# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC UTILITIES
## DIVISION OF CLEVELAND PUBLIC POWER

**REPORT ON AUDIT OF FINANCIAL STATEMENTS**
**For the year ended December 31, 2022**

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC UTILITIES
## DIVISION OF CLEVELAND PUBLIC POWER

### TABLE OF CONTENTS

**This page intentionally left blank.**

OHIO AUDITOR OF STATE
KEITH FABER

88 East Broad Street
Columbus, Ohio 43215
ContactUs@ohioauditor.gov
(800) 282-0370

# INDEPENDENT AUDITOR'S REPORT

City of Cleveland
Department of Public Utilities
Division of Cleveland Public Power
Cuyahoga County
601 Lakeside Avenue
Cleveland, Ohio 44114

To the Honorable Justin M. Bibb, Mayor, Members of City Council and the Audit Committee and the Department of Public Utilities, Division of Cleveland Public Power:

## Report on the Audit of the Financial Statements

### *Opinions*

We have audited the financial statements of the Department of Public Utilities, Division of Cleveland Public Power of the City of Cleveland, Cuyahoga County, Ohio (the Division), as of and for the year ended December 31, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Department of Public Utilities, Division of Cleveland Public Power of the City of Cleveland as of December 31, 2022, and the changes in financial position and its cash flows thereof, for the year then ended in accordance with the accounting principles generally accepted in the United States of America

### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Division, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Emphasis of Matter***

*Presentation*

As discussed in Note A, the financial statements of the Department of Public Utilities, Division of Cleveland Public Power of the City of Cleveland, are intended to present the financial position, the changes in financial position, and cash flows, of only that portion of the business-type activities and the major fund of the City of Cleveland that is attributable to the transactions of the Department of Public Utilities, Division of Cleveland Public Power. They do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2022, the changes in its financial position or, where applicable, cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- obtain an understanding of internal control relevant to the audit 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 Division's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

***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 other post-employment benefit liabilities and pension and other post-employment benefit contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Keith Faber
Auditor of State
Columbus, Ohio

June 28, 2023

**This page intentionally left blank.**

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## GENERAL

As management of the City of Cleveland's (the City) Department of Public Utilities, Division of Cleveland Public Power (the Division), we offer readers of the Division's financial statements this narrative overview and analysis of the financial activities of the Division for the year ended December 31, 2022. Please read this information in conjunction with the Division's financial statements and footnotes that begin on page 20.

The Division was created in 1906 and charged with the responsibility for the distribution of electricity and related electric service to customers within its service areas. The Division operates a municipal electric system that is the largest in the State of Ohio and the 42nd largest by customers served in the United States according to the American Public Power Association's statistics for 2021. The Division serves an area that is bound by the City limits and presently serves more than 73,000 customers.

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

According to the 2020 census, the City's population is approximately 373,000 people. The Division has distribution facilities in about 60% of the geographical area of the City, primarily on the east side.

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

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

## FINANCIAL HIGHLIGHTS

- The Division's net position was $199,446,000 and $189,389,000 at December 31, 2022 and 2021, respectively. Of these amounts, $29,286,000 and $18,418,000 are unrestricted net position at December 31, 2022 and 2021, respectively, which may be used to meet the Division's ongoing obligations to customers and creditors.

- Operating income decreased by $3,501,000, primarily due to a $5,135,000 increase in operations expense.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### FINANCIAL HIGHLIGHTS (Continued)

- The Division's total long-term bonded debt decreased by $9,485,000 for the year ended December 31, 2022. The decrease is due to scheduled payments to bondholders on the outstanding Series 2016 and Series 2018 Bonds.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The basic financial statements of the Division can be found on pages 20 - 25 of this report. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 27 – 54 of this report. Required supplementary information can be found on pages 55 - 58.

## 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, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| | (Amounts in Thousands) | |
| Assets: | | |
| Current assets | 99,054 | 101,359 |
| Restricted assets | 4,149 | 4,063 |
| Noncurrent assets | 4,083 | 2,177 |
| Capital assets, net of accumulated depreciation | 323,686 | 333,957 |
| Total assets | 430,972 | 441,556 |
| Deferred outflows of resources | 23,790 | 25,701 |
| Liabilities: | | |
| Current liabilities | 27,647 | 26,053 |
| Long-term obligations | 210,474 | 230,184 |
| Total liabilities | 238,121 | 256,237 |
| Deferred inflows of resources | 17,195 | 21,631 |
| Net Position: | | |
| Net investment in capital assets | 167,237 | 168,111 |
| Restricted for capital projects | 177 | 177 |
| Restricted for debt service | 2,746 | 2,683 |
| Unrestricted | 29,286 | 18,418 |
| Total net position | 199,446 | 189,389 |

***Current assets:*** The Division's current assets decreased by $2,305,000 in 2022. The decrease is mainly due to a decrease of $6,911,000 in unrestricted cash and cash equivalents. The reduction is primarily attributed to an increase of $4,410,000 in recoverable costs of purchases power, due to a slight underbilling of power costs passed on to customers. In addition, there was an increase in unbilled revenue and due from other City of Cleveland funds of $457,000 and $454,000, respectively. Both increases are mainly attributed to an increase in the Energy Adjustment Chargre (EAC) compared to 2021.

***Restricted assets****:* The Division's restricted assets increased by $86,000. The increase is primarily due to an increase of $63,000 in cash and cash equivalents in the debt service fund.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

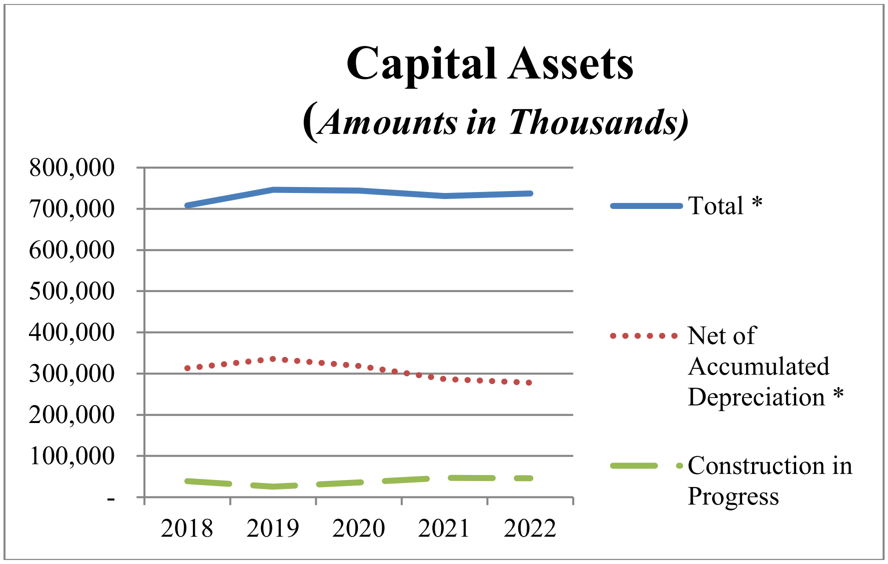
***Capital assets:*** The Division's capital assets as of December 31, 2022, amounted to $323,686,000 (net of accumulated depreciation). The total decrease in the Division's net capital assets for the current year was $10,271,000. A summary of the activity in the Division's capital assets during the year ended December 31, 2022, is as follows:

| | Balance January 1, 2022 | Additions | Reductions | Balance December 31, 2022 |
|---|---|---|---|---|
| | (Amounts in Thousands) | | | |
| Land | $ 5,574 | $ | $ | $ 5,574 |
| Land improvements | 2,430 | 764 | | 3,194 |
| Utility plant | 606,176 | 11,770 | (8,692) | 609,254 |
| Buildings, structures and improvements | 24,655 | 785 | | 25,440 |
| Furniture, fixtures, equipment and vehicles | 92,510 | 2,265 | (918) | 93,857 |
| Construction in progress | 46,962 | 7,048 | (8,304) | 45,706 |
| Total | 778,307 | 22,632 | (17,914) | 783,025 |
| Less: Accumulated depreciation | (444,350) | (19,092) | 4,103 | (459,339) |
| Capital assets, net | $ 333,957 | $ 3,540 | $ (13,811) | $ 323,686 |

The principal additions to construction in progress during 2022 included the following:

- Southern Transmission Line
- Auto transformers
- Hayden substation
- General engineering services

**CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)**




* Construction in Progress not included

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

***Deferred outflows of resources:*** There was a decrease of $1,911,000 in deferred outflows of resources. Unamortized loss on debt refundings decreased by $2,114,000 due to scheduled amortization. Deferred OPEB outflows decreased by $1,156,000, mainly due to a $1,070,000 decrease in change of assumptions regarding future economic and demographic factors. Deferred outflows of resources related to pension increased by $1,359,000.

