CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER

REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the year ended December 31, 2020

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER

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CLARK SCHAEFER HACKETT
BUSINESS ADVISORS
One East Fourth Street, Suite 1200, Cincinnati, Ohio 45202
P. 513.241.3111 | F. 513.241.1212

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, 2020 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 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 opinion.

Opinions

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, 2020, 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, 2020, 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 and OPEB liabilities and pension and OPEB 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 24, 2021

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, 2020. 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 69 direct service communities, seven master meter communities and three emergency standby communities. They provide water to approximately 432,000 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 2020, the Division provided services to approximately 118,000 accounts located within Cleveland and approximately 314,000 accounts located in direct service communities. Water provided to each master meter community is metered at community's boundary. Consumers within the City of Cleveland accounted for 22.5% of the Division's metered sales revenue, while the direct service communities accounted for 73.5% and master meter and emergency communities accounted for 4.0% of metered sales revenue.

The Division, along with the Division of Utilities Fiscal Control (UFC), provides a complete array of processing services including billing, payment processing, mailing delinquency notices, terminating water service on delinquent accounts and distributing the money collected to the communities.

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

FINANCIAL HIGHLIGHTS

- The Division's net position was $1,568,650,000 and $1,528,597,000 at December 31, 2020 and 2019, respectively. Of these amounts, $309,456,000 and $316,793,000 are unrestricted net position at December 31, 2020 and 2019, respectively and may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's overall net position increased by $40,053,000 during 2020. Operating revenues increased by $7,106,000 or 2.2%, primarily due to a rate increase in 2020. Maintenance expense decreased by 9,515,000 or 12.7%, related to fewer repairs on water mains.

- The total long-term revenue bonds and loans payable of the Division decreased by $63,121,000 due to scheduled principal payments on the bonds and loans and the refunding of various series of outstanding bonds.

- Capital contributions decreased by $11,708,000 due to the Division not acquiring any new water mains from other Cities.

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 – 50 of this report. Required supplementary information can be found on pages 51 – 54.

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, 2020 and 2019:

	2020	2019
	(Amounts in Thousands)	
Assets:		
Capital assets, net	$ 1,728,408	$ 1,714,641
Restricted assets	34,945	61,153
Current assets	489,798	483,369
Total assets	2,253,151	2,259,163
Deferred outflows of resources	46,027	60,163
Net position:		
Net investment in capital assets	1,228,048	1,154,482
Restricted for capital projects	68	1
Restricted for debt service	31,078	57,321
Unrestricted	309,456	316,793
Total net position	1,568,650	1,528,597
Liabilities:		
Long-term obligations	631,537	705,321
Current liabilities	72,307	83,533
Total liabilities	703,844	788,854
Deferred inflows of resources	26,684	1,875

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Current Assets: The Division had an increase in current assets of $6,429,000, primarily due to an increase of $4,576,000 in accounts receivable net of allowance for doubtful accounts, primarily attributed to minor rate increases and economic hardships related to the COVID-19 pandemic.

Restricted Assets: The Division's restricted assets decreased by $26,208,000, primarily attributable to principal and interest of $116,579,000 which exceeded the sale of refunding bonds and premium on debt of $90,800,000.

Deferred Outflows of Resources: The Division's deferred outflows of resources decreased by $14,136,000. Pension outflows decreased $21,971,000, primarily due to a reduction in net difference between projected and actual earnings on pension plan investments of $15,694,000. This decrease was offset by an increase of $4,303,000 of other postemployment benefits (OPEB); where the changes in assumptions increased $7,125,000 while the net difference between projected and actual earnings in OPEB plan investments decreased $2,409,000. Also, the unamortized loss on bond refundings increased by $3,532,000.

Capital Assets: The Division's investment in capital assets, as of December 31, 2020, amounted to $1,728,408,000 (net of accumulated depreciation). The total net increase in the Division's investment in net capital assets was $13,767,000. A summary of the activity in the Division's capital assets during December 31, 2020, is as follows:

	Balance January 1, 2020	Additions	Reductions	Balance December 31, 2020
		(Amounts in Thousands)		
Land	$ 5,443	$ 288	$	$ 5,731
Land improvements	17,808	130	(272)	17,666
Utility plant	1,972,905	56,190	(2,750)	2,026,345
Buildings, structures and improvements	265,256	484		265,740
Furniture, fixtures, equipment and vehicles	610,807	9,766	(1,745)	618,828
Construction in progress	162,063	81,175	(61,020)	182,218
Total	3,034,282	148,033	(65,787)	3,116,528
Less: Accumulated depreciation	(1,319,641)	(73,098)	4,619	(1,388,120)
Capital assets, net	$ 1,714,641	$ 74,935	$ (61,168)	$ 1,728,408

