CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL

REPORT ON AUDITS OF FINANCIAL STATEMENTS
For the years ended December 31, 2014 and 2013

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Division of Water Pollution Control, Department of Public Utilities, City of Cleveland, Ohio (the "Division") as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

one east fourth street, ste. 1200
cincinnati, oh 45202

www.cshco.com
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f. 513.241.1212

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Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Division of Water Pollution Control, Department of Public Utilities, City of Cleveland, Ohio as of December 31, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note A to the basic financial statements, the financial statements present only the Division and do not purport to, and do not present fairly the financial position of the City of Cleveland as of December 31, 2014 and 2013, and the respective changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 24, 2015

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the City) Department of Public Utilities, Division of Water Pollution Control (the Division), we offer readers of the Division's financial statements this narrative overview and analysis of the financial activities of the Division for the years ended December 31, 2014 and 2013. Please read this information in conjunction with the Division's basic financial statements and footnotes that begin on page 14.

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

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

The City retained responsibility for the sewer collector system in Cleveland. The Division serves a significant portion of the entire metropolitan area by managing the sanitary sewage and storm water drainage collection system. The sewer collection system transfers sanitary and storm sewage from its point of origin to an interceptor sewer or treatment plant for processing. The system is comprised of over 1,400 miles of sewer lines with attendant catch basins and includes 15 pump/lift stations. The Division is also responsible for the cleaning of 127,000 catch basins and for maintaining two storm detention basins.

The Division currently has 125,768 customer accounts in the City of which 95.8% are residential and 4.2% commercial. Also, in 2014, the Division's sewers transported 1,824,168 Mcf's (thousand cubic feet) of water.

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

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities (net position) by $97,202,000, $99,284,000 and $99,204,000 at December 31, 2014, 2013 and 2012, respectively. Of these amounts, $27,887,000, $32,267,000 and $32,655,000 are unrestricted net position at December 31, 2014, 2013 and 2012, respectively and may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's net position decreased by $2,082,000 in 2014. The main component of the change was an increase of $2,164,000 in operating expenses, primarily due to a $1,744,000 increase in bad debt expense and a $358,000 increase in depreciation expense.

FINANCIAL HIGHLIGHTS (Continued)

- The regular sewage rate was $12.53 per thousand cubic feet in 2014 and 2013. Also, the homestead sewage rate was $7.43 per thousand cubic feet in 2014 and 2013.

- During 2014, the Division's current assets increased by $2,069,000. The primary components were an increase in cash and cash equivalents of $2,686,000 offset by a $941,000 decrease in due from other City departments, divisions or funds.

- The Division's total debt decreased in 2014 and 2013 by $545,000 and $525,000, respectively, due to the continuing scheduled debt payments made during the year. The loans are owed to the Ohio Water Development Authority (OWDA) and the Ohio Public Works Commission (OPWC). The loans to OWDA will be repaid in 2017 and the OPWC loans in 2022.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 21 - 34 of this report.

CONDENSED STATEMENT OF NET POSITION INFORMATION

Provided below are the statements of net position information for the Division as of December 31, 2014, 2013 and 2012:

	2014	2013	2012
		(In thousands)	
Assets:			
Capital assets, net	$ 70,538	$ 68,652	$ 68,709
Restricted assets	393	558	586
Current assets	140,314	138,245	138,452
Total assets	211,245	207,455	207,747
Net Positon and Liabilities:			
Net position:			
Net investment in capital assets	69,270	66,839	66,371
Restricted for capital projects	45	178	178
Unrestricted	27,887	32,267	32,655
Total net position	97,202	99,284	99,204
Liabilities:			
Long-term obligations	893	1,406	1,949
Current liabilities	113,150	106,765	106,594
Total liabilities	114,043	108,171	108,543
Total net position and liabilities	$ 211,245	$ 207,455	$ 207,747

Current Assets: In 2014, there was an increase of $2,069,000 in current assets due to increases in current cash and cash equivalents of $2,686,000 and in net accounts receivable of $217,000, offset by a decrease in due from other City departments, divisions or funds of $941,000. In 2014, the cash balance included $20,692,000 that was paid to other entities in January 2015.

In 2013, there was a decrease of $207,000 in current assets due to the decrease in current cash and cash equivalents of $1,463,000, offset by an increase in due from other City departments, divisions or funds and net accounts receivable of $734,000 and $522,000, respectively. In 2013, the cash balance included $17,749,000 that was paid to other entities in January 2014.