***Current liabilities:*** The increase in current liabilities of $1,594,000 is primarily due to a $1,991,000 increase in accounts payable and a $475,000 increase in current portion of long-term debt, due within one year. The accounts payable increase is primarily attributed a $2,416,000 in purchased power costs due at year end, mainly payable to AMP. The increases were partially offset by a decrease of $996,000 in current payable from restricted assets due to issuing the final payments to vendors on various construction projects.

***Long-term obligations:*** The long-term obligations decrease of $19,710,000 is mainly due to decreases of $11,974,000 in revenue bonds payable and $10,535,000 in net pension liability. The reduction in revenue bonds payable is due to scheduled debt payments and associated amortization, while the decrease in net pension liability is primarily due to investment returns exceeding expectations. These decreases were partially offset by an increase of $3,073,000 in accreted interest payable.

At December 31, 2022, the Division had total bonded debt outstanding of $161,568,000. All bonds are backed by the revenues generated by the Division.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

The Division issued revenue bonds in the public capital markets in the late 1980's and early 1990's to finance a substantial expansion to its service territory. The Division also issued bonds in April 2008 for system expansion. In 2006, 2010, 2012, 2016, 2018 and 2020 the Division issued bonds to refinance a portion of its long-term debt. In 2014, the Division issued refunding bonds for the purpose of leveling the Division's debt service payments over the life of the debt. This outstanding debt is being retired in accordance with repayment schedules through 2038.

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

The activity in the Division's debt obligations outstanding during the year ended December 31, 2022, is summarized in the following table (excluding unamortized discounts, premiums and accreted interest):

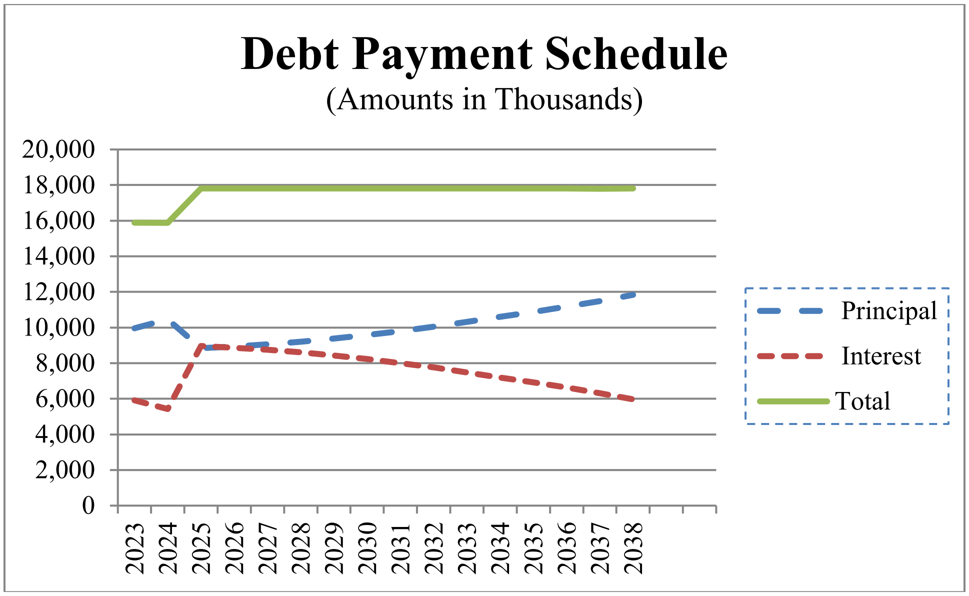
| | Balance January 1, 2022 | Debt Issued | Debt Retired | Balance December 31, 2022 |
|---|---|---|---|---|
| | (Amounts in Thousands) | | | |
| **Revenue Bonds:** | | | | |
| Revenue Bonds 2008 B-2 | $ 27,903 | $ | $ | $ 27,903 |
| Revenue Bonds 2016 | 18,010 | | (5,710) | 12,300 |
| Revenue Bonds 2018 | 41,560 | | (3,775) | 37,785 |
| Revenue Bonds 2020 | 83,580 | | | 83,580 |
| Total | $ 171,053 | $ - | $ (9,485) | $ 161,568 |

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

| Moody's Investors Service | S&P Global |
|---|---|
| A3 | A- |

The ratio of net revenue available for debt service to debt service requirements (revenue bond coverage) is a useful indicator of the Division's debt position to management, customers and creditors. The Division's revenue bond coverage for 2022 and 2021 was 176% and 170%, respectively. Additional information on the Division's long-term debt can be found in Note B – Debt and Other Long-term Obligations to the basic financial statements on pages 31 - 35.

**CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)**




***Net pension/OPEB liabilities/(assets)***: The net pension liability/(asset) is reported by the Division at December 31, 2022 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*. For fiscal year 2019, 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/(assets) related to 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/(asset) and the net OPEB liability/(asset) to the reported net position and subtracting the net pension asset, OPEB asset and 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 Governmentmental 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/(asset) or net OPEB liability/(asset). 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

GASB Statement No. 68 and GASB Statement No. 75 require the net pension liability/(asset) and the net OPEB liability/(asset) 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

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 other postemployment benefits. 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/(asset) or the net OPEB liability/(asset). As previously explained, changes in benefits, contribution rates and return on investments affect the balance of these liabilities/(assets), 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/(asset) and the net OPEB liability/(asset) are satisfied, these liabilities/(assets) are separately identified within the long-term liabilities/(assets) 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/(asset) and net OPEB liability/(asset), 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/(asset) 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)

***Deferred inflows of resources:*** There was a $4,436,000 decrease in deferred inflows of resources. Excess purchased power costs decreased by $6,771,000 due to a slight under billing of customers along with increased purchased power costs. The decrease of $2,902,000 in OPEB inflows is mainly due to a $2,144,000 decrease in change of assumptions regarding future economic and demographic factors. These decreases were partially offset by a $5,237,000 increase in pension inflows, primarily attributed to a $4,357,000 increase in the net difference between projected and actual earnings on pension plan investments

***Net Position:*** Net position serves as a useful indicator of a government's financial position. In the case of the Division, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $199,446,000 and $189,389,000 at December 31, 2022 and 2021, respectively.

Of the Division's net position at December 31, 2022, $167,237,000 reflects the Division's investment in capital assets (e.g., land, buildings, utility plant, furniture, fixtures, vehicles and equipment), net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. The Division uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the Division's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources since the capital assets themselves cannot be used to liquidate these liabilities.

In addition, $177,000 denotes funds restricted for use in capital projects and $2,746,000 represents resources subject to debt service restrictions.

The remaining $29,286,000 reflects unrestricted funds available to meet the Division's ongoing obligations to customers and creditors.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

The Division had a net increase of $10,057,000 in net position in 2022. Provided below are key elements of the Division's results of operations as of and for the years ended December 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| | (Amounts in Thousands) | |
| Operating revenues | $ 199,816 | $ 196,958 |
| Operating expenses | 181,663 | 175,304 |
| Operating income (loss) | 18,153 | 21,654 |
| Non-operating revenue (expense): | | |
| Investment income | 762 | 27 |
| Interest expense | (11,526) | (11,826) |
| Amortization of bond premiums and discounts | 2,014 | 2,159 |
| Amortization of lease agreements | (263) | |
| Gain (loss) on disposal of assets | (5,090) | (5,465) |
| Other | 6,007 | 5,992 |
| Total non-operating revenue (expense), net | (8,096) | (9,113) |
| Increase (decrease) in net position | 10,057 | 12,541 |
| Net position, beginning of year | 189,389 | 176,848 |
| Net position, end of year | $ 199,446 | $ 189,389 |

***Operating revenues***: In 2022, operating revenues increased by $2,858,000, primarily due to an increase in the Energy Adustment Charge in October of 2022.