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

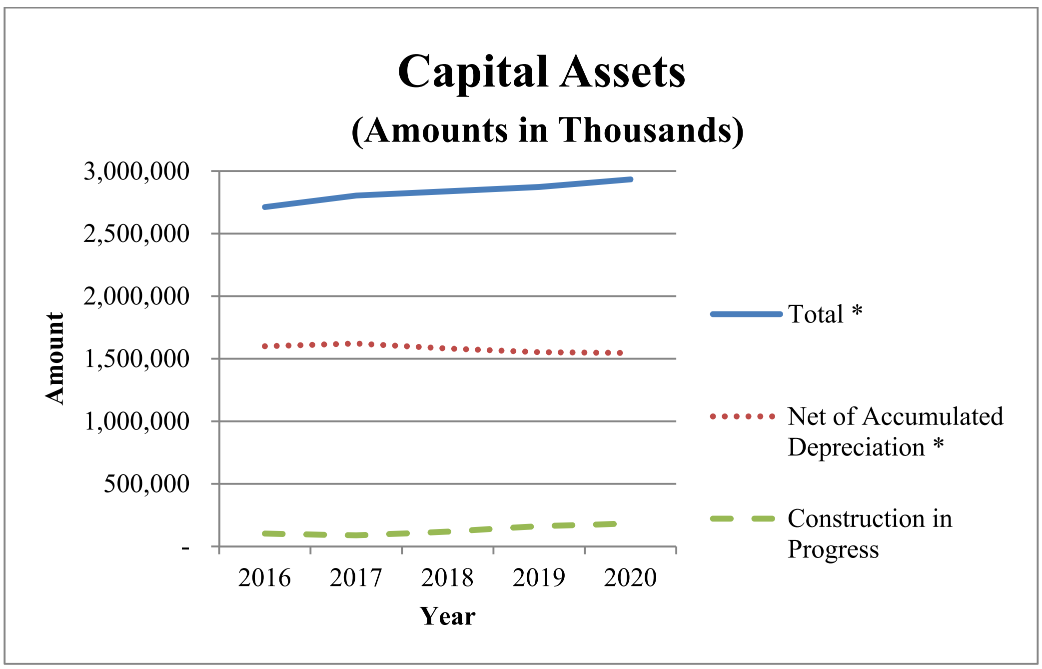
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Utility plant had a net increase of $53,440,000, primarily due to the completion of various utility plant projects including water main renewals. Additionally, construction in progress had additions and reductions of $81,175,000 and $61,020,000, respectively, resulting in a net increase of $20,155,000. The increase was related to additional spending on water main renewals, plant enhancement program, Nottingham sedimentation basins, enhancements to the Crown Plant water system and back-up generators. The reductions are related to assets being placed into service.

Major projects still under construction chiefly consist of suburban water main renewals and related engineering services, phase two of the automated meter reading implementation, plant enhancement program, Nottingham sedimentation basins, Crown Plant water system upgrades and billing software upgrades.

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



* Construction in Progress not included

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Long-Term Obligations**:** In 2020, the factors contributing to the Division's net decrease in long-term obligations of $73,784,000 is primarily due to decreases in the non-current portion of revenue bonds of $35,718,000, OWDA loans of $8,200,000, and net pension liability of $32,889,000. The decreases in revenue bonds and OWDA loans payable is primarily attributed to scheduled principal payments. The net pension liability decreased mainly due to investment returns exceeding expectations.

Current Liabilities: In 2020, total current liabilities decreased by $11,226,000. The significant component of the change was a decrease in current portion of long-term debt of $12,316,000, which is related to a reduction in required principal payments compared to 2019. This was offset by an increase in current payable from restricted assets of $1,539,000, due to more payables at year end related to construction projects.

Deferred Inflows of Resources: The Division's deferred inflows of resources increased by $24,809,000 in 2020. Pension and OPEB deferred inflows of resources increased by $16,323,000 and $8,486,000 respectively, due to investment returns exceeding expectations.

Net Pension/OPEB Liabilities**:** The net pension liability is reported by the Division at December 31, 2020 and is reported pursuant to Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*. In fiscal year 2018, the Division adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revises accounting for costs and liabilities related to other OPEB. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Division's actual financial condition by adding deferred inflows of resources related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows of resources related to pension and OPEB.

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

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

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

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Long-Term Debt: At the end of 2020, the Division had total long-term debt outstanding of $485,748,000. 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, 2020, is summarized below (excluding unamortized discounts and premiums):

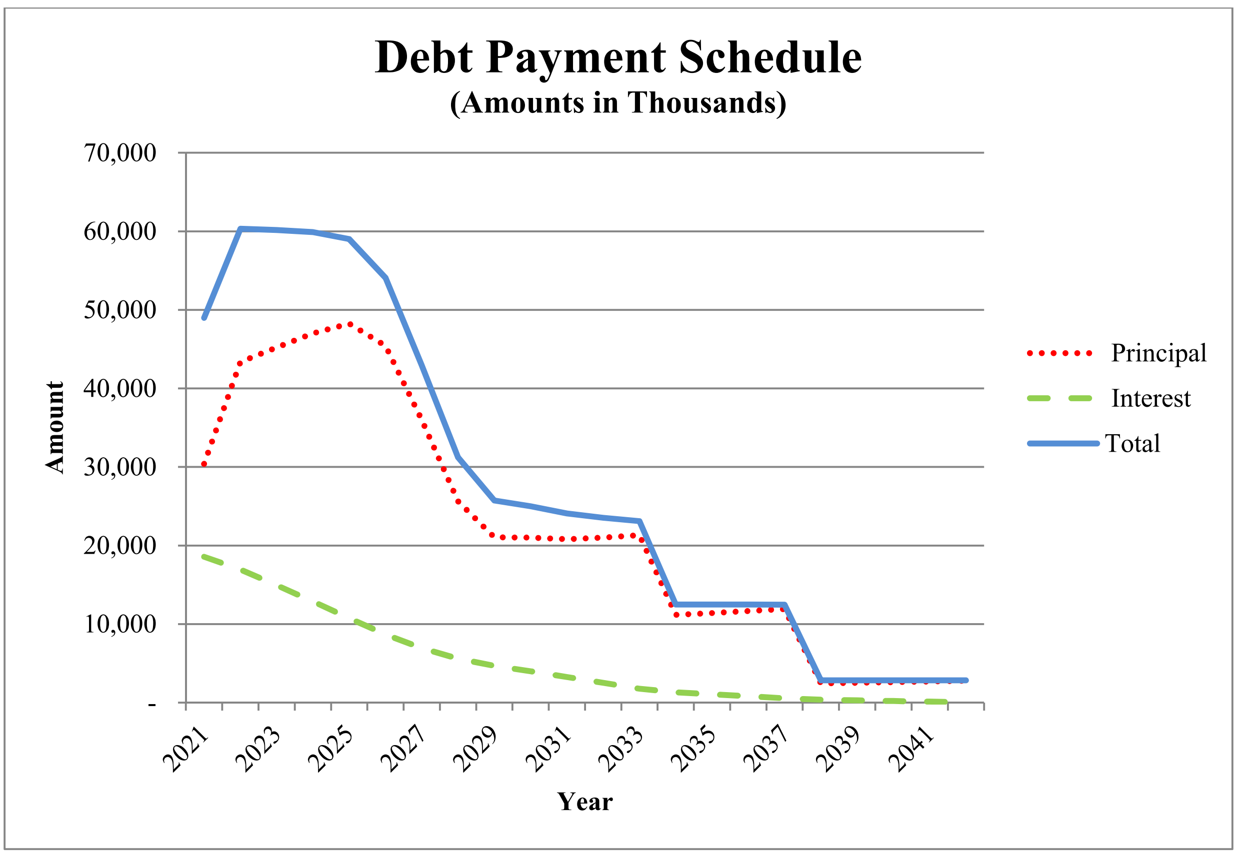
	Balance January 1, 2020	Debt Issued	Debt Retired	Balance December 31, 2020
	(Amounts in Thousands)			
Water Revenue Bonds:				
Series G 1993	$ 24,325	$	$ (24,325)	$ -
Series X 2012	27,575		(26,290)	1,285
Series Y 2015	116,205		(77,305)	38,900
Series AA 2015	90,800		(90,800)	-
Series BB 2017	15,715			15,715
Series CC 2017	48,950		(6,070)	42,880
Series DD 2019	97,160		(8,385)	88,775
Series EE 2020		15,815		15,815
Series FF 2020		70,270		70,270
Series GG 2020		99,145		99,145
Second Lien Series A 2012	18,335		(6,745)	11,590
Second Lien Series B 2017	42,495			42,495
Ohio Water Development Authority Loans	67,309		(8,431)	58,878
Total	$ 548,869	$ 185,230	$ (248,351)	$ 485,748