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Capital Assets: At December 31, 2014, net capital assets amounted to $70,538,000. This is an increase of $1,886,000 from the prior year, of which $5,515,000 is an increase in construction in progress, offset by an increase in accumulated depreciation of $5,080,000. In 2013, the Division's net capital assets amounted to $68,652,000. This was a decrease of $57,000 from 2012. A summary of the activity in the Division's capital assets during the years ended December 31, 2014 and 2013 is as follows:

	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014
	(In thousands)			
Land	$ 297	$	$	$ 297
Utility plant	141,783	1,136		142,919
Buildings, structures and improvements	8,963			8,963
Furniture, fixture, equipment and vehicles	15,046	822	(507)	15,361
Construction in progress	4,701	6,570	(1,055)	10,216
Total	170,790	8,528	(1,562)	177,756
Less: Accumulated depreciation	(102,138)	(5,579)	499	(107,218)
Capital assets, net	$ 68,652	$ 2,949	$ (1,063)	$ 70,538

In 2014, the largest capital additions were the West 54th Street and Franklin Emergency Repair, Vehicles Purchased, and Broadway Avenue Rehabilitation.

The major capital projects/expenses for the year included:

- Emergency Sewer Repairs
- Lamille Court
- West 149 Sewer Rehabilitation
- Ridgeland Circle Sewer Repair

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013
	(In thousands)			
Land	$ 297	$	$	$ 297
Utility plant	137,728	4,055		141,783
Buildings, structures and improvements	8,963			8,963
Furniture, fixture, equipment and vehicles	13,046	2,551	(551)	15,046
Construction in progress	6,143	4,041	(5,483)	4,701
Total	166,177	10,647	(6,034)	170,790
Less: Accumulated depreciation	(97,468)	(5,221)	551	(102,138)
Capital assets, net	$ 68,709	$ 5,426	$ (5,483)	$ 68,652

During 2013, the three largest capital additions were the Emergency Sewer Repairs 2013 for $687,000, the West 54 Street and Franklin Emergency Repair for $395,000 and the Gooding Avenue Sewer Replacement for $388,000. The major capital projects/expenses for the year included:

- 800MHZ System Upgrade
- Rehabilitating and Relining Sewers
- Emergency Sewer Repairs
- Earle Avenue Sewer

Additional information on the Division's capital assets, including commitments made for future capital expenditures, can be found in Note D.

Current Liabilities: Current liabilities increased by $6,385,000 in 2014, mainly due to an increase in amounts due for billings on behalf of others of $4,791,000, most of which was due from monies held for other entities to the Division of Water and an increase in due to other City of Cleveland divisions, departments and funds of $1,938,000. During 2013, total current liabilities increased by $171,000. The major components were an increase of $900,000 in due to other City departments, divisions or funds, an increase of $301,000 in accounts payable and an increase of $249,000 in amounts due for billings on behalf of others, offset by a $1,122,000 decrease in construction payable.

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Long-Term Debt: At the end of 2014, the Division had total debt outstanding of $1,268,000 associated with five OWDA construction loans and two OPWC construction loans. These loans are payable by revenues generated by the Division. At the end of 2013, the Division had total debt outstanding of $1,813,000 associated with the same loans.

The activity in the Division's debt obligations outstanding during the year ended December 31, 2014 is summarized below:

	Balance January 1, 2014	Debt Issued	Debt Retired	Balance December 31, 2014
	(In thousands)			
Ohio Water Development Authority Loans (OWDA)	$ 1,622	$	$ (521)	$ 1,101
Ohio Public Works Commission Loans (OPWC)	191		(24)	167
Total	$ 1,813	$ -	$ (545)	$ 1,268

The activity in the Division's debt obligations outstanding during the year ended December 31, 2013 is summarized below:

	Balance January 1, 2013	Debt Issued	Debt Retired	Balance December 31, 2013
	(In thousands)			
Ohio Water Development Authority Loans (OWDA)	$ 2,123	$	$ (501)	$ 1,622
Ohio Public Works Commission Loans (OPWC)	215		(24)	191
Total	$ 2,338	$ -	$ (525)	$ 1,813

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

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Net Position: Net position serves as a useful indicator of a government's financial position. In the case of the Division, assets exceeded liabilities by $97,202,000, $99,284,000 and $99,204,000 at December 31, 2014, 2013 and 2012, respectively.

