
Pension	(7,871)	(2,416)	(3,374)	(1,394)	(15,055)	(2,616)
Increase (Decrease) in Liabilities:						
Accounts payable	4,032	88	12,709	(159)	16,670	(66)
Accrued wages and benefits	617	(3)	1,024	8	1,646	(2,160)
Pension	17,942	5,891	7,521	3,263	34,617	5,889
Claims payable					-	(581)
Due to other funds	(19)	(331)	(1,047)	190	(1,207)	37
Due to other governments			92	9,275	9,367	(370)
Unearned revenue				120	120	
Accrued expenses and other liabilities	890	(536)			354	
Increase (Decrease) in Deferred Inflows of Resources:						
Pension	784	251	359	141	1,535	275
Total adjustments	124,643	10,601	66,517	13,057	214,818	4,193
NET CASH PROVIDED BY (USED FOR)						
OPERATING ACTIVITIES	<u>\$ 162,894</u>	<u>\$ 18,027</u>	<u>\$ 72,748</u>	<u>\$ 15,036</u>	<u>\$ 268,705</u>	<u>\$ 12,847</u>
SCHEDULE OF NONCASH CAPITAL AND RELATED						
FINANCING ACTIVITIES:						
Contributions and accounts payable related to capital assets	\$ 47,988	\$ 22	\$ 4,603	\$ 9,365	\$ 61,978	\$ 34

(Concluded)

The notes to financial statements are an integral part of this statement.

CITY OF CLEVELAND, OHIO

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

FIDUCIARY FUNDS

DECEMBER 31, 2017

(Amounts in Thousands)

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 32,916
Taxes receivable	18,402
Due from other governments	<u>1,251</u>
Total assets	<u>\$ 52,569</u>
LIABILITIES	
Due to other governments	\$ 26,563
Due to others	<u>26,006</u>
Total liabilities	<u>\$ 52,569</u>

The notes to financial statements are an integral part of this statement.

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CITY OF CLEVELAND, OHIO
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF CITY OPERATIONS AND REPORTING ENTITY

The City: The City of Cleveland, Ohio (the City) operates under an elected Mayor/Council (17 Council members) administrative/legislative form of government.

Reporting Entity: The accompanying financial statements as of December 31, 2017 and for the year then ended have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

In evaluating how to define the governmental reporting entity, the City complies with the provisions of GASB Statement No. 61, under which the financial statements include all the organizations, activities, functions and component units for which the City (primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the City's ability to impose its will over the component unit or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the City.

On this basis, the City's financial reporting entity has no component units but includes in its financial statements the financial activities of all departments, agencies, boards and commissions that are part of the primary government, including police and fire protection, waste collection, parks and recreation, health, certain social services and general administrative services. In addition, the City owns and operates several enterprise activities, the principal ones consisting of a water system, an electric distribution system and two airports.

The following entities are related organizations of the City of Cleveland; however, the City's accountability does not extend beyond its appointing authority:

Cuyahoga Metropolitan Housing Authority – Created under the Ohio Revised Code, the Cuyahoga Metropolitan Housing Authority provides public housing services. The five-member board consists of two appointed by the Mayor of the City of Cleveland, two appointed by Cleveland City Council and one appointed by the Mayor of the City of East Cleveland with approval from its City Council.

Cleveland-Cuyahoga County Port Authority – Created under the Ohio Revised Code, the Cleveland-Cuyahoga County Port Authority conducts port operations and economic development activities. The nine-member Board of Directors consists of three appointed by the Cuyahoga County Commissioners and six appointed by the City of Cleveland.

Cleveland Metropolitan School District (Schools) – In November of 1998, the Mayor of the City of Cleveland was given appointing authority for the Schools. As approved by the State Legislature, the Ohio Revised Code provides for the Mayor to appoint a Chief Executive Officer who must be approved by the Board of Education (the Board). The Board is comprised of nine-members. The members of the Board are appointed by the Mayor from a pool of candidates presented to the Mayor by an independent nominating panel. In November 2002, the voters of Cleveland elected to maintain the current governance structure.

The following entity is a jointly governed organization of the City; however, the City has no ongoing financial interest or responsibility:

Gateway Economic Development Corporation of Greater Cleveland (Gateway) – Gateway is responsible for the operations of a sports complex and related economic development. The five-member board consists of two members appointed by the City, two members appointed by the Board of County Commissioners and one by the President of the Board of County Commissioners with concurrence of the Mayor of the City of Cleveland.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant Accounting Policies:

The following is a summary of the more significant policies followed during the preparation of the accompanying financial statements.

A. *Government-Wide and Fund Financial Statements*

GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, established requirements and a reporting model for the annual financial reports of state and local governments. GASB Statement No. 34 was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions. Financial information of the City is presented in the following format:

Basic Financial Statements:

1. *Government-wide financial statements* consist of a statement of net position and a statement of activities. These statements report all of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, expenses, gains and losses of the City. Governmental activities are reported separately from business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues whereas business-type activities are normally supported by fees and charges for services and are usually intended by management to be financially self-sustaining. Fiduciary funds of the City are not included in these government-wide financial statements.

Interfund receivables and payables, bonds and notes issued and held by the City as investments within governmental and business-type activities have been eliminated in the government-wide statement of net position. Related interest amounts are eliminated in the government-wide statement of activities. These eliminations minimize the duplicating effect on assets and liabilities within the governmental and business-type activities total column.

Internal Service Fund balances, whether positive or negative, have been eliminated against the expenses and program revenues shown as governmental activities in the statement of activities, except for the Utilities Administration Fund which is shown in the business-type activities column.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City’s governmental activities.

Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenue includes (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. General revenues are considered unrestricted in nature.

Program revenues and expenses previously reported as “Other” program revenues and expenses in governmental activities on the statement of activities are now classified as General Government program revenues and expenses as appropriate.

Business-type activities on the government-wide statement of activities summarizes other Enterprise Funds as Nonmajor activities. These include Sewer, Public Auditorium, West Side Market, East Side Market, Municipal Parking Lots, Cemeteries and Golf Courses.

2. *Fund financial statements* consist of a series of statements focusing on information about the City's major governmental and enterprise funds. Separate statements are presented for the governmental, proprietary and fiduciary funds.

The City's major Governmental Fund is the General Fund. Of the City's business-type activities, the Division of Water Fund, Cleveland Public Power Fund and Department of Port Control Fund are considered major Enterprise Funds.

The General Fund is the primary operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in other funds. Its revenues consist primarily of income and property taxes, investment earnings, other taxes, other shared revenues, charges for services, licenses and permits, fines forfeits and settlements.

General Fund expenditures represent costs of General Government; Public Works (including waste collection); Public Safety (including police and fire); Building and Housing; Public Health; Community Development; and Economic Development. General Fund resources are also transferred annually to support other services which are accounted for in other separate funds.

The Division of Water Fund is a segment of the Department of Public Utilities of the City. The Division of Water was created for the purpose of supplying water services to customers within the Cleveland Metropolitan Area.

The Cleveland Public Power Fund is a segment of the Department of Public Utilities of the City. The Cleveland Public Power Fund was established by the City to provide electrical services to customers within the City.

The Department of Port Control Fund was established to account for the operations of the City's airport facilities.

While not considered major funds, the City maintains Internal Service Funds used to account for the financing of goods or services provided by one department or division to another department, division or other government on a cost-reimbursement basis.

Also maintained by the City are fiduciary funds, such as Agency Funds, used to account for assets held by the City as an agent for individuals, private organizations or other governments.

3. The City's General Fund budget to actual statement is presented as part of the basic financial statements.
4. Notes to financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. The Required Supplementary Information is essential to a user's understanding of the City pension liability and contributions made to fund it.

B. *Financial Reporting Presentation*

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance (equity), revenues and expenditures (expenses). The fund types and classifications that the City reports are as follows:

GOVERNMENTAL FUNDS

1. **General Fund** – The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

2. **Special Revenue Funds** – Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures of specified purposes other than debt service or capital projects. The term proceeds of specific revenue sources establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund.
3. **Debt Service Funds** – Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt Service Funds should be used to report resources if legally mandated (i.e. debt payable from property taxes). Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.
4. **Capital Project Funds** – Capital Project Funds are used to account for and report financial resources that are restricted or committed to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital Project Funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

PROPRIETARY FUNDS

1. **Enterprise Funds** – The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.
2. **Internal Service Funds** – The Internal Service Funds are used to account for the financing of goods or services provided by one department or division to other departments or divisions or to other governments on a cost-reimbursement basis. The City’s most significant Internal Service Funds are used to account for Motor Vehicle Maintenance, Municipal Income Tax Administration, Workers’ Compensation Reserve, Health Self Insurance Fund and Prescription Self Insurance Fund.

FIDUCIARY FUNDS

1. **Agency Funds** – Agency Funds are used to account for assets held by the City as an agent for individuals, private organizations and other governments. The Agency Funds are custodial in nature (assets equal liabilities) and do not have a measurement focus. However, the accrual basis of accounting is used to recognize receivables and payables. The City’s more significant Agency Funds are used to account for Municipal Court and income tax collections for other municipalities.

Fiduciary funds are not included in the government-wide statements.

C. *Measurement Focus and Basis of Accounting*

Except for budgetary purposes, the basis of accounting used by the City conforms to GAAP as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include income taxes, property taxes, grants, shared revenue and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the taxpayer’s liability occurs and revenue from property taxes is recognized in the fiscal year for which the taxes are levied. On an accrual basis, revenue in the form of shared revenue is recognized when the provider government recognizes its liability to the City. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include: (1) timing requirements which specify the year when the resources are required to be used or the year when use is first

permitted; (2) matching requirements, in which the City must provide local resources to be used for a specified purpose; and (3) expenditure requirements, in which the resources are provided to the City on a cost-reimbursement basis.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. The City generally considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year end. Expenditures are generally recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments and compensated absences, which are recognized as expenditures only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

In applying the susceptible-to-accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within sixty days after year end and available to pay obligations of the current period): income taxes, investment earnings and other shared revenues. Reimbursements due for federal or state funded projects are accrued as revenue at the time the expenditures are made or, when received in advance, recorded as unearned revenue until expenditures are made. Property taxes and special assessments, though measurable, are not available to finance current period obligations. Therefore, property tax receivables are recorded and deferred until they become available. Other revenues, including licenses, fees, fines and forfeits and charges for services are recorded as revenue when received in cash because they are generally not measurable until actually received.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. Non-operating revenues, such as investment income and passenger facility charges, result from non-exchange transactions or ancillary activities.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. The City uses unrestricted resources that are committed first, assigned second and unassigned last.

D. ***Budgetary Procedures***

The City is required by State law to adopt annual budgets for the General Fund, certain Special Revenue Funds (including the Division of Streets, Restricted Income Tax, Rainy Day Reserve, Schools Recreation and Cultural Activities and Cleveland Stadium Operations Funds), Debt Service Funds (except for Cleveland Stadium Debt Service, Urban Renewal and Urban Renewal Reserve Funds) and Proprietary Operating Funds. Modifications to the original budget are approved by City Council throughout the year. The City maintains budgetary control by not permitting expenditures to exceed appropriations for personnel costs (including benefits) and other costs (including debt service and capital outlay), within a division of the City, without the approval of City Council. Adjustments to the budget can only be made within a division and then within each category. Further legislation is needed in order to move budget amounts from "personnel" to "other" or vice versa, or between divisions. City Council adopted five appropriation amendments during 2017 which reallocated appropriations and increased the budget by 1.4% from the original budget.

Unencumbered appropriations for annually budgeted funds lapse at year end.

The City's budgetary process does not include annual budgeting for certain Special Revenue Funds and Capital Project Funds. Appropriations in these funds remain open and carry over to succeeding years (i.e., multi-year) until the related expenditures are made or until they are modified or canceled. Appropriations for these funds are controlled on a project basis.

The City's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budget basis and the GAAP basis are that:

- Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
- Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
- Encumbrances and pre-encumbrances are recorded as the equivalent of expenditures (budget) as opposed to being included in fund balances (GAAP).

A reconciliation of the General Fund's results of operations for 2017 reported on the budget basis versus the GAAP basis is as follows:

	(Amounts in Thousands)	
Excess (deficiency) of Revenues and Other Financing Sources over (under)		
Expenditures and Other Financing Uses (Budget Basis)	\$	19,400
Adjustments:		
Revenue Accruals		(18,025)
Expenditure and other financing sources (uses) Accruals		11,399
Encumbrances and Pre-Encumbrances		40,364
Net Change in Fund Balance	\$	<u>53,138</u>

E. **Other Significant Accounting Policies**

Cash and Cash Equivalents: Cash resources of certain individual funds are combined to form a pool of cash and investments which is managed by the City Treasurer. Investments in the Pooled Cash and Segregated Accounts, consists of obligations of the U.S. Treasury, agencies and instrumentalities; State Treasurer Asset Reserve Fund (STAR Ohio); commercial paper; U.S. Government Money Market Mutual Funds; guaranteed investment contracts; manuscript debt; bonds and other State of Ohio obligations; certificates of deposit; and repurchase transactions are carried at fair value (see Note 4 – Pooled And Segregated Cash And Investments) based on quoted market values, where applicable. Interest earned on pooled cash and investments is distributed to the appropriate funds utilizing a formula based on the month-end balance of cash and investments of each fund. Cash equivalents are defined as highly liquid investments with a maturity of three months or less at the time they are purchased by the City.

Investments: The City 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 City has invested funds in the State Treasury Asset Reserve of Ohio (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, *Certain External Investment Pools and Pool Participants*, for the purpose of measuring the value of shares in STAR Ohio. The City 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.

Unbilled Revenue: Unbilled revenues are estimates for services rendered but not billed to customers at year end.

Recoverable Costs of Purchased Power: The City 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.

Inventory of Supplies: Utility funds' inventory is valued at average cost. All other enterprise and internal service funds' inventory is valued at cost using the first in/first out method. Inventory generally consists of construction materials, utility plant supplies and parts inventory not yet placed into service. Inventory costs are charged to operations when consumed. Inventory purchased by governmental funds are treated as expenditures when acquired.

Restricted Assets: Issuance of debt and amounts set aside for payment of Enterprise Fund revenue bonds and construction loans are classified as restricted assets since their use is limited by applicable bond indentures. Passenger facility charges are restricted for capital expenditures or related debt. Construction loans are restricted to fund approved capital projects.

Capital Assets: Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements to the extent the City's capitalization threshold is met. The City defines capital assets as assets with an estimated 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 or projects. Assets are recorded at historical cost or estimated historical cost, if historical cost is not available. Contributed capital assets are recorded at their acquisition value on the date contributed.

As permitted under the implementation provisions of GASB Statement No. 34, the historical cost of infrastructure assets acquired, significantly reconstructed or that received significant improvements prior to January 1, 1980 have not been included as part of governmental capital assets in the government-wide financial statements.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets are the same as those used for the general capital assets. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Capitalized interest is amortized on the straight-line basis over the estimated useful lives of such assets. The City applies guidance provided by the GASB. This guidance requires capitalization of the interest cost of the borrowings less interest earned on investment of the bond proceeds from the date of the borrowing until the assets constructed from the bond proceeds are ready for their intended use. This guidance is applied to Waterworks Improvement Revenue Bonds, Public Power System Revenue Bonds, Water Pollution Control Revenue Bonds and Airport System Revenue Bonds.

Costs for maintenance and repairs are expensed when incurred. However, costs for repairs and upgrading that materially add to the value or life of an asset and meet the above criteria are capitalized.

The City depreciates capital assets on a straight-line basis using the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	15-100
Utility plant	5-100
Buildings, structures and improvements	5-60
Furniture, fixtures, equipment and vehicles	3-60
Infrastructure	3-50

Compensated Absences: The City 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*. In the government-wide and proprietary funds financial statements, the entire amount of unpaid compensated absences is reported as a liability. A liability for compensated absences is accrued in the governmental funds only if the amount is currently due and payable at year end. These amounts are recorded as accrued wages and benefits in the fund from which the employees who have accumulated leave are paid. The remaining portion of the liability is not reported in the governmental funds.

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

Uniformed police and fire employees are eligible to defer earned vacation time and overtime, with the appropriate approvals, until retirement. Once deferred, the employee cannot use deferred time as vacation. Deferred vacation is paid to the employee upon retirement, calculated using their current hourly rate at the date of retirement. Deferred overtime is paid once a year upon request up to the amount budgeted for the year for such purpose. If requests exceed the budgeted amounts, the requests are to be paid on a pro-rata basis.

Long-Term Obligations: In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities and proprietary fund type statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Losses on refundings are deferred and amortized over the life of the new debt, or the life of the refunded debt, whichever is shorter. Bonds payable are reported net of the applicable unamortized bond premium or discount.

In the governmental fund financial statements, bond premiums and discounts are reported as other financing sources and uses during the period in which they are incurred. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Swap Agreements: The City may enter into interest rate swap agreements to modify interest rates on outstanding debt. The City has accordingly recorded the fair value of each swap in the government-wide financial statements. As further described in Note 5 – Debt And Other Long-Term Obligations, the City has four swap agreements outstanding at December 31, 2017, one for its Subordinated Income Tax Variable Rate Refunding Bonds, one on the Parking Facilities Refunding Revenue Bonds and two associated with the 2015 Water Revenue Bonds Series AA and 2010 Water Revenue Bonds Series U and V.

Grants Revenues: Grants and assistance awards made on the basis of entitlement programs are recorded as grant receivables and revenues when entitlement occurs. Reimbursement-type grants are recorded as grant receivables and revenues when the related expenditures (expenses) are incurred. The City accounts for loans receivable related to the Economic Development Funds, Urban Development Action Funds, Community Development Block Grants, Neighborhood Development Investment Funds and Supplemental Empowerment Zone as restricted or committed fund balance in the fund financial statements as applicable to the extent that these loans do not have to be repaid to the Federal government. The loan proceeds are earmarked for future reprogramming under federal guidelines and are not available to fund current operating expenditures of the City.

Encumbrances and Pre-Encumbrances: Encumbrance accounting, under which purchase orders, requisitions, contracts and other commitments for expenditures are recorded as encumbrances or pre-encumbrances to reserve the applicable portion of the appropriation.

Interfund Transactions: During the course of normal operations, the City has numerous transactions between funds, including the allocation of centralized expenses and transfers of resources to provide services, construct assets and service debt. Such transactions are generally reflected as transfers or direct expenses of the fund that is ultimately charged for such costs.

Statement of Cash Flows: The City utilizes the direct method of reporting cash flows from operating activities in the Statement of Cash Flows as defined by the GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*. In the statement of cash flows, cash receipts and cash payments are classified according to operating, noncapital financing, capital and related financing and investing activities.

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/expenditure) 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 position 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.

F. ***Accounting Pronouncements***

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*, was 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, 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 and GASB Statement No. 68 for pension plans and pensions that are within their respective scopes. As required, the City 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, as amended and 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*. 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 City has determined that GASB Statement No. 74 has no impact on its financial statements as of December 31, 2017.

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, 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. The City 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 City 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, No. 68 and No. 73. 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 City has implemented GASB Statement No. 82 as of December 31, 2017.

NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

- A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds and net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of this \$852.0 million difference are as follows:

	(Amounts in Thousands)	
Bonds and notes payable	\$	(701,284)
Other payable		(22,000)
Interest rate swap		(8)
Unamortized bond premium/discount		(55,742)
Accrued interest payable		(4,181)
Capital leases payable		(4,363)
Claims and adjustments		(9,614)
Loss on refunding		17,752
Compensated absences		(72,606)
Net adjustment to <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	\$	(852,046)

Another element of that reconciliation states that net pension liability is not due and payable in the current period; therefore, the liability and the related deferred outflows of resources and deferred inflows of resources are not reported in the governmental funds. The details of this \$549.4 million differences are as follows:

	(Amounts in Thousands)	
Deferred outflows of resources	\$	187,888
Deferred inflows of resources		(27,169)
Net pension liability		<u>(710,084)</u>
Net adjustment to <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	\$	<u><u>(549,365)</u></u>

- B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this \$7.1 million difference are as follows:

	(Amounts in Thousands)	
Capital outlay	\$	50,659
Contributed Capital		20,162
Depreciation expense		(63,334)
Capital asset disposal		<u>(407)</u>
Net adjustment to <i>changes in fund balances - total governmental funds</i> to arrive at <i>change in net position of governmental activities</i>	\$	<u><u>7,080</u></u>

Another element of that reconciliation states that revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund statements. The details of this \$10.1 million difference are as follows:

	(Amounts in Thousands)	
Reversal of prior year deferred inflows of resources	\$	(90,322)
Current year deferred inflows of resources		<u>80,193</u>
Net adjustment to <i>changes in fund balances - total governmental funds</i> to arrive at <i>change in net position of governmental activities</i>	\$	<u><u>(10,129)</u></u>

Another element of that reconciliation states that the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences, including accrued interest and in the treatment of long-term debt is \$2.1 million which is detailed as follows:

	(Amounts in Thousands)
Debt issued or incurred:	
Issuance of general obligation bonds and other obligations	\$ (142,850)
Accrued interest	4,875
Interest rate swap	26
Premium on debt	(21,916)
Principal repayments:	
General obligation debt and other obligations	46,060
Payment on capital lease	2,981
Refunding of general obligation bonds and other obligations	<u>108,761</u>
Net adjustment to <i>changes in fund balances - total</i> governmental funds to arrive at <i>change in net position of</i> <i>governmental activities</i>	<u>\$ (2,063)</u>

Another element of that reconciliation states that some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The details of this \$389,000 difference are as follows:

	(Amounts in Thousands)
Compensated absences	\$ 1,768
Claims judgements	<u>(2,157)</u>
Net adjustment to <i>changes in fund balances - total</i> governmental funds to arrive at <i>change in net position of</i> governmental activities	<u>\$ (389)</u>

NOTE 4 – POOLED AND SEGREGATED CASH AND INVESTMENTS

Monies for the Debt Service Funds, certain Capital Project Funds, certain Agency Funds, Department of Port Control, Division of Water, Division of Water Pollution Control, Division of Cleveland Public Power, Division of Municipal Parking Lots, Cemeteries, Golf Courses, Public Auditorium and certain Special Revenue Funds are deposited or invested in individual segregated bank accounts.

Monies of all other funds of the City, including the accounts of the General Fund, other Special Revenue Funds, other Capital Project Funds, other Enterprise Funds, Internal Service Funds and other fiduciary funds are maintained or invested in a common group of bank accounts. Collectively these common bank accounts and investments represent the Pooled Cash Account (PCA). Each fund whose monies are included in the PCA has equity therein.

Certain funds have made disbursements from the PCA in excess of their individual equities in the PCA. Such amounts have been classified as due to other funds and due from other funds between the Restricted Income Tax Special Revenue Fund and the respective funds that have made disbursements in excess of their individual equities in the PCA.

The City has restrictive arrangements for certain segregated monies held in the banks' trust departments in which the City must act in conjunction with a trust officer in order to make investments. The City's role is that of investment manager and the trust officer's role is that of purchasing agent. For other segregated monies, the City acts alone in placing investments with the banks. Amounts held in escrow are designated for a special purpose and are entrusted to a third party to fulfill certain legal provisions.

Deposits: Ohio law requires that deposits be placed in eligible banks located in Ohio. The City's policy is to place deposits only with major commercial banks having offices within the City of Cleveland. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation. Further, City ordinance requires such collateral amounts to exceed deposits by 10%. Collateral that may be pledged is limited to obligations of the following entities: the United States and its agencies, the State of Ohio, the Ohio Student Loan Commission and any legally constituted taxing subdivision within the State of Ohio. The City also requires that non-pooled securities pledged be held by either the Federal Reserve Bank or other trust institution, as designated by the City, as trustee. This collateral is held in joint custody with the financial institution pledging the collateral and cannot be sold or released without written consent from the City.

Monthly, the City determines that the collateral has a market value adequate to cover the deposits and that it has been segregated either physically or in book entry form. At year end, the carrying amount of the City's deposits including certificates of deposit was \$134,373,000 and the actual bank balance totaled \$132,323,000. The difference represents outstanding warrants payable 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*, \$132,323,000 of the bank balance 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 City will not be able to recover deposits or collateral for securities that are in possession of an outside party. At year end, the City's deposits were fully insured or collateralized. All deposits are collateralized with eligible securities pledged and deposited either with the City or with a qualified trustee by the financial institution as security for repayment of all public monies deposited in the financial institution whose market value at all times is equal to at least 110% of the carrying value of the deposits being secured.

Investments: The City's investment policies are governed by State Statutes and City ordinances which authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; State Treasurer Asset Reserve Fund (STAR Ohio); commercial paper; U.S. 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 as previously discussed in "Deposits" 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 in segregated accounts by way of book entry through the bank's commercial or trust department and are kept at the Federal Reserve Bank in the depository institution's separate custodial account for the City, apart from the assets of the depository institution. Ohio statute prohibits the use of reverse repurchase agreements.

Investment securities are exposed to various risks such as interest rate, market and credit. Fair values of securities fluctuate based on the magnitude of changing market conditions; therefore, significant changes in market conditions could materially affect 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 active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The City's investments in money market mutual funds and STAR Ohio are excluded from fair value measurement requirements under GASB Statement No. 72 and instead are reported at amortized cost.

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

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>	
		<u>Level 1</u>	<u>Level 2</u>
(Amounts in Thousands)			
U.S. Treasury Bonds	\$ 40,051	\$ 40,051	\$
U.S. Treasury Bills	3,025	3,025	
Commercial Paper	54,650		54,650
Manuscript Debt	5,490		5,490
Other	<u>7,161</u>	<u> </u>	<u>7,161</u>
Total Investments	<u>\$ 110,377</u>	<u>\$ 43,076</u>	<u>\$ 67,301</u>

Interest rate risk: In accordance with its investment policy, the City limits its exposure to fair value losses caused by rising interest rates, investing primarily in short-term investments maturing within five years from the date of purchase. The intent is to avoid the need to sell securities prior to maturity.

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

Credit Risk: The City's investments as of December 31, 2017 include U.S. Treasury Bonds, U.S. Treasury Bills, STAR Ohio, commercial paper, money market mutual funds, manuscript debt and other investments. The City maintains the highest ratings for its investments. The investments in U.S. Treasury Bills carry a Moody's rating of Aaa, the highest rating given by Moody. Investments in the U.S. Treasury Bonds, Dreyfus Government Cash Management Mutual Fund, First American Government Obligations Fund, Federated Government Obligations Fund, PNC Treasury Money Market Fund, Morgan Stanley Government Institutional Mutual Funds, Zion Bank Federal Government Obligation Funds and STAR Ohio 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. Investments in U.S. Bank N.A. Open Commercial Paper carries a Standard & Poor's rating of A-1+. The City has no investment policy that would further limit its investment choices.

The City's investments shown in the following table include those which are classified as cash equivalents in accordance with the provisions of GASB Statement No. 9:

<u>Type of Investment</u>	<u>Value</u>	<u>Cost</u>	<u>Investment Maturities</u>		
			<u>Less than One Year</u>	<u>1 - 5 Years</u>	<u>5 Years or More</u>
			(Amounts in Thousands)		
U.S. Treasury Bonds	\$ 40,051	\$ 40,079	\$	\$ 40,051	\$
U.S. Treasury Bills	3,025	3,020	3,025		
STAR Ohio	676,742	676,742	676,742		
Commercial Paper	54,650	54,650	54,650		
Money Market Mutual Funds	529,282	529,282	529,282		
Manuscript Debt	5,490	5,490			5,490
Other	<u>7,161</u>	<u>7,161</u>	<u>7,161</u>		
Total Investments	<u>1,316,401</u>	<u>1,316,424</u>	<u>1,270,860</u>	<u>40,051</u>	<u>5,490</u>
Total Deposits	<u>134,373</u>	<u>134,373</u>	<u>134,373</u>		
Total Deposits and Investments	<u>\$ 1,450,774</u>	<u>\$ 1,450,797</u>	<u>\$ 1,405,233</u>	<u>\$ 40,051</u>	<u>\$ 5,490</u>

STAR Ohio is an investment pool created pursuant to Ohio statutes and managed by the Treasurer of the State of Ohio. The fair value of the City's position in STAR Ohio is equal to the value of the shares the City owns in the investment pool. Investment type "Other" consist of deposits into collective cash escrow pools managed by either Bank of New York, Huntington or U.S. Bank, as trustee.

Concentration of Credit Risk: The City places a limitation on the amount it may invest in any one issuer to help minimize the concentration of credit risk. As of December 31, 2017, the investments in U. S. Treasury Bonds, U.S. Treasury Bills, STAR Ohio, commercial paper, money market mutual funds, manuscript debt and other are approximately 3.0%, 0.2%, 51.4%, 4.2%, 40.2%, 0.4% and 0.6%, respectively, of the City's total investments.

Reconciliation to Financial Statements: Total cash and investments are reported as follows:

(Amounts in Thousands)

Government-Wide Financial Statements

Unrestricted:		
Cash and cash equivalents	\$	1,075,314
Investments		23,076
Restricted:		
Cash and cash equivalents		<u>319,468</u>
Total	\$	<u><u>1,417,858</u></u>

Fund Financial Statements

Balance Sheet – Governmental Funds:

Unrestricted:		
Cash and cash equivalents	\$	438,213
Investments		<u>3,025</u>
		441,238

Statement of Net Position – Proprietary Funds:

Enterprise Funds:

Unrestricted:		
Cash and cash equivalents		591,137
Investments		20,051
Restricted:		
Cash and cash equivalents		319,468

Internal Service Funds:

Unrestricted:		
Cash and cash equivalents		<u>45,964</u>
Subtotal		976,620

Statement of Fiduciary Assets and Liabilities:

Unrestricted:		
Cash and cash equivalents		<u>32,916</u>
Total	\$	<u><u>1,450,774</u></u>

NOTE 5 – DEBT AND OTHER LONG-TERM OBLIGATIONS

A summary of the changes in long-term debt and other long-term obligations of the City during the year ended December 31, 2017, are as follows:

	<u>Balance</u> <u>January 1, 2017</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance</u> <u>December 31, 2017</u>	<u>Due Within</u> <u>One Year</u>
	(Amounts in Thousands)				
Governmental Long-Term Obligations and Notes					
General Obligation Bonds due through 2033	\$ 233,900	\$	\$ (22,500)	\$ 211,400	\$ 24,700
<i>Other Obligations:</i>					
Urban Renewal Bonds due through 2018, 6.75%	1,615		(780)	835	835
Subordinated Income Tax Refunding					
Bonds due through 2024, 5.00%	35,275		(2,315)	32,960	3,985
Subordinate Lien Income Tax Bonds					
due through 2042, 1.125% to 6.34%	258,160	142,850	(104,725)	296,285	11,840
<i>Non-Tax Revenue Bonds:</i>					
Stadium due through 2020, 4.00% to 5.00%	5,810		(1,365)	4,445	1,420
Taxable Economic and Community Dev. (Core City Bonds)					
due through 2033, 1.60% to 3.75%	48,820		(2,050)	46,770	2,120
Lower Euclid Ave. TIF 2003A due through 2032,					
2.00% to 4.00%	5,698		(208)	5,490	194
Annual Appropriation Bonds - Flats East Bank due through					
2035, 5.75% to 6.00%	9,745		(290)	9,455	310
Certificates of Participation-Stadium due through 2028,					
1.47% to 5.00%	99,100		(6,800)	92,300	7,140
State Infrastructure Bank Loan	815		(263)	552	271
West 150th Street Improvement Loan	856		(64)	792	64
Capital Lease Obligations, due through 2020, 1.39% to 3.22%	7,344		(2,981)	4,363	2,489
Cleveland Browns Stadium	24,000		(2,000)	22,000	2,000
Accrued wages and benefits	46,266	35,084	(38,423)	42,927	34,128
Net pension liability:					
Ohio Public Employees Retirement System	203,231	53,646		256,877	
Ohio Police and Fire Pension Fund	458,129	11,406		469,535	
Police and fire overtime	39,725	8,746	(9,609)	38,862	4,056
Fire deferred vacation	2,165	153	(176)	2,142	163
Estimated claims payable	<u>10,975</u>	<u>9,087</u>	<u>(8,833)</u>	<u>11,229</u>	<u>9,229</u>
	1,491,629	260,972	(203,382)	1,549,219	104,944
Unamortized (discount)/premium - net	<u>48,929</u>	<u>21,916</u>	<u>(15,103)</u>	<u>55,742</u>	
Total Governmental Activities, Net	<u>\$ 1,540,558</u>	<u>\$ 282,888</u>	<u>\$ (218,485)</u>	<u>\$ 1,604,961</u>	<u>\$ 104,944</u>

(Continued)

	Balance <u>January 1, 2017</u>	<u>Additions</u>	<u>(Reductions)</u>	Balance <u>December 31, 2017</u>	Due Within <u>One Year</u>
(Amounts in Thousands)					
Business-Type Activities (Enterprise Funds)					
Airport System Revenue Bonds:					
Series 2000C due through 2017, 4.00% to 5.00%	\$ 6,000	\$	\$ (6,000)	\$ -	\$
Series 2006A-B due through 2021, 5.24% to 5.25%	49,675		(8,465)	41,210	9,015
Series 2007B due through 2027, 5.00%	7,295		(660)	6,635	700
Series 2008D due through 2024, Variable Rate	5,975			5,975	
Series 2009C-D due through 2027, 0.61% to 5.00%	137,505		(11,895)	125,610	12,325
Series 2011A due through 2024, 3.00% to 5.00%	49,930		(7,605)	42,325	7,965
Series 2012A due through 2031, 5.00%	235,150			235,150	
Series 2013A due through 2033, Variable Rate	58,000		(1,795)	56,205	2,085
Series 2014A&B due through 2027, Variable Rate	30,490		(3,345)	27,145	3,510
Series 2016A due through 2031, 5.00%	108,120			108,120	2,935
Series 2016B due through 2024, 5.00%	<u>36,235</u>			<u>36,235</u>	
	724,375	-	(39,765)	684,610	38,535
Public Power System Revenue Bonds:					
Series 2008 due through 2038, 4.00% to 5.40%	86,678		(3,085)	83,593	3,255
Series 2008 Accreted Interest Payable	16,080	2,365		18,445	
Series 2010 due through 2017, 5.00%	5,370		(5,370)	-	
Series 2014 due through 2038, 5.50%	76,885			76,885	
Series 2016 due through 2024, 2.50% to 5.00%	<u>42,025</u>		(330)	<u>41,695</u>	<u>4,450</u>
	227,038	2,365	(8,785)	220,618	7,705
Waterworks Improvement Revenue Bonds:					
Series G 1993 due through 2021, 5.50%	56,300		(10,100)	46,200	10,650
Series O 2007 due through 2017, 5.00%	3,395		(3,395)	-	
Series P 2007 due through 2018, 5.00%	88,720		(82,695)	6,025	6,025
Series T 2009 due through 2021, 4.00% to 5.00%	48,090		(610)	47,480	10,415
Series U 2010 due through 2033, Variable Rate	54,935			54,935	
Series V 2010 due through 2033, Variable Rate	26,495			26,495	
Series W 2011 due through 2026, 2.00% to 5.00%	8,080		(6,550)	1,530	150
Series X 2012 due through 2042, 3.63% to 5.00%	44,410		(16,835)	27,575	
Series Y 2015 due through 2037, 4.00% to 5.00%	116,205			116,205	
Series Z 2015 due through 2019, 3.00% to 5.00%	15,105		(11,695)	3,410	2,415
Series AA 2015 due through 2033, Variable Rate	90,800			90,800	
Series BB 2017 due through 2032, 3.00% to 5.00%		15,760		15,760	45
Series CC 2017 due through 2028, 5.00%		54,730		54,730	
Series A Second Lien 2012 due through 2022, 4.00% to 5.00%	76,710		(45,850)	30,860	6,105
Series B Sub. Lien 2017 due through 2027, 5.00%		<u>43,095</u>		<u>43,095</u>	<u>600</u>
	629,245	113,585	(177,730)	565,100	36,405
Water Pollution Control Revenue Bonds:					
Series 2016 due through 2045, 3.00% to 5.00%	32,390		(550)	31,840	570
Ohio Water Development Authority and Public Works					
Commission Loans due through 2032, 0.00% to 3.00%	91,316		(7,838)	83,478	7,933
Parking Facilities Refunding Revenue Bonds:					
Series 2006 due through 2022, 5.25%	20,810		(3,040)	17,770	3,200
Public Power System Other (See Note 7)	2,682	75	(399)	2,358	250
Accrued wages and benefits	10,497	11,296	(11,224)	10,569	9,426
Net pension liability:					
Ohio Public Employees Retirement System	140,764	36,974		177,738	
Estimated claims payable	<u>592</u>	<u>994</u>	<u>(1,280)</u>	<u>306</u>	<u>306</u>
	1,879,709	165,289	(250,611)	1,794,387	104,330
Unamortized (discount)/premium - net	<u>78,703</u>	<u>22,359</u>	<u>(18,522)</u>	<u>82,540</u>	
Total Business-Type Activities, Net	<u>\$ 1,958,412</u>	<u>\$ 187,648</u>	<u>\$ (269,133)</u>	<u>\$ 1,876,927</u>	<u>\$ 104,330</u>
Total Debt and Other Long-Term Obligations	<u>\$ 3,498,970</u>	<u>\$ 470,536</u>	<u>\$ (487,618)</u>	<u>\$ 3,481,888</u>	<u>\$ 209,274</u>

(Concluded)

Internal Service Funds predominantly serve the governmental funds, except the Utilities Administration Fund, which serves only business-type activity funds. Long-term liabilities for all Internal Service Funds, except the Utilities Administration Fund, are included as part of the totals for governmental activities in the government-wide statement of net position. At December 31, 2017, \$1,361,000 and \$16,328,000 of the Internal Service Funds, except for Utilities Administration Fund, compensated absences and pension liability, respectively, were included in the governmental activities. Long-term liabilities for the Utilities Administration Fund are included as part of the totals for business-type activities in the government-wide statements. At December 31, 2017, \$927,000 and \$9,545,000 of the Utilities Administration Fund compensated absences and pension liability, respectively, were included in business-type activities.

The Subordinated Income Tax Refunding Bonds were issued initially to fund the City's obligation for the employer's accrued liability to the Police and Firemen's Disability and Pension Fund of the State of Ohio. All other bonds were issued to fund capital related activities.

The accrued wages and benefits liability will be paid from the fund from which the employees' salaries are paid. The estimated claims payable liability will be paid from the fund that incurred the liability or from Judgment Bond proceeds.

A detailed summary of principal due for General Obligation Bonds and business-type activities debt by purpose is as follows for 2017:

	<u>Original Issue Amount</u>	<u>Balance January 1, 2017</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance December 31, 2017</u>
	(Amounts in Thousands)				
Governmental Activities Obligations:					
General Obligation Bonds					
Public Facilities	\$ 38,795	\$ 19,875	\$ (1,580)	\$	\$ 18,295
Convention Center	1,010	70	(45)		25
Residential Redevelopment	6,030	445	(265)		180
Bridges and Roadways	72,780	43,845	(2,525)		41,320
Parks & Recreation	24,090	6,715	(950)		5,765
Refunding Bonds	239,980	162,255	(16,750)		145,505
Judgments/Settlements	12,140	695	(385)		310
	<u>394,825</u>	<u>233,900</u>	<u>-</u>	<u>(22,500)</u>	<u>211,400</u>
Total Governmental Activities	\$ 394,825	\$ 233,900	\$ -	\$ (22,500)	\$ 211,400
Business-Type Activities Obligations:					
Revenue Bonds / Notes					
Airports	\$ 1,051,830	\$ 724,375	\$ (39,765)	\$	\$ 684,610
Public Power	236,538	210,958	(8,785)		202,173
Waterworks	1,212,935	629,245	113,585	(177,730)	565,100
Parking Facilities	57,520	20,810	(3,040)		17,770
Water Pollution Control	32,390	32,390	(550)		31,840
Loans					
Waterworks	152,767	91,045	(7,661)		83,384
Water Pollution Control	4,704	271	(177)		94
	<u>2,748,684</u>	<u>1,709,094</u>	<u>113,585</u>	<u>(237,708)</u>	<u>1,584,971</u>
Total Business-Type Activities	\$ 2,748,684	\$ 1,709,094	\$ 113,585	\$ (237,708)	\$ 1,584,971

The following is a summary of the City's future debt service requirements as of December 31, 2017:

Year Ending December 31	Governmental Activities					
	General Obligation Bonds		Urban Renewal Bonds		Subordinated Income Tax Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
	(Amounts in Thousands)					
2018	\$ 24,700	\$ 9,941	\$ 835	\$ 28	\$ 15,825	\$ 14,013
2019	23,400	8,798			16,675	14,418
2020	21,695	7,654			17,150	13,777
2021	18,630	6,630			16,210	13,054
2022	17,425	5,793			16,865	12,356
2023-2027	70,115	17,368			86,110	50,017
2028-2032	32,900	3,716			89,520	28,271
2033-2037	2,535	90			50,775	11,497
2038-2042					16,260	2,802
2043-2046					3,855	393
	<u>\$ 211,400</u>	<u>\$ 59,990</u>	<u>\$ 835</u>	<u>\$ 28</u>	<u>\$ 329,245</u>	<u>\$ 160,598</u>
Year Ending December 31	Non-Tax Revenue Bonds		City Annual Appropriation Bonds		Certificates of Participation	
	Principal	Interest	Principal	Interest	Principal	Interest
	(Amounts in Thousands)					
2018	\$ 3,734	\$ 2,036	\$ 310	\$ 565	\$ 7,140	\$ 3,147
2019	3,893	1,914	325	547	7,445	2,841
2020	4,056	1,765	345	528	7,815	2,468
2021	4,934	1,606	365	508	8,035	2,097
2022	5,140	1,451	385	487	8,275	1,856
2023-2027	20,980	4,683	2,305	2,056	45,240	5,404
2028-2032	10,858	1,935	3,085	1,277	8,350	251
2033-2037	3,110	126	2,335	286		
2038-2042						
2043-2046						
	<u>\$ 56,705</u>	<u>\$ 15,516</u>	<u>\$ 9,455</u>	<u>\$ 6,254</u>	<u>\$ 92,300</u>	<u>\$ 18,064</u>
Year Ending December 31	Capital Lease Obligations		Note/Loans Payable		Governmental Activities Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	(Amounts in Thousands)					
2018	\$ 2,489	\$ 44	\$ 335	\$ 22	\$ 55,368	\$ 29,796
2019	1,386	16	343	14	53,467	28,548
2020	488	2	64		51,613	26,194
2021			64		48,238	23,895
2022			64		48,154	21,943
2023-2027			316		225,066	79,528
2028-2032			158		144,871	35,450
2033-2037					58,755	11,999
2038-2042					16,260	2,802
2043-2046					3,855	393
	<u>\$ 4,363</u>	<u>\$ 62</u>	<u>\$ 1,344</u>	<u>\$ 36</u>	<u>\$ 705,647</u>	<u>\$ 260,548</u>

Business-Type Activities				
Year Ending December 31	Revenue Bonds		Construction Loans	
	Principal	Interest	Principal	Interest
(Amounts in Thousands)				
2018	\$ 86,415	\$ 67,138	\$ 7,933	\$ 2,190
2019	89,050	64,368	8,190	1,969
2020	93,720	59,872	8,455	1,741
2021	93,995	55,321	8,211	1,508
2022	94,470	50,839	8,474	1,279
2023-2027	477,327	199,614	35,117	2,972
2028-2032	395,954	104,200	7,098	274
2033-2037	130,404	50,633		
2038-2042	34,348	10,683		
2043-2046	5,810	590		
	<u>\$ 1,501,493</u>	<u>\$ 663,258</u>	<u>\$ 83,478</u>	<u>\$ 11,933</u>

Year Ending December 31	Business-Type Activities Total	
	Principal	Interest
(Amounts in Thousands)		
2018	\$ 94,348	\$ 69,328
2019	97,240	66,337
2020	102,175	61,613
2021	102,206	56,829
2022	102,944	52,118
2023-2027	512,444	202,586
2028-2032	403,052	104,474
2033-2037	130,404	50,633
2038-2042	34,348	10,683
2043-2046	5,810	590
	<u>\$ 1,584,971</u>	<u>\$ 675,191</u>

The schedule of minimum principal and interest payments for construction loans above includes the amortization on eleven loans provided to the Division of Water by the Ohio Water Development Authority (OWDA) and two loans to the Division of Water Pollution Control by the Ohio Public Works Commission (OPWC). One OWDA loan provided to the Division of Water Pollution Control was paid off in 2017. This amortization is based upon the full amount expected to be financed, regardless of whether the Division of Water and the Division of Water Pollution Control have received all the loan proceeds. At December 31, 2017, the amount financed on these OWDA loan projects, which is reflected in the amortization schedule, less the principal payments made to date, equaled the actual loan balances shown on the schedule of long-term debt outstanding and changes in long-term debt obligations.

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

General Obligation Bonds

General Obligation Bonds: General Obligation Bonds are backed by the full faith and credit of the City. Such bonds are payable from ad valorem property taxes levied within the limitations provided by law, irrespective of whether such bonds are secured by other receipts of the City in addition to such ad valorem property taxes.

Effective May 18, 2016, the City issued \$47,545,000 Various Purpose and Refunding General Obligation Bonds, Series 2016A. A portion of the proceeds of these bonds in the amount of \$28,125,000 are being used to pay costs of permanent improvements to roads and bridges, to parks and recreation facilities and to various other public facilities. The remaining proceeds were used to refund \$1,795,000 of the outstanding Series 2007A General Obligation Bonds and to refund \$17,815,000 of the outstanding Series 2011 General Obligation Bonds. Net proceeds of the Series 2016A Bonds in the amount of \$22,383,372 were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds until the respective call date. As a result, the refunded bonds were defeased and the liability for those bonds has been removed from long-term debt. The City completed the refunding in order to achieve debt service savings of \$1,505,000 and an economic gain (the difference between the present values of the old and new debt service) of \$1,538,000 or 7.8%. Proceeds of the bonds were also used to fund issuance costs and the initial interest payments.

Also on May 18, 2016, the City issued \$4,260,000 Final Judgment General Obligation Refunding Bonds, Series 2016B. Proceeds were used to refund \$710,000 of outstanding Series 2007B Final Judgment General Obligation Bonds and \$3,980,000 of outstanding Series 2008A Final Judgment General Obligation Bonds. Proceeds in the amount of \$5,056,203 were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds until the respective call date for each series of bonds. As a result of this refunding, the refunded bonds were defeased and the liability for those bonds has been removed from long-term debt. The City realized net present value debt service savings of \$636,000 (the economic gain) or 13.6% from this refunding.

Under the direct debt limitation imposed by the Ohio Revised Code, the City had the capacity to issue \$254,557,918 of additional unvoted debt at December 31, 2017.

Other Governmental Obligations

Urban Renewal Bonds: In 1993, the City issued \$10,800,000 of Urban Renewal Bonds (Rock and Roll Hall of Fame and Museum Project) for the purpose of paying a portion of the costs of the acquisition and construction of a “port authority educational and cultural facility” to conduct programs of an educational and instructional nature relating to the field of contemporary music, including rock and roll music, which constitutes the Rock and Roll Hall of Fame and Museum (the Facility). The net proceeds were contributed to the Cleveland-Cuyahoga County Port Authority which owns and leases the Facility to Rock and Roll Hall of Fame and Museum, Inc., an Ohio non-profit corporation. The Facility opened in September 1995. The Urban Renewal Bonds are not general obligations of the City and are not secured by the full faith and credit of the City nor are they payable from the general revenues or assets of the City. The Urban Renewal Bonds are secured solely by pledged receipts, consisting of payments to be made in lieu of real property taxes pursuant to development agreements between the City and certain property owners and interest income on those payments.

Subordinated Income Tax Variable Rate Refunding Bonds: Effective June 1, 1994, the City issued \$74,700,000 of Subordinated Income Tax Variable Rate Refunding Bonds, Series 1994. The proceeds were used to fund the City’s obligation for the employer’s accrued liability to the Ohio Police and Fire Pension Fund (the Fund). The principal use of the proceeds was the current refunding of the City’s obligation to the Fund for the employer’s accrued liability in the amount of \$104,686,400, which was payable in semi-annual installments of \$2,696,243 through May 15, 2035. Pursuant to Section 742.30 (C) of the Ohio Revised Code, the City and the Fund entered into an agreement that permitted the City to make a one-time payment to the Fund to extinguish the City’s obligation. The payment amount of \$70,493,204 was calculated by applying a 35% discount factor to the \$104,686,400 accrued liability plus adding accrued interest of \$2,447,044.

Effective August 6, 2008, the City issued \$59,960,000 Subordinate Lien Unrestricted Income Tax Bonds, Series 2008 (Police and Fire Pension Payment) to refund all the outstanding Subordinated Income Tax Variable Rate Refunding Bonds, Series 1994. An interest rate swap related to the Series 1994 Bonds was terminated by the City on July 28, 2008 and the termination payment of \$4,325,000 owed to Ambac Financial Services, LLC, the swap counterparty, was paid from the proceeds of the Series 2008 Bonds. The City refunded the Series 1994 Bonds in order to address the increased interest rates incurred on the Bonds as a result of the downgrade of the bond insurer. The Bonds are not general obligations of the City and are not secured by its full faith and credit.

On November 18, 2015, the City issued \$28,975,000 Subordinate Lien Unrestricted Income Tax Refunding Bonds, Series 2015 (Police & Fire Pension Payment). The City issued these bonds in order to refund \$30,310,000 of the outstanding Series 2008 Subordinate Lien Unrestricted Income Tax Bonds (Police & Fire Pension). Proceeds of the Series 2015 Bonds in the amount of \$33,492,387 were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds on the call date. As a result, the refunded bonds were defeased and the liability

for those bonds was removed from long-term debt. The City completed the refunding in order to achieve debt service savings of \$1,867,000 and an economic gain (the difference between the present values of the old and new debt service) of \$1,809,000 or 5.97%.

The Series 2008 and Series 2015 Bonds are unvoted special obligations secured by a pledge of and a lien on the unrestricted municipal income taxes of the City, to the extent that such income taxes are not needed to pay debt service on the City's currently outstanding unvoted General Obligation Bonds or unvoted General Obligation Bonds issued in the future.

Interest Rate Swap Transaction:

Terms: On February 7, 2003, the City sold an option to JPMorgan Chase Bank (JPM) that gives JPM the right to execute an interest rate swap at its discretion at any time until the option expires on May 15, 2024 on a declining notional amount equal to the outstanding principal amount of the City's Subordinated Income Tax Variable Rate Refunding Bonds, Series 1994. The swaption is now associated with portions of the Series 2008 and Series 2015 Bonds. Under the swap agreement, the City will be the fixed rate receiver, receiving the fixed rate of 4.88% and JPM will be the floating rate receiver, receiving interest on what would have been the outstanding notional amount of the original 1994 Bonds of \$32,200,000 at December 31, 2017, at a rate equal to the weekly Securities Industry and Financial Markets Association (SIFMA) index. If the option is exercised, the stated termination date under the swap agreement with JPM will be May 15, 2024. The obligation of the City under the swap agreement to make periodic floating rate payments (but not any termination payment) is secured by a subordinate pledge of the income tax receipts, subordinate to the pledge of the income tax receipts made under the "General Bond Ordinance" securing the City's General Obligation Bonds. The payment of any termination payment is subordinate to the payment of debt service on the Subordinate Lien Unrestricted Income Tax Bonds, Series 2008 and Series 2015 and the periodic floating rate payments under the swap agreement.

Objective: The City entered into the swaption in order to potentially capture in the future the savings which could be derived from converting these bonds back to a variable rate if or when the option is exercised. In exchange for selling the option to JPM, the City received a premium payment of \$1,700,000.

Basis Risk: There is no basis risk for the City associated with this transaction with the exception of the risk inherent in all variable rate debt. If the option is exercised, the City will receive a fixed rate of 4.88% which is 12 basis points less than the fixed rate being paid on the Series 2008 Bonds and the Series 2015 Bonds. This transaction would leave the City paying the weekly SIFMA rate plus 12 basis points.

Counterparty Risk: The City selected JPM as a counterparty partly due to its credit strength. Over the long-term, it is possible that the credit strength of JPM could change and this event could trigger a termination payment on the part of the City.

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

Fair Value: The fair value of the swaption at December 31, 2017 as reported by JPM was \$8,000 which would be payable by the City.

Subordinate Lien Income Tax Bonds: Effective June 13, 2017, the City issued \$65,400,000 Subordinate Lien Income Tax Improvement and Refunding Bonds, Series 2017A. A portion of the proceeds of these bonds in the amount of \$51,223,550 will be used to pay costs of permanent improvements to roads and bridges, to parks and recreation facilities and to various other public facilities. Other proceeds were used to refund \$14,970,000 of outstanding Series 2008 and Series 2012 Subordinate Lien Income Tax Bonds. Net proceeds in the amount of \$15,661,535 were deposited into an irrevocable escrow account to pay the principal and interest on the refunded bonds when it comes due. As a result, the refunded bonds were defeased and the liability for those bonds has been removed from long-term debt. This refunding resulted in \$1,363,000 debt service savings and an economic gain (the difference between the present values of the old and new debt service) of \$1,186,000 or 7.9%.

On December 28, 2017, the City issued \$77,450,000 Subordinate Lien Income Tax Refunding Bonds, Series 2017B. These bonds were issued to advance refund \$80,330,000 of outstanding public facilities improvement and bridge and roadway improvement Subordinate Lien Income Tax Bonds issued in 2013, 2014 and 2015. The City decided to refund the bonds at that time due to a provision in the new federal tax laws that eliminates tax-exempt advance

refunding bonds after December 31, 2017. Net proceeds in the amount of \$92,137,073, along with \$962,292 from the debt service fund, were placed in an irrevocable escrow account to make the principal and interest payments on the refunded bonds until their call date. The refunded bonds are therefore defeased and have been removed from long-term debt. As a result of this refunding, the City achieved \$3,483,000 of net present value debt service savings or 4.3%.

These bonds are special obligations of the City and are not general obligation debt and are not secured by a pledge of the full faith and credit of the City. The bonds are payable from the City's municipal income tax revenues to the extent those revenues are not needed to pay debt service charges on the City's unvoted general obligation debt or unvoted general obligation debt issued in the future. It is the City's intention to continue paying the debt service on the Subordinate Lien Income Tax Bonds from the Restricted Income Tax collections to the extent that funds are available from that portion of income tax receipts. The portion of the debt service not covered by the Restricted Income Tax, if any, will be paid from the unrestricted General Fund portion of income tax receipts.

Non-Tax Revenue Bonds – Stadium: On September 4, 2014, the City issued \$7,745,000 Non-Tax Revenue Refunding Bonds, Series 2014 for the Cleveland Stadium Project. These bonds refunded \$8,275,000 of the outstanding 2004 Non-Tax Revenue Refunding Bonds (Cleveland Stadium Project). Net proceeds of the Series 2014 Bonds in the amount of \$8,478,644 were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds on December 1, 2014. As a result, the refunded bonds were defeased and the liability for the Series 2004 Bonds has been removed from long-term debt. The City completed the refunding in order to achieve debt service savings of \$854,000 and an economic gain (the difference between the present values of the old and new debt service) of \$842,000 or 10.2%. These bonds do not represent a general obligation debt or pledge of the full faith and credit or taxing power of the City and are payable solely from non-tax revenues of the City.

Non-Tax Revenue Bonds – Economic Development Bonds Series 2003A and Series 2003B (Lower Euclid Avenue Project): In November 2003, the City issued \$7,200,000 Economic Development Revenue Bonds, Series 2003A and \$1,000,000 Economic Development Revenue Bonds, Series 2003B-1 for the Lower Euclid Avenue Project. In November 2004, the final \$1,000,000 Economic Development Revenue Bonds, Series 2003B-2 were issued. The proceeds of these bonds were made available to the owners of certain properties on Euclid Avenue for the construction and renovation of commercial restaurant and retail facilities and the construction of a parking garage. These Tax Increment Financing (TIF) Bonds are secured by a pledge of (a) service payments in lieu of taxes received by the City from the owners of certain properties located within a tax increment financing district, (b) loan payments payable to the City and (c) by a pledge of certain non-tax revenues of the City, subject to the prior pledge by the City of such non-tax revenues to secure other obligations of the City. Only the Series 2003A Bonds remain outstanding.

Non-Tax Revenue Bonds – Taxable Economic and Community Development Revenue Bonds (Core City): Effective April 9, 2015, the City issued \$15,280,000 Taxable Economic and Community Development Revenue Bonds, Series 2015 (Core City Fund). The proceeds of these bonds will be used to provide funds for eligible projects, including, but not limited to, the acquisition, construction, equipping or improvement of multi-unit housing and commercial development and the preparation or remediation of sites for these purposes. The principal and interest on these bonds are to be paid from non-tax revenues of the City and net project revenues.

On September 4, 2014, the City issued \$12,365,000 Taxable Economic and Community Development Refunding Revenue Bonds, Series 2014 (Core City Fund). The City issued these bonds in order to refund \$11,845,000 of the outstanding Taxable Economic and Community Development Bonds, Series 2004. Net proceeds of the Series 2014 Bonds in the amount of \$12,156,019 were deposited into an irrevocable escrow account to pay the principal and interest on the refunded bonds on December 1, 2014. As a result, the refunded bonds were defeased and the liability for the Series 2004 Core City Bonds was removed from long-term debt. This refunding resulted in \$1,248,000 of debt service savings and \$1,219,000 of net present value debt service savings or 10.3%. The Series 2014 Bonds were issued as fixed rate securities and are special obligations of the City, payable from non-tax revenues and net project revenues.

Effective July 24, 2008, the City issued \$28,160,000 Taxable Economic and Community Development Refunding Revenue Bonds, Series 2008 (Core City Fund). The proceeds of these bonds were used to refund the outstanding \$26,900,000 Series 2003 Taxable Economic and Community Development Revenue Bonds, to fund a bond reserve fund and to pay the costs of issuing the bonds. The Series 2003 Bonds were refunded in order to address increased interest rates incurred on the bonds due to the collapse of the auction rate securities market. The Series 2008 Bonds, which were special obligations of the City, were issued as variable rate demand obligations secured by a letter of credit provided by Citizens Bank. Upon the expiration of the letter of credit in 2011, the City obtained a new letter

of credit for the Series 2008 Bonds from PNC Bank. At the expiration of the PNC Bank letter of credit, the City elected to refund the outstanding \$25,360,000 Series 2008 Bonds with \$25,360,000 Taxable Economic and Community Development Bonds, Series 2013A, effective May 30, 2013. The bonds remain variable rate bonds and were privately placed with KeyBank National Association for a period of five years. As a result of this refunding, it is estimated that the City will achieve net present value debt service savings of \$1,178,000 or 4.65% and total debt service savings of \$1,464,000. The Bonds are payable from the City's non-tax revenues and net project revenues.

Annual Appropriation Bonds – Flats East Bank: On December 21, 2010, the City issued \$11,000,000 City Annual Appropriation Bonds through the Cleveland-Cuyahoga County Port Authority. The proceeds of the bonds were used to provide funds for land purchase and public improvements in the area of the Flats East Development Project. The bonds are special obligations of the Port Authority payable from appropriation payments made by the City under a cooperative agreement. The City's obligation to make payments is subject to and dependent upon annual appropriations being made by the City. The City intends to make these debt service payments from the Restricted Income Tax collections.

Certificates of Participation (COPS) - Stadium: In June 1997, Certificates of Participation (COPS) in the amount of \$139,345,000 were issued to assist in the construction of an open-air stadium for the play of professional football and other events. The City will make lease payments subject to annual appropriation by City Council and certification by the Director of Finance as to the availability of funds from those appropriations. These obligations do not constitute a debt or pledge of the full faith and credit of the City.

Effective October 11, 2007, the City issued \$108,390,000 Refunding COPS, Series 2007, to currently refund \$105,800,000 of the outstanding COPS, Series 1997. These were issued as auction rate securities and a swap associated with this transaction went into effect on November 15, 2007.

Due to the downgrade of the bond insurers beginning in late 2007 and the collapse of the auction rate securities market, the COPS, Series 2007 experienced failed auctions and interest rates as high as 12% in early 2008. To address these issues, the City converted all of the outstanding \$108,390,000 COPS, Series 2007 Auction Rate Certificates to Weekly Rate Certificates effective May 29, 2008. The payment of principal and interest was secured by a direct-pay letter of credit provided by Wachovia Bank, National Association.

Effective April 22, 2010, the City issued \$63,225,000 COPS, Series 2010A and \$69,900,000 COPS, Series 2010B to refund all of the outstanding \$108,390,000 COPS, Series 2007, upon the expiration of the Wachovia letter of credit. Proceeds of the COPS, Series 2010, were used to currently refund the COPS, Series 2007, on the day of closing, to fund a required debt service reserve fund deposit in the amount of \$8,324,045, to make a termination payment on the existing hedge agreement with UBS in the amount of \$17,322,000 and to pay costs of issuing the COPS. This refunding was undertaken (1) to remove Ambac as the bond and swap insurer and eliminate the risk of early termination of the hedge agreement due to Ambac's possible insolvency, (2) to obtain lower credit enhancement costs and (3) to restructure debt service payments. The COPS, Series 2010A, were issued as fixed rate obligations. The COPS, Series 2010B, were purchased by Wells Fargo Bank, National Association, as floating rate obligations for a period of three years, the interest on which is reset weekly based on the SIFMA index plus a spread. As a result of this refunding, the City achieved an economic gain (the difference between the present values of the old and new debt service) of approximately \$3,461,000 or 3.19%.

Effective March 21, 2013, the City completed a conversion and remarketing of the COPS, Series 2010B. This was done in order to change the index rate being charged on the bonds as well as to extend the interest rate period until March 2018. The COPS, Series 2010B, were again purchased by Wells Fargo Bank, National Association.

Capital Lease Arrangements: The City has entered into various agreements to lease equipment. Such agreements are treated as lease purchases (Capital Leases) and are classified as long-term lease obligations in the financial statements. The lease contracts contain annual one-year renewal options that can be exercised by the City if sufficient funds are appropriated by City Council. Upon the exercise of each annual one-year renewal option and satisfaction of the lease obligations related thereto, title to the equipment will pass to the City.

On June 30, 2011, the City entered into an equipment lease agreement with PNC Equipment Finance LLC. This enabled the City to purchase approximately \$6,585,000 of vehicles and equipment for various departments, including police cars, a fire truck, waste collection equipment and EMS ambulances. On June 5, 2012, the City entered into a second vehicle lease agreement with PNC Equipment Finance LLC in the amount of \$6,507,400. The funds were used to purchase a variety of vehicles including police cars, EMS ambulances and waste collection equipment. Effective June 20, 2013, the City entered into a \$6,535,000 vehicle lease agreement with Huntington

Public Capital Corporation. The funds were again used to purchase a variety of vehicles including police cars, EMS ambulances and waste collection equipment. Payments on all of these equipment leases are made over a period of seven years from issuance from the Restricted Income Tax Fund.

The assets recorded by the City under Capital Leases were as follows as of December 31, 2017:

Governmental	
<u>Activities</u>	
(Amounts in Thousands)	
Furniture, fixtures and equipment	\$ 43,964
Less – accumulated depreciation	<u>(30,252)</u>
Net book value	<u><u>\$ 13,712</u></u>

State Infrastructure Bank Loan: The Ohio Department of Transportation provided the City with a 3% loan for the construction of the Fulton Road Bridge. The amount of the loan is \$2,100,000. The loan is payable over 10 years to the Ohio Treasurer of State on a bi-annual basis.

West 150th Street Improvement Loan: The Ohio Public Works Commission (OPWC) approved a loan to the City to finance a portion of the West 150th Street Improvement project. OPWC committed up to \$1,949,332 at a 0% interest rate for 20 years. The City and the City of Brook Park have an agreement to share the debt service requirements of the OPWC loan. The City of Brook Park will pay 100% of the annual debt service requirements and the City will reimburse the City of Brook Park 65% of the annual debt service requirement.

Cleveland Browns Stadium Obligation: Pursuant to an agreement entered into in 2014 between the City and Cleveland Browns Stadium Company LLC (Browns), the City has agreed to pay the Browns \$2,000,000 per year on or before June 1 for fifteen years. This period of time coincides with the years remaining on the lease. These payments are to offset the capital improvements made by the Browns. The Browns may use this annual payment as they deem appropriate, including for operations and maintenance expenses. This payment is subject to annual appropriation by the City.

Accrued Wages and Benefits: Accrued wages and benefits, included in long-term obligations, consist of the non-current portion of vacation and sick pay benefits earned by employees of the City. The City accrues vacation and sick pay benefits when earned and future compensation is likely.

Police and Fire Overtime and Deferred Vacation Pay: Uniformed employees of the Police and Fire Divisions accumulate overtime compensation in accordance with the union contracts and the requirements of the Fair Labor Standards Act. In addition, uniformed employees may defer earned vacation time, with the appropriate approvals, until retirement. The liabilities for overtime and deferred vacation time, at current pay rates including their related fringe benefits and converted to straight time hours, at December 31, 2017, follow:

<u>Division</u>	<u>Overtime</u>		<u>Deferred Vacation</u>	
	<u>Hours</u>	<u>Dollars</u>	<u>Hours</u>	<u>Dollars</u>
(Amounts in Thousands)				
Police	1,051	\$ 34,529		\$
Fire	<u>128</u>	<u>4,333</u>	<u>64</u>	<u>2,142</u>
Total	<u><u>1,179</u></u>	<u><u>\$ 38,862</u></u>	<u><u>64</u></u>	<u><u>\$ 2,142</u></u>

Business-Type (Enterprise Fund) Obligations

Airport System Revenue Bonds: These bonds are secured by the pledge of airport revenues and moneys in the special funds which include, among others, the bond service fund, bond service reserve fund, the renewal and replacement fund and the airport development fund, as defined in the revenue bond indenture. Further, the City has assigned to the trustee all its interests in and rights to the airline use agreements under the revenue bond indenture.

Effective February 1, 2017, the City entered into an amendment to extend the period of time during which U.S. Bank National Association will be the holder of the Airport System Revenue Bonds, Series 2014A & 2014B. The bonds remain in a variable rate mode with the Airport System again paying on a monthly basis an amount equal to SIFMA plus a spread on the 2014A Bonds and an amount equal to one month LIBOR plus a spread on the 2014B Bonds.

Effective February 23, 2016, Airport System Revenue Bonds, Series 2016A, were issued in the amount of \$108,120,000. These bonds were issued to advance refund \$126,700,000 of outstanding Series 2000C Airport System Bonds. Bond proceeds in the amount of \$126,957,834, along with \$1,055,840 from the Series 2000 Interest Account and \$4,497,749 released from the debt service reserve fund, were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds when due. As a result of this refunding, the refunded bonds were defeased and the liability for those bonds has been removed from long-term debt. The City completed this refunding in order to achieve debt service savings of approximately \$22,111,000 and realized an economic gain (the difference between the present values of the old and new debt service) of \$15,727,000 or 12.4%.

At the same time that the City sold the Series 2016A Bonds, the City also sold \$36,235,000 Airport System Revenue Bonds, Series 2016B, on a forward delivery basis. The Series 2016B Bonds were issued effective October 4, 2016 to refund \$41,235,000 of outstanding Airport System Revenue Bonds, Series 2006A. Bond proceeds in the amount of \$41,157,840, along with \$515,000 from the Series 2006 Interest Account and \$593,035 released from the debt service reserve fund, were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds when due. The refunded bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt. The City realized debt service savings of approximately \$6,586,000 and net present value savings of \$5,149,000 or 12.5% from this refunding.

Effective April 1, 2016, the Airport System Revenue Bonds, Series 2013A, which had been directly purchased by U.S. Bank National Association in 2013 were tendered and then purchased by PNC Bank National Association. The bonds remain in a variable rate mode with the Airport System again paying on a monthly basis an amount equal to one month LIBOR plus a spread.

Public Power System Revenue Bonds: These bonds are payable from the net revenues derived from the Public Power System and are secured by a pledge of and lien on such net revenues.

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%.

Effective October 30, 2014, the City issued \$76,885,000 Public Power System Taxable Revenue Refunding Bonds, Series 2014. These bonds were issued to refund \$68,745,000 of outstanding Public Power System Bonds for the purpose of restructuring the Division's debt in order to level out the annual principal and interest payments over the life of the Division's bonds. As a result of this restructuring, the Division will pay approximately \$4 million less in annual debt service payments through 2024, with yearly debt service payments of approximately \$18 million from 2014 through 2038.

Waterworks Improvement Revenue Bonds: These bonds are payable from the revenues derived from operation of the Waterworks System after the payment of all operating and maintenance expenses (net revenue) and from monies and investments on deposit in the Revenue Fund, the Debt Service Fund, the Debt Service Reserve Fund, the Contingency Fund and the Additions and Improvements Fund.

On September 7, 2017, Water Revenue Bonds, Series BB, 2017, were issued in the amount of \$15,760,000. The bonds were issued to advance refund \$16,835,000 of outstanding Series X Water Revenue Bonds, 2012. Net bond proceeds in the amount of \$19,078,451, along with \$126,167 from the Series X debt service fund, were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds when due. As a result of this refunding, the City realized an economic gain (the difference between the present values of the old and new debt service) of \$1,367,000 or 8.1% and achieved debt service savings of \$1,727,000.