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

The bond ratings for the Division's outstanding revenue bonds as of December 31, 2020, are as follows:

	Moody's Investors Services	S&P Global
Waterworks Revenue Bonds	Aa2	AA+
Second Lien Water Revenue Bonds	Aa3	AA

The ratio of net revenue available for debt service to debt service requirements (revenue bond coverage) is a useful indicator of the Division's debt position to management, customers, investors and creditors. The Division's revenue bond coverage for 2020 and 2019 was 431% and 248%, respectively.



CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Debt service on the Division's bonded debt began 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 – Debt and Other Long-Term Obligations on pages 27 – 32.

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 $1,568,650,000 and $1,528,597,000 at December 31, 2020 and 2019, respectively.

Of the Division's net position, $1,228,048,000 at December 31, 2020, 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, $31,146,000 at December 31, 2020, 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, $309,456,000 at December 31, 2020, may be used to meet the Division's ongoing obligations to customers and creditors.

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

The Division's net position increased during 2020 by $40,053,000. The following table identifies the key elements of the Division's results of operations for the years ended December 31, 2020 and 2019:

	2020	2019
	(Amounts in Thousands)	
Operating revenues	$ 327,261	$ 320,155
Operating expenses	274,940	289,977
Operating income (loss)	52,321	30,178
Non-operating revenue (expense):		
Investment income	3,055	2,888
Interest expense	(21,569)	(23,214)
Amortization of bond premiums and discounts	7,715	6,927
Gain (loss) on disposal of capital assets	(147)	(27)
Other	(1,322)	(715)
Total non-operating revenue (expense), net	(12,268)	(14,141)
Income (loss) before capital and other contributions	40,053	16,037
Capital and other contributions		11,708
Change in net position	40,053	27,745
Beginning net position	1,528,597	1,500,852
Ending net position	$ 1,568,650	$ 1,528,597

Operating Revenue: In 2020, total operating revenues of the Division increased $7,106,000 or 2.2%. The rise is primarily attributed to an increase in metered service revenue of $8,206,000 as a result of a rate increase for the City and suburbs. This was offset by a decrease in ancillary revenue.

Operating Expenses: The overall decrease in operating expenses of $15,037,000 in 2020 was primarily related to maintenance expenses. These decreased 12.7% due to fewer repairs of water mains, hydrants, connections and valves. There was also a reduction in operating expense of $5,995,000 resulting from decreased net pension expense, offset by increases in office supplies, bad debt and chemicals.

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

Non-Operating Revenue: One component of non-operating revenue, amortization of bond premiums and discounts increased $788,000 related to the annual amortization of the bonds and a result of the bond refundings.

Non-Operating Expense: Interest expense decreased $1,645,000 in 2020. This is related to the interest payments on the bonds and loans. The loss on disposal of capital assets was $120,000 greater than in 2019 related to more items being disposed of in 2020. Other expense increased by $607,000, primarily due to increased professional services fees related to multiple bond refundings.