The largest portion of the Division's net position, $69,270,000 and $66,839,000, at December 31, 2014 and 2013, respectively, reflects its investment in capital assets (e.g., land, buildings, utility plant, machinery and equipment), net of accumulated depreciation, less any related outstanding debt used to acquire those assets. The Division uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although the Division's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted for capital projects portion of the Division's net position was $45,000 and $178,000 at December 31, 2014 and 2013, respectively. These funds are set aside for the payment of capital projects.

The remaining balance of net position, $27,887,000 and $32,267,000, at December 31, 2014 and 2013, respectively, are unrestricted and may be used to meet the Division's ongoing obligations to customers and creditors.

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

During 2014, the Division's operations decreased its net position by $2,082,000. The Division's operations for 2013 increased its net position by $80,000. Provided below are the key elements of the Division's results of operations for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
		(In thousands)	
Operating revenues	$ 22,547	$ 22,549	$ 22,876
Operating expenses	24,708	22,544	24,377
Operating income (loss)	(2,161)	5	(1,501)
Non-operating revenue (expense):			
Investment income	54	58	59
Interest expense	(61)	(82)	(102)
Other	86	99	21
Total non-operating revenue (expense), net	79	75	(22)
Income (loss) before other contributions	(2,082)	80	(1,523)
Capital and other contributions			343
Increase (decrease) in net position	(2,082)	80	(1,180)
Net position, beginning of year	99,284	99,204	100,384
Net position, end of year	$ 97,202	$ 99,284	$ 99,204

Operating revenues: Operating revenues amounted to $22,547,000 in 2014, which was a decrease of $2,000 from the previous year. In 2014, consumption was stable in comparison to 2013. Total operating revenues amounted to $22,549,000 in 2013. This was a decrease of $327,000 from the prior year, mainly due to a decrease in consumption.

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

Operating expenses: During 2014, total operating expenses increased by $2,164,000. The major components were increases in bad debt expense of $1,744,000 and depreciation expense of $358,000, offset by a decrease in charges from the Division of Water of $462,000. In 2013, total operating expenses decreased by $1,833,000. There was a decrease in operations costs of $962,000. The major component was accrued bad debt expense, which decreased by $1,945,000. Also, maintenance costs decreased by $984,000. The major components were transfers of wages and benefits to capital and maintenance utility systems, which decreased by $374,000 and $309,000, respectively. The transfer of wages and benefits to capital was calculated using the Safe Harbor Rate Method, which decreased overhead costs and increased capital projects costs.

Non-operating revenues and expenses: In 2014, non-operating revenue (expense) increased by $4,000. The increase was primarily related to a $21,000 decrease in interest expense due to continuing loan repayments, offset by a $13,000 decrease in other revenues primarily related to lower scrap metal revenue. In 2013, other revenues increased by $78,000. The major component was an increase of $89,000 in expenditure recoveries, offset by a $11,000 decrease in sale of scrap.

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

Effective April 1, 2015, City Council approved a new fixed fee charge based upon meter size in accordance with Ordinance No. 1030-14. Most residential customers will pay a fixed charge of $12.00 per quarter in 2015 and 2016, $15.00 per quarter in 2017 and 2018 and $18.00 per quarter in 2019. Larger meter rates per quarter will run from $30.00 to $450.00 in 2015 and go to $55.00 to $550.00 by 2019. These rate increases will allow the Division to improve their capital infrastructure.

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.

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BASIC FINANCIAL STATEMENTS

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENTS OF NET POSITION
December 31, 2014 and 2013

	(In thousands) 2014	2013
ASSETS		
CAPITAL ASSETS		
Land	$ 297	$ 297
Utility plant	142,919	141,783
Buildings, structures and improvements	8,963	8,963
Furniture, fixtures, equipment and vehicles	15,361	15,046
	167,540	166,089
Less: Accumulated depreciation	(107,218)	(102,138)
	60,322	63,951
Construction in progress	10,216	4,701
CAPITAL ASSETS, NET	70,538	68,652
RESTRICTED ASSETS		
Cash and cash equivalents	393	558
CURRENT ASSETS		
Cash and cash equivalents	49,853	47,167
Receivables:		
Accounts receivable - net of allowance for doubtful accounts of $2,687,000 in 2014 and $2,269,000 in 2013	86,873	86,656
Unbilled revenue	2,888	2,830
Due from other City of Cleveland departments, divisions or funds	288	1,229
Materials and supplies - at average cost	412	363
TOTAL CURRENT ASSETS	140,314	138,245
TOTAL ASSETS	$ 211,245	$ 207,455