At the same time the City sold the Series BB Bonds, the City also sold \$54,730,000 Water Revenue Bonds, Series CC, on a forward delivery basis. The Series CC Bonds were ultimately issued effective October 3, 2017 to refund \$70,325,000 of outstanding Water Revenue Bonds, Series P, 2005. Net bond proceeds in the amount of \$64,119,219, along with \$874,438 from the Series P Interest account and \$7,080,119 released from the debt service reserve fund, were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds. The City realized present value savings of \$10,760,000 or 15.3% from this refunding.

Effective October 10, 2017, the City issued \$43,095,000 Water Revenue Bonds, Second Lien Series B, 2017. These bonds provided funds to advance refund \$45,850,000 of outstanding Second Lien Series A Bonds, 2012. Net bond proceeds in the amount of \$51,753,988, along with \$566,000 from the Second Lien Series A Interest account, were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds. As a result of this refunding, the City achieved net present value debt service savings of \$3,103,000 or 6.8%.

Upon the mandatory tender by the direct purchasers of the Water Revenue Bonds, Series U, 2010 and the Water Revenue Bonds, Series V, 2010, the City entered into new direct purchase agreements on both series of bonds. Effective December 1, 2016, the \$54,935,000 Water Series U Bonds and the \$26,495,000 Water Series V Bonds were directly purchased by PNC Bank, National Association. The City will be paying an interest rate equal to 65.001% of one month LIBOR plus a spread for the next three years.

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

Interest Rate Swap Transactions:

Series AA, Series U and Series V Bonds (previously Series Q, Series R and Series S Bonds):

When the Water Series R and Series S Bonds were refunded in 2010, the swap associated with these bonds was transferred to a portion of the new Series U and Series V Bonds. The portion of the swap associated with Series Q remained unchanged. The Series Q Bonds were then refunded in 2015 and the swap associated with those bonds was transferred to the new Series AA Bonds.

Terms: Simultaneously with the issuance of the City's \$175,000,000 Water Revenue Bonds, Series M on August 10, 2004, the City entered into floating to fixed rate swap agreements with notional amounts equal to the total declining balance of the Series M Bonds. Bear Stearns Financial Products Inc. (Bear Stearns) (which has since been acquired by JPMorgan Chase Bank, N.A. (JPM)) was the counterparty on a two-thirds pro-rata share of the transaction and Morgan Stanley Capital Services Inc. (Morgan Stanley) was the counterparty on a one-third pro-rata share of the transaction. Under the original swap agreements for the Series M Bonds, the Water System was the fixed rate payor, paying a fixed rate of 3.533%. Each counterparty was a floating rate payor, with each paying the Water System 61.25% of one month LIBOR plus a spread. Net payments were exchanged semiannually on January 1 and July 1. The obligation of the Water System to make periodic payments (but not any termination payment) was secured by a pledge of and lien on the net revenues of the Water System on a parity with the pledge and lien securing the payment of debt service on the bonds. Both the bond debt service payments on the Series M Bonds and the periodic swap payments were insured by Financial Security Assurance (FSA).

As part of the refunding of the Series M Bonds, the City amended and restated the original swap agreements to (a) eliminate the swap insurance and related insurer rights, (b) modify the payment frequency, (c) transfer the original swap agreement from Bear Stearns to JPM and (d) split each original swap agreement into two separate

interest rate swaps in order to hedge separate series of bonds. The original Bear Stearns swap which has been assumed by JPM hedged the entire principal amount of Series R and certain maturities of the Series Q Bonds. The original Morgan Stanley swap hedged the entire principal amount of Series S and a portion of the Series Q Bonds. The floating rate received by the City was not altered. However, the fixed rate paid by the City was adjusted to 3.553% for the JPM swap and 3.5975% for the Morgan Stanley swap. The termination date for the swaps associated with Series Q (now the Series AA Bonds) is January 1, 2021 while the termination date for the Series R and Series S swaps is January 1, 2033. Net payments are now exchanged monthly. With the refunding of the Series R and Series S Bonds, the JPM swap now hedges all but \$200,000 of the Series U Bonds and the Morgan Stanley swap hedges all but \$200,000 of the Series V Bonds.

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

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

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

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

Fair Value: The fair value of the swaps (including accrued amounts) at December 31, 2017 as reported by JPM and Morgan Stanley totaled \$11,107,000 which would be payable by the City.

Water Pollution Control Revenue Bonds: On April 14, 2016, the City issued \$32,390,000 Water Pollution Control Revenue Bonds, Series 2016 (Green Bonds). This was the first series of revenue bonds issued by the Division, with the bonds being issued under and secured by a newly created Master Trust Agreement. The proceeds of these bonds are being used to pay capital costs relating to the acquisition, construction and improvement of the system along with funding the debt service reserve requirement and paying the costs of issuing the bonds.

In conjunction with the issuance of the Series 2016 Water Pollution Control Revenue Bonds, the City entered into a Master Trust Agreement for the Series 2016 Bonds and any future series of revenue bonds. Under the terms of the Trust Agreement, the Bonds are special obligations payable solely from and secured by a pledge of and lien on the net revenues of the Division and the Special Funds. The Special Funds include the construction fund, the debt service fund, the debt service reserve fund, the rate stabilization fund, the contingency fund and the balance subfund.

Ohio Water Development Authority and Ohio Public Works Commission Loans: These loans are payable from net revenues derived from the Waterworks and Water Pollution Control Systems. These obligations do not have a lien on revenues of the Divisions.

Parking Facilities Refunding Revenue Bonds: These bonds are payable from net revenues generated from certain parking facilities and other operating revenues of the Division of Parking Facilities, including parking meter revenue. In addition, the City has pledged other non-tax revenue to meet debt service requirements. The City has pledged and assigned to the trustee a first lien on pledged revenues consisting of fines and penalties collected as a result of the violation of municipal parking ordinances and fines, waivers and costs relating to citations for misdemeanor offenses and the special funds as defined within the bond indenture.

Effective October 6, 2011, the City completed the sale of the City-owned Gateway North Parking Garage to Rock Ohio Caesars Gateway LLC. The garage is now being used by the purchaser in conjunction with a casino

constructed in the Higbee Building adjacent to the garage. The net proceeds of the sale of the garage received by the City totaled \$20,915,504. Of this amount, \$19,578,288 was placed into an irrevocable escrow fund, along with \$1,967,425 released from the debt service reserve fund as a result of the transaction, to be used to pay the principal and interest as it comes due on \$16,145,000 Parking Facilities Refunding Revenue Bonds, Series 2006. As a result, these bonds were considered to be defeased and the liability for the bonds was removed from long-term debt. In addition, \$480,000 of the sale proceeds was used to terminate the portion of an existing basis swap which was associated with the bonds being defeased. Sale proceeds were also utilized to pay costs of the transaction. As a result of this transaction, the City expects to save approximately \$600,000 annually through 2022.

Effective August 15, 2006, the City issued \$57,520,000 of Parking Facilities Refunding Revenue Bonds, Series 2006. The bonds were issued to currently refund \$56,300,000 of the outstanding Parking Facilities Refunding Revenue Bonds, Series 1996. In addition, proceeds were also used to fund a portion of a payment owed by the City upon early termination under an interest rate swaption agreement entered into in 2003. At the time of the issuance of the Series 2006 Bonds, the City entered into a basis swap agreement with UBS which is described below.

On April 16, 2013, the City entered into a novation agreement with UBS, AG and PNC Bank, National Association (PNC) under which the basis swap was transferred from UBS to PNC effective March 15, 2013. All of the terms of the original basis swap remain the same. The City agreed to transfer the swap to PNC based upon UBS' mandate to downsize its swap portfolio.

Interest Rate Swap Transaction:

Terms: Simultaneously with the issuance of the City's \$57,520,000 Parking Facilities Refunding Revenue Bonds, Series 2006 on August 15, 2006, the City entered into a floating-to-floating rate basis swap agreement with a notional amount equal to the total declining balance of the Series 2006 Bonds. UBS was the counterparty on the transaction. As stated above, the basis swap was transferred to PNC Bank, National Association in 2013. Under the swap agreement for the Series 2006 Bonds, the City is a floating rate payor, paying a floating rate based on the SIFMA index. The counterparty is also a floating rate payor, paying the City 67% of one month LIBOR. The City also received an upfront payment in the amount of \$1,606,000. Net payments are exchanged semi-annually each March 15 and September 15. The obligation of the City to make periodic payments (but not any termination payment) is secured by a pledge of and lien on the parking revenues and additional pledged revenues as defined in the trust indenture securing the Parking Facilities Refunding Revenue Bonds, Series 2006, on parity with the pledge and lien securing the payment of debt service on the bonds.

Objective: The City entered into the swap in order to maximize the savings associated with the refunding of the bonds and to reduce the City's risk exposure. The actual overall savings to be realized by the City will depend upon the net payments received under the swap agreement.

Basis Risk: By entering into a swap based upon the 30 day LIBOR rate of interest, the City has undertaken basis risk associated with a change in tax rates and structure. While the average relationship between the SIFMA (tax-exempt) and LIBOR (taxable) interest rates has been 67%, this relationship may not always apply. Since late 2008, this relationship has been significantly higher or lower for various periods of time due to the disruptions in the financial markets. The payments received from the counterparty may be less than the amount owed to the counterparty, resulting in a net increase in debt service. From 2013 to early 2016, the SIFMA/LIBOR relationship was significantly lower than 67%. In this case, payments received from the counterparty were greater than the amount owed to the counterparty which resulted in a net decrease in debt service. In addition, a reduction in federal income tax rates, such as the one that was approved in late 2017, might increase the percentage relationship between SIFMA and LIBOR and may potentially increase the cost of the financing.

Counterparty Risk: The City selected a highly rated counterparty in order to minimize this risk. However, over the long-term it is possible that the credit strength of PNC could change and this event could trigger a termination payment on part of the City.

Termination Risk: The swap agreement may be terminated prior to its stated termination date under certain circumstances. Upon termination, a payment may be owed by the City to PNC or by PNC to the City, depending upon the prevailing economic circumstances at the time of the termination. The City obtained insurance to mitigate much of the risk associated with termination due to the event of a downgrade of the City's bond rating. An amount due by the City to PNC upon early termination of the agreement is insured by FSA (now Assured Guaranty Municipal Corp.) up to a maximum amount of \$8,000,000.

Fair Value: The fair value of the swap at December 31, 2017 as reported by PNC totaled \$90,000, which would be payable by the City.

Debt Covenants: The Enterprise Funds’ bond agreements have certain restrictive covenants and principally require that bond reserve funds be maintained for most series of bonds and that fees charged to customers be in sufficient amounts, as defined, to satisfy the obligations under the indenture agreements. In addition, special provisions exist regarding covenant violations, redemption of principal and maintenance of properties in good condition.

Defeasance of Debt

The City has defeased certain debt by placing cash or the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and defeased bonds are not recorded in the City’s financial statements.

The aggregate amount of defeased debt outstanding at December 31, 2017 is as follows:

<u>Bond Issue</u>	(Amounts in Thousands)	<u>Bond Issue</u>	
<u>Parking Facilities Bonds:</u>		<u>Unvoted Tax Supported General Obligation:</u>	
Series 2006	\$ 8,420	Series 2008A	\$ 7,500
		Series 2011	17,815
<u>Water Revenue Bonds:</u>		<u>Subordinate Lien Income Tax Bonds:</u>	
Series P, 2007	\$ 70,325	Series 2008	\$ 39,860
Series X, 2012	16,835	Series 2012	2,915
Second Lien Series A, 2012	45,850	Series 2013A	12,745
		Series 2014A	10,040
<u>Subordinate Lien Unrestricted Income Tax Bonds:</u>		Series 2014B	17,055
Series 2008	\$ 28,830	Series 2015A	40,490

Airport Special Facilities Revenue Bonds

Airport Special Facilities Revenue Bonds, Series 1990, totaling \$76,320,000 were issued to finance the acquisition and construction of a terminal, hangar and other support facilities leased to Continental Airlines (now United Continental Holdings, Inc.) at Cleveland Hopkins International Airport. These bonds were refunded in 1999 by the issuance of Airport Special Revenue Refunding Bonds, Series 1999 totaling \$71,440,000. In January 2016, United Airlines deposited funds with the trustee sufficient to pay off the Airport Special Revenue Refunding Bonds, Series 1999. Additional Airport Special Facilities Revenue Bonds, Series 1998, totaling \$75,120,000, were issued in 1998 to finance the design and construction of certain airport facilities leased to Continental Airlines, including a new regional jet concourse. Because principal and interest on these bonds are unconditionally guaranteed by Continental Airlines (now United Continental Holdings, Inc.) and paid directly by Continental Airlines, these bonds do not constitute a debt, liability or general obligation of the City or a pledge of the City’s revenues. As such, no liabilities relating to these bonds are included in the accompanying financial statements.

Pledges of Future Revenues

The City has pledged future airport revenues to repay \$684,610,000 in various Airport System Revenue Bonds issued in various years since 2006. Proceeds from the bonds provided financing for airport operations. The bonds are payable from airport net revenues and are payable through 2033. Annual principal and interest payments on the bonds are expected to require less than 70% of net revenues. The total principal and interest remaining to be paid on the various Airport System Revenue Bonds is \$944,333,000. Principal and interest funded in the current year and total net revenues (including other available funds) were \$68,437,000 and \$97,869,000 respectively.

The City has pledged future power system revenues, net of specified operating expenses, to repay \$202,173,000 in various 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.

The City has pledged future water system revenues, net of specified operating expenses, to repay \$565,100,000 in various Senior Lien Water Revenue Bonds and Subordinate Lien Bonds issued in various years since 1993. Proceeds from the bonds provided financing for Water System improvements. The bonds are payable from Water System net revenues and are payable through 2042. Annual principal and interest payments on the bonds are expected to require less than 42% of net revenues. The total principal and interest remaining to be paid on the various Senior and Subordinate Lien Water Revenue Bonds is \$767,850,000. Amounts deposited for principal and interest in the current year on the Senior Lien Bonds and total net revenues were \$49,546,000 and \$120,604,000 respectively.

The City has pledged future water pollution control revenues to repay \$31,840,000 in Water Pollution Control Revenue Bonds issued in 2016. Proceeds from the bonds are being used to pay capital costs relating to the acquisition, construction and improvement of the system. The bonds are payable from water pollution control net revenues and are payable through 2045. Annual principal and interest payments on the bonds are expected to require less than 24% of net revenues. The total principal and interest remaining to be paid on the various Water Pollution Control Revenue Bonds is \$59,726,000. Principal and interest funded in the current year and total net revenues (including other available funds) were \$2,134,000 and \$8,772,000 respectively.

The City has pledged future revenues from certain parking facilities, net of specified operating expenses and other operating revenues to repay \$17,770,000 of Parking Facilities Refunding Revenue Bonds issued in 2006. Proceeds from the bonds initially issued provided financing for the construction of parking facilities. The bonds are payable from parking facilities net revenues and are payable through 2022. Annual principal and interest payments on the bonds are expected to require the full amount of net operating revenues. The total principal and interest remaining to be paid on the Parking Facilities Refunding Revenue Bonds is \$20,664,000. Principal and interest paid for the current year (including net swap payments) and total net revenues were \$4,167,000 and \$5,372,000 respectively.

In 2017, no additional pledged revenue was required to meet the debt service on the Parking Facilities Refunding Revenue Bonds. The trust indenture requires, among other things, that the Division of Parking Facilities will fix parking rates and will charge and collect fees for the use of the parking facilities and will restrict operating expenses. As of December 31, 2017, the Division of Parking Facilities was in compliance with the terms and requirements of the trust indenture.

Derivative Instruments

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

The derivative instruments are classified as Level 2 inputs of the fair value hierarchy and are considered to be significant other observable inputs. The derivative instruments are calculated using the zero-coupon discounting method which takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and assumes that the current forward rate implied by the yield curve are the market's best estimate of future spot interest rates. The income approach is then used to obtain the fair value of the swaps, where future amounts are converted to a single current (discounted) amount, using a rate of return that takes into account the relative risk of nonperformance associated with the cash flows and time value of money.

The table below presents the fair value balances and notional amounts of the City's derivative instruments outstanding at December 31, 2017, classified by type and the changes in fair value of these derivatives during fiscal year 2017 as reported in the 2017 financial statements. The fair values of the interest rate swaps, which reflect the prevailing interest rate environment at December 31, 2017 and the specific terms and conditions of each swap, have been provided by the respective counterparty for each swap and confirmed by the City's financial advisor.

	<u>Changes in Fair Value</u>		<u>Fair Value at December 31, 2017</u>		
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
(Amounts in Thousands)					
Investment Derivatives:					
Governmental Activities:					
Fixed to floating interest rate swap					
2003 Subordinated Income Tax Swaption	Investment Revenue	\$ 26	Debt	\$ (8)	\$ 32,200
Business-Type Activities:					
Floating to floating interest rate swap					
2006 Parking Basis Swap	Investment Revenue	128	Debt	(90)	17,770
Hedging Derivatives:					
Floating to fixed interest rate swaps					
2015 AA Water Swap	Deferred inflow	1,403	Debt	(1,696)	50,105
2010 U Water Swap	Deferred inflow	1,352	Debt	(6,284)	54,735
2010 V Water Swap	Deferred inflow	675	Debt	(3,127)	26,295

The table below presents the objective and significant terms of the City's derivative instruments at December 31, 2017, along with the credit rating of each swap counterparty.

<u>Bonds</u>	<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Counterparty Credit Rating</u>
Subordinated Income Tax Bonds	Receive Fixed Interest Rate Swaption	Hedge of changes in fair value of Series 1994 Subordinated Income Tax Bonds	\$ 32,200,000	2/7/2003	5/15/2024	If option is exercised, Receive 4.88%, pay SIFMA	Aa3/A+/AA-
Water Series AA	Pay Fixed Interest Rate Swap	Hedge of changes in cash flow on the Series AA Water System Bonds	\$ 32,670,000	8/10/2004	1/1/2021	Pay 3.553%, receive 61.25% of LIBOR + 28 bps	Aa3/A+/AA-
Water Series AA	Pay Fixed Interest Rate Swap	Hedge of changes in cash flow on the Series AA Water System Bonds	\$ 17,435,000	8/10/2004	1/1/2021	Pay 3.5975%, receive 61.25% of LIBOR + 28 bps	A3/BBB+/A
Water Series U	Pay Fixed Interest Rate Swap	Hedge in changes in cash flow on the Series U Water System Bonds	\$ 54,735,000	2/12/2009	1/1/2033	Pay 3.553%, receive 61.25% of LIBOR + 28 bps	Aa3/A+/AA-
Water Series V	Pay Fixed Interest Rate Swap	Hedge in changes in cash flow on the Series V Water System Bonds	\$ 26,295,000	2/12/2009	1/1/2033	Pay 3.5975%, receive 61.25% of LIBOR + 28 bps	A3/BBB+/A
2006 Parking Bonds	Basis Swap - Pay Floating/Receive Floating	Exchange floating rate payments on Series 2006 Parking System Bonds	\$ 17,770,000	8/15/2006	9/15/2022	Pay SIFMA, receive 67% of LIBOR	A2/A/A+

The following table presents the aggregate debt service requirements on the City's hedged debt and net receipts/payments on the associated hedging derivative instruments as of December 31, 2017. These amounts assume that the interest rates on variable rate bonds and the reference rates in existence as of December 31, 2017 remain the same for the life of the hedging agreement. However, these rates will vary over time and the actual interest payments on the variable rate bonds and the net receipts/payments on the hedging derivative instruments will deviate from the numbers presented below.

Aggregate Cash Flows on Hedging Derivative Instruments

Fiscal Year Ending	Hedging			
December 31	Principal	Interest	Derivatives, Net	Total
(Amounts in Thousands)				
2018	\$	\$ 2,383	\$ 2,828	\$ 5,211
2019		2,384	2,524	4,908
2020		2,390	2,205	4,595
2021	2,170	2,356	1,874	6,400
2022	14,830	2,162	1,530	18,522
2023-2027	81,415	7,391	2,782	91,588
2028-2032	61,730	2,526	217	64,473
2033	12,085	14	1	12,100
Total	<u>\$ 172,230</u>	<u>\$ 21,606</u>	<u>\$ 13,961</u>	<u>\$ 207,797</u>

NOTE 6 – RISK MANAGEMENT

Self Insurance: The City 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 City does not carry commercial insurance for such risks, except for certain proprietary funds and the football stadium. 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 (IBNRs). Claims that meet this criteria are reported as liabilities of either governmental or business-type activities in the government-wide statement of net position. In the fund financial statements, claims liabilities that relate to proprietary funds are reported. The current portion of claims is reported as a fund liability in governmental funds; however, the long-term portion of claims liabilities is 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.

Changes in the estimated claims payable for all funds during the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
	(Amounts in Thousands)	
Estimated claims payable, January 1	\$ 11,567	\$ 14,993
Current year claims (including IBNRs) and changes in estimates	10,081	6,056
Claim payments	<u>(10,113)</u>	<u>(9,482)</u>
Estimated claims payable, December 31	<u>\$ 11,535</u>	<u>\$ 11,567</u>

The estimated claims liabilities are based on the estimated cost of settling claims (including incremental claim adjustment expenses) through a case-by-case review of all outstanding claims and by using historical experience. Claims payable are included as accounts payable on the modified accrual financial statements and are reclassified to long-term obligations as due within one year or due in more than one year on the Statement of Net Position.

Insurance: Certain proprietary funds carry insurance to cover particular liability risks and property protection. Otherwise, the City is generally self-insured. No material losses, including incurred but not reported losses, occurred in 2017. There was no significant decrease in any insurance coverage in 2017. In addition, there were no insurance settlements in excess of insurance coverage during the past three years.

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.

Expenses for claims are recorded on a current basis. Claims are accrued based upon an actuarially estimated claims liability IBNR. These estimates are based on past experience and current claims outstanding. Actual claims may differ from the estimates. This claims liability is recorded in the Internal Service Fund and the government-wide statements as claims payable.

Changes in the estimated claims payable for the Health and Prescription Self Insurance Funds during the year ended December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
	(Amounts in Thousands)	
Estimated claims payable, January 1	\$ 9,386	\$ 10,707
Current year claims (including IBNRs) and changes in estimates	87,062	79,009
Claim payments	<u>(87,643)</u>	<u>(80,330)</u>
Estimated claims payable, December 31	<u>\$ 8,805</u>	<u>\$ 9,386</u>

In January of 2003, the City exercised the option of retrospective rating as the premium rating mechanism for its workers' compensation program. The total estimated claims liability outstanding at December 31, 2017 was \$17,502,000. Of this amount, \$7,539,000 was recorded as a fund liability within each respective fund. The remaining \$9,963,000 is due in future years and is recorded as a liability in the Workers' Compensation Reserve Internal Service Fund. This liability is funded by charging the appropriate funds their proportionate share of this liability and recording the associated due to or due from as appropriate.

NOTE 7 – CONTINGENCIES

General Contingencies: Various claims and lawsuits are pending against the City. In accordance with GASB Statement No. 10, those claims which are considered “probable” are accrued (see Note 6 – Risk Management), while those claims that are considered “reasonably possible” are disclosed but not accrued.

As of December 31, 2017, the City had \$5,500,000 in claims for which an unfavorable outcome is deemed to be reasonably possible.

These estimates were based on a case-by-case review of outstanding claims by the City’s in-house legal department.

Contingent Liabilities: The City is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio. The City’s share was 80,000 kilowatts of a total 771,281 kilowatts, giving the City a 10.37% share. The AMPGS Project required participants to sign “take or pay” contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. These costs were therefore deemed impaired and participants were obligated to pay costs already incurred. In prior years, 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 31, 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The City’s estimated share at March 31, 2014 of the impaired costs is \$13,813,694. The City received a credit of \$6,447,719 related to their participation in the AMP Fremont Energy Center (AFEC) Project and another credit of \$3,617,994, related to the AMPGS costs deemed to have future benefit for the project participants, classified as Plant Held for Future Use (PHFU), leaving a net impaired cost estimate of \$3,747,981. Because payment is now probable and reasonably estimable, the City is reporting a payable to AMP in its business-type activities and in its electric enterprise fund for these impaired costs. AMP financed these costs on its revolving line of credit. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact the City’s liability. These amounts will be recorded as they become estimable.

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 City has made payments of \$1,309,050 to AMP toward its net impaired cost estimate. Also since March 31, 2014, the City’s allocation of additional costs incurred by the project is \$164,676 and interest expense incurred on AMP’s line-of-credit of \$148,939. As part of the Bechtel Settlement, the City 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 City 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 City’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 City 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 City intends to recover 50% of these costs from the customers through the Energy Adjustment Charge passed along to customer’s monthly bills.

Contingencies Under Grant Programs: The City participates in a number of federally assisted Investment Act Grant Programs, principal of which are Community Development Block Grants, the Healthy Start Initiative, Federal HOME Program, Youth Opportunity Area Grant, Workforce Investment Act Grant, Empowerment Zone and Federal Aviation Administration Airport Improvement Grant Programs. These programs are subject to financial and compliance audits by the grantors or their representatives.

In addition to the federally assisted Investment Act Grant Programs, the City received a portion of the American Recovery and Reinvestment Act (ARRA) funds. These funds were funded through existing programs. The ARRA funds are subject to financial and compliance audits by the grantor or their representative and are subject to availability.

NOTE 8 – INTERFUND TRANSACTIONS AND BALANCES

Interfund Transactions: During the course of normal operations, the City records numerous transactions between funds including expenditures and transfers of resources to provide services, subsidize operations and service debt. The City has the following types of transactions among funds:

Nonreciprocal interfund transfers – Flows of assets between funds without equivalent flows of assets in return and without a requirement for repayment. This includes transfers to subsidize various funds.

For the year ended December 31, 2017, transfers consisted of the following:

Transfers Out	Transfers In				
	Total	Other Governmental Funds	Total Governmental Funds	Enterprise Funds	Internal Service Funds
(Amounts in Thousands)					
Governmental Funds:					
General	\$ 35,546	\$ 33,480	\$ 33,480	\$ 1,466	\$ 600
Other Governmental	<u>47,642</u>	<u>47,642</u>	<u>47,642</u>		
Total Governmental Funds	<u>83,188</u>	<u>81,122</u>	<u>81,122</u>	<u>1,466</u>	<u>600</u>
Total	<u>\$ 83,188</u>	<u>\$ 81,122</u>	<u>\$ 81,122</u>	<u>\$ 1,466</u>	<u>\$ 600</u>

Interfund Balances: Interfund balances at December 31, 2017 represent charges for services or reimbursable expenses. These remaining balances resulted from the time lag between the dates that (1) interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting records and (3) payments between funds are made. All are expected to be paid within one year.

Reciprocal interfund services provided and used – Purchases and sales of goods and services between funds for a price approximating their external exchange value.

Interfund receivable and payable balances as of December 31, 2017 are as follows:

Due To	Total	Due From								
		General Fund	Other Governmental Funds	Total Governmental Funds	Division of Water Fund (Amounts in Thousands)	Cleveland Public Power Fund	Department of Port Control Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Governmental Funds:										
General	\$ 3,591	\$	\$ 1	\$ 1	\$	\$ 1,577	\$ 18	\$ 16	\$ 1,611	\$ 1,979
Other Governmental	<u>9,974</u>	1,781	7,838	9,619		17		4	21	334
Total Governmental	<u>\$ 13,565</u>									
Enterprise Funds:										
Division of Water	\$ 1,845	8		8		1,501		21	1,522	315
Cleveland Public Power	378	3		3	276			10	286	89
Department of Port Control	767	569		569		24			24	174
Other Enterprise	<u>4,462</u>	50		50	4,248	97			4,345	67
Total Enterprise	<u>\$ 7,452</u>									
Internal Service Funds	<u>113</u>	<u>3</u>		<u>3</u>		<u>7</u>		<u>4</u>	<u>11</u>	<u>99</u>
Total Due To/Due From	<u>\$ 21,130</u>	<u>\$ 2,414</u>	<u>\$ 7,839</u>	<u>\$ 10,253</u>	<u>\$ 4,524</u>	<u>\$ 3,223</u>	<u>\$ 18</u>	<u>\$ 55</u>	<u>\$ 7,820</u>	<u>\$ 3,057</u>

NOTE 9 – INCOME TAXES

Effective January 1, 2017, the City income tax rate increased to 2.5% from 2.0% and the credit provided to City residents for income taxes paid to other municipalities increased to 100% with a maximum credit limited to 2.5%. A portion of the City income tax is restricted in its use to capital expenditures and debt service and is included in the Restricted Income Tax Special Revenue Fund. All other income tax proceeds are included in the General Fund.

Employers within the City are required to withhold income taxes on employee compensation and remit withholdings to the City at least quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

NOTE 10 – PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the City. The 2016 levy for collection in 2017 was based upon an assessed valuation of approximately \$4.6 billion. Ohio law prohibits taxation of property from all taxing authorities in excess of 10 mills of assessed value without a vote of the people. Under current procedures, the City's share is 4.4 mills, of which 4.35 mills is dedicated to debt service and .05 mills is dedicated to the payment of fire pension obligations. A revaluation of all property is required to be completed no less than every six years, with a statistical update every third year. The last update was completed in 2015. Assessed values are established by the Cuyahoga County (County) Fiscal Officer. The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City.

Real property taxes, excluding public utility property, are assessed at 35% of appraised market value. Pertinent real property tax dates are:

- Collection Dates January 26 and July 13 of the current year
- Lien Date January 1 of the year preceding the collection year
- Levy Date October 1 of the year preceding the collection year

An electric company’s taxable utility production equipment is assessed at 25% of true value, while all of its other taxable property is assessed at 88% of true value. Pertinent public utility tangible personal property tax dates are:

- Collection Dates January 26 and July 13 of the current year
- Lien Date January 1 of the year preceding the collection year
- Levy Date October 1 of the year preceding the collection year

NOTE 11 – DEFERRED INFLOWS / DEFERRED OUTFLOWS OF RESOURCES

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

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

On the modified accrual basis of accounting, the City has recorded certain receivables relating to property taxes and unavailable revenue. Unavailable revenues and property taxes levied to finance 2018 operations have been reported as deferred inflows of resources in the governmental fund balance sheet for the following:

	Governmental Type Funds		
	Other		
	Governmental		
	<u>General</u>	<u>Funds</u>	<u>Totals</u>
	(Amounts in Thousands)		
Income taxes receivable	\$ 20,955	\$ 2,619	\$ 23,574
Property taxes receivable	48,261	25,142	73,403
Special assessments receivable	5,040	12,497	17,537
Local government receivable	8,373		8,373
Homestead rollback	3,103	1,616	4,719
Emergency medical service receivable	3,589		3,589
Motor vehicle taxes receivable		1,426	1,426
Municipal gas tax receivable		1,078	1,078
State gasoline tax receivable		2,036	2,036
Due from other governments	2,643	402	3,045
Accounts receivable	<u>648</u>		<u>648</u>
Total deferred inflows of resources	<u>\$ 92,612</u>	<u>\$ 46,816</u>	<u>\$ 139,428</u>

NOTE 12 – DEFINED BENEFIT PENSION PLANS

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 City’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 City’s obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City 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): City 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. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS’ traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

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

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

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 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%.

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

	<u>State and Local</u>	
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	
	<hr/>	
Total Employer	14.0	%
	<hr/> <hr/>	
Employee	10.0	%
	<hr/> <hr/>	

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City’s contractually required contribution was \$34,457,000 for 2017. All required payments have been made.

Ohio Police & Fire Pension Fund (OP&F): City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member’s average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5% for each of the first 20 years of service credit, 2.0% for each of the next five years of service credit and 1.5% for each year of service credit in excess of 25 years. The maximum pension of 72.0% of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either 3.0% or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to 3.0% of their base pension or disability benefit.

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

	<u>Police</u>	<u>Firefighters</u>
2017 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25	12.25
2017 Actual Contribution Rates		
Employer:		
Pension	19.00	23.50
Post-employment Health Care Benefits	<u>0.50</u>	<u>0.50</u>
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$32,482,000 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. OP&F's total pension liability was measured as of December 31, 2016 and was determined by rolling forward the total pension liability as of January 1, 2016 to December 31, 2016. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
	(Amounts in Thousands)		
Proportionate Share of the Net Pension Liability	\$ 434,615	\$ 469,535	\$ 904,150
Proportion of the Net Pension Liability	1.918603%	7.413054%	
Change in Proportion	(0.072962)%	0.291579%	
Pension Expense	\$ 93,598	\$ 57,151	\$ 150,749

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

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
	(Amounts in Thousands)		
Deferred Outflows of Resources			
Differences in expected and actual economic experience	\$ 590	\$ 133	\$ 723
Net difference between projected and actual earnings on pension plan investments	67,849	44,026	111,875
Change in assumptions	69,287		69,287
Change in City's proportionate share		15,682	15,682
Contributions subsequent to the measurement date	34,457	32,482	66,939
Total Deferred Outflows of Resources	<u>\$ 172,183</u>	<u>\$ 92,323</u>	<u>\$ 264,506</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ 3,127	\$ 1,039	\$ 4,166
Change in City's proportionate share	9,137	19,318	28,455
Total Deferred Inflows of Resources	<u>\$ 12,264</u>	<u>\$ 20,357</u>	<u>\$ 32,621</u>

The \$66,939,000 reported as deferred outflows of resources related to pension resulting from City 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:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
	(Amounts in Thousands)		
Year Ending December 31:			
2018	\$ 50,749	\$ 15,305	\$ 66,054
2019	53,195	15,305	68,500
2020	23,570	11,023	34,593
2021	(1,948)	(4,637)	(6,585)
2022	(38)	2,178	2,140
Thereafter	(66)	310	244
Total	<u>\$ 125,462</u>	<u>\$ 39,484</u>	<u>\$ 164,946</u>

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 COLA or Ad Hoc COLA	3.25 to 10.75% including wage inflation 3.25%, simple Pre 1/7/2013 retirees: 3%, simple Post 1/7/2013 retirees: 3%, simple through 2018, then 2.15%, simple	4.25 to 10.05% including wage inflation 3%, simple Pre 1/7/2013 retirees: 3%, simple Post 1/7/2013 retirees: 3%, simple through 2018, then 2.80%, 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.

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 (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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
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	<u>100.00 %</u>	5.66 %

Discount Rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.50%) or one-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
	(Amounts in Thousands)		
City's proportionate share of the net pension liability	\$ 665,369	\$ 434,615	\$ 242,374

Actuarial Assumptions – OP&F: OP&F's total pension liability as of December 31, 2016 is based on the results of an actuarial valuation date of January 1, 2016 and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2016, are presented below:

Valuation Date	January 1, 2016
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25%
Projected Salary Increases	4.25%-11%
Payroll Increases	3.75%
Inflation Assumptions	3.25%
Cost of Living Adjustments	2.6% and 3%

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2016 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	16 %	5.21 %
Non-US Equity	16	5.40 %
Core Fixed Income *	20	2.37 %
Global Inflation Protected *	20	2.33 %
High Yield	15	4.48 %
Real Estate	12	5.65 %
Private Markets	8	7.99 %
Real Assets	5	6.87 %
Master Limited Partnerships	8	7.36 %
Total	<u>120 %</u>	

* levered 2x

OP&F's Board of Trustees has incorporated the "risk parity" concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate: The total pension liability was calculated using the discount rate of 8.25%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State Statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return 8.25%. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of

current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: Net pension liability is sensitive to changes in the discount rate and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25%), or one percentage point higher (9.25%) than the current rate.

	1% Decrease	Current	Discount Rate	1% Increase
	7.25%	8.25%	8.25%	9.25%
	(Amounts in Thousands)			
City's proportionate share of the net pension liability	\$ 625,365	\$ 469,535	\$ 469,535	\$ 337,467

NOTE 13 – 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.

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 City's actual contributions to OPERS to fund postemployment benefits were \$2,649,361 in 2017, \$5,203,426 in 2016 and \$5,191,682 in 2015. The required payments due in 2017, 2016 and 2015 have been made.

Plan Description - Ohio Police and Fire Pension Fund: The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides health care benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long-term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits are codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.op-f.org.

Funding Policy - Ohio Police and Fire Pension Fund: The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5% and 24% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 0.5% of covered payroll from January 1, 2017 through December 31, 2017. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F that were allocated to the healthcare plan for the years ending December 31, 2017, 2016 and 2015 were \$800,896, \$833,169 and \$844,530, respectively. The required payments due in 2017, 2016 and 2015 have been made.

NOTE 14 – CAPITAL ASSETS

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

	Balance January 1, 2017	<u>Additions</u>	<u>Reductions</u>	Balance December 31, 2017
		(Amounts in Thousands)		
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 67,169	\$ 292	\$ (221)	\$ 67,240
Construction in progress	<u>252,360</u>	<u>48,883</u>	<u>(59,919)</u>	<u>241,324</u>
Total capital assets, not being depreciated	<u>319,529</u>	<u>49,175</u>	<u>(60,140)</u>	<u>308,564</u>
Capital assets, being depreciated:				
Land improvements	210,075	626		210,701
Buildings, structures and improvements	719,362	1,692	(1,212)	719,842
Furniture, fixtures, equipment and vehicles	252,794	16,168	(4,198)	264,764
Infrastructure	<u>732,792</u>	<u>64,913</u>	<u>(2,020)</u>	<u>795,685</u>
Total capital assets, being depreciated	<u>1,915,023</u>	<u>83,399</u>	<u>(7,430)</u>	<u>1,990,992</u>
Less accumulated depreciation for:				
Land improvements	(127,562)	(8,812)		(136,374)
Buildings, structures and improvements	(357,130)	(17,257)	1,140	(373,247)
Furniture, fixtures, equipment and vehicles	(171,846)	(14,838)	4,129	(182,555)
Infrastructure	<u>(333,547)</u>	<u>(26,539)</u>	<u>1,934</u>	<u>(358,152)</u>
Total accumulated depreciation	<u>(990,085)</u>	<u>(67,446)</u>	<u>7,203</u>	<u>(1,050,328)</u>
Total capital assets being depreciated, net	<u>924,938</u>	<u>15,953</u>	<u>(227)</u>	<u>940,664</u>
Governmental activities capital assets, net	<u>\$ 1,244,467</u>	<u>\$ 65,128</u>	<u>\$ (60,367)</u>	<u>\$ 1,249,228</u>
	Balance January 1, 2017	<u>Additions</u>	<u>Reductions</u>	Balance December 31, 2017
		(Amounts in Thousands)		
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 192,216	\$ 6	\$ (20)	\$ 192,202
Construction in progress	<u>315,785</u>	<u>116,742</u>	<u>(140,606)</u>	<u>291,921</u>
Total capital assets, not being depreciated	<u>508,001</u>	<u>116,748</u>	<u>(140,626)</u>	<u>484,123</u>
Capital assets, being depreciated:				
Land improvements	113,357	11,044		124,401
Utility plant	2,482,174	182,493	(1,564)	2,663,103
Buildings, structures and improvements	741,024	6,921	(5,616)	742,329
Furniture, fixtures, equipment and vehicles	772,972	27,225	(22,042)	778,155
Infrastructure	<u>1,015,833</u>	<u>315</u>		<u>1,016,148</u>
Total capital assets, being depreciated	<u>5,125,360</u>	<u>227,998</u>	<u>(29,222)</u>	<u>5,324,136</u>
Less accumulated depreciation for:				
Land improvements	(52,378)	(3,337)		(55,715)
Utility plant	(915,584)	(83,420)	1,382	(997,622)
Buildings, structures and improvements	(439,178)	(15,466)	4,482	(450,162)
Furniture, fixtures, equipment and vehicles	(577,719)	(33,993)	20,797	(590,915)
Infrastructure	<u>(622,991)</u>	<u>(42,157)</u>		<u>(665,148)</u>
Total accumulated depreciation	<u>(2,607,850)</u>	<u>(178,373)</u>	<u>26,661</u>	<u>(2,759,562)</u>
Total capital assets being depreciated, net	<u>2,517,510</u>	<u>49,625</u>	<u>(2,561)</u>	<u>2,564,574</u>
Business-Type activities capital assets, net	<u>\$ 3,025,511</u>	<u>\$ 166,373</u>	<u>\$ (143,187)</u>	<u>\$ 3,048,697</u>

The additions to accumulated depreciation may not match depreciation expense due to assets transferred between Business-Type Activities and Governmental Activities, if the transferred assets have been depreciated prior to this year.

Depreciation: Depreciation expense was charged to functions/programs of the City as follows:

	<u>(Amounts in Thousands)</u>	
Governmental Activities:		
General Government	\$	27,889
Public Works		24,116
Public Safety		9,238
Building and Housing		94
Community Development		1,512
Public Health		336
Economic Development		149
Depreciation expense on capital assets held by the City's internal service funds that is charged to the various functions based on their usage of the assets		528
Total depreciation expense charged to governmental activities	\$	63,862
Business-Type Activities:		
Water	\$	77,835
Electricity		19,555
Airport Facilities		53,576
Nonmajor activities		9,128
Depreciation expense on capital assets held by the City's internal service funds that is charged to the various functions based on their usage of the assets		96
Total depreciation expense charged to business-type activities	\$	160,190

Capital Commitments: Significant commitments of the City as of December 31, 2017 are composed of the following:

<u>Project Description</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
	(Amounts in Thousands)	
Governmental Activities:		
East 105 SR 10 Quebec to Chester Pedestrian Bridge	\$ 8,286	\$ 17,566
Ken Johnson Recreation Center	126	8,891
Brown's Stadium Improvements	4,778	7,229
Vehicles		7,000
Ward 1 Recreation Center	11	6,989
Cleveland Citywide Dev. Corp Housing		5,650
Demolition Services	74	4,926
New Building-Kennels	2,038	4,855
West 130 Brookpark to Lorain	941	4,659
2017 Street Resurfacing		4,401

<u>Project Description</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
	(Amounts in Thousands)	
Business-Type Activities:		
North Airfield Improvements	\$ 163	\$ 25,117
Southern Transmission Line	1,096	13,637
Secondary Site Improvements		12,750
Post PEP Plant	30	11,000
BKL Shoreline Restoration	570	9,585
Trunk Main Renewal 2016		9,000
Post PEP		7,500
Snow Removal Equipment & Vehicles		7,142
Crown Residuals		6,500
Aurora Road Pump Station	6	5,994
Kirtland Crib		5,500
Boosted Third High System		5,000
Watermain Renewal 2018		5,000
Billing Upgrades 2018		5,000

Capital Grant Programs: The City participates in the State Issue 2 program and the Local Transportation Improvement Program. Through these programs, the State of Ohio (State) provides financial assistance to the City for its various road and bridge improvements and storm water detention facilities. The Ohio Public Works Commission (OPWC) is the State agency which oversees the allocation of State bond proceeds and tax revenue to selected projects which have met funding requirements. Upon approval of the OPWC, the City and the State create project agreements establishing each entity's financial contribution toward each project. During 2017, the State funded \$11,644,000 of road and bridge improvement projects.

Capitalized Interest: Interest expense incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest income earned on invested debt proceeds. For 2017, interest expense incurred for the Enterprise Funds was \$73,278,000 of which \$8,631,000 was capitalized net of \$394,000 of interest income capitalized.

NOTE 15 – SERVICE CONCESSION ARRANGEMENTS

In 2010, the City entered into an agreement with Cleveland Metropolitan Park District (Cleveland Metroparks) under which Cleveland Metroparks will operate and collect user fees from Seneca Golf Course for 99 years. Cleveland Metroparks has paid the City \$99 for this agreement. They have agreed to complete at least \$4,000,000 of capital improvements. As completed, all capital improvements performed by Cleveland Metroparks will become an asset of Seneca Golf Course and the City. Upon expiration of the agreement, all improvements will be vest in the City. Cleveland Metroparks is required to operate and maintain the golf course in accordance with the City Contract.

In 2012, the City entered into an agreement with Mark A Nance Golf Ohio, LLC (MAN) under which MAN will operate and collect user fees from the Highland Park Golf Course for the next 10 years. MAN will pay 5% of revenues greater than \$800,000 in years 2012 through 2017. In years 2018 and beyond, MAN will pay 5% on gross revenues up to \$800,000; 10% of gross revenues \$801,000 through \$1,000,000; and 15% of gross revenues greater than \$1,000,000. In addition to receiving a portion of gross revenues, MAN will also make necessary capital improvements to the golf course. As completed, all capital improvements performed by MAN will become an asset of Highland Park Golf Course and the City. MAN is required to operate and maintain the golf course in accordance with the City Contract.

The City reports the golf courses and related equipment as a capital asset with a carrying amount of \$2,964,000 at year end.

NOTE 16 – SEGMENT INFORMATION

The City has issued revenue bonds and construction loans to finance the activities accounted for in the following Enterprise Funds:

- Division of Water
- Cleveland Public Power
- Department of Port Control
- Water Pollution Control
- Municipal Parking Lots

Investors in the revenue bonds rely solely on the revenues generated from the specific enterprise activity to which the debt obligations pertain for repayment.

Shown below is summarized financial information for the City's enterprise activity that has issued long-term obligations and is not reported as a major fund in the proprietary funds financial statements:

Condensed Statement of Net Position Information

	<u>Water Pollution Control</u>	<u>Municipal Parking Lots</u>
	(Amounts in Thousands)	
Assets:		
Current assets	\$ 177,622	\$ 4,666
Restricted assets	17,921	8,599
Capital assets, net	<u>92,526</u>	<u>39,947</u>
Total assets	288,069	53,212
Deferred outflows of resources	4,243	1,183
Liabilities:		
Current liabilities	138,272	4,220
Long-term liabilities	<u>47,540</u>	<u>16,259</u>
Total liabilities	185,812	20,479
Deferred inflows of resources	304	127
Net position:		
Net investment in capital assets	73,967	25,483
Restricted for debt service	2,546	5,575
Unrestricted	<u>29,683</u>	<u>2,731</u>
Total net position	<u>\$ 106,196</u>	<u>\$ 33,789</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position Information

	<u>Water Pollution Control</u>	<u>Municipal Parking Lots</u>
	(Amounts in Thousands)	
Charges for services	\$ 29,392	\$ 9,311
Depreciation (expense)	(6,340)	(1,362)
Other operating (expenses)	<u>(21,075)</u>	<u>(4,174)</u>
Operating income (loss)	1,977	3,775
Non-operating revenues (expenses):		
Investment income (loss)	631	214
Interest expense	(2)	(1,193)
Other revenue (expenses)	288	
Capital Contributions	<u>3,893</u>	<u>2,502</u>
Change in net position	6,787	5,298
Net position at beginning of year	<u>99,409</u>	<u>28,491</u>
Net position at end of year	<u>\$ 106,196</u>	<u>\$ 33,789</u>

Condensed Statement of Cash Flows Information

	<u>Water Pollution Control</u>	<u>Municipal Parking Lots</u>
	(Amounts in Thousands)	
Net cash provided by (used for):		
Operating activities	\$ 11,525	\$ 5,163
Capital and related financing activities	(18,132)	(4,167)
Investing activities	<u>787</u>	<u>79</u>
Net increase (decrease) in cash and cash equivalents	(5,820)	1,075
Beginning cash and cash equivalents	<u>95,570</u>	<u>12,077</u>
Ending cash and cash equivalents	<u>\$ 89,750</u>	<u>\$ 13,152</u>

The balances of the restricted asset accounts in the enterprise funds are as follows:

<u>Purpose</u>	<u>Division of Water</u>	<u>Cleveland Public Power</u>	<u>Department of Port Control</u>	<u>Municipal Parking Lots</u>	<u>Cemeteries</u>	<u>Water Pollution Control</u>
	(Amounts in Thousands)					
Construction activities	\$ 5,744	\$ 15,084	\$ 14,366	\$ 3,017	\$	\$ 17,819
Debt retirement	63,904	2,875	125,289	5,575		2,546
Accrued passenger facility charges			13,463			
Other	<u>52</u>	<u>15</u>	<u>46,512</u>	<u>7</u>	<u>5,638</u>	<u>19</u>
Total	<u>\$ 69,700</u>	<u>\$ 17,974</u>	<u>\$ 199,630</u>	<u>\$ 8,599</u>	<u>\$ 5,638</u>	<u>\$ 20,384</u>

NOTE 17 – FUND BALANCES / NET POSITION

Fund Balance Classifications: Fund balance is classified in five categories (1) Nonspendable, (2) Restricted, (3) Committed, (4) Assigned and (5) Unassigned. Nonspendable fund balances include amounts that are not in spendable form or are legally required to remain intact. Restricted fund balances include amounts that have external restrictions by either grantors, debt covenants, laws or other governments. Committed fund balances include amounts that are committed to a specific purpose. To establish, modify or rescind committed fund balances legislation must go before administration with passage by council ordinance. Per City policy, assigned fund balances include amounts that have an intended use by the Mayor and/or the Director of Finance to be used for a specific purpose. Unassigned fund balances include amounts that have not been assigned to any purpose. The General Fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance. Fund expenditures and encumbrances are from restricted resources to the extent of the restricted fund reserve and followed by committed then assigned and unassigned resources.

Below are the fund balance classifications for the governmental funds by category with specific purpose information at December 31, 2017:

	General Fund	Other Governmental	Total Governmental
	(Amounts in Thousands)		
Fund Balances			
Restricted			
Debt Service	\$	\$ 79,476	\$ 79,476
Recreation capital expenditures		37,992	37,992
Public Facilities capital expenditures		24,131	24,131
Road & Bridges capital expenditures		66,872	66,872
Cemetery capital expenditures		999	999
Stadium capital expenditures		11,069	11,069
Other capital expenditures		2,700	2,700
Repair & building of streets		1,647	1,647
Health & wellness		736	736
Protection & enforcement		4,530	4,530
Housing, community & economic development		51,428	51,428
Parks, properties & recreational services		444	444
Municipal Court		7,103	7,103
Casino		5,011	5,011
Neighborhood & sidewalk maintenance		1,977	1,977
Utilities programs		70	70
General governance		176	176
Restricted Total	-	296,361	296,361
Committed			
Health & wellness		54	54
Protection & enforcement		790	790
Parks, properties & recreational services		691	691
Housing, community & economic development		63,382	63,382
Municipal Court		1,606	1,606
Neighborhood & sidewalk maintenance		3,980	3,980
Lakefront management		1,586	1,586
Utilities programs		125	125
General governance		556	556
Committed Total	-	72,770	72,770
Assigned			
Debt Service		11	11
General governance	7,566		7,566
Health & wellness	856		856
Protection & enforcement	6,867		6,867
Parks, properties & recreational services	1,846		1,846
Other purpose	25,033		25,033
Assigned Total	42,168	11	42,179
Unassigned	92,692		92,692
Total Fund Balances	\$ 134,860	\$ 369,142	\$ 504,002

Net Position: Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings issued to acquire, construct or improve those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Net position is restricted for debt service, loans and other purposes. Other purposes include street construction and maintenance, grant programs and debt or capital funding from restricted income tax.

Rainy Day Reserve Fund: The City, in accordance with Section 5705.13(A), Revised Code, has established by ordinance the Rainy Day Reserve Fund (Rainy Day). The Rainy Day’s goal is to accumulate at least a level equal to two percent of the General Fund’s expenditures and not exceed ten percent of the General Fund’s expenditures. The City funds the Rainy Day through transfers from the General Fund, when funds become available. In order to use the Rainy Day, the City must pass an ordinance. The amount of the Rainy Day is reported within the unassigned fund balance classification in the City’s General Fund.

NOTE 18 – GATEWAY ECONOMIC DEVELOPMENT CORPORATION

In accordance with an agreement with Gateway Economic Development Corporation (Gateway), Gateway is required to reimburse the City for the excess of the debt service requirements of the Parking Facilities Refunding Revenue Bonds attributed to the two Gateway garages over the net revenues generated by the two Gateway garages. In October 2011, the City sold one of the Gateway garages and defeased the applicable bonds. Going forward the amounts required to be reimbursed will be calculated based upon the net revenues of the remaining garage and remaining applicable bonds outstanding.

The first garage on the Gateway site was completed in January 1994. The second garage was completed in August 1994.

In 2017, net revenues generated by the one remaining Gateway garage were less than the debt service payments attributed to that garage by \$1,194,000. Cumulative debt service payments funded by the City that are due from Gateway totaled \$52,442,000 at December 31, 2017. Due to the uncertainty of collecting such amounts, an allowance has been recorded to offset the amounts in full; therefore, these amounts do not appear in the accompanying financial statements.

To enhance the security of the bonds issued by the County for the construction of facilities at Gateway, the City has agreed to pledge annually a percentage of admissions taxes on all events held at the arena to pay debt service if other revenue sources are not sufficient. Any exempted admissions tax not required for debt service will be reimbursed to the City. The City’s current admissions tax rate is 8%. For the year ended December 31, 2017, the City pledged \$6,382,000.

NOTE 19 – COMPLIANCE AND ACCOUNTABILITY

At December 31, 2017, the following funds had a net position deficiency. These deficiencies are the result of a change in accounting for net pension liability for which there is no repayment schedule.

	<u>Amount</u>	
	(Amounts in Thousands)	
Utilities Administration	\$	4,483
Sinking Fund Administration		247
Municipal Income Tax Administration		4,192
Telephone Exchange		575

NOTE 20 – TAX ABATEMENTS

Pursuant to Governmental Accounting Standards Board Statement No. 77, the City is required to disclose certain information about tax abatements as defined in the Statement. For purposes of GASB Statement No. 77, a tax abatement is a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promise to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the City or the citizens of the City. The City has entered into such agreements. A description of each of the City's abatement programs where the City has promised to forgo taxes follows:

Real Estate tax abatements - Residential

Pursuant to Ohio Revised Code 3735, the City established a Community Reinvestment Area which included all land within the boundaries of the City. The City authorizes abatements through passage of public ordinances, based on residential investment criteria and through an application process, including proof that the improvements have been made. The abatement equals an agreed upon percentage of the additional property tax resulting from the increase in assessed value as a result of the improvements. The amount of the abatement is deducted from the recipient's property tax bill. The establishment of the Community Reinvestment Area gave the City the ability to provide incentives for the development of safe and affordable housing in Cleveland's neighborhoods. The City's tax abatement program provides incentives for current residents to rehabilitate their homes and to attract new residents into the City. Abated taxes are recouped when specific conditions are no longer met in the terms of the tax abatement agreement. Taxes are abated on the improved value of a parcel, where new construction occurs, or on the structure where remodeling applies. The collection of taxes continues on the land and unimproved portion of a remodeled structure. The tax abatement is revoked when the tax abated property has code violations and the property is not maintained and/or when the portion of taxes on a property or parcel that was not abated become delinquent.

Real Estate tax abatements – Commercial

Pursuant to Ohio Revised Code 5709, the City established an Enterprise Zone in 1995, which included all land within the boundaries of the City. The City authorizes incentives through passage of public ordinances, based upon each project criteria and through a contractual application process with each business, including proof that the improvements have been made. The abatement equals a percentage of the additional real property tax resulting from the increase in real property tax bill. Abated taxes may be recouped if the project is not completed and/or required job creation is not met. The establishment of the Enterprise Zone gave the City the ability to retain and expand businesses located in the City and create new jobs by partially abating real property taxes of new or improved business real estate including mixed-use and commercial improvements.

The City has offered tax incentives including Enterprise Zone tax abatements of up to 60% for a period of ten years to businesses making a substantial investment in the City with new development or redevelopment of commercial real property. To qualify, the City considers projects where the enterprise must meet one of the following conditions:

- An investment in an expansion must equal at least 10% of the market value of the facility prior to the expenditure.
- The renovation of an existing facility requires expenditures totaling at least 50% of the market value of the subject facility.
- When occupying a vacant facility or site an enterprise must incur expenditures to renovate or expand the facility equal to at least 20% of the market value of the subject facility.
- Establishing a new facility in an Enterprise Zone.

Businesses which submit applications for tax abatement must be willing and able to attest that without abatement, the proposed investment would not take place in the City. The business must justify this statement documenting that the investment would not be cost effective without abatement or that they are considering a more economically advantageous location outside the City.

Also, to address the existence of food deserts, the City recertified its Enterprise Zone to extend the term of the tax abatement to the maximum allowable amount. Accordingly and pursuant to Ohio Revised Code 5709.62, the City offers a 15-year, 75% tax abatement to business improving real property with a grocery store.

Below is the information relevant to the disclosure of real estate tax abatement program for the year ended December 31, 2017.

<u>Tax Abatement Program</u>	<u>Total Amount of Taxes Abated For the year 2017</u> (Amounts in Thousands)
Community Reinvestment Area (CRA)	
Residential properties	\$ 2,651
Enterprise Zone Program	
Commercial properties	1,351

NOTE 21 – SUBSEQUENT EVENTS

The City entered into an agreement to cease its jail operations at its City Jails and the Cleveland House of Corrections and to contract with Cuyahoga County (the County) to provide the City with prisoner booking, housing and other related services. The City shall pay the County a one-time amount equal to \$5,603,414 for non-recurring start-up expenses necessary for the County to effectuate the takeover of all City Prisoner operations. The one-time amount shall be paid in two equal payments. The first half payment of \$2,801,707 was paid in 2017 and the second half payment of \$2,801,707 shall be paid in 2018. The parties agree that the transfer of the City’s prisoner detention operations to the County will benefit the public and result in more economical, efficient and effective operation of prisoner services.

Effective March 1, 2018, the City entered into an amendment to extend the period of time during which Wells Fargo Municipal Capital Strategies, LLC will be the holder of the \$69,900,000 Refunding Certificates of Participation, Series 2010B (Cleveland Stadium Project). The new Interest Rate Period will end on March 19, 2021. The bonds remain in a variable rate mode with the City again paying on a monthly basis an amount equal to SIFMA plus a spread.

On April 30, 2018, City Council approved legislation authorizing the issuance of not to exceed \$92,080,000 of General Obligation Bonds. Pursuant to this authorization, the City issued \$80,435,000 Various Purpose General Obligation Bonds, Series 2018 on June 20, 2018 to fund \$79,161,000 of capital improvement projects. These bonds were issued to fund park and recreation improvements, public facility improvements and road and bridge improvements. Legislation was also approved in April to allow the refunding of any outstanding general obligation bonds in order to achieve at least 3% debt service savings or to restructure the debt.

Also on April 30, 2018 City Council approved legislation authorizing the issuance of not to exceed \$64,000,000 of Subordinate Lien Income Tax Bonds. These bonds are being issued for public facility improvements and will be specifically used for the acquisition, construction and/or rehabilitation of a new police headquarters building.

Effective May 1, 2018, the City’s \$21,860,000 Taxable Economic and Community Development Refunding Revenue Bonds, Series 2013A (Core City Fund) were directly purchased by PNC Bank, National Association for a period of three years upon the expiration of the prior direct placement. The bonds remain in a variable rate mode with the City again paying on a monthly basis an amount equal to LIBOR plus a spread.

On May 17, 2018, the Water Revenue Bonds, Series AA, 2015 were directly purchased by Royal Bank of Canada for a period of three years upon the expiration of the previous direct placement. The bonds remain in a variable rate mode with the City now paying on a monthly basis an amount equal to SIFMA plus a spread.

On May 21, 2018, legislation was approved by City Council authorizing the issuance not to exceed \$47,500,000 of Airport System Revenue Bonds. The purpose of the bonds will be to fund approximately \$35 million of capital improvements at Cleveland Hopkins Airport along with funding the required deposit to the reserve fund, to pay issuance costs and to cover interest costs for the initial two years. It is expected that the bonds will be issued in the latter half of 2018.

Effective June 27, 2018, the City 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 City will realize \$5.0 million of net present value debt service savings for Cleveland Public Power.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF CLEVELAND, OHIO

**Required Supplementary Information
Schedule of the City'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)			
City's Proportion of the Net Pension Liability	1.918603%	1.991565%	2.005665%	2.005665%
City's Proportionate Share of the Net Pension Liability	\$ 434,615	\$ 343,995	\$ 241,132	\$ 236,084
City's Covered Payroll	\$ 254,500	\$ 253,925	\$ 250,992	\$ 227,331
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	170.77%	135.47%	96.07%	103.85%
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 is not available. The City 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 ending 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, OHIO

**Required Supplementary Information
Schedule of Contributions
Ohio Public Employees Retirement System
Last Five Years (1)**

	2017	2016	2015	2014	2013
	(Amounts in Thousands)				
Contractually Required Contributions	\$ 34,457	\$ 30,540	\$ 30,471	\$ 30,119	\$ 29,553
Contributions in Relation to the Contractually Required Contributions	<u>(34,457)</u>	<u>(30,540)</u>	<u>(30,471)</u>	<u>(30,119)</u>	<u>(29,553)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 265,054	\$ 254,500	\$ 253,925	\$ 250,992	\$ 227,331
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 City will continue to present information for years available until a full ten-year trend is compiled.

CITY OF CLEVELAND, OHIO

**Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Police and Fire Pension Fund
Last Four Measurement Years (1), (2)**

	2017	2016	2015	2014
	(Amounts in Thousands)			
City's Proportion of the Net Pension Liability	7.413054%	7.121475%	7.6723876%	7.6723876%
City's Proportionate Share of the Net Pension Liability	\$ 469,535	\$ 458,129	\$ 397,462	\$ 373,669
City's Covered Payroll	\$ 157,731	\$ 160,828	\$ 154,514	\$ 187,096
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	297.68%	284.86%	257.23%	199.72%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.36%	66.77%	71.71%	73.00%

(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 is not available. The City will continue to present information for years available until a full ten-year trend is compiled.