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, 2020
(Amounts in Thousands)

ASSETS	
CAPITAL ASSETS:	
Land	$ 5,731
Land improvements	17,666
Utility plant	2,026,345
Buildings, structures and improvements	265,740
Furniture, fixtures and equipment	618,828
	2,934,310
Less: Accumulated depreciation	(1,388,120)
	1,546,190
Construction in progress	182,218
CAPITAL ASSETS, NET	1,728,408
RESTRICTED ASSETS:	
Cash and cash equivalents	34,944
Accrued interest receivable	1
TOTAL RESTRICTED ASSETS	34,945
TOTAL NONCURRENT ASSETS	1,763,353
CURRENT ASSETS:	
Cash and cash equivalents	406,212
Restricted cash and cash equivalents	5,234
Receivables:	
Accounts receivable - net of allowance for doubtful accounts of $17,182	53,061
Unbilled revenue	10,929
Due from other City of Cleveland departments, divisions or funds	2,656
Materials and supplies - at average cost	8,660
Prepaid expenses	3,046
TOTAL CURRENT ASSETS	489,798
TOTAL ASSETS	2,253,151
DEFERRED OUTFLOWS OF RESOURCES	
Unamortized loss on bond refunding	23,699
Pension	13,465
OPEB	8,863
TOTAL DEFERRED OUTFLOWS OF RESOURCES	46,027

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

STATEMENT OF NET POSITION
DECEMBER 31, 2020
(Amounts in Thousands)

NET POSITION	
Net investment in capital assets	$ 1,228,048
Restricted for capital projects	68
Restricted for debt service	31,078
Unrestricted	309,456
TOTAL NET POSITION	1,568,650
LIABILITIES	
LONG-TERM LIABILITIES: - excluding amounts due within one year	
Accrued wages and benefits	1,710
OWDA loans	50,678
Revenue bonds	446,779
Net pension liability	78,470
Net OPEB liability	53,900
TOTAL LONG-TERM LIABILITIES	631,537
CURRENT LIABILITIES:	
Accounts payable	13,705
Customer deposits and other liabilities	2,777
Current portion of accrued wages and benefits	9,599
Due to other City of Cleveland departments, divisions or funds	1,791
Accrued interest payable	8,801
Current payable from restricted assets	5,234
Current portion of long-term debt, due within one year	30,400
TOTAL CURRENT LIABILITIES	72,307
TOTAL LIABILITIES	703,844
DEFERRED INFLOWS OF RESOURCES	
Pension	18,055
OPEB	8,629
TOTAL DEFERRED INFLOWS OF RESOURCES	26,684

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, 2020
(Amounts in Thousands)

OPERATING REVENUES:	
Charges for services	$ 327,261
TOTAL OPERATING REVENUES	327,261
OPERATING EXPENSES:	
Operations	136,502
Maintenance	65,340
Depreciation	73,098
TOTAL OPERATING EXPENSES	274,940
OPERATING INCOME (LOSS)	52,321
NON-OPERATING REVENUE (EXPENSE):	
Investment income (loss)	3,055
Interest expense	(21,569)
Amortization of bond discounts and premiums	7,715
Gain (loss) on disposal of capital asset	(147)
Other	(1,322)
TOTAL NON-OPERATING REVENUE (EXPENSE) - NET	(12,268)
INCREASE (DECREASE) IN NET POSITION	40,053
NET POSITION, BEGINNING OF YEAR	1,528,597
NET POSITION, END OF YEAR	$ 1,568,650

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, 2020
(Amounts in Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	$ 297,193
Cash payments to suppliers for goods and services	(100,148)
Cash payments to employees for services	(83,756)
Cash received from fees for services	21,178
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	134,467
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from sale of revenue bonds, loans and notes	206,344
Acquisition and construction of capital assets	(86,796)
Principal paid on long-term debt	(146,001)
Interest paid on long-term debt	(19,797)
Cash paid to escrow agent for refunding	(114,735)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(160,985)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on investments	3,123
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITES	3,123
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(23,395)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	469,785
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 446,390

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

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2020
(Amounts in Thousands)

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

OPERATING INCOME (LOSS)	$ 52,321
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation	73,098
(Increase) decrease in assets:	
Accounts receivable, net	(4,576)
Unbilled revenue	(738)
Due from other City of Cleveland departments, divisions or funds	14
Materials and supplies, net	1,566
Prepaid expenses	51
(Increase) decrease in deferred outflows of resources:	
Pension	21,971
OPEB	(4,303)
Increase (decrease) in liabilities:	
Accounts payable	98
Customer deposits and other liabilities	(3)
Accrued wages and benefits	826
Due to other City of Cleveland departments, divisions or funds	(167)
Net pension liability	(32,889)
Net OPEB liability	2,389
Increase (decrease) in deferred inflows of resources:	
Pension	16,323
OPEB	8,486
TOTAL ADJUSTMENTS	82,146
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 134,467

SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:

Accounts payable related to capital assets	$ 5,234

See notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2020

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 November of 2016, GASB Statement No. 83, *Certain Asset Retirement Obligations*, was issued. This Statement is effective for the reporting periods beginning after June 15, 2019. The objective of this Statement is to provide financial statement users with information about asset retirement obligations (ARO) that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. The Division has determined that GASB Statement No. 83 has no impact on its financial statements as of December 31, 2020.

In January of 2017, GASB Statement No. 84, *Fiduciary Activities,* was issued. This Statement is effective for reporting periods beginning after December 15, 2019. The objective of this Statement is to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. This Statement also is intended to improve the usefulness of fiduciary activity information primarily for assessing the accountability of governments in their roles as fiduciaries. The Division has determined that GASB Statement No. 84 has no impact on its financial statements as of December 31, 2020.

In March of 2018, GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements,* was issued. This Statement is effective for reporting periods beginning after June 15, 2019. The objective of this Statement is to improve consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt. As required, the Division has implemented GASB Statement No. 88 as of December 31, 2020.

In August of 2018, GASB Statement No. 90, *Majority Equity Interests an Amendment of GASB Statements No. 14 and No. 61,* was issued. This Statement is effective for reporting periods beginning after December 15, 2019. The objective of this Statement is to improve consistency in the measurement and comparability of the financial statement presentation of majority interests in legally separate organizations and to improve the relevance of financial statement information for certain component units. The Division has determined that GASB Statement No. 90 has no impact on its financial statements as of December 31, 2020.

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.