***Operating expenses:*** Purchased power costs increased by $4,158,000, mainly due to instability in the power generation market related to the ongoing Ukraine/Russia conflict.

Operations expense increased by $5,135,000 in 2022, primarily due to an increase of $10,884,000 in OPEB expense, mainly attributed to changes in healthcare terms in 2020 that significantly reduced the 2021 expense amount. These increases were partially offset by decreases of $2,977,000 in bad debt expense and $3,171,000 decrease in pension expense. The reduction in bad debt is mainly attributed to the discontinuation of a moratorium on account shut-offs due to the Covid-19 pandemic.

Maintanance expense decreased by $693,000 or 4.0%, primarily due to a $1,205,000 decrease in payroll costs attributed to unfilled job openings.

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

There was decrease in depreciation expense of $2,241,000, primarily attributed to the final year of depreciation related to a large number of poles, wire, cables and assorted hardware in 2021.

***Non-operating revenue:*** Other non-operating revenue increased by $605,000, primarily attributed to investment income increasing by $735,000, due to significantly higher interest rates. Amortization of bond premiums and discounts decreased $145,000 due to scheduled amortization.

***Non-operating expense:*** Other non-operating expenses decreased by $412,000**.** Loss on disposal of assets decreased by $375,000 due to the retirement of the Division's remaining incandescent streetlights bulbs with the more efficient LED technology. Interest expense decreased by $300,000, due to scheduled debt service payments on long-term bonds. These decreases were offset by an increase in amortization of lease agreements, of $263,000, due to the implementation of GASB Statement No. 87.

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

As a municipally owned utility, the Division's mission is to improve the quality of life in the City by providing reliable, affordable energy and energy services to the residents and businesses of the City. The following sections describe major projects likely to affect the Division over the next several years.

### Capacity Expansion Program

The Division's Capacity Expansion Program was designed to enhance electric system reliability, increase capacity by 80 MW, and provide opportunities for future load growth. The program has three major components: the Fourth Interconnect, a new 138 kV interconnection with the FirstEnergy transmission system that was energized in 2011; the Southern Project, which involves extending the southern 138 kV transmission system; and the Lake Road Project, which includes the expansion of the Lake Road 11.5 kV Substation and the 11.5 kV system downtown. In 2008, the Division issued the Series 2008B-1 Bonds to fund the Capacity Expansion Program. In 2020, two major projects were completed and energized, namely the expansion of the Lake Road 11.5 kV Substation and the 11.5 kV system downtown.

The Lake Road Project involved constructing a duct line and feeder cables to the 11th Street Substation, which was re-fed to increase capacity in the downtown area and along the corridor between the Lake Road and 11th Street substations. Additionally, a new step-up substation, the South Marginal Substation, was completed to provide capacity from the 11.5kV distribution system in downtown to a portion of the 13.8 kV distribution system located east and southeast of downtown. The South Marginal Substation will be energized when the Division's new Supervisory Control and Data Acquisition (SCADA) System is put into service in the second quarter of 2024.

The Division's completed overhead portion of the 138 kV Southern Project will be put into service by the second quarter of 2024 once regulatory standards are met. This project involved modifying the Ridge Road Substation to create a ring bus that supports the new 138 kV transmission loop, which runs from the Ridge Road Substation to the Pofok Substation. The Division successfully collaborated with the City, Cuyahoga County, and the Ohio Department of Transportation to combine the construction of an underground segment of the transmission line with a roadway project.

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

### Power Supply

The Division participates in a diverse mix of resources including coal-fired, natural gas-fueled, hydroelectric, bioenergy, solar and wind generation. Participation in many of these resources is through the Division's membership in American Municipal Power (AMP) including: the Prairie State Energy Campus coal-fired generation project, AMP Hydro Phase 1 units (Cannelton/Smithland/Willow Island) and Phase 2 units (Meldahl/Greenup), AMP Fremont Energy Center (AFEC) combined cycle facility and the Blue Creek Wind Project. All five AMP hydroelectric projects are in commercial operation. Additionally, the Division has allocations of power from two New York Power Authority hydroelectric projects and several behind-the-meter resources including the Collinwood bioenergy generator, CV Kinsman solar, and Division-owned diesel generators. For 2022, about 23.2% of the Division's energy is being supplied from renewable sources including hydroelectric, wind and bioenergy and the Division has voluntarily pursued renewable goals, which are consistent with the Ohio state-mandated Renewable Portfolio Standard (RPS) targets applicable to investor-owned utilities (IOUs).

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

### Generation Projects

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

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

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

***AMP Fremont Energy Center***

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

***AMP Hydro Projects***

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

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

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

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

***Prairie State Energy Campus***

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

### ADDITIONAL INFORMATION

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

# BASIC FINANCIAL STATEMENTS

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC UTILITIES
## DIVISION OF CLEVELAND PUBLIC POWER
## STATEMENT OF NET POSITION
## December 31, 2022
## (Amounts in Thousands)

| | |
|---|---|
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | |
| **CURRENT ASSETS** | |
| Cash and cash equivalents | $ 63,262 |
| Receivables: | |
| Accounts receivable - net of allowance for doubtful accounts of $8,661 | 9,759 |
| Recoverable costs of purchased power | 4,938 |
| Unbilled revenue | 7,331 |
| Due from other City of Cleveland departments, divisions or funds | 2,782 |
| Materials and supplies | 10,537 |
| Prepaid expenses | 445 |
| **TOTAL CURRENT ASSETS** | 99,054 |
| **RESTRICTED ASSETS** | |
| Cash and cash equivalents | 4,138 |
| Accrued interest receivable | 11 |
| **TOTAL RESTRICTED ASSETS** | 4,149 |
| **NONCURRENT ASSETS** | |
| Net pension Asset | 410 |
| Net OPEB Asset | 3,419 |
| Right to use asset (net of accumulated depreciation) | 254 |
| **TOTAL NONCURRENT ASSETS** | 4,083 |
| **CAPITAL ASSETS** | |
| Land | 5,574 |
| Land improvements | 3,194 |
| Utility plant | 609,254 |
| Buildings, structures and improvements | 25,440 |
| Furniture, fixtures, equipment and vehicles | 93,857 |
| | 737,319 |
| Less: Accumulated depreciation | (459,339) |
| | 277,980 |
| Construction in progress | 45,706 |
| **CAPITAL ASSETS, NET** | 323,686 |
| **TOTAL ASSETS** | 430,972 |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Unamortized loss on debt refunding | 19,699 |
| Pension | 4,065 |
| OPEB | 26 |
| **TOTAL DEFERRED OUTFLOWS OF RESOURCES** | 23,790 |

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC UTILITIES
## DIVISION OF CLEVELAND PUBLIC POWER
## STATEMENT OF NET POSITION
## December 31, 2022
## (Amounts in Thousands)

| | |
|---|---|
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION** | |
| **LIABILITIES** | |
| **CURRENT LIABILITIES** | |
| Accounts payable | $ 12,631 |
| Other accrued expenses | 420 |
| Customer deposits and other liabilities | 337 |
| Current portion of accrued wages and benefits | 3,224 |
| Due to other City of Cleveland departments, divisions or funds | 78 |
| Current portion of leases | 254 |
| Accrued interest payable | 743 |
| Current portion of long-term debt, due within one year | 9,960 |
| **TOTAL CURRENT LIABILITIES** | 27,647 |
| **LONG-TERM OBLIGATIONS-excluding amounts due within one year** | |
| Accrued wages and benefits | 542 |
| Accreted interest payable | 32,320 |
| Revenue bonds | 167,390 |
| Net pension liability | 9,644 |
| Other | 578 |
| **TOTAL LONG-TERM OBLIGATIONS** | 210,474 |
| **TOTAL LIABILITIES** | 238,121 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Pension | 13,443 |
| OPEB | 3,752 |
| **TOTAL DEFERRED INFLOWS OF RESOURCES** | 17,195 |
| **NET POSITION** | |
| Net investment in capital assets | 167,237 |
| Restricted for capital projects | 177 |
| Restricted for debt service | 2,746 |
| Unrestricted | 29,286 |
| **TOTAL NET POSITION** | 199,446 |

See notes to financial statements.