CITY OF CLEVELAND, OHIO

**Required Supplementary Information
Schedule of Contributions
Ohio Police and Fire Pension Fund
Last Five Years (1)**

	2017	2016	2015	2014	2013
	(Amounts in Thousands)				
Contractually Required Contributions	\$ 32,482	\$ 32,808	\$ 33,420	\$ 32,108	\$ 31,956
Contributions in Relation to the Contractually Required Contributions	<u>(32,482)</u>	<u>(32,808)</u>	<u>(33,420)</u>	<u>(32,108)</u>	<u>(31,956)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 156,994	\$ 157,731	\$ 160,828	\$ 154,514	\$ 187,096
Contributions as a Percentage of Covered Payroll	20.69%	20.80%	20.78%	20.78%	17.08%

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

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SUPPLEMENTARY INFORMATION

CITY OF CLEVELAND, OHIO

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-
GENERAL FUND-LEGAL APPROPRIATION LEVEL
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands)

	<u>Original</u>	<u>Final</u>		Variance-
	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	Positive
				(Negative)
REVENUES:				
Income taxes	\$ 397,338	\$ 397,338	\$ 389,046	\$ (8,292)
Property taxes	32,571	32,571	33,842	1,271
State local government funds	26,990	26,990	24,374	(2,616)
Other taxes	39,981	40,981	46,770	5,789
Other shared revenues	13,010	13,010	12,900	(110)
Licenses and permits	15,669	15,669	17,291	1,622
Charges for services	34,575	34,575	36,675	2,100
Fines, forfeits and settlements	9,457	9,457	11,259	1,802
Investment earnings	780	780	1,658	878
Grants	417	417	1,065	648
Miscellaneous	<u>29,545</u>	<u>36,647</u>	<u>35,114</u>	<u>(1,533)</u>
TOTAL REVENUES	<u>600,333</u>	<u>608,435</u>	<u>609,994</u>	<u>1,559</u>
EXPENDITURES:				
Current:				
General Government:				
Council and clerk of council:				
Personnel	5,176	5,276	5,276	-
Other	<u>2,142</u>	<u>2,042</u>	<u>1,889</u>	<u>153</u>
Total council and clerk of council	<u>7,318</u>	<u>7,318</u>	<u>7,165</u>	<u>153</u>
Municipal court-judicial division:				
Personnel	21,244	21,209	19,179	2,030
Other	<u>2,739</u>	<u>2,774</u>	<u>2,687</u>	<u>87</u>
Total municipal court-judicial division	<u>23,983</u>	<u>23,983</u>	<u>21,866</u>	<u>2,117</u>
Municipal court-clerks division:				
Personnel	10,075	9,900	9,727	173
Other	<u>1,315</u>	<u>1,490</u>	<u>1,461</u>	<u>29</u>
Total municipal court-clerks division	<u>11,390</u>	<u>11,390</u>	<u>11,188</u>	<u>202</u>
Municipal court-housing division:				
Personnel	4,029	4,004	3,818	186
Other	<u>263</u>	<u>288</u>	<u>268</u>	<u>20</u>
Total municipal court-housing division	<u>4,292</u>	<u>4,292</u>	<u>4,086</u>	<u>206</u>
Office of the mayor:				
Personnel	2,959	2,959	2,717	242
Other	<u>101</u>	<u>101</u>	<u>86</u>	<u>15</u>
Total office of the mayor	<u>3,060</u>	<u>3,060</u>	<u>2,803</u>	<u>257</u>
Office of capital projects:				
Personnel	5,554	5,109	4,530	579
Other	<u>526</u>	<u>526</u>	<u>401</u>	<u>125</u>
Total office of capital projects	<u>6,080</u>	<u>5,635</u>	<u>4,931</u>	<u>704</u>

CITY OF CLEVELAND, OHIO

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-
GENERAL FUND-LEGAL APPROPRIATION LEVEL
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Positive (Negative)</u>
Office of quality control and performance management:				
Personnel	\$ 1,202	\$ 677	\$ 554	\$ 123
Other	<u>370</u>	<u>370</u>	<u>86</u>	<u>284</u>
Total office of quality control and performance management	<u>1,572</u>	<u>1,047</u>	<u>640</u>	<u>407</u>
Landmarks commission:				
Personnel	196	196	143	53
Other	<u>12</u>	<u>12</u>	<u>6</u>	<u>6</u>
Total landmarks commission	<u>208</u>	<u>208</u>	<u>149</u>	<u>59</u>
Board of building standards and appeals:				
Personnel	128	128	119	9
Other	<u>9</u>	<u>9</u>	<u>7</u>	<u>2</u>
Total board of building standards and appeals	<u>137</u>	<u>137</u>	<u>126</u>	<u>11</u>
Board of zoning appeals:				
Personnel	223	233	226	7
Other	<u>23</u>	<u>23</u>	<u>17</u>	<u>6</u>
Total board of zoning appeals	<u>246</u>	<u>256</u>	<u>243</u>	<u>13</u>
Civil service commission:				
Personnel	614	614	487	127
Other	<u>802</u>	<u>802</u>	<u>520</u>	<u>282</u>
Total civil service commission	<u>1,416</u>	<u>1,416</u>	<u>1,007</u>	<u>409</u>
Community relations board:				
Personnel	1,686	1,336	1,119	217
Other	<u>1,653</u>	<u>1,653</u>	<u>1,481</u>	<u>172</u>
Total community relations board	<u>3,339</u>	<u>2,989</u>	<u>2,600</u>	<u>389</u>
City planning commission:				
Personnel	1,946	1,946	1,477	469
Other	<u>288</u>	<u>288</u>	<u>85</u>	<u>203</u>
Total city planning commission	<u>2,234</u>	<u>2,234</u>	<u>1,562</u>	<u>672</u>
Boxing and wrestling commission:				
Personnel	<u>26</u>	<u>26</u>	<u>18</u>	<u>8</u>
Total boxing and wrestling commission	<u>26</u>	<u>26</u>	<u>18</u>	<u>8</u>
Office of sustainability:				
Personnel	575	575	486	89
Other	<u>212</u>	<u>177</u>	<u>94</u>	<u>83</u>
Total office of sustainability	<u>787</u>	<u>752</u>	<u>580</u>	<u>172</u>

(Continued)

CITY OF CLEVELAND, OHIO

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-
GENERAL FUND-LEGAL APPROPRIATION LEVEL
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Positive (Negative)</u>
Office of equal opportunity:				
Personnel	\$ 750	\$ 750	\$ 518	\$ 232
Other	<u>139</u>	<u>139</u>	<u>134</u>	<u>5</u>
Total office of equal opportunity	<u>889</u>	<u>889</u>	<u>652</u>	<u>237</u>
Office of budget and management:				
Personnel	820	820	661	159
Other	<u>47</u>	<u>47</u>	<u>28</u>	<u>19</u>
Total office of budget and management	<u>867</u>	<u>867</u>	<u>689</u>	<u>178</u>
Department of aging:				
Personnel	1,144	1,144	738	406
Other	<u>259</u>	<u>259</u>	<u>227</u>	<u>32</u>
Total department of aging	<u>1,403</u>	<u>1,403</u>	<u>965</u>	<u>438</u>
Office of personnel:				
Personnel	1,384	1,384	1,150	234
Other	<u>1,125</u>	<u>1,125</u>	<u>1,061</u>	<u>64</u>
Total office of personnel	<u>2,509</u>	<u>2,509</u>	<u>2,211</u>	<u>298</u>
Department of law:				
Personnel	7,106	7,106	6,288	818
Other	<u>4,902</u>	<u>8,602</u>	<u>8,402</u>	<u>200</u>
Total department of law	<u>12,008</u>	<u>15,708</u>	<u>14,690</u>	<u>1,018</u>
Finance administration:				
Personnel	906	906	726	180
Other	<u>392</u>	<u>392</u>	<u>334</u>	<u>58</u>
Total finance administration	<u>1,298</u>	<u>1,298</u>	<u>1,060</u>	<u>238</u>
Division of accounts:				
Personnel	1,315	1,315	1,275	40
Other	<u>802</u>	<u>802</u>	<u>592</u>	<u>210</u>
Total division of accounts	<u>2,117</u>	<u>2,117</u>	<u>1,867</u>	<u>250</u>
Division of assessments and licenses:				
Personnel	3,267	2,492	2,317	175
Other	<u>1,224</u>	<u>1,054</u>	<u>987</u>	<u>67</u>
Total division of assessments and licenses	<u>4,491</u>	<u>3,546</u>	<u>3,304</u>	<u>242</u>
Division of treasury:				
Personnel	728	728	642	86
Other	<u>116</u>	<u>116</u>	<u>91</u>	<u>25</u>
Total division of treasury	<u>844</u>	<u>844</u>	<u>733</u>	<u>111</u>

CITY OF CLEVELAND, OHIO

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-
GENERAL FUND-LEGAL APPROPRIATION LEVEL
FOR THE YEAR ENDED DECEMBER 31, 2017
(Amounts in Thousands)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Positive (Negative)</u>
Division of purchases and supplies:				
Personnel	\$ 692	\$ 692	\$ 533	\$ 159
Other	40	40	25	15
Total division of purchases and supplies	<u>732</u>	<u>732</u>	<u>558</u>	<u>174</u>
Bureau of internal audit:				
Personnel	633	633	480	153
Other	645	645	277	368
Total bureau of internal audit	<u>1,278</u>	<u>1,278</u>	<u>757</u>	<u>521</u>
Division of financial reporting and control:				
Personnel	1,424	1,424	1,150	274
Other	22	22	16	6
Total division of financial reporting and control	<u>1,446</u>	<u>1,446</u>	<u>1,166</u>	<u>280</u>
Division of information system services:				
Personnel	2,941	2,941	2,441	500
Other	3,067	3,142	2,998	144
Total division of information system services	<u>6,008</u>	<u>6,083</u>	<u>5,439</u>	<u>644</u>
 TOTAL GENERAL GOVERNMENT	 <u>101,978</u>	 <u>103,463</u>	 <u>93,055</u>	 <u>10,408</u>
Public Health:				
Public health administration:				
Personnel	977	977	715	262
Other	409	419	406	13
Total public health administration	<u>1,386</u>	<u>1,396</u>	<u>1,121</u>	<u>275</u>
Division of health:				
Personnel	2,593	2,243	1,938	305
Other	1,871	1,881	1,815	66
Total division of health	<u>4,464</u>	<u>4,124</u>	<u>3,753</u>	<u>371</u>
Division of environment:				
Personnel	1,460	1,460	1,021	439
Other	522	572	498	74
Total division of environment	<u>1,982</u>	<u>2,032</u>	<u>1,519</u>	<u>513</u>
Division of air quality:				
Personnel	632	172	150	22
Other	317	317	304	13
Total division of air quality	<u>949</u>	<u>489</u>	<u>454</u>	<u>35</u>
 TOTAL PUBLIC HEALTH	 <u>8,781</u>	 <u>8,041</u>	 <u>6,847</u>	 <u>1,194</u>

(Continued)

CITY OF CLEVELAND, OHIO

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-
GENERAL FUND-LEGAL APPROPRIATION LEVEL
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance- Positive (Negative)
Public Safety:				
Public safety administration:				
Personnel	\$ 3,472	\$ 3,472	\$ 3,267	\$ 205
Other	<u>2,088</u>	<u>3,188</u>	<u>3,079</u>	<u>109</u>
Total public safety administration	<u>5,560</u>	<u>6,660</u>	<u>6,346</u>	<u>314</u>
Division of police:				
Personnel	189,618	181,413	173,852	7,561
Other	<u>9,962</u>	<u>11,712</u>	<u>11,194</u>	<u>518</u>
Total division of police	<u>199,580</u>	<u>193,125</u>	<u>185,046</u>	<u>8,079</u>
Division of fire:				
Personnel	84,800	85,300	83,864	1,436
Other	<u>4,320</u>	<u>4,320</u>	<u>4,019</u>	<u>301</u>
Total division of fire	<u>89,120</u>	<u>89,620</u>	<u>87,883</u>	<u>1,737</u>
Division of emergency medical services:				
Personnel	26,683	23,683	21,938	1,745
Other	<u>3,344</u>	<u>4,069</u>	<u>3,865</u>	<u>204</u>
Total division of emergency medical services	<u>30,027</u>	<u>27,752</u>	<u>25,803</u>	<u>1,949</u>
Division of animal control services:				
Personnel	1,904	1,429	1,191	238
Other	<u>525</u>	<u>625</u>	<u>592</u>	<u>33</u>
Total division of animal control services	<u>2,429</u>	<u>2,054</u>	<u>1,783</u>	<u>271</u>
Division of correction:				
Personnel	11,117	9,867	9,280	587
Other	<u>3,590</u>	<u>8,190</u>	<u>7,801</u>	<u>389</u>
Total division of correction	<u>14,707</u>	<u>18,057</u>	<u>17,081</u>	<u>976</u>
Office of Professional Standards:				
Personnel	840	840	807	33
Other	<u>245</u>	<u>420</u>	<u>373</u>	<u>47</u>
Total office of professional standards	<u>1,085</u>	<u>1,260</u>	<u>1,180</u>	<u>80</u>
Police Review Board:				
Personnel	85	95	90	5
Other	<u>7</u>	<u>7</u>	<u>2</u>	<u>5</u>
Total police review board	<u>92</u>	<u>102</u>	<u>92</u>	<u>10</u>
Community Police Commission:				
Personnel	387	387	119	268
Other	<u>394</u>	<u>394</u>	<u>168</u>	<u>226</u>
Total community police commission	<u>781</u>	<u>781</u>	<u>287</u>	<u>494</u>

CITY OF CLEVELAND, OHIO

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-
GENERAL FUND-LEGAL APPROPRIATION LEVEL
FOR THE YEAR ENDED DECEMBER 31, 2017
(Amounts in Thousands)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Positive (Negative)</u>
Police Inspector General:				
Personnel	\$ 143	\$ 143	\$	\$ 143
Other	<u>4</u>	<u>4</u>	<u>1</u>	<u>3</u>
Total police inspector general	<u>147</u>	<u>147</u>	<u>1</u>	<u>146</u>
Department of Justice:				
Personnel	3,574	1,674	900	774
Other	<u>2,366</u>	<u>2,366</u>	<u>1,695</u>	<u>671</u>
Total department of justice	<u>5,940</u>	<u>4,040</u>	<u>2,595</u>	<u>1,445</u>
TOTAL PUBLIC SAFETY	<u>349,468</u>	<u>343,598</u>	<u>328,097</u>	<u>15,501</u>
Public Works:				
Division of public works administration:				
Personnel	2,946	2,946	2,629	317
Other	<u>206</u>	<u>216</u>	<u>205</u>	<u>11</u>
Total division of public works administration	<u>3,152</u>	<u>3,162</u>	<u>2,834</u>	<u>328</u>
Division of recreation:				
Personnel	10,423	8,773	8,426	347
Other	<u>4,502</u>	<u>4,502</u>	<u>4,088</u>	<u>414</u>
Total division of recreation	<u>14,925</u>	<u>13,275</u>	<u>12,514</u>	<u>761</u>
Division of parking facilities:				
Personnel	1,173	1,173	1,002	171
Other	<u>66</u>	<u>66</u>	<u>55</u>	<u>11</u>
Total division of parking facilities	<u>1,239</u>	<u>1,239</u>	<u>1,057</u>	<u>182</u>
Division of property management:				
Personnel	5,732	5,732	5,491	241
Other	<u>2,194</u>	<u>2,194</u>	<u>1,935</u>	<u>259</u>
Total division of property management	<u>7,926</u>	<u>7,926</u>	<u>7,426</u>	<u>500</u>
Division of park maintenance and properties:				
Personnel	9,870	9,870	9,133	737
Other	<u>5,625</u>	<u>6,250</u>	<u>6,197</u>	<u>53</u>
Total division of park maintenance and properties	<u>15,495</u>	<u>16,120</u>	<u>15,330</u>	<u>790</u>
Division of waste collection and disposal:				
Personnel	15,865	15,865	14,918	947
Other	<u>11,426</u>	<u>12,676</u>	<u>11,936</u>	<u>740</u>
Total division of waste collection and disposal	<u>27,291</u>	<u>28,541</u>	<u>26,854</u>	<u>1,687</u>

(Continued)

CITY OF CLEVELAND, OHIO

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-
GENERAL FUND-LEGAL APPROPRIATION LEVEL
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Positive (Negative)</u>
Division of traffic engineering:				
Personnel	\$ 2,694	\$ 2,694	\$ 2,630	\$ 64
Other	885	960	927	33
Total division of traffic engineering	<u>3,579</u>	<u>3,654</u>	<u>3,557</u>	<u>97</u>
TOTAL PUBLIC WORKS	<u>73,607</u>	<u>73,917</u>	<u>69,572</u>	<u>4,345</u>
Community Development:				
Director's office:				
Personnel	304	309	277	32
Other	10	10	7	3
Total director's office	<u>314</u>	<u>319</u>	<u>284</u>	<u>35</u>
TOTAL COMMUNITY DEVELOPMENT	<u>314</u>	<u>319</u>	<u>284</u>	<u>35</u>
Building and Housing:				
Director's office:				
Personnel	1,840	1,840	1,732	108
Other	549	674	659	15
Total director's office	<u>2,389</u>	<u>2,514</u>	<u>2,391</u>	<u>123</u>
Division of code enforcement:				
Personnel	7,954	7,334	6,451	883
Other	193	343	233	110
Total division of code enforcement	<u>8,147</u>	<u>7,677</u>	<u>6,684</u>	<u>993</u>
Division of construction permitting:				
Personnel	1,702	1,702	1,465	237
Other	26	26	25	1
Total division of construction permitting	<u>1,728</u>	<u>1,728</u>	<u>1,490</u>	<u>238</u>
TOTAL BUILDING AND HOUSING	<u>12,264</u>	<u>11,919</u>	<u>10,565</u>	<u>1,354</u>
Economic Development:				
Economic development administration:				
Personnel	1,680	1,680	1,562	118
Other	22	22	14	8
Total economic development administration	<u>1,702</u>	<u>1,702</u>	<u>1,576</u>	<u>126</u>
TOTAL ECONOMIC DEVELOPMENT	<u>1,702</u>	<u>1,702</u>	<u>1,576</u>	<u>126</u>

CITY OF CLEVELAND, OHIO

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-
GENERAL FUND-LEGAL APPROPRIATION LEVEL
FOR THE YEAR ENDED DECEMBER 31, 2017
(Amounts in Thousands)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Positive (Negative)</u>
Non-Departmental Expenditures:				
Other	\$ 20,909	\$ 21,688	\$ 20,279	\$ 1,409
TOTAL NON-DEPARTMENTAL EXPENDITURES	<u>20,909</u>	<u>21,688</u>	<u>20,279</u>	<u>1,409</u>
Capital outlay	<u> </u>	<u>21,976</u>	<u>21,898</u>	<u>78</u>
TOTAL EXPENDITURES	<u>569,023</u>	<u>586,623</u>	<u>552,173</u>	<u>34,450</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	 31,310	 21,812	 57,821	 36,009
 OTHER FINANCING SOURCES (USES):				
Transfers in	4,500	4,500		(4,500)
Transfers out	(38,294)	(44,294)	(43,671)	623
Sale of City assets	<u>2,500</u>	<u>7,750</u>	<u>5,250</u>	<u>(2,500)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(31,294)</u>	<u>(32,044)</u>	<u>(38,421)</u>	<u>(6,377)</u>
 DECERTIFICATION OF PRIOR YEAR ENCUMBRANCES AND PRE-ENCUMBRANCES	 <u> </u>	 <u> </u>	 <u>515</u>	 <u>515</u>
 NET CHANGE IN FUND BALANCE	 16	 (10,232)	 19,915	 30,147
 FUND BALANCE AT BEGINNING OF YEAR	 <u>12,936</u>	 <u>12,936</u>	 <u>12,936</u>	 <u>-</u>
 FUND BALANCE AT END OF YEAR	 <u>\$ 12,952</u>	 <u>\$ 2,704</u>	 <u>\$ 32,851</u>	 <u>\$ 30,147</u>

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CITY OF CLEVELAND, OHIO

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted or committed by the City to expenditures for particular purposes. The City's Special Revenue Funds are described below:

Division of Streets	To account for motor vehicle license tax and gasoline excise tax used for the repair and building of streets.
Restricted Income Tax	To account for one-ninth of the City's income tax collections. Monies are to be used for capital improvement purposes, repayment of debt and elimination of any deficit balance in any fund of the City.
Cleveland Stadium Operations	To account for the operating activities of Cleveland Browns Stadium.
Community Development Block Grants	To account for revenue from the federal government and expenditures as prescribed under the Community Development Block Grant Program.
Community Development Funds	To account for revenue earmarked for citywide development.
Building and Housing Funds	To account for revenue earmarked to administer and enforce the provisions of the Cleveland building, housing and zoning codes plus the national electrical code and state building, plumbing and elevator codes.
Urban Development Action Funds	To account for revenue from the federal government under the Urban Development Action Grant Program.
Economic Development Funds	To account for revenue earmarked to revitalize distressed cities by stimulating economic development.
Workforce Innovation and Opportunity Act (WIOA)	To account for revenue and expenditures from the State of Ohio under the Workforce Innovation and Opportunity Act.
General Government Funds	To account for revenue earmarked for general government activities.
Public Works Funds	To account for specific revenue earmarked for the public works activity.
Public Safety Funds	To account for revenue earmarked for public safety activities.

SPECIAL REVENUE FUNDS (Continued)

Public Health Funds	To account for revenue earmarked for the improvement of public health.
Gateway Shared Income Tax Funds	To account for municipal income tax revenue derived from persons employed at the Arena and Progressive Field with 50% of the revenues shared with the other taxing districts in the City.
Neighborhood Development Investment Fund	To account for revenue earmarked for the Neighborhood Development Investment Fund.
Core City Program Funds	To account for revenue earmarked for certain economic and community development projects.
Supplemental Empowerment Zone	To account for revenue from the U.S. Department of Housing and Urban Development Program designed to help rebuild specified urban communities.

SPECIAL REVENUE FUNDS (for budgetary purposes only)

These funds are rolled into the General Fund for Modified Accrual Financial Statements.

Rainy Day Reserve Fund	To account for revenue which is eligible to be used during significant periods of economic downturn.
Schools Recreation and Cultural Activities Fund	To account for revenue from special taxes earmarked for Cleveland Municipal Schools for recreation and cultural activities.

DEBT SERVICE FUNDS

Debt Service Funds are used to account for the accumulation of financial resources for and the payment of, general long-term debt principal, interest and related costs. The City's Debt Service Funds are described below:

Unvoted Tax Supported Obligations Fund	To account for the accumulation of resources for the payment of General Obligation Bonds of the City. These bonds do not require a vote of the electors, other than self-supporting obligations. They are payable from ad valorem property taxes levied within the limitations provided by law.
Stadium Bond Fund	To account for the accumulation of resources for the payment of nontax revenue bonds pertaining to the Stadium.
Subordinated Income Tax Fund	To account for the accumulation of resources for the payment of Subordinated Income Tax Variable Rate Refunding Bonds payable from pledged income taxes.

DEBT SERVICE FUNDS (Continued)

Lower Euclid Avenue TIF	To account for the accumulation of resources for the payment of Economic Development Bonds payable from tax increment financing revenues and a pledge of the non-tax revenue of the City.
Core City Bonds	To account for the accumulation of resources for the payment of taxable Economic and Community Development Bonds payable from non-tax and net project revenues.
Subordinate Lien Income Tax Fund	To account for the accumulation of resources for the payment of Subordinate Lien Income Tax Bonds payable from pledged income taxes.
Cleveland Stadium Debt Service Fund	To account for the accumulation of resources earmarked for the repayment of debt related to Cleveland Browns Stadium.
Urban Renewal Fund	To account for the accumulation of resources for the payment of tax increment Urban Renewal Bonds payable from deposits made in lieu of taxes.
Urban Renewal Reserve Fund	The account is to be maintained at an amount equal to one year's maximum annual debt service on certain Urban Renewal Bonds and can be used to cover any debt insufficiency payable from certain urban renewal bonds.

CAPITAL PROJECT FUNDS

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The City's Capital Project Funds are described below:

Capital/Urban Renewal Bond Construction	To account for all bond proceeds and capital projects costs of bond-funded capital acquisitions, tax increment Urban Renewal Bond issues and construction within the City.
Grant Improvement	To account for capital grant revenues which fund Capital Improvement Projects within the City.
Capital Improvement	To account for miscellaneous revenues which fund capital projects.
Cleveland Stadium Construction	To account for bond proceeds and capital projects costs of the Cleveland Browns Stadium.

CITY OF CLEVELAND, OHIO

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2017

(Amounts in Thousands)

	Special Revenue Funds - Budgeted			
	Division of Streets	Restricted Income Tax	Cleveland Stadium Operations	Total Budgeted Funds
ASSETS				
Cash and cash equivalents	\$ 1,938	\$ 13,337	\$ 22,996	\$ 38,271
Investments				-
Receivables:				
Taxes		7,666		7,666
Grants				-
Loans				-
Accrued interest			17	17
Assessments				-
Receivables, net	-	7,666	17	7,683
Due from other funds		4,110		4,110
Due from other governments	6,639			6,639
TOTAL ASSETS	\$ 8,577	\$ 25,113	\$ 23,013	\$ 56,703
LIABILITIES				
Accounts payable	\$ 490	\$ 226	\$	\$ 716
Accrued wages and benefits	1,564			1,564
Due to other governments			338	338
Unearned revenue				-
Due to other funds	336			336
Total liabilities	2,390	226	338	2,954
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflow	4,540	2,619		7,159
Total deferred inflows of resources	4,540	2,619	-	7,159
FUND BALANCES				
Restricted	1,647	22,268	22,675	46,590
Committed				-
Assigned				-
Total fund balances	1,647	22,268	22,675	46,590
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 8,577	\$ 25,113	\$ 23,013	\$ 56,703

Special Revenue Funds - Non-Budgeted

Community Development Block Grants	Community Development Funds	Building and Housing Funds	Urban Development Action Funds	Economic Development Funds	WIOA Grants	General Government Funds
\$	\$ 989	\$	\$ 13,749	\$ 17,042	\$	\$ 22,639
	2,874	1,018		382	314	286
5,542	8,202		19,664	62,670		
<u>1,385</u>	<u>994</u>	<u>2,533</u>				<u>42</u>
<u>6,927</u>	<u>12,070</u>	<u>3,551</u>	<u>19,664</u>	<u>63,052</u>	<u>314</u>	<u>328</u>
655	38	787		7,619		64
						<u>935</u>
<u>\$ 7,582</u>	<u>\$ 13,097</u>	<u>\$ 4,338</u>	<u>\$ 33,413</u>	<u>\$ 87,713</u>	<u>\$ 314</u>	<u>\$ 23,966</u>
\$ 490	\$ 1	\$ 436	\$ 11	\$	\$ 8	\$ 871
183	10			2	23	55
56	425			57,353		220
2,761	541	151		865		52
<u>2,723</u>	<u>465</u>	<u>1,225</u>	<u>2</u>	<u>1,165</u>	<u>283</u>	<u>150</u>
<u>6,213</u>	<u>1,442</u>	<u>1,812</u>	<u>13</u>	<u>59,385</u>	<u>314</u>	<u>1,348</u>
<u>1,369</u>	<u>982</u>	<u>2,496</u>		<u>7,619</u>		<u>428</u>
<u>1,369</u>	<u>982</u>	<u>2,496</u>	<u>-</u>	<u>7,619</u>	<u>-</u>	<u>428</u>
	9,038	3		15,439		14,337
	1,635	27	33,400	5,270		7,853
<u>-</u>	<u>10,673</u>	<u>30</u>	<u>33,400</u>	<u>20,709</u>	<u>-</u>	<u>22,190</u>
<u>\$ 7,582</u>	<u>\$ 13,097</u>	<u>\$ 4,338</u>	<u>\$ 33,413</u>	<u>\$ 87,713</u>	<u>\$ 314</u>	<u>\$ 23,966</u>

(Continued)

CITY OF CLEVELAND, OHIO

**COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2017
(Amounts in Thousands)**

	<u>Special Revenue Funds - Non-Budgeted</u>			
	<u>Public Works Funds</u>	<u>Public Safety Funds</u>	<u>Public Health Funds</u>	<u>Gateway Shared Income Tax Funds</u>
ASSETS				
Cash and cash equivalents	\$ 728	\$ 4,823	\$ 856	\$ 2,884
Investments				
Receivables:				
Taxes				
Grants		964	495	
Loans				
Accrued interest				
Assessments				
Receivables, net	<u>-</u>	<u>964</u>	<u>495</u>	<u>-</u>
Due from other funds	822		198	
Due from other governments			<u>7</u>	<u>576</u>
TOTAL ASSETS	<u>\$ 1,550</u>	<u>\$ 5,787</u>	<u>\$ 1,556</u>	<u>\$ 3,460</u>
LIABILITIES				
Accounts payable	\$ 144	\$ 162	\$ 105	\$
Accrued wages and benefits		18	194	
Due to other governments	202		9	1,861
Unearned revenue	69	129	401	
Due to other funds		<u>158</u>	<u>52</u>	<u>1,599</u>
Total liabilities	<u>415</u>	<u>467</u>	<u>761</u>	<u>3,460</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflow			<u>5</u>	
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>5</u>	<u>-</u>
FUND BALANCE				
Restricted	444	4,530	736	
Committed	691	790	54	
Assigned				
Total fund balances	<u>1,135</u>	<u>5,320</u>	<u>790</u>	<u>-</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 1,550</u>	<u>\$ 5,787</u>	<u>\$ 1,556</u>	<u>\$ 3,460</u>

Special Revenue Funds - Non-Budgeted

Neighborhood Development Investment Fund	Core City Program Funds	Supplemental Empowerment Zone	Total Non-Budgeted Funds	Total Special Revenue Funds
\$ 5,816	\$ 17,247	\$ 4,426	\$ 91,199	\$ 129,470
			-	-
			-	7,666
			6,333	6,333
4,029	15,836	28,211	144,154	144,154
	13		13	30
			4,954	4,954
<u>4,029</u>	<u>15,849</u>	<u>28,211</u>	<u>155,454</u>	<u>163,137</u>
		1,165	3,729	7,839
			9,137	15,776
<u>\$ 9,845</u>	<u>\$ 33,096</u>	<u>\$ 33,802</u>	<u>\$ 259,519</u>	<u>\$ 316,222</u>
\$	\$	\$	\$ 2,228	\$ 2,944
			485	2,049
		33,395	93,521	93,859
		407	5,376	5,376
			7,822	8,158
<u>-</u>	<u>-</u>	<u>33,802</u>	<u>109,432</u>	<u>112,386</u>
			12,899	20,058
<u>-</u>	<u>-</u>	<u>-</u>	<u>12,899</u>	<u>20,058</u>
	19,891		64,418	111,008
9,845	13,205		72,770	72,770
			-	-
<u>9,845</u>	<u>33,096</u>	<u>-</u>	<u>137,188</u>	<u>183,778</u>
<u>\$ 9,845</u>	<u>\$ 33,096</u>	<u>\$ 33,802</u>	<u>\$ 259,519</u>	<u>\$ 316,222</u>

(Continued)

CITY OF CLEVELAND, OHIO

**COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2017
(Amounts in Thousands)**

	<u>Debt Service Funds - Budgeted</u>			
	Unvoted Tax Supported Obligations <u>Fund</u>	Stadium Bond <u>Fund</u>	Subordinated Income Tax <u>Fund</u>	Lower Euclid Avenue <u>TIF</u>
ASSETS				
Cash and cash equivalents	\$ 1,983	\$ 11	\$ 2,945	\$ 1,361
Investments	3,025			
Receivables:				
Taxes	25,142			
Grants				
Loans				
Accrued interest	7		3	
Assessments				
Receivables, net	<u>25,149</u>	<u>-</u>	<u>3</u>	<u>-</u>
Due from other funds				
Due from other governments	<u>1,616</u>			
TOTAL ASSETS	<u>\$ 31,773</u>	<u>\$ 11</u>	<u>\$ 2,948</u>	<u>\$ 1,361</u>
LIABILITIES				
Accounts payable	\$	\$	\$	\$
Accrued wages and benefits				
Due to other governments				
Unearned revenue				
Due to other funds				
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflow	<u>26,758</u>			
Total deferred inflows of resources	<u>26,758</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE				
Restricted	5,015		2,948	1,361
Committed				
Assigned		<u>11</u>		
Total fund balances	<u>5,015</u>	<u>11</u>	<u>2,948</u>	<u>1,361</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 31,773</u>	<u>\$ 11</u>	<u>\$ 2,948</u>	<u>\$ 1,361</u>

Debt Service Funds							
Non-Budgeted							
<u>Core City Bonds</u>	<u>Subordinate Lien Income Tax Fund</u>	<u>Total Budgeted Funds</u>	<u>Cleveland Stadium Debt Service Fund</u>	<u>Urban Renewal Fund</u>	<u>Urban Renewal Reserve Fund</u>	<u>Total Non- Budgeted Funds</u>	<u>Total Debt Service Funds</u>
\$ 3,373	\$ 9,414	\$ 19,087 3,025	\$ 8,610	\$ 1,592	\$ 2,202	\$ 12,404	\$ 31,491 3,025
		25,142				-	25,142
		-				-	-
		-				-	-
4	7	21	7			7	28
		-				-	-
4	7	25,163	7	-	-	7	25,170
		-				-	-
		1,616				-	1,616
<u>\$ 3,377</u>	<u>\$ 9,421</u>	<u>\$ 48,891</u>	<u>\$ 8,617</u>	<u>\$ 1,592</u>	<u>\$ 2,202</u>	<u>\$ 12,411</u>	<u>\$ 61,302</u>
\$	\$	\$ -	\$	\$	\$	\$ -	\$ -
		-				-	-
		-				-	-
		-				-	-
		-				-	-
-	-	-	-	-	-	-	-
		26,758				-	26,758
-	-	26,758	-	-	-	-	26,758
3,377	9,421	22,122	8,617	1,592	2,202	12,411	34,533
		-				-	-
		11				-	11
3,377	9,421	22,133	8,617	1,592	2,202	12,411	34,544
<u>\$ 3,377</u>	<u>\$ 9,421</u>	<u>\$ 48,891</u>	<u>\$ 8,617</u>	<u>\$ 1,592</u>	<u>\$ 2,202</u>	<u>\$ 12,411</u>	<u>\$ 61,302</u>

(Continued)

CITY OF CLEVELAND, OHIO

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2017

(Amounts in Thousands)

	<u>Capital Projects Funds</u>		
	<u>Non-Budgeted</u>		
	<u>Capital/ Urban Renewal Bond Construction</u>	<u>Grant Improvement</u>	<u>Capital Improvement</u>
ASSETS			
Cash and cash equivalents	\$ 139,031	\$	\$ 9,521
Investments			
Receivables:			
Taxes			
Grants		2,115	
Loans			
Accrued interest	116		
Assessments			
Receivables, net	<u>116</u>	<u>2,115</u>	<u>-</u>
Due from other funds			
Due from other governments			
TOTAL ASSETS	<u>\$ 139,147</u>	<u>\$ 2,115</u>	<u>\$ 9,521</u>
LIABILITIES			
Accounts payable	\$ 3,757	\$	\$ 4,291
Accrued wages and benefits			
Due to other governments	167		
Unearned revenue		354	
Due to other funds	55	1,761	
Total liabilities	<u>3,979</u>	<u>2,115</u>	<u>4,291</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow			
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE			
Restricted	135,168		5,230
Committed			
Assigned			
Total fund balances	<u>135,168</u>	<u>-</u>	<u>5,230</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 139,147</u>	<u>\$ 2,115</u>	<u>\$ 9,521</u>

<u>Cleveland Stadium Construction</u>	<u>Total Capital Projects Funds</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 11,069	\$ 159,621	\$ 320,582
	-	3,025
	-	32,808
	2,115	8,448
	-	144,154
3	119	177
	-	4,954
<u>3</u>	<u>2,234</u>	<u>190,541</u>
	-	7,839
	-	17,392
<u>\$ 11,072</u>	<u>\$ 161,855</u>	<u>\$ 539,379</u>
\$ 650	\$ 8,698	\$ 11,642
	-	2,049
	167	94,026
	354	5,730
	1,816	9,974
<u>650</u>	<u>11,035</u>	<u>123,421</u>
	-	46,816
<u>-</u>	<u>-</u>	<u>46,816</u>
10,422	150,820	296,361
	-	72,770
	-	11
<u>10,422</u>	<u>150,820</u>	<u>369,142</u>
<u>\$ 11,072</u>	<u>\$ 161,855</u>	<u>\$ 539,379</u>

(Concluded)

CITY OF CLEVELAND, OHIO

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands)

	Special Revenue Funds - Budgeted			Total Budgeted Funds
	Division of Streets	Restricted Income Tax	Cleveland Stadium Operations	
REVENUES:				
Income taxes	\$	\$ 49,695	\$	\$ 49,695
Property taxes				-
Other shared revenues	13,422		10,322	23,744
Licenses and permits	880			880
Charges for services	15		250	265
Fines, forfeits and settlements				-
Investment earnings	4	115	130	249
Grants				-
Contributions				-
Miscellaneous	<u>1</u>			<u>1</u>
Total revenues	<u>14,322</u>	<u>49,810</u>	<u>10,702</u>	<u>74,834</u>
EXPENDITURES:				
Current:				
General Government				-
Public Works	25,862		789	26,651
Public Safety				-
Community Development				-
Building and Housing				-
Public Health				-
Economic Development				-
Capital outlay		9,139		9,139
Debt service:				
Principal retirement		3,598		3,598
Interest		705		705
General Government			45	45
Other		<u>1,069</u>		<u>1,069</u>
Total expenditures	<u>25,862</u>	<u>14,511</u>	<u>834</u>	<u>41,207</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(11,540)</u>	<u>35,299</u>	<u>9,868</u>	<u>33,627</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	11,215		9,940	21,155
Transfers out		(27,121)	(9,342)	(36,463)
Premium on bonds				-
Payment to refund bonds				-
Sale of City assets				-
Issuance of refunding bonds				-
Total other financing sources (uses)	<u>11,215</u>	<u>(27,121)</u>	<u>598</u>	<u>(15,308)</u>
NET CHANGE IN FUND BALANCES	(325)	8,178	10,466	18,319
FUND BALANCES AT BEGINNING OF YEAR	<u>1,972</u>	<u>14,090</u>	<u>12,209</u>	<u>28,271</u>
FUND BALANCES AT END OF YEAR	<u>\$ 1,647</u>	<u>\$ 22,268</u>	<u>\$ 22,675</u>	<u>\$ 46,590</u>

Special Revenue Funds - Non-Budgeted						
Community Development Block Grants	Community Development Funds	Building and Housing Funds	Urban Development Action Funds	Economic Development Funds	WIOA Grants	General Government Funds
\$	\$	\$	\$	\$	\$	\$
				12,562		1,610
838	48	202				1,433
105	51			9		2,402
17,396	8,777	2,432		2,917	1,387	100
301	16		694	1,644		1,683
<u>18,640</u>	<u>8,892</u>	<u>2,634</u>	<u>694</u>	<u>17,132</u>	<u>1,387</u>	<u>1,226</u>
					1,387	6,102
18,557	6,980					
		2,836				
83	561		8,679	17,393		1,730
<u>18,640</u>	<u>7,541</u>	<u>2,836</u>	<u>8,679</u>	<u>17,393</u>	<u>1,387</u>	<u>7,832</u>
-	1,351	(202)	(7,985)	(261)	-	622
						134
				(3,986)		
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,986)</u>	<u>-</u>	<u>134</u>
-	1,351	(202)	(7,985)	(4,247)	-	756
	9,322	232	41,385	24,956		21,434
<u>\$ -</u>	<u>\$ 10,673</u>	<u>\$ 30</u>	<u>\$ 33,400</u>	<u>\$ 20,709</u>	<u>\$ -</u>	<u>\$ 22,190</u>

(Continued)

CITY OF CLEVELAND, OHIO

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands)

	Special Revenue Funds - Non-Budgeted			
	Public Works Funds	Public Safety Funds	Public Health Funds	Gateway Shared Income Tax Funds
REVENUES:				
Income taxes	\$	\$	\$	\$
Property taxes				
Other shared revenues				
Licenses and permits	1		1,308	
Charges for services	99		178	
Fines, forfeits and settlements		617		
Investment earnings	5	31	6	
Grants	350	21,456	8,403	
Contributions		4		
Miscellaneous	24	616	406	
Total revenues	<u>479</u>	<u>22,724</u>	<u>10,301</u>	<u>-</u>
EXPENDITURES:				
Current:				
General Government				
Public Works	470			
Public Safety		5,535		
Community Development				
Building and Housing				
Public Health			10,046	
Economic Development				
Capital outlay	13	355		
Debt service:				
Principal retirement				
Interest				
General Government				
Other				
Total expenditures	<u>483</u>	<u>5,890</u>	<u>10,046</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(4)</u>	<u>16,834</u>	<u>255</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
Transfers in				
Transfers out				
Issuance of refunding bonds				
Premium on bonds				
Payment to refund bonds				
Sale of City assets				
Issuance of refunding bonds				
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(4)	16,834	255	-
FUND BALANCES AT BEGINNING OF YEAR	<u>1,139</u>	<u>(11,514)</u>	<u>535</u>	<u>-</u>
FUND BALANCES AT END OF YEAR	<u>\$ 1,135</u>	<u>\$ 5,320</u>	<u>\$ 790</u>	<u>\$ -</u>

<u>Special Revenue Funds - Non-Budgeted</u>				
<u>Neighborhood Development Investment Fund</u>	<u>Core City Program Funds</u>	<u>Supplemental Empowerment Zone</u>	<u>Total Non- Budgeted Funds</u>	<u>Total Special Revenue Funds</u>
\$	\$	\$	\$ -	\$ 49,695
			-	-
	202	1,165	15,539	39,283
			1,309	2,189
			2,798	3,063
			3,019	3,019
	204	19	530	779
		6	64,807	64,807
			4	4
	100		5,027	5,028
<u>-</u>	<u>506</u>	<u>1,190</u>	<u>93,033</u>	<u>167,867</u>
			7,489	7,489
			470	27,121
			5,535	5,535
			25,537	25,537
			2,836	2,836
			10,046	10,046
913	6,000	1,190	34,175	34,175
			2,742	11,881
			-	3,598
			-	705
			-	45
			-	1,069
<u>913</u>	<u>6,000</u>	<u>1,190</u>	<u>88,830</u>	<u>130,037</u>
<u>(913)</u>	<u>(5,494)</u>	<u>-</u>	<u>4,203</u>	<u>37,830</u>
3,478	(1,560)		3,612	24,767
			(5,546)	(42,009)
			-	-
			-	-
	1,323		1,323	1,323
			-	-
<u>3,478</u>	<u>(237)</u>	<u>-</u>	<u>(611)</u>	<u>(15,919)</u>
2,565	(5,731)	-	3,592	21,911
<u>7,280</u>	<u>38,827</u>	<u>-</u>	<u>133,596</u>	<u>161,867</u>
<u>\$ 9,845</u>	<u>\$ 33,096</u>	<u>\$ -</u>	<u>\$ 137,188</u>	<u>\$ 183,778</u>

(Continued)

CITY OF CLEVELAND, OHIO

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands)

	<u>Debt Service Funds - Budgeted</u>				
	<u>Unvoted Tax Supported Obligations Fund</u>	<u>Stadium Bond Fund</u>	<u>Subordinated Income Tax Fund</u>	<u>Lower Euclid Avenue TIF</u>	<u>Core City Bonds</u>
REVENUES:					
Income taxes	\$	\$	\$	\$	\$
Property taxes	17,631				
Other shared revenues	4,549				
Licenses and permits					
Charges for services					
Fines, forfeits and settlements					
Investment earnings	127	9	16		35
Grants					
Contributions					
Miscellaneous					4
Total revenues	<u>22,307</u>	<u>9</u>	<u>16</u>	<u>-</u>	<u>39</u>
EXPENDITURES:					
Current:					
General Government					
Public Works					
Public Safety					
Community Development					
Building and Housing					
Public Health					
Economic Development					
Capital outlay					
Debt service:					
Principal retirement	22,500	1,365	2,315	208	2,050
Interest	10,982	263	1,706	135	1,209
General Government					
Other					
Total expenditures	<u>33,482</u>	<u>1,628</u>	<u>4,021</u>	<u>343</u>	<u>3,259</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(11,175)</u>	<u>(1,619)</u>	<u>(4,005)</u>	<u>(343)</u>	<u>(3,220)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	11,111	1,628	5,081	508	3,214
Transfers out					
Premium on bonds					
Payment to refund bonds					
Sale of City assets					
Issuance of refunding bonds					
Total other financing sources (uses)	<u>11,111</u>	<u>1,628</u>	<u>5,081</u>	<u>508</u>	<u>3,214</u>
NET CHANGE IN FUND BALANCES	(64)	9	1,076	165	(6)
FUND BALANCES AT BEGINNING OF YEAR	<u>5,079</u>	<u>2</u>	<u>1,872</u>	<u>1,196</u>	<u>3,383</u>
FUND BALANCES AT END OF YEAR	<u>\$ 5,015</u>	<u>\$ 11</u>	<u>\$ 2,948</u>	<u>\$ 1,361</u>	<u>\$ 3,377</u>

Debt Service Funds						
Non-Budgeted						
Subordinate Lien Income Tax Fund	Total Budgeted Funds	Cleveland Stadium Debt Service Fund	Urban Renewal Fund	Urban Renewal Reserve Fund	Total Non- Budgeted Funds	Total Debt Service Funds
\$	\$ -	\$	\$	\$	\$ -	\$ -
	17,631				-	17,631
	4,549				-	4,549
	-				-	-
	-				-	-
94	281	72			72	353
	-				-	-
	-				-	-
492	496		1,250		1,250	1,746
586	22,957	72	1,250	-	1,322	24,279
	-				-	-
	-				-	-
	-				-	-
	-				-	-
	-				-	-
	-				-	-
9,425	37,863	6,800	780		7,580	45,443
12,380	26,675	2,537	83		2,620	29,295
	-				-	-
	-				-	-
21,805	64,538	9,337	863	-	10,200	74,738
(21,219)	(41,581)	(9,265)	387	-	(8,878)	(50,459)
22,401	43,943	9,342			9,342	53,285
(1,070)	(1,070)				-	(1,070)
	-				-	-
	-				-	-
	-				-	-
21,331	42,873	9,342	-	-	9,342	52,215
112	1,292	77	387	-	464	1,756
9,309	20,841	8,540	1,205	2,202	11,947	32,788
\$ 9,421	\$ 22,133	\$ 8,617	\$ 1,592	\$ 2,202	\$ 12,411	\$ 34,544

(Continued)

CITY OF CLEVELAND, OHIO

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands)

	Capital Projects Funds		
	Non-Budgeted		
	<u>Capital/ Urban Renewal Bond Construction</u>	<u>Grant Improvement</u>	<u>Capital Improvement</u>
REVENUES:			
Income taxes	\$	\$	\$
Property taxes			
Other shared revenues			343
Licenses and permits			
Charges for services			
Fines, forfeits and settlements			
Investment earnings	1,038		28
Grants		13,968	
Contributions			1,700
Miscellaneous	<u>11</u>		
Total revenues	<u>1,049</u>	<u>13,968</u>	<u>2,071</u>
EXPENDITURES:			
Current:			
General Government			
Public Works			
Public Safety			
Community Development			
Building and Housing			
Public Health			
Economic Development			
Capital outlay	53,194	13,968	633
Debt service:			
Principal retirement			
Interest			
General Government	926		
Other			
Total expenditures	<u>54,120</u>	<u>13,968</u>	<u>633</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(53,071)</u>	<u>-</u>	<u>1,438</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	1,070		
Transfers out	(4,563)		
Premium on bonds	21,916		
Payment to refund bonds	(108,761)		
Sale of City assets			
Issuance of refunding bonds	<u>142,850</u>		
Total other financing sources (uses)	<u>52,512</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(559)	-	1,438
FUND BALANCES AT BEGINNING OF YEAR	<u>135,727</u>		<u>3,792</u>
FUND BALANCES AT END OF YEAR	<u>\$ 135,168</u>	<u>\$ -</u>	<u>\$ 5,230</u>

<u>Cleveland Stadium Construction</u>	<u>Total Capital Projects Funds</u>	<u>Total Nonmajor Governmental Funds</u>
\$	\$	\$
	-	49,695
	-	17,631
	343	44,175
	-	2,189
	-	3,063
	-	3,019
95	1,161	2,293
	13,968	78,775
	1,700	1,704
	11	6,785
<u>95</u>	<u>17,183</u>	<u>209,329</u>
	-	7,489
	-	27,121
	-	5,535
	-	25,537
	-	2,836
	-	10,046
	-	34,175
3,834	71,629	83,510
	-	49,041
	-	30,000
	926	971
	-	1,069
<u>3,834</u>	<u>72,555</u>	<u>277,330</u>
<u>(3,739)</u>	<u>(55,372)</u>	<u>(68,001)</u>
2,000	3,070	81,122
	(4,563)	(47,642)
	21,916	21,916
	(108,761)	(108,761)
	-	1,323
	142,850	142,850
<u>2,000</u>	<u>54,512</u>	<u>90,808</u>
(1,739)	(860)	22,807
<u>12,161</u>	<u>151,680</u>	<u>346,335</u>
<u>\$ 10,422</u>	<u>\$ 150,820</u>	<u>\$ 369,142</u>

(Concluded)

CITY OF CLEVELAND, OHIO

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-
BUDGETED SPECIAL REVENUE FUNDS-LEGAL APPROPRIATION LEVEL
FOR THE YEAR ENDED DECEMBER 31, 2017
(Amounts in Thousands)**

	Division of Streets				Variance- Positive (Negative)
	Original Budget	Revised Budget	Actual	Actual	
REVENUES:					
Income taxes	\$	\$	\$	\$	-
Other shared revenues	13,152	13,152	13,429		277
Licenses and permits	1,215	804	880		76
Charges for services	4,604	25	231		206
Investment earnings	3	3	4		1
Miscellaneous			1		1
Total revenues	<u>18,974</u>	<u>13,984</u>	<u>14,545</u>		<u>561</u>
EXPENDITURES:					
Current:					
Public Works:					
Personnel	17,612	17,612	16,506		1,106
Other	9,766	9,766	9,495		271
Capital outlay					-
Principal retirement					-
Interest					-
General government					-
Total expenditures	<u>27,378</u>	<u>27,378</u>	<u>26,001</u>		<u>1,377</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(8,404)</u>	<u>(13,394)</u>	<u>(11,456)</u>		<u>1,938</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	8,192	13,182	11,215		(1,967)
Transfers out					-
Total other financing sources (uses)	<u>8,192</u>	<u>13,182</u>	<u>11,215</u>		<u>(1,967)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(212)	(212)	(241)		(29)
DECERTIFICATION OF PRIOR YEAR ENCUMBRANCES AND PRE-ENCUMBRANCES			36		36
FUND BALANCES AT BEGINNING OF YEAR	<u>212</u>	<u>212</u>	<u>212</u>		<u>-</u>
FUND BALANCES AT END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7</u>		<u>\$ 7</u>

Restricted Income Tax				Rainy Day Reserve Fund			
Original Budget	Revised Budget	Actual	Variance-Positive (Negative)	Original Budget	Revised Budget	Actual	Variance-Positive (Negative)
\$ 49,667	\$ 49,667	\$ 48,630	\$ (1,037)	\$	\$	\$	\$ -
			-				-
			-				-
50	50	115	65	100	100	174	74
			-				-
<u>49,717</u>	<u>49,717</u>	<u>48,745</u>	<u>(972)</u>	<u>100</u>	<u>100</u>	<u>174</u>	<u>74</u>
			-				-
			-				-
15,367	18,277	17,173	1,104				-
4,667	4,667	4,667	-				-
705	705	705	-				-
			-				-
<u>20,739</u>	<u>23,649</u>	<u>22,545</u>	<u>1,104</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
			-				-
<u>28,978</u>	<u>26,068</u>	<u>26,200</u>	<u>132</u>	<u>100</u>	<u>100</u>	<u>174</u>	<u>74</u>
			-			7,000	7,000
<u>(30,031)</u>	<u>(27,121)</u>	<u>(27,121)</u>	<u>-</u>				<u>-</u>
<u>(30,031)</u>	<u>(27,121)</u>	<u>(27,121)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,000</u>	<u>7,000</u>
			-				-
(1,053)	(1,053)	(921)	132	100	100	7,174	7,074
		45	45				-
<u>1,053</u>	<u>1,053</u>	<u>1,053</u>	<u>-</u>	<u>18,821</u>	<u>18,821</u>	<u>18,821</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 177</u>	<u>\$ 177</u>	<u>\$ 18,921</u>	<u>\$ 18,921</u>	<u>\$ 25,995</u>	<u>\$ 7,074</u>

(Continued)

CITY OF CLEVELAND, OHIO

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-
BUDGETED SPECIAL REVENUE FUNDS-LEGAL APPROPRIATION LEVEL
FOR THE YEAR ENDED DECEMBER 31, 2017
(Amounts in Thousands)**

	<u>Schools Recreation and Cultural Activities</u>			<u>Variance- Positive (Negative)</u>
	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	
REVENUES:				
Income taxes	\$	\$	\$	\$ -
Other shared revenues				-
Licenses and permits				-
Charges for services				-
Investment earnings				-
Miscellaneous				-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES:				
Current:				
Public Works:				
Personnel				-
Other	1,125	1,125	1,125	-
Capital outlay				-
Principal retirement				-
Interest				-
General government				-
Total expenditures	<u>1,125</u>	<u>1,125</u>	<u>1,125</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,125)</u>	<u>(1,125)</u>	<u>(1,125)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,125	1,125	1,125	-
Transfers out				-
Total other financing sources (uses)	<u>1,125</u>	<u>1,125</u>	<u>1,125</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
DECERTIFICATION OF PRIOR YEAR ENCUMBRANCES AND PRE-ENCUMBRANCES				-
FUND BALANCES AT BEGINNING OF YEAR				-
FUND BALANCES AT END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Cleveland Stadium Operations				Totals			
Original Budget	Revised Budget	Actual	Variance-Positive (Negative)	Original Budget	Revised Budget	Actual	Variance-Positive (Negative)
\$	\$	\$	\$ -	\$ 49,667	\$ 49,667	\$ 48,630	\$ (1,037)
		10,322	10,322	13,152	13,152	23,751	10,599
			-	1,215	804	880	76
250	250	250	-	4,854	275	481	206
12	12	123	111	165	165	416	251
			-	-	-	1	1
<u>262</u>	<u>262</u>	<u>10,695</u>	<u>10,433</u>	<u>69,053</u>	<u>64,063</u>	<u>74,159</u>	<u>10,096</u>
			-	17,612	17,612	16,506	1,106
819	819	789	30	11,710	11,710	11,409	301
			-	15,367	18,277	17,173	1,104
			-	4,667	4,667	4,667	-
			-	705	705	705	-
	45	45	-	-	45	45	-
<u>819</u>	<u>864</u>	<u>834</u>	<u>30</u>	<u>50,061</u>	<u>53,016</u>	<u>50,505</u>	<u>2,511</u>
<u>(557)</u>	<u>(602)</u>	<u>9,861</u>	<u>10,463</u>	<u>18,992</u>	<u>11,047</u>	<u>23,654</u>	<u>12,607</u>
9,940	9,940	9,940	-	19,257	24,247	29,280	5,033
<u>(9,890)</u>	<u>(9,845)</u>	<u>(9,342)</u>	<u>503</u>	<u>(39,921)</u>	<u>(36,966)</u>	<u>(36,463)</u>	<u>503</u>
<u>50</u>	<u>95</u>	<u>598</u>	<u>503</u>	<u>(20,664)</u>	<u>(12,719)</u>	<u>(7,183)</u>	<u>5,536</u>
(507)	(507)	10,459	10,966	(1,672)	(1,672)	16,471	18,143
			-	-	-	81	81
<u>12,537</u>	<u>12,537</u>	<u>12,537</u>	<u>-</u>	<u>32,623</u>	<u>32,623</u>	<u>32,623</u>	<u>-</u>
<u>\$ 12,030</u>	<u>\$ 12,030</u>	<u>\$ 22,996</u>	<u>\$ 10,966</u>	<u>\$ 30,951</u>	<u>\$ 30,951</u>	<u>\$ 49,175</u>	<u>\$ 18,224</u>

(Concluded)

CITY OF CLEVELAND, OHIO

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
BUDGETED DEBT SERVICE FUNDS-LEGAL APPROPRIATION LEVEL
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands)

	Unvoted Tax Supported Obligations Fund			
	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance- Positive (Negative)</u>
REVENUES:				
Property taxes	\$ 16,985	\$ 16,985	\$ 17,631	\$ 646
Other shared revenues	4,561	4,561	4,549	(12)
Investment earnings	40	110	119	9
Miscellaneous				-
Total revenues	<u>21,586</u>	<u>21,656</u>	<u>22,299</u>	<u>643</u>
EXPENDITURES:				
Principal retirement	22,500	22,500	22,500	-
Interest	<u>11,915</u>	<u>10,982</u>	<u>10,982</u>	-
Total expenditures	<u>34,415</u>	<u>33,482</u>	<u>33,482</u>	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(12,829)</u>	<u>(11,826)</u>	<u>(11,183)</u>	<u>643</u>
OTHER FINANCING SOURCES (USES):				
Transfers in:				
From other subfunds		100	111	11
Restricted income tax fund	12,000	11,000	11,000	-
Transfers out:				
To other subfunds				-
Total other financing sources (uses)	<u>12,000</u>	<u>11,100</u>	<u>11,111</u>	<u>11</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(829)	(726)	(72)	654
FUND BALANCES AT BEGINNING OF YEAR	<u>5,075</u>	<u>5,075</u>	<u>5,075</u>	-
FUND BALANCES AT END OF YEAR	<u>\$ 4,246</u>	<u>\$ 4,349</u>	<u>\$ 5,003</u>	<u>\$ 654</u>

Stadium Bond Fund				Subordinated Income Tax Fund			
Original Budget	Revised Budget	Actual	Variance-Positive (Negative)	Original Budget	Revised Budget	Actual	Variance-Positive (Negative)
\$	\$	\$	\$ -	\$	\$	\$	\$ -
1	7	9	2	3	12	14	2
<u>1</u>	<u>7</u>	<u>9</u>	<u>2</u>	<u>3</u>	<u>12</u>	<u>14</u>	<u>2</u>
1,365	1,365	1,365	-	2,315	2,315	2,315	-
263	263	263	-	1,706	1,706	1,706	-
<u>1,628</u>	<u>1,628</u>	<u>1,628</u>	<u>-</u>	<u>4,021</u>	<u>4,021</u>	<u>4,021</u>	<u>-</u>
(1,627)	(1,621)	(1,619)	2	(4,018)	(4,009)	(4,007)	2
1,628	1,628	1,628	-	5,082	5,082	5,081	(1)
<u>1,628</u>	<u>1,628</u>	<u>1,628</u>	<u>-</u>	<u>5,082</u>	<u>5,082</u>	<u>5,081</u>	<u>(1)</u>
1	7	9	2	1,064	1,073	1,074	1
<u>2</u>	<u>2</u>	<u>2</u>	<u>-</u>	<u>1,871</u>	<u>1,871</u>	<u>1,871</u>	<u>-</u>
<u>\$ 3</u>	<u>\$ 9</u>	<u>\$ 11</u>	<u>\$ 2</u>	<u>\$ 2,935</u>	<u>\$ 2,944</u>	<u>\$ 2,945</u>	<u>\$ 1</u>

(Continued)

CITY OF CLEVELAND, OHIO

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
BUDGETED DEBT SERVICE FUNDS-LEGAL APPROPRIATION LEVEL
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands)

	Lower Euclid Avenue TIF				Core City Bonds			
	Original Budget	Revised Budget	Actual	Variance- Positive (Negative)	Original Budget	Revised Budget	Actual	Variance- Positive (Negative)
REVENUES:								
Property taxes	\$	\$	\$	\$ -	\$	\$	\$	\$ -
Other shared revenues				-				-
Investment earnings				-	4	24	33	9
Miscellaneous				-			4	4
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4</u>	<u>24</u>	<u>37</u>	<u>13</u>
EXPENDITURES:								
Principal retirement	208	208	208	-	2,050	2,050	2,050	-
Interest	<u>135</u>	<u>135</u>	<u>135</u>	<u>-</u>	<u>1,231</u>	<u>1,209</u>	<u>1,209</u>	<u>-</u>
Total expenditures	<u>343</u>	<u>343</u>	<u>343</u>	<u>-</u>	<u>3,281</u>	<u>3,259</u>	<u>3,259</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(343)</u>	<u>(343)</u>	<u>(343)</u>	<u>-</u>	<u>(3,277)</u>	<u>(3,235)</u>	<u>(3,222)</u>	<u>13</u>
OTHER FINANCING SOURCES (USES):								
Transfers in:								
From other subfunds	500	500	508	8	3,264	3,214	3,214	-
Restricted income tax fund				-				-
Transfers out:								
To other subfunds				-				-
Total other financing sources (uses)	<u>500</u>	<u>500</u>	<u>508</u>	<u>8</u>	<u>3,264</u>	<u>3,214</u>	<u>3,214</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>157</u>	<u>157</u>	<u>165</u>	<u>8</u>	<u>(13)</u>	<u>(21)</u>	<u>(8)</u>	<u>13</u>
FUND BALANCES AT BEGINNING OF YEAR	<u>1,196</u>	<u>1,196</u>	<u>1,196</u>	<u>-</u>	<u>3,381</u>	<u>3,381</u>	<u>3,381</u>	<u>-</u>
FUND BALANCES AT END OF YEAR	<u>\$ 1,353</u>	<u>\$ 1,353</u>	<u>\$ 1,361</u>	<u>\$ 8</u>	<u>\$ 3,368</u>	<u>\$ 3,360</u>	<u>\$ 3,373</u>	<u>\$ 13</u>

Subordinate Lien Income Tax Bonds				Totals			
Original Budget	Revised Budget	Actual	Variance- Positive (Negative)	Original Budget	Revised Budget	Actual	Variance- Positive (Negative)
\$	\$	\$	\$	\$	\$	\$	\$
			-	16,985	16,985	17,631	646
			-	4,561	4,561	4,549	(12)
22	75	89	14	70	228	264	36
491	491	492	1	491	491	496	5
<u>513</u>	<u>566</u>	<u>581</u>	<u>15</u>	<u>22,107</u>	<u>22,265</u>	<u>22,940</u>	<u>675</u>
9,635	9,425	9,425	-	38,073	37,863	37,863	-
11,944	12,380	12,380	-	27,194	26,675	26,675	-
<u>21,579</u>	<u>21,805</u>	<u>21,805</u>	<u>-</u>	<u>65,267</u>	<u>64,538</u>	<u>64,538</u>	<u>-</u>
(21,066)	(21,239)	(21,224)	15	(43,160)	(42,273)	(41,598)	675
	1,850	6,280	4,430	10,474	12,374	16,822	4,448
17,935	16,877	16,121	(756)	29,935	27,877	27,121	(756)
	(1,070)	(1,070)	-	-	(1,070)	(1,070)	-
<u>17,935</u>	<u>17,657</u>	<u>21,331</u>	<u>3,674</u>	<u>40,409</u>	<u>39,181</u>	<u>42,873</u>	<u>3,692</u>
(3,131)	(3,582)	107	3,689	(2,751)	(3,092)	1,275	4,367
9,307	9,307	9,307	-	20,832	20,832	20,832	-
<u>\$ 6,176</u>	<u>\$ 5,725</u>	<u>\$ 9,414</u>	<u>\$ 3,689</u>	<u>\$ 18,081</u>	<u>\$ 17,740</u>	<u>\$ 22,107</u>	<u>\$ 4,367</u>

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CITY OF CLEVELAND, OHIO

NONMAJOR ENTERPRISE FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private sector businesses where the intent of the governing body is that the expense (including depreciation) of providing goods or services primarily or solely to the general public be financed or recovered primarily through user charges. The City's nonmajor Enterprise Funds are as follows:

Water Pollution Control

The Division of Water Pollution Control is a segment of the Department of Public Utilities of the City. The Division of Water Pollution Control was created for the purpose of providing sewage services to customers and to maintain the local sewer system of the City.

Public Auditorium

The Public Auditorium is a multi-purpose performing arts, entertainment and conference center. It was constructed in the grand opera tradition and features a spacious 21,780 square foot registration lobby, a 10,000 seat auditorium, the 3,000 seat Cleveland Music Hall and 600 seat Little Theater.

West Side Market

The West Side Market provides a public market where Cleveland area residents can purchase a variety of quality foods in a centralized location.

East Side Market

The East Side Market provides a public market where Cleveland area residents can purchase a variety of quality foods in a centralized location.

Municipal Parking Lots

The Division of Parking was established to provide municipal parking within the City's limits.

Cemeteries

The Division of Cemeteries was established to provide interment and cremation services for the City and its neighboring communities.

Golf Courses

The Golf Course Division was established to provide the City and neighboring communities with recreational facilities for golfing and cross country skiing. Currently, both City golf courses are being leased out. Seneca is being leased by Cleveland Metroparks and Highland is leased by Mark A Nance Golf Ohio.

CITY OF CLEVELAND, OHIO

COMBINING STATEMENT OF NET POSITION - NONMAJOR ENTERPRISE FUNDS

DECEMBER 31, 2017

(Amounts in Thousands)

	<u>Water Pollution Control</u>	<u>Public Auditorium</u>	<u>West Side Market</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 69,385	\$ 72	\$ 1,247
Restricted cash and cash equivalents	2,463		
Receivables:			
Accounts	104,581	182	3
Unbilled revenue	2,071		
Accrued interest	17		
Less: Allowance for doubtful accounts	<u>(3,093)</u>	<u>(107)</u>	<u> </u>
Receivables, net	<u>103,576</u>	<u>75</u>	<u>3</u>
Due from other funds	32		
Due from other governments	1,617		
Inventory of supplies	<u>549</u>		
Total current assets	<u>177,622</u>	<u>147</u>	<u>1,250</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	17,902		
Accrued interest receivable	<u>19</u>		
Total restricted assets	<u>17,921</u>	<u>-</u>	<u>-</u>
Capital assets:			
Land	297	4,261	198
Land improvements	73		
Utility plant	156,807		
Buildings, structures and improvements	9,607	21,310	13,234
Furniture, fixtures, equipment and vehicles	18,159	1,144	1,740
Construction in progress	30,254	4,541	2,828
Less: Accumulated depreciation	<u>(122,671)</u>	<u>(21,512)</u>	<u>(10,358)</u>
Total capital assets, net	<u>92,526</u>	<u>9,744</u>	<u>7,642</u>
Total noncurrent assets	<u>110,447</u>	<u>9,744</u>	<u>7,642</u>
Total assets	<u>288,069</u>	<u>9,891</u>	<u>8,892</u>
DEFERRED OUTFLOWS OF RESOURCES			
Loss on refunding			
Pension	<u>4,243</u>	<u>667</u>	<u>172</u>
Total deferred outflows of resources	<u>4,243</u>	<u>667</u>	<u>172</u>

<u>East Side Market</u>	<u>Municipal Parking Lots</u>	<u>Cemeteries</u>	<u>Golf Courses</u>	<u>Total Nonmajor Enterprise Funds</u>
\$	\$ 4,560	\$ 107	\$ 45	\$ 75,416
				2,463
	26			104,792
	3			2,071
				20
				(3,200)
<u>-</u>	<u>29</u>	<u>-</u>	<u>-</u>	<u>103,683</u>
	23			55
	54	2		1,617
<u>-</u>	<u>4,666</u>	<u>109</u>	<u>45</u>	<u>183,839</u>
	8,592	5,638		32,132
	7			26
<u>-</u>	<u>8,599</u>	<u>5,638</u>	<u>-</u>	<u>32,158</u>
413	5,478	1,259	1,822	13,728
484	1,256	5,692	4,033	11,538
				156,807
2,400	54,167	6,916	1,815	109,449
450	1,284	698	358	23,833
728	10,092	4,791	150	53,384
(2,704)	(32,330)	(5,689)	(5,214)	(200,478)
<u>1,771</u>	<u>39,947</u>	<u>13,667</u>	<u>2,964</u>	<u>168,261</u>
<u>1,771</u>	<u>48,546</u>	<u>19,305</u>	<u>2,964</u>	<u>200,419</u>
<u>1,771</u>	<u>53,212</u>	<u>19,414</u>	<u>3,009</u>	<u>384,258</u>
	676			676
	507	517		6,106
<u>-</u>	<u>1,183</u>	<u>517</u>	<u>-</u>	<u>6,782</u>

(Continued)

CITY OF CLEVELAND, OHIO

COMBINING STATEMENT OF NET POSITION - NONMAJOR ENTERPRISE FUNDS

DECEMBER 31, 2017

(Amounts in Thousands)

	Water Pollution Control	Public Auditorium	West Side Market
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 3,007	\$ 96	\$ 137
Accrued wages and benefits	1,178	76	41
Due to other funds	4,335	67	25
Due to other governments	128,963		
Accrued interest payable	195		
Current portion of long-term obligations	594		
Unearned revenue			
Total current liabilities	<u>138,272</u>	<u>239</u>	<u>203</u>
Long-term liabilities:			
Accrued wages and benefits	50	5	3
Construction loans payable	70		
Revenue bonds payable	36,175		
Pension	11,245	1,979	435
Total liabilities	<u>185,812</u>	<u>2,223</u>	<u>641</u>
DEFERRED INFLOWS OF RESOURCES			
Derivative instruments-interest rate swaps			
Pension	304	54	12
Total deferred inflows of resources	<u>304</u>	<u>54</u>	<u>12</u>
NET POSITION			
Net investment in capital assets	73,967	9,744	7,642
Restricted for debt service	2,546		
Unrestricted	29,683	(1,463)	769
Total net position	<u>\$ 106,196</u>	<u>\$ 8,281</u>	<u>\$ 8,411</u>

<u>East Side Market</u>	<u>Municipal Parking Lots</u>	<u>Cemeteries</u>	<u>Golf Courses</u>	<u>Total Nonmajor Enterprise Funds</u>
\$	\$	\$	\$	\$
	271	5		3,516
	96	79		1,470
	23	12		4,462
	238			129,201
	272			467
	3,200			3,794
	120			120
<u>-</u>	<u>4,220</u>	<u>96</u>	<u>-</u>	<u>143,030</u>
	9	20		87
				70
	14,946			51,121
	1,304	1,304		16,267
<u>-</u>	<u>20,479</u>	<u>1,420</u>	<u>-</u>	<u>210,575</u>
	90			90
	37	37		444
<u>-</u>	<u>127</u>	<u>37</u>	<u>-</u>	<u>534</u>
1,771	25,483	13,667	2,964	135,238
	5,575			8,121
	2,731	4,807	45	36,572
<u>\$ 1,771</u>	<u>\$ 33,789</u>	<u>\$ 18,474</u>	<u>\$ 3,009</u>	<u>\$ 179,931</u>

(Concluded)

CITY OF CLEVELAND, OHIO

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION-NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands)

	<u>Water Pollution Control</u>	<u>Public Auditorium</u>	<u>West Side Market</u>
OPERATING REVENUES:			
Charges for services	\$ 29,392	\$ 958	\$ 1,477
Total operating revenue	<u>29,392</u>	<u>958</u>	<u>1,477</u>
OPERATING EXPENSES:			
Operations	11,993	2,691	1,761
Maintenance	9,082	8	18
Depreciation	<u>6,340</u>	<u>66</u>	<u>583</u>
Total operating expenses	<u>27,415</u>	<u>2,765</u>	<u>2,362</u>
OPERATING INCOME (LOSS)	<u>1,977</u>	<u>(1,807)</u>	<u>(885)</u>
NON-OPERATING REVENUE (EXPENSES):			
Investment income (loss)	631	1	10
Interest expense	(2)		
Other revenues (expenses)	<u>288</u>		
Total non-operating revenues (expenses)	<u>917</u>	<u>1</u>	<u>10</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	2,894	(1,806)	(875)
Capital contributions	3,893	146	317
Transfers in		<u>1,400</u>	
CHANGE IN NET POSITION	6,787	(260)	(558)
NET POSITION AT BEGINNING OF YEAR	<u>99,409</u>	<u>8,541</u>	<u>8,969</u>
NET POSITION AT END OF YEAR	<u>\$ 106,196</u>	<u>\$ 8,281</u>	<u>\$ 8,411</u>

<u>East Side Market</u>	<u>Municipal Parking Lots</u>	<u>Cemeteries</u>	<u>Golf Courses</u>	<u>Total Nonmajor Enterprise Funds</u>
\$	\$ 9,311	\$ 1,505	\$	\$ 42,643
-	9,311	1,505	-	42,643
1	4,077	1,687	87	22,297
	97	1	33	9,239
60	1,362	591	126	9,128
61	5,536	2,279	246	40,664
(61)	3,775	(774)	(246)	1,979
	214	58		914
	(1,193)			(1,195)
			13	301
-	(979)	58	13	20
(61)	2,796	(716)	(233)	1,999
728	2,502	3,195		10,781
		66		1,466
667	5,298	2,545	(233)	14,246
1,104	28,491	15,929	3,242	165,685
\$ 1,771	\$ 33,789	\$ 18,474	\$ 3,009	\$ 179,931

CITY OF CLEVELAND, OHIO
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Amounts in Thousands)

	<u>Water Pollution Control</u>	<u>Public Auditorium</u>	<u>West Side Market</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 29,927	\$ 1,023	\$ 1,476
Cash payments to suppliers for goods or services	(9,823)	(1,224)	(1,119)
Cash payments to employees for services	(9,131)	(1,160)	(503)
Agency activity on behalf of other sewer authorities	606		
Other	(54)		
Net cash provided by (used for) operating activities	<u>11,525</u>	<u>(1,361)</u>	<u>(146)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Cash received through transfers from other funds		1,400	
Cash received for royalties			
Net cash provided by (used for) noncapital financing activities	<u>-</u>	<u>1,400</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(18,095)		
Principal paid on long-term debt	(727)		
Interest paid on long-term debt	(1,586)		
Capital grant proceeds	<u>2,276</u>		
Net cash provided by (used for) capital and related financing activities	<u>(18,132)</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received on investments	<u>787</u>	<u>1</u>	<u>11</u>
Net cash provided by (used for) investing activities	<u>787</u>	<u>1</u>	<u>11</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,820)	40	(135)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>95,570</u>	<u>32</u>	<u>1,382</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 89,750</u>	<u>\$ 72</u>	<u>\$ 1,247</u>

<u>East Side Market</u>	<u>Municipal Parking Lots</u>	<u>Cemeteries</u>	<u>Golf Courses</u>	<u>Total Nonmajor Enterprise Funds</u>
\$	\$	\$	\$	\$
	10,036	1,506		43,968
(1)	(3,788)	(457)	(120)	(16,532)
	(1,085)	(1,073)		(12,952)
				606
				(54)
<u>(1)</u>	<u>5,163</u>	<u>(24)</u>	<u>(120)</u>	<u>15,036</u>
		66		1,466
			13	13
<u>-</u>	<u>-</u>	<u>66</u>	<u>13</u>	<u>1,479</u>
				(18,095)
	(3,040)			(3,767)
	(1,127)			(2,713)
				2,276
<u>-</u>	<u>(4,167)</u>	<u>-</u>	<u>-</u>	<u>(22,299)</u>
	79	58		936
<u>-</u>	<u>79</u>	<u>58</u>	<u>-</u>	<u>936</u>
(1)	1,075	100	(107)	(4,848)
<u>1</u>	<u>12,077</u>	<u>5,645</u>	<u>152</u>	<u>114,859</u>
<u>\$ -</u>	<u>\$ 13,152</u>	<u>\$ 5,745</u>	<u>\$ 45</u>	<u>\$ 110,011</u>

(Continued)

CITY OF CLEVELAND, OHIO

**COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands)

	<u>Water Pollution Control</u>	<u>Public Auditorium</u>	<u>West Side Market</u>
RECONCILIATION OF OPERATING INCOME (LOSS)			
TO NET CASH PROVIDED BY (USED FOR)			
OPERATING ACTIVITIES:			
Operating income (loss)	\$ 1,977	\$ (1,807)	\$ (885)
Adjustments to reconcile operating income (loss) to			
net cash provided by (used for) operating activities:			
Depreciation	6,340	66	583
Noncash capital expense		49	150
(Increase) Decrease in Assets:			
Receivables, net	(7,927)	65	(3)
Due from other funds	325		
Inventory of supplies	(179)		
(Increase) Decrease in Deferred Outflows of Resources:			
Pension	(999)	(125)	(40)
Increase (Decrease) in Liabilities:			
Accounts payable	31		(23)
Accrued wages and benefits	4	5	6
Pension	2,266	362	91
Due to other funds	316	7	(29)
Due to other governments	9,276		
Unearned revenue			
Increase (Decrease) in Deferred Inflows of Resources:			
Pension	95	17	4
Total adjustments	<u>9,548</u>	<u>446</u>	<u>739</u>
NET CASH PROVIDED BY (USED FOR)			
OPERATING ACTIVITIES	<u>\$ 11,525</u>	<u>\$ (1,361)</u>	<u>\$ (146)</u>
SCHEDULE OF NONCASH CAPITAL AND RELATED			
FINANCING ACTIVITIES:			
Contributions and accounts payable related to			
capital assets	\$ 2,477	\$ 146	\$ 317

<u>East Side Market</u>	<u>Municipal Parking Lots</u>	<u>Cemeteries</u>	<u>Golf Courses</u>	<u>Total Nonmajor Enterprise Funds</u>
\$ (61)	\$ 3,775	\$ (774)	\$ (246)	\$ 1,979
60	1,362	591	126	9,128
		14		213
	(5)			(7,870)
	(3)	1		323
	(4)	2		(181)
	(110)	(120)		(1,394)
	(144)	(23)		(159)
	(7)			8
	272	272		3,263
	(105)	1		190
	(1)			9,275
	120			120
	13	12		141
<u>60</u>	<u>1,388</u>	<u>750</u>	<u>126</u>	<u>13,057</u>
<u>\$ (1)</u>	<u>\$ 5,163</u>	<u>\$ (24)</u>	<u>\$ (120)</u>	<u>\$ 15,036</u>
\$ 728	\$ 2,502	\$ 3,195		\$ 9,365

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INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department of the City to other departments of the City on a cost-reimbursement basis. The City's Internal Service Funds are described below:

Motor Vehicle Maintenance	The Division of Motor Vehicle Maintenance was established to provide centralized maintenance, repairs and fueling of certain City vehicles.
Printing and Reproduction	The Division of Printing and Reproduction was established to provide printing and reproduction services for all City divisions.
City Storeroom and Warehouse	The City's Storeroom and Warehouse Division provides centralized mailroom service.
Utilities Administration	The Division of Utilities Administration was established to provide administrative assistance to the Department of Public Utilities.
Sinking Fund Administration	The Sinking Fund Administration Fund was established to account for personnel and other operating expenditures related to the administration of the Debt Service Fund.
Municipal Income Tax Administration	The Municipal Income Tax Administration Fund was established to account for operating expenditures related to the collection of municipal income tax for the City and other municipalities.
Telephone Exchange	The Division of Telephone Exchange was established to operate the communications system for the City at minimal cost.
Radio Communications	The Office of Radio Communications was established to operate the 800MHZ radio communication system.
Workers' Compensation Reserve	The Workers' Compensation Reserve was established to account for liabilities related to workers' compensation claims under the retrospective rating policy.
Health Self Insurance Fund	The Health Self Insurance Fund was established to account for liabilities related to health insurance claims.
Prescription Self Insurance Fund	The Prescription Self Insurance Fund was established to account for liabilities related to prescription drug claims.