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

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

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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The Division has invested funds in the STAR Ohio during 2020. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the U.S. Securities and Exchange Commission (SEC) as an investment company, but has adopted GASB Statement No. 79, *Certain External Investment Pools and Pool Participants,* for the purpose of measuring the value of shares in STAR Ohio. The Division measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV share that approximates fair value.

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

Capital Assets and Depreciation: Capital assets are stated on the basis of historical cost, or if contributed, at their acquisition value on the date contributed. Depreciation is computed by allocating the cost of capital assets 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

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 2020, total interest costs incurred amounted to $21,873,000, of which $304,000 was capitalized.

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

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

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

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

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

NOTE B – DEBT AND OTHER LONG-TERM OBLIGATIONS

Debt outstanding at December 31, 2020, is as follows:

	Interest Rate	Original Issuance	2020
		(Amounts in Thousands)	
Water Revenue Bonds:			
Series X 2012 due through 2022	3.63% - 4.00%	$ 44,410	$ 1,285
Series Y 2015 due through 2028	4.00% - 5.00%	116,205	38,900
Series BB 2017 due through 2032	5.00%	15,760	15,715
Series CC 2017 due through 2028	5.00%	54,730	42,880
Series DD 2019 due through 2033	2.00% - 5.00%	97,160	88,775
Series EE 2020 due through 2042	1.27% - 3.21%	15,815	15,815
Series FF 2020 due through 2033	5.00%	70,270	70,270
Series GG 2020 due through 2037	0.39% - 2.28%	99,145	99,145
Second Lien Series A 2012 due through 2022	4.00% - 5.00%	76,710	11,590
Second Lien Series B 2017 due through 2027	5.00%	43,095	42,495
Ohio Water Development Authority Loans payable annually through 2032, direct borrowing	0.00% - 3.00%	152,767	58,878
		$ 786,067	485,748
Adjustments:			
Unamortized discount and premium			42,109
Current portion			(30,400)
Total Long-Term Debt			$ 497,457

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

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2020

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

Summary: Changes in long-term obligations for the year ended December 31, 2020, are as follows:

	Balance January 1, 2020	Increase	Decrease	Balance December 31, 2020	Due Within One Year
			(Amounts in Thousands)		
Water Revenue Bonds:					
Series G 1993 due through 2021	$ 24,325	$	$ (24,325)	$ -	$
Series X 2012 due through 2022	27,575		(26,290)	1,285	
Series Y 2015 due through 2028	116,205		(77,305)	38,900	5,015
Series AA 2015 due through 2033, direct placement	90,800		(90,800)	-	
Series BB 2017 due through 2032	15,715			15,715	
Series CC 2017 due through 2028	48,950		(6,070)	42,880	
Series DD 2019 due through 2033	97,160		(8,385)	88,775	12,700
Series EE 2020 due through 2042		15,815		15,815	95
Series FF 2020 due through 2033		70,270		70,270	
Series GG 2020 due through 2037		99,145		99,145	185
Second Lien Series A 2012 due through 2022	18,335		(6,745)	11,590	4,205
Second Lien Series B 2017 due through 2027	42,495			42,495	
Ohio Water Development Authority Loans payable annually through 2032, direct borrowing	67,309		(8,431)	58,878	8,200
Total revenue bonds/loans	548,869	185,230	(248,351)	485,748	30,400
Accrued wages and benefits	10,483	10,233	(9,407)	11,309	9,599
Net pension liability	111,359		(32,889)	78,470	
Net OPEB liability	51,511	2,389		53,900	
Total	$ 722,222	$ 197,852	$ (290,647)	$ 629,427	$ 39,999

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

Minimum principal and interest payments on long-term debt for the next five years and thereafter are as follows:

	Bonds Principal	OWDA Loans (Direct Borrowing) Principal	Interest	Total
	(Amounts in Thousands)			
2021	$ 22,200	$ 8,200	$ 18,571	$ 48,971
2022	34,905	8,463	16,944	60,312
2023	36,470	8,735	14,943	60,148
2024	38,395	8,601	12,886	59,882
2025	39,805	8,452	10,756	59,013
2026-2030	133,835	15,282	29,911	179,028
2031-2035	84,600	1,145	9,957	95,702
2036-2040	31,170		2,264	33,434
2041-2042	5,490		177	5,667
Total	$ 426,870	$ 58,878	$ 116,409	$ 602,157

The above schedule of minimum principal and interest payments on long-term debt includes the amortization on ten 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).

At December 31, 2020, the amount financed on these ten loan projects, less principal payments made, totaled $58,878,000 and is reflected in the debt service payment schedule.

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, 2020:

Series X, 2012	$43,125,000
Second Lien Series A, 2012	$45,850,000
Series Y, 2015	$76,060,000

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

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, 2020, 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. At December 31, 2019, only the Series G, 1993 Bonds were covered by the reserve fund. On May 7, 2020, the City and the Escrow Trustee entered into an escrow agreement relating to the defeasance of the Series G Bonds with funds available in the debt service reserve fund and the debt service fund. Pursuant to the agreement, the balance in the debt service reserve fund of $13,049,512 along with $122,163 from Series G principal account were transferred to the Escrow Fund to defease the remaining Series G Bonds. As a result, at December 31, 2020, there were no series of bonds covered by a reserve fund.

Contingency Fund: The balance in this fund must be maintained at $3,500,000.

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

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 June 6, 2020, the City issued $15,815,000 Federally Taxable Water Revenue Bonds, Series EE, 2020 to advance refund $14,565,000 of the outstanding Water Revenue Bonds, Series X, 2012. Net bond proceeds in the amount of $15,677,657, along with $303,438 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 Division of Water realized an economic gain (the difference between the present values of the old and new debt service) of $2.7 million or 18.7%.