**This page intentionally left blank.**

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC UTILITIES
## DIVISION OF CLEVELAND PUBLIC POWER
## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
**For the Year Ended December 31, 2022**
**(Amounts in Thousands)**

| | |
|---|---|
| **OPERATING REVENUES** | |
| Charges for services | $ 199,816 |
| **TOTAL OPERATING REVENUES** | 199,816 |
| **OPERATING EXPENSES** | |
| Purchased power | 129,928 |
| Operations | 15,850 |
| Maintenance | 16,793 |
| Depreciation | 19,092 |
| **TOTAL OPERATING EXPENSES** | 181,663 |
| **OPERATING INCOME (LOSS)** | 18,153 |
| **NON-OPERATING REVENUE (EXPENSE)** | |
| Investment income | 762 |
| Interest expense | (11,526) |
| Amortization of bond premiums and discounts | 2,014 |
| Amortization of lease agreements | (263) |
| Gain (loss) on disposal of assets | (5,090) |
| Other | 6,007 |
| **TOTAL NON-OPERATING REVENUE (EXPENSE), NET** | (8,096) |
| **INCREASE (DECREASE) IN NET POSITION** | 10,057 |
| **NET POSITION AT BEGINNING OF YEAR** | 189,389 |
| **NET POSITION END OF YEAR** | $ 199,446 |

See notes to financial statements.

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC UTILITIES
## DIVISION OF CLEVELAND PUBLIC POWER
## STATEMENT OF CASH FLOWS
### For the Year Ended December 31, 2022
### (Amounts in Thousands)

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Cash received from customers | $ 190,871 |
| Cash payments to suppliers for goods or services | (20,032) |
| Cash payments to employees for services | (17,808) |
| Cash payments for purchased power | (131,791) |
| Electric excise tax payments to custodial fund and other | (4,779) |
| **NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES** | 16,461 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| Electric excise tax receipts | 5,935 |
| **NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES** | 5,935 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | |
| Acquisition and construction of capital assets | (14,835) |
| Principal paid on long-term debt | (9,485) |
| Principal paid on lease obligations | (263) |
| Interest paid on long-term debt | (6,396) |
| **NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES** | (30,979) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Interest received on investments | 751 |
| **NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES** | 751 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | (7,832) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 75,232 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ 67,400 |

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC UTILITIES
## DIVISION OF CLEVELAND PUBLIC POWER
## STATEMENT OF CASH FLOWS
**For the Year Ended December 31, 2022**
**(Amounts in Thousands)**

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

| | |
|---|---|
| **OPERATING INCOME (LOSS)** | $ 18,153 |
| Adjustments: | |
| Depreciation | 19,092 |
| (Increase) decrease in assets: | |
| Accounts receivable, net | 163 |
| Recoverable costs of purchased power | (4,410) |
| Unbilled revenue | (457) |
| Due from other City of Cleveland departments, divisions or funds | (454) |
| Materials and supplies, net | (382) |
| Prepaid expenses | (62) |
| Net pension asset | (410) |
| Net OPEB asset | (1,242) |
| (Increase) decrease in deferred outflows of resources: | |
| Pension | (1,359) |
| OPEB | 1,156 |
| Increase (decrease) in liabilities: | |
| Accounts payable | 1,991 |
| Other accrued expenses | (7) |
| Customer deposits and other liabilities | (87) |
| Accrued wages and benefits | (6) |
| Due to other City of Cleveland departments, divisions or funds | (20) |
| Other long-term liabilities | (227) |
| Net pension liability | (10,535) |
| Increase (decrease) in deferred inflows of resources: | |
| Excess purchased power costs | (6,771) |
| Pension | 5,237 |
| OPEB | (2,902) |
| **TOTAL ADJUSTMENTS** | (1,692) |
| **NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES** | $ 16,461 |

See notes to financial statements.

**This page intentionally left blank.**

# NOTES TO THE FINANCIAL STATEMENTS
## For the Year Ended December 31, 2022

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

In June of 2017, GASB Statement No. 87, *Leases*, was issued. This Statement is effective for the reporting periods beginning after June 15, 2021. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. As required, the Division has implemented GASB Statement No. 87 as of December 31, 2022.

In January of 2020, GASB Statement No. 92, *Omnibus 2020, w*as issued. This Statement is effective for reporting periods beginning after June 15, 2021. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. As required, the Division has implemented GASB Statement No. 92 as of December 31, 2022.

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

***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 the GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. In a statement of cash flows, cash receipts and cash payments are classified according to operating, non-capital financing, capital and related financing and investment activities.

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

***Leases:*** The Division follows the provisions of GASB Statement No. 87 *Leases,* which requires governmental entities to recognize their long-term lease agreements on the financial statements.

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The Division has invested funds in STAR Ohio during 2022. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted GASB Statement No. 79, *Certain External Investment Pools and Pools 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.

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

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

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

Right-to-use lease assets are amortized over the shorter of the lease term or useful life of the underlying asset.

## NOTES TO FINANCIAL STATEMENTS (Continued)
## For the Year Ended December 31, 2022

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

***Deferred Outflows/Inflows of Resources:*** In addition to assets, the statement of 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 assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statement of 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 assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

***Net Pension/OPEB Liabilities/(Assets):*** For purposes of measuring the net pension/OPEB liabilities/(assets), 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.

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

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

**NOTES TO FINANCIAL STATEMENTS (Continued)**
**For the Year Ended December 31, 2022**

## NOTE B - DEBT AND OTHER LONG-TERM OBLIGATIONS

Long-term debt outstanding at December 31, 2022, is as follows:

| | Interest Rate | Original Issuance | 2022 |
|---|---|---|---|
| | | (Amounts in Thousands) | |
| **Revenue Bonds:** | | | |
| Series 2008 B-2, due through 2038 | 5.13%-5.40% | $ 27,903 | $ 27,903 |
| Series 2016, due through 2024 | 5.00% | 42,025 | 12,300 |
| Series 2018, due through 2038 | 5.00% | 47,245 | 37,785 |
| Series 2020, due through 2038 | 2.01-5.00% | 83,580 | 83,580 |
| | | $ 200,753 | 161,568 |
| Less: | | | |
| Unamortized premium (discount)-current interest bonds (net) | | | 15,782 |
| Current portion | | | (9,960) |
| Total long-term debt | | | $ 167,390 |

## NOTES TO FINANCIAL STATEMENTS (Continued)
## For the Year Ended December 31, 2022

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

***Summary:*** Changes in long-term obligations for the year ended December 31, 2022, are as follows:

| | Balance January 1, 2022 (as restated) | Increase | Decrease | Balance December 31, 2022 | Due Within One Year |
|---|---|---|---|---|---|
| | | | (Amounts in Thousands) | | |
| **Revenue Bonds:** | | | | | |
| Series 2008 B-2, due through 2038 | $ 27,903 | $ | $ | $ 27,903 | $ |
| Series 2016, due through 2024 | 18,010 | | (5,710) | 12,300 | 6,005 |
| Series 2018, due through 2038 | 41,560 | | (3,775) | 37,785 | 3,955 |
| Series 2020, due through 2038 | 83,580 | | | 83,580 | |
| Total revenue bonds | 171,053 | - | (9,485) | 161,568 | 9,960 |
| Accrued wages and benefits | 3,772 | 3,177 | (3,183) | 3,766 | 3,224 |
| Leases | 517 | | (263) | 254 | 254 |
| Net pension liability | 20,179 | | (10,535) | 9,644 | |
| Total | $ 195,521 | $ 3,177 | $ (23,466) | $ 175,232 | $ 13,438 |

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

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

| | Principal | Interest | Total |
|---|---|---|---|
| | (Amounts in Thousands) | | |
| 2023 | $ 9,960 | $ 5,922 | $ 15,882 |
| 2024 | 10,455 | 5,424 | 15,879 |
| 2025 | 8,842 | 8,964 | 17,806 |
| 2026 | 8,939 | 8,870 | 17,809 |
| 2027 | 9,056 | 8,749 | 17,805 |
| 2028-2032 | 48,004 | 41,027 | 89,031 |
| 2033-2037 | 54,474 | 34,548 | 89,022 |
| 2038 | 11,838 | 5,973 | 17,811 |
| | $ 161,568 | $ 119,477 | $ 281,045 |

The City has pledged future power system revenues, net of specified operating expenses, to repay $161,568,000 in Public Power System Revenue Bonds issued in various years since 2008. Proceeds from the bonds provided financing for Public Power System improvements. The bonds are payable from Public Power System net revenues and are payable through 2038. Annual principal and interest payments on the bonds are expected to require less than 57% of net revenues. The total principal and interest remaining to be paid on the various Public Power System Revenue Bonds is $281,045,000. Principal and interest paid for the current year and total net revenues were $15,881,000 and $27,934,000, respectively.