CITY OF CLEVELAND, OHIO

**COMBINING STATEMENT OF NET POSITION - ALL INTERNAL SERVICE FUNDS
DECEMBER 31, 2017
(Amounts in Thousands)**

	<u>Motor Vehicle Maintenance</u>	<u>Printing and Reproduction</u>	<u>City Storeroom and Warehouse</u>	<u>Utilities Administration</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 5,399	\$ 777	\$ 91	\$ 1,694
Receivables:				
Accounts				
Due from other funds	1,441	212	31	
Inventory of supplies	1,008	98		
Prepaid expenses and other assets	<u>3</u>	<u>21</u>		<u>30</u>
Total current assets	<u>7,851</u>	<u>1,108</u>	<u>122</u>	<u>1,724</u>
Noncurrent assets:				
Capital assets:				
Land	663			
Land improvements	146			
Buildings, structures and improvements	3,131	884		317
Furniture, fixtures, equipment and vehicles	14,533	1,468		1,896
Less: Accumulated depreciation	<u>(16,053)</u>	<u>(1,492)</u>		<u>(1,312)</u>
Total capital assets, net	<u>2,420</u>	<u>860</u>	<u>-</u>	<u>901</u>
Total noncurrent assets	<u>2,420</u>	<u>860</u>	<u>-</u>	<u>901</u>
TOTAL ASSETS	<u>10,271</u>	<u>1,968</u>	<u>122</u>	<u>2,625</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension	<u>2,411</u>	<u>345</u>		<u>4,133</u>

<u>Sinking Fund Administration</u>	<u>Municipal Income Tax Administration</u>	<u>Telephone Exchange</u>	<u>Radio Communications</u>	<u>Workers' Compensation Reserve</u>	<u>Health Self Insurance Fund</u>	<u>Prescription Self Insurance Fund</u>	<u>Total</u>
\$ 31	\$ 1,538	\$ 477	\$ 2,186	\$ 13,880	\$ 16,229	\$ 3,662	\$ 45,964
		8			15	3	26
32		1,124	217				3,057
							1,106
		132	115				301
<u>63</u>	<u>1,538</u>	<u>1,741</u>	<u>2,518</u>	<u>13,880</u>	<u>16,244</u>	<u>3,665</u>	<u>50,454</u>
							663
			33				179
			112				4,444
	456	131	217				18,701
	(238)	(122)	(130)				(19,347)
<u>-</u>	<u>218</u>	<u>9</u>	<u>232</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,640</u>
<u>-</u>	<u>218</u>	<u>9</u>	<u>232</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,640</u>
<u>63</u>	<u>1,756</u>	<u>1,750</u>	<u>2,750</u>	<u>13,880</u>	<u>16,244</u>	<u>3,665</u>	<u>55,094</u>
<u>173</u>	<u>2,922</u>	<u>676</u>	<u>261</u>				<u>10,921</u>

(Continued)

CITY OF CLEVELAND, OHIO

COMBINING STATEMENT OF NET POSITION - ALL INTERNAL SERVICE FUNDS

DECEMBER 31, 2017

(Amounts in Thousands)

	<u>Motor Vehicle Maintenance</u>	<u>Printing and Reproduction</u>	<u>City Storeroom and Warehouse</u>	<u>Utilities Administration</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 796	\$ 96	\$	\$ 37
Accrued wages and benefits	657	91	7	1,246
Claims payable				
Due to other funds	22	2		6
Due to other governments				
Total current liabilities	<u>1,475</u>	<u>189</u>	<u>7</u>	<u>1,289</u>
Long-term liabilities:				
Accrued wages and benefits	153	15	1	126
Pension	<u>6,084</u>	<u>869</u>		<u>9,545</u>
Total liabilities	<u>7,712</u>	<u>1,073</u>	<u>8</u>	<u>10,960</u>
DEFERRED INFLOWS OF RESOURCES				
Pension	<u>172</u>	<u>25</u>		<u>281</u>
NET POSITION				
Net investment in capital assets	2,420	860		901
Unrestricted	<u>2,378</u>	<u>355</u>	<u>114</u>	<u>(5,384)</u>
Total net position	<u>\$ 4,798</u>	<u>\$ 1,215</u>	<u>\$ 114</u>	<u>\$ (4,483)</u>

<u>Sinking Fund Administration</u>	<u>Municipal Income Tax Administration</u>	<u>Telephone Exchange</u>	<u>Radio Communications</u>	<u>Workers' Compensation Reserve</u>	<u>Health Self Insurance Fund</u>	<u>Prescription Self Insurance Fund</u>	<u>Total</u>
\$ 7	\$ 167	\$ 1,311	\$ 30	\$	\$	\$	\$ 2,444
20	755	141	60	9,963			12,940
	78		4		8,548	257	8,805
	705		11		1		113
<u>27</u>	<u>1,705</u>	<u>1,452</u>	<u>105</u>	<u>9,963</u>	<u>8,549</u>	<u>257</u>	<u>25,018</u>
9	51	7	20				382
<u>435</u>	<u>6,906</u>	<u>1,497</u>	<u>537</u>				<u>25,873</u>
<u>471</u>	<u>8,662</u>	<u>2,956</u>	<u>662</u>	<u>9,963</u>	<u>8,549</u>	<u>257</u>	<u>51,273</u>
12	208	45	16				759
(247)	218	9	232				4,640
	<u>(4,410)</u>	<u>(584)</u>	<u>2,101</u>	<u>3,917</u>	<u>7,695</u>	<u>3,408</u>	<u>9,343</u>
<u>\$ (247)</u>	<u>\$ (4,192)</u>	<u>\$ (575)</u>	<u>\$ 2,333</u>	<u>\$ 3,917</u>	<u>\$ 7,695</u>	<u>\$ 3,408</u>	<u>\$ 13,983</u>

(Concluded)

CITY OF CLEVELAND, OHIO

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION - ALL INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands)

	<u>Motor Vehicle Maintenance</u>	<u>Printing and Reproduction</u>	<u>City Storeroom and Warehouse</u>	<u>Utilities Administration</u>
OPERATING REVENUES:				
Charges for services	\$ 18,567	\$ 2,394	\$ 479	\$ 12,364
Total operating revenue	<u>18,567</u>	<u>2,394</u>	<u>479</u>	<u>12,364</u>
OPERATING EXPENSES:				
Operations	16,116	2,159	479	13,421
Maintenance	1,236	94		108
Depreciation	349	74		96
Total operating expenses	<u>17,701</u>	<u>2,327</u>	<u>479</u>	<u>13,625</u>
OPERATING INCOME (LOSS)	<u>866</u>	<u>67</u>	<u>-</u>	<u>(1,261)</u>
NON-OPERATING REVENUES (EXPENSES):				
Investment income	41	6	1	13
Total non-operating revenues (expenses)	<u>41</u>	<u>6</u>	<u>1</u>	<u>13</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	907	73	1	(1,248)
Capital contributions Transfers in	34			
CHANGE IN NET POSITION	941	73	1	(1,248)
NET POSITION AT BEGINNING OF YEAR	<u>3,857</u>	<u>1,142</u>	<u>113</u>	<u>(3,235)</u>
NET POSITION AT END OF YEAR	<u>\$ 4,798</u>	<u>\$ 1,215</u>	<u>\$ 114</u>	<u>\$ (4,483)</u>

<u>Sinking Fund Administration</u>	<u>Municipal Income Tax Administration</u>	<u>Telephone Exchange</u>	<u>Radio Communications</u>	<u>Workers' Compensation Reserve</u>	<u>Health Self Insurance Fund</u>	<u>Prescription Self Insurance Fund</u>	<u>Total</u>
\$ 100	\$ 9,890	\$ 6,985	\$ 3,470	\$ 3,917	\$ 79,777	\$ 14,618	\$ 152,561
100	9,890	6,985	3,470	3,917	79,777	14,618	152,561
749	10,741	7,534	1,283		73,990	13,653	140,125
	150	76	1,494				3,158
	64	7	34				624
749	10,955	7,617	2,811	-	73,990	13,653	143,907
(649)	(1,065)	(632)	659	3,917	5,787	965	8,654
	146	8	17				232
-	146	8	17	-	-	-	232
(649)	(919)	(624)	676	3,917	5,787	965	8,886
600							34
							600
(49)	(919)	(624)	676	3,917	5,787	965	9,520
(198)	(3,273)	49	1,657		1,908	2,443	4,463
<u>\$ (247)</u>	<u>\$ (4,192)</u>	<u>\$ (575)</u>	<u>\$ 2,333</u>	<u>\$ 3,917</u>	<u>\$ 7,695</u>	<u>\$ 3,408</u>	<u>\$ 13,983</u>

CITY OF CLEVELAND, OHIO

COMBINING STATEMENT OF CASH FLOWS-ALL INTERNAL SERVICE FUNDS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in Thousands)

	<u>Motor Vehicle Maintenance</u>	<u>Printing and Reproduction</u>	<u>City Storeroom and Warehouse</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 18,471	\$ 2,366	\$ 487
Cash payments to suppliers for goods or services	(11,165)	(1,294)	(416)
Cash payments to employees for services	<u>(5,541)</u>	<u>(852)</u>	<u>(63)</u>
Net cash provided by (used for) operating activities	<u>1,765</u>	<u>220</u>	<u>8</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Cash received through transfers from other funds	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided by (used for) noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided by (used for) capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received on investments	<u>41</u>	<u>6</u>	<u>1</u>
Net cash provided by (used for) investing activities	<u>41</u>	<u>6</u>	<u>1</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,806	226	9
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,593</u>	<u>551</u>	<u>82</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 5,399</u>	<u>\$ 777</u>	<u>\$ 91</u>

<u>Utilities Administration</u>	<u>Sinking Fund Administration</u>	<u>Municipal Income Tax Administration</u>	<u>Telephone Exchange</u>	<u>Radio Communications</u>	<u>Workers' Compensation Reserve</u>	<u>Health Self Insurance Fund</u>	<u>Prescription Self Insurance Fund</u>	<u>Total</u>
\$ 12,364	\$ 94	\$ 9,508	\$ 7,212	\$ 3,522	\$ 4,740	\$ 79,775	\$ 14,617	\$ 153,156
(2,175)	(496)	(3,507)	(5,998)	(2,218)		(74,603)	(13,622)	(115,494)
<u>(9,832)</u>	<u>(197)</u>	<u>(6,379)</u>	<u>(1,381)</u>	<u>(570)</u>				<u>(24,815)</u>
<u>357</u>	<u>(599)</u>	<u>(378)</u>	<u>(167)</u>	<u>734</u>	<u>4,740</u>	<u>5,172</u>	<u>995</u>	<u>12,847</u>
	<u>600</u>							<u>600</u>
<u>-</u>	<u>600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>600</u>
<u>(261)</u>		<u>(140)</u>		<u>(33)</u>				<u>(434)</u>
<u>(261)</u>	<u>-</u>	<u>(140)</u>	<u>-</u>	<u>(33)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(434)</u>
<u>13</u>		<u>146</u>	<u>8</u>	<u>17</u>				<u>232</u>
<u>13</u>	<u>-</u>	<u>146</u>	<u>8</u>	<u>17</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>232</u>
109	1	(372)	(159)	718	4,740	5,172	995	13,245
<u>1,585</u>	<u>30</u>	<u>1,910</u>	<u>636</u>	<u>1,468</u>	<u>9,140</u>	<u>11,057</u>	<u>2,667</u>	<u>32,719</u>
<u>\$ 1,694</u>	<u>\$ 31</u>	<u>\$ 1,538</u>	<u>\$ 477</u>	<u>\$ 2,186</u>	<u>\$ 13,880</u>	<u>\$ 16,229</u>	<u>\$ 3,662</u>	<u>\$ 45,964</u>

(Continued)

CITY OF CLEVELAND, OHIO

**COMBINING STATEMENT OF CASH FLOWS-ALL INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands)

	<u>Motor Vehicle Maintenance</u>	<u>Printing and Reproduction</u>	<u>City Storeroom and Warehouse</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:			
Operating income (loss)	\$ 866	\$ 67	\$ -
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	349	74	
(Increase) Decrease in Assets:			
Receivables, net			
Prepaid expenses and other assets	(3)	(4)	
Due from other funds	(95)	(28)	8
Inventory of supplies	(67)	9	
(Increase) Decrease in Deferred Outflows of Resources:			
Pension	(559)	(80)	
Increase (Decrease) in Liabilities:			
Accounts payable	(126)	(20)	
Accrued wages and benefits	71	12	
Pension	1,268	181	
Claims Payable			
Due to other funds	4		
Due to other governments			
Increase (Decrease) in Deferred Inflows of Resources:			
Pension	<u>57</u>	<u>9</u>	<u> </u>
Total adjustments	<u>899</u>	<u>153</u>	<u>8</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 1,765</u>	<u>\$ 220</u>	<u>\$ 8</u>

**SCHEDULE OF NONCASH CAPITAL AND RELATED
FINANCING ACTIVITIES:**

Contributions and accounts payable related to capital assets	\$ 34
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<u>Utilities Administration</u>	<u>Sinking Fund Administration</u>	<u>Municipal Income Tax Administration</u>	<u>Telephone Exchange</u>	<u>Radio Communications</u>	<u>Workers' Compensation Reserve</u>	<u>Health Self Insurance Fund</u>	<u>Prescription Self Insurance Fund</u>	<u>Total</u>
\$ (1,261)	\$ (649)	\$ (1,065)	\$ (632)	\$ 659	\$ 3,917	\$ 5,787	\$ 965	\$ 8,654
96		64	7	34				624
(28)			(8)	13		(3)	(1)	1
	(6)		(132)	(115)				(282)
			235	39	3,347			3,500
								(58)
(1,038)	(40)	(699)	(160)	(40)				(2,616)
(60)	(3)	(15)	139	19				(66)
182	4	72	5	18	(2,524)			(2,160)
2,357	91	1,540	362	90				5,889
						(612)	31	(581)
3		28		2				37
		(381)		11				(370)
<u>106</u>	<u>4</u>	<u>78</u>	<u>17</u>	<u>4</u>				<u>275</u>
<u>1,618</u>	<u>50</u>	<u>687</u>	<u>465</u>	<u>75</u>	<u>823</u>	<u>(615)</u>	<u>30</u>	<u>4,193</u>
<u>\$ 357</u>	<u>\$ (599)</u>	<u>\$ (378)</u>	<u>\$ (167)</u>	<u>\$ 734</u>	<u>\$ 4,740</u>	<u>\$ 5,172</u>	<u>\$ 995</u>	<u>\$ 12,847</u>

\$ 34

(Concluded)

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CITY OF CLEVELAND, OHIO

AGENCY FUNDS

Agency Funds are used to account for assets received and held by the City acting in the capacity of an agent or custodian. The City's Agency Funds are described below:

Municipal Courts	To account for assets received and disbursed by the Municipal Courts as agent or custodian related to Civil and Criminal Court matters.
Central Collection Agency	To account for the collection of the Municipal Income Tax for the City of Cleveland and any other municipalities that employ the Central Collection Agency as their agency.
Other Agencies	To account for miscellaneous assets held by the City for governmental units or individuals.

CITY OF CLEVELAND, OHIO

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - ALL AGENCY FUNDS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in Thousands)

	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at End of Year</u>
MUNICIPAL COURTS				
ASSETS				
Cash and cash equivalents	\$ 1,620	\$ 12,371	\$ 12,037	\$ 1,954
Total assets	<u>\$ 1,620</u>	<u>\$ 12,371</u>	<u>\$ 12,037</u>	<u>\$ 1,954</u>
LIABILITIES				
Due to others	\$ 1,620	\$ 12,371	\$ 12,037	\$ 1,954
Total liabilities	<u>\$ 1,620</u>	<u>\$ 12,371</u>	<u>\$ 12,037</u>	<u>\$ 1,954</u>
 CENTRAL COLLECTION AGENCY				
ASSETS				
Cash and cash equivalents	\$ 4,320	\$ 6,910	\$ 4,320	\$ 6,910
Taxes receivable	17,985	18,402	17,985	18,402
Due from other governments	<u>1,613</u>	<u>1,251</u>	<u>1,613</u>	<u>1,251</u>
Total assets	<u>\$ 23,918</u>	<u>\$ 26,563</u>	<u>\$ 23,918</u>	<u>\$ 26,563</u>
LIABILITIES				
Due to other governments	\$ 23,918	\$ 26,563	\$ 23,918	\$ 26,563
Total liabilities	<u>\$ 23,918</u>	<u>\$ 26,563</u>	<u>\$ 23,918</u>	<u>\$ 26,563</u>

CITY OF CLEVELAND, OHIO

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - ALL AGENCY FUNDS FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts in Thousands)

	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at End of Year</u>
OTHER AGENCIES				
ASSETS				
Cash and cash equivalents	\$ 22,251	\$ 259,530	\$ 257,729	\$ 24,052
Total assets	<u>\$ 22,251</u>	<u>\$ 259,530</u>	<u>\$ 257,729</u>	<u>\$ 24,052</u>
LIABILITIES				
Due to others	\$ 22,251	\$ 259,530	\$ 257,729	\$ 24,052
Total liabilities	<u>\$ 22,251</u>	<u>\$ 259,530</u>	<u>\$ 257,729</u>	<u>\$ 24,052</u>
 TOTALS-ALL AGENCY FUNDS				
ASSETS				
Cash and cash equivalents	\$ 28,191	\$ 278,811	\$ 274,086	\$ 32,916
Taxes receivable	17,985	18,402	17,985	18,402
Due from other governments	<u>1,613</u>	<u>1,251</u>	<u>1,613</u>	<u>1,251</u>
Total assets	<u>\$ 47,789</u>	<u>\$ 298,464</u>	<u>\$ 293,684</u>	<u>\$ 52,569</u>
LIABILITIES				
Due to other governments	\$ 23,918	\$ 26,563	\$ 23,918	\$ 26,563
Due to others	<u>23,871</u>	<u>271,901</u>	<u>269,766</u>	<u>26,006</u>
Total liabilities	<u>\$ 47,789</u>	<u>\$ 298,464</u>	<u>\$ 293,684</u>	<u>\$ 52,569</u>

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**CAPITAL ASSETS
USED IN THE OPERATION
OF GOVERNMENTAL FUNDS**

CITY OF CLEVELAND, OHIO

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS SCHEDULE BY TYPE* DECEMBER 31, 2017 (Amounts in Thousands)

Governmental Funds Capital Assets:

Land	\$ 66,577
Land improvements	210,522
Buildings, structures and improvements	715,715
Furniture, fixtures, equipment and vehicles	247,959
Infrastructure	795,685
Construction in progress	<u>241,324</u>

TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS \$ 2,277,782

* This schedule presents only the capital asset balances related to governmental funds, excluding accumulated depreciation. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

CITY OF CLEVELAND, OHIO

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY*
DECEMBER 31, 2017
(Amounts in Thousands)**

	<u>Total</u>	<u>Land</u>	<u>Land Improvements</u>	<u>Buildings, Structures and Improvements</u>	<u>Furniture, Fixtures, Equipment and Vehicles</u>	<u>Infrastructure</u>	<u>Construction In Progress</u>
General Government:							
General government	\$ 351,478	\$ 208	\$ 1,866	\$ 305,909	\$ 26,830	\$ 6,663	\$ 10,002
City Hall	28,724	877		26,004		1,347	496
Engineering and construction	513,610		28,525		1,807	482,634	644
Justice Center	29,776			28,930	846		
Research, planning and development	49,035	903	39,786	4,326	61	2,997	962
Charles V. Carr Municipal Center	647		15	632			
Total general government	<u>973,270</u>	<u>1,988</u>	<u>70,192</u>	<u>365,801</u>	<u>29,544</u>	<u>493,641</u>	<u>12,104</u>
Public Works:							
Waste collection	41,463	499		9,761	29,444	1,460	299
Streets	466,021	1,540	11,602	14,393	26,696	271,747	140,043
Traffic engineering	5,515			813	2,485	2,200	17
Park maintenance and properties	166,157	37,857	61,677	18,822	16,986	316	30,499
Recreation	143,629	976	58,408	73,581	2,459		8,205
Other	129,083	2,669		111,494	1,274	74	13,572
Total public works	<u>951,868</u>	<u>43,541</u>	<u>131,687</u>	<u>228,864</u>	<u>79,344</u>	<u>275,797</u>	<u>192,635</u>
Public Safety:							
Police	167,772	4,575	784	60,037	81,114	162	21,100
Fire	77,434	1,663		30,954	39,234		5,583
Emergency medical service	20,183			1,168	12,439	5,614	962
Correction	7,719	249		6,570	877	23	
Dog pound	4,382			1,048	473		2,861
Other	1,697				1,318		379
Total public safety	<u>279,187</u>	<u>6,487</u>	<u>784</u>	<u>99,777</u>	<u>135,455</u>	<u>5,799</u>	<u>30,885</u>
Public Health:							
Health and environment	13,964	1,112	208	10,746	1,789	56	53
Total public health	<u>13,964</u>	<u>1,112</u>	<u>208</u>	<u>10,746</u>	<u>1,789</u>	<u>56</u>	<u>53</u>
Community Development:							
Community development	46,687	7,130	7,376	9,467	1,386	15,807	5,521
Total community development	<u>46,687</u>	<u>7,130</u>	<u>7,376</u>	<u>9,467</u>	<u>1,386</u>	<u>15,807</u>	<u>5,521</u>
Economic Development:							
Economic development	8,379	6,319	275	740		1,004	41
Total economic development	<u>8,379</u>	<u>6,319</u>	<u>275</u>	<u>740</u>	<u>-</u>	<u>1,004</u>	<u>41</u>
Building and Housing:							
Building and housing	4,427			320	441	3,581	85
Total building and housing	<u>4,427</u>	<u>-</u>	<u>-</u>	<u>320</u>	<u>441</u>	<u>3,581</u>	<u>85</u>
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	<u>\$ 2,277,782</u>	<u>\$ 66,577</u>	<u>\$ 210,522</u>	<u>\$ 715,715</u>	<u>\$ 247,959</u>	<u>\$ 795,685</u>	<u>\$ 241,324</u>

* This schedule presents only the capital asset balances related to governmental funds, excluding accumulated depreciation. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

CITY OF CLEVELAND, OHIO

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY*
FOR THE YEAR ENDED DECEMBER 31, 2017
(Amounts in Thousands)**

	<u>Balance January 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance December 31, 2017</u>
General Government:					
General government	\$ 349,541	\$ 1,890	\$ (36)	\$ 83	\$ 351,478
City Hall	28,679	45			28,724
Engineering and construction	525,670	3,170	(24)	(15,206)	513,610
Justice Center	29,776				29,776
Research, planning and development	49,035				49,035
Charles V. Carr Municipal Center	647				647
Total general government	<u>983,348</u>	<u>5,105</u>	<u>(60)</u>	<u>(15,123)</u>	<u>973,270</u>
Public Works:					
Waste collection	40,042	1,917	(487)	(9)	41,463
Streets	417,427	36,895	(3,587)	15,286	466,021
Traffic engineering	5,261	221		33	5,515
Park maintenance and properties	157,880	8,557	(282)	2	166,157
Recreation	139,759	3,907	(46)	9	143,629
Other	127,104	2,079	(149)	49	129,083
Total public works	<u>887,473</u>	<u>53,576</u>	<u>(4,551)</u>	<u>15,370</u>	<u>951,868</u>
Public Safety:					
Police	166,573	4,399	(1,465)	(1,735)	167,772
Fire	76,567	1,369	(46)	(456)	77,434
Emergency medical service	17,955	2,248		(20)	20,183
Correction	7,727		(8)		7,719
Dog pound	1,878	2,504			4,382
Other	103	523		1,071	1,697
Total public safety	<u>270,803</u>	<u>11,043</u>	<u>(1,519)</u>	<u>(1,140)</u>	<u>279,187</u>
Public Health:					
Health and environment	13,957	7			13,964
Total public health	<u>13,957</u>	<u>7</u>	<u>-</u>	<u>-</u>	<u>13,964</u>
Community Development:					
Community development	46,614	83		(10)	46,687
Total community development	<u>46,614</u>	<u>83</u>	<u>-</u>	<u>(10)</u>	<u>46,687</u>
Economic Development:					
Economic development	8,087	292			8,379
Total economic development	<u>8,087</u>	<u>292</u>	<u>-</u>	<u>-</u>	<u>8,379</u>
Building and Housing:					
Building and housing	4,407	20			4,427
Total building and housing	<u>4,407</u>	<u>20</u>	<u>-</u>	<u>-</u>	<u>4,427</u>
TOTAL GOVERNMENTAL FUNDS					
CAPITAL ASSETS	<u>\$ 2,214,689</u>	<u>\$ 70,126</u>	<u>\$ (6,130)</u>	<u>\$ (903)</u>	<u>\$ 2,277,782</u>

* This schedule presents only the capital asset balances related to governmental funds, excluding accumulated depreciation. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

STATISTICAL SECTION

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CITY OF CLEVELAND, OHIO
Statistical Section

This part of the City’s Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the City’s overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends	
These schedules contain trend information to help the reader understand how the City’s financial performance and well-being have changed over time.	S3-S6
Revenue Capacity	
These schedules contain information to help the reader assess the City’s most significant local revenue source, the municipal income tax.	S7-S11
Debt Capacity	
These schedules present information to help the reader assess the affordability of the City’s current levels of outstanding debt and the City’s ability to issue additional debt in the future.	S12-S19
Economic and Demographic Information	
These schedules offer economic and demographic indicators to help the reader understand the environment within which the City’s financial activities take place.	S20-S22
Operating Information	
These schedules contain service and infrastructure data to help the reader understand how the information in the City’s financial report relates to the services the City provides and the activities it performs.	S23-S24
Schedule of Statistics – General Fund	S25

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

City of Cleveland, Ohio
Net Position By Component
Last Ten Years
(Accrual Basis of Accounting)
(Amounts in Thousands)

	2017	2016	2015	2014
Governmental Activities				
Net investment in capital assets	\$ 719,579	\$ 722,785	\$ 653,925	\$ 828,002
Restricted	161,003	155,224	167,042	152,360
Unrestricted	(433,843)	(459,804)	(422,125)	(110,650)
<i>Total Governmental Activities Net Position</i>	<u>\$ 446,739</u>	<u>\$ 418,205</u>	<u>\$ 398,842</u>	<u>\$ 869,712</u>
Business-Type Activities				
Net investment in capital assets	\$ 1,482,861	\$ 1,367,544	\$ 1,354,871	\$ 1,335,195
Restricted	214,161	236,772	240,979	244,937
Unrestricted	548,411	532,257	482,852	525,970
<i>Total Business-Type Activities Net Position</i>	<u>\$ 2,245,433</u>	<u>\$ 2,136,573</u>	<u>\$ 2,078,702</u>	<u>\$ 2,106,102</u>
Primary Government				
Net investment in capital assets	\$ 2,202,440	\$ 2,090,329	\$ 2,008,796	\$ 2,163,197
Restricted	375,164	391,996	408,021	397,297
Unrestricted	114,568	72,453	60,727	415,320
<i>Total Primary Government Net Position</i>	<u>\$ 2,692,172</u>	<u>\$ 2,554,778</u>	<u>\$ 2,477,544</u>	<u>\$ 2,975,814</u>

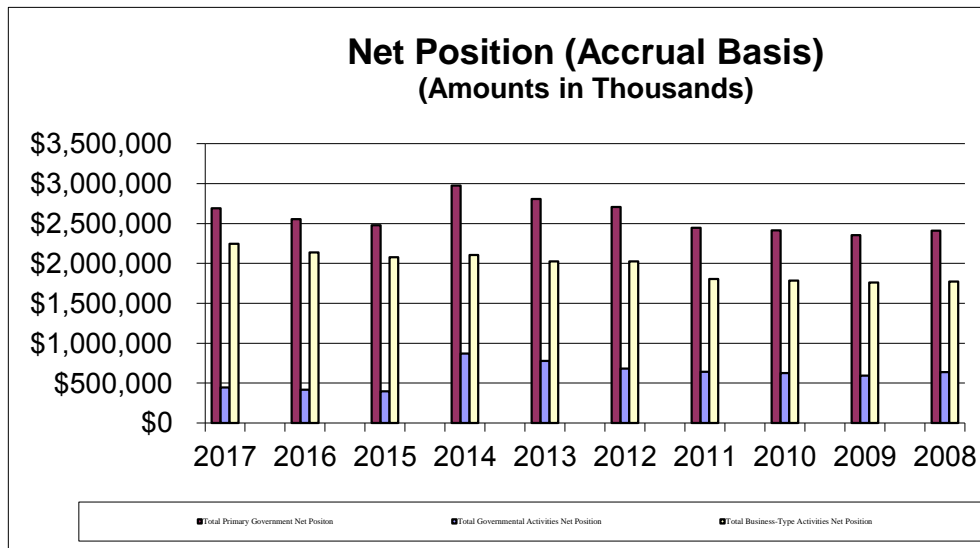
Note:

The Governmental Accounting Standards Board (GASB) issued Statement No. 65 effective for periods beginning after December 15, 2012. This statement changed the treatment of bond issuance costs to expense in the period incurred. Previously, the costs were recorded as assets and amortized over the life of the related debt issued. This change is reflected in the 2013 net position figures. The City did not restate prior years in this statistical table.

In 2011, Water restated their capital assets due to entering into amended Water agreements with 21 member communities prior to 2011. As part of the agreements, ownership of distribution mains was transferred to the Division of Water. The City did not restate these figures in this statistical table.

The Governmental Accounting Standards Board (GASB) issued Statement No. 68 and 71 effective for periods beginning after June 15, 2014. These statements established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures. The City did not restate prior years in this statistical table.

2013	2012	2011	2010	2009	2008
\$ 686,794	\$ 572,213	\$ 543,460	\$ 557,804	\$ 561,586	\$ 555,076
145,729	122,488	117,765	159,942	166,280	179,318
(53,448)	(12,383)	(19,771)	(90,565)	(134,033)	(95,968)
<u>\$ 779,075</u>	<u>\$ 682,318</u>	<u>\$ 641,454</u>	<u>\$ 627,181</u>	<u>\$ 593,833</u>	<u>\$ 638,426</u>
\$ 1,307,661	\$ 1,303,584	\$ 1,130,178	\$ 1,080,332	\$ 1,016,182	\$ 985,556
244,196	227,826	234,050	243,511	275,907	272,613
474,185	492,956	438,767	462,397	469,010	512,876
<u>\$ 2,026,042</u>	<u>\$ 2,024,366</u>	<u>\$ 1,802,995</u>	<u>\$ 1,786,240</u>	<u>\$ 1,761,099</u>	<u>\$ 1,771,045</u>
\$ 1,994,455	\$ 1,875,797	\$ 1,673,638	\$ 1,638,136	\$ 1,577,768	\$ 1,540,632
389,925	350,314	351,815	403,453	442,187	451,931
420,737	480,573	418,996	371,832	334,977	416,908
<u>\$ 2,805,117</u>	<u>\$ 2,706,684</u>	<u>\$ 2,444,449</u>	<u>\$ 2,413,421</u>	<u>\$ 2,354,932</u>	<u>\$ 2,409,471</u>



City of Cleveland, Ohio
Changes in Net Position
Last Ten Years
(Accrual Basis of Accounting)
(Amounts in Thousands)

	2017	2016	2015	2014
Program Revenues				
Governmental Activities:				
Charges for Services:				
General Government (1)	\$ 19,573	\$ 18,636	\$ 23,007	\$ 31,589
Public Works (1)	18,408	18,301	17,587	17,706
Public Service (1)				
Public Safety	17,803	18,075	13,032	15,318
Community Development (1)	777	952	844	1,483
Building and Housing	16,377	17,717	16,408	11,984
Public Health	3,091	3,463	2,544	2,754
Parks, Recreation and Properties (1)				
Economic Development	103	103	103	101
Subtotal - Charges for Services	<u>76,132</u>	<u>77,247</u>	<u>73,525</u>	<u>80,935</u>
Operating Grants and Contributions:				
General Government (1)	3,343	3,468	4,349	4,351
Public Works (1)	24,106	14,802	14,753	20,373
Public Service (1)				
Public Safety	6,144	46,421	3,806	7,315
Community Development	26,173	28,950	32,729	35,673
Building and Housing	2,413	4,380	3,609	2,804
Public Health	8,809	8,122	8,974	11,040
Parks, Recreation and Properties (1)				
Economic Development	3,023	8,614	11,752	18,234
Subtotal - Operating Grants and Contributions	<u>74,011</u>	<u>114,757</u>	<u>79,972</u>	<u>99,790</u>
Capital Grants and Contributions:				
General Government	34	134	415	2,862
Public Works (1)	35,744	87,304	45,581	85,253
Public Service (1)				
Public Safety	97	6	91	173
Community Development				
Parks, Recreation and Properties (1)				
Subtotal - Capital Grants and Contributions	<u>35,875</u>	<u>87,444</u>	<u>46,087</u>	<u>88,288</u>
Total Governmental Activities Program Revenues	<u>186,018</u>	<u>279,448</u>	<u>199,584</u>	<u>269,013</u>
Business-Type Activities:				
Charges for Services:				
Water	301,621	310,111	301,283	303,412
Electricity	194,904	192,967	192,861	181,843
Airport facilities	145,206	142,433	128,033	131,724
Nonmajor activities	42,643	42,133	39,351	34,276
Subtotal - Charges for Services	<u>684,374</u>	<u>687,644</u>	<u>661,528</u>	<u>651,255</u>
Operating Grants and Contributions:				
Water	4,087	1,678	413	301
Electricity	4,105	3,340	3,225	4,030
Airport facilities	314	191	85	73
Nonmajor activities	648	218	299	161
Subtotal - Operating Grants and Contributions	<u>9,154</u>	<u>5,427</u>	<u>4,022</u>	<u>4,565</u>
Capital Grants and Contributions:				
Water	50,693	4,326	25,158	34,699
Electricity	189	354	481	2
Airport facilities	56,757	32,280	20,159	19,775
Nonmajor activities	4,452	1,092	1,245	3,280
Subtotal - Capital Grants and Contributions	<u>112,091</u>	<u>38,052</u>	<u>47,043</u>	<u>57,756</u>
Total Business-Type Activities Program Revenues	<u>805,619</u>	<u>731,123</u>	<u>712,593</u>	<u>713,576</u>
Total Primary Government Program Revenues	<u>\$ 991,637</u>	<u>\$ 1,010,571</u>	<u>\$ 912,177</u>	<u>\$ 982,589</u>

	2013	2012 (2)	2011	2010	2009	2008
\$	29,983	\$ 30,696	\$ 32,336	\$ 31,570	\$ 34,937	\$ 36,824
	17,561	18,369	16,271			
	17,078	15,049	15,034	12,024	5,517	5,517
	11,734	5,757	18,072	7,327	13,402	12,323
	2,917	2,967	2,931	3,033	3,187	2,893
				8,047	1,129	1,351
	377	100	37	1,469	759	1,057
	<u>79,650</u>	<u>72,938</u>	<u>84,681</u>	<u>77,309</u>	<u>77,227</u>	<u>87,114</u>
	5,601	4,345	3,673	1,348	1,121	1,789
	29,770	28,342	27,364			
	9,180	13,805	12,497	13,821	13,469	14,317
	42,608	69,004	68,887	8,647	13,192	7,448
	9,133	6,679	5,698	73,563	41,490	42,129
	9,249	10,321	13,228	9,064	11,857	1,106
				12,693	15,048	12,786
				13,830	14,404	16,417
	14,046	11,387	4,008	8,156	23,984	33,121
	<u>119,587</u>	<u>143,883</u>	<u>135,355</u>	<u>141,122</u>	<u>134,565</u>	<u>129,113</u>
	56,610	1,330	23	41		3,057
	38,348	24,515	13,982			
				11,179	11,680	13,094
	<u>94,958</u>	<u>25,845</u>	<u>14,005</u>	<u>11,220</u>	<u>11,680</u>	<u>16,151</u>
	<u>294,195</u>	<u>242,666</u>	<u>234,041</u>	<u>229,651</u>	<u>223,472</u>	<u>232,378</u>
	272,674	280,323	236,626	237,270	228,235	242,872
	170,342	165,227	168,448	166,665	155,865	158,237
	113,244	116,694	114,967	106,696	98,143	111,402
	34,135	35,188	34,600	39,358	43,110	41,950
	<u>590,395</u>	<u>597,432</u>	<u>554,641</u>	<u>549,989</u>	<u>525,353</u>	<u>554,461</u>
	5,984	4,567	3,305	3,553	4,917	8,384
	656	97	883	566	169	2,118
	132	177		619	1,232	3,809
	86	478	278	4,051	3,857	5,557
	<u>6,858</u>	<u>5,319</u>	<u>4,466</u>	<u>8,789</u>	<u>10,175</u>	<u>19,868</u>
	12,446	21,800	2,284	7,645	1,677	3,460
	393	964	206	1,035		2,803
	35,089	25,025	56,385	57,089	44,219	54,646
	808	5,773	5,716	19,765	5,429	3,155
	<u>48,736</u>	<u>53,562</u>	<u>64,591</u>	<u>85,534</u>	<u>51,325</u>	<u>64,064</u>
	<u>645,989</u>	<u>656,313</u>	<u>623,698</u>	<u>644,312</u>	<u>586,853</u>	<u>638,393</u>
\$	<u>940,184</u>	<u>\$ 898,979</u>	<u>\$ 857,739</u>	<u>\$ 873,963</u>	<u>\$ 810,325</u>	<u>\$ 870,771</u>

(Continued)

City of Cleveland, Ohio
Changes in Net Position
Last Ten Years
(Amounts in Thousands)

	2017	2016	2015	2014
Expenses				
Governmental Activities:				
General Government (1)	\$ 160,117	\$ 139,022	\$ 140,946	\$ 121,050
Public Works (1)	137,256	119,019	117,040	129,551
Public Service (1)				
Public Safety	357,248	383,453	328,453	298,768
Community Development (1)	28,555	32,173	35,026	39,099
Building and Housing	14,240	14,111	13,433	11,059
Public Health	18,038	16,110	16,841	18,236
Parks, Recreation and Properties (1)				
Economic Development	36,189	37,913	29,474	32,508
Interest on debt	28,630	27,596	36,489	26,333
<i>Total Governmental Activities Expenses</i>	<u>780,273</u>	<u>769,397</u>	<u>717,702</u>	<u>676,604</u>
Business-Type Activities				
Water	293,148	270,014	259,892	253,822
Electricity	197,613	196,092	197,823	181,862
Airport facilities	172,383	172,254	162,499	161,021
Nonmajor activities	41,990	39,501	37,088	38,430
<i>Total Business-Type Activities Expenses</i>	<u>705,134</u>	<u>677,861</u>	<u>657,302</u>	<u>635,135</u>
<i>Total Primary Government Program Expenses</i>	<u>1,485,407</u>	<u>1,447,258</u>	<u>1,375,004</u>	<u>1,311,739</u>
Net (Expense)/Revenue				
Governmental Activities	(594,255)	(489,949)	(518,118)	(407,591)
Business-Type Activities	100,485	53,262	55,291	78,441
<i>Total Primary Government Net Expense</i>	<u>(493,770)</u>	<u>(436,687)</u>	<u>(462,827)</u>	<u>(329,150)</u>
General Revenues and Other Changes in Net Position				
Governmental Activities				
Taxes:				
Income taxes	451,929	359,668	346,797	337,933
Property taxes	51,985	28,634	55,017	52,327
Other taxes	46,704	48,945	38,904	35,851
Shared revenues	37,428	35,888	34,974	37,240
State and local government funds	24,331	24,061	26,567	23,846
Unrestricted investment earnings	4,392	1,801	1,060	1,193
Other	14,374	14,906	8,760	11,454
Transfers	(8,354)	(4,591)	(1,957)	(1,616)
<i>Total Governmental Activities</i>	<u>622,789</u>	<u>509,312</u>	<u>510,122</u>	<u>498,228</u>
Business-Type Activities				
Unrestricted investment earnings	13	7	4	3
Other	8	11		
Special items - gain on sale of capital assets				
Transfers	8,354	4,591	1,957	1,616
<i>Total Business-Type Activities Expenses</i>	<u>8,375</u>	<u>4,609</u>	<u>1,961</u>	<u>1,619</u>
<i>Total Primary Government General Revenues and Other Changes in Net Position</i>	<u>631,164</u>	<u>513,921</u>	<u>512,083</u>	<u>499,847</u>
Change in Net Position				
Governmental Activities	28,534	19,363	(7,996)	90,637
Business-Type Activities	108,860	57,871	57,252	80,060
<i>Total Primary Government Change in Net Position</i>	<u>\$ 137,394</u>	<u>\$ 77,234</u>	<u>\$ 49,256</u>	<u>\$ 170,697</u>

Note:

Program revenues and expenses previously reported as "Other" program revenues and expenses in Governmental activities on the Statement of Activities are now classified as General Government program revenues and expenses as appropriate.

Business-type activities on the Government-wide Statement of Activities summarizes other Enterprise Funds as Nonmajor activities. These include Sewer, Public Auditorium, West Side Market, East Side Market, Municipal Parking Lots, Cemeteries and Golf Courses.

(1) In 2012, a departmental reorganization occurred that merged the departments of Public Service with Parks, Recreation and Properties becoming the Department of Public Works. The Office of Capital Projects was created from the Divisions of Architecture, Engineering and Construction and Research, Planning and Development and is reported under General Government. In addition, the Division of Consumer Affairs was merged with Community Development and was moved from General Government.

(2) The Governmental Accounting Standards Board (GASB) issued Statement No. 65 effective for periods beginning after December 15, 2012. This statement changed the treatment of bond issuance costs to expense in the period incurred. Previously, the costs were recorded as assets and amortized over the life of the related debt issued. The City did not restate prior years in this statistical table.

	2013	2012 (2)	2011	2010	2009	2008
\$	115,793	\$ 106,141	\$ 95,833	\$ 81,898	\$ 90,311	\$ 101,878
	130,108	128,276	139,577			
				93,425	85,947	87,154
	310,246	310,745	308,051	315,900	329,765	329,922
	44,337	70,705	75,778	70,589	59,204	44,550
	17,694	14,729	14,098	17,445	20,925	15,831
	15,405	17,385	19,596	19,740	22,999	20,351
				46,963	58,799	61,628
	18,142	13,845	22,323	24,729	38,083	53,944
	24,913	26,153	27,686	47,531	30,448	32,896
	<u>676,638</u>	<u>687,979</u>	<u>702,942</u>	<u>718,220</u>	<u>736,481</u>	<u>748,154</u>
	258,014	244,647	232,497	232,862	224,269	213,335
	171,669	163,547	167,799	165,330	158,100	154,426
	155,343	153,627	167,531	158,262	168,734	172,274
	35,235	39,671	46,302	43,443	46,546	44,507
	<u>620,261</u>	<u>601,492</u>	<u>614,129</u>	<u>599,897</u>	<u>597,649</u>	<u>584,542</u>
	<u>1,296,899</u>	<u>1,289,471</u>	<u>1,317,071</u>	<u>1,318,117</u>	<u>1,334,130</u>	<u>1,332,696</u>
	(382,443)	(445,313)	(468,901)	(488,569)	(513,009)	(515,776)
	25,728	54,821	9,569	44,415	(10,796)	53,851
	<u>(356,715)</u>	<u>(390,492)</u>	<u>(459,332)</u>	<u>(444,154)</u>	<u>(523,805)</u>	<u>(461,925)</u>
	332,719	330,863	311,492	298,209	296,507	329,316
	45,055	56,086	63,839	88,087	63,573	65,398
	37,765	28,680	27,312	28,450	25,053	25,918
	34,434	27,338	19,558	23,869	28,741	28,587
	30,081	25,966	43,821	49,266	43,420	52,450
	683	692	97	654	1,740	3,344
	21,194	18,141	19,086	14,104	10,207	9,556
	(1,527)	(1,589)	(2,031)	19,278	(825)	(306)
	<u>500,404</u>	<u>486,177</u>	<u>483,174</u>	<u>521,917</u>	<u>468,416</u>	<u>514,263</u>
	3		30	4	25	42
			5,125			
	1,527	1,589	2,031	(19,278)	825	306
	1,530	1,589	7,186	(19,274)	850	348
	<u>501,934</u>	<u>487,766</u>	<u>490,360</u>	<u>502,643</u>	<u>469,266</u>	<u>514,611</u>
	117,961	40,864	14,273	33,348	(44,593)	(1,513)
	27,258	56,410	16,755	25,141	(9,946)	54,199
\$	<u>145,219</u>	<u>\$ 97,274</u>	<u>\$ 31,028</u>	<u>\$ 58,489</u>	<u>\$ (54,539)</u>	<u>\$ 52,686</u>

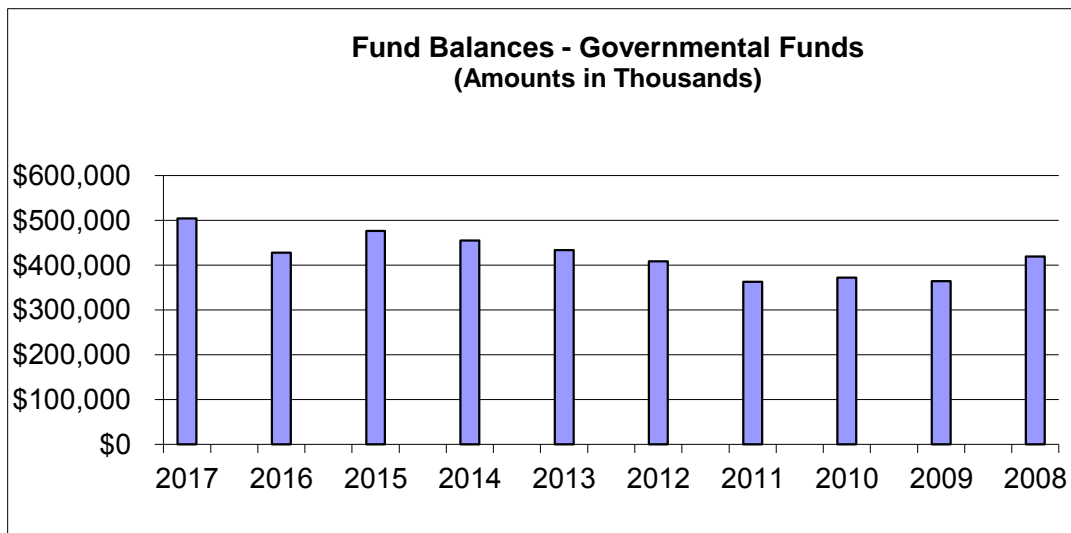
(Concluded)

City of Cleveland, Ohio
Fund Balances, Governmental Funds
Last Ten Years (1)
(Modified Accrual Basis of Accounting)
(Amounts in Thousands)

	2017	2016	2015	2014
General Fund				
Reserved	\$	\$	\$	\$
Unreserved				
Nonspendable			740	885
Assigned	42,168	15,631	11,979	15,041
Unassigned	92,692	66,091	68,490	78,401
Total General Fund	<u>134,860</u>	<u>81,722</u>	<u>81,209</u>	<u>94,327</u>
All Other Governmental Funds				
Reserved				
Unreserved reported in:				
Special Revenue funds				
Capital Projects funds				
Nonspendable			865	1,387
Restricted	296,361	287,250	312,089	268,905
Committed	72,770	70,597	82,189	90,739
Assigned	11	2	6	8
Unassigned		(11,514)		
Total All Other Governmental Funds	<u>369,142</u>	<u>346,335</u>	<u>395,149</u>	<u>361,039</u>
Total Governmental Funds	<u>\$ 504,002</u>	<u>\$ 428,057</u>	<u>\$ 476,358</u>	<u>\$ 455,366</u>

(1) Fund balance classifications changed in 2011 with the implementation of GASB Statement No.54.

2013	2012	2011	2010	2009	2008
\$	\$	\$	\$ 15,070	\$ 15,513	\$ 14,689
			(2,529)	(9,648)	16,856
648	632	576			
13,209	9,239	12,027			
75,891	61,879	38,991			
89,748	71,750	51,594	12,541	5,865	31,545
			257,696	263,059	272,039
			64,432	45,781	72,421
			37,753	49,556	43,438
355	495	1,172			
245,015	233,832	204,590			
98,806	102,901	105,624			
3	2	1			
		(96)			
344,179	337,230	311,291	359,881	358,396	387,898
\$ 433,927	\$ 408,980	\$ 362,885	\$ 372,422	\$ 364,261	\$ 419,443



City of Cleveland, Ohio
Changes in Fund Balances, Governmental Funds
Last Ten Years
(Modified Accrual Basis of Accounting)
(Amounts in Thousands)

	2017	2016	2015	2014
Revenues				
Income taxes	\$ 447,259	\$ 355,092	\$ 350,524	\$ 336,743
Property taxes	51,473	49,311	49,697	49,198
State and local government funds	24,375	24,431	26,433	25,077
Other taxes and shared revenues (2)				
Other taxes (2)	46,683	48,945	38,904	35,851
Other shared revenues (2)	61,079	49,108	48,864	54,329
Licenses and permits	19,407	21,236	18,884	15,404
Charges for services	39,177	37,620	35,169	36,120
Fines, forfeits and settlements	14,299	14,295	18,864	28,928
Investment earnings	4,147	1,725	927	858
Grants	80,077	125,956	102,257	111,935
Contributions	1,704	1,844	2,803	2,571
Miscellaneous	11,618	16,067	13,565	18,534
<i>Total Revenues</i>	<u>801,298</u>	<u>745,630</u>	<u>706,891</u>	<u>715,548</u>
Expenditures				
Current:				
General Government (1)	100,372	98,102	86,686	91,199
Public Works (1)	98,228	93,148	90,961	89,042
Public Service (1)				
Public Safety	322,483	347,426	311,177	294,605
Community Development (1)	25,827	29,990	33,076	37,191
Building and Housing	13,216	13,710	13,419	10,885
Public Health	16,382	15,410	16,462	17,722
Parks, Recreation and Properties (1)				
Economic Development	35,748	37,552	29,393	32,360
Other	6,640	7,388	8,635	10,580
Capital outlay	85,888	99,622	127,001	100,868
Inception of capital lease			571	6,044
Debt service:				
Principal retirement	49,041	49,370	48,648	47,752
Interest	30,000	30,365	28,627	27,935
General Government	971	476	2,462	1,114
Other	1,069	1,070	1,071	1,077
<i>Total Expenditures</i>	<u>785,865</u>	<u>823,629</u>	<u>798,189</u>	<u>768,374</u>
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	<u>15,433</u>	<u>(77,999)</u>	<u>(91,298)</u>	<u>(52,826)</u>
Other Financing Sources (Uses)				
Transfers in	81,122	72,227	92,273	77,659
Transfers out	(83,188)	(74,118)	(94,734)	(79,766)
Issuance of debt		28,125	101,385	69,200
Issuance of refunding bonds	142,850	23,680	117,325	20,110
Proceeds from sale of debt				
Premium on bonds and notes	21,916	7,497	30,085	6,666
Discount on bonds and notes				(13)
Payment to refund bonds and notes	(108,761)	(28,150)	(135,757)	(20,635)
Proceeds from sale of general obligation bonds and notes				
Loan proceeds				
Sale of City assets	6,573	437	1,713	1,044
Capital leases				
<i>Total Other Financing Sources (Uses)</i>	<u>60,512</u>	<u>29,698</u>	<u>112,290</u>	<u>74,265</u>
<i>Net Change in Fund Balances</i>	<u>\$ 75,945</u>	<u>\$ (48,301)</u>	<u>\$ 20,992</u>	<u>\$ 21,439</u>
Debt Service as a Percentage of Noncapital Expenditures	10.8%	10.8%	11.1%	11.7%

(1) In 2012, a departmental reorganization occurred that merged the departments of Public Service with Parks, Recreation and Properties becoming the Department of Public Works. The Office of Capital Projects was created from the Divisions of Architecture, Engineering and Construction and Research, Planning and Development and is reported under General Government. In addition, the Division of Consumer Affairs was merged with Community Development and was moved from General Government. Data for years prior to 2011 is unavailable.

(2) In 2013, other taxes and other shared revenues are reported separately. For years prior to 2013, the figures are combined. Data for years prior to 2013 is unavailable.

	2013	2012	2011	2010	2009	2008
\$	333,359	\$ 331,118	\$ 312,508	\$ 300,427	\$ 298,546	\$ 326,464
	49,740	55,312	55,949	58,660	63,754	65,258
	28,439	31,821	45,640	47,972	45,590	52,269
		86,084	77,636	79,620	81,440	81,200
	37,764					
	59,907					
	16,034	15,070	16,877	13,529	17,061	15,047
	39,297	41,436	39,433	33,779	22,136	26,000
	27,020	26,830	28,376	28,643	32,321	34,763
	865	468	518	621	2,691	8,871
	115,851	129,724	120,119	116,920	112,024	94,769
	15,948	1,364	52	72	659	549
	27,770	18,770	15,356	16,490	25,811	27,649
	<u>751,994</u>	<u>737,997</u>	<u>712,464</u>	<u>696,733</u>	<u>702,033</u>	<u>732,839</u>
	85,638	85,125	77,792	80,865	90,074	91,664
	86,576	85,753	91,926			
				53,567	58,229	60,105
	303,234	303,767	302,009	308,321	319,334	318,339
	42,677	69,238	73,682	70,437	58,101	43,677
	17,444	14,542	14,031	17,401	20,841	15,691
	14,983	16,986	19,160	19,229	22,460	19,724
				37,822	39,598	42,593
	18,030	12,794	19,348	24,635	36,849	51,921
	11,877	10,992	11,171	11,490	10,446	10,627
	115,170	69,945	66,575	56,227	66,720	60,513
	5,046	5,648	4,566	3,201		
	46,252	48,115	47,481	48,223	53,048	51,566
	30,380	33,741	30,628	28,682	32,942	34,318
	615	1,264	438	18,722	477	5,394
	1,176	1,168	315	795	475	1,868
	<u>779,098</u>	<u>759,078</u>	<u>759,122</u>	<u>779,617</u>	<u>809,594</u>	<u>808,000</u>
	<u>(27,104)</u>	<u>(21,081)</u>	<u>(46,658)</u>	<u>(82,884)</u>	<u>(107,561)</u>	<u>(75,161)</u>
	56,516	59,830	68,643	106,617	53,414	57,550
	(58,466)	(62,145)	(71,514)	(88,152)	(54,525)	(58,243)
	35,840	82,945	31,260	171,505	44,580	
	25,360				13,820	
						266,160
	4,415	8,770	1,105	1,885	2,289	4,042
		(145)	(217)	(237)		(386)
	(25,360)	(28,910)		(108,390)	(13,767)	(192,675)
	2,786					
	4,425	324	1,229	1,127	6,568	274
	6,535	6,507	6,615	6,690		
	<u>52,051</u>	<u>67,176</u>	<u>37,121</u>	<u>91,045</u>	<u>52,379</u>	<u>76,722</u>
\$	<u>24,947</u>	<u>\$ 46,095</u>	<u>\$ (9,537)</u>	<u>\$ 8,161</u>	<u>\$ (55,182)</u>	<u>\$ 1,561</u>
	11.5%	11.8%	11.1%	10.4%	11.5%	11.3%

City of Cleveland, Ohio
Assessed Valuation and Estimated Actual Values of Taxable Property
Last Ten Years
(Amounts in Thousands)

Collection Year	Real Property			Tangible Personal Property	
	Assessed Value		Estimated Actual Value	Public Utility	
	Residential/ Agricultural	Commercial Industrial/PU		Assessed Value	Estimated Actual Value
2017	\$ 2,002,109	\$ 2,238,298	\$ 12,115,449	\$ 387,919	\$ 440,817
2016	2,002,439	2,255,156	12,164,557	331,843	377,094
2015	2,035,581	2,593,704	13,226,529	318,829	362,306
2014	2,051,307	2,550,042	13,146,711	298,603	339,322
2013	2,075,286	2,526,924	13,149,171	266,558	302,907
2012	2,641,867	2,743,313	15,386,229	246,081	279,638
2011	2,675,681	2,722,417	15,423,137	242,172	275,195
2010	2,693,686	2,585,663	15,083,857	233,870	265,761
2009	3,062,170	2,434,549	15,704,911	220,820	250,932
2008	3,041,791	2,438,801	15,658,834	210,970	239,739

The assessed valuation level for real property in Cuyahoga County is 35% of appraised market value, except for certain agricultural land and public utility property.

The assessed valuation of personal property constituting "inventory" was 23% of true value, in 2006 it was reduced to 18.75%, in 2007 to 12.50%, and in 2008 to 6.25%. The percentage decreased to 0% in 2009 and remains at 0% in 2017.

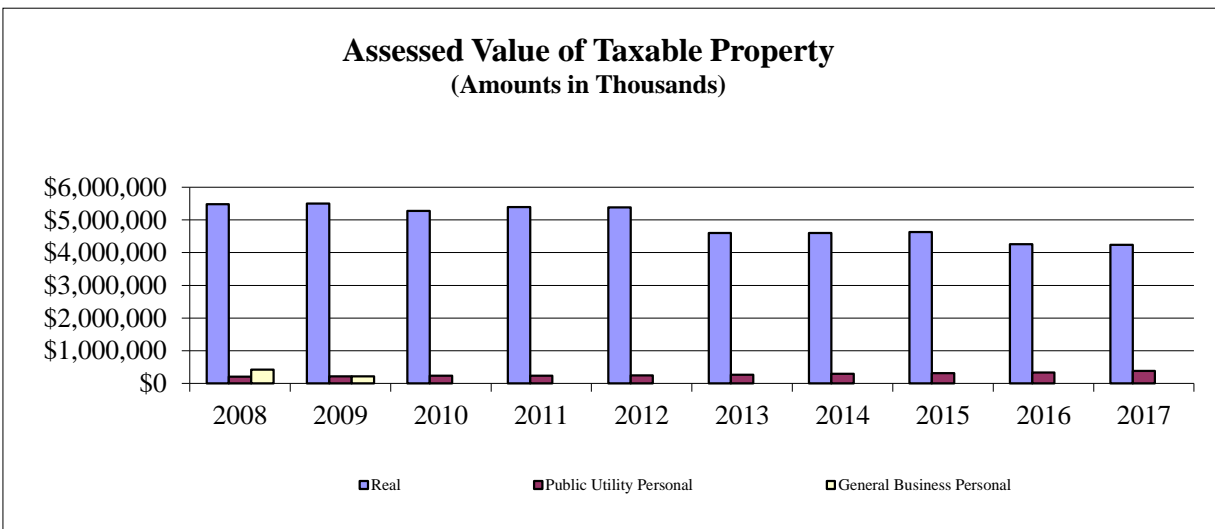
Electric deregulation took place January 1, 2001. Under prior law, an electric company's taxable production equipment was assessed at 100% of true value, while all of its other taxable property was assessed at 88% of true value. Effective in 2002, the valuation on electric utility production equipment was reduced from 100% to 25% of true value, with makeup payments in varying amounts to be made through 2017 to taxing subdivisions by the State of Ohio from State resources. All taxable property remained at 88% true value.

The total direct rate is shown per \$1,000 of assessed value.

Source: Cuyahoga County Fiscal Officer.

Tangible Personal Property

General Business		Total			
Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Total Direct Tax Rate	Ratio
\$	\$	\$ 4,628,326	\$ 12,556,266	12.70	36.9 %
		4,589,438	12,541,651	12.70	36.6
		4,948,114	13,588,835	12.70	36.4
		4,899,952	13,486,033	12.70	36.3
		4,868,768	13,452,078	12.70	36.2
		5,631,261	15,665,867	12.70	35.9
		5,640,270	15,698,332	12.70	35.9
		5,513,219	15,349,618	12.70	35.9
219,920	3,518,720	5,937,459	19,474,563	12.70	30.5
422,770	6,764,320	6,114,332	22,662,893	12.70	27.0



City of Cleveland, Ohio
Property Tax Rates - Direct and Overlapping Governments
(Per \$1,000 of Assessed Valuation)
Last Ten Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Unvoted Millage				
Debt	4.350000	4.350000	4.350000	4.350000
Fire Pension	<u>0.050000</u>	<u>0.050000</u>	<u>0.050000</u>	<u>0.050000</u>
<i>Total Unvoted Millage</i>	<u>4.400000</u>	<u>4.400000</u>	<u>4.400000</u>	<u>4.400000</u>
Charter Millage				
Operating	7.750000	7.750000	7.750000	7.750000
Fire Pension	0.250000	0.250000	0.250000	0.250000
Police Pension	<u>0.300000</u>	<u>0.300000</u>	<u>0.300000</u>	<u>0.300000</u>
<i>Total Charter Millage</i>	<u>8.300000</u>	<u>8.300000</u>	<u>8.300000</u>	<u>8.300000</u>
Total Millage	<u><u>12.700000</u></u>	<u><u>12.700000</u></u>	<u><u>12.700000</u></u>	<u><u>12.700000</u></u>

Overlapping Rates by Taxing District

City School District				
Residential/Agricultural Real	52.627462	52.527150	52.479460	52.699898
Commercial/Industrial and Public Utility Real	61.103106	61.578271	61.740058	61.107741
General Business and Public Utility Personal	79.300000	79.300000	79.300000	79.900000
County				
Residential/Agricultural Real	13.914095	13.880201	13.869781	14.050000
Commercial/Industrial and Public Utility Real	14.006049	14.012362	14.050000	14.019470
General Business and Public Utility Personal	14.050000	14.050000	14.050000	14.050000
Special Taxing Districts (1)				
Residential/Agricultural Real	13.636727	13.116607	13.112910	13.202292
Commercial/Industrial and Public Utility Real	13.760521	13.322508	13.363153	13.312617
General Business and Public Utility Personal	14.180000	13.680000	13.680000	13.680000

Note:

The rates presented for a particular calendar year are the rates that, when applied to the assessed values presented in the Assessed Value Table, generated the property tax revenue billed in that year. The City's basic property tax rate may be increased only by a majority vote of the City's residents. Charter millage is consistently applied to all types of property. The real property tax rates for the voted levies of the overlapping taxing districts are reduced so that inflationary increases in value do not generate additional revenue. Overlapping rates are those of local and county governments that apply to property owners within the City.

(1) Cleveland Metropolitan Parks District, Cleveland-Cuyahoga County Port Authority, Cleveland Public Library and Cuyahoga Community College.

Source: Cuyahoga County Fiscal Officer.

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
4.350000	4.350000	4.350000	4.350000	4.350000	4.350000
<u>0.050000</u>	<u>0.050000</u>	<u>0.050000</u>	<u>0.050000</u>	<u>0.050000</u>	<u>0.050000</u>
<u>4.400000</u>	<u>4.400000</u>	<u>4.400000</u>	<u>4.400000</u>	<u>4.400000</u>	<u>4.400000</u>
7.750000	7.750000	7.750000	7.750000	7.750000	7.750000
0.250000	0.250000	0.250000	0.250000	0.250000	0.250000
<u>0.300000</u>	<u>0.300000</u>	<u>0.300000</u>	<u>0.300000</u>	<u>0.300000</u>	<u>0.300000</u>
<u>8.300000</u>	<u>8.300000</u>	<u>8.300000</u>	<u>8.300000</u>	<u>8.300000</u>	<u>8.300000</u>
<u>12.700000</u>	<u>12.700000</u>	<u>12.700000</u>	<u>12.700000</u>	<u>12.700000</u>	<u>12.700000</u>
52.427248	52.116544	31.674164	31.506887	31.460074	29.076676
60.124573	60.128798	44.235815	44.362102	44.661412	44.661009
79.800000	79.800000	64.800000	64.800000	64.800000	64.800000
14.050000	13.220000	13.118223	13.186617	13.178886	12.660733
13.949465	12.996761	12.784540	12.841251	12.845700	12.815297
14.050000	13.220000	13.220000	13.320000	13.320000	13.320000
12.298441	11.391842	11.225159	11.207637	10.723710	10.330071
12.339767	11.418198	11.232744	11.236434	10.859248	10.838537
12.780000	11.880000	11.880000	11.880000	11.580000	11.580000

City of Cleveland, Ohio
Property Tax Levies and Collections
Last Ten Years

Year	Current Tax Levy (1)	Current Tax Collections (2)	Percent of Current Tax Collections To Current Tax Levy	Delinquent Tax Collections	Total Tax Collections
2017	\$ 72,023,002	\$ 64,982,553	90.22 %	\$ 4,280,681	\$ 69,263,234
2016	70,861,467	61,490,574	86.78	3,862,554	65,353,128
2015	75,115,511	62,192,254	82.80	4,537,073	66,729,327
2014	72,904,038	60,147,465	82.50	4,542,885	64,690,350
2013	68,191,726	57,319,877	84.06	4,664,866	61,984,743
2012	76,327,893	58,664,824	76.86	6,972,134	65,636,958
2011	74,312,975	59,301,577	79.80	5,104,558	64,406,135
2010	73,818,689	59,078,863	80.03	5,259,959	64,338,822
2009	76,071,934	63,707,028	83.75	5,351,909	69,058,937
2008	77,142,266	66,210,703	85.83	6,416,603	72,627,306

Note:

The County does not identify delinquent collections by the year for which the tax was levied.

(1) The current tax levy is the total amount of taxes assessed for the year.

(2) State reimbursement of rollback and homestead exemptions are included.

(3) Total levy includes the delinquent levy.

Source: Cuyahoga County Fiscal Officer.