Effective June 11, 2020, the City issued $70,270,000 of tax-exempt Water Revenue Bonds, Series FF, to currently refund all of the outstanding variable rate $90,800,000 Series AA, 2015, Bonds. The Series AA Bonds were refunded in order to eliminate the risks associated with potential fluctuations in variable interest rates. The Series FF Bonds refunded the last remaining variable rate bonds issued by Water.

The City issued $99,145,000 Water Revenue Bonds, Series GG, 2020 (Federally Taxable) on August 13, 2020. These bonds advance refunded $11,725,000 of Water Revenue Bonds, Series X, 2012, that did not produce savings at the time of the refunding earlier in the year. The GG Bonds also advance refunded $76,060,000 of Water Revenue Bonds, Series Y, 2015. Net bond proceeds in the amount of $98,460,704, along with $293,728 from the Series X and Series Y debt service funds, 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 achieved another $8.34 million of net present value debt service savings for the Division of Water or 9.5%.

Effective April 25, 2019, Water Revenue Bonds, Series DD, 2019, were issued in the amount of $97,160,000. The bonds were issued to refund $24,575,000 of outstanding Series T Bonds, $54,935,000 of Series U Bonds, $26,495,000 of Series V Bonds and $1,230,000 of Series W Bonds. As part of this bond deal, the City also terminated all interest rate swaps entered into with Morgan Stanley and JP Morgan and made a termination payment of $7,328,000 on the Series U and Series V swaps from the proceeds of the bonds. In addition, the Division used cash on hand in the amount of $570,500 to terminate the swaps associated with the Series AA Bonds. Through this refunding, the City was able to eliminate the risk associated with most of the Division's variable rate debt by refunding them with fixed rate bonds and by terminating all existing swaps. Additionally, the Division achieved present value debt service savings of $995,000.

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 $426,870,000 in various Senior Lien Water Revenue Bonds and Subordinate Lien Bonds issued in various years since 2012. 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 35.0% of net revenues. The total principal and interest remaining to be paid on the various Senior and Subordinate Lien Water Revenue Bonds is $537,247,000. Amounts deposited for principal and interest in the current year on the Senior Lien Bonds and total net revenues were $32,568,000 and $140,452,000, respectively.

Interest Rate Swap Transactions: As part of the issuance of the $97,160,000 Water System Revenue Bonds, Series DD, 2019, bond proceeds and cash on hand were used to make termination payments to JP Morgan Chase Bank, N.A. and Morgan Stanley Capital Services, Inc. with respect to interest rate swap agreements related to the Series U, Series V and Series AA Bonds.

NOTE C – DEPOSITS AND INVESTMENTS

Deposits: The carrying amount of the Division's deposits at December 31, 2020, totaled $13,807,000 and the Division's bank balances were $9,801,000 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*, $9,801,000 of the bank balances at December 31, 2020, was insured or collateralized with securities held by the City or by its agent in the City's name.

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

NOTE C – DEPOSITS AND INVESTMENTS (Continued)

Investments: 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 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, 2020:

Type of Investment	Fair Value	Fair Value Measurement Level 2
	(Amounts in Thousands)	
Commercial Paper	$ 3	$ 3
	$ 3	$ 3

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.

NOTE C – DEPOSITS AND INVESTMENTS (Continued)

Credit Risk: The Division's investments as of December 31, 2020, include STAR Ohio, commercial paper and money market mutual funds. Investments in STAR Ohio, Government Obligations Fund and the First American Government Obligations Fund carry a rating of AAAm, which is the highest money market fund rating given by S&P Global'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 Moody's rating of P-1.

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, 2020, 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	2020 Value	2020 Cost	Investment Maturities Less than One Year
		(Amounts in Thousands)	
STAR Ohio	$ 397,968	$ 397,968	$ 397,968
Commercial Paper	3	3	3
Money Market Mutual Funds	34,612	34,612	34,612
Total Investments	432,583	432,583	432,583
Total Deposits	13,807	13,807	13,807
Total Deposits and Investments	$ 446,390	$ 446,390	$ 446,390

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, 2020, the investments in STAR Ohio, commercial paper and money market mutual funds are approximately 92.0%, less than 0.1% and 8.0%, 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, 2020

NOTE D – CAPITAL ASSETS

Capital Asset Activity: Capital asset activity for the year ended December 31, 2020 was as follows:

	Balance January 1, 2020	Additions	Deletions	Balance December 31, 2020
	(Amounts in Thousands)			
Capital assets, not being depreciated				
Land	$ 5,443	$ 288	$	$ 5,731
Construction in progress	162,063	81,175	(61,020)	182,218
Total capital assets, not being depreciated	167,506	81,463	(61,020)	187,949
Capital assets, being depreciated				
Land improvements	17,808	130	(272)	17,666
Utility plant	1,972,905	56,190	(2,750)	2,026,345
Buildings, structures and improvements	265,256	484		265,740
Furniture, fixtures, equipment and vehicles	610,807	9,766	(1,745)	618,828
Total capital assets, being depreciated	2,866,776	66,570	(4,767)	2,928,579
Less: Accumulated depreciation	(1,319,641)	(73,098)	4,619	(1,388,120)
Total capital assets being depreciated, net	1,547,135	(6,528)	(148)	1,540,459
Capital assets, net	$ 1,714,641	$ 74,935	$ (61,168)	$ 1,728,408

Commitments: The Division has outstanding commitments at December 31, 2020, of approximately $159,201,000 for future capital expenditures. It is anticipated that these commitments will be financed from the Division's cash balances; however, at the discretion of the Division, additional long-term debt may be issued in the future to finance a portion of the costs.