The Division has, at various times, defeased certain revenue bonds by placing the proceeds of new bonds into an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Division’s financial statements.

The Division had the following amounts of defeased debt outstanding at December 31, 2022.

| | |
|---|---|
| Series 2014 | $76,885,000 |
| Series 2016 | $2,265,000 |

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

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

On February 19, 2020, Public Power System Revenue Refunding Bonds, Series 2020, were issued in the amount of $83,580,000. The $63,110,000 Series 2020A Tax-Exempt Bonds were issued to advance refund $65,325,000 of outstanding Series 2014 Public Power System Refunding Revenue Bonds. The $20,470,000 Federally Taxable Series 2020B Bonds were issued to advance refund $11,560,000 of outstanding Series 2014 Public Power System Refunding Revenue Bonds and $6,510,000 of the outstanding Series 2016 Public Power System Refunding Revenue Bonds. Bond proceeds in the amount of $97,525,417, along with $1,697,178 from the debt service fund, were placed in an irrevocable escrow account to pay the principal and interest on the refunded bonds when due. As a result of this refunding, the City realized an economic gain (the difference between the present values of the old and new debt service) of $11,897,000 or 14.3%.

The indenture requires that, at all times, the Division will charge rates and fees for the products and services of the Public Power System. Revenues will be at least sufficient to provide funds for the payment in each year of the necessary operating and maintenance expenses of the power system and an amount equal to 1.25 times the payments of principal and interest on the revenue bonds then outstanding and due in that year. As of December 31, 2022, the Division was in compliance with the terms and requirements of the bond indenture. The indenture establishes the following fund accounts for the application of revenues:

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

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

***Debt Service Reserve Fund***: Deposits will be made to this fund if the required amount in the debt service reserve fund at any time is less than the debt service reserve requirement. In the past, however, the Division has elected pursuant to provisions of the indenture governing the Division's bonds, to satisfy the bond reserve requirement with a surety bond in an aggregate amount at least equal to the bond reserve requirement. The Series 2016 Bonds, Series 2018 Bonds and Series 2020 Bonds are not secured by the debt service reserve fund.

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

***Construction Fund:*** The proceeds from Series 1991, Series 1994 and Series 2008 Bonds of $12,050,000, $79,386,000 and $72,608,000, respectively, were deposited into this fund to be used, along with earnings from investments of amounts held therein, for the payment of capital costs. As of December 31, 2022, the Division did not have any outstanding commitments for future construction costs that will be funded by available bond proceeds. Capital costs include all costs of additions, extensions, renewals, replacements, alterations, betterments and any other capital improvements to the system. Amounts held in this fund are subject to a lien in favor of bondholders and may be used to pay principal of outstanding bonds to the extent that amounts in all other funds are insufficient. No payment needs to be made into a fund if the amounts in such fund are equal to the required fund balance, if any.

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

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

## NOTE C - DEPOSITS AND INVESTMENTS

***Deposits:*** At December 31, 2022, the Division's carrying amount of deposits totaled $26,373,000 and the Division's bank balances totaled $26,839,000. The differences represent positions in pooled bank accounts and normal reconciling items. Based on the criteria described in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*, $26,839,000 of the bank balances at December 31, 2022, was insured or collateralized with securities held by the City or by its agent in the City's name.

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

***Investments:*** In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, the City reports its investments at fair value based on quoted market values, where applicable and recognized the corresponding change in the fair value of the investments recorded in investment earnings in the year in which the change occurs. The City's investment policies are governed by State Statutes and City ordinances which authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; State Treasurer Asset Reserve Fund (STAR Ohio); commercial paper; US Government Money Market Mutual Funds; guaranteed investment contracts; manuscript debt; bonds and other State of Ohio obligations; certificates of deposit; and repurchase transactions. Such repurchase transactions must be purchased from financial institutions or registered broker/dealers. Repurchase transactions are not to exceed a period of one year and confirmation of securities pledged must be obtained.

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

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

***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.

## NOTE C - DEPOSITS AND INVESTMENTS (Continued)

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

***Credit Risk***: The Division's investments as of December 31, 2022, include STAR Ohio and money market mutual funds. Investments in STAR Ohio and the First American Government Obligations Fund carry a rating of AAAm, which is the highest money market fund rating given by S&P Global. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

***Concentration of Credit Risk***: The Division places a limitation on the amount it may invest in any one issuer to help minimize the concentration of credit risk. The Division had the following investments at December 31, 2022, 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 | 2022 Value | 2022 Cost | Investment Maturities Less than One Year |
|---|---|---|---|
| | (Amounts in Thousands) | | |
| STAR Ohio | $ 37,079 | $ 37,079 | $ 37,079 |
| Money Market Mutual Funds | 3,948 | 3,948 | 3,948 |
| Total Investments | 41,027 | 41,027 | 41,027 |
| Total Deposits | 26,373 | 26,373 | 26,373 |
| Total Deposits and Investments | $ 67,400 | $ 67,400 | $ 67,400 |

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, 2022, the investments in STAR Ohio and money market mutual funds are approximately 90.4% and 9.6%, respectively, of the Division's total investments

**NOTES TO FINANCIAL STATEMENTS (Continued)**
**For the Year Ended December 31, 2022**

## NOTE D - CAPITAL ASSETS

***Capital Asset Activity:*** Capital asset activity for the year ended December 31, 2022, was as follows:

| | January 1, 2022 | Additions | Reductions | December 31, 2022 |
|---|---|---|---|---|
| | (Amounts in Thousands) | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $ 5,574 | $ | $ | $ 5,574 |
| Construction in progress | 46,962 | 7,048 | (8,304) | 45,706 |
| Total capital assets, not being depreciated | 52,536 | 7,048 | (8,304) | 51,280 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 2,430 | 764 | | 3,194 |
| Utility plant | 606,176 | 11,770 | (8,692) | 609,254 |
| Buildings, structures and improvements | 24,655 | 785 | | 25,440 |
| Furniture, fixtures, equipment and vehicles | 92,510 | 2,265 | (918) | 93,857 |
| Total capital assets, being depreciated | 725,771 | 15,584 | (9,610) | 731,745 |
| Less: Accumulated depreciation | (444,350) | (19,092) | 4,103 | (459,339) |
| Total capital assets being depreciated, net | 281,421 | (3,508) | (5,507) | 272,406 |
| Capital assets, net | $ 333,957 | $ 3,540 | $ (13,811) | $ 323,686 |

***Commitments:*** The Division has outstanding commitments of approximately $18,120,000 for future capital expenditures at December 31, 2022. 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/(Asset):*** The net pension liability/(asset) reported on the statement of net position represents a liability/(asset) 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 liability/(asset) because it was created as a result of employment exchanges that already have occurred.

The net pension liability/(asset) 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/(asset) 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/(asset) 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/(asset). Resulting adjustments to the net pension liability/(asset) 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/(asset) 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 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.

## 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 Annual Comprehensive Financial Report referenced above for additional information):

| **Group A**<br>Eligible to retire prior to January 7, 2013 or five years after January 7, 2013 | **Group B**<br>20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013 | **Group C**<br>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:**<br>Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | **Age and Service Requirements:**<br>Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | **Age and Service Requirements:**<br>Age 57 with 25 years of service credit or Age 62 with 5 years of service credit |
| **Formula:**<br>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:**<br>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:**<br>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 2022, 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 $2,273,000 for 2022. All required payments have been made.