Total Tax Levy (3)	Percent of Total Tax Collections To Total Tax Levy	Accumulated Outstanding Delinquent Taxes	Percentage of Delinquent Taxes to Total Tax Levy
\$ 94,787,217	73.07 %	\$ 23,227,032	24.50 %
87,924,969	74.33	23,066,836	26.23
110,147,288	60.58	47,220,991	42.87
110,329,017	58.63	41,284,638	37.42
104,953,336	59.06	40,343,634	38.44
122,143,372	53.74	47,654,232	39.01
109,926,575	58.59	44,679,192	40.64
107,119,066	60.06	39,704,298	37.07
107,873,764	64.02	36,999,445	34.30
107,071,494	67.83	31,984,896	29.87

City of Cleveland, Ohio
Principal Taxpayers - Real Estate Tax
 2017 and 2008

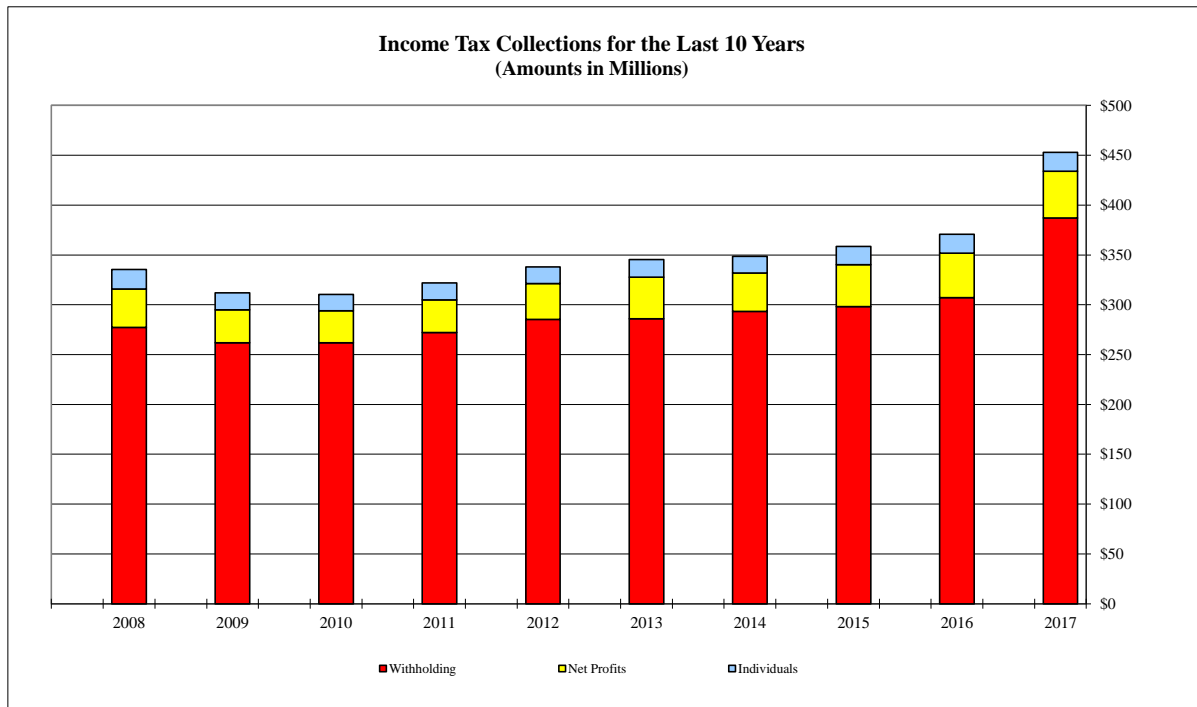
<i>2017</i>		
Taxpayer	Real Property Assessed Valuation (1)	Percentage of Real Assessed Valuation
Cleveland Electric Illuminating Co.	\$ 212,442,850	5.01 %
East Ohio Gas Co.	123,820,670	2.92
Cleveland Clinic Foundation	100,771,790	2.38
City of Cleveland, Ohio	99,489,340	2.34
127 PS Fee Owner, LLC	87,315,840	2.06
Cleveland-Cuyahoga Port Authority	83,891,590	1.98
American Transmission System	79,504,510	1.87
Rock Ohio Caesars Cleveland, LLC	45,641,450	1.08
Cleveland Financial Associates, LLC	45,527,380	1.07
National City Bank	33,376,240	0.79
Total	\$ 911,781,660	21.50 %
Total Real Property Assessed Valuation	\$4,240,407,000	
<i>2008</i>		
Taxpayer	Real Property Assessed Valuation (1)	Percentage of Real Assessed Valuation
Cleveland Electric Illuminating Co.	\$ 140,684,540	2.57 %
City of Cleveland, Ohio	137,750,750	2.51
Cleveland Clinic Foundation	101,495,590	1.85
Case Western Reserve University	59,652,010	1.09
Cleveland Financial Associates, LLC	49,232,020	0.90
East Ohio Gas Co.	34,800,200	0.64
Nation City Center, LLC	27,949,990	0.51
ISG Cleveland West	26,790,930	0.49
TIC OCC Ainley, LLC	22,177,160	0.40
Behringer Harvard 600	21,000,000	0.38
Total	\$ 621,533,190	11.34 %
Total Real Property Assessed Valuation	\$ 5,480,592,000	

(1) The amounts presented represent the assessed values upon which 2017 and 2008 collections were based.

Source: Cuyahoga County Fiscal Officer.

City of Cleveland, Ohio
Income Tax Revenue Base and Collections
Last Ten Years

Tax Year	Tax Rate	Total Tax Collected (1)	Taxes from Withholding	Percentage of Taxes from Withholding	Taxes From Net Profits	Percentage of Taxes from Net Profits	Taxes From Individuals	Percentage of Taxes from Individuals
2017	2.50%	\$ 453,091,275	\$ 387,201,556	85.46%	\$ 46,757,836	10.32%	\$ 19,131,883	4.22%
2016	2.00	370,753,947	307,143,756	82.84	44,644,300	12.04	18,965,891	5.12
2015	2.00	358,677,459	298,318,465	83.17	41,948,933	11.70	18,410,061	5.13
2014	2.00	348,674,282	293,456,642	84.16	38,294,001	10.98	16,923,639	4.86
2013	2.00	345,255,736	285,891,566	82.81	41,929,164	12.14	17,435,006	5.05
2012	2.00	338,046,790	285,450,129	84.44	35,946,656	10.63	16,650,005	4.93
2011	2.00	322,072,689	272,209,650	84.52	32,693,730	10.15	17,169,309	5.33
2010	2.00	310,339,588	261,801,977	84.36	32,095,566	10.34	16,442,045	5.30
2009	2.00	312,129,641	261,878,357	83.90	33,065,140	10.59	17,186,144	5.51
2008	2.00	335,310,894	277,203,932	82.67	38,709,596	11.54	19,397,366	5.79



Note:

The City is prohibited by statute from presenting information regarding individual taxpayers.

(1) Gross collections.

Source: Central Collection Agency.

City of Cleveland, Ohio
*Ratio of Outstanding Debt to
Total Personal Income and Debt Per Capita
Last Ten Years*

Year	Governmental Activities						
	General Obligation Bonds	Urban Renewal Bonds	Non-Tax Revenue Bonds	Capital Lease Obligations	Subordinated Income Tax Refunding Bonds	Certificates of Participation	Subordinate Lien Income Tax Bonds
2017	\$ 211,400,000	\$ 835,000	\$56,705,000	\$ 4,363,000	\$32,960,000	\$ 92,300,000	\$ 296,285,000
2016	233,900,000	1,615,000	60,328,000	7,344,000	35,275,000	99,100,000	258,160,000
2015	228,740,000	2,345,000	63,829,000	11,354,000	38,885,000	105,595,000	265,995,000
2014	257,565,000	3,030,000	50,203,000	15,262,000	43,650,000	111,780,000	188,335,000
2013	282,550,000	3,670,000	53,108,000	19,185,000	46,915,000	117,670,000	124,490,000
2012	308,700,000	4,270,000	55,894,000	16,236,000	50,020,000	123,605,000	92,380,000
2011	298,660,000	4,835,000	58,591,000	12,908,000	52,975,000	129,547,000	80,505,000
2010	297,115,000	5,365,000	61,795,000	8,937,000	55,785,000	135,537,000	83,025,000
2009	326,230,000	5,860,000	64,956,000	5,320,000	58,460,000	119,016,000	57,630,000
2008	313,630,000	6,325,000	67,617,000	8,604,000	59,960,000	129,949,000	59,560,000

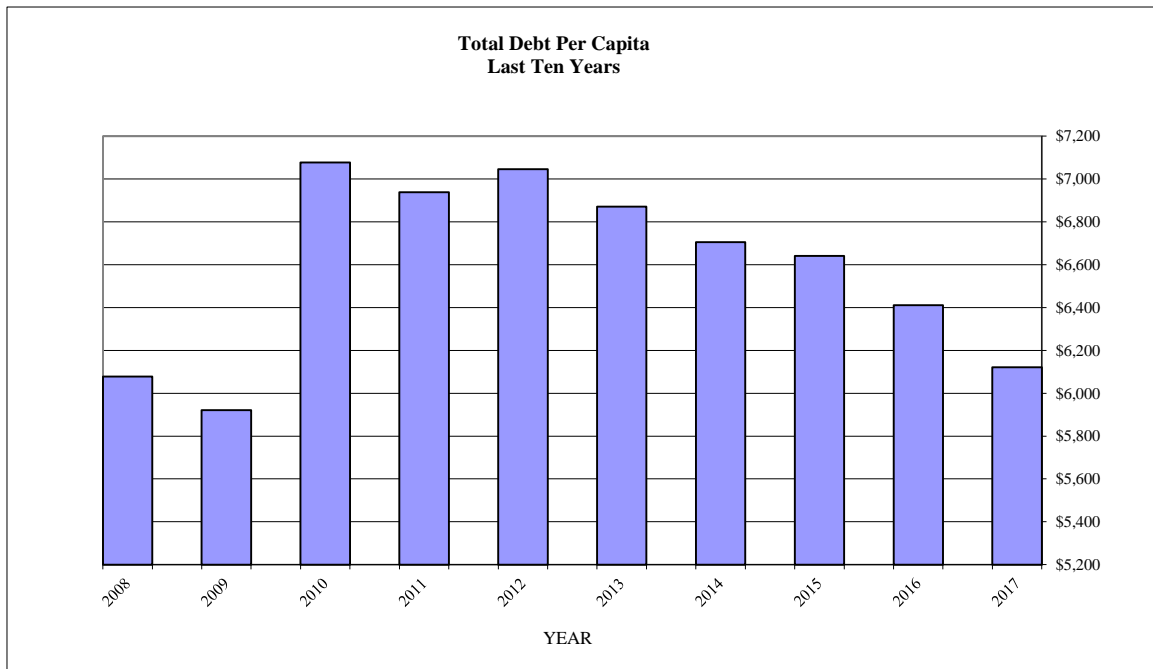
Note:

Population and Personal Income data are presented on page S21.

In 2014, this table was modified to include Note/Loans payable, as it is part of the Governmental Debt.

Business-Type Activities

Annual Appropriation Bonds	Note / Loans Payable	Revenue Bonds	OWDA / OPWC Loans	Total Net Premium/ (Discount)	Total Debt	Percentage of Personal Income	Per Capita
\$ 9,455,000	\$ 1,344,000	\$ 1,501,493,000	\$ 83,478,000	\$ 138,282,000	\$ 2,428,900,000	34.00%	\$ 6,121
9,745,000	1,671,000	1,617,778,000	91,316,000	127,632,000	2,543,864,000	36.56	6,411
10,020,000	2,240,000	1,699,688,000	99,220,000	107,383,000	2,635,294,000	38.09	6,641
10,280,000	2,801,000	1,786,283,000	106,815,000	84,641,000	2,660,645,000	39.46	6,705
10,525,000		1,863,588,000	114,372,000	90,327,000	2,726,400,000	40.87	6,871
10,765,000		1,926,203,000	109,742,000	98,249,000	2,796,064,000	43.22	7,046
11,000,000		1,930,163,000	115,523,000	58,362,000	2,753,069,000	42.56	6,938
11,000,000		1,974,828,000	121,335,000	53,819,000	2,808,541,000	43.42	7,078
		2,032,178,000	107,654,000	55,381,000	2,832,685,000	41.43	5,921
		2,100,768,000	112,275,000	49,320,000	2,908,008,000	42.53	6,079



City of Cleveland, Ohio
*Ratio of General Obligation Bonded Debt to Assessed
Value and Bonded Debt Per Capita
Last Ten Years*

Year	Population (1)		Assessed Value of Taxable Property (2)	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value of Taxable Property	Net Bonded Debt Per Capita
			(Amounts in Thousands)			
2017	396,815	(a)	\$ 4,628,326	\$ 206,385	4.46 %	\$ 520.10
2016	396,815	(a)	4,589,438	228,821	4.99	576.64
2015	396,815	(a)	4,948,114	225,616	4.56	568.57
2014	396,815	(a)	4,899,952	254,484	5.19	641.32
2013	396,815	(a)	4,868,768	279,124	5.73	703.41
2012	396,815	(a)	5,631,261	302,484	5.37	762.28
2011	396,815	(a)	5,640,270	297,172	5.27	748.89
2010	396,815	(a)	5,513,219	294,923	5.35	743.23
2009	478,403	(b)	5,937,459	323,631	5.45	676.48
2008	478,403	(b)	6,114,332	311,134	5.09	650.36

Note:

Net Bonded Debt includes all general obligation bonded debt less balance in debt service fund.

Sources:

(1) U. S. Bureau of Census, Census of Population:

(a) 2010 Federal Census

(b) 2000 Federal Census

(2) Cuyahoga County Fiscal Officer's Office.

City of Cleveland, Ohio
Computation of Direct and Overlapping Governmental Activities Debt
 December 31, 2017

Jurisdiction	Governmental Activities Debt Outstanding	Percentage Applicable to City (1)	Amount Applicable to City
Direct - City of Cleveland			
General Obligation Bonds	\$ 211,400,000	100.00 %	\$ 211,400,000
Capital Lease Obligations	4,363,000	100.00	4,363,000
Urban Renewal Bonds	835,000	100.00	835,000
Subordinated Income Tax Refunding Bonds	32,960,000	100.00	32,960,000
Subordinate Lien Income Tax Bonds	296,285,000	100.00	296,285,000
Non-Tax Revenue Bonds	56,705,000	100.00	56,705,000
Certificates of Participation	92,300,000	100.00	92,300,000
Annual Appropriation Bonds	9,455,000	100.00	9,455,000
Note/Loans Payable	1,344,000	100.00	1,344,000
<i>Total Direct Debt</i>	705,647,000		705,647,000
Overlapping			
Cleveland Municipal School District			
General Obligation Bonds	250,377,647	96.78	242,315,487
Cuyahoga County			
General Obligation Bonds	207,485,000	16.96	35,189,456
Regional			
Transit Authority	1,995,000	16.96	338,352
Berea School District	110,620,000	4.26	4,712,412
Shaker Heights School District	23,849,310	4.87	1,161,461
<i>Total Overlapping Debt</i>	594,326,957		283,717,168
Total	\$ 1,299,973,957		\$ 989,364,168

(1) Percentages were determined by dividing each overlapping subdivision's assessed valuation within the City by its total assessed valuation.

Source: Cuyahoga County Fiscal Officer's Office.

City of Cleveland, Ohio

Legal Debt Margin

Last Ten Years

	2017	2016	2015	2014
Total Assessed Property Value	\$ 4,628,325,790	\$ 4,589,437,780	\$ 4,948,113,550	\$ 4,899,952,220
Overall Legal Debt Limit (10½% of Assessed Valuation)	485,974,208	481,890,967	519,551,923	514,494,983
Debt Outstanding:				
General Obligation Bonds	211,400,000	233,900,000	228,740,000	257,565,000
Revenue Bonds	1,501,493,000	1,617,778,000	1,699,688,000	1,786,283,000
Urban Renewal Bonds	835,000	1,615,000	2,345,000	3,030,000
Subordinated Income Tax Refunding Bonds	32,960,000	35,275,000	38,885,000	43,650,000
Subordinate Lien Income Tax Bonds	296,285,000	258,160,000	265,995,000	188,335,000
OWDA/OPWC Loans	83,478,000	91,316,000	99,220,000	106,815,000
Non-tax Revenue Bonds	56,705,000	60,328,000	63,829,000	50,203,000
Annual Appropriation Bonds	9,455,000	9,745,000	10,020,000	10,280,000
Total Gross Indebtedness	2,192,611,000	2,308,117,000	2,408,722,000	2,446,161,000
Less:				
General Obligation Bonds	211,400,000	233,900,000	228,740,000	257,565,000
Revenue Bonds	1,501,493,000	1,617,778,000	1,699,688,000	1,786,283,000
Urban Renewal Bonds	835,000	1,615,000	2,345,000	3,030,000
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OWDA/OPWC Loans	83,478,000	91,316,000	99,220,000	106,815,000
Non-tax Revenue Bonds	56,705,000	60,328,000	63,829,000	50,203,000
Annual Appropriation Bonds	9,455,000	9,745,000	10,020,000	10,280,000
General Obligation Bond Retirement Fund Balance	5,015,000	5,079,000	3,124,000	3,081,000
Total Net Debt Applicable to Debt Limit*	-	-	-	-
Legal Debt Margin Within 10½% Limitations	\$ 485,974,208	\$ 481,890,967	\$ 519,551,923	\$ 514,494,983
Legal Debt Margin as a Percentage of the Debt Limit	100.00%	100.00%	100.00%	100.00%
Unvoted Debt Limitation (5½% of Assessed Valuation)	\$ 254,557,918	\$ 252,419,078	\$ 272,146,245	\$ 269,497,372
Total Gross Indebtedness	2,192,611,000	2,308,117,000	2,408,722,000	2,446,161,000
Less:				
General Obligation Bonds	211,400,000	233,900,000	228,740,000	257,565,000
Revenue Bonds	1,501,493,000	1,617,778,000	1,699,688,000	1,786,283,000
Urban Renewal Bonds	835,000	1,615,000	2,345,000	3,030,000
Subordinated Income Tax Refunding Bonds	32,960,000	35,275,000	38,885,000	43,650,000
Subordinate Lien Income Tax Bonds	296,285,000	258,160,000	265,995,000	188,335,000
OWDA/OPWC Loans	83,478,000	91,316,000	99,220,000	106,815,000
Non-tax Revenue Bonds	56,705,000	60,328,000	63,829,000	50,203,000
Annual Appropriation Bonds	9,455,000	9,745,000	10,020,000	10,280,000
General Obligation Bond Retirement Fund Balance	5,015,000	5,079,000	3,124,000	3,081,000
Net Debt Within 5½% Limitations*	-	-	-	-
Unvoted Legal Debt Margin Within 5½% Limitations	\$ 254,557,918	\$ 252,419,078	\$ 272,146,245	\$ 269,497,372
Unvoted legal Debt Margin as a Percentage of the Unvoted Debt Limitation	100.00%	100.00%	100.00%	100.00%

* The City does not report net debt limits below zero, therefore if the net debt limit is negative it is considered to be equal to zero.
The types of debt issued by the City are exempt from the limitations defined in the Ohio Revised Code.

Source: City Financial Records.

2013	2012	2011	2010	2009	2008
<u>\$4,868,767,980</u>	<u>\$5,631,261,380</u>	<u>\$5,640,270,380</u>	<u>\$5,513,219,400</u>	<u>\$5,937,458,591</u>	<u>\$6,114,332,281</u>
<u>511,220,638</u>	<u>591,282,445</u>	<u>592,228,390</u>	<u>578,888,037</u>	<u>623,433,152</u>	<u>642,004,890</u>
282,550,000	308,700,000	298,660,000	297,115,000	326,230,000	313,630,000
1,863,588,000	1,926,203,000	1,930,163,000	1,974,828,000	2,032,178,000	2,100,768,000
3,670,000	4,270,000	4,835,000	5,365,000	5,860,000	6,325,000
46,915,000	50,020,000	52,975,000	55,785,000	58,460,000	59,960,000
124,490,000	92,380,000	80,505,000	83,025,000	57,630,000	59,560,000
114,372,000	109,742,000	115,523,000	121,335,000	107,654,000	112,275,000
53,108,000	55,894,000	58,591,000	61,795,000	64,956,000	67,617,000
10,525,000	10,765,000	11,000,000	11,000,000		
<u>2,499,218,000</u>	<u>2,557,974,000</u>	<u>2,552,252,000</u>	<u>2,610,248,000</u>	<u>2,652,968,000</u>	<u>2,720,135,000</u>
282,550,000	308,700,000	298,660,000	297,115,000	326,230,000	313,630,000
1,863,588,000	1,926,203,000	1,930,163,000	1,974,828,000	2,032,178,000	2,100,768,000
3,670,000	4,270,000	4,835,000	5,365,000	5,860,000	6,325,000
46,915,000	50,020,000	52,975,000	55,785,000	58,460,000	59,960,000
124,490,000	92,380,000	80,505,000	83,025,000	57,630,000	59,560,000
114,372,000	109,742,000	115,523,000	121,335,000	107,654,000	112,275,000
53,108,000	55,894,000	58,591,000	61,795,000	64,950,000	67,617,000
10,525,000	10,765,000	11,000,000	11,000,000		
3,426,000	6,216,000	1,488,000	2,192,000	2,599,000	2,496,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 511,220,638</u>	<u>\$ 591,282,445</u>	<u>\$ 592,228,390</u>	<u>\$ 578,888,037</u>	<u>\$ 623,433,152</u>	<u>\$ 642,004,890</u>
100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
<u>\$ 267,782,239</u>	<u>\$ 309,719,376</u>	<u>\$ 310,214,871</u>	<u>\$ 303,227,067</u>	<u>\$ 326,560,223</u>	<u>\$ 336,288,275</u>
2,499,218,000	2,557,974,000	2,552,252,000	2,610,248,000	2,652,968,000	2,720,135,000
282,550,000	308,700,000	298,660,000	297,115,000	326,230,000	313,630,000
1,863,588,000	1,926,203,000	1,930,163,000	1,974,828,000	2,032,178,000	2,100,768,000
3,670,000	4,270,000	4,835,000	5,365,000	5,860,000	6,325,000
46,915,000	50,020,000	52,975,000	55,785,000	58,460,000	59,960,000
124,490,000	92,380,000	80,505,000	83,025,000	57,630,000	59,560,000
114,372,000	109,742,000	115,523,000	121,335,000	107,654,000	112,275,000
53,108,000	55,894,000	58,591,000	61,795,000	64,950,000	67,617,000
10,525,000	10,765,000	11,000,000	11,000,000		
3,426,000	6,216,000	1,488,000	2,192,000	2,599,000	2,496,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 267,782,239</u>	<u>\$ 309,719,376</u>	<u>\$ 310,214,871</u>	<u>\$ 303,227,067</u>	<u>\$ 326,560,223</u>	<u>\$ 336,288,275</u>
100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

City of Cleveland, Ohio
Pledged Revenue Coverage
Airport Revenue Bonds
Last Ten Years

Year	Gross Revenues (1)	Direct Operating Expenses (2)	Net Revenues Available for Debt Service	Debt Service		Coverage
				Principal	Interest	
2017	\$ 183,268,000	\$ 85,399,000	\$ 97,869,000	\$ 38,535,000	\$ 29,902,274	1.43
2016	178,723,000	81,501,000	97,222,000	39,765,000	29,907,925	1.40
2015	164,346,000	74,841,000	89,505,000	34,415,000	33,357,922	1.32
2014	165,780,000	72,101,000	93,679,000	33,155,000	34,568,497	1.38
2013	154,616,000	67,164,000	87,452,000	32,120,000	35,369,367	1.30
2012	152,030,000	68,855,000	83,175,000	16,285,000	33,765,871	1.66
2011	150,112,000	73,310,000	76,802,000	13,660,000	34,940,285	1.58
2010	152,053,000	70,152,000	81,901,000	14,705,000	36,386,915	1.60
2009	167,358,000	68,432,000	98,926,000	22,450,000	37,622,000	1.65
2008	160,455,000	74,885,000	85,570,000	16,830,000	40,497,264	1.49

(1) Gross revenues include operating revenues plus interest income. Beginning in 2001, a minimum of 40% of passenger facility charges, as well as grant funds from the FAA for the new runway, are dedicated to the payment of debt service charges and are included in gross revenues. Beginning in 2007, the Coverage Account was included in the calculation of debt service coverage.

(2) Direct operating expenses are calculated in accordance with the bond indenture.

City of Cleveland, Ohio
Pledged Revenue Coverage
Power System Revenue Bonds
Last Ten Years

Year	Gross Revenues (1)	Direct Operating Expenses (2)	Net Revenues Available for Debt Service	Debt Service		Coverage
				Principal	Interest	
2017	\$ 195,188,000	\$ 167,923,000	\$ 27,265,000	\$ 8,785,000	\$ 9,116,666	1.52
2016	193,194,000	166,591,000	26,603,000	8,055,000	9,859,269	1.49
2015	192,934,000	166,150,000	26,784,000	7,500,000	10,410,464	1.50
2014	181,877,000	154,115,000	27,762,000	10,770,000	8,061,556	1.47
2013	170,383,000	141,116,000	29,267,000	12,710,000	9,766,869	1.30
2012	165,307,000	136,987,000	28,320,000	10,050,000	9,746,181	1.43
2011	168,599,000	139,952,000	28,647,000	10,495,000	9,987,500 (3)	1.40
2010	166,761,000	138,030,000	28,731,000	8,045,000	9,871,011 (3)	1.60
2009	156,034,000	128,436,000	27,598,000	8,530,000	9,009,810 (3)	1.57
2008	160,224,000	124,161,000	36,063,000	8,335,000	9,054,492 (3)	2.07

(1) Gross revenues include operating revenues plus applicable interest income.

(2) Direct operating expenses are calculated in accordance with the bond indenture.

(3) Net of capitalized interest per indenture.

City of Cleveland, Ohio
Pledged Revenue Coverage
Water System Revenue Bonds
Last Ten Years

Year	Gross Revenues (1)	Direct Operating Expenses (2)	Net Revenues Available for Debt Service	Debt Service		Coverage
				Principal	Interest (3)	
2017	\$ 305,971,000	\$ 185,367,000	\$ 120,604,000	\$ 29,700,000	\$ 15,664,601	2.66
2016	311,882,000	162,618,000	149,264,000	44,720,000	15,100,291	2.50
2015	301,715,000	165,981,000	135,734,000	42,110,000	21,034,935	2.15
2014	304,182,000	153,559,000	150,623,000	41,200,000	26,822,980	2.21
2013	274,324,000	154,947,000	119,377,000	39,910,000	29,089,797	1.73
2012	282,288,000	149,169,000	133,119,000	31,100,000	26,639,529	2.31
2011	238,975,000	146,232,000	92,743,000	34,000,000	30,275,641	1.44
2010	241,277,000	149,513,000	91,764,000	37,150,000	32,447,214	1.32
2009	232,357,000	147,716,000	84,641,000	31,945,000	33,200,509	1.30
2008	252,660,000	143,833,000	108,827,000	27,285,000	38,139,614	1.66

(1) Gross revenues include operating revenues plus interest income.

(2) Direct operating expenses are calculated in accordance with the bond indenture.

(3) Per indenture, interest expense is reduced by amount released from reserve fund at the start of year.

City of Cleveland, Ohio
Pledged Revenue Coverage
Water Pollution Control Revenue Bonds
Last Two Years (3)

Year	Gross Revenues (1)	Direct Operating Expenses (2)	Net Revenues Available for Debt Service	Debt Service		Coverage
				Principal	Interest	
2017	\$ 29,847,000	\$ 21,075,000	\$ 8,772,000	\$ 550,000	\$ 1,584,250	4.11
2016	28,861,000	19,010,000	9,851,000		928,547	10.61

(1) Gross revenues include operating revenues plus interest income, except for interest on the construction funds.

(2) Direct operating expenses are calculated in accordance with the bond indenture.

(3) Pledged revenue debt was first issued in 2016. The City will continue to present information until a full ten-year is compiled.

City of Cleveland, Ohio

Principal Employers

2017 and 2008

2017

Employer	Employees	Percentage of Total City Employment
Cleveland Clinic	32,772	22.17%
University Hospitals	16,506	11.17
U.S. Office of Personnel Management	12,045	8.15
Cuyahoga County	7,397	5.00
City of Cleveland	6,561	4.44
MetroHealth System	6,469	4.38
Cleveland Metropolitan School District	6,392	4.32
KeyCorp	4,841	3.28
Case Western Reserve University	4,501	3.05
Sherwin-Williams Co.	4,185	2.83
Total	101,669	68.79%
Total Employment within the City	147,800	

2008

Employer	Employees	Percentage of Total City Employment
Cleveland Clinic	32,415	19.19%
U.S. Office of Personnel Management	13,101	7.76
University Hospitals	10,904	6.45
Cuyahoga County	9,566	5.66
United States Postal Service	8,032	4.76
City of Cleveland	7,950	4.71
State of Ohio	7,783	4.61
National City Corp	6,467	3.83
KeyCorp	6,326	3.74
MetroHealth System	5,757	3.41
Total	108,301	64.12%
Total Employment within the City	168,900	

Note:

Largest employers headquartered in the City ranked by FTE employees.

Source:

Number of employees from Crain's Cleveland:

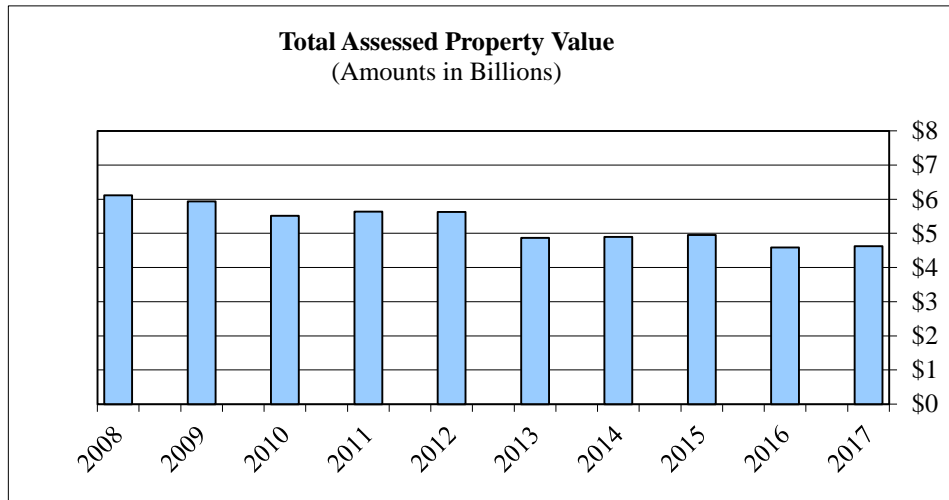
Book of Lists 2018, Largest Northeast Ohio Employers; FTEs as of 6/30/2017

Book of Lists 2009, Largest Cuyahoga County Employers; FTEs as of 06/30/2008

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City of Cleveland, Ohio
Demographic and Economic Statistics
Last Ten Years

<u>Year</u>	<u>Population</u>	<u>Total Personal Income (6)</u>	<u>Personal Income Per Capita</u>	<u>Median Household Income</u>	<u>Median Age</u>
2017	396,815 (1)	\$ 7,143,860,445	\$ 18,003 (11)	\$ 26,583 (11)	35.7 (1)
2016	396,815 (1)	6,958,944,655	17,537 (10)	26,150 (10)	35.7 (1)
2015	396,815 (1)	6,918,866,340	17,436 (9)	26,179 (9)	35.7 (1)
2014	396,815 (1)	6,742,680,480	16,992 (8)	26,217 (8)	35.7 (1)
2013	396,815 (1)	6,671,253,780	16,812 (7)	26,556 (7)	35.7 (1)
2012	396,815 (1)	6,468,878,130	16,302 (1)	27,349 (1)	35.7 (1)
2011	396,815 (1)	6,468,878,130	16,302 (1)	27,349 (1)	35.7 (1)
2010	396,815 (1)	6,468,878,130	16,302 (1)	27,349 (1)	35.7 (1)
2009	478,403 (2)	6,836,857,273	14,291 (2)	25,928 (2)	33 (2)
2008	478,403 (2)	6,836,857,273	14,291 (2)	25,928 (2)	33 (2)



- (1) Source: U. S. Census Bureau. 2010 Census
- (2) Source: U. S. Census Bureau. 2000 Census
- (3) Source: Ohio Department of Education Website: "<http://www.ode.state.oh.us/>".
- (4) Source: Ohio Labor Market Info, Website: "<http://ohiolmi.com/>".
- (5) Source: Cuyahoga County Auditor's Office.
- (6) Computation of per capita personal income multiplied by population.
- (7) Source: U. S. Census Bureau. 2012 dollars years 2008-2012.
- (8) Source: U. S. Census Bureau. 2013 dollars years 2009-2013.
- (9) Source: U. S. Census Bureau. 2014 dollars years 2010-2014.
- (10) Source: U. S. Census Bureau. 2015 dollars years 2011-2015.
- (11) Source: U. S. Census Bureau. 2016 dollars years 2012-2016.

Educational Attainment: Bachelor's Degree or Higher		School Enrollment (3)	City Unemployment Rate (4)	Average Sales Price of Residential Property (5)	Total Assessed Property Value (5) (Amounts in Thousands)
16.1%	(11)	38,949	7.7%	\$ 76,458	\$ 4,628,326
15.6	(10)	39,125	6.9	59,403	4,589,438
15.2	(9)	38,555	5.2	67,280	4,948,114
14.9	(8)	37,967	7.8	54,549	4,899,952
14.0	(7)	38,725	9.3	59,737	4,868,768
13.1	(1)	42,883	8.5	55,774	5,631,261
13.1	(1)	45,060	10.0	54,638	5,640,270
13.1	(1)	47,615	11.5	60,398	5,513,219
11.4	(2)	74,615	10.6	57,075	5,937,459
11.4	(2)	50,078	8.8	50,515	6,114,332



City of Cleveland, Ohio
Full-Time Equivalent City Government Employees by Function/Program
Last Ten Years

Function/Program	2017	2016	2015	2014
General Government				
Council	60.00	65.50	60.50	61.00
Mayor's Office	24.00	25.00	23.00	22.50
Office of Capital Projects	54.00	49.00	55.50	50.50
Mayor's Office of Sustainability	8.00			
Mayor's Office of Quality Control	10.50			
Landmarks Commission	4.00	3.00	3.50	4.00
Building Standards and Appeals	5.50	5.50	5.50	5.50
Board of Zoning Appeals	4.50	4.50	4.00	4.50
Civil Service Commission	8.50	8.50	8.50	9.50
Community Relations Board	22.00	22.00	23.00	24.00
City Planning Commission	20.50	20.50	21.50	22.50
Equal Employment Opportunity	8.00	6.00	8.50	10.00
Court	443.50	446.00	448.00	457.50
Office of Budget Administration	7.00	7.00	7.00	7.00
Aging	23.50	19.00	23.50	21.00
Personnel and Human Resources	16.50	12.00	15.50	17.00
Consumer Affairs				
Law	78.50	73.50	71.50	76.50
Finance	248.50	239.50	238.50	226.00
Security of Persons and Property				
Administration	36.00	37.00	35.00	48.50
Police	1,822.50	1,826.50	1,903.00	1,901.00
Fire	702.00	696.00	705.00	707.00
EMS	288.00	244.00	238.00	224.00
Dog Pound	22.00	18.00	18.00	17.00
House of Corrections	106.00	117.50	117.50	127.00
Department of Justice Compliance	26.00	13.50	8.50	
Public Health Services	127.50	135.00	139.00	138.00
Leisure Time Activities				
Parks, Recreation and Property Administration				
Research, Planning and Development				
Recreation	222.00	203.00	202.50	200.50
Public Auditorium, Westside Market and Cleveland Stadium (2)	53.50	53.00	55.00	54.50
Parking Facilities	37.50	40.00	42.50	40.00
Property Management	70.50	64.50	67.50	73.50
Parks Maintenance	138.00	132.00	128.00	133.00
Community Development	62.00	61.50	63.00	74.00
Building and Housing	129.00	119.00	109.00	115.00
Economic Development	23.00	26.00	26.00	25.00
Public Works				
Public Works Administration	32.00	34.00	36.00	38.00
Architecture				
Waste Collection and Disposal	206.50	179.50	171.00	192.50
Engineering and Construction				
Motor Vehicle Maintenance	76.00	70.00	72.00	66.00
Streets	263.00	252.00	257.00	249.00
Traffic Engineering	32.00	29.00	30.00	29.00
Port Control	392.50	393.50	410.00	383.00
Basic Utility Services				
Water	1,067.50	980.00	1,013.00	1,008.00
Cleveland Public Power	242.00	248.00	244.00	266.00
Water Pollution Control	116.00	123.00	121.00	134.50
Totals:	7,340.00	7,102.00	7,229.00	7,263.00

Method: Using 1.0 for each full-time employee and 0.50 for each part-time and seasonal employee at year end.

(1) In 2012, a departmental reorganization occurred that merged the departments of Public Service with Parks, Recreation and Properties becoming the Department of Public Works. The Office of Capital Projects was created from the Divisions of Architecture, Engineering and Construction and Research, Planning and Development and is reported under General Government. In addition, the Division of Consumer Affairs was merged with Community Development and was moved from General Government.

(2) In 2010, the Convention Center was sold to Cuyahoga County; however, the City continues to maintain and operate the Public Auditorium.

Source: City Payroll Department.

2013	2012	2011	2010	2009	2008
60.00	61.50	63.00	62.00	65.50	64.50
25.50	25.50	24.50	25.50	25.50	27.50
49.50	46.00 (1)				
5.00	5.00	5.00	5.50	5.50	5.50
6.00	6.00	6.00	5.50	5.50	5.50
4.50	4.50	4.50	4.00	4.50	4.50
10.00	10.00	9.50	11.00	10.50	10.00
22.00	24.00	28.00	30.50	29.00	27.50
20.50	20.50	21.50	24.00	24.00	23.00
8.50	8.00	8.00	10.00	10.00	11.00
465.50	461.00	479.50	531.00	542.50	541.50
8.00	7.00	7.00	7.00	5.50	7.00
22.00	22.00	25.00	24.50	21.50	21.00
19.00	18.00	16.00	16.50	15.00	17.00
	(1)	4.00	3.00	5.00	6.00
77.00	72.50	76.00	87.00	88.50	86.50
222.50	232.00	234.00	241.50	248.50	250.50
42.50	36.50	36.50	40.00	39.00	39.00
1,913.50	1,873.00	1,869.50	1,983.50	2,079.00	2,095.50
730.00	729.00	803.00	875.00	894.00	883.00
232.00	232.00	214.00	218.00	236.00	252.00
17.00	14.50	15.00	16.00	15.00	14.50
131.50	133.00	153.00	170.00	188.00	176.50
133.00	125.50	140.50	159.50	168.50	169.50
	(1)	8.00	7.00	7.00	7.00
	(1)	5.00	6.00	8.00	9.00
191.50	190.50	189.00	230.00	238.00	233.50
54.00	42.50	29.50	27.50	31.00	54.50
40.50	39.50	42.50	42.50	41.00	44.50
72.50	70.50	73.50	81.50	84.50	87.50
130.00	119.00	126.00	140.00	141.00	151.00
76.00	78.50	76.50	87.00	86.00	77.50
117.00	113.00	120.00	134.50	142.00	147.00
29.00	26.00	28.00	34.00	68.00	73.00
37.00	34.00	5.50	4.50	4.50	5.00
	(1)	5.00	6.00	6.00	7.00
199.50	206.50	212.50	238.50	253.50	225.50
	(1)	31.50	59.50	61.50	60.50
68.00	68.00	75.00	81.00	85.00	86.00
248.00	260.00	285.00	257.50	271.50	283.50
29.00	29.00	36.00	38.00	39.00	40.00
392.00	404.50	418.00	446.50	447.50	406.50
1,042.50	1,093.00	1,157.00	1,164.50	1,179.50	1,215.50
316.00	335.00	358.00	345.00	343.00	340.00
135.00	136.00	148.50	158.00	157.00	150.00
<u>7,402.50</u>	<u>7,412.50</u>	<u>7,673.00</u>	<u>8,139.50</u>	<u>8,420.50</u>	<u>8,442.50</u>

City of Cleveland, Ohio
Operating Indicators by Function/Program
Last Ten Years

Function/Program	2017	2016	2015	2014	2013
General Government					
<i>Council and Clerk</i>					
Number of ordinances passed	621	526	621	582	642
Number of resolutions adopted	554	587	564	696	686
Number of other actions (communications, tabled legislation, etc.)	330	353	399		
Number of planning commission docket items	283	310	127	232	267
Zoning board of appeals docket items	379	325	274	256	276
<i>Finance Department</i>					
Number of payments issued	37,683	37,602	37,931	37,689	37,257
Total amount of payments	\$ 1,645,342,974	\$ 1,526,411,690	\$ 1,463,635,524	\$ 1,423,313,034	\$ 1,454,825,245
Interest earnings for fiscal year (cash basis)	\$ 11,609,282	\$ 4,638,092	\$ 1,669,023	\$ 2,004,466	\$ 2,922,320
Number of receiving warrants (6)	35,563	33,848	34,912	36,245	33,006
Number of journal entries issued (6)	201,067	189,424	260,377	206,253	176,343
Number of budget adjustments issued	5	2	2	4	5
Agency ratings - Standard & Poor's (1)	AA+	AA	AA	AA	AA
Agency ratings - Moody's Financial Services (1)	A1	A1	A1	A1	A1
Health insurance costs vs. General Fund expenditures %	17%	18%	17%	15%	15%
General Fund receipts (cash basis in thousands)	\$ 591,969	\$ 513,561	\$ 495,331	\$ 502,860	\$ 511,253
General Fund expenditures (cash basis in thousands)	\$ 508,535	\$ 483,971	\$ 481,730	\$ 487,584	\$ 485,912
General Fund cash balances (in thousands)	\$ 117,631	\$ 61,405	\$ 79,239	\$ 92,693	\$ 89,988
<i>Income Tax Department</i>					
Number of individual returns	158,124	174,471	181,382	181,811	188,767
Number of business returns	24,982	22,352	28,502	29,866	22,601
Number of business withholding accounts	14,640	13,867	13,863	13,857	13,914
Amount of penalties and interest collected	\$ 2,357,037	\$ 1,980,758	\$ 2,010,333	\$ 1,848,347	\$ 1,880,485
Annual number of corporate withholding forms processed	159,442	156,603	153,640	149,291	143,976
Annual number of balance due statements forms processed	31,261	41,688	41,837	38,059	39,012
Annual number of estimated payment forms processed	35,319	40,598	39,577	42,027	40,932
Annual number of reconciliations of withholdings processed	11,494	11,728	12,248	11,851	10,737
<i>Engineer Contracted Services</i>					
Dollar amount of construction overseen by engineer (2)	\$ 26,721,178	\$ 59,585,941	\$ 104,493,079	\$ 52,004,000	\$ 30,424,253
<i>Municipal Court</i>					
Number of civil cases (8)	19,146	18,646	19,411	18,910	7,534
Number of criminal cases (8)	64,371	64,050	78,238	103,098	109,740
<i>Vital Statistics</i>					
Certificates filed (3)					
Number of births	19,878	18,607	18,524	17,061	16,448
Number of deaths	15,158	14,832	14,349	13,509	13,460
Number of fetal deaths	348	385	407	337	380
Certificates issued (3)					
Number of births	58,805	58,611	58,513	55,753	57,935
Number of deaths	64,265	63,348	63,930	60,897	61,717
<i>Civil Service</i>					
Number of police entry tests administered	1	1	1	1	1
Number of fire entry tests administered	1			1	
Number of police promotional tests administered				3	
Number of fire promotional tests administered	1			4	4
Number of hires of police officers from certified lists	52	56	45	103	47
Number of hires of fire/medics from certified lists		29	40	37	33
Number of promotions from police certified lists	44	30	48	4	36
Number of promotions from fire certified lists		33	16	49	29

	2012	2011	2010	2009	2008
	631	723	621	772	771
	739	647	747	776	304
	359	262	298	309	444
	237	241	274	267	242
	38,010	38,501	37,944	44,289	47,670
\$	1,236,189,641	\$ 1,311,830,974	\$ 1,276,014,604	\$ 1,307,460,874	\$ 1,251,719,916
\$	3,283,638	\$ 4,061,090	\$ 7,507,827	\$ 13,219,445	\$ 45,366,880
	32,087	30,433	31,497	16,369	16,141
	190,554	179,546	192,281	41,238	41,217
	4	6	2	2	5
	AA	AA	AA	AA	AA
	A1	A1	A1	A2	A2
	15%	18%	17%	15%	14%
\$	501,018	\$ 496,086	\$ 480,724	\$ 487,678	\$ 517,796
\$	468,543	\$ 472,883	\$ 482,227	\$ 501,758	\$ 501,124
\$	84,869	\$ 54,888	\$ 16,400	\$ 12,327	\$ 40,685
	192,362	196,457	202,232	211,241	232,210
	25,140	26,240	26,881	26,326	29,014
	14,414	14,338	13,835	14,542	14,653
\$	1,771,088	\$ 2,059,203	\$ 1,754,501	\$ 1,884,453	\$ 2,357,490
	147,175	149,537	149,584	144,493	151,256
	37,642	38,152	36,188	38,610	44,637
	41,813	41,636	42,767	47,841	51,527
	11,416	11,376	11,357	12,213	12,198
\$	25,400,000	\$ 30,760,000	\$ 34,000,000	\$ 32,000,000	\$ 159,540,000
	9,451	11,513	19,280	16,375	19,890
	110,754	107,711	167,563	120,131	120,077
	17,264	16,616	15,528	16,403	16,942
	13,016	12,958	12,296	12,101	12,354
	384	459	454	401	447
	57,297	57,542	62,507	69,785	77,967
	60,173	61,147	59,689	60,465	65,149
				1	
		1	1		3
		1			
	50	42		56	106
				22	
	33			20	40
	42				10

(Continued)

City of Cleveland, Ohio
Operating Indicators by Function/Program
Last Ten Years

Function/Program	2017	2016	2015	2014	2013
Building Department Indicators					
Construction permits issued	17,865	16,125	15,038	14,002	15,760
Estimated value of construction	\$ 1,338,571,317	\$ 1,468,917,169	\$ 1,430,231,410	\$ 951,833,168	\$ 898,217,589
Number of other permits issued	2,871	2,820	3,274	4,560	4,632
Amount of revenue generated from permits	\$ 10,985,010	\$ 12,799,847	\$ 11,580,333	\$ 8,318,937	\$ 8,727,385
Number of contract registrations issued	3,261	3,202	3,262	2,395	2,357
Annual apartment/rooming house license fees	\$ 2,144,227	\$ 1,582,496	\$ 1,515,849	\$ 1,340,845	\$ 1,382,001
Security of Persons and Property					
Police					
Number of traffic citations issued	45,734	49,084	64,565	89,835	111,271
Number of parking citations issued	30,966	32,516	39,862	37,569	36,678
Number of criminal arrests	18,975	19,670	24,308	31,633	33,742
Number of accident reports completed	17,876	18,256	17,712	15,575	15,806
Part 1 offenses (major offenses)	31,163	34,158	29,048	33,975	37,125
OVI arrests (12)	505	491	387	693	779
Prisoners	12,536	14,214	17,284	21,201	23,935
Motor vehicle accidents	17,876	18,256	17,712	15,575	15,806
Fatalities from motor vehicle accidents	61	56	48	21	32
Community diversion program youths	141	119	108	105	98
Fire					
Fire calls - incoming for services	71,663	70,988	68,983	64,357	61,728
Fires	2,732	2,752	2,469	2,431	2,478
Fires with loss	1,489	1,035	1,591	1,441	1,403
Fires with losses exceeding \$10K	323	344	346	310	247
Fire losses \$	\$ 19,714,210	\$ 15,495,855	\$ 18,625,607	\$ 16,936,874	\$ 9,634,925
Fire safety inspections	20,660	9,059	12,963	12,730	10,110
Number of times mutual aid given to fire				5	2
EMS					
EMS calls - incoming for service	116,751	116,056	115,303	109,045	106,385
Ambulance billing collections (net)	\$ 14,633,032	\$ 13,157,301	\$ 10,348,422	\$ 12,214,724	\$ 11,589,324
Public Health and Welfare					
Number of health inspections					
Barber shops	156	124	211	360	303
Food	7,200	7,041	7,356	7,187	7,796
Hotels/motels	43	42	36	35	22
Marinas					
Mobile home parks					
Laundries	38	77	54	68	81
Nuisance	1,186	1,176	2,450	17,117	22,375
Pools	127	114	165	147	132
Schools	330	293	398	417	547
Day care inspections	180	181	187	194	188
Maternity inspections	1	1		1	2
Abortion inspections	4	4	4	4	5
Cemetery burials					
Cemetery cremations	279	263	260	249	179

	2012	2011	2010	2009	2008
	16,245	15,082	6,829	8,334	10,631
\$	1,033,330,550	\$ 1,556,000,000	\$ 729,883,689	\$ 919,923,776	\$ 814,646,916
	4,854	4,164	8,629	8,290	9,710
\$	7,867,168	\$ 8,306,423	\$ 6,078,922	\$ 7,332,522	\$ 7,364,794
	2,802	2,822	2,895	2,847	2,783
\$	1,305,182	\$ 1,343,457	\$ 1,571,317	\$ 1,281,530	\$ 1,331,940
	121,474	119,371	75,362	77,037	79,089
	42,404	42,763	48,691	59,598	49,012
	35,730	37,531	39,657	38,613	39,596
	14,549	15,444	14,761	14,804	15,525
	39,028	40,554	38,003	38,586	39,237
	790	679	729	738	695
	35,251	37,235	39,156	37,864	38,629
	14,549	15,412	14,761	14,804	15,525
	31	29	49	38	52
	152	188	196	139	169
	65,040	65,132	60,076	60,306	60,263
	2,846	2,714	2,869	2,794	2,790
	1,372	1,398	1,266	843	1,095
	259	256	219	237	362
\$	13,128,848	\$ 14,747,291	\$ 12,035,650	\$ 12,312,407	\$ 11,242,477
	13,380	10,898	13,631	13,982	8,110
	30	21	29	17	11
	96,359	94,307	92,230	89,632	88,934
\$	12,051,964	\$ 11,594,178	\$ 10,832,204	\$ 9,649,887	\$ 12,091,087
	333	400	238	219	227
	7,674	7,369	7,624	8,684	9,611
	38	42	36	34	37
		11	11	11	11
	5	12	5	5	5
	62	87	69	58	62
	21,118	19,136	24,130	27,544	17,205
	161	204	120	142	127
	419	480	390	349	195
	161	229	223	209	98
		4	4	4	4
	5	6	6	6	6
				3	17
	196	177	169	155	149

(Continued)

City of Cleveland, Ohio
Operating Indicators by Function/Program
Last Ten Years

Function/Program	2017	2016	2015	2014	2013
Leisure Time Activities					
Recreation men and women leagues receipts	\$ 795	\$ 1,305	\$ 1,425	\$ 2,940	\$ 3,407
Economic Development					
Grant amounts received (Amounts in Thousands) (11)	\$ 4,310	\$ 10,107	\$ 8,244	\$ 12,856	\$ 3,045
Public Works					
Street improvements - asphalt overlay (square yards) (7)	476,296	279,170	244,774	244,500	297,183
Crackseal coating program (linear feet) (7)	318,415	252,160	320,785	662,225	
Street repair (curbs, aprons, berms, asphalt) (hours)	106,080	118,560	136,993	152,214	138,034
Guardrail repair (hours) (9)	1,061	380	765	114	131
Paint striping					
Lane line (miles)	630	629	485	640	672
Crosswalks (each)	5,356	6,007	3,783	4,476	4,227
Arrows (each)	3,695	3,853	3,664	3,684	3,928
Street sweeper (hours) (9)	1,257	672	744	992	1,132
Cold patch (hours)	7,680	6,400	12,960	11,376	9,143
Snow and ice removal regular hours	72,015	70,137	88,865	89,234	86,978
Snow and ice removal overtime hours	7,843	16,244	14,876	18,791	19,212
Leaf collection (hours) (10)	240				
Holiday lights setup (hours) (5)	220	240	240	275	300
Equipment repair/body shop (hours)	1,643	2,060	2,110	2,200	2,215
Tons of snow melting salt purchased November-March	31,422	57,424	61,447	73,888	57,966
Cost of salt purchased	\$ 918,490	\$ 3,037,155	\$ 3,147,313	\$ 2,538,951	\$ 1,972,003
Refuse disposal per year (in tons) (13)	241,250	241,911	217,083	209,410	214,561
Refuse disposal costs per year (13)	\$ 5,660,667	\$ 5,552,840	\$ 5,729,541	\$ 5,466,793	\$ 5,258,741
Annual recycling tonnage (excluding leaf, and compost items)	26,915	25,600	21,809	17,900	15,893
Percentage of waste recycled	10.04%	9.45%	9.54%	11.00%	13.00%
Port Control					
Cleveland Hopkins Airport					
Landed weight (in thousands of pounds)	5,455,096	5,117,105	5,118,972	4,773,831	5,732,142
Total operations	122,392	118,653	117,773	137,363	181,340
Total passengers	9,140,445	8,422,676	8,100,073	7,609,404	9,072,045
Total enplaned passengers	4,562,740	4,205,739	4,046,634	3,797,261	4,525,612
Burke Lakefront Airport					
Total operations	50,789	53,495	63,603	66,862	68,665
Total passengers	178,521	163,696	161,006	155,583	148,294
Total enplaned passengers	89,051	81,934	80,724	77,984	74,385
Water Department					
Water rates per 1st 600 cubic feet of water used (4)	\$ 19.26	\$ 19.26	\$ 19.26	\$ 17.34	\$ 15.51
Average number of water accounts billed monthly (14)	430,478	138,816	139,823	139,460	139,201
Total water collections annually (including P&I)	\$ 295,099,937	\$ 282,194,878	\$ 273,223,067	\$ 261,928,659	\$ 250,250,867
Payments to Cleveland for bulk water purchases	\$ 9,979,059	\$ 21,309,226	\$ 21,889,987	\$ 21,810,862	\$ 20,194,830
Wastewater Department					
Sewer and sanitary calls for service	5,342	4,537	3,919	5,859	4,856
After hours sewer calls (hours)	270	180	438	381	227
Electric Power					
KWH Sold	1,588,113,898	1,612,905,829	1,616,459,441	1,618,081,248	1,620,996,815
Average accounts billed per month	73,363	73,340	73,661	73,746	74,208
Receipts	\$ 190,495,223	\$ 191,759,714	\$ 194,358,017	\$ 183,571,523	\$ 170,397,373

- (1) General obligation bond rating.
- (2) Amounts are new construction starts. The majority of engineering and construction projects are multi-year projects.
- (3) Includes entire area serviced by the Division of Vital Statistics (i.e., Cleveland + suburbs).
- (4) This is the rate for the City of Cleveland residents only. In 2012 rates changed from per 1000 cubic feet to per 600 cubic feet.
- (5) Holiday light setup was contracted to an outside agency in 2009, 2010 and 2011.
- (6) The City went "live" on a new financial system in January 2010. The new system creates journal entries at the transaction level instead of at the summary level like the prior financial system.
- (7) No program was available for asphalt overlay in 2010 and a new program was implemented for crackseal coating. In 2011, this program ended due to state budget cuts and the asphalt overlay program was again funded.
- (8) 2010 data has been changed. Figures included cases from prior years.
- (9) Street sweeping was limited in 2011 and 2012 due to state imposed budget cuts.
- (10) Beginning in 2011, the City no longer provides an organized leaf collection program.
- (11) Economic Development grants received were restated in 2011 for all years shown. They include Neighborhood Development Investment Fund, Supplemental Empowerment Zone, Economic Development Funds, Urban Development Action Funds, WIA Grants and Core City Program Funds. Beginning in 2011 WIA Grants were moved to General Government.
- (12) In 2013, OVI arrests, operating a vehicle impaired, is formerly known as DUI arrests, driving under the influence. They are both counted using the same measures; however, the State of Ohio now refers to them as OVI as does the City of Cleveland.
- (13) Prior to 2015, Public Works reported the refuse disposal and it's cost as of August through July. Public Works provides calculations base on the calendar year.
- (14) Beginning in 2017, the Water Department switched to monthly billing for its customers.

	2012	2011	2010	2009	2008
\$	9,862	\$ 5,280	\$ 5,145	\$ 5,070	\$ 6,825
\$	5,856	\$ 2,154	\$ 4,564	\$ 12,958	\$ 16,837
	212,032	224,361		101,000	113,772
		3,263	679,450	200,640	158,400
	117,239	83,212	76,000	80,000	95,000
	100	40	2,500	2,500	3,000
	661	651	855	936	630
	4,952	5,260	5,172	6,950	5,700
	4,273	4,706	4,210	3,716	2,800
	2,176	3,840	46,000	55,000	49,000
	19,271	31,345	22,000	24,000	31,000
	87,369	128,000	128,000	128,000	132,000
	18,912	23,117	21,139	14,400	15,000
			18,300	18,000	20,000
	500				4
	4,196	5,000	5,076	2,663	1,010
	40,236	74,679	53,322	67,000	85,000
\$	1,834,359	\$ 3,348,606	\$ 2,321,118	\$ 2,700,000	\$ 3,330,000
	212,367	240,603	232,241	236,225	266,035
\$	5,723,227	\$ 6,556,260	\$ 6,079,532	\$ 6,928,858	\$ 7,790,729
	14,146	10,938	7,227	6,039	9,000
	10.06%	3.68%	3.13%	4.12%	3.39%
	5,732,148	5,912,394	5,907,546	6,265,656	7,256,242
	180,944	188,286	192,683	200,268	235,975
	9,010,077	9,203,740	9,492,455	9,715,604	11,106,194
	4,495,353	4,597,697	4,745,308	4,855,129	5,545,205
	72,916	65,664	64,358	68,456	69,231
	184,427	176,096	174,598	166,965	188,171
	92,160	87,695	87,012	83,438	93,772
\$	13.76	\$ 12.58	\$ 12.58	\$ 11.59	\$ 10.63
	139,023	138,002	133,626	135,675	137,528
\$	246,046,531	\$ 211,302,881	\$ 210,264,218	\$ 221,967,799	\$ 218,285,825
\$	21,271,504	\$ 19,101,723	\$ 20,660,824	\$ 18,093,912	\$ 18,399,096
	4,035	5,489	7,272	8,021	8,275
	167	204	185	103	147
	1,617,569,577	1,650,142,435	1,605,032,939	1,563,577,862	1,611,294,474
	74,238	74,092	75,764	76,113	76,533
\$	170,009,696	\$ 171,895,176	\$ 167,323,991	\$ 158,871,074	\$ 159,399,600

(Concluded)

City of Cleveland, Ohio
Capital Assets Statistics by Function/Program
Last Ten Years

Function/Program	2017	2016	2015	2014	2013
General Government					
Square footage occupied (4)	3,177,900	3,075,124	3,659,100	3,659,100	3,659,100
Administrative vehicles	35	36	35	41	38
Police					
Stations	5	5	5	5	5
Square footage of buildings (1)	756,846	783,546	614,500	553,100	553,100
Vehicles	899	805	842	867	823
Fire					
Stations	26	26	26	26	26
Square footage of buildings	311,655	311,655	313,224	313,224	313,224
Vehicles	113	135	92	95	91
EMS					
Stations (headquarters)	1	1	1	1	1
Square footage of buildings	52,776	52,776	33,000	33,000	33,000
Vehicles	52	56	46	47	47
Port Control (Hopkins)					
Runways	3	3	3	3	3
Terminal area (approximate square footage)	935,000	935,000	935,000	935,000	935,000
Gates (7)	58	65	65	65	96
Parking spaces (approximately)					
CLE Smart Park Garage (6)					
Long-term					
Short-term					
Surface	2,095	2,095	2,055	1,544	1,100
Total parking spaces	5,906	5,906	5,866	5,541	5,059
Vehicles	358	329	313	320	315
Other Public Works					
Streets (miles)	1,300	1,300	1,300	1,300	1,300
Service vehicles (5)	2,179	1,686	1,646	1,500	1,539

2012	2011	2010	2009	2008
3,690,000	3,690,000	3,700,000	3,700,000	3,700,000
37	36	26	28	27
5	5	5	5	6
553,100	553,100	553,100	553,100	769,536
825	796	808	830	764
26	26	26	26	26
313,224	313,224	313,224	313,224	313,224
104	104	120	127	132
1	1	1	1	1
33,000	33,000	33,000	33,000	33,000
45	45	44	49	46
3	3	3	3	3
935,000	935,000	935,000	935,000	935,000
96	96	96	96	96
2,600	2,600	2,576	2,647	2,500
3,900	3,900	3,895	4,088	4,200
640	640	615	390	500
7,140	7,500	7,086	7,125	7,200
335	353	324	325	325
1,300	1,290	1,319	1,319	1,319
1,906	868	754	773	741

(Continued)

City of Cleveland, Ohio
Capital Assets Statistics by Function/Program
Last Ten Years

Function/Program	2017	2016	2015	2014	2013
Recreation					
Number of parks	168	168	168	168	154
Number of playgrounds	108	108	109	109	110
Number of baseball diamonds	130	130	133	133	138
Number of tennis courts	92	92	90	90	119
Number of basketball courts					
Full	96	96	110	110	103
Half	11	11	10	10	10
Number of soccer fields	4	4	4	4	4
Number of recreation centers	21	21	21	21	21
Number of pools					
Indoor	19	19	19	19	19
Outdoor	22	22	22	22	21
Number of aquatic playgrounds	25	25	25	25	22
Number of golf courses (3)	2	2	2	2	2
Number of ice rinks	1	1	1	1	1
Number of roller rinks	1	1	1	1	1
Number of fine arts centers	1	1	1	1	1
Number of greenhouses	1	1	1	1	1
Number of camps	1	1	1	1	1
Number of Historical Baseball Parks	1	1			
Total park acreage	1,863	1,863	1,863	1,863	1,489
Vehicles	80	91	85	86	91
Wastewater					
Sanitary sewers (miles)	170	170	170	170	170
Storm sewers (miles)	199	199	199	199	199
Combined sewers (miles)	1,065	1,065	1,065	1,065	1,065
Vehicles	152	117	110	104	108
Electric Power					
Total Distribution lines (miles)	900	900	900		
Total Transmission lines (miles)	50	50	50		
Vehicles	79	265	217	221	216
Water Department					
Water lines (miles) (2)	3,544	3,315	3,300	3,139	3,051
Vehicles	748	740	596	675	658

- (1) Includes Dog Kennels, Inspection Garage and House of Corrections.
- (2) These are calculated totals of all trunk mains [20" diameter and larger] (439 miles), distribution mains [16" and smaller] within the City of Cleveland (1,266 miles) plus distribution mains within certain suburbs with updated service agreements (1,134 miles) which transferred ownership of the distribution mains within those suburban boundaries to the City of Cleveland. Not included in these totals are the distribution mains in all master meter communities and any direct service suburban community who has not entered into a new service agreement.
- (3) In 2011, the City leased Seneca golf course. In 2012, the City leased both golf courses.
- (4) Closed Platt Station and Luke Easter Station in 2011. In 2013, square footage occupied decreased due to the demolition of the Miles Broadway building (21,900 sq ft) and the Highland Park Maintenance building (9,000 sq ft).
- (5) In 2012, a departmental reorganization occurred that merged the departments of Public Service with Parks, Recreation and Properties becoming the Department of Public Works. The Office of Capital Projects was created from the Divisions of Architecture, Engineering and Construction and Research, Planning and Development and is reported under General Government. In addition, the Division of Consumer Affairs was merged with Community Development and was moved from General Government.
- (6) In 2013, Cleveland Hopkins demolished their long-term parking area and created a surface lot. They also changed their short-term parking area into the CLE Smart Park Garage which is for both short and long-term parking.
- (7) In 2014, the number of gates reflects physical gates. All prior years totals are the number of aircrafts that can be accommodated at any one time, including physical gates and parking positions.

2012	2011	2010	2009	2008
154	154	154	154	155
110	109	109	109	110
138	132	133	134	134
119	111	111	114	114
103	110	108	110	110
10	10	10	10	10
3	9	7	7	7
21	20	19	19	19
19	19	18	18	18
20	23	23	23	23
10	10	9	9	8
2	2	2	2	2
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
1,489	1,495	1,492	1,487	1,491
97	99	156	160	157
170	170	170	170	156
199	199	199	199	164
1,065	1,065	1,065	1,065	920
116	115	108	111	114
284	266	252	272	291
2,839	2,709	2,704	2,493	2,321
736	708	744	745	759

(Concluded)

CITY OF CLEVELAND, OHIO

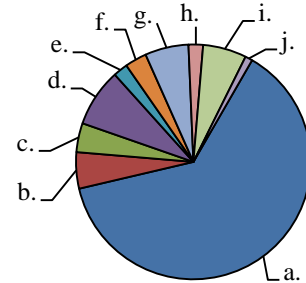
SCHEDULE OF STATISTICS-GENERAL FUND FOR THE YEAR ENDED DECEMBER 31, 2017

OPERATING RATIOS: GENERAL FUND-BUDGET BASIS

REVENUE DOLLAR BY SOURCE

Where the money came from

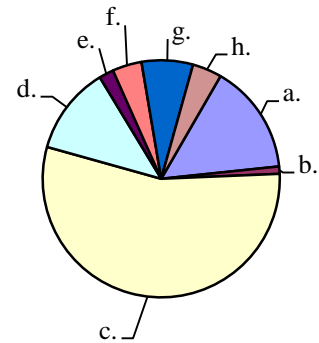
a. Income taxes	a.	\$0.63
b. Property taxes	b.	0.05
c. State local government funds	c.	0.04
d. Other taxes	d.	0.08
e. Other shared revenues	e.	0.02
f. Licenses and permits	f.	0.03
g. Charges for services	g.	0.06
h. Fines, forfeits and settlements	h.	0.02
i. Miscellaneous	i.	0.06
j. Sale of city assets	j.	0.01
		\$1.00



EXPENDITURE DOLLAR BY FUNCTION

Where the money was spent

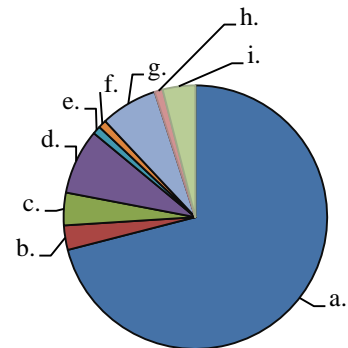
a. General Government	a.	\$0.15
b. Public Health	b.	0.01
c. Public Safety	c.	0.55
d. Public Works	d.	0.12
e. Building and Housing	e.	0.02
f. Economic and Community Development and other	f.	0.04
g. Transfers out	g.	0.07
h. Capital outlay	h.	0.04
		\$1.00



EXPENDITURE DOLLAR BY OBJECT

What the money was spent on

a. Salaries, wages and related benefits	a.	\$0.71
b. Interdepartmental charges	b.	0.03
c. Utilities	c.	0.04
d. Contractual services	d.	0.08
e. Materials and supplies	e.	0.01
f. Maintenance	f.	0.01
g. Transfers out	g.	0.07
h. Claims, refunds and maintenance	h.	0.01
i. Capital outlay	i.	0.04
		\$1.00



SPECIAL THANKS TO:

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Accounting and Administrative

Adam Badalamenti
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Leigh Ebner

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Elizabeth Loszak
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Lisa Royal
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Kathleen Woidke

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City of Cleveland
Bureau of Photographic Services

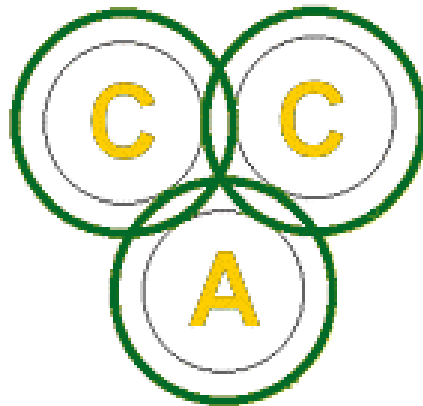
Cover color separations and printing

City of Cleveland
Division of Printing and Reproduction

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CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY



DEPARTMENT OF FINANCE
DIVISION OF TAXATION

REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the year ended December 31, 2017

CITY OF CLEVELAND, OHIO

**CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

TABLE OF CONTENTS

	Page
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis.....	3-9
Statement of Net Position - All Fund Types.....	12-13
Statement of Revenues, Expenses and Changes in Net Position - Internal Service Fund.....	15
Statement of Cash Flows - Internal Service Fund.....	16
Notes to Financial Statements.....	17-33
Schedule of Changes in Assets and Liabilities – Agency Fund.....	34
Schedule of the Agency's Proportionate Share of the Net Pension Liability Ohio Public Employees Retirement System.....	35
Schedule of Contributions Ohio Public Employees Retirement System	36
Schedule of Cash Receipts and Distribution of Funds.....	37
Schedule of Allocation of Net Operating Expenses.....	38
Schedule of Income Taxes Receivable	39

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INDEPENDENT AUDITORS' REPORT

To the Honorable Frank G. Jackson, Mayor, Members of Council and the Audit Committee
Central Collection Agency
Division of Taxation
City of Cleveland, Ohio:

Report on the Financial Statements

We have audited the accompanying financial statements of the Central Collection Agency's Internal Service and Agency Funds, Division of Taxation, City of Cleveland, Ohio (the "Agency") 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 Central Collection Agency's Internal Service and Agency Funds, Division of Taxation, City of Cleveland, Ohio as of December 31, 2017, and the changes in financial position and cash flows thereof, where applicable, 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 Agency 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 conformity 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules on pages 37 through 39 are presented for purpose of additional analysis and are not a required part of the Agency's basic financial statements.

The schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Agency's basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the Agency's basic financial statements taken as a whole.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 28, 2018

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the City) Department of Finance, Division of Taxation, Central Collection Agency (the Agency), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the year ended December 31, 2017. Please read this information in conjunction with the Agency's financial statements and footnotes starting on page 12.