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENTS OF NET POSITION
December 31, 2014 and 2013

	(In thousands) 2014	2013
NET POSITION AND LIABILITIES		
NET POSITION		
Net investment in capital assets	$ 69,270	$ 66,839
Restricted for capital projects	45	178
Unrestricted	27,887	32,267
TOTAL NET POSITION	97,202	99,284
LIABILITIES		
LONG-TERM OBLIGATIONS-excluding amounts due within one year:		
OWDA loans	610	1,101
OPWC loans	143	167
Accrued wages and benefits	140	138
TOTAL LONG-TERM OBLIGATIONS	893	1,406
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	515	545
Accounts payable	169	472
Construction payable	1,072	928
Amounts due for billing on behalf of others	95,744	90,953
Due to other City of Cleveland departments, divisions or funds	14,237	12,299
Current portion of accrued wages and benefits	1,204	1,390
Other accrued expenses	46	49
Customer deposits and other liabilities	163	129
TOTAL CURRENT LIABILITIES	113,150	106,765
TOTAL LIABILITIES	114,043	108,171
TOTAL NET POSITION AND LIABILITIES	$ 211,245	$ 207,455

(Concluded)

See notes to financial statements.

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CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2014 and 2013

	(In thousands) 2014	2013
OPERATING REVENUES		
Charges for services	$ 22,547	$ 22,549
TOTAL OPERATING REVENUES	22,547	22,549
OPERATING EXPENSES		
Operations	10,670	9,232
Maintenance	8,459	8,091
Depreciation	5,579	5,221
TOTAL OPERATING EXPENSES	24,708	22,544
OPERATING INCOME (LOSS)	(2,161)	5
NON-OPERATING REVENUE (EXPENSE)		
Investment income	54	58
Interest expense	(61)	(82)
Other	86	99
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	79	75
INCREASE (DECREASE) IN NET POSITION	(2,082)	80
NET POSITION, BEGINNING OF YEAR	99,284	99,204
NET POSITION, END OF YEAR	$ 97,202	$ 99,284

See notes to financial statements.

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	(In thousands) 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 21,361	$ 21,462
Cash payments to suppliers for goods or services	(7,205)	(4,938)
Cash payments to employees for services	(9,704)	(10,063)
Agency activity on behalf of other sewer authorities	5,856	(1,216)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	10,308	5,245
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(7,235)	(6,239)
Principal paid on long-term debt	(545)	(525)
Interest paid on long-term debt	(61)	(82)
Capital grant proceeds		52
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(7,841)	(6,794)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	54	58
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	54	58
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,521	(1,491)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	47,725	49,216
CASH AND CASH EQUIVALENTS, END OF YEAR	50,246	47,725

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	2014	2013
	(In thousands)	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$ (2,161)	$ 5
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	5,579	5,221
Changes in assets and liabilities:		
Accounts receivable, net	(217)	(522)
Accrued and unbilled revenue	(58)	1
Due from other City of Cleveland departments, divisions or funds	941	(734)
Materials and supplies, net	(49)	(1)
Accounts payable	(303)	301
Other accrued expenses	(3)	(6)
Amounts due for billings on behalf of others	4,791	249
Due to other City of Cleveland departments, divisions or funds	1,938	900
Accrued wages and benefits	(184)	(165)
Customer deposits and other liabilities	34	(4)
TOTAL ADJUSTMENTS	12,469	5,240
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 10,308	$ 5,245

(Concluded)

See notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2014 and 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

In June of 2012, Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25* was issued. This Statement is effective for fiscal periods beginning after June 15, 2013. GASB Statement No. 67 replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 50 – *An Amendment of GASB Statements No. 25 and No. 27* as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Division has determined that GASB Statement No. 67 has no impact on its financial statements as of December 31, 2014.

In January of 2013, Governmental Accounting Standards Board (GASB) Statement No. 69, *Government Combinations and Disposals of Government Operations* was issued. This Statement is effective for fiscal periods beginning after December 15, 2013. GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The Division has determined that GASB Statement No. 69 has no impact on its financial statements as of December 31, 2014.