***Pension Liability/(Asset), Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:*** The net pension liability/(asset) for OPERS was measured as of December 31, 2021 and the total pension liability/(asset) used to calculate the net pension liability/(asset) was determined by an actuarial valuation as of that date. Following is information related to the proportionate share and pension expense:

| | Traditional | Combined |
|---|---|---|
| | (Amounts in Thousands) | |
| Proportionate Share of the Net Pension Liability/(Asset) | $ 9,644 | $ (410) |
| Proportion of the Net Pension Liability/(Asset) | 0.110840% | 0.103968% |
| Changes in Proportion | (0.013053)% | (0.015213)% |
| Pension Expense | $ (2,729) | $ (13) |

At December 31, 2022, the Division's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Traditional | Combined |
|---|---|---|
| | (Amounts in Thousands) | |
| **Deferred Outflows of Resources** | | |
| Differences between expected and actual economic experience | $ 491 | $ 3 |
| Change in Division's proportionate share and difference in employer contributions | 40 | 31 |
| Change in assumptions | 1,206 | 21 |
| Division's contributions subsequent to the measurement date | 2,203 | 70 |
| **Total Deferred Outflows of Resources** | $ 3,940 | $ 125 |
| **Deferred Inflows of Resources** | | |
| Differences between expected and actual economic experience | $ 211 | $ 46 |
| Net difference between projected and actual earnings on pension plan investments | 11,471 | 88 |
| Change in Division's proportionate share and difference in employer contributions | 1,615 | 12 |
| **Total Deferred Inflows of Resources** | $ 13,297 | $ 146 |

## NOTE E - DEFINED BENEFIT PENSION PLANS (Continued)

The $2,273,000 reported as deferred outflows of resources related to pension resulting from the Division's contributions subsequent to the measurement date will be recognized as a reduction/(increase) of the net pension liability/(asset) in the year ending December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| | Traditional | | Combined | |
|---|---|---|---|---|
| | (Amounts in Thousands) | | | |
| **Year Ending December 31:** | | | | |
| 2023 | $ | (2,629) | $ | (25) |
| 2024 | | (4,409) | | (35) |
| 2025 | | (2,697) | | (22) |
| 2026 | | (1,825) | | (16) |
| 2027 | | | | 1 |
| Thereafter | | | | 6 |
| Total | $ | (11,560) | $ | (91) |

***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/(asset) in the December 31, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Valuation Date | December 31, 2021 |
| Wage Inflation | 2.75% |
| Future Salary Increases, including inflation | |
| Traditional Plan | 2.75%-10.75% |
| Combined | 2.75%-8.25% |
| COLA or Ad Hoc COLA | 2.75%, simple |
| | Pre 1/7/2013 retirees: 3%, simple |
| | Post 1/7/2013 retirees: 3%, simple through 2022, then 2.05%, simple |
| Investment Rate of Return | 6.90% |
| Actuarial Cost Method | Individual Entry Age |

## NOTE E - DEFINED BENEFIT PENSION PLANS (Continued)

Pre-retirement mortality rates are based on 130% of the Pub-2010 General Employee Mortality tables (males and females) for State and Local Government divisions and 170% of the Pub-2010 Safety Employee Mortality tables (males and females) for the Public Safety and Law Enforcement divisions. Post-retirement mortality rates are based on 115% of the PubG-2010 Retiree Mortality Tables (males and females) for all divisions. Post-retirement mortality rates for disabled retirees are based on the PubNS-2010 Disabled Retiree Mortality Tables (males and females) for all divisions. For all of the previously described tables, the base year is 2010 and mortality rates for a particular calendar year are determined by applying the MP-2020 mortality improvement scales (males and females) to all of these tables.

The most recent experience study was completed for the five year period ended December 31, 2020.

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.

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 2021 and the long-term expected real rates of return:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Geometric) |
|---|---|---|
| Fixed Income | 24.00 % | 1.03 % |
| Domestic Equities | 21.00 | 3.78 |
| Real Estate | 11.00 | 3.66 |
| Private Equity | 12.00 | 7.43 |
| International Equities | 23.00 | 4.88 |
| Risk Parity | 5.00 | 2.92 |
| Other Investments | 4.00 | 2.85 |
| Total | 100.00 % | 4.21 % |

## NOTE E - DEFINED BENEFIT PENSION PLANS (Continued)

***Discount Rate:*** The discount rate used to measure the total pension liability/(asset) was 6.90%. 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.

***Sensitivity of the Division's Proportionate Share of the Net Pension Liability/(Asset) to Changes in the Discount Rate:*** The following table presents the Division's proportionate share of the net pension liability/(asset) calculated using the current period discount rate assumption of 6.90%, as well as what the Division's proportionate share of the net pension liability/(asset) would be if it were calculated using a discount rate that is one-percentage-point lower (5.90%) or one-percentage-point higher (7.90%) than the current rate:

| | 1% Decrease 5.90% | Current Discount Rate 6.90% | 1% Increase 7.90% |
|---|---|---|---|
| | (Amounts in Thousands) | | |
| Division's proportionate share of the net pension liability/(asset): | | | |
| Traditional plan | $ 25,426 | $ 9,644 | $ (3,489) |
| Combined plan | (306) | (410) | (491) |

## NOTE F – DEFINED BENEFIT OPEB PLANS

***Net OPEB Liability/(Asset):*** The net OPEB liability/(asset) reported on the statement of net position represents a liability/(asset) 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 liability/(asset) because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability/(asset) 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/(asset) 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/(asset) 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.

**NOTE F – DEFINED BENEFIT OPEB PLANS *(*Continued)**

GASB Statement No. 75 assumes the liability/(asset) 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/(asset). Resulting adjustments to the net OPEB liability/(asset) 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.

The proportionate share of each plan's unfunded benefits is presented as a long-term net OPEB liability/(asset) 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' Annual Comprehensive 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 OPERS Board of Trustees (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 2022, 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 2022. 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 2021 was 4.0%.

For the year ended December 31, 2022, OPERS did not allocate any employer contributions to the OPEB plan.

***OPEB Liability/(Asset), OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***: The net OPEB liability/(asset) and total OPEB liability/(asset) for OPERS were determined by an actuarial valuation as of December 31, 2020, rolled forward to the measurement date of December 31, 2021, 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/(asset) 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) | |
|---|---|---|
| Proportionate Share of the Net OPEB Liability/(Asset) | $ | (3,419) |
| Proportion of the Net OPEB Liability/(Asset): | | 0.109167% |
| Change in Proportionate Share | | (0.013043%) |
| OPEB Expense | $ | (3,067) |

**NOTE F – DEFINED BENEFIT OPEB PLANS *(*Continued)**

At December 31, 2022, 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** | |
| Changes in Division's proportionate share and difference in employer contibutions | $ 26 |
| **Total Deferred Outflows of Resources** | $ 26 |
| | |
| **Deferred Inflows of Resources** | |
| Differences between expected and actual experience | $ 519 |
| Net difference between projected and actual earnings on pension plan investments | 1,630 |
| Change in assumptions | 1,384 |
| Changes in proportion and differences between Division's contributions and proportionate share of contributions | 219 |
| **Total Deferred Inflows of Resources** | $ 3,752 |

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

| **Year Ending December 31:** | **OPERS (Amounts in Thousands)** |
|---|---|
| 2023 | $ (2,303) |
| 2024 | (833) |
| 2025 | (356) |
| 2026 | (234) |
| Total | $ (3,726) |

***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/(asset) was determined by an actuarial valuation as of December 31, 2020, rolled forward to the measurement date of December 31, 2021. 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 | 2.75% |
| Projected Salary Increases, including wage inflation | 2.75% - 10.75% |
| Single Discount Rate: | |
| Current Measurement Date | 6.00% |
| Prior Measurement Date | 6.00% |
| Investment Rate of Return | 6.00% |
| Municipal Bond Rate: | |
| Current Measurement Date | 1.84% |
| Prior Measurement Date | 2.00% |
| Health Care Cost Trend Rate: | |
| Current Measurement Date | 5.50%, initial<br>3.50%, ultimate in 2034 |
| Prior Measurement Date | 8.50%, initial<br>3.50%, ultimate in 2035 |
| Actuarial Cost Method | Individual Entry Age |

Pre-retirement mortality rates are based on 130% of the Pub-2010 General Employee Mortality tables (males and females) for State and Local Government divisions and 170% of the Pub-2010 Safety Employee Mortality tables (males and females) for the Public Safety and Law Enforcement divisions. Post-retirement mortality rates are based on 115% of the PubG-2010 Retiree Mortality Tables (males and females) for all divisions. Post-retirement mortality rates for disabled retirees are based on the PubNS-2010 Disabled Retiree Mortality Tables (males and females) for all divisions. For all of the previously described tables, the base year is 2010 and mortality rates for a particular calendar year are determined by applying the MP-2020 mortality improvement scales (males and females) to all of these tables.