The Division of Taxation was created in 1966 by the enactment of the City of Cleveland's Income Tax Ordinance providing the City's Income Tax Administrator with the authority to enter into agreements with any other municipal corporation to administer income tax laws and to provide for a central income tax collection facility. The Agency began with 14 member communities and during 2017 provided a full range of tax collection services for 81 member communities throughout 35 Ohio counties. Six communities joined the Agency as new members from 2016-2017 with collections for all beginning in 2017. The Agency employs an average of 100 individuals to process approximately one million returns, estimated payments and tax assessments.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Agency are \$103,397,635 and \$86,093,820 at December 31, 2017 and 2016 respectively; which also equal the liabilities, deferred inflows of resources and net position of the Agency. The Agency's total assets and deferred outflows of resources as well as the liabilities, deferred inflows of resources and net position increased by \$17,303,815 in 2017. The change is primarily due to increased taxes receivable caused by the income tax rate increase.
- The Agency fund total cash receipts were approximately \$555 million in 2017 and \$464 million in 2016. In 2017, cash receipts consisted of \$460 million of employer withholding, \$55 million of business profits, \$35 million of individual payments and \$5 million of other payments.
- Effective January 1, 2017, the individual income tax rate in the City was increased from 2.0% to 2.5%.
- The Agency's total operating expenses were \$10,955,126 in 2017 and \$9,447,746 in 2016. In 2017, operating expenses consisted of \$7,370,904 of employee's wages and benefits, \$1,401,789 of allocated charges and \$2,182,433 of other miscellaneous expenses.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL HIGHLIGHTS (Continued)

- The Agency provides a mechanism for member municipalities to maximize efficiencies, minimize costs and capitalize from economies of scale. Pooling tax collections and investing at current market rates allows the operating expenses of the Agency to be reduced by interest income. The Agency’s member municipalities also benefit by the Agency printing, mailing and delivering large volumes of income tax information and forms in bulk to local community public buildings and their taxpayers. This information is also available on the Agency’s website – www.ccatax.ci.cleveland.oh.us.
- There were additions to capital assets of \$140,203 for computer hardware and software upgrades for the Central Collection Agency’s internal network.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency’s financial statements. The accompanying financial statements present financial information for the City of Cleveland’s Division of Taxation Fund, in which the City accounts for the operations of the Department of Finance, Division of Taxation. 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 Agency operates two funds. The operating fund is considered an internal service proprietary fund because the operations of this fund are similar to a private-sector business enterprise. Accordingly, in accounting for the operating activities within this fund, the economic resources measurement focus and the accrual basis of accounting is used. The second fund is an agency fund, which is used to account for the collection and remittance of income taxes for the member municipalities. For accounting measurement purposes, the agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of operations.

The financial statements of the Agency can be found on pages 12-16 of this report.

The notes to the financial statements and accompanying schedules 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, required supplementary information and accompanying schedules can be found on pages 17-39 of this report.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION

Provided below is condensed statement of net position information for the internal service and agency funds of the Agency as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Assets:		
Cash and cash equivalents	\$ 10,795,251	\$ 9,608,951
Capital assets, net of accumulated depreciation	218,195	141,550
Taxes receivable	88,210,633	72,507,361
Due from CCA internal service fund	704,643	1,086,569
Due from member municipalities	546,994	526,757
Total assets	<u>100,475,716</u>	<u>83,871,188</u>
 Deferred outflows of resources	 2,921,919	 2,222,632
Liabilities:		
Accounts payable	167,235	181,640
Due to CCA agency fund	704,643	1,086,569
Due to the City of Cleveland	73,248,622	57,781,732
Due to member municipalities	25,548,850	24,087,670
Accrued wages and benefits - current	755,432	613,468
Accrued wages and benefits - long-term	50,934	120,109
Pension liability	6,906,177	5,365,647
Total liabilities	<u>107,381,893</u>	<u>89,236,835</u>
 Deferred inflows of resources	 207,573	 129,961
Net Position:		
Investment in capital assets	218,195	141,550
Unrestricted	(4,410,026)	(3,414,526)
Total net position	<u>\$ (4,191,831)</u>	<u>\$ (3,272,976)</u>

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Assets: The Agency collects and disburses income tax receipts monthly, except for the Cities of Cleveland, Clayton, Hamilton, Montpelier and Union that receive advances intermittently during the month; the remaining tax receipts balance is disbursed on the scheduled monthly distribution date. Assets primarily consist of cash on hand and anticipated income tax receivable. Total assets and deferred outflows of resources increased by \$17,303,815 in 2017. The annual changes are primarily due to an increase in taxes receivable caused by the income tax rate increase.

Capital assets: The Agency’s net investment in capital assets as of December 31, 2017 amounted to \$218,195. The investment in capital assets includes furniture, fixtures, equipment and vehicles. A summary of the Agency’s capital assets during the year ended December 31, 2017 is as follows:

	Balance January 1, 2017	Additions	Reductions	Balance December 31, 2017
Furniture, fixtures, equipment and vehicles	\$ 316,360	\$ 140,203	\$	\$ 456,563
Total	316,360	140,203	-	456,563
Less: Accumulated depreciation	(174,810)	(63,558)	-	(238,368)
Total capital assets, net	\$ 141,550	\$ 76,645	\$ -	\$ 218,195

Liabilities: Liabilities primarily consist of amounts owed to member municipalities (including the City of Cleveland). During 2017, the net increase in liabilities resulted from increases in amounts due to other communities, including Cleveland, the income tax rate increase, timing difference between the receipt and distribution of cash and additional current pension reporting requirements.

Pension Liability: During 2015, the Agency 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 Agency’s actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows 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, *Accounting for Pensions by State and Local Governmental Employers*, 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.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Under the new standards required by GASB Statement No. 68, the net pension liability equals the Agency’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 government, part of a bargained-for benefit to the employee and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Agency 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 previously explained, 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 local government. 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 Agency’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 Agency is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Provided below are statements of revenue, expenses and changes in net position for the internal service fund of the Agency for the years ended December 31, 2017 and 2016:

	Internal Service Fund	
	2017	2016
Operating Revenues		
Charges for services	\$ 9,890,072	\$ 9,104,554
Total operating revenues	9,890,072	9,104,554
Operating Expenses		
Salaries and wages	4,689,453	4,432,397
Employee benefits	2,681,451	1,807,641
Postage and office supplies	284,568	197,679
Allocation of City of Cleveland costs	1,401,789	1,356,054
Other administrative expenses	1,806,870	1,572,667
Property rental	27,437	21,962
Depreciation	63,558	59,346
Total operating expense	10,955,126	9,447,746
Operating income (loss)	(1,065,054)	(343,192)
Non-operating Activity		
Interest income	146,199	41,513
Change in net position	\$ (918,855)	\$ (301,679)

Operating Revenues In 2017, charges for services increased by \$785,518 due to the income tax rate increase. The charges for services are shared proportionately between all the members.

Operating Expenses: Salaries, wages and employee benefits increased by \$1,130,866 mainly due to pension expense, staffing open positions, new systems and procedures being implemented and greater opportunity for professional development of current staff. In 2017, other administrative expenses increased by \$234,203 primarily due to opening another office in Hamilton, Ohio.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

The Agency strives to be cost effective and service oriented in its relationship with the member communities. In an effort to produce these results, the Agency continues to focus on swift and effective methods of collecting income taxes due. In October 2017, CCA opened an office in the city of Hamilton to better serve the communities in the southwestern area of Ohio. The Agency also works to continually increase delinquency collections, develop and maintain open communication with all community members, update the staff's technical and customer service skills and remain diligent in practicing financial efficiency regarding operating expenses necessary to achieve the goals of the Agency.

The operating budget for the Agency, as approved by the Cleveland City Council for 2018, provides for an overall increase in budgeted expenditures of approximately 8.5%.

ADDITIONAL INFORMATION

This financial report is designed to provide a general overview of the Agency'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.

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FINANCIAL STATEMENTS

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

**STATEMENT OF NET POSITION - ALL FUND TYPES
December 31, 2017**

	<u>Proprietary Fund Type</u> <u>Internal Service</u>	<u>Fiduciary Fund Type</u> <u>Agency</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,538,143	\$ 9,257,108
Taxes receivable		88,210,633
Due from CCA internal service fund		704,643
Due from member municipalities		546,994
TOTAL CURRENT ASSETS	<u>1,538,143</u>	<u>98,719,378</u>
CAPITAL ASSETS:		
Furniture, fixtures, equipment and vehicles	456,563	
Less: Accumulated depreciation	(238,368)	
CAPITAL ASSETS, NET	<u>218,195</u>	<u>-</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension	2,921,919	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>2,921,919</u>	<u>-</u>

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

**STATEMENT OF NET POSITION - ALL FUND TYPES
December 31, 2017**

	<u>Proprietary Fund Type</u> <u>Internal Service</u>	<u>Fiduciary Fund Type</u> <u>Agency</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 167,235	\$
Due to CCA agency fund	704,643	
Due to the City of Cleveland	78,094	73,170,528
Due to member municipalities		25,548,850
Accrued wages and benefits - current	755,432	
TOTAL CURRENT LIABILITIES	<u>1,705,404</u>	<u>98,719,378</u>
LONG-TERM LIABILITIES		
Pension liability	6,906,177	
Accrued wages and benefits	50,934	
TOTAL LONG-TERM LIABILITIES	<u>6,957,111</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES		
Pension	207,573	
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>207,573</u>	<u>-</u>
NET POSITION		
Investment in capital assets	218,195	
Unrestricted	(4,410,026)	
TOTAL NET POSITION	<u>\$ (4,191,831)</u>	<u>\$ -</u>

See notes to financial statements.

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**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
INTERNAL SERVICE FUND**

For the Year Ended December 31, 2017

OPERATING REVENUES

Charges for services	\$ 9,890,072
TOTAL OPERATING REVENUES	9,890,072

OPERATING EXPENSES

Salaries and wages	4,689,453
Employee benefits	2,681,451
Postage and office supplies	284,568
Allocation of City of Cleveland costs	1,401,789
Other administrative expenses	1,806,870
Property rental	27,437
Depreciation	63,558
TOTAL OPERATING EXPENSES	10,955,126

OPERATING INCOME (LOSS) (1,065,054)

NON-OPERATING ACTIVITY

Interest Income	<u>146,199</u>
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CHANGE IN NET POSITION (918,855)

NET POSITION AT BEGINNING OF YEAR (3,272,976)

NET POSITION AT END OF YEAR \$ (4,191,831)

See notes to financial statements.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

**STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUND
For the Year Ended December 31, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from member municipalities	\$ 9,508,146
Cash payments to suppliers of goods and services	(3,506,907)
Cash payments for employee services and benefits	(6,379,259)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>(378,020)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of capital assets	(140,203)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED ACTIVITIES	<u>(140,203)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest earned on investments	146,199
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>146,199</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (372,024)

Cash and cash equivalents at beginning of year	<u>1,910,167</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,538,143</u></u>

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

Operating income (loss)	\$ (1,065,054)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation	63,558
Changes in deferred outflows of resources:	
Pension	(699,287)
Changes in liabilities:	
Accounts payable	(14,405)
Due to CCA agency fund	(381,926)
Due to City of Cleveland	28,163
Accrued wages and benefits	72,789
Pension liability	1,540,530
Changes in deferred inflows of resources:	
Pension	77,612
Total adjustments	<u>687,034</u>

NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES \$ (378,020)

See notes to financial statements.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

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

NOTE A - DESCRIPTION OF OPERATIONS AND BASIS OF PRESENTATION

The Central Collection Agency, Division of Taxation, City of Cleveland, Ohio (the Agency) is reported as part of the City of Cleveland's primary government and was created for the purpose of collecting city income taxes and disbursing those funds to the respective member municipalities (members) after payment of related expenses. Allocations of tax collections to members are based upon information provided by the taxpayers on the returns and supporting data. Such allocations are subject to adjustments in the subsequent year, dependent upon final returns filed by taxpayers and final review by the Agency. Refunds for overpayments are offset against allocated collections as amounts are determined.

Basis of Presentation: The financial statements are presented in accordance with Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification) which requires financial statements by fund type. These financial statements present a columnar total for all fund types included in the statement of assets and liabilities.

The following fund types are used by the Agency:

Proprietary Fund Type - Internal Service Fund: This fund is used to account for the services provided to members on a cost-reimbursement basis.

Fiduciary Fund Type - Agency Fund: This fund is used to account for assets held by the Agency as an agent for others.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and financial reporting practices of the Agency 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 No. 67 and No. 68*, was 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, 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 Agency has implemented GASB Statement No. 73 as of December 31, 2017.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Agency has determined that GASB Statement No. 74 has no impact on its financial statements as of December 31, 2017.

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 Agency 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 interest in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interest. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The Agency has determined that GASB Statement No. 81 has no impact on its financial statements as of December 31, 2017.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the 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, No. 68 and No. 73. 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 Agency has implemented GASB Statement No. 82 as of December 31, 2017.

The Agency's net position is accounted for in the accompanying statement of net position and is divided into amounts in net investment in capital assets and unrestricted. The negative unrestricted amount is primarily the unfunded pension liability and will not be passed along to members of the Agency.

Basis of Accounting: All financial transactions of the Agency are reported on the accrual basis of accounting. Under this accounting method, assets and the related liabilities at the end of the year primarily consist of individual income taxes receivable arising from payroll tax withholdings in December and a receivable for quarterly and annual payments of income taxes pertaining to net profits, self-employment and residents' taxes earned in the prior years. For accounting purposes, the agency fund is custodial in nature (assets and deferred outflows of resources equal liabilities and deferred inflows of resources) and does not involve the measurement of operations. Financial transactions for the internal service fund are reported on the accrual basis of accounting; revenues are recognized when earned and measurable and expenses are recognized as incurred. For accounting purposes, the operations of the internal service fund are similar to a private-sector business enterprise. Accordingly, in accounting for the operating activities, the economic resources measurement focus is used.

Supplies: Supplies are expensed when purchased.

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

For purposes of this statement, cash and cash equivalents include highly liquid investments with a maturity of three months or less when purchased and all of the Agency's share of the City of Cleveland's pooled cash accounts.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allocation of Expenses: The Agency allocates all operating expenses, net of interest income and changes to unfunded pension liability, to members based upon the arithmetic mean of the percentage of each municipality's transactions to total transactions and the percentage of each municipality's revenue to total revenue.

Allocation of Interest Income: Excess funds are invested on a daily basis and interest income earned on such investments is allocated to members based on the percentage of each municipality's revenue to total revenue.

The City of Cleveland receives collections of tax receipts in advance of the regular monthly distribution date and accordingly, interest income is allocated exclusively to the other members.

Investments: The Agency 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 Agency's investments in money market mutual funds and State Treasurer Asset Reserve Fund (STAR Ohio) funds are excluded from fair value measurement requirements under GASB Statement No. 72 and instead are reported at amortized cost.

The Agency has invested funds in 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 SEC as an investment company but has adopted GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, for the purpose of measuring the value of shares in STAR Ohio. The Agency 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 per share that approximates fair value.

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, 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:

Furniture, fixtures, equipment and vehicles	3 to 60 years
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**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

NOTE C - LONG-TERM LIABILITIES

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

	<u>Balance</u> <u>January 1, 2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>December 31, 2017</u>	<u>Due Within</u> <u>One Year</u>
Accrued wages and benefits	\$ 733,577	\$ 686,257	\$ (613,468)	\$ 806,366	\$ 755,432
Pension	<u>5,365,647</u>	<u>1,540,530</u>	<u> </u>	<u>6,906,177</u>	<u> </u>
Total	<u>\$ 6,099,224</u>	<u>\$ 2,226,787</u>	<u>\$ (613,468)</u>	<u>\$ 7,712,543</u>	<u>\$ 755,432</u>

NOTE D - DEPOSITS AND INVESTMENTS

Deposits: The carrying amount of the Agency's deposits at December 31, 2017 totaled \$2,697,982 and the Agency's bank balances were \$2,837,166. The differences represent outstanding warrants payable, 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*, \$2,837,166 of the bank balances at December 31, 2017, respectively, was insured or collateralized with securities held by the City or by its agent in the City's name.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

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

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk for deposits is the risk that in the event of bank failure, the Agency will not be able to recover deposits or collateral for securities that are in possession of an outside party. At year end, the Agency'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, 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 is 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; STAR Ohio; commercial paper; U.S. 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 in segregated accounts and are kept at the Federal Reserve Bank in the depository institutions' separate custodial account for the Agency, apart from the assets of the depository institution. Ohio statute prohibits the use of reverse repurchase agreements.

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

Interest rate risk: As a means of limiting its exposure to fair value losses caused by rising interest rates, the Agency 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 Agency will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The Agency does not have an investment policy dealing with investment custodial credit risk beyond the requirement in the State Statute.

Credit Risk: The Agency's investments as of December 31, 2017 include STAR Ohio and money market mutual funds. Investments in STAR Ohio and the Federated 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.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

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

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk: The Agency places a limitation on the amount it may invest in any one issuer to help minimize the concentration of credit risk. The Agency 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 since they have a maturity of three months or less:

Type of Investment	2017 Value	2017 Cost	Investment Maturities Less Than One Year
STAR Ohio	\$ 65,745	\$ 65,745	\$ 65,745
Money Market Mutual Funds	<u>8,031,524</u>	<u>8,031,524</u>	<u>8,031,524</u>
Total Investments	8,097,269	8,097,269	8,097,269
Total Deposits	<u>2,697,982</u>	<u>2,697,982</u>	<u>2,697,982</u>
Total Deposits and Investments	<u>\$ 10,795,251</u>	<u>\$ 10,795,251</u>	<u>\$ 10,795,251</u>

These amounts are monies invested by the City Treasurer on behalf of the Agency 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. Monies due to member agencies are disbursed from these funds on a monthly basis.

As of December 31, 2017, the investments in STAR Ohio and money market mutual funds are approximately 0.8% and 99.2%, of the Agency's total investments.

NOTE E - 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
Capital assets, being depreciated				
Furniture, fixtures, equipment and vehicles	\$ 316,360	\$ 140,203	\$ -	\$ 456,563
Total capital assets, being depreciated	316,360	140,203	-	456,563
Less: Total accumulated depreciation	<u>(174,810)</u>	<u>(63,558)</u>	<u>-</u>	<u>(238,368)</u>
Total capital assets, being depreciated, net	<u>141,550</u>	<u>76,645</u>	<u>-</u>	<u>218,195</u>
Capital assets, net	<u>\$ 141,550</u>	<u>\$ 76,645</u>	<u>\$ -</u>	<u>\$ 218,195</u>

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

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

NOTE G - DEFINED BENEFIT PENSION PLAN (Continued)

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 Agency'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. Agency's employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

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

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

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

NOTE G - DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

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

NOTE G - DEFINED BENEFIT PENSION PLAN (Continued)

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

	State and Local
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 Agency's contractually required contribution was \$593,508 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. The Agency's proportion of the net pension liability was based on the Agency's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS
Proportionate Share of the Net Pension Liability	\$ 6,906,177
Proportion of Net Pension Liability	0.032616%
Change in Proportion	(0.001241)%
Pension Expense	\$ 1,585,489

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

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

NOTE G - DEFINED BENEFIT PENSION PLAN (Continued)

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

	OPERS
Deferred Outflows of Resources	
Net difference between projected and actual earnings on pension plan investments	\$ 1,140,498
Difference in expected and actual economic experience	10,035
Change in assumptions	1,177,878
Agency contributions subsequent to the measurement date	593,508
Total Deferred Outflows of Resources	\$ 2,921,919
 Deferred Inflows of Resources	
Differences between expected and actual experience	\$ 52,246
Change in Agency's proportionate share	155,327
Total Deferred Inflows of Resources	\$ 207,573

The \$593,508 reported as deferred outflows of resources related to pension resulting from the Agency's contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ending December 31, 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:

Year Ending December 31:	OPERS
2018	\$ 856,964
2019	897,891
2020	400,726
2021	(33,063)
2022	(610)
Thereafter	(1,070)
Total	\$ 2,120,838

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.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

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

NOTE G - DEFINED BENEFIT PENSION PLAN (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 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 COLA or Ad Hoc COLA	3.25 to 10.75% including wage inflation 3.25%, simple Pre 1/7/2013 retirees: 3%, simple Post 1/7/2013 retirees: 3%, simple through 2018, then 2.15%, simple	4.25 to 10.05% including wage inflation 3%, simple Pre 1/7/2013 retirees: 3%, simple Post 1/7/2013 retirees: 3%, simple through 2018, then 2.15%, 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.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

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

NOTE G - 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 (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	<u>100.00 %</u>	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.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

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

NOTE G - DEFINED BENEFIT PENSION PLAN (Continued)

Sensitivity of the Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following table presents the Agency's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5%, as well as what the Agency'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	Current Discount Rate	1% Increase
	6.5%	7.5%	8.5%
Agency's proportionate share of the net pension liability	\$ 10,420,998	\$ 6,906,177	\$ 3,981,641

NOTE H - 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, 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.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

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

NOTE H - 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 participants in the Member-Directed Plan participants for 2017 was 4.0%.

The Agency's actual contributions to OPERS to fund postemployment benefits were \$46,000 in 2017, \$88,000 in 2016 and \$87,000 in 2015. The required payments due in 2017, 2016 and 2015 have been made.

NOTE I - RELATED PARTY TRANSACTIONS

The Agency is provided various services by the City of Cleveland. Charges are based on actual use or on a reasonable pro rata basis. These costs, as reported in the statement of revenues and expenses of the internal service fund for the years ended December 31, 2017 were as follows:

City administration	\$	496,296
Office rent		425,000
Telephone		51,993
Utilities		183,185
Parking Facilities		1,320
Printing services		235,864
Motor Vehicle Maintenance		8,131
Total	<u>\$</u>	<u>1,401,789</u>

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

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

NOTE J - DUE FROM MEMBER CITIES

The Agency has recorded certain liabilities in the internal service fund related to compensated absences totaling \$546,994 at December 31, 2017 as accrued wages and benefits. These amounts are recorded as due from member municipalities in the agency fund.

NOTE K - CONTINGENT LIABILITIES AND RISK MANAGEMENT

Contingent Liabilities: Various claims are pending against the City involving the Agency 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 Agency's financial position, results of operations or cash flows.

Risk Management: The Agency 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 Agency is generally self-insured. No material losses, including incurred but not reported losses, occurred in 2017.

The City provides the choice of two separate health insurance plans to its employees. The Agency is charged a monthly rate per employee by type of coverage. The City participates in the State of Ohio Worker's 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 Agency is immaterial.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND
For the Year Ended December 31, 2017**

	Balance			Balance
	January 1, 2017	Additions	Deductions	December 31, 2017
ASSETS				
Cash and cash equivalents	\$ 7,698,784	\$ 554,573,318	\$ (553,014,994)	\$ 9,257,108
Taxes receivable	72,507,361	88,210,633	(72,507,361)	88,210,633
Due from the CCA internal service fund	1,086,569	704,643	(1,086,569)	704,643
Due from member municipalities	526,757	546,994	(526,757)	546,994
TOTAL ASSETS	\$ 81,819,471	\$ 644,035,588	\$ (627,135,681)	\$ 98,719,378
LIABILITIES				
Due to the City of Cleveland	\$ 57,731,801	\$ 530,343,321	\$ (514,904,594)	\$ 73,170,528
Due to member municipalities	24,087,670	113,692,267	(112,231,087)	25,548,850
TOTAL LIABILITIES	\$ 81,819,471	\$ 644,035,588	\$ (627,135,681)	\$ 98,719,378

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE AGENCY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST FOUR MEASUREMENT YEARS (1), (2)**

	2017	2016	2015	2014
Agency's Proportion of the Net Pension Liability	0.032616%	0.033857%	0.030085%	0.030085%
Agency's Proportionate Share of the Net Pension Liability (Asset)	\$ 6,906,177	\$ 5,365,647	\$ 3,617,001	\$ 3,541,261
Agency's Covered Payroll	\$ 4,326,558	\$ 4,316,792	\$ 3,764,833	\$ 3,409,992
Agency's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	159.62%	124.30%	96.07%	103.85%
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 the Agency's measurement date, which is the prior year end.

(2) Information prior to 2013 is not available. The Agency 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, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

**REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
SCHEDULE OF CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST FIVE YEARS (1)**

	2017	2016	2015	2014	2013
Contractually Required Contributions	\$ 593,508	\$ 519,187	\$ 518,015	\$ 451,780	\$ 443,299
Contributions in Relation to the Contractually Required Contributions	<u>\$ (593,508)</u>	<u>\$ (519,187)</u>	<u>\$ (518,015)</u>	<u>\$ (451,780)</u>	<u>\$ (443,299)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Agency's Covered Payroll	\$ 4,565,446	\$ 4,326,558	\$ 4,316,792	\$ 3,764,833	\$ 3,409,992
Contribution 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 Agency will continue to present information for years available until a full ten-year trend is compiled.

**CITY OF CLEVELAND
CENTRAL COLLECTION AGENCY
DIVISION OF TAXATION**

**SCHEDULE OF CASH RECEIPTS AND DISTRIBUTION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Members	Balance Collected and Due Members January 1, 2017	Cash Receipts Net	Total Cash Receipts	Cash Disbursed	Allocation of Net Operating Expenses	Total Disbursements and Expenses	Balance Collected And Due Members December 31, 2017
ADA	\$ 163,645.63	\$ 1,874,685.69	\$ 2,038,331.32	\$ 1,834,884.31	\$ 54,555.99	\$ 1,889,440.30	\$ 148,891.02
AKRON	91.07	1,216.48	1,307.55	910.30	304.12	1,214.42	93.13
ALGER	(1,071.92)	54,365.99	53,294.07	46,820.66	7,021.93	53,842.59	(548.52)
ALLIANCE	1,722.00	22,342.29	24,064.29	17,747.19	5,585.57	23,332.76	731.53
ATHENS	13.34	52.00	65.34	50.34	13.00	63.34	2.00
BARBERTON	933,880.39	12,871,273.61	13,805,154.00	12,422,989.55	293,612.79	12,716,602.34	1,088,551.66
BARNESVILLE	(46.07)		(46.07)	(46.07)		(46.07)	-
BEDFORD	(31.68)	1,852.40	1,820.72	1,355.72	463.10	1,818.82	1.90
BRADNER	3,581.10		3,581.10			3,581.10	-
BRATENAHL	332,195.10	1,968,171.95	2,300,367.05	2,154,539.80	38,846.10	2,193,385.90	106,981.15
BURTON	43,340.20	636,937.65	680,277.85	600,590.06	31,897.41	632,487.47	47,790.38
CAREY	116,834.59	2,016,181.23	2,133,015.82	1,956,706.69	48,475.10	2,005,181.79	127,834.03
CENTERVILLE	10.48		10.48	10.48		10.48	-
CHILLICOTHE	(204.61)	2,673.15	2,468.54	1,444.14	668.29	2,112.43	356.11
CLAYTON	142,087.06	4,462,988.55	4,605,075.61	4,376,637.59	153,826.16	4,530,463.75	74,611.86
CLEVELAND	3,209,257.23	447,585,122.06	450,794,379.29	440,389,449.17	7,043,032.57	447,432,481.74	3,361,897.55
CUYAHOGA FALLS	(272.74)	25.00	(247.74)		6.25	6.25	(253.99)
DAYTON	(5.09)	8,662.82	8,657.73	6,213.50	2,313.86	8,527.36	130.37
DRESDEN	11,205.62	294,439.80	305,645.42	265,685.27	19,925.51	285,610.78	20,034.64
EAST LIVERPOOL	1,366.95	44,222.20	45,589.15	32,908.50	11,058.05	43,966.55	1,622.60
ELIDA	32,064.64	507,561.13	539,625.77	466,387.85	33,145.51	499,533.36	40,092.41
ENGLEWOOD	(112.26)		(112.26)				(112.26)
FRANKLIN	136.64	224.96	361.60	301.60	56.24	357.84	3.76
FRAZEYSBURG	16,438.45	194,254.71	210,693.16	184,227.00	14,299.73	198,526.73	12,166.43
GATES MILLS	171,318.57	1,793,408.03	1,964,726.60	1,503,395.54	53,919.62	1,557,315.16	407,411.44
GENEVA-ON-THE-LAKE	11,763.95	236,045.18	247,809.13	213,209.06	15,107.84	228,316.90	19,492.23
GERMANTOWN		1,302,734.42	1,302,734.42	1,184,478.25	69,261.84	1,253,740.09	48,994.33
GRAND RAPIDS	6,563.64	213,017.32	219,580.96	190,975.24	21,839.97	212,815.21	6,765.75
GRAND RIVER	28,147.32	318,750.16	346,897.48	296,463.08	9,170.51	305,633.59	41,263.89
HAMILTON	2,089.60	6,346,314.91	6,348,404.51	5,760,430.31	118,317.02	5,878,747.33	469,657.18
HARTVILLE	(146.28)		(146.28)				(146.28)
HIGHLAND HILLS	305,422.96	3,712,340.74	4,017,763.70	3,671,291.00	41,608.38	3,712,899.38	304,864.32
HUBER HEIGHTS	237.34	819.62	1,056.96	781.96	204.91	986.87	70.09
HUNTSVILLE	3,210.95	85,185.76	88,396.71	76,667.24	7,911.54	84,578.78	3,817.93
LAKEWOOD	45.18		45.18	48.18		48.18	(3.00)
LANCASTER	68.75	825.00	893.75	673.75	206.25	880.00	13.75
LIBERTY CENTER	11,839.84	314,702.74	326,542.58	292,711.13	21,814.27	314,525.40	12,017.18
LIMA	(85.16)		(85.16)	(85.16)		(85.16)	-
LINNDALE	4,077.33	59,115.58	63,192.91	57,245.63	2,068.89	59,314.52	3,878.39
LONDON	425.05	3,039.82	3,464.87	2,699.87	759.96	3,459.83	5.04
LORAIN	23,117.57	186,255.49	209,373.06	153,160.90	46,563.87	199,724.77	9,648.29
MADISON VILLAGE	70,913.47	5,823.56	76,737.03	76,442.03	295.00	76,737.03	-
MEDINA	1,295,936.31	14,829,380.87	16,125,317.18	14,289,860.47	483,113.47	14,772,973.94	1,352,343.24
MENTOR-ON-THE-LAKE	81,946.81	1,056,270.39	1,138,217.20	964,375.03	48,733.55	1,013,108.58	125,108.62
MONTGOMERY	(715.26)		(715.26)				(715.26)
MONTPELIER	59,602.81	1,944,295.13	2,003,897.94	1,911,135.46	49,539.68	1,960,675.14	43,222.80
MT. ORAB	37.10	208.80	245.90	175.90	52.20	228.10	17.80
MUNROE FALLS	105,362.29	1,310,454.89	1,415,817.18	1,251,806.29	54,040.26	1,305,846.55	109,970.63
NAPOLEON	0.28	1,440.76	1,441.04	1,026.04	360.19	1,386.23	54.81
NEW CARLISLE	218.30	1,538,532.01	1,538,750.31	1,375,031.86	67,528.00	1,442,559.86	96,190.45
NEW MIAMI		24,854.10	24,854.10	17,937.83	1,804.33	19,742.16	5,111.94
NEW PARIS		21,461.81	21,461.81	15,802.86	1,988.38	17,791.24	3,670.57
NORTH BALTIMORE	77,237.14	890,086.39	967,323.53	857,926.21	42,253.68	900,179.89	67,143.64
NORTH PERRY VILLAGE	78,324.64	1,219,723.70	1,298,048.34	1,209,492.59	17,492.12	1,226,984.71	71,063.63
NORTH RANDALL	166,559.11	2,466,249.82	2,632,808.93	2,380,715.85	39,589.72	2,420,305.57	212,503.36
NORTHFIELD VILLAGE	268,334.69		268,334.69			268,334.69	-
NORTON	505,488.55	6,111,864.74	6,617,353.29	5,901,866.78	190,320.54	6,092,187.32	525,165.97
ORWELL	60,334.40	858,543.57	918,877.97	826,934.53	21,227.69	848,162.22	70,715.75
PAULDING	78,958.65	983,214.84	1,062,173.49	946,481.54	48,117.88	994,599.42	67,574.07
PHILLIPSBURG		9,470.06	9,470.06	7,147.01	1,228.82	8,375.83	1,094.23
ROCK CREEK	376.06	80,293.11	80,669.17	73,797.69	7,518.45	81,316.14	(646.97)
RUSHSVLVANIA	4,426.98	72,757.44	77,184.42	65,286.96	6,157.82	71,444.78	5,739.64
RUSSELLS POINT	20,478.96	288,181.18	308,660.14	272,550.61	21,225.38	293,775.99	14,884.15
SALEM	37.50	150.00	187.50	147.50	37.50	185.00	2.50
SEVILLE	69,032.55	986,682.84	1,055,715.39	936,986.11	51,109.67	988,095.78	67,619.61
SOUTH RUSSELL	166,554.56	1,718,685.49	1,885,240.05	1,674,313.30	67,281.88	1,741,595.18	143,644.87
SPRINGFIELD	1,254.68	9,900.49	11,155.17	8,240.17	2,475.12	10,715.29	439.88
STOW	55.51	2,711.84	2,767.35	2,082.35	677.96	2,760.31	7.04
TIMBERLAKE	4,304.25	113,085.13	117,389.38	105,938.31	9,495.09	115,433.40	1,955.98
TROTWOOD	929.94	26,615.46	27,545.40	17,443.06	6,653.87	24,096.93	3,448.47
TROY	(32.00)		(32.00)				(32.00)
UNION	(2,679.67)	1,187,228.72	1,184,549.05	1,127,180.93	60,309.83	1,187,490.76	(2,941.71)
VILLAGE OF OAKWOOD	625.31	75,784.86	76,410.17	69,318.28	7,583.91	76,902.19	(492.02)
WARREN	3,755.09	44,197.51	47,952.60	35,373.62	11,049.38	46,423.00	1,529.60
WARRENSVILLE HEIGHTS	1,424,917.36	16,617,804.06	18,042,721.42	16,407,102.35	275,937.24	16,683,039.59	1,359,681.83
WAYNESFIELD	7,785.90	110,528.56	118,314.46	104,395.16	9,574.60	113,969.76	4,344.70
WEST ALEXANDRIA	191.59	331,437.10	331,628.69	303,734.53	21,493.67	325,228.20	6,400.49
WEST LIBERTY	27,203.29	407,944.35	435,147.64	380,216.51	26,893.48	407,109.99	28,037.65
WEST MILTON	58,348.13	1,397,812.47	1,456,160.60	1,291,063.48	68,836.86	1,359,900.34	96,260.26
WICKLIFFE	(187.26)		(187.26)	(187.26)		(187.26)	-
WILMINGTON	86.15	850.00	936.15	721.15	212.50	933.65	2.50
Totals	\$ 10,210,226.90	\$ 543,864,334.49	\$ 554,074,561.39	\$ 533,345,738.51	\$ 9,890,071.87	\$ 543,235,810.38	\$ 10,838,751.01

**CITY OF CLEVELAND
CENTRAL COLLECTION AGENCY
DIVISION OF TAXATION**

**SCHEDULE OF ALLOCATION OF NET OPERATING EXPENSES
FOR THE ENTIRE YEAR ENDED DECEMBER 31, 2017**

Members	Cost Allocation Percent	Interest Allocation Percent	Cost Allocation Before Interest Income	Interest Income of Municipalities (Excluding Cleveland)	Allocation of Net Operating Expenses
Ada	0.676783%	1.942701%	\$ 57,396.20	\$ 2,840.21	\$ 54,555.99
Akron	0.000000%	0.000000%	304.12		304.12
Alger	0.083760%	0.0557880%	7,103.49	81.56	7,021.93
Alliance	0.000000%	0.000000%	5,585.57		5,585.57
Athens	0.000000%	0.000000%	13.00		13.00
Barberton	3.693243%	13.407251%	313,214.09	19,601.30	293,612.79
Bedford	0.000000%	0.000000%	463.10		463.10
Bratenahl	0.493579%	2.060908%	41,859.14	3,013.04	38,846.10
Burton	0.387489%	0.659746%	32,861.95	964.54	31,897.41
Carey	0.607502%	2.083108%	51,520.59	3,045.49	48,475.10
Chillicothe	0.000000%	0.000000%	668.29		668.29
Clayton	1.893472%	4.619810%	160,580.29	6,754.13	153,826.16
Cleveland	65.761668%	0.000000%	7,043,032.57		7,043,032.57
Cuyahoga Falls	0.000000%	0.000000%	6.25		6.25
Dayton	0.000000%	0.000000%	2,313.86		2,313.86
Dresden	0.240179%	0.303300%	20,368.93	443.42	19,925.51
East Liverpool	0.000000%	0.000000%	11,058.05		11,058.05
Elida	0.399959%	0.529389%	33,919.47	773.96	33,145.51
Franklin	0.000000%	0.000000%	56.24		56.24
Frazesburg	0.172072%	0.200572%	14,592.97	293.24	14,299.73
Gates Mills	0.667768%	1.854995%	56,631.61	2,711.99	53,919.62
Geneva-on-the-Lake	0.182444%	0.249458%	15,472.55	364.71	15,107.84
Germantown	0.839941%	1.348409%	71,233.20	1,971.36	69,261.84
Grand Rapids	0.261351%	0.221994%	22,164.52	324.55	21,839.97
Grand River	0.113957%	0.337822%	9,664.40	493.89	9,170.51
Hamilton	1.511100%	6.727751%	128,152.94	9,835.92	118,317.02
Highland Hills	0.556827%	3.840399%	47,223.02	5,614.64	41,608.38
Huber Heights	0.000000%	0.000000%	204.91		204.91
Huntsville	0.094836%	0.089754%	8,042.76	131.22	7,911.54
Lancaster	0.000000%	0.000000%	206.25		206.25
Liberty Center	0.262856%	0.326821%	22,292.08	477.81	21,814.27
Linndale	0.025440%	0.061039%	2,158.13	89.24	2,068.89
London	0.000000%	0.000000%	759.96		759.96
Lorain	0.000000%	0.000000%	46,563.87		46,563.87
Madison	0.005306%	0.000000%	295.00		295.00
Medina	5.965272%	15.585156%	505,898.85	22,785.38	483,113.47
Mentor-on-the-Lake	0.593545%	1.096747%	50,336.99	1,603.44	48,733.55
Montpelier	0.618786%	2.009538%	52,477.61	2,937.93	49,539.68
Mt. Orab	0.000000%	0.000000%	52.20		52.20
Munroe Falls	0.660885%	1.373194%	56,047.86	2,007.60	54,040.26
Napoleon	0.000000%	0.000000%	360.19		360.19
New Carlisle	0.823755%	1.595385%	69,860.44	2,332.44	67,528.00
New Miami	0.021710%	0.025619%	1,841.78	37.45	1,804.33
New Paris	0.023826%	0.022048%	2,020.61	32.23	1,988.38
North Baltimore	0.514082%	0.919468%	43,597.94	1,344.26	42,253.68
North Perry	0.227870%	1.253695%	19,325.01	1,832.89	17,492.12
North Randall	0.511003%	2.562975%	43,336.77	3,747.05	39,589.72
Norton	2.353942%	6.368725%	199,631.57	9,311.03	190,320.54
Orwell	0.265494%	0.881096%	22,515.85	1,288.16	21,227.69
Paulding	0.585144%	1.030504%	49,624.47	1,506.59	48,117.88
Phillipsburg	0.014566%	0.009689%	1,242.99	14.17	1,228.82
Rock Creek	0.090170%	0.088004%	7,647.11	128.66	7,518.45
Rushsylvania	0.073926%	0.076338%	6,269.43	111.61	6,157.82
Russells Point	0.255468%	0.301076%	21,665.55	440.17	21,225.38
Salem	0.000000%	0.000000%	37.50		37.50
Seville	0.620470%	1.033327%	52,620.39	1,510.72	51,109.67
South Russell	0.824301%	1.795454%	69,906.82	2,624.94	67,281.88
Springfield	0.000000%	0.000000%	2,475.12		2,475.12
Stow	0.000000%	0.000000%	677.96		677.96
Timberlake	0.114004%	0.118536%	9,668.39	173.30	9,495.09
Trotwood	0.000000%	0.000000%	6,653.87		6,653.87
Union	0.732359%	1.230931%	62,109.44	1,799.61	60,309.83
Village of Oakwood	0.090819%	0.080855%	7,702.12	118.21	7,583.91
Warren	0.000000%	0.000000%	11,049.38		11,049.38
Warrensville Heights	3.551504%	17.275291%	301,193.59	25,256.35	275,937.24
Waynesfield	0.114989%	0.121309%	9,751.95	177.35	9,574.60
West Alexandria	0.259334%	0.341858%	21,993.46	499.79	21,493.67
West Liberty	0.324424%	0.424119%	27,513.54	620.06	26,893.48
West Milton	0.836820%	1.458048%	70,968.52	2,131.66	68,836.86
Wilmington	0.000000%	0.000000%	212.50		212.50
Totals	100.000000%	100.000000%	\$ 10,036,271.14	\$ 146,199.27	\$ 9,890,071.87

**CITY OF CLEVELAND
CENTRAL COLLECTION AGENCY
DIVISION OF TAXATION**

**SCHEDULE OF INCOME TAXES RECEIVABLE
FOR YEAR ENDED DECEMBER 31, 2017**

Ada	\$	358,005.79
Akron		50.00
Alger		24,119.74
Alliance		1,272.37
Barberton		2,096,649.87
Bratenahl		534,089.04
Burton		176,612.17
Carey		197,551.53
Chillicothe		595.07
Clayton		1,569,945.37
Cleveland		69,808,631.41
Dayton		945.00
Dresden		91,838.78
East Liverpool		5,556.82
Elida		171,359.32
Fazeysburg		63,126.31
Gates Mills		623,735.78
Geneva-on-the-Lake		80,485.35
Germantown		109,570.68
Grand Rapids		75,235.09
Grand River		56,908.73
Hamilton		2,228,388.86
Highland Hills		345,246.56
Huber Heights		96.15
Huntsville		25,416.01
Lancaster		225.00
Liberty Center		91,338.56
Linndale		8,069.78
Lorain		20,522.96
Mentor-on-the-Lake		269,267.80
Montpelier		185,325.63
Munroe Falls		368,558.00
New Carlisle		162,608.82
New Miami		12,624.11
New Paris		15,180.16
North Baltimore		178,760.45
North Perry		189,638.15
North Randall		375,906.64
Norton		1,738,916.27
Orwell		112,559.89
Paulding		253,475.04
Phillipsburg		6,575.47
Rock Creek		18,427.34
Rushsylvania		33,203.94
Russells Point		89,514.32
Seville		293,238.47
South Russell		658,964.43
Springfield		984.44
Stow		25.00
Timberlake		43,493.37
Trotwood		7,223.07
Union		306,437.89
Village of Oakwood		17,197.09
Warren		4,505.30
Warrensville Heights		3,341,956.55
Waynesfield		31,019.24
West Alexandria		119,680.06
West Liberty		127,939.35
West Milton		481,838.96
Total	<u>\$</u>	<u>88,210,633.35</u>

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CITY OF CLEVELAND, OHIO



DEPARTMENT OF PORT CONTROL DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the year ended December 31, 2017**

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PORT CONTROL DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS

TABLE OF CONTENTS

	Page
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis	3-13
Statement of Net Position	16-17
Statement of Revenues, Expenses and Changes in Net Position.....	19
Statement of Cash Flows	20-21
Notes to Financial Statements.....	23-47
Schedule of the Divisions' Proportionate Share of the Net Pension Liability Ohio Public Employees Retirement System.....	49
Schedule of Contributions Ohio Public Employees Retirement System.....	50
Schedule of Airport Revenues and Operating Expenses as Defined in the Airline Use Agreements	51
Report on Compliance for the Passenger Facility Charge Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Passenger Facility Charges In Accordance with 14 CFR Part 158	53-54
Schedule of Expenditures of Passenger Facility Charges.....	55
Notes to Schedule of Expenditures of Passenger Facility Charges	57

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INDEPENDENT AUDITORS' REPORT

To the Honorable Frank G. Jackson, Mayor, Members of Council and the Audit Committee
Divisions of Cleveland Hopkins International and Burke Lakefront Airports
Department of Port Control
City of Cleveland, Ohio:

Report on the Financial Statements

We have audited the accompanying financial statements of the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Ohio (the "Divisions") 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 Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, 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 Divisions 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of airport revenues and operating expenses as defined in the airline use agreement for the year ended December 31, 2017 is presented for purpose of additional analysis and is not a required part of the Divisions' basic financial statements. The schedule of airport revenues and operating expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Divisions' basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the Divisions' basic financial statements taken as a whole.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 28, 2018

**CITY OF CLEVELAND
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the City) Department of Port Control, Divisions of Cleveland Hopkins International (CLE) and Burke Lakefront (BKL) Airports (the Divisions), we offer readers of the Divisions' financial statements this narrative overview and analysis of the financial activities of the Divisions for the year ended December 31, 2017. Please read this information in conjunction with the Divisions' basic financial statements and notes that begin on page 16.

The Divisions are charged with the administration and control of, among other facilities, the municipally owned airports of the City. The Divisions operate a major public airport and a reliever airport serving not only the City, but also suburban municipalities in Cuyahoga, Medina, Summit and Geauga counties. In 2017, the Divisions were served by 27 scheduled airlines and five cargo airlines. There were 53,000 scheduled landings with landed weight amounting to 5,455,096,000 pounds. There were approximately 4,563,000 passengers enplaned at Cleveland Hopkins International Airport and 89,000 passengers enplaned at Burke Lakefront Airport during 2017.

COMPARISON OF CURRENT YEAR AND PREVIOUS YEAR DATA

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Divisions exceeded its liabilities and deferred inflows of resources (net position) by \$362,723,000 and \$333,178,000 at December 31, 2017 and 2016, respectively. Of these amounts, \$102,939,000 and \$106,829,000 (unrestricted net position) at December 31, 2017 and 2016, respectively, may be used to meet the Divisions' ongoing obligations to customers and creditors.
- The Divisions' total net position increased by \$29,545,000 in 2017. The main factor that attributed to this was an increase in grant revenue of \$25,710,000.
- Additions to construction in progress totaled \$46,882,000 in 2017.
- The major capital expenses during 2017 were the Snow Removal Equipment (SRE) and Vehicle Maintenance Building Additions Project, Snow Removal Equipment Acquisition, CLE Inline Baggage System Project, Main Substation (MS) One and Two and North Airfield Improvements Project, Phase I.
- The Divisions' total bonded debt decreased by \$39,765,000 in 2017. The key factor for the decrease in 2017 was the scheduled principal payments on the Divisions' outstanding bonds.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The notes to the financial statements provide additional information that is essential to gain a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 23-47 of this report. The required supplementary information can be found on pages 49-50 of this report. The Schedule of Airport Revenues and Operating Expenses as Defined in the Airline Use Agreement can be found on page 51 of this report. The Report on Compliance for the Passenger Facility Program; Report on Internal Control Over Compliance and the Report on Schedule of Expenditures of Passenger Facility Charges in Accordance with 14 CFR Part 158 can be found on pages 53-54 of this report. The remaining passenger facility charges schedules can be found on pages 55-57 of this report.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION

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

	<u>2017</u>	<u>2016</u>
	(Amounts in Thousands)	
Assets and deferred outflows of resources:		
Assets:		
Current assets	\$ 126,425	\$ 110,581
Restricted assets	195,027	207,522
Capital assets, net	<u>818,019</u>	<u>819,175</u>
Total assets	1,139,471	1,137,278
Deferred outflows of resources	28,563	27,605
Liabilities, deferred inflows of resources and net position:		
Liabilities:		
Current liabilities	86,573	76,969
Long-term obligations	<u>717,738</u>	<u>754,095</u>
Total liabilities	804,311	831,064
Deferred inflows of resources	1,000	641
Net position:		
Net investment in capital assets	121,011	87,982
Restricted for debt service	125,289	126,222
Restricted for capital projects	21	
Restricted for passenger facility charges	13,463	12,145
Unrestricted	<u>102,939</u>	<u>106,829</u>
Total net position	<u>\$ 362,723</u>	<u>\$ 333,178</u>

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Assets: Total assets and deferred outflows of resources increased \$3,151,000 or 0.3% in 2017. The change is primarily due to an increase in receivables of \$3,980,000. The change in receivables was due to an increase in unbilled revenue as well as new sources of revenue being due at year end.

Capital assets: The Divisions' investment in capital assets as of December 31, 2017 amounted to \$818,019,000 (net of accumulated depreciation), which is a decrease of 0.1%. These investments in capital assets include: land; land improvements; buildings, structures and improvements; furniture, fixtures and equipment; infrastructure; vehicles; and construction in progress.

A summary of the activity in the Divisions' capital assets during the year ended December 31, 2017 is as follows:

	Balance			Balance
	January 1,	Additions	Reductions	December 31,
	2017			2017
	(Amounts in Thousands)			
Land	\$ 167,457	\$	\$	\$ 167,457
Land improvements	84,172	10,759		94,931
Buildings, structures and improvements	343,263	4,795		348,058
Furniture, fixtures and equipment	35,502	7,286	(591)	42,197
Infrastructure	1,015,833	315		1,016,148
Vehicles	15,782	741	(39)	16,484
Total	1,662,009	23,896	(630)	1,685,275
Less: Accumulated depreciation	(926,210)	(53,576)	630	(979,156)
Total	735,799	(29,680)	-	706,119
Construction in progress	83,376	46,882	(18,358)	111,900
Capital assets, net	\$ 819,175	\$ 17,202	\$ (18,358)	\$ 818,019

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Major events during 2017 affecting the Divisions' capital assets included the following:

- **Snow Removal Equipment and Vehicle Maintenance Building Additions Project:** This project provided a storage and maintenance facility on the west side of CLE for the Airport's airfield snow removal equipment. The project's intent is to provide a storage building for all of the current and projected Federal Aviation Administration (FAA) grant-funded SRE's, including the relocation of the vehicle maintenance function to this same building. The contractor completed the snow removal equipment portion of the project in December 2017, while the vehicle maintenance building portion was completed in March 2018.
- **Snow Removal Equipment Acquisition:** In 2017, 17 pieces of new snow removal equipment were purchased to replace aged equipment that had reached the end of its life-cycle. Equipment purchases will continue over the next several years.
- **CLE Inline Baggage System Project:** The current system consolidates the processing of checked bags for all carriers at CLE. Construction commenced in June of 2016 on the south end of the terminal. Affected carriers on the south end included United, Southwest, JetBlue and Air Canada. The operation on the south end commenced on October 19, 2017. The next phase of construction focused on the north end, where affected carriers included Delta, America, Frontier, Spirit, Allegiant and charters. Construction of the system conveyors was completed in November of 2017. The full conveyor system was completed as of February 2018, with final project acceptance expected later in 2018. The Transportation Security Administration (TSA) has funded 90% of the project costs.
- **MS One and Two Electrical Distribution Enhancement, Phase II:** During February 2010, the Electrical Feeders for Substation MS One faulted and power was lost to the terminal at CLE. Phase I of this project installed emergency generators at strategic locations at the airport for life safety systems. Phase II, completed in December 2017, called for a redundant feeder system between MS One and MS Two that will allow power to be supplied to the terminal uninterrupted from either substation. Agreements are also being worked out with the local energy supplier (First Energy) to possess reserve power in the event of another outage.
- **North Airfield Improvements Project, Phase I:** This project will look to eliminate CLE airfield safety-related two hot spot locations as determined by the FAA's Runway Safety Action Team. This project will provide geometric upgrades to current FAA standards and eliminate direct aircraft access into the runway environment in an effort to greatly enhance safety. The design for this effort was completed in 2017, with construction commencing in 2018.

Additional information on the Divisions' capital assets, including commitments made for future capital expenses can be found in Note A – Summary of Significant Accounting Policies and Note E – Capital Assets to the basic financial statements.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Liabilities: In 2017, total liabilities decreased \$26,753,000 or 3.2%. The decrease in long-term obligations was \$36,357,000 or 4.8% attributable to a decrease in revenue bonds offset by an increase in pension. Current liabilities increased \$9,604,000 or 12.5% as a result of an increase in the landing fee adjustment payable to airlines.

Pension Liability: During 2015, the Divisions 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 revised accounting for pension costs and liabilities. For reasons discussed below, many end users of these financial statements will gain a clearer understanding of the Divisions' 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, *Accounting for Pensions by State and Local Government Employers*, focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB Statement No. 68, the net pension liability equals the Divisions' 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 government, part of a bargained-for benefit to the employee and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Divisions are 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.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

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 prior, 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 local government. 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 Divisions' 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 Divisions are reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Long-term debt: At December 31, 2017 and 2016, the Divisions had \$684,610,000 and \$724,375,000, respectively, in total bonded debt outstanding. The Airport System Revenue Bonds are secured by the pledge of all airport revenues, as defined in the revenue bond indenture.

The activity in the Divisions' debt obligations outstanding during the year ended December 31, 2017 is summarized below:

	Balance January 1, 2017	Debt Issued	Debt Retired	Balance December 31, 2017
(Amounts in Thousands)				
Airport System Revenue Bonds:				
Series 2000	\$ 6,000	\$	\$ (6,000)	\$ -
Series 2006	49,675		(8,465)	41,210
Series 2007	7,295		(660)	6,635
Series 2008	5,975			5,975
Series 2009	137,505		(11,895)	125,610
Series 2011	49,930		(7,605)	42,325
Series 2012	235,150			235,150
Series 2013	58,000		(1,795)	56,205
Series 2014	30,490		(3,345)	27,145
Series 2016	144,355			144,355
	<u>\$ 724,375</u>	<u>\$ -</u>	<u>\$ (39,765)</u>	<u>\$ 684,610</u>
Total	<u>\$ 724,375</u>	<u>\$ -</u>	<u>\$ (39,765)</u>	<u>\$ 684,610</u>

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

The bond ratings from Moody’s Investors Service, Standard & Poor’s Rating Service and Fitch Ratings are as follows:

Moody’s Investors Service	Standard & Poor’s Rating Service	Fitch Ratings
Baa1	A-	BBB+

The ratio of net revenue available for debt service to debt service requirements (revenue bond coverage) is a useful indicator of the Divisions’ debt position to management, customers and creditors. The Divisions’ revenue bond coverage for 2017 was 143%.

Additional information on the Divisions’ long-term debt can be found in Note B – Long-Term Debt and Other Obligations to the basic financial statements.

Net Position: Net position serves as a useful indicator of an entity’s financial position. In the case of the Divisions, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$362,723,000 and \$333,178,000 at December 31, 2017 and 2016, respectively. Of the Divisions’ net position at December 31, 2017 and 2016, \$121,011,000 and \$87,982,000, respectively, reflects its investment in capital assets (e.g., construction in progress; land; land improvements; buildings, structures and improvements; furniture, fixtures and equipment; vehicles; and infrastructure) net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. The Divisions use these capital assets to provide services to their customers. Consequently, these assets are not available for future spending.

Although the Divisions’ investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Divisions’ net position represents resources that are subject to external restrictions. At December 31, 2017 and 2016, the restricted net position amounted to \$138,773,000 and \$138,367,000, respectively. The restricted net position include amounts set aside in various fund accounts for capital projects and for payment of revenue bonds, which are limited by the bond indentures and passenger facility charges imposed and collected at CLE based on an approved FAA application. Passenger facility charges are restricted for designated capital projects and approved debt service. The remaining balance of unrestricted net position, \$102,939,000 and \$106,829,000 for December 31, 2017 and 2016, respectively, may be used to meet the Divisions’ ongoing obligations to customers and creditors.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

The Divisions' net position increased by \$29,545,000 in 2017. Provided below are key elements of the Divisions' results of operations as of and for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	(Amounts in Thousands)	
Operating revenues:		
Landing fees	\$ 29,924	\$ 42,577
Terminal and concourse rentals	64,285	56,922
Concessions	47,014	38,934
Utility sales and other	<u>3,983</u>	<u>4,000</u>
Total operating revenues	145,206	142,433
Operating expenses	<u>138,975</u>	<u>134,428</u>
Operating income (loss)	6,231	8,005
Non-operating revenue (expense):		
Passenger facility charges revenue	18,511	16,608
Non-operating expense	(5,736)	(9,872)
Sound insulation program		(8)
Gain (loss) on disposal of capital asset		11
Investment income (loss)	1,579	669
Interest expense	(28,013)	(28,032)
Amortization of bond discounts/premiums and loss on debt refundings	<u>2,501</u>	<u>6,432</u>
Total non-operating revenue (expense), net	(11,158)	(14,192)
Capital and other contributions	<u>34,472</u>	<u>8,762</u>
Change in net position	<u>\$ 29,545</u>	<u>\$ 2,575</u>

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

Operating revenues: Operating revenues for 2017 were \$145,206,000. Of this amount, \$27,818,000 or 19.2% represented landing fees received from signatory airlines. Signatory terminal rentals accounted for \$49,407,000 or 34.0% of total operating revenues. Parking revenues increased 16.2% over the prior year due to an increase in parking rates, an increased demand for services such as valet airport parking, economy parking usage and employee parking fees. Parking revenues amounted to \$33,691,000 or 23.2% of total operating revenues for 2017. The fourth largest airport revenue source, rental cars, accounted for 7.4% of total operating revenues.

Operating expenses: Total operating expenses for 2017 increased \$4,547,000 or 3.4%. The increase is primarily due to higher pension retirement benefits and materials and supplies offset by decreased utilities, insurance, contracts and professional fees.

Non-operating revenue and expense: Non-operating revenue and expense changed \$3,034,000 or 21.4%. The main factor that attributed to this change was the increase in passenger facility charges and investment income of \$2,813,000, offset by a change in non-operating expense.

Capital and other contributions: In 2017 and 2016, the Divisions' received \$34,472,000 and \$8,762,000 respectively, in Federal Airport Improvement, Transportation Security Administration Law Enforcement Officer and Canine Grants. In both 2017 and 2016, Airport Improvement Program Grant revenue primarily consisted of proceeds from the 2000, amended in 2017, Letter of Intent.

FACTORS EXPECTED TO IMPACT THE DIVISIONS' FINANCIAL POSITION OR RESULTS OF OPERATIONS

Federal Sequestration has had a direct impact on the Cleveland Airport System federally-funded projects such as the CLE Airport Surface Surveillance Capability Project. In addition, the Divisions' were initially advised by the FAA Airport District Office that there is no funding for an Environmental Assessment of the airfield due to Sequestration. The Divisions are in the process of obtaining a Categorical Exclusion (CATEX) from the FAA for the North Airfield Improvements Project. The Snow Removal Equipment Storage Project's CATEX was originally approved in August 2017. The project was substantially completed in March 2018.

The Runway 6R-24L Rehabilitation Project is also projected for a CATEX. Federal funding is not expected until 2020 at the earliest. Long-term, not being able to implement the aforementioned projects due to Sequestration or other scope/funding shortfalls may compromise airfield system preservation (i.e., ability to improve existing infrastructure), airfield capacity, safety and funding for future Airport Improvement Program eligible projects. The FAA has approved the initiation of a project to correct inboard Runway 6R-24L hot spot deficiencies on the airfield. Initial federal funding for the North Airfield Improvements project was received in July 2016. Due to federal funding limitations per fiscal cycle, this project will take at least three construction phasing seasons to complete.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FACTORS EXPECTED TO IMPACT THE DIVISIONS' FINANCIAL POSITION OR RESULTS OF OPERATIONS (Continued)

The Runway Safety Action Team has identified several hot spots at CLE due to the existing airfield geometry and are in alignment with the Airport's Master Plan to eliminate them. With the collaboration between the FAA and the Divisions, eliminating the hot spots will improve airfield safety and operations.

A final CATEX approval was received on this project in July 2017, with construction anticipated over a three-year window in 2018, 2019 and 2020. The Snow Removal Equipment facility will also benefit Airport operations by consolidating the snow equipment and vehicle maintenance functions into one facility. This consolidation will reduce the amount of time required to address snow conditions on the airfield by providing a covered site for snow equipment, high-speed fueling operations and maintenance facilities all in close proximity to one another.

CLE has continued a strong recovery from United Airline's 2014 hub closure. In 2017, total passenger traffic exceeded 9.1 million which surpassed our 2013 traffic which was the last full year of the United hub operation. Local originating and terminating travelers increased by 700,000 in 2017 over 2016 as we continued to add service to markets where Northeast Ohio travelers most desire to go. In 2017, CLE attracted new market flying from Allegiant, Frontier, Southwest and Spirit. In 2018, Frontier has already announced new service to Austin, while Allegiant, Delta, Southwest and Spirit are reportedly considering further expansions in Cleveland. In May of 2018, CLE added their first transatlantic nonstop service since 2009 with Iceland's WOW Air and Icelandair launching service. These new flights will provide an enormous stimulation for European travel and will dramatically reduce the average fare to Europe for consumers.

The new Master Lease and Use Agreement between the Cleveland Airport System and the signatory airlines effective January 1, 2017 was executed by eight passenger airlines and two cargo carriers. The signatory airlines include United Airlines, American Airlines, Delta Airlines, Southwest Airlines, JetBlue Airlines, Frontier Airlines, Spirit Airlines and Allegiant Airlines. Federal Express and United Postal Service are the all-cargo signatories. The agreement commits the airlines to CLE through December 31, 2021 and includes two, two-year options. In 2017 the Airport also collected an additional \$2,362,000 in revenue from the collection of per trip fees through an agreement with the rideshare companies Uber and Lyft. The Airport negotiated an agreement with Fraport Cleveland (Airmall Cleveland) the concessions developer for all of the Airport retail operations that allows for the extension of the concessions agreement to 2024 and includes an increase in the percentage rent payable to the Airport from 70% of concession revenues to 75% of concession revenues. Additionally, we are expanding our concessions footprint to add new areas not previously used for revenue generation. We also recently signed a new airport tenant with a lease value just under \$900,000 per year and continue to aggressively market leasing and development opportunities.

ADDITIONAL INFORMATION

This financial report is designed to provide a general overview of the Divisions' 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.

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BASIC FINANCIAL STATEMENTS

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

**STATEMENT OF NET POSITION
DECEMBER 31, 2017
(Amounts in Thousands)**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	91,622
Restricted cash and cash equivalents		4,603
Receivables:		
Accounts-net of allowance for doubtful accounts of \$874,000		10,122
Unbilled revenue		5,871
Total receivables		15,993
Prepaid expenses		467
Due from other funds		18
Due from other governments		10,821
Materials and supplies-at cost		2,901
	TOTAL CURRENT ASSETS	126,425

RESTRICTED ASSETS

Cash and cash equivalents		192,663
Accrued interest receivable		125
Accrued passenger facility charges		2,239
	TOTAL RESTRICTED ASSETS	195,027

CAPITAL ASSETS

Land		167,457
Land improvements		94,931
Buildings, structures and improvements		348,058
Furniture, fixtures and equipment		42,197
Infrastructure		1,016,148
Vehicles		16,484
		1,685,275
Less: Accumulated depreciation		(979,156)
		706,119
Construction in progress		111,900
	CAPITAL ASSETS, NET	818,019
	TOTAL ASSETS	1,139,471

DEFERRED OUTFLOWS OF RESOURCES

Loss on refunding		14,707
Pension		13,856
	TOTAL DEFERRED OUTFLOWS OF RESOURCES	28,563

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

**STATEMENT OF NET POSITION
DECEMBER 31, 2017
(Amounts in Thousands)**

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

LIABILITIES

CURRENT LIABILITIES

Current portion of long-term debt, due within one year	\$ 38,535	
Accounts payable	7,965	
Landing fee settlement payable to airlines	10,164	
Due to other funds	767	
Current portion of accrued wages and benefits	4,712	
Accrued interest payable	14,253	
Accrued property taxes	5,574	
Construction fund payable from restricted assets	4,603	
TOTAL CURRENT LIABILITIES	86,573	

LONG-TERM OBLIGATIONS - excluding amounts due within one year

Revenue bonds	682,936	
Pension	34,594	
Accrued wages and benefits	208	
TOTAL LONG-TERM OBLIGATIONS	717,738	

TOTAL LIABILITIES 804,311

DEFERRED INFLOWS OF RESOURCES

Pension	1,000	
TOTAL DEFERRED INFLOWS OF RESOURCES	1,000	

NET POSITION

Net investment in capital assets	121,011	
Restricted for capital projects	21	
Restricted for debt service	125,289	
Restricted for passenger facility charges	13,463	
Unrestricted	102,939	
TOTAL NET POSITION	\$ 362,723	

See notes to financial statements.

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**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2017
(Amounts in Thousands)**

OPERATING REVENUES

Landing fees:	
Scheduled airlines	\$ 27,818
Other	2,106
	29,924
Terminal and concourse rentals:	
Scheduled airlines	49,407
Other	14,878
	64,285
Concessions	47,014
Utility sales and other	3,983
TOTAL OPERATING REVENUES	145,206

OPERATING EXPENSES

Operations	80,804
Maintenance	4,595
Depreciation	53,576
TOTAL OPERATING EXPENSES	138,975

OPERATING INCOME (LOSS) 6,231

NON-OPERATING REVENUE (EXPENSE)

Passenger facility charges revenue	18,511
Non-operating revenue (expense)	(5,736)
Investment income (loss)	1,579
Interest expense	(28,013)
Amortization of bond discounts/premiums and loss on debt refundings	2,501
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	(11,158)

**INCOME (LOSS) BEFORE CAPITAL AND OTHER
CONTRIBUTIONS** (4,927)

Capital and other contributions	34,472
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INCREASE (DECREASE) IN NET POSITION	29,545
NET POSITION, BEGINNING OF YEAR	333,178
NET POSITION, END OF YEAR	\$ 362,723

See notes to financial statements.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

**STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017
(Amounts in Thousands)**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 152,196
Cash payments to suppliers for goods and services	(48,470)
Cash payments to employees for services	(30,978)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	72,748
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(58,476)
Cash receipts (payments) for passenger facility charges	18,193
Principal paid on long-term debt	(39,765)
Interest paid on long-term debt	(30,168)
Capital grant proceeds	32,189
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(78,027)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale and maturity of investment securities	11,997
Interest received on investments	1,613
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	13,610
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,331
Cash and cash equivalents, beginning of year	280,557
Cash and cash equivalents, end of year	\$ 288,888

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

**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)	\$ 6,231
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation	53,576
Changes in assets:	
Accounts receivables	(3,690)
Unbilled revenue	(2,730)
Landing Fees - Due From Airlines	2,440
Prepaid expenses	25
Due from other City of Cleveland departments, divisions or funds	(18)
Materials and supplies, at cost	(370)
Changes in deferred outflows of resources:	
Pension	(3,374)
Changes in liabilities:	
Accounts payable	2,545
Due to other City of Cleveland departments, divisions or funds	(1,047)
Accrued wages and benefits	1,024
Landing fee adjustment	10,164
Accrued property taxes	92
Pension	7,521
Changes in deferred inflows of resources:	
Pension	359
TOTAL ADJUSTMENTS	66,517
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 72,748
Schedule of Noncash Capital and Related Financing Activities:	
Contributions and accounts payable related to capital assets	\$ 4,603

See notes to financial statements.

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**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Divisions of Cleveland Hopkins International and Burke Lakefront Airports (the Divisions) are reported as an Enterprise Fund of the City of Cleveland, Department of Port Control and are part of the City of Cleveland's (the City) primary government. The Divisions were created for the purpose of operating the airports within the Cleveland Metropolitan Area. The following is a summary of the more significant accounting policies.

Reporting Model and Basis of Accounting: The accounting policies and financial reporting practices of the Divisions 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 No. 67 and No. 68*, was 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, 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 Divisions have 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 Divisions have determined that GASB Statement No. 74 has no impact on its financial statements as of December 31, 2017.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended 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 Divisions have 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 Divisions have 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, No. 68 and No. 73. 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 Divisions have implemented GASB Statement No. 82 as of December 31, 2017.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Divisions' 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
- Amount restricted for passenger facility charges
- Remaining unrestricted amount

In addition, certain additional financial information regarding the Divisions is included in these notes.

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

Statement of Cash Flows: The Divisions utilize 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 the statement of cash flows, cash receipts and cash payments are classified according to operating, non-capital financing, capital and related financing and all investment activities.

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

Investments: The Divisions follow 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 Divisions' 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.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Divisions' have 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 Divisions' 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 per 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.

Restricted for Passenger Facility Charges: These assets are for passenger facility charges imposed and collected at Cleveland Hopkins International Airport based on an approved Federal Aviation Administration application. These are restricted for designated capital projects or debt service.

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 a tangible item with a useful life in excess of one year and an individual cost of more than \$5,000 for furniture, fixtures, equipment and vehicles and \$10,000 for all other assets. When capital assets are disposed of, the cost and related accumulated depreciation are removed from the accounts with gains or losses on disposition being reflected in operations. The estimated useful lives are as follows:

Land Improvements	15 to 100 years
Buildings, structures and improvements	5 to 60 years
Furniture, fixtures and equipment	3 to 35 years
Infrastructure	3 to 50 years
Vehicles	3 to 35 years

The Divisions' 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 Divisions apply GASB guidance pertaining to capitalization of interest cost in situations involving certain tax-exempt borrowings and certain gifts and grants, 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 \$30,009,000, of which \$1,890,000 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 resource and is amortized over the shorter of the defeased bond or the newly issued bond.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences: The Divisions accrue 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*. The portion of the compensated absence liability that is not expected to be paid or utilized within one year is reported as a long-term liability. These amounts are recorded as accrued wages and benefits in the accompanying statements of net position.

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

Environmental Expenses: Environmental expenses consist of costs incurred for remediation efforts to airport property. Environmental expenses that relate to current operations are expensed or capitalized, as appropriate. Environmental expenses that relate to existing conditions caused by past operations and which do not contribute to future revenues are expensed. Liabilities are recorded when remedial efforts are probable and the costs can be reasonably estimated.

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 resource (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 resource (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 position 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.

Non-operating Expenses: Non-operating expenses relate to expenses of the Divisions incurred for purposes other than the operations of the airports and consist primarily of interest costs incurred on the Divisions' long-term debt. The funding for non-operating expenses is non-operating revenue (passenger facility charges, revenue bonds and federal grants).