In April of 2013, Governmental Accounting Standards Board (GASB) Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* was issued. This Statement is effective for fiscal periods beginning after June 15, 2013. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The Division has determined that GASB Statement No. 70 has no impact on its financial statements as of December 31, 2014.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- Net investment in capital assets.
- Restricted for capital projects.
- Remaining unrestricted amount.

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

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

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

Accounts Receivables: The Division's share of the accounts receivable balance is \$10,213,000 and \$13,132,000, net of allowance for doubtful accounts of \$2,687,000 and \$2,269,000, for 2014 and 2013, respectively. The remaining accounts receivable balances of \$76,660,000 and \$73,524,000 for 2014 and 2013, respectively, belong to the Northeast Ohio Regional Sewer District and other municipalities in the Greater Cleveland Region and are offset by the corresponding amounts due for billings on behalf of others.

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

Cash and Cash Equivalents: Cash and cash equivalents represent cash on hand and cash deposits maintained by the City Treasurer on behalf of the Division. Cash equivalents are defined as highly liquid investments with maturity of three months or less when purchased and include certificates of deposit, U.S. Treasury bills, State Treasury Asset Reserve of Ohio (STAROhio), mutual funds and repurchase agreements. The City's policy is to enter into repurchase agreements with local commercial banks and to obtain confirmation of securities pledged.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments: The Division follows the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which requires governmental entities to report certain investments at fair value and recognize the corresponding change in the fair value of investments in the year in which the change occurred. The fair value is based on quoted market rates.

The City has invested funds in STAROhio during years 2014 and 2013. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2014 and 2013.

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

Utility plant	5 to 100 years
Building, structures and improvements	5 to 60 years
Furniture, fixtures, equipment and vehicles	3 to 60 years

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

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

NOTE B - LONG-TERM OBLIGATIONS

Long-term obligations outstanding at December 31, 2014 and 2013 as follows:

	Interest Rate	Original Issuance	2014	2013
			(In thousands)	
Ohio Water Development Authority (OWDA)				
Loans payable annually through 2017	4.04% - 4.18%	$ 7,897	$ 1,101	$ 1,622
Ohio Public Works Commission (OPWC) Loans				
payable annually through 2022	0.00%	481	167	191
		$ 8,378	1,268	1,813
Less:				
Current portion			(515)	(545)
Total Long-Term Debt			$ 753	$ 1,268

NOTE B - LONG-TERM OBLIGATIONS (Continued)

Summary: Changes in long-term obligations for the year ended December 31, 2014 are as follows:

	Balance January 1, 2014	Increase	Decrease	Balance December 31, 2014	Due Within One Year
			(In thousands)		
Ohio Water Development Authority (OWDA) Loans payable annually through 2017	$ 1,622	$	$ (521)	$ 1,101	$ 491
Ohio Public Works Commission (OPWC) Loans payable annually through 2022	191		(24)	167	24
Total loans	1,813	-	(545)	1,268	515
Accrued wages and benefits	1,528	1,206	(1,390)	1,344	1,204
Total	$ 3,341	$ 1,206	$ (1,935)	$ 2,612	$ 1,719

Summary: Changes in long-term obligations for the year ended December 31, 2013 are as follows:

	Balance January 1, 2013	Increase	Decrease	Balance December 31, 2013	Due Within One Year
			(In thousands)		
Ohio Water Development Authority (OWDA) Loans payable annually through 2017	$ 2,123	$	$ (501)	$ 1,622	$ 521
Ohio Public Works Commission (OPWC) Loans payable annually through 2022	215		(24)	191	24
Total loans	2,338	-	(525)	1,813	545
Accrued wages and benefits	1,693	1,392	(1,557)	1,528	1,390
Total	$ 4,031	$ 1,392	$ (2,082)	$ 3,341	$ 1,935

NOTE B - LONG-TERM OBLIGATIONS (Continued)

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

	Principal	Interest	Total
		(In thousands)	
2015	$ 515	$ 40	$ 555
2016	482	20	502
2017	177	3	180
2018	24		24
2019	24		24
2020-2022	46		46
Total	$ 1,268	$ 63	$ 1,331

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

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

In Ohio, this SRF program is known as the Water Pollution Control Loan Fund and is jointly administered by the Ohio EPA and the Ohio Water Development Authority. Principal balances on loans increase as project costs are incurred. Interest accrues on principal amounts outstanding during the construction period and is combined with the principal balance upon completion of the project. The repayment period for each loan commences no later than the 1st of January or July following the expected completion date of the project to which it relates utilizing an estimate of total eligible project costs as the preliminary loan amount. Construction loans and design loans are to be repaid in semi-annual payments of principal and interest over a period of twenty years and five years, respectively. The Division had five SRF loan awards related to projects as of December 31, 2014.