NOTE E – DEFINED BENEFIT PENSION PLANS

Net Pension Liability: 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 (COLA) and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

GASB Statement No. 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State Statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State Statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. 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 OPERS. OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan and the Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Division's employees) may elect the Member-Directed Plan and the Combined Plan, substantially all employee members are in OPERS' Traditional Plan; therefore, the following disclosure focuses on the Traditional Pension Plan.

NOTE E – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

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

When a benefit recipient has received benefits for 12 months, an annual COLA is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3.0% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3.0%.

NOTE E – DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy: The ORC provides statutory authority for member and employer contributions. For 2020, member contribution rates were 10.0% and employer contribution rates were 14.0%.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Division's contractually required contribution was $8,847,000 for 2020. 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, 2019 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	$	78,470
Proportion of the Net Pension Liability		0.403071%
Changes in Proportion		(0.004755)%
Pension Expense	$	14,053

NOTE E – DEFINED BENEFIT PENSION PLANS (Continued)

At December 31, 2020, 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		
Changes in assumptions	$	4,398
Change in Division's proportionate share and difference in employer contributions		220
Division's contributions subsequent to the measurement date		8,847
Total Deferred Outflows of Resources	$	13,465
Deferred Inflows of Resources		
Differences between expected and actual economic experience	$	1,210
Net difference between projected and actual earnings on pension plan investments		16,221
Change in Division's proportionate share and difference in employer contributions		624
Total Deferred Inflows of Resources	$	18,055

The $8,847,000 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, 2021. 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:		
2021	$	(1,992)
2022		(5,422)
2023		615
2024		(6,490)
2025		(43)
Thereafter		(105)
Total	$	(13,437)

NOTE E – DEFINED BENEFIT PENSION PLANS (Continued)

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	December 31, 2019
Wage Inflation	3.25%
Future Salary Increases, including inflation	3.25% to 10.75%
COLA or Ad Hoc COLA	3.25%, simple
	Pre 1/7/2013 retirees: 3%, simple
	Post 1/7/2013 retirees: 1.4%, simple
	Through 2020, then 2.15%, simple
Investment Rate of Return	7.2%
Actuarial Cost Method	Individual Entry Age
Mortality Tables	RP-2014

Pre-retirement mortality rates are based on the RP-2014 Employees Mortality Table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant Mortality Table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled Mortality Table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 Mortality Improvement Scale to all of the above described tables.

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

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

NOTE E – DEFINED BENEFIT PENSION PLANS (Continued)

During 2019, OPERS managed investments in three investment portfolios: the Defined Benefit Portfolio, the Health Care Portfolio and the Defined Contribution Portfolio. The Defined Benefit Portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. 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 Defined Benefit 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 was 17.2% for 2019.

The allocation of investment assets with the Defined Benefit Portfolio is approved by the Board of Trustees (the Board) as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2019 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	25.00 %	1.83 %
Domestic Equities	19.00	5.75
Real Estate	10.00	5.20
Private Equity	12.00	10.70
International Equities	21.00	7.66
Other Investments	13.00	4.98
Total	100.00 %	5.61 %

Discount Rate: The discount rate used to measure the total pension liability was 7.2%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE E – 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 7.2%, 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 (6.2%) or one-percentage-point higher (8.2%) than the current rate:

	1% Decrease 6.2%	Current Discount Rate 7.2%	1% Increase 8.2%
		(Amounts in Thousands)	
Division's proportionate share of the net pension liability	$ 116,996	$ 78,470	$ 46,470

NOTE F – DEFINED BENEFIT OPEB PLANS

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

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

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

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

NOTE F – DEFINED BENEFIT OPEB PLANS (Continued)

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

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

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

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

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

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

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2020, state and local employers contributed at a rate of 14.0% of earnable salary. This is the maximum employer contribution rates permitted by the ORC. Active member contributions do not fund health care.

NOTE F – DEFINED BENEFIT OPEB PLANS (Continued)

Each year, the Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 0.0% for both plans in 2020. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2019 was 4.0%.

For the year ended December 31, 2020, OPERS did not allocate any employer contributions to the OPEB plan.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: The net OPEB liability and total OPEB liability were determined by an actuarial valuation as of December 31, 2018, rolled forward to the measurement date of December 31, 2019, by incorporating the expected value of health care cost accruals, the actual health care payment and interest accruals during the year. The Division's proportion of the net OPEB liability was based on the Division's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

		OPERS (Amounts in Thousands)	
Proportion of Net OPEB Liability:			
Current Measurement Date		0.397503	%
Prior Measurement Date		0.403070	%
Change in Proportionate Share		(0.005567)	%
Proportionate Share of the Net:			
OPEB Liability	$	53,900	
OPEB Expense	$	6,573	

NOTE F – DEFINED BENEFIT OPEB PLANS (Continued)

At December 31, 2020, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	OPERS (Amounts in Thousands)	
Deferred Outflows of Resources		
Differences between expected and actual economic experience	$	1
Changes in assumptions		8,820
Change in Division's proportionate share and difference in employer contributions		42
Total Deferred Outflows of Resources	$	8,863
Deferred Inflows of Resources		
Differences between expected and actual economic experience	$	5,096
Net difference between projected and actual earnings on OPEB plan investments		2,837
Change in Division's proportionate share and difference in employer contributions		696
Total Deferred Inflows of Resources	$	8,629

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

	OPERS (Amounts in Thousands)	
Year Ending December 31:		
2021	$	973
2022		471
2023		2
2024		(1,212)
Total	$	234

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

NOTE F – DEFINED BENEFIT OPEB PLANS (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2018, rolled forward to the measurement date as of December 31, 2019. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB Statement No. 74, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*:

Wage Inflation	3.25%
Projected Salary Increases, including inflation	3.25% to 10.75%
Single Discount Rate:	
Current Measurement Date	3.16%
Prior Measurement Date	3.96%
Investment Rate of Return	6.00%
Municipal Bond Rate:	
Current Measurement Date	2.75%
Prior Measurement Date	3.71%
Health Care Cost Trend Rate:	
Current Measurement Date	10.50%, initial 3.5% ultimate in 2030
Prior Measurement Date	10.00%, initial 3.25% ultimate in 2029
Actuarial Cost Method	Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees Mortality Table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant Mortality Table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled Mortality Table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 Mortality Improvement Scale to all of the above described tables.