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

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS

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

	<u>Interest Rate</u>	<u>Original Issuance</u>	<u>2017</u>
		(Amounts in Thousands)	
Airport System Revenue Bonds:			
Series 2006, due through 2021	5.24%-5.25%	\$ 118,760	\$ 41,210
Series 2007, due through 2027	5.00%	11,255	6,635
Series 2008, due through 2024	Variable Rate	18,700	5,975
Series 2009, due through 2027	0.61%-5.00%	208,900	125,610
Series 2011, due through 2024	3.00%-5.00%	74,385	42,325
Series 2012, due through 2031	5.00%	235,150	235,150
Series 2013, due through 2033	Variable Rate	58,000	56,205
Series 2014, due through 2027	Variable Rate	33,325	27,145
Series 2016, due through 2031	5.00%	<u>144,355</u>	<u>144,355</u>
		<u>\$ 902,830</u>	684,610
Unamortized (discount) premium			36,861
Current portion (due within one year)			<u>(38,535)</u>
Total Long-Term Debt			<u>\$ 682,936</u>

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE B – LONG-TERM DEBT AND OTHER 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)					
Airport System Revenue Bonds:					
Series 2000	\$ 6,000	\$	\$ (6,000)	\$ -	\$
Series 2006	49,675		(8,465)	41,210	9,015
Series 2007	7,295		(660)	6,635	700
Series 2008	5,975			5,975	
Series 2009	137,505		(11,895)	125,610	12,325
Series 2011	49,930		(7,605)	42,325	7,965
Series 2012	235,150			235,150	
Series 2013	58,000		(1,795)	56,205	2,085
Series 2014	30,490		(3,345)	27,145	3,510
Series 2016	<u>144,355</u>			<u>144,355</u>	<u>2,935</u>
Total revenue bonds	724,375	-	(39,765)	684,610	38,535
Accrued wages and benefits	3,896	4,285	(3,261)	4,920	4,712
Pension	<u>27,073</u>	<u>7,521</u>		<u>34,594</u>	
Total	<u>\$ 755,344</u>	<u>\$ 11,806</u>	<u>\$ (43,026)</u>	<u>\$ 724,124</u>	<u>\$ 43,247</u>

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

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

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

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
(Amounts in Thousands)					
2018	\$ 38,535		\$ 32,440		\$ 70,975
2019	39,970		30,615		70,585
2020	42,095		28,644		70,739
2021	43,825		26,581		70,406
2022	43,950		24,494		68,444
2023-2027	232,455		90,248		322,703
2028-2032	238,335		26,565		264,900
2033	<u>5,445</u>		<u>136</u>		<u>5,581</u>
Total	<u>\$ 684,610</u>		<u>\$ 259,723</u>		<u>\$ 944,333</u>

The Airport System Revenue Bonds are secured by the pledge of all airport revenues, as defined in the revenue bond indenture. Further, the City has assigned to the trustee all its interest in and rights to the airline use agreements under the revenue bond indenture. 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, is classified as restricted assets in these financial statements.

As of December 31, 2017, the Divisions were in compliance with the terms and requirements of the bond indenture.

The indenture, as amended, requires, among other things, that the Divisions (1) make equal monthly deposits to the Bond Service Fund to have sufficient assets available to meet debt service requirements on the next payment date; (2) maintain the Bond Service Reserve Fund equal in amount to the maximum annual debt service to be paid in any year; and (3) as long as any revenue bonds are outstanding, charge such rates, fees and charges for use of the airport system to produce in each year, together with other available funds, net revenues (as defined) at least equal to the greater of (a) 116% of the annual debt service due in such year on all outstanding revenue bonds and general obligation debt or (b) 125% of the annual debt service due in such year on all outstanding bonds.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

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

Effective February 23, 2016, Airport System Revenue Bonds, Series 2016A, were issued in the amount of \$108,120,000. These bonds were issued to advance refund \$126,700,000 of outstanding Series 2000C Airport System Bonds. Bond proceeds in the amount of \$126,957,834, along with \$1,055,840 from the Series 2000 Interest Account and \$4,497,749 released from the debt service reserve fund, were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds when due. As a result of this refunding, the refunded bonds were defeased and the liability for those bonds has been removed from long-term debt. The City completed this refunding in order to achieve debt service savings of approximately \$22,111,000 and realized an economic gain (the difference between the present values of the old and new debt service) of \$15,727,000 or 12.4%.

At the same time that the City sold the Series 2016A Bonds, the City also sold \$36,235,000 Airport System Revenue Bonds, Series 2016B, on a forward delivery basis. The Series 2016B Bonds were issued effective October 4, 2016 to refund \$41,235,000 of outstanding Airport System Revenue Bonds, Series 2006A. Bond proceeds in the amount of \$41,157,840, along with \$515,000 from the Series 2006 Interest Account and \$593,035 released from the debt service reserve fund, were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds when due. The refunded bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt. The City realized debt service savings of approximately \$6,586,000 and net present value savings of \$5,149,000 or 12.5% from this refunding.

Effective February 1, 2017, the City entered into an amendment to extend the period of time during which U.S. Bank National Association will be the holder of the Airport System Revenue Bonds, Series 2014A & 2014B. The bonds remain in a variable rate mode with the Airport System again paying on a monthly basis an amount equal to SIFMA plus a spread on the 2014A Bonds and an amount equal to one month LIBOR plus a spread on the 2014B Bonds.

From time to time, the Divisions have defeased certain Revenue Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on old bonds. At December 31, 2017, the Airport System had no defeased debt outstanding.

The City has pledged future airport revenues to repay \$684,610,000 in Airport System Revenue Bonds issued in various years since 2006. Proceeds from the bonds provided financing for airport operations. The bonds are payable from airport revenues and are payable through 2033. Annual principal and interest payments on the bonds are expected to require less than 70% of net revenues. The total principal and interest remaining to be paid on the various Airport System Revenue Bonds is \$944,333,000. Principal and interest funded for the current year and total net revenues (including other available funds) were \$68,437,000 and \$97,869,000, respectively.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE C – SPECIAL FACILITY REVENUE BONDS

Airport Special Revenue Bonds, Series 1990, totaling \$76,320,000 were issued to finance the acquisition and construction of a terminal, hangar and other support facilities of Continental Airlines (now United Continental Holdings, Inc.) at Cleveland Hopkins International Airport. These bonds were refunded in 1999 by the issuance of Airport Special Revenue Refunding Bonds, Series 1999 totaling \$71,440,000. In January 2016, United Airlines deposited funds with the trustee sufficient to pay off the Airport Special Revenue Bonds, Series 1999. Additional Airport Special Revenue Bonds, Series 1998, totaling \$75,120,000 were issued in 1998 to finance the design and construction of certain airport facilities leased to Continental Airlines, including a new regional jet concourse. Because all principal and interest on these bonds is unconditionally guaranteed by Continental Airlines (now United Continental Holdings, Inc.) and paid directly by Continental Airlines, these bonds do not constitute a debt, liability or general obligation of the City or a pledge of the City's revenues. As such, no liabilities relating to these bonds are included in the accompanying financial statements.

NOTE D – DEPOSITS AND INVESTMENTS

Deposits: The Divisions' carrying amount of deposits at December 31, 2017, totaled approximately \$38,116,000 and the Divisions' bank balance was approximately \$50,563,000. The difference represents 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*, \$50,563,000 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 Divisions will not be able to recover deposits or collateral for securities that are in possession of an outside party. At year end, the Divisions' 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, 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; U.S. 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.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE D – DEPOSITS AND INVESTMENTS (Continued)

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 statutes prohibit the use of Reverse Repurchase Agreements.

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

The Divisions categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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 following is a summary of the fair value hierarchy of the fair value of investments of the Divisions (excluding STAR Ohio and money market mutual funds) as of December 31, 2017.

Type of Investment	Fair Value	Fair Value Measurement Using Level 2
(Amounts in Thousands)		
Other Investments	\$ 22	\$ 22
Total Investments	\$ 22	\$ 22

Interest rate risk: As a means of limiting its exposure to fair value losses caused by rising interest rates, the Divisions invest 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 Divisions will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party.

Credit Risk: The Divisions' investments as of December 31, 2017 include STAR Ohio, money market mutual funds and other. The Divisions maintain the highest ratings for their investments. Investments in STAR Ohio, the Dreyfus Government Cash Management Fund, Morgan Stanley Government Institutional Mutual Funds and the Federated 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.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE D – DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk: The Divisions place a limitation on the amount that may be invested in any one issuer to help minimize the concentration of credit risk. The Divisions 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, 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	\$ 75,464	\$ 75,464	\$ 75,464
Money Market Mutual Funds	175,286	175,286	175,286
Other Investments	<u>22</u>	<u>22</u>	<u>22</u>
Total Investments	250,772	250,772	250,772
Total Deposits	<u>38,116</u>	<u>38,116</u>	<u>38,116</u>
Total Deposits and Investments	<u>\$ 288,888</u>	<u>\$ 288,888</u>	<u>\$ 288,888</u>

These amounts are monies invested by the City Treasurer on behalf of the Divisions 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. Investment type Other Investments consist of deposits into collective cash escrow pools managed by Bank of New York and U.S. Bank National Association, as trustee.

As of December 31, 2017, the investments in STAR Ohio, money market mutual funds and other are approximately 30.1%, 69.8% and less than 1%, respectively, of the Divisions' total investments.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE E – 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	\$ 167,457	\$	\$	\$ 167,457
Construction in progress	<u>83,376</u>	<u>46,882</u>	<u>(18,358)</u>	<u>111,900</u>
Total capital assets, not being depreciated	250,833	46,882	(18,358)	279,357
Capital assets, being depreciated:				
Land improvements	84,172	10,759		94,931
Buildings, structures and improvements	343,263	4,795		348,058
Furniture, fixtures and equipment	35,502	7,286	(591)	42,197
Infrastructure	1,015,833	315		1,016,148
Vehicles	<u>15,782</u>	<u>741</u>	<u>(39)</u>	<u>16,484</u>
Total capital assets, being depreciated	1,494,552	23,896	(630)	1,517,818
Less: Total accumulated depreciation	<u>(926,210)</u>	<u>(53,576)</u>	<u>630</u>	<u>(979,156)</u>
Total capital assets being depreciated, net	<u>568,342</u>	<u>(29,680)</u>	<u>-</u>	<u>538,662</u>
Capital assets, net	<u>\$ 819,175</u>	<u>\$ 17,202</u>	<u>\$ (18,358)</u>	<u>\$ 818,019</u>

Commitments: As of December 31, 2017, the Divisions had capital expenditure purchase commitments outstanding of approximately \$48,846,000.

NOTE F – LEASES AND CONCESSIONS

The Divisions lease specific terminal and concourse areas to the various airlines under terms and conditions of the airline use agreements. The Divisions have various concession agreements that permit the concessionaires and certain others to operate on airport property. These agreements usually provide for payments based on a percentage of the revenues, with an annual minimum payment guarantee and in certain circumstances for the offset of percentage rents to the extent of certain improvements made to the leased property.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE F – LEASES AND CONCESSIONS (Continued)

The new Master Lease and Use Agreement between the Cleveland Airport System and the signatory airlines effective January 1, 2017 was executed by eight passenger airlines and two cargo carriers. The signatory airlines include United Airlines, American Airlines, Delta Airlines, Southwest Airlines, JetBlue Airlines, Frontier Airlines, Spirit Airlines and Allegiant Airlines. Federal Express and United Postal Service are the all-cargo signatories. The agreement commits the airlines to CLE through December 31, 2021 and includes two, two-year options. In 2017, the Divisions also collected an additional \$2,362,000 in revenue from the collection of per trip fees through an agreement with the rideshare companies Uber and Lyft. The Divisions negotiated an agreement with Fraport Cleveland (Airmall Cleveland) the concessions developer for all of the Airport retail operations that allows for the extension of the concessions agreement to 2024 and includes an increase in the percentage rent payable to the Airport from 70% of concession revenues to 75% of concession revenues. Additionally, the Divisions are expanding their concessions footprint to add new areas not previously used for revenue generation. The Divisions, also recently signed a new airport tenant with a lease value just under \$900,000 per year and continue to aggressively market leasing and development opportunities.

Portions of the building costs in the statement of net position are held by the Divisions for the purpose of rental use. The net book value of property held for operating leases as of December 31, 2017 is approximately \$167,433,000.

Minimum future rental on non-cancelable operating leases to be received is as follows:

	(Amounts in Thousands)
2018	\$ 17,866
2019	15,488
2020	6,375
2021	5,523
2022	5,130
Thereafter	<u>19,832</u>
	<u>\$ 70,214</u>

NOTE G – CONTINGENT LIABILITIES AND RISK MANAGEMENT

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

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE G – CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

Risk Management: The Divisions are 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 Divisions carry insurance to cover particular liabilities and property protection. Otherwise, the Divisions are generally self-insured. No material losses, including incurred but not reported losses, occurred in 2017. There was no significant decrease in any insurance coverage in 2017. In addition, there were no material insurance settlements in excess of insurance coverage during the past three years.

The City provides the choice of two separate health insurance plans to its employees. The Divisions are charged a monthly rate per employee by type of coverage. The City participates in the State of Ohio's Worker's 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 payable has been included with accounts payable and is considered to be immaterial for the Divisions.

NOTE H – 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 Divisions' 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 Divisions' obligation for this liability to annually required payments. The Divisions cannot control benefit terms or the manner in which pensions are financed; however, the Divisions do receive the benefit of employees' services in exchange for compensation including pension.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued)

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 Divisions' 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. Divisions' employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

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

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued)

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

	State and Local
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 Divisions' contractually required contribution was \$2,796,000 for 2017. All required payments have been made.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued)

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. The Divisions' proportion of the net pension liability was based on the Divisions' share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS	
	(Amounts in Thousands)	
Proportionate Share of the Net Pension Liability	\$	34,594
Proportion of the Net Pension Liability		0.159244%
Change in Proportion		0.003902%
Pension Expense	\$	7,667

At December 31, 2017, the Divisions' 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	\$	5,260
Differences between expected and actual economic experience		49
Changes of assumptions		5,751
Divisions' contributions subsequent to the measurement date		2,796
Total Deferred Outflows of Resources	\$	13,856
Deferred Inflows of Resources		
Differences between expected and actual experience	\$	245
Change in Divisions' proportionate share		755
Total Deferred Inflows of Resources	\$	1,000

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued)

The \$2,796,000 reported as deferred outflows of resources related to pension resulting from the Divisions' contributions subsequent to the measurement date which 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:

Year Ending December 31:	OPERS	
	(Amounts in Thousands)	
2018	\$	4,098
2019		4,290
2020		1,841
2021		(161)
2022		(3)
Thereafter		(5)
Total	\$	10,060

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 COLA or Ad Hoc COLA	3.25 to 10.75 % including wage inflation 3.25%, simple	4.25 to 10.05% including wage inflation 3%, simple
	Pre 1/7/2013 retirees: 3%, simple Post 1/7/2013 retirees: 3%, simple through 2018, then 2.15%, simple	Pre 1/7/2013 retirees: 3%, simple Post 1/7/2013 retirees: 3%, simple through 2018, then 2.15%, simple
Investment Rate of Return	7.5%	8%
Actuarial Cost Method	Individual Entry Age RP-2014	Individual Entry Age RP-2000
Mortality Tables		

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued)

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.

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 (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.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 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	<u>100.00 %</u>	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.

Sensitivity of the Divisions' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following table presents the Divisions' proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5%, as well as what the Divisions' 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 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
	(Amounts in Thousands)		
Divisions' proportionate share of the net pension liability	\$ 52,925	\$ 34,594	\$ 19,332

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE I – 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.

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.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE I – OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 Divisions' actual contributions to OPERS to fund postemployment benefits were \$215,000 in 2017, \$430,000 in 2016 and \$404,000 in 2015. The required payments due in 2017, 2016 and 2015 have been made.

NOTE J – RELATED PARTY TRANSACTIONS

The Divisions are provided various intra-city services. Charges are based on actual use or on a reasonable pro-rata basis. The more significant costs for the years ended December 31, 2017 are as follows:

	(Amounts in Thousands)
City Central Services, including police	\$ 10,490
Telephone Exchange	1,011
Electricity purchased	259
Motor vehicle maintenance	168
Radio Communication	326

NOTE K – LANDING FEE ADJUSTMENT AND INCENTIVE COMPENSATION

Under the terms of the airline use agreements, if the annual statement for the preceding term demonstrates that airport revenues over expenses (both as defined) is greater or less than that used in calculating the landing fee for the then current term, such difference shall be charged or credited to the airlines over the remaining billing periods in the current term. The landing fee adjustment for 2017 was a payable to the Airlines from the Division in the amount of \$10,164,000.

The airline use agreements also provide an incentive for the City to provide the highest quality management for the airport system. There was no incentive compensation expense in 2017.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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

NOTE L – PASSENGER FACILITY CHARGES

On November 1, 1992, CLE began collecting Passenger Facility Charges (PFC's) subject to title 14, Code of Federal Regulations, Part 158. PFC's are fees imposed on passengers enplaned by public agencies controlling commercial service airports for the strict purpose of supporting airport planning and development projects. The charge is collected by the airlines and remitted to the airport operator net of an administrative fee to be retained by the airline and refunds to passengers.

As of December 31, 2017, CLE had the authority from the FAA to collect approximately \$592 million, of which an estimated 14.5% will be spent on noise abatement for the residents of communities surrounding the airport, 59.6% on runway expansion and improvements and 25.9% on airport development. PFC revenues and related interest earnings are recorded as non-operating revenues and non-capitalized expenses funded by PFC revenues are recorded as non-operating expenses.

NOTE M – MAJOR CUSTOMER

In 2017, operating revenues from one airline group for landing fees, rental and other charges amounted to approximately 39% of total operating revenue.

NOTE N – SUBSEQUENT EVENTS

On May 21, 2018, legislation was approved by City Council authorizing the issuance not to exceed \$47,500,000 of Airport System Revenue Bonds. The purpose of the bonds will be to fund approximately \$35 million of capital improvements at Cleveland Hopkins Airport along with funding the required deposit to the reserve fund, to pay issuance costs and to cover interest costs for the initial two years. It is expected that the bonds will be issued in the latter half of 2018.

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**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

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)			
Divisions' Proportion of the Net Pension Liability	0.159244%	0.155342%	0.158448%	0.158448%
Divisions' Proportionate Share of the Net Pension Liability (Asset)	\$ 34,594	\$ 27,073	\$ 19,049	\$ 18,650
Divisions' Covered Payroll	\$ 21,125	\$ 19,800	\$ 19,825	\$ 17,962
Divisions' Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	163.76%	136.73%	96.09%	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 is not available. The Divisions 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, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST FIVE YEARS (1)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
	(Amounts in Thousands)				
Contractually Required Contributions	\$ 2,796	\$ 2,535	\$ 2,376	\$ 2,379	\$ 2,335
Contributions in Relation to the Contractually Required Contributions	<u>(2,796)</u>	<u>(2,535)</u>	<u>(2,376)</u>	<u>(2,379)</u>	<u>(2,335)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Divisions' Covered Payroll	\$ 21,508	\$ 21,125	\$ 19,800	\$ 19,825	\$ 17,962
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 Divisions will continue to present information for years available until a full ten-year trend is compiled.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

**SCHEDULE OF AIRPORT REVENUES AND OPERATING EXPENSES
AS DEFINED IN THE AIRLINE USE AGREEMENTS
For the Year Ended December 31, 2017
(Amounts in Thousands)**

	Cleveland Hopkins International	Burke Lakefront	Total
REVENUE			
Airline revenue:			
Landing fees	\$ 27,818	\$	\$ 27,818
Terminal rental	49,407		49,407
Other	2,863		2,863
	<u>80,088</u>	<u></u>	<u>80,088</u>
Operating revenues from other sources:			
Concessions	46,411	603	47,014
Rentals	12,112	487	12,599
Landing fees	1,916	190	2,106
Other	3,188	211	3,399
	<u>63,627</u>	<u>1,491</u>	<u>65,118</u>
Non-operating revenue:			
Interest income	271		271
	<u>271</u>	<u></u>	<u>271</u>
TOTAL REVENUE	\$ 143,986	\$ 1,491	\$ 145,477
OPERATING EXPENSES			
Salaries and wages	\$ 21,482	\$ 683	\$ 22,165
Employee benefits	13,021	367	13,388
City Central Services, including police	11,697	298	11,995
Materials and supplies	8,578	298	8,876
Contractual services	28,664	311	28,975
	<u>83,442</u>	<u>1,957</u>	<u>85,399</u>
TOTAL OPERATING EXPENSES	\$ 83,442	\$ 1,957	\$ 85,399

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REPORT ON COMPLIANCE FOR THE PASSENGER FACILITY CHARGE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES IN ACCORDANCE WITH 14 CFR PART 158

INDEPENDENT AUDITORS' REPORT

To the Honorable Frank G. Jackson, Mayor, Members of Council and the Audit Committee
Divisions of Cleveland Hopkins International and Burke Lakefront Airports
Department of Port Control
City of Cleveland, Ohio:

Report on Compliance for the Passenger Facility Charge Program

We have audited the Divisions' of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Ohio (the "Divisions") compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (the "Guide"), for its passenger facility charge program for the year ended December 31, 2017.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions applicable to the passenger facility charge program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance with the passenger facility charge program based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Divisions' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the passenger facility charge program. However, our audit does not provide a legal determination of the Divisions' compliance.

Opinion on the Passenger Facility Charge Program

In our opinion, the Divisions of Cleveland Hopkins International and Burke Lakefront Airports, Department of Port Control, City of Cleveland, Ohio complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the Divisions is responsible for establishing and maintaining effective internal control over compliance with the requirements referred to above. In planning and performing our audit of compliance, we considered the Divisions' internal control over compliance with the requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Divisions' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the passenger facility charge program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the passenger facility charge program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the passenger facility charge program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Passenger Facility Charges

We have audited the financial statements of the Divisions as of and for the year ended December 31, 2017, and have issued our report thereon dated June 28, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the Divisions' basic financial statements. The accompanying schedule of expenditures of passenger facility charges is presented for purposes of additional analysis as required by the Guide and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of passenger facility charges is fairly stated in all material respects in relation to the Divisions' basic financial statements taken as a whole.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 28, 2018

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL AND BURKE LAKEFRONT AIRPORTS

SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES
For the Year Ended December 31, 2017

Projects	Approved Project Budget	Cumulative Expenditures thru 2016	2017 1st Quarter Expenditures	2017 2nd Quarter Expenditures	2017 3rd Quarter Expenditures	2017 4th Quarter Expenditures	2017 YTD Expenditures	Cumulative Expenditures thru 2017
Insulate Residences - Full Program Phase I	\$ 16,960,400	\$ 16,960,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,960,400
Extension of Taxiway "Q"	2,155,743	2,155,743	-	-	-	-	-	2,155,743
Land Acquisition-Resident Relocation	14,689,459	14,689,459	-	-	-	-	-	14,689,459
Asbestos Removal in Terminal CHIA	729,842	729,842	-	-	-	-	-	729,842
Acquisition of Analex Office Bldg & Vacant Land	13,025,000	13,025,000	-	-	-	-	-	13,025,000
Waste Water - Glycol Collection System Construction	5,835,921	5,835,921	-	-	-	-	-	5,835,921
NASA Feasibility & Pre-Engineering Study	355,000	355,000	-	-	-	-	-	355,000
Sewers for Confined Disposal Facility-BKL (app 1)	5,500,000	5,500,000	-	-	-	-	-	5,500,000
Sound Insulation	8,595,641	8,595,641	-	-	-	-	-	8,595,641
Land Acquisition - Midvale, Brysdale, Forestwood, Rocky River	25,282,298	25,282,298	-	-	-	-	-	25,282,298
Environmental Assessment / Impact Studies	1,725,000	1,725,000	-	-	-	-	-	1,725,000
Part 150 Noise Compatibility Program Update	584,570	584,570	-	-	-	-	-	584,570
Brook Park Land Transfer	8,750,000	8,750,000	-	-	-	-	-	8,750,000
Analex Demolition	1,229,000	1,050,170	5,543	5,543	5,543	5,543	22,172	1,072,342
Sound Insulation	20,000,000	20,000,000	-	-	-	-	-	20,000,000
Baggage Claim/Expansion	9,526,087	9,526,087	-	-	-	-	-	9,526,087
Tug Road Replacement	1,019,000	668,553	-	-	-	-	-	668,553
Interim Commuter Ramp	5,560,338	5,275,493	8,829	8,829	8,829	8,829	35,316	5,310,809
Concourse D Ramp/Site Utilities	51,305,804	48,679,164	81,415	81,415	81,415	81,415	325,660	49,004,824
Burke Runway Overlay 6L/24R	530,286	530,286	-	-	-	-	-	530,286
Burke ILS	2,181,400	1,939,816	7,488	7,488	7,488	7,488	29,952	1,969,768
Runway 6L/23R	270,550,360	188,681,924	2,537,594	2,537,594	2,537,594	2,537,592	10,150,374	198,832,298
Runway 6R/24L Uncoupling	2,148,000	2,148,000	-	-	-	-	-	2,148,000
Runway 28 Safety Improvements	2,200,000	2,010,454	-	-	-	-	-	2,010,454
Midfield Deicing Pad	39,100,000	39,100,000	-	-	-	-	-	39,100,000
Taxiway M Improvements	10,000,000	9,579,060	-	-	-	-	-	9,579,060
Doan Brook Restoration	1,727,796	349,771	42,713	42,713	42,713	42,713	170,852	520,623
Deicing Environmental Upgrades	2,800,222	566,871	69,225	69,225	69,225	69,225	276,900	843,771
Main Terminal Roof Replacement	992,986	201,018	24,548	24,548	24,548	24,548	98,192	299,210
Main Terminal Boiler Replacement	2,998,819	607,073	74,135	74,135	74,135	(829,478)	(607,073)	-
Roadway Expansion Joint Repair/Replacement	1,985,973	402,036	49,096	49,096	49,096	49,096	196,384	598,420
Airport-wide Flight Information Display System (FIDS)/Baggage Information Display System (BIDS) and Signage Replacement	7,681,742	1,555,074	189,902	189,902	189,902	189,902	759,608	2,314,682
Airport-wide In-line Baggage System Design	1,688,077	341,731	41,731	41,731	41,731	41,731	166,924	508,655
Airport Master Plan Update	4,170,543	844,276	103,101	103,101	103,101	103,101	412,404	1,256,680
Runway 10/28- Runway Safety Area Improvements	23,155,051	10,709,393	385,766	385,766	385,766	385,765	1,543,063	12,252,456
South Cargo Ramp Rehabilitation	5,957,918	1,206,108	147,287	147,287	147,287	147,287	589,148	1,795,256
Taxiway N Rehabilitation	8,738,280	1,768,960	216,021	216,021	216,021	216,021	864,084	2,633,044
SIDA Security System Enhancements	1,985,973	402,037	49,096	49,096	49,096	49,096	196,384	598,421
Interactive Part 139 Airport Operations Training Program	496,493	100,509	12,274	12,274	12,274	12,274	49,096	149,605
Main Substation (MS1 & MS2) Redundant Electrical Power Feed & Emergency Generators	8,261,646	1,672,504	204,237	204,237	204,237	1,107,849	1,720,560	3,393,064
Total	\$ 592,180,668	\$ 454,105,242	\$ 4,250,001	\$ 4,250,001	\$ 4,250,001	\$ 4,249,997	\$ 17,000,000	\$ 471,105,242

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**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PORT CONTROL
DIVISIONS OF CLEVELAND HOPKINS INTERNATIONAL
AND BURKE LAKEFRONT AIRPORTS**

**NOTES TO SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES
For the Year Ended December 31, 2017**

GENERAL

The accompanying schedule presents all activity of the Divisions' PFC program. The Divisions' reporting entity is defined in Note A – Summary of Significant Accounting Policies to the Divisions' financial statement.

BASIS OF PRESENTATION

The accompanying schedule is presented on the cash basis of accounting.

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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**

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CITY OF CLEVELAND, OHIO

**DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER**

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-14
Statement of Net Position	16-17
Statement of Revenues, Expenses and Changes in Net Position	19
Statement of Cash Flows	20-21
Notes to Financial Statements.....	23-46
Schedule of the Division's Proportionate Share of the Net Pension Liability Ohio Public Employees Retirement System	47
Schedule of Contributions Ohio Public Employees Retirement System.....	48

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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.

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

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.

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

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:

	<u>2017</u>	<u>2016</u>
	(Amounts in Thousands)	
Assets:		
Capital assets, net of accumulated depreciation	\$ 352,206	\$ 353,569
Restricted assets	17,952	18,042
Current assets	<u>79,737</u>	<u>79,376</u>
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	<u>22,737</u>	<u>26,886</u>
Total net position	199,901	197,764
Liabilities:		
Long-term obligations	248,062	248,921
Current liabilities	<u>25,214</u>	<u>26,941</u>
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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Capital assets: The Division's capital assets as of December 31, 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	<u>\$ 353,569</u>	<u>\$ 62,886</u>	<u>\$ (64,249)</u>	<u>\$ 352,206</u>

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

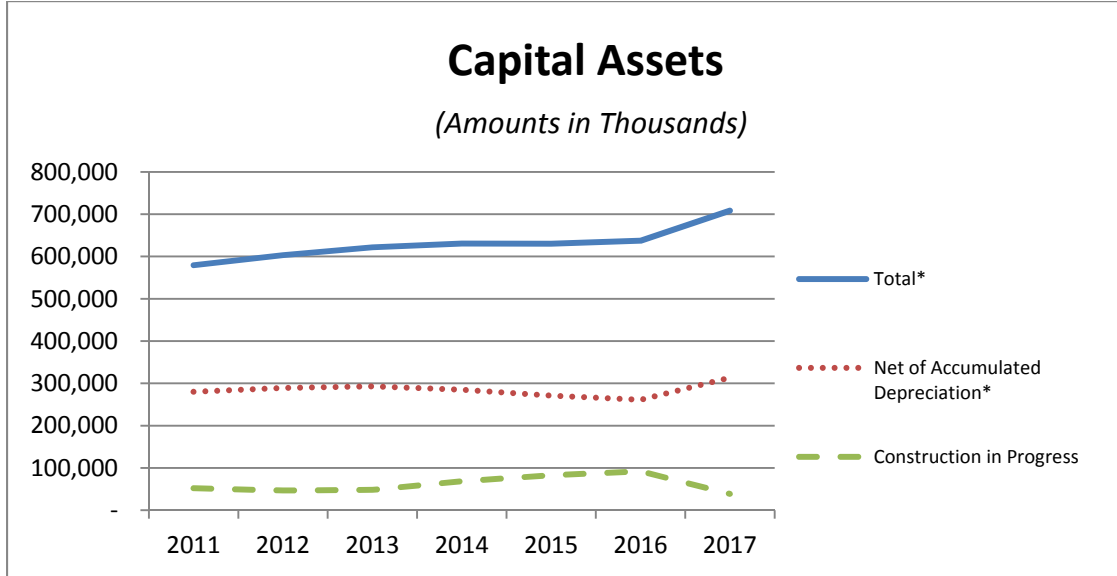
- Opportunity Corridor Phase II
- General Engineering Services
- Underground Cable Reconstruction
- Transformers Series A

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.

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

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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.

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

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

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

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:

<u>Moody’s</u>	<u>Standard & Poor’s</u>
<u>Investors Service</u>	<u>Standard & Poor’s</u>
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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

**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 construction. 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).

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

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.

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

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
		352,206
	CAPITAL ASSETS, NET	

RESTRICTED ASSETS

Cash and cash equivalents		17,937
Accrued interest receivable		15
		17,952
	TOTAL RESTRICTED ASSETS	

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
		79,737
	TOTAL CURRENT ASSETS	

DEFERRED OUTFLOWS OF RESOURCES

Unamortized loss on debt refunding		12,600
Pension		11,496
		24,096
	TOTAL DEFERRED OUTFLOWS OF RESOURCES	

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	<u>22,737</u>
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	<u>2,109</u>
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	<u>7,705</u>
TOTAL CURRENT LIABILITIES	<u>25,214</u>
TOTAL LIABILITIES	<u>273,276</u>

DEFERRED INFLOWS OF RESOURCES

Pension	<u>814</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>814</u>

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	<u>194,904</u>

OPERATING EXPENSES

Purchased power	123,374
Operations	27,354
Maintenance	17,195
Depreciation	19,555
TOTAL OPERATING EXPENSES	<u>187,478</u>

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	<u>(5,289)</u>

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	<u>(5,761)</u>

NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES 18,027

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Electric excise tax receipts	<u>2,980</u>
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**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	<u>(9,117)</u>

**NET CASH PROVIDED BY (USED FOR) CAPITAL AND
RELATED FINANCING ACTIVITIES** (33,138)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received on investments	<u>494</u>
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**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	<u>10,601</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 18,027</u>

SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:

Contributions and accounts payable related to capital assets	\$ 22
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See notes to financial statements.

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

**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.

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

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended 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.

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

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended 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.

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

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

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

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

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

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 position 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.

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

**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

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

**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	<u>\$ 237,352</u>	<u>\$ 8,272</u>	<u>\$ (11,169)</u>	<u>\$ 234,455</u>	<u>\$ 10,353</u>

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

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

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.

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

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

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.

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

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

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.

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

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

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	<u>\$ 343</u>	<u>\$ 343</u>
Total Investments	<u><u>\$ 343</u></u>	<u><u>\$ 343</u></u>

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+.

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

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

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.

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

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

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	<u>92,250</u>	<u>10,632</u>	<u>(64,175)</u>	<u>38,707</u>
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	<u>83,994</u>	<u>8,502</u>	<u>(737)</u>	<u>91,759</u>
Total capital assets, being depreciated	631,581	71,803	(737)	702,647
Less: Accumulated depreciation	<u>(375,830)</u>	<u>(19,555)</u>	<u>663</u>	<u>(394,722)</u>
Total capital assets being depreciated, net	<u>255,751</u>	<u>52,248</u>	<u>(74)</u>	<u>307,925</u>
Capital assets, net	<u>\$ 353,569</u>	<u>\$ 62,886</u>	<u>\$ (64,249)</u>	<u>\$ 352,206</u>

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.

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

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

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.

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

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

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%.

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

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

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

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

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

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

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

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

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 COLA or Ad Hoc COLA	3.25% to 10.75% including wage inflation 3.25%, simple Pre 1/7/2013 retirees: 3%, simple Post 1/7/2013 retirees: 3%, simple through 2018, then 2.15%, simple	4.25% to 10.05% including wage inflation 3%, simple Pre 1/7/2013 retirees: 3%, simple Post 1/7/2013 retirees: 3%, 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.

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

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

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
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	<u>100.00 %</u>	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.

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

**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	Current Discount Rate	1% Increase
	6.5%	7.5%	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.

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

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

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.

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

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

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.

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

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

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

**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	<u>(2,180)</u>	<u>(1,985)</u>	<u>(2,133)</u>	<u>(2,048)</u>	<u>(2,010)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
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.

CITY OF CLEVELAND, OHIO



DEPARTMENT OF PUBLIC UTILITIES DIVISION OF WATER

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the year ended December 31, 2017**

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CITY OF CLEVELAND, OHIO

**DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER**

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-14
Statement of Net Position	16-17
Statement of Revenues, Expenses and Changes in Net Position	19
Statement of Cash Flows	20-21
Notes to Financial Statements.....	23-51
Schedule of the Division's Proportionate Share of the Net Pension Liability Ohio Public Employees Retirement System	52
Schedule of Contributions Ohio Public Employees Retirement System	53

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Division of Water, Department of Public Utilities, City of Cleveland, Ohio (the "Division") as of and for the year ended December 31, 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 Water, 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 WATER**

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the City) Department of Public Utilities, Division of Water (the Division), we offer readers of the Division's financial statements this narrative overview and analysis of the financial activities of the Division for the year ended December 31, 2017. Please read this information in conjunction with the Division's financial statements and footnotes that begin on page 16.

The Division services not only the City, but also seventy-five direct service communities, seven master meter communities and three emergency standby communities. They provide water to approximately 418,000 city and suburban accounts in the Cleveland metropolitan area. They also sell water to master meter communities that operate their own distribution systems and they provide billing and payment services for the Northeast Ohio Regional Sewer District and other communities.

During 2017, the Division provided services to approximately 114,000 accounts located within Cleveland and approximately 304,000 accounts located in direct service communities. Water provided to each master meter community is metered at each community's boundary. Consumers within the City of Cleveland accounted for 23.2% of the Division's metered sales revenue, while the direct service and master meter communities accounted for 72.5% and 4.3% of metered sales revenue, respectively.

The Division, along with the Division of Utilities Fiscal Control (UFC), provides a complete array of processing services including billing, payment processing, mailing delinquency notices, terminating water service on delinquent accounts and distributing the money collected to the communities. UFC processes approximately 12,000 payments daily, which include bills for water only, sewer only, water and sewer, final notices and delinquent bills.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The Division's net position was \$1,507,361,000 and \$1,443,181,000 at December 31, 2017, and 2016, respectively. Of these amounts, \$391,547,000 and \$370,105,000 are unrestricted net position at December 31, 2017, and 2016, respectively and may be used to meet the Division's ongoing obligations to customers and creditors.
- The Division's overall net position increased by \$64,180,000 in 2017. The increase is primarily attributed to an increase in capital and other contributions of \$45,810,000 related to the acquisition of several suburban water mains.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL HIGHLIGHTS (Continued)

- The total long-term revenue bonds and loans payable of the Division decreased by \$71,806,000 due to scheduled principal payments on the bonds and loans and the refunding of several series of revenue bonds.
- The unrestricted cash and cash equivalents balance increased by \$45,142,000, mainly due to continued strong results from operating activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to financial statements can be found on pages 23 - 51 of this report. Required supplementary information can be found on pages 52 - 53.

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

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:

	<u>2017</u>	<u>2016</u>
	(Amounts in Thousands)	
Assets:		
Capital assets, net	\$ 1,709,310	\$ 1,701,684
Restricted assets	67,522	94,761
Current assets	<u>485,198</u>	<u>450,138</u>
Total assets	2,262,030	2,246,583
Deferred outflows of resources	69,832	64,724
Net position:		
Net investment in capital assets	1,051,909	986,294
Restricted for capital projects	1	46
Restricted for debt service	63,904	86,736
Unrestricted	<u>391,547</u>	<u>370,105</u>
Total net position	1,507,361	1,443,181
Liabilities:		
Long-term obligations	729,581	766,152
Current liabilities	<u>81,378</u>	<u>85,786</u>
Total liabilities	810,959	851,938
Deferred inflows of resources	13,542	16,188

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Current Assets: The Division had an increase in current assets of \$35,060,000, primarily due to increases in unrestricted cash and cash equivalents of \$45,142,000 and investments of \$20,051,000, offset by a decrease in unbilled revenue of \$25,348,000. The decrease in unbilled revenue is attributed to the Division changing from quarterly to monthly billing. There was also a \$5,629,000 decrease in net accounts receivable.

Restricted assets: The Division's restricted assets decreased by \$27,239,000. The decrease is primarily related to a reduction of \$22,832,000 in debt service funds at year-end.

Deferred outflows of resources: The Division's deferred outflows of resources increased by \$5,108,000, primarily due to a \$7,871,000 increase in pension outflows. This increase was partially offset by a \$3,430,000 decrease in the fair value of the Division's interest rate swaps.

Capital Assets: The Division's investment in capital assets, as of December 31, 2017, amounted to \$1,709,310,000 (net of accumulated depreciation). The total net increase in the Division's investment in net capital assets was approximately \$7,626,000. A summary of the activity in the Division's capital assets during December 31, 2017, is as follows:

	Balance January 1, 2017	Additions	Reductions	Balance December 31, 2017
	(Amounts in Thousands)			
Land	\$ 5,463	\$	\$ (20)	\$ 5,443
Land improvements	17,427	187		17,614
Utility plant	1,808,978	111,170	(1,564)	1,918,584
Buildings, structures and improvements	266,517	746	(5,616)	261,647
Furniture, fixtures, equipment and vehicles	614,057	7,742	(19,813)	601,986
Construction in progress	<u>101,665</u>	<u>35,335</u>	<u>(49,070)</u>	<u>87,930</u>
Total	2,814,107	155,180	(76,083)	2,893,204
Less: Accumulated depreciation	<u>(1,112,423)</u>	<u>(95,976)</u>	<u>24,505</u>	<u>(1,183,894)</u>
Capital assets, net	<u>\$ 1,701,684</u>	<u>\$ 59,204</u>	<u>\$ (51,578)</u>	<u>\$ 1,709,310</u>

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

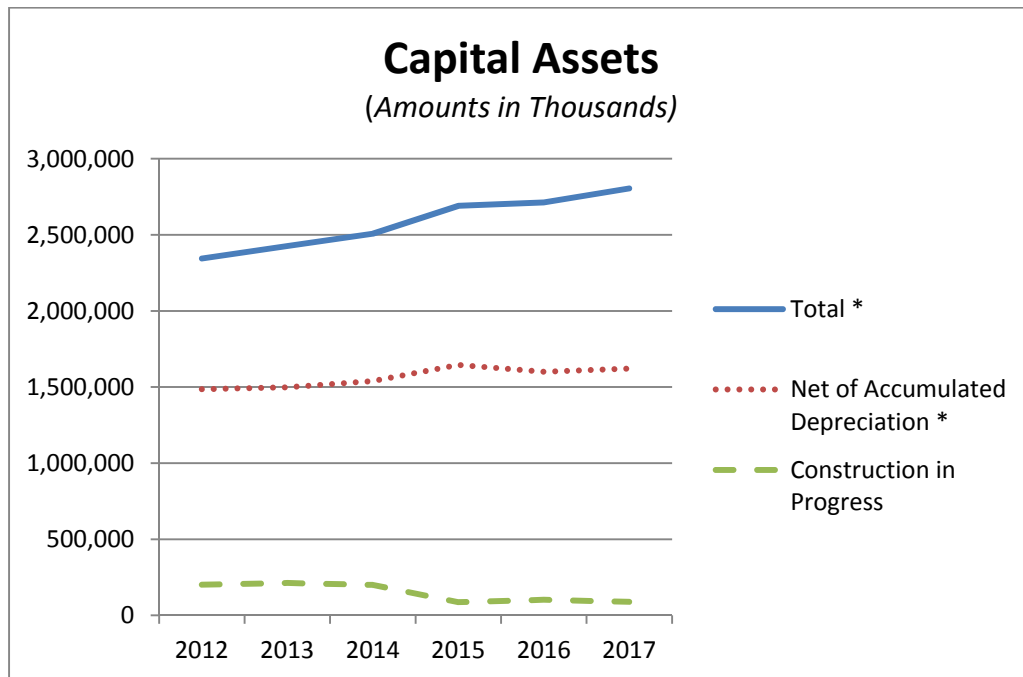
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Utility plant had additions of \$111,170,000, primarily due to the acquisition and completion of various suburban water mains. Additionally, construction in progress had additions and deletions of \$35,335,000 and \$49,070,000, respectively, resulting in a net decrease of \$13,735,000 (See Note D).

Major projects still under construction chiefly consist of Suburban Watermain Renewals and related engineering services, AMR Phase II, Water Towers and Third High Pump Stations.

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



* Construction in Progress not included

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Long-term Obligations: In 2017, the factors contributing to the Division's net decrease in long-term obligations of \$36,571,000 is primarily due to a decrease in the non-current portion of revenue bonds and OWDA loans amounting to \$45,835,000 and \$7,909,000, respectively, offset by an increase in the net pension liability of \$17,942,000. The rise in the net pension liability is primarily due to the investment returns not meeting expectations.

Current Liabilities: In 2017, total current liabilities decreased by \$4,408,000. The significant component of the change is a decrease of \$8,067,000 in the current portion of long-term debt and \$2,900,000 in accrued interest payable. The decreases were partially offset by an increase of \$4,032,000 in the accounts payable, primarily due to the Division funding capital project expenses from non-revenue bond proceeds.

Pension Liability: During 2015, the Division 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 revised 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.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Long-term Debt: At the end of 2017, the Division had total long-term debt outstanding of \$648,484,000. All bonds are backed by the revenues generated by the Division. The Ohio Water Development Authority (OWDA) loans do not have a lien on revenues of the Division.

The activity in the Division's debt obligations outstanding during the year ended December 31, 2017, is summarized below (excluding unamortized discounts and premiums):

	Balance January 1, 2017	Debt Issued	Debt Retired	Balance December 31, 2017
(Amounts in Thousands)				
Long-Term Debt				
Water Revenue Bonds:				
Series G 1993	\$ 56,300	\$	\$ (10,100)	\$ 46,200
Series O 2007	3,395		(3,395)	-
Series P 2007	88,720		(82,695)	6,025
Series T 2009	48,090		(610)	47,480
Series U 2010	54,935			54,935
Series V 2010	26,495			26,495
Series W 2011	8,080		(6,550)	1,530
Series X 2012	44,410		(16,835)	27,575
Series Y 2015	116,205			116,205
Series Z 2015	15,105		(11,695)	3,410
Series AA 2015	90,800			90,800
Series BB 2017		15,760		15,760
Series CC 2017		54,730		54,730
Second Lien Series A 2012	76,710		(45,850)	30,860
Second Lien Series B 2017		43,095		43,095
Ohio Water Development Authority Loans	91,045		(7,661)	83,384
Total	\$ 720,290	\$ 113,585	\$ (185,391)	\$ 648,484

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

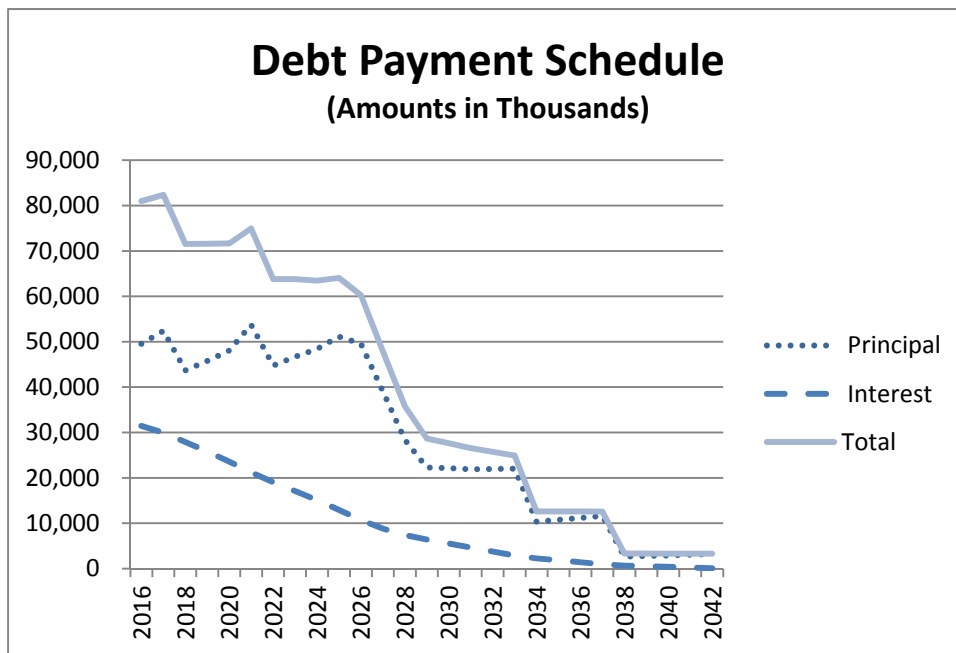
CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

The bond ratings for the Division's outstanding revenue bonds as of December 31, 2017, are as follows:

	<u>Investors Service</u>	<u>Standard & Poor's</u>
Waterworks Improvement Revenue Bonds	Aa1	AA+
Second Lien Water Revenue Bonds	Aa2	AA

On August 9, 2017 S&P Global Ratings raised its rating on the Water Revenue Bonds to AA+ from AA and its rating on the Subordinate Lien Water Revenue Bonds to AA from AA-.

The ratio of net revenue available for debt service to debt service requirements (revenue bond coverage) is a useful indicator of the Division's debt position to management, customers, investors and creditors. The Division's revenue bond coverage for 2017 and 2016 was 266% and 250%, respectively.



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

Additional information on the Division's long-term debt can be found in Note B on pages 28 - 37.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Net Position: Net position serves as a useful indicator of a government's financial position. In the case of the Division, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$1,507,361,000 and \$1,443,181,000 at December 31, 2017 and 2016, respectively.

Of the Division's net position, \$1,051,909,000 at December 31, 2017, reflects its investment in capital assets, net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. The Division uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the Division's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Division's net position, \$63,905,000 at December 31, 2017, represents resources that are subject to external restrictions. These funds are set aside for the payment of revenue bonds and capital projects.

The remaining balance of unrestricted net position, \$391,547,000, at December 31, 2017, may be used to meet the Division's ongoing obligations to customers and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

The Division's net position increased during 2017 by \$64,180,000. The following table identifies the key elements of the Division's results of operations for the years ended December 31, 2017 and 2016:

	2017	2016
	(Amounts in Thousands)	
Operating revenues	\$ 301,453	\$ 310,107
Operating expenses	263,202	240,199
Operating income (loss)	38,251	69,908
Non-operating revenue (expense):		
Investment income	4,518	1,775
Interest expense	(25,535)	(29,056)
Amortization of bond premiums and discounts	4,452	4,134
Gain (loss) on disposal of capital assets	(2,250)	(1,146)
Other	(1,066)	83
Total non-operating revenue (expense), net	(19,881)	(24,210)
Income (loss) before capital and other contributions	18,370	45,698
Capital and other contributions	45,810	12
Change in net position	\$ 64,180	\$ 45,710

Operating revenue: In 2017, total operating revenues of the Division decreased \$8,654,000 or 2.8%. The reduction is primarily attributed to a decrease of \$25,348,000 or 70.8% in unbilled revenue related to the conversion from quarterly to monthly billing. The decrease was partially offset by a \$10,411,000 increase in fixed fee revenue.

Operating expenses: In 2017, the overall increase in operating expenses of \$23,003,000 was primarily due to a \$20,958,000 increase in operations expense. The rise is primarily attributed to a \$7,832,000 increase in pension expense and a \$4,770,000 increase in bad debts.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

Non-operating revenue (expense): Net non-operating revenue (expense) changed by \$4,329,000 in 2017 due to a change of \$3,521,000 in interest expense. In addition, investment income increased by \$2,743,000 due to higher interest rates on its investments.

Capital and other contributions: In 2017, capital and other contributions increased by \$45,798,000 as compared to 2016. This was due to the Division acquiring distribution mains in the cities of Beachwood, Cleveland Heights, Valley View and Macedonia.

ADDITIONAL INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
STATEMENT OF NET POSITION
December 31, 2017
(Amounts in Thousands)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CAPITAL ASSETS

Land	\$	5,443
Land improvements		17,614
Utility plant		1,918,584
Buildings, structures and improvements		261,647
Furniture, fixtures, equipment and vehicles		601,986
		2,805,274
Less: Accumulated depreciation		(1,183,894)
		1,621,380
Construction in progress		87,930
		1,709,310
	CAPITAL ASSETS, NET	

RESTRICTED ASSETS

Cash and cash equivalents		67,470
Accrued interest receivable		52
		67,522
	TOTAL RESTRICTED ASSETS	

CURRENT ASSETS

Cash and cash equivalents		385,434
Restricted cash and cash equivalents		2,178
Investments		20,051
Receivables:		
Accounts receivable - net of allowance for doubtful accounts of \$16,947,000		53,334
Unbilled revenue		10,478
Due from other City of Cleveland departments, divisions or funds		4,524
Due from other governments		25
Accrued interest receivable		17
Materials and supplies - at average cost		8,390
Prepaid expenses		767
		485,198
	TOTAL CURRENT ASSETS	

DEFERRED OUTFLOWS OF RESOURCES

Derivative instruments-interest rate swaps		11,107
Unamortized loss on bond refunding		24,486
Pension		34,239
		69,832
	TOTAL DEFERRED OUTFLOWS OF RESOURCES	

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
STATEMENT OF NET POSITION
December 31, 2017
(Amounts in Thousands)

**NET POSITION, LIABILITIES AND DEFERRED
INFLOWS OF RESOURCES**

NET POSITION

Net investment in capital assets	\$	1,051,909
Restricted for capital projects		1
Restricted for debt service		63,904
Unrestricted		391,547
TOTAL NET POSITION		1,507,361

LIABILITIES

LONG-TERM OBLIGATIONS-excluding amounts due within one year

Accrued wages and benefits		575
OWDA loans		75,475
Revenue bonds		565,687
Net pension liability		87,844
TOTAL LONG-TERM OBLIGATIONS		729,581

CURRENT LIABILITIES

Accounts payable		11,814
Customer deposits and other liabilities		4,539
Current portion of accrued wages and benefits		8,326
Due to other City of Cleveland departments, divisions or funds		1,845
Accrued interest payable		8,362
Current payable from restricted assets		2,178
Current portion of long-term debt, due within one year		44,314
TOTAL CURRENT LIABILITIES		81,378
TOTAL LIABILITIES		810,959

DEFERRED INFLOWS OF RESOURCES

Derivative instruments-interest rate swaps		11,107
Pension		2,435
TOTAL DEFERRED INFLOWS OF RESOURCES		13,542

See notes to financial statements.

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CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2017
(Amounts in Thousands)

OPERATING REVENUES

Charges for services	\$	301,453
TOTAL OPERATING REVENUES		301,453

OPERATING EXPENSES

Operations	120,860
Maintenance	64,507
Depreciation	77,835
TOTAL OPERATING EXPENSES	263,202

OPERATING INCOME (LOSS) 38,251

NON-OPERATING REVENUE (EXPENSE)

Investment income	4,518
Interest expense	(25,535)
Amortization of bond premiums and discounts	4,452
Gain (loss) on disposal of capital assets	(2,250)
Other	(1,066)
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	(19,881)

**INCOME (LOSS) BEFORE CAPITAL AND
OTHER CONTRIBUTIONS** 18,370

Capital and other contributions	45,810
INCREASE (DECREASE) IN NET POSITION	64,180

NET POSITION, BEGINNING OF YEAR 1,443,181

NET POSITION, END OF YEAR \$ 1,507,361

See notes to financial statements.

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

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$	325,994
Cash payments to suppliers for goods or services		(88,434)
Cash payments to employees for services		(74,270)
Other		<u>(396)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		162,894

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from sale of revenue bonds, loans and notes		134,798
Acquisition and construction of capital assets		(39,740)
Principal paid on long-term debt		(52,381)
Interest paid on long-term debt		(28,267)
Cash paid to escrow agent for refunding		<u>(143,598)</u>
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES		(129,188)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investment securities		(20,079)
Proceeds from sale and maturity of investment securities		10,491
Interest received on investments		<u>4,522</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES		<u>(5,066)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS **28,640**

CASH AND CASH EQUIVALENTS, beginning of year		<u>426,442</u>
CASH AND CASH EQUIVALENTS, end of year	\$	<u><u>455,082</u></u>

CITY OF CLEVELAND, OHIO

**DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER
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)	\$	38,251
Adjustments:		
Depreciation		77,835
(Increase) decrease in assets:		
Accounts receivable, net		5,629
Unbilled revenue		25,348
Due from other City of Cleveland departments, divisions or funds		(721)
Materials and supplies, net		409
Prepaid expenses		(232)
(Increase) decrease in deferred outflows of resources - pension		(7,871)
Increase (decrease) in liabilities:		
Accounts payable		4,032
Customer deposits and other liabilities		890
Accrued wages and benefits		617
Due to other City of Cleveland departments, divisions or funds		(19)
Net pension liability		17,942
Increase (decrease) in deferred inflows of resources - pension		<u>784</u>
TOTAL ADJUSTMENTS		<u>124,643</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$	<u><u>162,894</u></u>

**SCHEDULE OF NON-CASH CAPITAL AND RELATED
FINANCING ACTIVITIES**

Contributions and accounts payable related to capital assets	\$	47,988
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See notes to financial statements.

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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

In June of 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* was 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.

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

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended 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.

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

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended 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

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

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

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

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

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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The Division has invested funds in the STAR Ohio during 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.

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, 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

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

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

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 costs for its revenue bonds. This statement requires capitalization of interest cost of eligible borrowings, less interest earned on investment of the related bond proceeds from the date of borrowing until the assets constructed from the bond proceeds are ready for their intended use.

For 2017, total interest costs incurred amounted to \$27,378,000, of which \$1,837,000 was capitalized, net of interest income of \$6,000.

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.

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

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

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

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

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

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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

NOTE B – DEBT AND OTHER LONG-TERM OBLIGATIONS

Debt outstanding at December 31, 2017, is as follows:

	<u>Interest Rate</u>	<u>Original Issuance</u>	<u>2017</u>
(Amounts in Thousands)			
Water Revenue Bonds:			
Series G 1993 due through 2021	5.50%	\$ 228,170	\$ 46,200
Series P 2007 due through 2018	5.00%	135,410	6,025
Series T 2009 due through 2021	4.00%-5.00%	84,625	47,480
Series U 2010 due through 2033	Variable	54,935	54,935
Series V 2010 due through 2033	Variable	26,495	26,495
Series W 2011 due through 2026	2.00%-5.00%	82,090	1,530
Series X 2012 due through 2042	3.63%-5.00%	44,410	27,575
Series Y 2015 due through 2037	4.00%-5.00%	116,205	116,205
Series Z 2015 due through 2019	3.00%-5.00%	15,930	3,410
Series AA 2015 due through 2033	Variable	90,800	90,800
Series BB 2017 due through 2032	3.00%-5.00%	15,760	15,760
Series CC 2017 due through 2028	5.00%	54,730	54,730
Second Lien Series A 2012 due 2022	4.00%-5.00%	76,710	30,860
Second Lien Series B 2017 due through 2027	5.00%	43,095	43,095
Ohio Water Development Authority Loans payable annually through 2032	0.00%-3.00%	<u>152,767</u>	<u>83,384</u>
		<u>\$ 1,222,132</u>	648,484
Adjustments:			
Unamortized discount and premium			36,992
Current portion			<u>(44,314)</u>
Total Long-Term Debt			<u>\$ 641,162</u>

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

**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)					
Water Revenue Bonds:					
Series G 1993 due through 2021	\$ 56,300	\$	\$ (10,100)	\$ 46,200	\$ 10,650
Series O 2007 due through 2017	3,395		(3,395)	-	
Series P 2007 due through 2018	88,720		(82,695)	6,025	6,025
Series T 2009 due through 2021	48,090		(610)	47,480	10,415
Series U 2010 due through 2033	54,935			54,935	
Series V 2010 due through 2033	26,495			26,495	
Series W 2011 due through 2026	8,080		(6,550)	1,530	150
Series X 2012 due through 2042	44,410		(16,835)	27,575	
Series Y 2015 due through 2037	116,205			116,205	
Series Z 2015 due through 2019	15,105		(11,695)	3,410	2,415
Series AA 2015 due through 2033	90,800			90,800	
Series BB 2017 due through 2032		15,760		15,760	45
Series CC 2017 due through 2028		54,730		54,730	
Second Lien Series A 2012 due through 2022	76,710		(45,850)	30,860	6,105
Second Lien Series B 2017 due through 2027		43,095		43,095	600
Ohio Water Development Authority Loans payable annually through 2032	91,045		(7,661)	83,384	7,909
Total revenue bonds/loans	720,290	113,585	(185,391)	648,484	44,314
Accrued wages and benefits	8,284	7,557	(6,940)	8,901	8,326
Net pension liability	69,902	17,942		87,844	
Total	<u>\$ 798,476</u>	<u>\$ 139,084</u>	<u>\$ (192,331)</u>	<u>\$ 745,229</u>	<u>\$ 52,640</u>

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

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

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	(Amounts in Thousands)		
2018	\$ 44,314	\$ 25,508	\$ 69,822
2019	45,226	24,880	70,106
2020	47,476	22,695	70,171
2021	43,870	20,571	64,441
2022	43,778	18,647	62,425
2023-2027	228,602	63,501	292,103
2028-2032	114,733	27,669	142,402
2033-2037	65,920	9,319	75,239
2038-2042	<u>14,565</u>	<u>1,893</u>	<u>16,458</u>
Total	<u>\$ 648,484</u>	<u>\$ 214,683</u>	<u>\$ 863,167</u>

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

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

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

In 2017, the Division did not take out any new loans. OWDA completed an interest rate buy-down which resulted in interest rate savings on current loans. Market rate loans with interest rates higher than 4.0% saw a reduction in rates to 4.0% while rates over 3.0% on OWDA loans were reduced to 3.0%. The buy-down commenced retroactively to the January 1, 2016 payment.

At December 31, 2017, the amount financed on these eleven loan projects, less principal payments made, totaled \$83,384,000 and is reflected in the debt service payment schedule.

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

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

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

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

The Division had the following amounts of defeased debt outstanding at December 31, 2017:

Series P, 2007	\$70,325,000
Series X, 2012	\$16,835,000
Second Lien Series A, 2012	\$45,850,000

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

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

The indenture requires that at all times the Division will charge rates and fees for the products and services of the waterworks system, so that revenues will be at least sufficient to provide funds for the payment in each year of the necessary operating and maintenance expenses of the waterworks system and the greater of (1) an amount equal to 1.25 times the payments of principal, premium, if any, and interest on the revenue bonds then outstanding due in that year or (2) an amount sufficient to maintain the required balances in all funds and accounts created under the indenture. As of December 31, 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. An amount equal to one-sixth of the operating expenses, before depreciation, for the preceding fiscal year must be maintained in this fund.

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

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

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

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

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

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

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

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

On September 7, 2017, Water Revenue Bonds, Series BB, 2017, were issued in the amount of \$15,760,000. The bonds were issued to advance refund \$16,835,000 of outstanding Series X Water Revenue Bonds, 2012. Net bond proceeds in the amount of \$19,078,451, along with \$126,167 from the Series X debt service fund, were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds when due. As a result of this refunding, the City realized an economic gain (the difference between the present values of the old and new debt service) of \$1,367,000 or 8.1% and achieved debt service savings of \$1,727,000.

At the same time the City sold the Series BB Bonds, the City also sold \$54,730,000 Water Revenue Bonds, Series CC, on a forward delivery basis. The Series CC Bonds were ultimately issued effective October 3, 2017 to refund \$70,325,000 of outstanding Water Revenue Bonds, Series P, 2005. Net bond proceeds in the amount of \$64,119,219, along with \$874,438 from the Series P Interest account and \$7,080,119 released from the debt service reserve fund, were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds. The City realized present value savings of \$10,760,000 or 15.3% from this refunding.

Effective October 10, 2017, the City issued \$43,095,000 Water Revenue Bonds, Second Lien Series B, 2017. These bonds provided funds to advance refund \$45,850,000 of outstanding Second Lien Series A Bonds, 2012. Net bond proceeds in the amount of \$51,753,988, along with \$566,000 from the Second Lien Series A Interest account, were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds. As a result of this refunding, the City achieved net present value debt service savings of \$3,103,000 or 6.8%.

Upon the mandatory tender by the direct purchasers of the Water Revenue Bonds, Series U, 2010 and the Water Revenue Bonds, Series V, 2010, the Division entered into new direct purchase agreements on both series of bonds. Effective December 1, 2017, the \$54,935,000 Water Series U Bonds and the \$26,495,000 Water Series V Bonds were directly purchased by PNC Bank, National Association. The Division is paying an interest rate equal to 65.001% of one month LIBOR plus a spread for three years.

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

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

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

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

The City has pledged future water system revenues, net of specified operating expenses, to repay \$565,100,000 in various Senior Lien Water Revenue Bonds and Subordinate Lien Bonds issued in various years since 1993. Proceeds from the bonds provided financing for Water System improvements. The bonds are payable from Water System net revenues and are payable through 2042. Annual principal and interest payments on the bonds are expected to require less than 42% of net revenues. The total principal and interest remaining to be paid on the various Senior and Subordinate Lien Water Revenue Bonds is \$767,850,000. Amounts deposited for principal and interest in the current year on the Senior Lien Bonds and total net revenues were \$49,546,000 and \$120,604,000, respectively.

Interest Rate Swap Transactions:

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

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

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

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

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

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

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

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

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

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

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

Fair Value: The fair value of the swaps (including accrued amounts) at December 31, 2017, as reported by JPM and Morgan Stanley totaled \$11,107,000, which would be payable by the City.

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

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

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

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

The derivative instruments are classified as Level 2 inputs of the fair value hierarchy and are considered to be significant other observable inputs. The derivative instruments are calculated using the zero-coupon discounting method which takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and assumes that the current forward rate implied by the yield curve are the market’s best estimate of future spot interest rates. The income approach is then used to obtain the fair value of the swaps, where future amounts are converted to a single current (discounted) amount, using a rate of return that takes into account the relative risk of nonperformance associated with the cash flows, and time value of money.

Changes in Fair Value		Fair Value at December 31, 2017		
Classification	Amount	Classification	Amount	Notional

(Amounts in Thousands)

Hedging Derivatives:

Floating to fixed interest rate swaps

2015 AA Water Swap	Deferred inflow	\$ 1,403	Debt	\$ (1,696)	\$ 50,105
2010 U Water Swap	Deferred inflow	1,352	Debt	(6,284)	54,735
2010 V Water Swap	Deferred inflow	675	Debt	(3,127)	26,295

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

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

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

The following table presents the objective and significant terms of the Division’s derivative instruments at December 31, 2017, along with the credit rating of each swap counterparty.

Bonds	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
Water Series AA	Pay Fixed Interest Rate Swap	Hedge of changes in cash flow on the Series AA Water System Bonds	\$ 32,670,000	8/10/2004	1/1/2021	Pay 3.553%, receive 61.25% of LIBOR + 28 bps	Aa3/A+/AA-
Water Series AA	Pay Fixed Interest Rate Swap	Hedge of changes in cash flow on the Series AA Water System Bonds	\$ 17,435,000	8/10/2004	1/1/2021	Pay 3.5975%, receive 61.25% of LIBOR + 28 bps	A3/BBB+/A
Water Series U	Pay Fixed Interest Rate Swap	Hedge in changes in cash flow on the Series U Water System Bonds	\$ 54,735,000	2/12/2009	1/1/2033	Pay 3.553%, receive 61.25% of LIBOR + 28 bps	Aa3/A+/AA-
Water Series V	Pay Fixed Interest Rate Swap	Hedge in changes in cash flow on the Series V Water System Bonds	\$ 26,295,000	2/12/2009	1/1/2033	Pay 3.5975%, receive 61.25% of LIBOR + 28 bps	A3/BBB+/A

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

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

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

The following table presents the aggregate debt service requirements on the Division’s hedged debt and net receipts/payments on the associated hedging derivative instruments as of December 31, 2017. These amounts assume that the interest rates on variable rate bonds and the reference rates in existence as of December 31, 2017, remain the same for the life of the hedging agreement. However, these rates will vary over time and the actual interest payments on the variable rate bonds and the net receipts/payments on the hedging derivative instruments will deviate from the numbers presented. The following table is the total amount of the bond issuances that have hedging, although some of the bonds are not hedged.

Fiscal Year Ending December 31	Principal	Interest	Hedging Derivatives, Net	Total
(Amounts in Thousands)				
2018	\$	\$ 2,383	\$ 2,828	\$ 5,211
2019		2,384	2,524	4,908
2020		2,390	2,205	4,595
2021	2,170	2,356	1,874	6,400
2022	14,830	2,162	1,530	18,522
2023-2027	81,415	7,391	2,782	91,588
2028-2032	61,730	2,526	217	64,473
2033	<u>12,085</u>	<u>14</u>	<u>1</u>	<u>12,100</u>
Total	<u>\$ 172,230</u>	<u>\$ 21,606</u>	<u>\$ 13,961</u>	<u>\$ 207,797</u>

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

NOTE C – DEPOSITS AND INVESTMENTS

Deposits: The carrying amount of the Division’s deposits at December 31, 2017, totaled \$5,393,000 and the Division’s bank balances were \$6,941,000 respectively. The differences represent positions in pooled bank accounts and normal reconciling items. Based on the criteria described in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*, \$6,941,000 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.

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

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

NOTE C – DEPOSITS AND INVESTMENTS (Continued)

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

Investments: In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, the City reports its investments at fair value based on quoted market values, where applicable and recognized the corresponding change in the fair value of the investments recorded in investment earnings in the year in which the change occurs. The City's investment policies are governed by state Statutes and City ordinances which authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; State Treasurer Asset Reserve Fund (STAR Ohio); commercial paper; US Government Money Market Mutual Funds; guaranteed investment contracts; manuscript debt; bonds and other State of Ohio obligations; certificates of deposit; and repurchase transactions. Such repurchase transactions must be purchased from financial institutions or registered broker/dealers and are not to exceed a period of one year and confirmation of securities pledged must be obtained.

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

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

The Division categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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.

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

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

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 Measurement Using	
		Level 1	Level 2
(Amounts in Thousands)			
U.S. Treasury Bonds	\$ 20,051	\$ 20,051	\$
Commercial Paper	9,254		9,254
Total Investments	\$ 29,305	\$ 20,051	\$ 9,254

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 U.S. Treasury Bonds, STAR Ohio, commercial paper and money market mutual funds. Investments in the U.S. Treasury Bonds carry a Moody's rating of Aaa, which is the highest rating given by Moody's. Investments in STAR Ohio, the PNC Treasury Money Market Fund, and the First American Government Obligations Fund carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's. Ohio law requires that 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+.

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

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

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)			
U.S. Treasury Bonds	\$ 20,051	\$ 20,079	\$ 20,079
STAR Ohio	366,840	366,840	366,840
Commercial Paper	9,254	9,254	9,254
Money Market Mutual Funds	73,595	73,595	73,595
Total Investments	469,740	469,768	469,768
Total Deposits	5,393	5,393	5,393
Total Deposits and Investments	\$ 475,133	\$ 475,161	\$ 475,161

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 U.S. Treasury Bonds, STAR Ohio, commercial paper, and money market mutual funds are approximately 4.3%, 78.1%, 2.0%, and 15.6%, respectively, of the Division's total investments.