In addition, the Division had two OPWC loan awards as of December 31, 2014. The loan related projects are for sewer repair and replacement at the Hamlet and Adolpha Streets intersection and a storm water detention basin project at Kerruish Park. Both loans are interest-free and principal repayment will be made from the Division’s operating revenues.

NOTE C - DEPOSITS AND INVESTMENTS

Deposits: The Division's carrying amount of deposits at years ended December 31, 2014 and 2013 totaled $19,759,000 and $22,903,000, and the Division's bank balances were approximately $22,170,000 and $25,421,000, respectively. The differences represent positions in pooled bank accounts and normal reconciling items. Based on the criteria described in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*, $22,170,000 and $25,421,000 of the bank balances at December 31, 2014 and 2013, respectively, were 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: The City's investment policies are governed by State statutes and City ordinances which authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; State Treasurer Asset Reserve Fund (STAROhio); commercial paper; US Government Money Market Mutual Funds; guaranteed investment contracts; manuscript debt; bonds and other State of Ohio obligations; certificates of deposit; and repurchase transactions. Such repurchase transactions must be purchased from financial institutions or registered broker/dealers. Repurchase transactions are not to exceed a period of one year and confirmation of securities pledged must be obtained.

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

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

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

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

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

***Credit Risk*:** The Division's investments as of December 31, 2014 and 2013 include STAROhio and mutual funds. The Division maintains the highest ratings for their investments. Investments in STAROhio and the PNC Treasury Money Market Fund carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service.

***Concentration of Credit Risk*:** The Division places a limitation on the amount it may invest in any one issuer to minimize the concentration of credit risk. The Division had the following investments at December 31, 2014 and 2013, which include those classified as cash and cash equivalents in the Statement of Net Position in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

Type of Investment	2014 Fair Value	2014 Cost	2013 Fair Value	2013 Cost	Investment Maturities Less than One Year
			(In thousands)		
STAROhio	$ 25,932	$ 25,932	$ 11,826	$ 11,826	$ 25,932
Mutual Funds	4,555	4,555	12,996	12,996	4,555
Total Investments	30,487	30,487	24,822	24,822	30,487
Total Deposits	19,759	19,759	22,903	22,903	19,759
Total Deposits and Investments	$ 50,246	$ 50,246	$ 47,725	$ 47,725	$ 50,246

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

As of December 31, 2014, the investments in STAROhio and mutual funds are 85% and 15%, respectively, of the Division's total investments. As of December 31, 2013, the investments in STAROhio and mutual funds were 48% and 52%, respectively, of the Division's total investments.

NOTE D - CAPITAL ASSETS

Capital Asset Activity: Capital asset activity for the year ended December 31, 2014 was as follows:

	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014
	(In thousands)			
Capital assets, not being depreciated:				
Land	$ 297	$	$	$ 297
Construction in progress	4,701	6,570	(1,055)	10,216
Total capital assets, not being depreciated	4,998	6,570	(1,055)	10,513
Capital assets, being depreciated:				
Utility plant	141,783	1,136		142,919
Buildings, structures and improvements	8,963			8,963
Furniture, fixtures, equipment and vehicles	15,046	822	(507)	15,361
Total capital assets, being depreciated	165,792	1,958	(507)	167,243
Less: Accumulated depreciation	(102,138)	(5,579)	499	(107,218)
Total capital assets being depreciated, net	63,654	(3,621)	(8)	60,025
Capital assets, net	$ 68,652	$ 2,949	$ (1,063)	$ 70,538

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

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2014 and 2013

NOTE D - CAPITAL ASSETS (Continued)

Capital Asset Activity: Capital asset activity for the year ended December 31, 2013 was as follows:

	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013
	(In thousands)			
Capital assets, not being depreciated:				
Land	$ 297	$	$	$ 297
Construction in progress	6,143	4,041	(5,483)	4,701
Total capital assets, not being depreciated	6,440	4,041	(5,483)	4,998
Capital assets, being depreciated:				
Utility plant	137,728	4,055		141,783
Buildings, structures and improvements	8,963			8,963
Furniture, fixtures, equipment and vehicles	13,046	2,551	(551)	15,046
Total capital assets, being depreciated	159,737	6,606	(551)	165,792
Less: Accumulated depreciation	(97,468)	(5,221)	551	(102,138)
Total capital assets being depreciated, net	62,269	1,385	-	63,654
Capital assets, net	$ 68,709	$ 5,426	$ (5,483)	$ 68,652

Commitments: The Division had outstanding commitments of approximately $9,887,000 and $9,716,000 for future capital expenses at December 31, 2014 and 2013, respectively. It is anticipated that these commitments will be financed from the Division's cash balances. However, at the discretion of the Division, additional long-term debt may be issued in the future to finance a portion of the costs.