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

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

NOTE F – DEFINED BENEFIT OPEB PLANS (Continued)

During 2019, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, if any contributions are made into the plans, the contributions are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made. Health-care related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested for the Health Care portfolio was 19.7% for 2019.

The allocation of investment assets with the Health Care Portfolio is approved by the Board as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2019 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	36 %	1.53 %
Domestic Equities	21	5.75
Real Estate Investment Trust	6	5.69
International Equities	23	7.66
Other Investments	14	4.90
Total	100 %	4.55 %

Discount Rate: A single discount rate of 3.16% was used to measure the OPEB liability on the measurement date of December 31, 2019. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on the actuarial assumed rate of return on the health care investment portfolio of 6.00% and a municipal bond rate of 2.75%. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through the year 2034. As a result, the actuarial assumed long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

NOTE F – DEFINED BENEFIT OPEB PLANS (Continued)

Sensitivity of the Division's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate: The following table presents the Division's proportionate share of the net OPEB liability calculated using the single discount rate of 3.16%, as well as what the Division's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower 2.16% or one-percentage-point higher 4.16% than the current rate:

	1% Decrease 2.16%	Current Discount Rate 3.16%	1% Increase 4.16%
		(Amounts in Thousands)	
Division's proportionate share of the net OPEB liability	$ 70,792	$ 53,900	$ 40,720

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

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2020 is 10.50%. If this trend continues for future years, the projection indicates that years from now virtually all expenses will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.50% in the most recent valuation.

	1% Decrease 2.50%	Current Discount Rate 3.50%	1% Increase 4.50%
		(Amounts in Thousands)	
Division's proportionate share of the net OPEB liability	$ 52,513	$ 53,900	$ 55,640

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, which the City is responsible for. The City's management is of the opinion that ultimate settlement of such claims will not result in a material adverse effect on the Division's financial position, results of operations or cash flows.

Risk Management: The Division is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Division is generally self-insured. No material losses, including incurred but not reported losses, occurred in 2020.

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.

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 $2,259,000 in 2020. The Division also provides miscellaneous services to other departments and divisions of the City. Revenue realized from such services was approximately $667,000 in 2020.

NOTE H – RELATED PARTY TRANSACTIONS (Continued)

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, 2020 was as follows:

		(Amounts in Thousands)
Electricity Purchases	$	16,966
Utilities Administration and Utilities Fiscal Control		9,103
Motor Vehicle Maintenance		2,447
Telephone Exchange		1,908

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 $4,915,000 for December 31, 2020.

NOTE J – COVID 19

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of the pandemic and the ensuing emergency measures will impact subsequent periods of the Division. In addition, the impact on the Division’s future operating revenues, expenses, and any recovery from emergency funding cannot be estimated.

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

Required Supplementary Information

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

	Division's Proportion of the Net Pension Liability	Division's Proportionate Share of the Net Pension Liability (Asset)	Division's Covered Payroll	Division's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
	(Amounts in Thousands)				
2014	0.411161 %	$ 48,397	$ 46,600	103.86 %	86.36 %
2015	0.411161	49,432	51,458	96.06	86.45
2016	0.396321	69,902	50,533	138.33	81.08
2017	0.379883	87,844	50,392	174.32	77.25
2018	0.395659	62,889	52,731	119.26	84.66
2019	0.407826	111,359	58,257	191.15	74.70
2020	0.403071	78,470	60,729	129.21	82.17

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

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

Note to Schedule:
Change in assumptions. There were no changes in the methods or assumptions used in the calculation of actuarial determined contributions for 2014-2016. For 2017, the following were the most significant changes in assumptions that affected the total pension liability since the prior measurement date: (a) a reduction of the discount rate from 8.0% to 7.5%, (b) for defined benefit investments, decreasing the wage inflation rate from 3.75% to 3.25% and (c) changing the future salary increases from a range of 4.25%-10.05% to 3.25%-10.75%. There were no changes in assumption in 2018. For 2019, the following were the most significant changes that affected the total pension since the prior measurement date: (a) the assumed rate of return and discount rate were reduced from 7.5% to 7.2%. There were no changes in assumptions in 2020.

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

Required Supplementary Information (Continued)

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

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

(1) Represents Division'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

Required Supplementary Information (Continued)

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

	Division's Proportion of the Net OPEB Liability	Division's Proportionate Share of the Net OPEB Liability	Division's Covered Payroll	Division's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
	(Amounts in Thousands)				
2017	0.373155%	$ 37,690	$ 50,392	74.79 %	54.04 %
2018	0.389228	42,077	52,731	79.80	54.14
2019	0.403070	51,511	58,257	88.42	46.33
2020	0.397503	53,900	60,729	88.75	47.80

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

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

Note to Schedule:

In 2018, the single discount rate changed from 4.23% to 3.85%. In 2019, the single discount rate changed from 3.85% to 3.96%, the investment rate of return changed from 6.50% to 6.00% and the health care cost trend rate changed from 7.5% initial to 10.0% initial. In 2020, the single discount rate changed from 3.96% to 3.16% and the health care cost trend rate changed from 10.0% initial, 3.25% ultimate in 2029 to 10.5% initial, 3.50% ultimate in 2030.

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

Required Supplementary Information (Continued)

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

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

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

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

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