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

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

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	Deletions	Balance December 31, 2017
	(Amounts in Thousands)			
Capital assets, not being depreciated:				
Land	\$ 5,463	\$	\$ (20)	\$ 5,443
Construction in progress	<u>101,665</u>	<u>35,335</u>	<u>(49,070)</u>	<u>87,930</u>
Total capital assets, not being depreciated	107,128	35,335	(49,090)	93,373
Capital assets, being depreciated:				
Land improvements	17,427	187		17,614
Utility plant	1,808,978	111,170	(1,564)	1,918,584
Buildings, structures and improvements	266,517	746	(5,616)	261,647
Furniture, fixtures, equipment and vehicles	<u>614,057</u>	<u>7,742</u>	<u>(19,813)</u>	<u>601,986</u>
Total capital assets, being depreciated	2,706,979	119,845	(26,993)	2,799,831
Less: Accumulated depreciation	<u>(1,112,423)</u>	<u>(95,976)</u>	<u>24,505</u>	<u>(1,183,894)</u>
Total capital assets being depreciated, net	<u>1,594,556</u>	<u>23,869</u>	<u>(2,488)</u>	<u>1,615,937</u>
Capital assets, net	<u>\$ 1,701,684</u>	<u>\$ 59,204</u>	<u>\$ (51,578)</u>	<u>\$ 1,709,310</u>

Commitments: The Division has outstanding commitments at December 31, 2017, of approximately \$147,052,000 for future capital expenditures. It is anticipated that these commitments will be financed from the Division's cash balances; however, at the discretion of the Division, additional long-term debt may be issued in the future to finance a portion of the costs.

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

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

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.

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

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

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	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 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%.

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

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

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 \$6,855,000 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	\$ 87,844
Proportion of the Net Pension Liability	0.379883%
Change in proportion	(0.016438)%
Pension Expense	\$ 18,585

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

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

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	\$	13,548
Differences in Expected and Actual Economic Experience		117
Change in Assumptions		13,719
Division's contributions subsequent to the		
measurement date		6,855
Total Deferred Outflows of Resources	\$	34,239
 Deferred Inflows of Resources		
Differences between expected and		
actual experience	\$	625
Change in Division's proportionate share		1,810
Total Deferred Inflows of Resources	\$	2,435

The \$6,855,000 reported as deferred outflows of resources related to pension resulting from the Division’s contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ending December 31, 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	\$	10,089
2019		10,578
2020		4,690
2021		(386)
2022		(8)
Thereafter		(14)
Total	\$	24,949

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

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

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 COLA or Ad Hoc COLA	3.25% to 10.75% including wage inflation 3.25%, simple Pre 1/7/2013 retirees: 3%, simple Post 1/7/2013 retirees: 3%, simple through 2018, then 2.15%, simple	4.25% to 10.05% including wage inflation 3%, simple Pre 1/7/2013 retirees: 3%, simple Post 1/7/2013 retirees: 3%, 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.

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

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

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 (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	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	<u>100.00 %</u>	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.

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

**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	Current Discount Rate	1% Increase
	6.50%	7.50%	8.50%
	(Amounts in Thousands)		
Division's proportionate share of the net pension liability	\$ 134,963	\$ 87,844	\$ 48,577

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.

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

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

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 \$527,000 in 2017, \$1,028,000 in 2016 and \$1,032,000 in 2015. The required payments due in 2017, 2016 and 2015 have been made.

NOTE G – CONTINGENT LIABILITIES AND RISK MANAGEMENT

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

Risk Management: The Division is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Division is generally self-insured. No material losses, including incurred but not reported losses, occurred in 2017.

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.

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

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

NOTE G – CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

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

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

NOTE H – RELATED PARTY TRANSACTIONS

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

The Division performs billing, collection and various services for the Division of Water Pollution Control for a fee. This fee is based on the number of billings made on behalf of that division during the year at the same rates as charged to other users of the billing system. Revenue from the Division of Water Pollution Control for such services was approximately \$2,645,000 in 2017. The Division also provides miscellaneous services to other departments and divisions of the City. Revenue realized from such services was approximately \$624,000 in 2017.

Operating Expenses: The Division utilizes various intra-city services. Charges are based on actual use or on a reasonable pro-rata basis. The more significant costs for the year ended December 31, 2017 was as follows:

	(Amounts in Thousands)
Electricity purchases	\$ 15,625
City administration	3,985
Motor Vehicle Maintenance	2,693
Telephone Exchange	1,125
Utilities Administration and Utilities Fiscal Control	7,871
Radio Communication	301

NOTE I – CUYAHOGA COUNTY REAL PROPERTY TAXES

The Division is required by ordinance to keep records of the estimated property taxes which would be payable to Cuyahoga County were it subject to such taxes. The estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately \$5,320,000 for December 31, 2017.

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

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

NOTE J – SUBSEQUENT EVENTS

On May 17, 2018, the Water Revenue Bonds, Series AA, 2015 were directly purchased by Royal Bank of Canada for a period of three years upon the expiration of the previous direct placement. The bonds remain in a variable rate mode with the Division now paying on a monthly basis an amount equal to SIFMA plus a spread.

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

	2017	2016	2015	2014
	(Amounts in Thousands)			
Division's Proportion of the Net Pension Liability	0.379883%	0.396321%	0.411161%	0.411161%
Division's Proportionate Share of the Net Pension Liability (Asset)	\$ 87,844	\$ 69,902	\$ 49,432	\$ 48,397
Division's Covered Payroll	\$ 50,392	\$ 50,533	\$ 51,458	\$ 46,600
Division's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	174.32%	138.33%	96.06%	103.86%
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 WATER
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	\$ 6,855	\$ 6,047	\$ 6,064	\$ 6,175	\$ 6,058
Contributions in Relation to the Contractually Required Contributions	<u>(6,855)</u>	<u>(6,047)</u>	<u>(6,064)</u>	<u>(6,175)</u>	<u>(6,058)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Division's Covered Payroll	\$ 52,731	\$ 50,392	\$ 50,533	\$ 51,458	\$ 46,600
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.

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CITY OF CLEVELAND, OHIO



**DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the year ended December 31, 2017**

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

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-12
Statement of Net Position	14-15
Statement of Revenues, Expenses and Changes in Net Position	17
Statement of Cash Flows	18-19
Notes to Financial Statements.....	21-43
Schedule of the Division's Proportionate Share of the Net Pension Liability Ohio Public Employees Retirement System	44
Schedule of Contributions Ohio Public Employees Retirement System	45

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Division of Water Pollution Control, Department of Public Utilities, City of Cleveland, Ohio (the "Division") as of and for the year ended December 31, 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 Water Pollution Control, 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 WATER POLLUTION CONTROL**

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the City) Department of Public Utilities, Division of Water Pollution Control (the Division), we offer readers of the Division's financial statements this narrative overview and analysis of the financial activities of the Division for the year ended December 31, 2017. Please read this information in conjunction with the Division's basic financial statements and footnotes that begin on page 14.

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

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

The City retained responsibility for the sewer collector system in Cleveland. The Division serves a significant portion of the entire metropolitan area by managing the sanitary sewage and storm water drainage collection system. The sewer collection system transfers sanitary and storm sewage from its point of origin to an interceptor sewer or treatment plant for processing. The system is comprised of over 1,400 miles of sewer lines with attendant catch basins and includes 12 pump/lift stations. The Division is also responsible for the cleaning of 44,000 catch basins and for maintaining two storm detention basins.

The Division currently has 117,134 customer accounts in the City, of which 95.6% are residential and 4.4% commercial. Also, in 2017, the Division's sewers transported 1,789,836 Mcf's (thousand cubic feet) of water.

The Division acts as a custodian of billings and receipts for 18 other agencies including the NEORS, other municipalities and Dominion East Ohio's residential service line protection plan. Accounts are billed monthly and payments collected each month are remitted to the appropriate agency by the 15th of the subsequent month.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Division exceeded its liabilities and deferred inflows of resources (net position) by \$106,196,000 and \$99,409,000 at December 31, 2017 and 2016, respectively. Of these amounts, \$29,683,000 and \$26,011,000 are unrestricted net position at December 31, 2017 and 2016, respectively, and may be used to meet the Division's ongoing obligations to customers and creditors.
- The Division's net position increased by \$6,787,000 in 2017. The rise is primarily attributed to capital and other contributions of \$3,893,000.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL HIGHLIGHTS (Continued)

- The Division's total debt decreased in 2017 by \$727,000 due to the payment of principal on the Divisions revenue bonds and outstanding loans.
- Investment income increased by \$434,000 or 220%, due to a combination of higher cash balances and interest rates throughout the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 21 - 43 of this report. Required supplementary information can be found on pages 44 - 45 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION

Provided below are the statements of net position information for the Division as of December 31, 2017 and December 31, 2016:

	2017	2016
	(Amounts in Thousands)	
Assets:		
Capital assets, net	\$ 92,526	\$ 78,498
Restricted assets	17,921	31,895
Current assets	177,622	160,050
Total Assets	288,069	270,443
Deferred outflows of resources	4,243	3,244
Net position:		
Net investment in capital assets	73,967	70,873
Restricted for debt service	2,546	2,525
Unrestricted	29,683	26,011
Total net position	106,196	99,409
Liabilities:		
Long-term obligations	47,540	46,246
Current liabilities	138,272	127,823
Total liabilities	185,812	174,069
Deferred inflows of resources	304	209

Current Assets: During 2017, the Division's current assets increased by \$17,572,000. Net accounts receivable increased by \$9,639,000, while unrestricted cash and cash equivalents rose by \$7,303,000. The increase in both is primarily attributed to escalating sewer rates.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Capital Assets: At December 31, 2017, net capital assets amounted to \$92,526,000. This is a net increase of \$14,028,000 from the prior year, mainly attributed to an increase of \$8,747,000 in utility plant and a net increase of \$8,306,000 in construction in progress, offset by a net change in accumulated depreciation of \$5,599,000. 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	\$ 297	\$	\$	\$ 297
Land improvements		73		73
Utility plant	148,060	8,747		156,807
Buildings, structures and improvements	9,019	588		9,607
Furniture, fixture, equipment and vehicles	16,246	2,654	(741)	18,159
Construction in progress	21,948	17,309	(9,003)	30,254
Total	195,570	29,371	(9,744)	215,197
Less: Accumulated depreciation	(117,072)	(6,340)	741	(122,671)
Capital assets, net	\$ 78,498	\$ 23,031	\$ (9,003)	\$ 92,526

In 2017, the largest capital additions were the Emergency Sewer Repairs, Catch Basins & Manholes, and Massie Avenue Sewer.

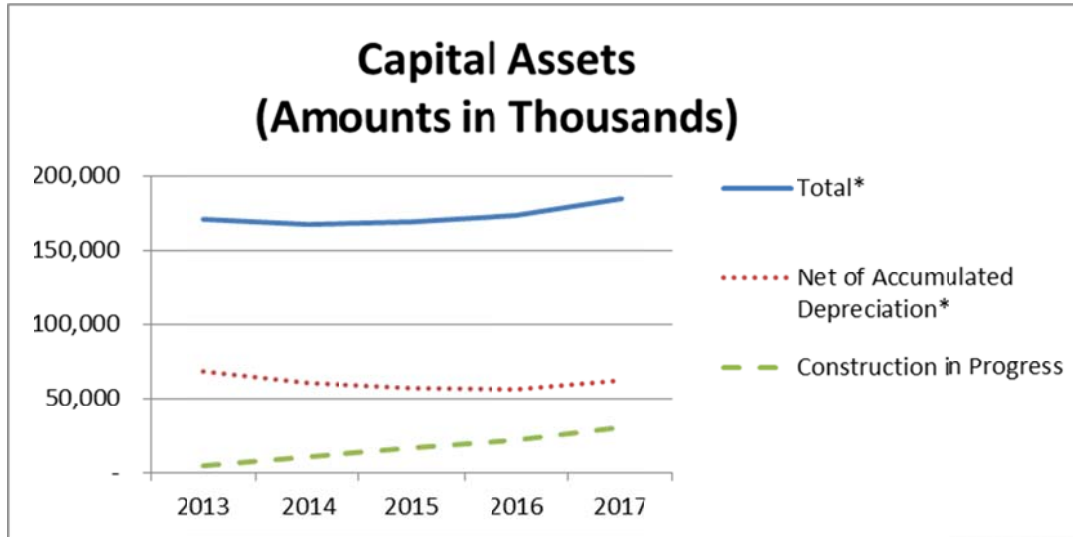
The major capital projects/expenses for the year included:

- Sewer Installations
- Rehabilitating and Relining Sewers
- Manholes and Catch Basins
- Sewer Connections

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

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)



* Construction in Progress not included

Additional information on the Division’s capital assets, including commitments made for future capital expenditures, can be found in Note D.

Current Liabilities: Current liabilities increased by \$10,449,000 in 2017, mainly due to an increase in amounts due for billings on behalf of others of \$9,276,000, as well as an increase in payable from restricted assets of \$860,000.

Pension Liability: During 2015, the Division 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 revised 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.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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.

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

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Long-Term Debt: At the end of 2017, the Division had total debt outstanding of \$31,934,000 associated with its issuance of revenue bonds and two OPWC construction loans. The revenue bonds are backed by the net revenues of the Division. The loans are payable from revenues generated by the Division but do not have a lien on the revenues.

The activity in the Division’s debt obligations outstanding during the year ended December 31, 2017 is summarized below:

	Balance January 1, 2017	Debt Issued	Debt Retired	Balance December 31, 2017
(Amounts in Thousands)				
Water Pollution Control				
Revenue Bonds, Series 2016	\$ 32,390	\$	\$ (550)	\$ 31,840
Ohio Water Development				
Authority Loans (OWDA)	152		(152)	-
Ohio Public Works				
Commission Loans (OPWC)	119		(25)	94
Total	<u>\$ 32,661</u>	<u>\$ -</u>	<u>\$ (727)</u>	<u>\$ 31,934</u>

The bonds ratings for the Division’s outstanding revenue bonds as of December 31, 2017, are as follows:

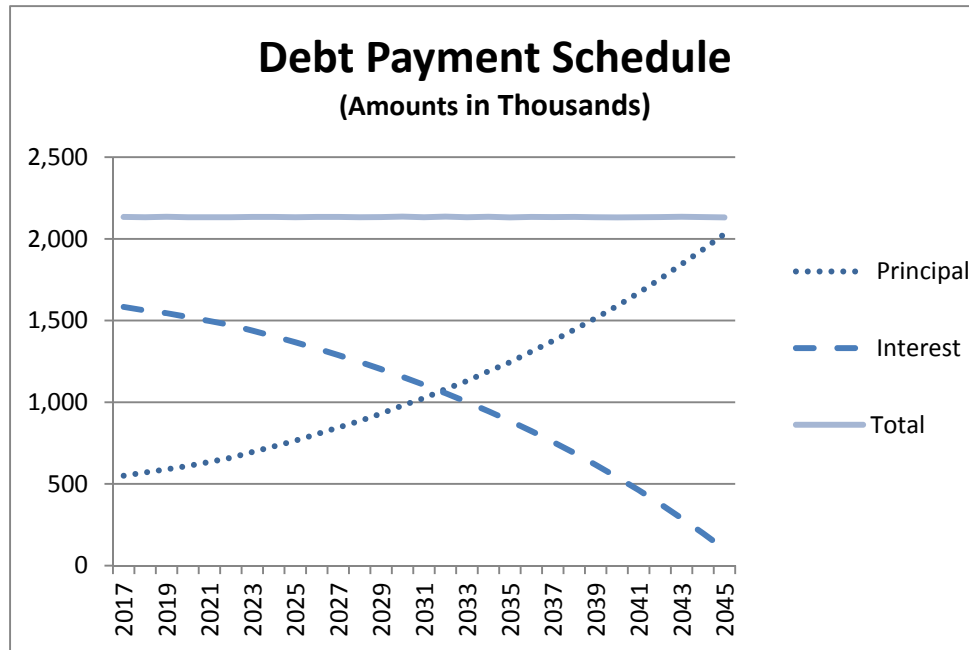
	Moody’s Investors Service	Standard & Poor’s
Water Pollution Control Revenue Bonds	Aa3	A+

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 and investors. The Division’s revenue bond coverage for 2017 was 411%.

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

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)



Additional information on the Division’s long-term debt can be found in Note B on pages 26 - 30.

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 \$106,196,000 and \$99,409,000 at December 31, 2017 and 2016, respectively.

The largest portion of the Division’s net position, \$73,967,000 at December 31, 2017, reflects its investment in capital assets (e.g., land, buildings, utility plant, machinery and equipment), net of accumulated depreciation, less any related outstanding debt used to acquire those assets. The Division uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although the Division’s investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Division’s net position, \$2,546,000 at December 31, 2017, represents resources that are subject to external restrictions. These funds are set aside for the payment of revenue bonds.

The remaining balance of net position, \$29,683,000 at December 31, 2017, is unrestricted and may be used to meet the Division’s ongoing obligations to customers and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

During 2017, the Division's operations increased its net position by \$2,894,000. Provided below are the key elements of the Division's results of operations for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	(Amounts in Thousands)	
Operating revenues	\$ 29,392	\$ 28,730
Operating expenses	<u>27,415</u>	<u>24,935</u>
Operating income (loss)	<u>1,977</u>	<u>3,795</u>
Non-operating revenue (expense):		
Investment income	631	197
Interest expense	(2)	(15)
Amortization of bond premiums and discounts	280	200
Gain (loss) on the disposal of assets		(123)
Other	<u>8</u>	<u>34</u>
Total non-operating revenue (expense), net	<u>917</u>	<u>293</u>
Income (loss) before capital and other contributions		
	2,894	4,088
Capital and other contributions	<u>3,893</u>	<u> </u>
Change in net position	<u>\$ 6,787</u>	<u>\$ 4,088</u>

Operating revenues: Operating revenues amounted to \$29,392,000 in 2017, which was an increase of \$662,000 from the previous year. The increase is primarily the result of a slight increase in Mcf's transported in 2017.

Operating expenses: During 2017, total operating expenses increased by \$2,480,000. Pension expense increased by \$1,014,000 compared to 2016.

Non-operating revenues and expenses: In 2017, non-operating revenue (expense) increased by \$624,000. The increase was primarily attributed to an investment income increase of \$434,000, a decrease on loss on disposal of assets of \$123,000, and an increase in amortization of bond premiums and discounts of \$80,000 due to having a full year of amortization on the Water Pollution Control Revenue Bonds, Series 2016 premium.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

Capital and other contributions: In 2017, the Division was the recipient of two separate grants from the NEORSF totaling \$3,893,000. The grants are intended to help mitigate the detrimental effects of storm water runoff, as well as general water pollution control capital enhancements.

ADDITIONAL INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES DIVISION OF WATER POLLUTION CONTROL STATEMENT OF NET POSITION

December 31, 2017

(Amounts in Thousands)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CAPITAL ASSETS

Land	\$	297
Land improvements		73
Utility plant		156,807
Buildings, structures and improvements		9,607
Furniture, fixtures, equipment and vehicles		18,159
		<u>184,943</u>
Less: Accumulated depreciation		<u>(122,671)</u>
		62,272
Construction in progress		30,254
		<u>30,254</u>
	CAPITAL ASSETS, NET	92,526

RESTRICTED ASSETS

Cash and cash equivalents		17,902
Accrued interest receivable		19
		<u>17,921</u>
	TOTAL RESTRICTED ASSETS	17,921

CURRENT ASSETS

Cash and cash equivalents		69,385
Restricted cash and cash equivalents		2,463
Receivables:		
Accounts receivable - net of allowance for doubtful accounts of \$3,093,000 in 2017		101,488
Unbilled revenue		2,071
Accrued interest receivable		17
Due from other governments		1,617
Due from other City of Cleveland departments, divisions or funds		32
Materials and supplies		549
		<u>177,622</u>
	TOTAL CURRENT ASSETS	177,622

DEFERRED OUTFLOWS OF RESOURCES

Pension		<u>4,243</u>
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CITY OF CLEVELAND, OHIO

**DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENT OF NET POSITION**

December 31, 2017

(Amounts in Thousands)

**NET POSITION, LIABILITIES AND DEFERRED INFLOWS
OF RESOURCES**

NET POSITION

Net investment in capital assets	\$	73,967
Restricted for debt service		2,546
Unrestricted		<u>29,683</u>

TOTAL NET POSITION 106,196

LIABILITIES

LONG-TERM OBLIGATIONS-excluding amounts due within one year:

OPWC loans		70
Accrued wages and benefits		50
Revenue bonds		36,175
Net pension liability		<u>11,245</u>

TOTAL LONG-TERM OBLIGATIONS 47,540

CURRENT LIABILITIES

Accounts payable		355
Customer deposits and other liabilities		189
Payable from restricted assets		2,463
Accrued wages and benefits		1,178
Due to other City of Cleveland departments, divisions or funds		4,335
Amounts due for billing on behalf of others		128,963
Accrued interest payable		195
Current portion of long-term debt, due within one year		<u>594</u>

TOTAL CURRENT LIABILITIES 138,272

TOTAL LIABILITIES 185,812

DEFERRED INFLOWS OF RESOURCES

Pension		<u>304</u>
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See notes to financial statements.

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CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES DIVISION OF WATER POLLUTION CONTROL STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended December 31, 2017

(Amounts in Thousands)

OPERATING REVENUES

Charges for services	\$ 29,392
TOTAL OPERATING REVENUES	<u>29,392</u>

OPERATING EXPENSES

Operations	11,993
Maintenance	9,082
Depreciation	<u>6,340</u>
TOTAL OPERATING EXPENSES	<u>27,415</u>

OPERATING INCOME (LOSS) 1,977

NON-OPERATING REVENUE (EXPENSE)

Investment income	631
Interest expense	(2)
Amortization of bond premiums and discounts	280
Other	<u>8</u>
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	<u>917</u>

INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS 2,894

Capital and other contributions	<u>3,893</u>
INCREASE (DECREASE) IN NET POSITION	6,787

NET POSITION, BEGINNING OF YEAR 99,409

NET POSITION, END OF YEAR \$ 106,196

See notes to financial statements.

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES DIVISION OF WATER POLLUTION CONTROL STATEMENT OF CASH FLOWS For the year ended December 31, 2017 (Amounts in Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 29,927
Cash payments to suppliers for goods or services	(9,823)
Cash payments to employees for services	(9,131)
Agency activity on behalf of NEORS	606
Other	<u>(54)</u>

NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES 11,525

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(18,095)
Principal paid on long-term debt	(727)
Interest paid on long-term debt	(1,586)
Capital grant proceeds	<u>2,276</u>

NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES (18,132)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received on investments	<u>787</u>
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NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES 787

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (5,820)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>95,570</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 89,750</u></u>

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
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)	\$	1,977
Adjustments		
Depreciation		6,340
(Increase) decrease in assets:		
Accounts receivable, net		(9,639)
Unbilled revenue		1,712
Due from other City of Cleveland departments, divisions or funds		325
Materials and supplies, net		(179)
(Increase) decrease in deferred outflows of resources - pension		(999)
Increase (decrease) in liabilities:		
Accounts payable		36
Customer deposits and other liabilities		(5)
Accrued wages and benefits		4
Due to other City of Cleveland departments, divisions or funds		316
Amounts due for billings on behalf of others		9,276
Net pension liability		2,266
Increase (decrease) in deferred inflows of resources - pension		95
TOTAL ADJUSTMENTS		<u>9,548</u>
NET CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES	\$	<u><u>11,525</u></u>

**SCHEDULE OF NONCASH CAPITAL AND RELATED
FINANCING ACTIVITIES:**

Contributions and accounts payable related to capital assets	\$	2,477
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See notes to financial statements.

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

In June of 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* was 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.

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

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended 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.

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

Accounts Receivables: The Division's share of the accounts receivable balance is \$13,462,000, net of allowance for doubtful accounts of \$3,093,000. The remaining net accounts receivable balance of \$88,026,000 belongs to the Northeast Ohio Regional Sewer District (NEORS), other municipalities in the Greater Cleveland Region and to Dominion Energy Services and is offset by corresponding amounts in due for billings on behalf of others.

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

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

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

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 the State Treasury Asset Reserve of Ohio (STAR Ohio) funds are excluded from fair value measurement requirements under GASB Statement No. 72, and instead are reported at amortized cost.

The Division has invested funds in 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.

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

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

For 2017, total interest costs incurred amounted to \$1,582,000, of which \$1,404,000 was capitalized, net of interest income of \$176,000.

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position 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 or utilized within one year is reported as a long-term liability.

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

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

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

NOTE B - LONG-TERM OBLIGATIONS

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

		Original		
	Interest Rate	Issuance	2017	
<u>(Amounts in Thousands)</u>				
Water Pollution Control Revenue Bonds, Series 2016 due through 2045	3.00% - 5.00%	\$ 32,390	\$ 31,840	
Ohio Public Works Commission (OPWC) Loans payable annually through 2022	0.00%	<u>481</u>	<u>94</u>	
		<u>\$ 32,871</u>	31,934	
Less:				
Unamortized discount and premium			4,905	
Current portion			<u>(594)</u>	
Total Long-Term Debt			<u>\$ 36,245</u>	

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

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

NOTE B - 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)					
Water Pollution Control Revenue Bonds, Series 2016 due through 2045	\$ 32,390	\$	\$ (550)	\$ 31,840	\$ 570
Ohio Water Development Authority (OWDA) Loans payable annually through 2017	152		(152)	-	
Ohio Public Works Commission (OPWC) Loans payable annually through 2022	119		(25)	94	24
Total bonds and loans	32,661	-	(727)	31,934	594
Accrued wages and benefits	1,224	1,080	(1,076)	1,228	1,178
Net pension liability	8,979	2,266		11,245	
Total	\$ 42,864	\$ 3,346	\$ (1,803)	\$ 44,407	\$ 1,772

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

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

NOTE B - LONG-TERM OBLIGATIONS (Continued)

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

	Principal	Interest	Total
	(Amounts in Thousands)		
2018	\$ 594	\$ 1,562	\$ 2,156
2019	614	1,545	2,159
2020	634	1,522	2,156
2021	646	1,497	2,143
2022	671	1,472	2,143
2023-2027	3,840	6,829	10,669
2028-2032	4,900	5,768	10,668
2033-2037	6,250	4,414	10,664
2038-2042	7,975	2,687	10,662
2043-2045	5,810	590	6,400
Total	\$ 31,934	\$ 27,886	\$ 59,820

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

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

On April 14, 2016, the City issued \$32,390,000 Water Pollution Control Revenue Bonds, Series 2016 (Green Bonds). This was the first series of revenue bonds issued by the Division, with the bonds being issued under and secured by a newly created Master Trust Agreement. The proceeds of these bonds are being used to pay capital costs relating to the acquisition, construction and improvement of the system along with funding the debt service reserve requirement and paying the costs of issuing the bonds.

In conjunction with the issuance of the Water Pollution Control Revenue Bonds, Series 2016 the City entered into a Master Trust Agreement for the Series 2016 Bonds and any future series of revenue bonds. Under the terms of the Trust Agreement, the Bonds are special obligations payable solely from and secured by a pledge of and lien on the net revenues of the Division and the Special Funds. The Special Funds include the construction fund, the debt service fund, the debt service reserve fund, the rate stabilization fund, the contingency fund and the balance subfund.

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

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

NOTE B - LONG-TERM OBLIGATIONS (Continued)

The indenture requires that the City will at all times prescribe, charge and collect such rates, rental and other charges for the use of the services of the system, and will restrict the operating expenses of the system in such a way that the net revenues available for debt service in each fiscal year shall be not less than the greater of i) 120% of debt service on all bonds then outstanding and payable during the fiscal year or ii) 100% of the sum of (a) debt service on all bonds then outstanding payable during that fiscal year, (b) all required deposits to the debt service reserve fund during that fiscal year, (c) all required deposits to the subordinated debt service fund and to any reserve fund securing subordinated indebtedness during the fiscal year, (d) all required deposits to the contingency fund during the fiscal year and (e) debt service payable on any other obligations payable from the balance sub fund and deposits to any reserve funds securing such other obligations. As of December 31, 2017, the Division was in compliance with the terms and requirements of the indenture.

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

Revenue Fund: All revenues of the system are required to be deposited first into the revenue fund. Every month, amounts in the fund are first applied to the payment of operating expenses. A reasonable amount is also maintained in this fund as a working capital reserve.

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

Debt Service Reserve Fund: Deposits will be made to this fund if the amount in the fund at any given time is less than the debt service reserve requirement. Amounts in the fund were deposited from the proceeds of the revenue bonds secured by the reserve fund and represent the maximum annual debt service requirement of these bonds. The City may elect not to secure any series of bonds with the reserve fund.

Contingency Fund: The balance in this fund must be maintained at a minimum of \$1,000,000. Amounts in this fund may be used for the payment of capital costs or for redeeming bonds.

Balance Subfund: Amounts in this fund may be used for any lawful purpose of the water pollution control system.

Construction Fund: Proceeds of the various series of revenue bonds are deposited into this fund to be used, along with earnings from investments of amounts held therein, for the payment of capital costs and issuance costs.

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

The City has pledged future water pollution control revenues to repay \$31,840,000 in Water Pollution Control Revenue Bonds issued in 2016. Proceeds from the bonds are being used to pay capital costs relating to the acquisition, construction and improvement of the system. The bonds are payable from water pollution control net revenues and are payable through 2045. Annual principal and interest payments on the bonds are expected to require less than 24% of net revenues.

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

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

NOTE B - LONG-TERM OBLIGATIONS (Continued)

The total principal and interest remaining to be paid on the various Water Pollution Control Revenue Bonds is \$59,726,000. Principal and interest funded in the current year and total net revenues (including other available funds) were \$2,134,000 and \$8,772,000 respectively.

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

In Ohio, this SRF program is known as the Water Pollution Control Loan Fund and is jointly administered by the Ohio EPA and the Ohio Water Development Authority. Principal balances on loans increase as project costs are incurred. Interest accrues on principal amounts outstanding during the construction period and is combined with the principal balance upon completion of the project. The repayment period for each loan commences no later than the 1st of January or July following the expected completion dates of the project to which it relates utilizing an estimate of total eligible project costs as the preliminary loan amount. Construction loans and design loans are to be repaid in semi-annual payments of principal and interest over a period of twenty years and five years, respectively. The Division had no SRF loan award related to projects remaining as of December 31, 2017. One loan was paid off during 2017.

In addition, the Division had two OPWC loan awards as of December 31, 2017. The loan related projects are for sewer repair and replacement at the Hamlet and Adolpha Streets intersection and a storm water detention basin project at Kerruish Park. Both loans are interest-free and principal repayment will be made from the Division's operating revenues.

NOTE C - DEPOSITS AND INVESTMENTS

Deposits: The Division's carrying amount of deposits at December 31, 2017, totaled \$4,708,000 and the Division's bank balances were approximately \$7,333,000. 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*, \$7,333,000 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.

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

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

NOTE C – DEPOSIT AND INVESTMENTS (Continued)

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 portfolio value.

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

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

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

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

NOTE C – DEPOSIT AND INVESTMENTS (Continued)

Credit Risk: The Division’s investments as of December 31, 2017 include STAR Ohio and money market mutual funds. The Division maintains the highest ratings for their investments. Investments in STAR Ohio and the PNC Treasury Money Market Fund carry a rating of AAAM, which is the highest money market fund rating given by Standard & Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

Concentration of Credit Risk: The Division places a limitation on the amount it may invest in any one issuer to minimize the concentration of credit risk. The Division had the following investments at December 31, 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 Government 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	\$ 44,681	\$ 44,681	\$ 44,681
Money Market Mutual Funds	<u>40,361</u>	<u>40,361</u>	<u>40,361</u>
Total Investments	85,042	85,042	85,042
Total Deposits	<u>4,708</u>	<u>4,708</u>	<u>4,708</u>
Total Deposits and Investments	<u>\$ 89,750</u>	<u>\$ 89,750</u>	<u>\$ 89,750</u>

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 and money market mutual funds are 52.5% and 47.5%, respectively, of the Division’s total investments.

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

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

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	\$ 297	\$	\$	\$ 297
Construction in progress	21,948	17,309	(9,003)	30,254
Total capital assets, not being depreciated	22,245	17,309	(9,003)	30,551
Capital assets, being depreciated:				
Land improvements		73		73
Utility plant	148,060	8,747		156,807
Buildings, structures and improvements	9,019	588		9,607
Furniture, fixtures, equipment and vehicles	16,246	2,654	(741)	18,159
Total capital assets, being depreciated	173,325	12,062	(741)	184,646
Less: Accumulated depreciation	(117,072)	(6,340)	741	(122,671)
Total capital assets being depreciated, net	56,253	5,722	-	61,975
Capital assets, net	\$ 78,498	\$ 23,031	\$ (9,003)	\$ 92,526

Commitments: The Division had outstanding commitments of approximately \$23,501,000 for future capital expenses 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.

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

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

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’s cannot control benefit terms or the manner in which pensions are financed; however, the Division does receive the benefit of employees’ services in exchange for compensation including pension.

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

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

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

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

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

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	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 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%.

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

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

NOTE E – DEFINED BENEFIT PENSION PLAN (Continued)

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

	State and Local
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 payrolls. The Division's contractually required contribution was \$856,000 for 2017. All required payments have been made.

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

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

NOTE E – DEFINED BENEFIT PENSION PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Division’s proportion of the net pension liability was based on the Division’s share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS
	(Amounts in Thousands)
Proportionate Share of the Net Pension Liability	\$ 11,245
Proportion of the Net Pension Liability	0.047965%
Change in proportion	0.000167%
Pension Expense	\$ 2,317

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	
Differences in expected and actual economic experience	\$ 15
Changes of assumptions	1,732
Net difference between projected and actual earnings on pension plan investments	1,640
Division's contributions subsequent to the measurement date	856
Total Deferred Outflows of Resources	\$ 4,243
Deferred Inflows of Resources	
Differences between expected and actual experience	\$ 76
Change in Division's proportionate share	228
Total Deferred Inflows of Resources	\$ 304

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

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

NOTE E – DEFINED BENEFIT PENSION PLAN (Continued)

The \$856,000 reported as deferred outflows of resources related to pension resulting from the Division’s contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ending December 31, 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	\$	1,254
2019		1,314
2020		566
2021		(49)
2022		(2)
Total	\$	3,083

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 COLA or Ad Hoc COLA	3.25% to 10.75% including wage inflation 3.25%, simple Pre 1/7/2013 retirees: 3%, simple Post 1/7/2013 retirees: 3%, simple through 2018, then 2.15%, simple	4.25% to 10.05% including wage inflation 3%, simple Pre 1/7/2013 retirees: 3%, simple Post 1/7/2013 retirees: 3%, 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

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

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

NOTE E – DEFINED BENEFIT PENSION PLAN (Continued)

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.

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 (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.

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

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

NOTE E – DEFINED BENEFIT PENSION PLAN (Continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
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	<u>100.00 %</u>	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.

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:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	<u>6.50%</u>	<u>7.50%</u>	<u>8.50%</u>
	<u>(Amounts in Thousands)</u>		
Division's proportionate share of the net pension liability	\$ 17,421	\$ 11,245	\$ 6,097

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

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

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 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.

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.

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

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

NOTE F – OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 \$66,000 in 2017, \$130,000 in 2016 and \$126,000 in 2015. The required payments due in 2017, 2016 and 2015 have been made.

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT

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

Risk Management: The Division is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Division is generally self-insured. No material losses, including incurred but not reported losses, occurred in 2017.

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 immaterial.

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

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

NOTE H - RELATED PARTY TRANSACTIONS

Revenues and Accounts Receivable: The Division provides sewer services to the City, including its various departments and divisions. Standard consumption rates are charged, except for the Division of Fire, public buildings and certain other facilities owned by the City, which by ordinance are provided free sewer services. Billing, collection and various other services for the Division are performed by the Division of Water for a fee. This fee is primarily based on the number of billings made on behalf of the Division during the year at the same rates as charged to other users of the billing system. These fees were approximately \$2,645,000 in 2017.

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, was as follows:

	(Amounts in Thousands)
Electricity purchases	\$ 219
Radio communication	57
City Administration	945
Motor Vehicle Maintenance	278
Utilities Administration and Utilities Fiscal Control	1,093

NOTE I - CUYAHOGA COUNTY REAL PROPERTY TAXES

The Division is required by ordinance to keep records of the estimated property taxes which would be payable to Cuyahoga County were it subject to such taxes. The estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately \$23,000 for the year ended December 31, 2017.

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

	2017	2016	2015	2014
	(Amounts in Thousands)			
Division's Proportion of the Net Pension Liability	0.047965%	0.047798%	0.054153%	0.054153%
Division's Proportionate Share of the Net Pension Liability (Asset)	\$ 11,245	\$ 8,979	\$ 6,511	\$ 6,375
Division's Covered Payroll	\$ 6,367	\$ 6,092	\$ 6,783	\$ 6,138
Division's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	176.61%	147.39%	95.99%	103.86%
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 WATER POLLUTION CONTROL
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	\$ 856	\$ 764	\$ 731	\$ 814	\$ 798
Contributions in Relation to the Contractually Required Contributions	<u>(856)</u>	<u>(764)</u>	<u>(731)</u>	<u>(814)</u>	<u>(798)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Division's Covered Payroll	\$ 6,585	\$ 6,367	\$ 6,092	\$ 6,783	\$ 6,138
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.

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CITY OF CLEVELAND, OHIO



**DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the year ended December 31, 2017**

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CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC WORKS DIVISION OF PARKING FACILITIES

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1-2
Management's Discussion and Analysis.....	3-10
Statement of Net Position	12-13
Statement of Revenues, Expenses and Changes in Net Position	15
Statement of Cash Flows	16-17
Notes to Financial Statements.....	19-41
Schedule of the Division's Proportionate Share of the Net Pension Liability Ohio Public Employees Retirement System	43
Schedule of Contributions Ohio Public Employees Retirement System	44

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Division of Parking Facilities, Department of Public Works, 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 Parking Facilities, Department of Public Works, 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 WORKS
DIVISION OF PARKING FACILITIES**

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the City) Department of Public Works, Division of Parking Facilities (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 which begin on page 12.

The Division was created for the purpose of providing moderately priced off-street parking facilities and on-street metered parking to citizens, visitors and those who work in the City. The Division's operating revenues are derived primarily from charges for parking at its facilities and from parking meter collections. In 2017, the Division facilities included two parking garages and four surface lots.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Division exceeded its liabilities and deferred inflows of resources (net position) by \$33,789,000 and \$28,491,000 at December 31, 2017 and 2016, respectively. Of these amounts, \$2,731,000 and \$1,654,000 (unrestricted net position) at December 31, 2017 and 2016, respectively, may be used to meet the Division's ongoing obligations to customers and creditors.
- The Division's total net position increased by \$5,298,000 during 2017. In 2017, operating revenues increased \$79,000 due to increased parking activity. Investment income increased by \$407,000 due to the increase in the interest rate swap. Capital contributions decreased by \$801,000 related to fewer improvements on the Gateway East Garage and Willard Garage during 2017.
- The Division's total bonded debt decreased by \$3,040,000 (14.6%) during 2017. This amount represents the principal payment made in 2017.

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 of Cleveland's Division of Parking Facilities Fund, in which the City accounts for the activities of off-street parking operations and meter revenue collections. 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.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The basic financial statements of the Division can be found on pages 12 – 17 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 19 – 41 of this report. Required supplementary information can be found on pages 43 – 44 of this report.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION

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

	2017	2016
	(Amounts in Thousands)	
Assets and deferred outflows of resources:		
Assets:		
Current assets	\$ 4,666	\$ 3,629
Restricted assets	8,599	8,542
Capital assets, net	39,947	38,807
Total assets	53,212	50,978
Deferred outflows of resources	1,183	1,328
Liabilities, deferred inflows of resources and net position:		
Liabilities:		
Current liabilities	4,220	4,232
Long-term liabilities	16,259	19,341
Total liabilities	20,479	23,573
Deferred inflows of resources	127	242
Net position:		
Net investment in capital assets	25,483	21,261
Restricted for debt service	5,575	5,576
Unrestricted	2,731	1,654
Total net position	\$ 33,789	\$ 28,491

Assets:

Current, restricted and other non-capital assets: From 2016 to 2017, the Division's current and restricted assets have increased 9.0%. This increase is primarily related to an increase in cash and cash equivalents due to increased parking revenues and decreased maintenance expenses.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Capital assets: The Division's capital assets (net of accumulated depreciation) as of December 31, 2017 amounted to \$39,947,000. The total increase in the Division's investment in net capital assets was \$1,140,000 (2.9%) in 2017. The increase in 2017 was due to asset additions exceeding depreciation expense. During 2017, improvements at the parking lot at the West Side Market continued.

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	Deletions	Balance December 31, 2017
(Amounts in Thousands)				
Land	\$ 5,478	\$	\$	\$ 5,478
Land improvements	1,256			1,256
Buildings, structures and improvements	54,167			54,167
Furniture, fixtures, equipment and vehicles	1,284			1,284
Construction in progress	7,590	2,502		10,092
Total	69,775	2,502	-	72,277
Less: Accumulated depreciation	(30,968)	(1,362)		(32,330)
Capital assets, net	\$ 38,807	\$ 1,140	\$ -	\$ 39,947

Additional information on the Division's capital assets can be found in Note A – Summary of Significant Accounting Policies and Note E – Capital Assets.

Liabilities:

Pension Liability: During 2015, the Division 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 revised accounting for pension costs and liabilities. For reasons discussed on the following page, 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.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

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, *Accounting for Pensions by State and Local Governmental Employers*, focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

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

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

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 government, part of a bargained-for benefit to the employee and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Division is not responsible for certain key factors affecting the balance of 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 local government. 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.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

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 debt: At the end of 2017, the Division had total bonded debt outstanding of \$17,770,000. This is a reduction of approximately 14.6%. This reduction is the result of annual principal payments on the Division's outstanding bonds. This current debt was incurred to refund debt previously issued to construct two new parking garages around the Gateway site and a new Willard Park Garage behind City Hall. The City's first garage on the Gateway site was completed in January 1994. The second garage was completed in August 1994 and was subsequently sold in 2011. The Willard Park Garage construction was completed in April 1996. The bonds are backed by the net revenues from these facilities. In addition, the City has pledged additional revenues, which consist of various non-tax revenues, to meet debt service requirements, if necessary. In 2017, no additional pledged revenue was required to meet the debt service requirements on the parking bonds.

The activity in the Division's debt obligations outstanding during the year ended December 31, 2017 is summarized below:

	Balance January 1, 2017	Debt Retired	Balance December 31, 2017
<i>(Amounts in Thousands)</i>			
Parking Facilities Refunding Revenue Bonds:			
Series 2006	\$ 20,810	\$ (3,040)	\$ 17,770

The bond ratings at December 31, 2017 for the Division's revenue bonds are as follows:

	Moody's Investors Service	Standard & Poor's
Parking Facilities Refunding Revenue Bonds:		
Series 2006	A2	AA

The bond ratings indicated above are insured ratings only, reflecting the ratings of Assured Guaranty Municipal Corporation (formerly Financial Security Assurance, Inc.).

In addition, the Division entered into a derivative or hedging agreement in 2003. Derivative instruments are contracts, the value of which depends on, or derives from, the value of an underlying asset, index or rate. The most common types of derivatives used by governments are interest rate swaps and interest rate locks. A detailed description of the outstanding derivative, including its terms, objectives, risks and fair value, can be found in Note B – Long-Term Debt and Other Obligations.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

The Division has reported deferred inflows of resources in the amount of the fair value of the interest rate swap, which reflects the prevailing interest rate environment at December 31, 2017. The fair value of the swap has been provided by the counterparty and confirmed by the City's financial advisor.

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

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 \$33,789,000 at December 31, 2017.

Of the Division's net position at December 31, 2017, \$5,575,000 represents resources that are classified as restricted since their use is limited by the bond indentures. In addition, the Division had a net balance of \$25,483,000 that reflects its investment in capital assets (e.g., land, buildings, furniture) net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. The \$2,731,000 balance of unrestricted net position may be used to meet the Division's ongoing obligations to customers and creditors.

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

The Division's operations during 2017 increased net position by \$5,298,000. Provided below are key elements of the Division's results of operations as of and for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	<u>(Amounts in Thousands)</u>	
Operating revenues	\$ 9,311	\$ 9,232
Operating expenses	<u>5,536</u>	<u>5,583</u>
Operating income (loss)	3,775	3,649
Non-operating revenue (expense):		
Investment income (loss)	214	(193)
Interest expense	<u>(1,193)</u>	<u>(1,320)</u>
Total non-operating revenue (expense), net	<u>(979)</u>	<u>(1,513)</u>
Income (loss) before capital contributions	2,796	2,136
Capital contributions	<u>2,502</u>	<u>3,303</u>
Change in net position	<u>\$ 5,298</u>	<u>\$ 5,439</u>

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

Operating revenues: From 2016 to 2017, operating revenues increased \$79,000 or 0.9%. This increase is primarily due to increased parking revenue related to sporting events.

Operating expenses: In 2017, operating expenses decreased \$47,000 or 0.8%. This decrease is due to a decrease in maintenance expense.

Non-operating revenues and expenses: From 2016 to 2017, net non-operating revenues and expenses changed by \$534,000 or 35.3%. This is primarily due to the investment income from the derivative investment interest rate swap.

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

Operating revenues are derived primarily from fees charged to users of City-owned parking garages and facilities operated by the Division including the net income from the Gateway garage and on-street parking meter revenue.

The Division continues to assess their operations to improve efficiencies, identify additional revenue sources and improve existing revenue sources. City Council has the authority to further increase parking fees when deemed necessary to assist the Division in meeting operational and debt commitments as economic circumstances dictate.

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 WORKS
DIVISION OF PARKING FACILITIES**

STATEMENT OF NET POSITION

December 31, 2017

(Amounts in Thousands)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS

Cash and cash equivalents	\$ 4,560
Accounts receivable - net of allowance	26
Accrued interest	3
Due from other City of Cleveland departments, divisions or funds	23
Inventory of supplies, at cost	<u>54</u>
TOTAL CURRENT ASSETS	4,666

RESTRICTED ASSETS

Cash and cash equivalents	8,592
Accrued interest receivable	<u>7</u>
TOTAL RESTRICTED ASSETS	8,599

CAPITAL ASSETS

Land	5,478
Land improvements	1,256
Buildings, structures and improvements	54,167
Furniture, fixtures, equipment and vehicles	1,284
Construction in progress	<u>10,092</u>
	72,277
Less: Accumulated depreciation	<u>(32,330)</u>
CAPITAL ASSETS, NET	39,947

DEFERRED OUTFLOWS OF RESOURCES

Loss on refunding	676
Pension	<u>507</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,183

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

STATEMENT OF NET POSITION

December 31, 2017

(Amounts in Thousands)

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES
AND NET POSITION**

LIABILITIES

CURRENT LIABILITIES

Current portion of long-term debt, due within one year	\$ 3,200
Accounts payable	271
Due to other governments	238
Due to other City of Cleveland departments, divisions or funds	23
Accrued interest payable	272
Accrued wages and benefits	96
Unearned revenue	<u>120</u>

TOTAL CURRENT LIABILITIES 4,220

LONG-TERM LIABILITIES

Revenue bonds - excluding amount due within one year	14,946
Accrued wages and benefits	9
Pension	<u>1,304</u>

TOTAL LONG-TERM LIABILITIES 16,259

TOTAL LIABILITIES 20,479

DEFERRED INFLOWS OF RESOURCES

Derivative instruments-interest rate swaps	90
Pension	<u>37</u>

TOTAL DEFERRED INFLOWS OF RESOURCES 127

NET POSITION

Net investment in capital assets	25,483
Restricted for debt service	5,575
Unrestricted	<u>2,731</u>

TOTAL NET POSITION \$ 33,789

See notes to financial statements.

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**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2017
(Amounts in Thousands)**

OPERATING REVENUES

Charges for services	\$ 9,311
TOTAL OPERATING REVENUES	9,311

OPERATING EXPENSES

Operations	4,077
Maintenance	97
Depreciation	<u>1,362</u>
TOTAL OPERATING EXPENSES	<u>5,536</u>

OPERATING INCOME (LOSS) 3,775

NON-OPERATING REVENUE (EXPENSE)

Investment income (loss)	214
Interest expense	<u>(1,193)</u>
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	<u>(979)</u>

**INCOME (LOSS) BEFORE CAPITAL AND
OTHER CONTRIBUTIONS 2,796**

Capital contributions	<u>2,502</u>
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INCREASE (DECREASE) IN NET POSITION 5,298

NET POSITION, beginning of year	<u>28,491</u>
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NET POSITION, end of year	<u>\$ 33,789</u>
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See notes to financial statements.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

**STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017
(Amounts in Thousands)**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 10,036
Cash payments to suppliers for goods or services	(3,788)
Cash payments to employees for services	<u>(1,085)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	5,163
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on long-term debt	(3,040)
Interest paid on long-term debt	<u>(1,127)</u>
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(4,167)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received on investments	<u>79</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>79</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,075
CASH AND CASH EQUIVALENTS, beginning of year	<u>12,077</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 13,152</u>

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

**STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017
(Amounts in Thousands)**

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

Operating Income	\$ 3,775
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,362
Changes in assets:	
Accounts receivable, net	(5)
Due from other City of Cleveland departments, divisions or funds	(3)
Inventory of supplies	(4)
Changes in deferred outflows of resources:	
Pension	(110)
Changes in liabilities:	
Accounts payable	(144)
Due to other governments	(1)
Unearned revenue	120
Due to other City of Cleveland departments, divisions or funds	(105)
Accrued wages and benefits	(7)
Pension liability	272
Changes in deferred inflows of resources:	
Pension	<u>13</u>
TOTAL ADJUSTMENTS	<u><u>1,388</u></u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 5,163</u></u>

**SCHEDULE OF NON-CASH CAPITAL AND RELATED
FINANCING ACTIVITIES**

Contributions of capital assets	\$ 2,502
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See notes to financial statements.

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**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Division of Parking Facilities (the Division) is reported as an Enterprise Fund of the City of Cleveland's (the City) Department of Public Works and is a part of the City's primary government. The Division was created for the purpose of providing moderately priced off-street parking facilities and on-street metered parking to citizens, visitors and those who work in 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*, was 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, 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 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.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended 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, No. 68 and No. 73. 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.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Revenues: Revenues are derived primarily from fees charged to users of City-owned parking garages and facilities operated by the Division, including the Gateway and Willard Park garages and on-street parking meter revenue. Parking rates are authorized by City Council. Parking fees are collected on a daily or monthly basis.

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 the statement of cash flows, cash receipts and cash payments are classified according to operating, noncapital, capital and related financing and investment activities.

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

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 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.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, *Certain External Investment Pools and Pool Participants*, for the purpose of measuring the value of shares in STAR Ohio. The Division measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV share that approximates fair value.

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

Inventory of Supplies: Inventory is valued at cost using the first in/first out method. Inventory costs are charged to operations when consumed.

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:

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

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 statements of net position. The portion of the compensated absence liability that is not expected to be paid or utilized within one year is reported as a long-term liability.

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

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 position 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.

Bond Issuance Costs, Discounts/Premiums and Unamortized Loss on Debt Refunding: 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 resource and is amortized over the shorter of the defeased bond or the newly issued bond.

NOTE B – LONG-TERM DEBT AND OTHER OBLIGATIONS

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

	Interest Rate	Original Issuance	2017
(Amounts in Thousands)			
Parking Facilities Refunding Revenue Bonds:			
Series 2006, due through 2022	5.25%	\$ 57,520	\$ 17,770
Unamortized (discount) premium			376
Current portion (due within one year)			(3,200)
Total Long-Term Debt			\$ 14,946

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

NOTE B – LONG-TERM DEBT AND OTHER 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)					
Parking Facilities Refunding Revenue Bonds:					
Series 2006, due through 2022	\$ 20,810	\$	\$ (3,040)	\$ 17,770	\$ 3,200
Accrued wages and benefits	112	84	(91)	105	96
Pension	1,032	272		1,304	
Total	\$ 21,954	\$ 356	\$ (3,131)	\$ 19,179	\$ 3,296

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

Year	Principal	Interest	Total
(Amounts in Thousands)			
2018	\$ 3,200	\$ 933	\$ 4,133
2019	3,370	765	4,135
2020	3,540	588	4,128
2021	3,730	402	4,132
2022	3,930	206	4,136
Total	\$ 17,770	\$ 2,894	\$ 20,664

The Parking Facilities Refunding Revenue Bonds are payable from net revenues generated from certain parking facilities and other operating revenues of the Division of Parking Facilities, including parking meter revenue. In addition, the City has pledged other non-tax revenue to meet debt service requirements. The City has pledged and assigned to the trustee a first lien on pledged revenues consisting of fines and penalties collected as a result of the violation of municipal parking ordinances and fines, waivers and costs relating to citations for misdemeanor offenses and the special funds as defined within the bond indenture.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

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

Effective October 6, 2011, the City completed the sale of the City-owned Gateway North Parking Garage to Rock Ohio Caesars Gateway LLC. The garage is being used by the purchaser in conjunction with the casino constructed in the Higbee Building adjacent to the garage. The net proceeds of the sale of the garage received by the City totaled \$20,915,504. Of this amount, \$19,578,288 was placed into an irrevocable escrow fund, along with \$1,967,425 released from the debt service reserve fund as a result of the transaction, to be used to pay the principal and interest as it comes due on \$16,145,000 Parking Facilities Refunding Revenue Bonds, Series 2006. As a result, these bonds are considered to be defeased and the liability for the bonds has been removed from long-term debt. In addition, \$480,000 of the sale proceeds was used to terminate the portion of an existing basis swap which was associated with the bonds being defeased. Sale proceeds were also utilized to pay costs of the transaction. As a result of this transaction, the City expects to save approximately \$600,000 annually through 2022.

Effective August 15, 2006, the City issued \$57,520,000 of Parking Facilities Refunding Revenue Bonds, Series 2006. The bonds were issued to currently refund \$56,300,000 of the outstanding Parking Facilities Refunding Revenue Bonds, Series 1996. In addition, proceeds were also used to fund a portion of a payment owed by the City upon early termination under an interest rate swaption agreement entered into in 2003. At the time of the issuance of the Series 2006 Bonds, the City entered into a basis swap agreement with UBS, which is described below.

On April 16, 2013, the City entered into a novation agreement with UBS, AG and PNC Bank, National Association (PNC) under which the basis swap was transferred from UBS to PNC effective March 15, 2013. All of the terms of the original basis swap remain the same. The City agreed to transfer the swap to PNC based upon UBS' mandate to downsize its swap portfolio.

Interest Rate Swap Transaction

Terms: Simultaneously with the issuance of the City's \$57,520,000 Parking Facilities Refunding Revenue Bonds, Series 2006 on August 15, 2006, the City entered into a floating-to-floating rate basis swap agreement with a notional amount equal to the total declining balance of the Series 2006 Bonds. UBS was the counterparty on the transaction. As stated above, the basis swap was transferred to PNC Bank, National Association in 2013. Under the swap agreement for the Series 2006 Bonds, the City is a floating rate payor, paying a floating rate based on the Securities Industry and Financial Markets Association (SIFMA) index. The counterparty is also a floating rate payor, paying the City 67% of one month LIBOR. The City also received an upfront payment in the amount of \$1,606,000. Net payments are exchanged semi-annually each March 15 and September 15. The obligation of the City to make periodic payments (but not any termination payment) is secured by a pledge of and lien on the parking revenues and additional pledged revenues as defined in the trust indenture securing the Parking Facilities Refunding Revenue Bonds, Series 2006, on parity with the pledge and lien securing the payment of debt service on the bonds.

Objective: The City entered into the swap in order to maximize the savings associated with the refunding of the bonds and to reduce the City's risk exposure. The actual overall savings to be realized by the City will depend upon the net payments received under the swap agreement.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

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

Basis Risk: By entering into the swap based upon the 30 day LIBOR rate of interest, the City has undertaken basis risk associated with a change in tax rates and structure. While the average relationship between the SIFMA (tax-exempt) and LIBOR (taxable) interest rates has been 67%, this relationship may not always apply. Since late 2008, this relationship has been significantly higher or lower for various periods of time due to disruptions in the financial markets. The payments received from the counterparty may be less than the amount owed to the counterparty, resulting in a net increase in debt service. From 2013 to early 2016, the SIFMA/LIBOR relationship was significantly lower than 67%. In this case payments received from the counterparty were greater than the amount owed to the counterparty which resulted in a net decrease in debt service. In addition, a reduction in federal income tax rates such as the one that was approved in late 2017, might increase the percentage relationship between SIFMA and LIBOR and may potentially increase the cost of the financing.

Counterparty Risk: The City selected a highly rated counterparty in order to minimize this risk. However, over the long-term, it is possible that the credit strength of PNC could change and this event could trigger a termination payment on the part of the City.

Termination Risk: The swap agreement may be terminated prior to its stated termination date under certain circumstances. Upon termination, a payment may be owed by the City to PNC, or by PNC to the City, depending upon the prevailing economic circumstances at the time of the termination. The City obtained insurance to mitigate much of the risk associated with termination due to the event of a downgrade of the City's bond rating. An amount due by the City to PNC upon early termination of the agreement is insured by FSA (now Assured Guaranty Municipal Corp.) up to a maximum amount of \$8,000,000.

Fair Value: The fair value of the swap at December 31, 2017 as reported by PNC was \$90,000, which would be payable by the City.

The City has pledged future revenues from certain parking facilities, net of specified operating expenses and other operating revenues to repay \$17,770,000 of Parking Facilities Refunding Revenue Bonds issued in 2006. Proceeds from the bonds initially issued provided financing for the construction of parking facilities. The bonds are payable from parking facilities net revenues and are payable through 2022. Annual principal and interest payments on the bonds are expected to require the full amount of net operating revenues. The total principal and interest remaining to be paid on the Parking Facilities Refunding Revenue Bonds is \$20,664,000. Principal and interest paid for the current year (including net swap payments) and total net revenues were \$4,167,000 and \$5,372,000, respectively.

In 2017, no additional pledged revenue was required to meet the debt service on the Parking Facilities Refunding Revenue Bonds. The trust indenture requires, among other things, that the Division will fix parking rates and will charge and collect fees for the use of the parking facilities and will restrict operating expenses. As of December 31, 2017, the Division was in compliance with the terms and requirements of the trust indenture.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

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

Derivative instruments are contracts, the value of which depends on, or derives from, the value of an underlying asset, index or rate. The most common types of derivatives used by governments are interest rate swaps and interest rate locks. The Division entered into a derivative or hedging agreement in 2003. A detailed description of the outstanding derivative, including its terms, objectives, risks and fair value, can be found in the preceding section.

Derivative Instruments

The Division has reported an asset and/or a liability as appropriate in the amount of the fair value of the interest rate swap, which reflects the prevailing interest rate environment at December 31, 2017. The fair value of the swap has been provided by the counterparty and confirmed by the City’s financial advisor. The Division recognized a \$128,000 investment revenue pursuant to this swap in 2017.

The table below presents the fair value balance and notional amount of the Division’s derivative instrument outstanding at December 31, 2017, classified by type and the change in fair value of this derivative during fiscal year 2017 as reported in the respective financial statements. The fair value of the interest rate swap, which reflects the prevailing interest rate environment at December 31, 2017 and the specific terms and conditions of the swap, have been provided by the counterparty and confirmed by the City’s financial advisor.

The derivative instrument is classified as a Level 2 input of the fair value hierarchy and is considered to be a significant other observable input. The derivative instrument is calculated using the zero-coupon discounting method which takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and assumes that the current forward rate implied by the yield curve are the market’s best estimate of future spot interest rates. The income approach is then used to obtain the fair value of the swap, where future amounts are converted to a single current (discounted) amount, using a rate of return that takes into account the relative risk of nonperformance associated with the cash flows and time value of money.

	Changes in Fair Value		Fair Value at December 31, 2017		
	Classification	Amount	Classification	Amount	Notional
	(Amounts in Thousands)				
Floating to floating interest rate swap					
2006 Parking Basis Swap	Investment Revenue	\$ 128	Debt	\$ (90)	\$ 17,770

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

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

The table below presents the objective and significant terms of the Division’s derivative instrument at December 31, 2017, along with the credit rating of the swap counterparty.

Bonds	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
(Amounts in Thousands)							
2006 Parking Bonds	Basis Swap - Pay Floating / Receive Floating	Exchange floating rate payments on Series 2006 Parking System Revenue Bonds	\$ 17,770	8/15/2006	9/15/2022	Pay SIFMA, receive 67% of LIBOR	A2/A/A+

Defeasance of Debt: The Division defeased certain debt by placing cash or the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and defeased bonds are not recorded in the Division’s financial statements.

In conjunction with the sale of the Gateway North Garage, the Division defeased some of the Parking Facilities Refunding Revenue Bonds, Series 2006, by placing a portion of the proceeds of the sale into an irrevocable trust to provide for all future debt service payments on the defeased bonds. The Division had \$8,420,000 of defeased debt outstanding at December 31, 2017.

NOTE C – GATEWAY ECONOMIC DEVELOPMENT CORPORATION

In accordance with an agreement with Gateway Economic Development Corporation (Gateway), Gateway is required to reimburse the City for the excess of the debt service requirements of the Parking Facilities Refunding Revenue Bonds attributed to the two Gateway garages over the net revenues generated by the two Gateway garages. In October 2011, the City sold one of the Gateway garages and defeased the applicable bonds. Going forward the amounts required to be reimbursed will be calculated based upon the net revenues of the remaining garage and remaining applicable bonds outstanding.

The first garage on the Gateway site was completed in January 1994. The second garage was completed in August 1994.

In 2017, net revenues generated by the remaining Gateway garage were less than the debt service payments attributed to that garage by \$1,194,000. Cumulative debt service payments funded by the City that are due from Gateway totaled \$52,442,000 at December 31, 2017. Due to the uncertainty of collecting such amounts, an allowance has been recorded to offset the amounts in full; therefore, these amounts do not appear in the accompanying financial statements.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

NOTE D – DEPOSITS AND INVESTMENTS

Deposits: The carrying amount of the Division's deposits at December 31, 2017 totaled \$1,317,000 and the Division's bank balances were \$1,167,000. 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*, \$1,167,000 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, 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; U.S. 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 statutes prohibit 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; therefore, significant changes in market conditions could materially affect portfolio value.

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

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

NOTE D – DEPOSITS AND INVESTMENTS (Continued)

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 and money market mutual funds. The Division maintains the highest ratings for their investments. Investments in STAR Ohio, Dreyfus Government Cash Management Mutual Fund and Morgan Stanley Government Institutional Mutual Funds 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.

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, 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	\$ 814	\$ 814	\$ 814
Money Market Mutual Funds	11,021	11,021	11,021
Total Investments	11,835	11,835	11,835
Total Deposits	1,317	1,317	1,317
Total Deposits and Investments	\$ 13,152	\$ 13,152	\$ 13,152

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 and money market mutual funds are approximately 6.9% and 93.1%, respectively, of the Division’s total investments.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

NOTE E – CAPITAL ASSETS

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

	Balance January 1, 2017	Additions	Deletions	Balance December 31, 2017
	(Amounts in Thousands)			
Capital assets, not being depreciated:				
Land	\$ 5,478	\$	\$	\$ 5,478
Construction in progress	<u>7,590</u>	<u>2,502</u>	<u> </u>	<u>10,092</u>
Total capital assets, not being depreciated	13,068	2,502	-	15,570
Capital assets, being depreciated:				
Land improvements	1,256			1,256
Buildings, structures and improvements	54,167			54,167
Furniture, fixtures, equipment and vehicles	<u>1,284</u>			<u>1,284</u>
Total capital assets, being depreciated	56,707	-	-	56,707
Less: Accumulated depreciation	<u>(30,968)</u>	<u>(1,362)</u>	<u> </u>	<u>(32,330)</u>
Total capital assets being depreciated, net	<u>25,739</u>	<u>(1,362)</u>	<u> </u>	<u>24,377</u>
Capital assets, net	<u>\$ 38,807</u>	<u>\$ 1,140</u>	<u>\$ -</u>	<u>\$ 39,947</u>

NOTE F – DEFINED BENEFIT PENSION PLANS

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.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

NOTE F – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

GASB Statement No. 68 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.

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.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

NOTE F – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

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

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

NOTE F – DEFINED BENEFIT PENSION PLANS (Continued)

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

	State and Local
2017 Statutory Maximum Contribution Rates	
Employer	14 %
Employee	10
2017 Actual Contribution Rates	
Employer:	
Pension	13
Post-employment Health Care Benefits	1
Total Employer	14 %
Employee	10 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Division’s contractually required contribution was \$93,000 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. The Division’s proportion of the net pension liability was based on the Division’s share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS	
	(Amounts in Thousands)	
Proportionate Share of the Net Pension Liability	\$	1,304
Proportion of the Net Pension Liability		0.005756%
Change in Proportion		(0.000219)%
Pension Expense	\$	279

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

NOTE F – DEFINED BENEFIT PENSION PLANS (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	\$	204
Differences in expected and actual economic experience		2
Change in assumptions		208
Division contributions subsequent to the measurement date		93
Total Deferred Outflows of Resources	\$	507
Deferred Inflows of Resources		
Differences between expected and actual experience	\$	9
Change in Division's proportionate share		28
Total Deferred Inflows of Resources	\$	37

The \$93,000 reported as deferred outflows of resources related to pension resulting from the Division’s contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ending December 31, 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:

	Year Ending December 31:		OPERS
			(Amounts in Thousands)
	2018	\$	152
	2019		160
	2020		71
	2021		(6)
			(6)
Total		\$	377

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

NOTE F – DEFINED BENEFIT PENSION PLANS (Continued)

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability 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 COLA or Ad Hoc COLA	3.25 to 10.75 % including wage inflation 3.25%, simple	4.25 to 10.05% including wage inflation 3%, simple
	Pre 1/7/2013 retirees: 3%, simple	Pre 1/7/2013 retirees: 3%, simple
	Post 1/7/2013 retirees: 3%, simple through 2018, then 2.15%, simple	Post 1/7/2013 retirees: 3%, simple through 2018, then 2.15%, 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.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

NOTE F – DEFINED BENEFIT PENSION PLANS (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 (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.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

NOTE F – DEFINED BENEFIT PENSION PLANS (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	Current Discount Rate	1% Increase
	6.50%	7.50%	8.50%
	(Amounts in Thousands)		
Division's proportionate share of the net pension liability	\$ 1,995	\$ 1,304	\$ 727

NOTE G – 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.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

NOTE G – OTHER POSTEMPLOYMENT BENEFITS (Continued)

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.

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 \$7,000 in 2017, \$17,000 in 2016 and \$16,000 in 2015. The required payments due in 2017, 2016 and 2015 have been made.

NOTE H – RELATED PARTY TRANSACTIONS

Revenues and Accounts Receivable: The Division provides parking facilities at usual and customary rates to various departments and divisions of the City. The Division operates certain garages and parking lots on behalf of other City divisions. The professional management fees recorded by the Division to operate the garages and parking lots:

Department	Amount
	(Amounts in Thousands)
Department of Community Development	\$ 11

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

NOTE H – RELATED PARTY TRANSACTIONS (Continued)

Operating Expenses: The Division is provided various services by other City divisions. Charges are based on actual usage or on a reasonable pro-rata basis. The more significant expenses included in the statements of operations for the year ended December 31, 2017 is as follows:

Division	Amount
	(Amounts in Thousands)
Parks Maintenance	\$ 34
Telephone	23
Motor Vehicle Maintenance	29
Printing	6
	\$ 92

NOTE I – CONTINGENT LIABILITIES AND RISK MANAGEMENT

Contingent Liabilities: Various claims are pending against the City involving the Division for personal injuries, property damage and other matters. The City is responsible for the 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 is generally self-insured. No material losses, including incurred but not reported losses, occurred in 2017.

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

In accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs) and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses, regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Claims liability for the Division is immaterial.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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

NOTE J – LEASES

The Division leases the land for various parking facilities to management companies under non-cancelable lease agreements, which expire at various times through the year 2056. Revenues generated from such leases totaled \$180,000 in 2017. Future minimum rentals on non-cancelable leases are as follows:

Year	Amount
(Amounts in Thousands)	
2018 \$	180
2019	180
2020	180
2021	180
2022	180
Thereafter	3,660
	<u>\$ 4,560</u>

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**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

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	0.005756%	0.005975%	0.006017%	0.006017%
Division's Proportionate Share of the Net Pension Liability (Asset)	\$ 1,304	\$ 1,032	\$ 723	\$ 708
Division's Covered Payroll	\$ 767	\$ 758	\$ 750	\$ 685
Division's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	170.01%	136.15%	96.40%	103.36%
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 is 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, OHIO
DEPARTMENT OF PUBLIC WORKS
DIVISION OF PARKING FACILITIES**

REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

**SCHEDULE OF CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST FIVE YEARS (1)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
	(Amounts in Thousands)				
Contractually Required Contributions	\$ 93	\$ 92	\$ 91	\$ 90	\$ 89
Contributions in Relation to the Contractually Required Contributions	<u>(93)</u>	<u>(92)</u>	<u>(91)</u>	<u>(90)</u>	<u>(89)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Division's Covered Payroll	\$ 715	\$ 767	\$ 758	\$ 750	\$ 685
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.



Dave Yost • Auditor of State

CITY OF CLEVELAND

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST, 21 2018