NOTE E – DEFINED BENEFIT PENSION PLAN

***Ohio Public Employees Retirement System*:** All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

1) The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan.
2) The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3) The Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2014, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2014, 2013 and 2012. The employer contribution rates were 14.00% of covered payroll in 2014, 2013 and 2012.

The Division's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2014, 2013 and 2012 were $831,000, $874,000 and $686,000 each year, respectively. The required payments due in 2014, 2013 and 2012 have been made.

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This accounting standard replaces GASB Statement No. 27, and it is effective for employer fiscal years beginning after June 15, 2014.

NOTE F – OTHER POSTEMPLOYMENT BENEFITS

***Ohio Public Employees Retirement System*:** All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS maintains a cost-sharing multiple employer defined benefit postemployment health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. In order to qualify for postemployment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. OPERS' eligibility requirements for postemployment health care coverage changed for those retiring on and after January 1, 2015. Please see the Plan Statement in the OPERS 2013 CAFR for details. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

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The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. The employer contribution rates were 14.00% of covered payroll in 2014, 2013 and 2012. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00% of covered payroll. Active members do not make contributions to the OPEB Plan. OPERS' Postemployment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. Employer contribution rates used to fund postemployment benefits were 2.00% for members of the Traditional Plan in 2014 and 1.00% in 2013 and 4.00% in 2012, 2.00% for members of the Combined Plan in 2014 and 1.00% for 2013 and 6.05% for 2012. Effective January 1, 2015, the portion of employer contributions allocated to health care remains at 2.00% for both plans, as recommended by the OPERS' Actuary. The OPERS Board of Trustees 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 Division's actual contributions to OPERS to fund postemployment benefits were $138,000 in 2014, $67,000 in 2013 and $274,000 in 2012. The required payments due in 2014, 2013 and 2012 have been made.

NOTE F – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.00% of the employer contributions toward the health care fund after the end of the transition period.

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT

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

Risk Management: The Division is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Division is generally self-insured. No material losses, including incurred but not reported losses, occurred in 2014 or 2013.

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

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

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

NOTE H - RELATED PARTY TRANSACTIONS

Revenues and Accounts Receivable: The Division provides sewer services to the City, including its various departments and divisions. Standard consumption rates are charged, except for the Division of Fire, public buildings and certain other facilities owned by the City, which by ordinance are provided free sewer services.

Billing and collection services for the Division are performed by the Division of Water for a fee. This fee is based on the number of billings made on behalf of the Division during the year at the same rates as charged to other users of the billing system. These fees were approximately $2,425,000 and $2,426,000 in 2014 and 2013, respectively.

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 years ended December 31, 2014 and 2013 were as follows:

	(In thousands) 2014	2013
Electricity purchases	$ 239	$ 218
Street construction and maintenance	50	2
City Administration	465	454
Motor Vehicle Maintenance	410	359
Utilities Administration and Utilities Fiscal Control	710	492
Services provided by the Division of Water	654	1,116

NOTE I - CUYAHOGA COUNTY REAL PROPERTY TAXES

The Division is required by ordinance to keep records of the estimated property taxes which would be payable to Cuyahoga County were it subject to such taxes. The estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately $23,100 and $24,063 for the years ended December 31, 2014 and 2013, respectively.

NOTE J – SUBSEQUENT EVENTS

Effective April 1, 2015, City Council approved a new fixed fee charge based upon meter size in accordance with Ordinance No. 1030-14. Most residential customers will pay a fixed charge of $12.00 per quarter in 2015 and 2016, $15.00 per quarter in 2017 and 2018 and $18.00 per quarter in 2019. Larger meter rates per quarter will run from $30.00 to $450.00 in 2015 and go to $55.00 to $550.00 by 2019. These rate increases will allow the Division to improve their capital infrastructure.