The most recent experience study was completed for the five year period ended December 31, 2020.

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)

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 2021 and the long-term expected real rates of return:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Geometric) |
|---|---|---|
| Fixed Income | 34.00 % | 0.91 % |
| Domestic Equities | 25.00 | 3.78 |
| Real Estate Investment Trust | 7.00 | 3.71 |
| International Equities | 25.00 | 4.88 |
| Risk Parity | 2.00 | 2.92 |
| Other Investments | 7.00 | 1.93 |
| Total | 100.00 % | 3.45 % |

During 2021, 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, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and 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 a gain of 14.3% for 2021.

***Discount Rate:*** A single discount rate of 6.00% was used to measure the total OPEB liability/(asset) on the measurement date of December 31, 2021. 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 1.84%. 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 2121. As a result, the actuarial assumed long-term expected rate of return on health care investments was applied to projected costs through the year 2121, the duration of the projection period through which projected health care payments are fully funded.

**NOTE F – DEFINED BENEFIT OPEB PLANS *(*Continued)**

***Sensitivity of the Division's Proportionate Share of the Net OPEB Liability/(Asset) to Changes in the Discount Rate***: The following table presents the Division's proportionate share of the net OPEB liability/(asset) calculated using the single discount rate of 6.00%, as well as what the Division's proportionate share of the net OPEB liability/(asset) would be if it were calculated using a discount rate that is one-percentage-point lower 5.00% or one-percentage-point higher 7.00% than the current rate:

| | 1% Decrease 5.00% | Current Discount Rate 6.00% | 1% Increase 7.00% |
|---|---|---|---|
| | | (Amounts in Thousands) | |
| Division's proportionate share of the net OPEB liability/(asset) | $ (2,011) | $ (3,419) | $ (4,588) |

***Sensitivity of the Division's Proportionate Share of the Net OPEB Liability/(Asset) 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/(asset). The following table presents the net OPEB liability/(asset) calculated using the assumed trend rates and the expected net OPEB liability/(asset) 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 2022 is 5.50%. 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 Health Care Cost Trend Rate Assumption 3.50% | 1% Increase 4.50% |
|---|---|---|---|
| | | (Amounts in Thousands) | |
| Division's proportionate share of the net OPEB liability/(asset) | $ (3,456) | $ (3,419) | $ (3,375) |

## NOTE G – LEASES

In June 2017, the GASB issued Statement No. 87, *Leases.* The Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources (*based on contract provisions*). Under this Statement, a lessor is required to recognize a lease receivable and deferred inflow of resources while a lessee is required to recognize a lease payable and deferred outflow of resources for each contract whose terms meet the definition of a lease. This recognition is intended to enhance the relevance and consistency of information about governments' leasing activities.

***Leases Scope:*** Per GASB Statement No. 87, a lease is defined as, "A contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction." A contract conveys control if the user of the underlying asset possesses both: the right to obtain present service capacity and the right to determine the nature and manner of its use. The transaction is "exchange-like" when both parties receive and sacrifice something of approximate equal value. Accounting treatment for leases required by the Statement applies to non-financial assets. Assets that are non-financial in nature including intangible assets, biological assets, inventory leases, supply contracts, and service concession arrangements are considered out of scope.

***Accounting Treatment at Adoption:*** The Division of Cleveland Public Power (the "Division") is a lessor and a lessee in various noncancellable leases. In accordance with the Standard, leases that commenced before the adoption date of January 1, 2022, are considered to have commenced on this date. All leases with base rent payments adjusted by an index or rate (e.g., Consumer Price Index) have measured their lease liabilities based upon the most recent adjustment as of January 1, 2022, unless otherwise noted.

Measurement of Lease Amounts as a Lessor

For all in-scope leasing arrangements, the Division's lessees do not make fixed rent payments nor are any variable payments fixed in substance. Therefore, the Division does not recognize a lease receivable at inception. Variable inflows are recognized as they are received.

Measurement of Lease Amounts as a Lessee:

The Division recognizes a lease liability and an intangible right-to-use (RTU) asset at the beginning of a lease. Lease liabilities are measured based on net present value of the future lease payments at inception using the rate explicit in the contract, the rate implicit in the contract, or the Division's incremental borrowing rate which is estimated using the Federal Home Loan Bank Community Development Advance (FHLB CDA)+ 2.00% plus any lease incentives from the lessor. The lease liability is also measured with the inclusion of amounts required to be paid by the lessee under residual value guarantees, exercise price of a purchase option, and lease termination penalties – these are included only if there is reasonable certainty in the requirement to make such payments.

The RTU asset is measured at inception by adding to the lease liability net amounts exchanged with the lessor at or before commencement of the lease term and initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

**NOTE G – LEASES (Continued)**

Other Conditions:

The Division assumes optional extension terms present in lease agreements will be exercised unless optional extension periods have undefined future payment terms - these terms are excluded in the calculation of lease term length unless otherwise noted. The Division did not incur expense related to residual value guarantees nor did the Division exercise a purchase option.

Short-term Leases:

For short-term lease contracts – defined as having a maximum possible term of 12 months or less - the Division recognizes expense based on the payment provisions of the lease contract.

***Division as a Lessor:***

General Description of Lessor Leasing Arrangements:

The Division leases communications sites to non-governmental lessees. These leases have term end dates ranging from November 12, 2038 to March 12, 2039. The lease payments are dependent upon the timing and number of equipment installations during the preceding period.

Variable Inflows:

Variable lease payments are excluded from the measurement of lease receivables. Such amounts are recognized in the period in which the lease receivable is incurred. For fiscal 2022, variable inflows amounted to $64,000.

***Division as a Lessee:***

General Description of Lessee Leasing Arrangements:

The Division leases warehouse space from a non-governmental lessor. The lease has a term end date of August 31, 2024, and the annual lease payments are fixed for the term of the lease.

Outflows Recognized in FY22 from Leases:

For fiscal year 2022, lease and interest expense were $263,000 and $3,000, respectively.

Total Amount of Lease Assets and Accumulated Amortization:

For fiscal year 2022, the RTU asset and related accumulated amortization is $517,000 and $263,000, respectively.

**NOTE G – LEASES (Continued)**

Schedule of Future Payments:

The table below represents the future expected minimum principal and interest amounts to be paid for the existing, in-scope GASB 87 lease:

**CPP Maturity Schedule**

*(Amounts in Thousands)*

| | Principal | Interest |
|---|---|---|
| 2023 | $ 254 | $ 6 |

**NOTE H - CONTINGENT LIABILITIES AND RISK MANAGEMENT**

***Contingent Liabilities:*** The Division is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project was intended to develop a pulverized coal power plant in Meigs County, Ohio. The Division's project share was 80,000 kilowatts (kW) of a total 771,281 kW, giving the City a 10.37% project share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. All project costs incurred prior to the cancellation and related to the cancellation were therefore deemed impaired and participants were obligated to pay those incurred costs. Prior to 2014, payment of these costs was not required due to AMP's pursuit of legal action to collect them from Bechtel Corporation (Bechtel). As a result of a March 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014, approved the collection of the impaired costs and provided the participants with an estimate of their liability.

The Division's estimated share of the impaired costs at March 31, 2014, was $13,813,694. The Division received a credit of $6,447,719 related to their participation in the AMP Fremont Energy Center (AFEC) Project and another credit of $3,617,994 related to the AMPGS costs deemed to have future benefit for the project participants, classified as Plant Held for Future Use (PHFU), leaving an estimated net impaired costs balance of $3,747,981. Because payment is now probable and reasonably estimable, the Division is reporting a payable to AMP in its business-type activities and in its electric enterprise fund for these impaired costs. AMP financed these costs on its revolving line of credit. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact the Division's net impaired cost balance either positively or negatively. These amounts will be recorded as they become estimable.

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

## NOTE H - CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

Since March 31, 2014, the Division has made payments of $3,018,193 to AMP toward its net impaired cost estimate. Also since March 31, 2014, the Division's allocation of additional costs incurred by the project is $172,526 and interest expense incurred on AMP's line-of-credit of $319,443. As part of the Bechtel Settlement, the Division received a credit of $394,149 against its stranded cost liability, resulting in a net impaired cost estimate at December 31, 2022, of $827,608. The Division does have a potential PHFU Liability of $4,213,372 resulting in a net total potential liability of $5,040,980, assuming the assets making up the PHFU (principally the land comprising the Meigs County site) has no value and also assuming the Division's credit balance would earn zero interest. Stranded costs as well as PHFU costs are subject to change, including future borrowing costs on the AMP line of credit. Activities include negative items such as property taxes as well as positive items like revenue from leases or sale of all or a portion of the Meigs County site property.

The Division intends to recover these costs and repay AMP over the next 7 years through a power cost adjustment, thus this incurred cost has been capitalized and reported as a regulated asset, as allowed by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Division intends to recover 50% of these costs from the customers through the Energy Adjustment Charge passed along to customer's monthly bills.

In addition, various claims are pending against the City involving the Division for personal injuries, property damage and other matters, which the City is responsible for. The City's management is of the opinion that ultimate resolution of such claims could result in a material adverse effect on the Division's financial position, results of operations or cash flows. This amount is indeterminable at this time.

***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 2022.

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

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

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

## NOTE I - RELATED PARTY TRANSACTIONS

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

***Operating Expenses:*** The Division is provided various intra-city services. Charges are based on actual use or on a reasonable pro-rata basis. The more significant costs for the year ended December 31, 2022, are as follows:

| | | (Amounts in Thousands) |
|---|---|---|
| Telephone Exchange | $ | 3,649 |
| Utilities Administration and Fiscal Control | | 2,445 |
| City Administration | | 1,802 |
| Motor Vehicle Maintenance | | 516 |
| Division of Water | | 430 |

## NOTE J - CUYAHOGA COUNTY REAL PROPERTY TAXES

The Division is required by ordinance to keep records of the estimated property taxes which would be payable to Cuyahoga County were it subject to such taxes. The estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately $1,231,000 for the year ended December 31, 2022.

## NOTE K - KILOWATT PER HOUR TAX

In May 2001, the Division started billing its customers the electric deregulation kilowatt-hour tax according to the laws of the State of Ohio. This law requires the Division to remit the proceeds to the City's General Fund, except for any proceeds attributable to sales outside the City which are remitted to the State of Ohio. The Division remitted $5,236,000 for this tax in 2022, of which $13,830 was paid to the State. Ordinance No. 779-2021, passed October 25, 2021, directed that 100% of the proceeds go to the Division in 2022 and 2023.

**CITY OF CLEVELAND**
**DEPARTMENT OF PUBLIC UTILITIES**
**DIVISION OF CLEVELAND PUBLIC POWER**

**Required Supplementary Information**

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

| | Division's Proportion of the Net Pension Liability/ (Asset) | 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/(Asset) |
|---|---|---|---|---|---|
| | | | **(Amounts in Thousands)** | | |
| Traditional: | | | | | |
| 2014 | 0.136385 % | $ 16,054 | $ 15,462 | 103.83% | 86.36% |
| 2015 | 0.136385 | 16,397 | 17,067 | 96.07 | 86.45 |
| 2016 | 0.139410 | 23,597 | 17,775 | 132.75 | 81.08 |
| 2017 | 0.124709 | 29,488 | 16,542 | 178.26 | 77.55 |
| 2018 | 0.125259 | 21,587 | 16,769 | 128.73 | 84.66 |
| 2019 | 0.122549 | 36,152 | 17,543 | 206.08 | 74.70 |
| 2020 | 0.121120 | 26,253 | 18,200 | 144.25 | 82.17 |
| 2021 | 0.123986 | 20,179 | 18,729 | 107.74 | 86.88 |
| 2022 | 0.110840 | 9,644 | 17,579 | 54.86 | 92.62 |
| Combined: | | | | | |
| 2022 | 0.103968 | (410) | 17,579 | (2.33) | 169.88 |

(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 is 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 methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. For 2017, the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 8.0% down to 7.5% (b) for defined benefit investments, decreasing the wage inflation 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 assumptions for 2018. For 2019, the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date: (a) the assumed rate of return and discount rate were reduced from 7.5% down to 7.2%. There were no changes in assumptions in 2020 and 2021. For 2022, the most significant changes of assumptions that affected the total pension liability/(asset) since the prior measurement date was the assumed rate of return and discount rate were reduced from 7.2% down to 6.9%.

In 2022, the Division presented the Combined Pension Plan separately. In prior years it was netted with the Traditional Pension Plan.

**CITY OF CLEVELAND**
**DEPARTMENT OF PUBLIC UTILITIES**
**DIVISION OF CLEVELAND PUBLIC POWER**

**Required Supplementary Information (Continued)**

**Schedule of Contributions - Net Pension Liability/(Asset)**
**Ohio Public Employees Retirement System**
**Last Ten 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 | $ 2,010 | $ (2,010) | $ - | $ 15,462 | 13.00% |
| 2014 | 2,048 | (2,048) | - | 17,067 | 12.00 |
| 2015 | 2,133 | (2,133) | - | 17,775 | 12.00 |
| 2016 | 1,985 | (1,985) | - | 16,542 | 12.00 |
| 2017 | 2,180 | (2,180) | - | 16,769 | 13.00 |
| 2018 | 2,456 | (2,456) | - | 17,543 | 14.00 |
| 2019 | 2,548 | (2,548) | - | 18,200 | 14.00 |
| 2020 | 2,622 | (2,622) | - | 18,729 | 14.00 |
| 2021 | 2,461 | (2,461) | - | 17,579 | 14.00 |
| 2022 | 2,273 | (2,273) | - | 16,236 | 14.00 |

(1) Represents Division’s calendar year.

# CITY OF CLEVELAND
# DEPARTMENT OF PUBLIC UTILITIES
# DIVISION OF CLEVELAND PUBLIC POWER

## Required Supplementary Information (Continued)

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

| | Division's Proportion of the Net OPEB Liability/(Asset) | Division's Proportionate Share of the Net OPEB Liability/(Asset) | Division's Covered Payroll | Division's Proportional Share of the Net OPEB Liability/(Asset) as a Percentage of its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability/(Asset) |
|---|---|---|---|---|---|
| | (Amounts in Thousands) | | | | |
| 2017 | 0.122500 % | $ 12,374 | $ 16,542 | 74.80% | 54.04% |
| 2018 | 0.123223 | 13,762 | 16,769 | 82.07 | 54.14 |
| 2019 | 0.121120 | 16,597 | 17,543 | 94.61 | 46.33 |
| 2020 | 0.119447 | 17,316 | 18,200 | 95.14 | 47.80 |
| 2021 | 0.122210 | (2,177) | 18,729 | (11.62) | 115.57 |
| 2022 | 0.109167 | (3,419) | 17,579 | (19.45) | 128.23 |

(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 is 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 7.50% 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 10.00% initial, 3.25% ultimate in 2029 to 10.50% initial, 3.50% ultimate in 2030. In 2021, the single discount rate changed from 3.16% to 6.00% and the health care cost trend rate changed from 10.50% initial, 3.50% ultimate in 2030 to 8.50% initial, 3.50% ultimate in 2035. Also in 2021, the net OPEB liability changed to a net OPEB asset. In 2022, the health care cost trend rate changed from 8.50% initial, 3.50% ultimate in 2035 to 5.50% initial, 3.50% ultimate in 2034.

## CITY OF CLEVELAND
## DEPARTMENT OF PUBLIC UTILITIES
## DIVISION OF CLEVELAND PUBLIC POWER

### Required Supplementary Information (Continued)

### Schedule of Contributions - Net OPEB Liability/(Asset)
### Ohio Public Employees Retirement System
### Last Seven 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 | $ 331 | $ (331) | $ - | $ 16,542 | 2.00% |
| 2017 | 168 | (168) | - | 16,769 | 1.00 |
| 2018 | - | - | - | 17,543 | 0.00 |
| 2019 | - | - | - | 18,200 | 0.00 |
| 2020 | - | - | - | 18,729 | 0.00 |
| 2021 | - | - | - | 17,579 | 0.00 |
| 2022 | - | - | - | 16,236 | 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 is not available. The Division will continue to present information for years available until a full ten-year trend is compiled.