Cleveland Public Power
Count on it

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Cleveland Public Power
Count on it

POWERING CLEVELAND'S FUTURE

2014 ANNUAL REPORT

MISSION STATEMENT

CLEVELAND PUBLIC POWER IS COMMITTED TO PROVIDING RELIABLE AND AFFORDABLE ENERGY AND ENERGY SERVICES TO THE RESIDENTS AND BUSINESSES OF THE CITY OF CLEVELAND.

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A MESSAGE FROM THE MAYOR

I would like to commend Cleveland Public Power on its dedication to working collaboratively, across otherwise public and private silos, to create a lasting impact on continued prosperity for our great city.

In 2014, CPP looked beyond extreme weather and tight schedules to find the right solution to aid in the redevelopment of a once dormant corner of our community. The intersection of East 9th Street and Euclid Avenue now bustles with pedestrian traffic and is a clear sign of the great things happening in Cleveland. In order for this project to be successful, public and private entities worked together with a common goal – revitalizing Cleveland.

CPP has also positioned itself as a leader in the promotion of clean energy and is educating its customers on how to use energy in a more efficient manner. This commitment to clean energy and the utility's partnership with Efficiency Smart assist in the decision making processes of our local businesses – keeping them in Cleveland and in business with CPP.

“CPP HAS POSITIONED ITSELF AS A LEADER IN THE PROMOTION OF CLEAN ENERGY...”

Understanding that alliances and clean energy are only a small piece of the puzzle, Cleveland Public Power has consistently kept its eye on the prize – reliable and efficient electricity. I am pleased to say that this commitment is on track and is a vital component of the great city of Cleveland.

MAYOR FRANK G. JACKSON - CITY OF CLEVELAND

OUR LEADERS

FROM CITY COUNCIL, DIRECTOR AND COMMISSIONER

A safe and reliable power supply is at the core of Cleveland Public Power's (CPP) mission and values. In 2014, we continued to enhance our system infrastructure in an effort to ensure a reliable power supply to our existing customers and increase our service footprint to safely and reliably add on new customers.

A large portion of the capacity expansion project involved the placement of 2.5 miles of underground duct bank and ten large manholes. This section of the project feeds the western portion of our Southern Transmission Line circuit which will improve system reliability and give the utility more flexibility during planned maintenance outages of the utility's interconnection with First Energy.

In addition to our power supply, CPP consistently looks at ways to enhance and improve the City of Cleveland's streetlight inventory. This year, the utility has continued the streetlight pilot program with the introduction of smart photocells, a cutting-edge technology that will provide real-time data on outages. With this data, the utility will transition from a reactionary approach to streetlight outages into a preventive approach. This change in thinking will help to increase safety for residents and visitors to Cleveland.

The introduction of LED lighting and smart photocells, and a strong commitment to invest in renewable energy sources like hydroelectric power, are examples of the utility's work to reduce its carbon footprint.

This year, CPP is pleased to announce that the Cannelton Hydroelectric Power Plant has gone live, and the utility continues to make progress on its goals of purchasing 25 percent of its power from renewable energy sources by 2025.

Lastly, yet probably most important in the continued growth of Cleveland Public Power, is the commitment to residents and businesses in the city. This year, the development of solid relationships such as that with Mitchell's Ice Cream and the Geis Company resulted in the addition of new business customers with a strong commitment to Cleveland. As CPP continues to increase its customer base, the development of relationships with businesses like these will be integral to our success.

KEVIN J. KELLEY
Council President

TERRELL PRUITT
Councilman

SHARON DUMAS
Interim Director

IVAN L. HENDERSON
Commissioner

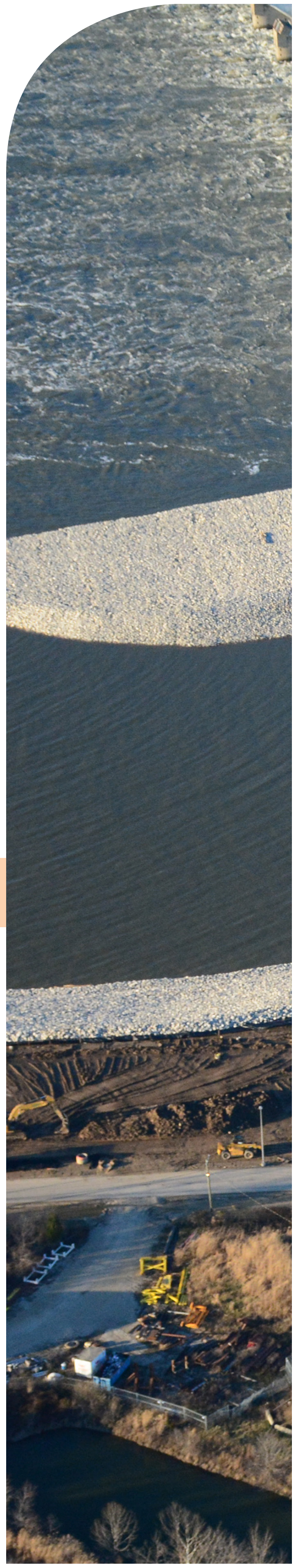
A COMMITMENT TO INVESTING IN HYDROELECTRIC POWER

In 2008, Cleveland City Council adopted the Renewable Energy Portfolio Standard requiring Cleveland Public Power to diversify its power supply over a seventeen-year period. Benchmarks developed begin in 2015 when the utility is required to receive 15 percent of its energy from renewable sources. In 2020, the percentage increases to 20 percent and is capped at 25 percent by 2025.

To meet these standards, CPP joined forces with American Municipal Power to invest in several hydroelectric power plants along the Great Lakes. Construction is underway on the Cannelton, Smithland, Willow Island and Medahl hydroelectric plants. Once operational, CPP will receive a combined 60 megawatts of power.

Commissioner Ivan Henderson said of the projects, "These are run-of-the-river hydroelectric generation facilities which utilize the energy from water flowing over existing dams and eliminate the need to alter the landscape through construction of new dams. Instead, turbines were built either alongside or at a lower elevation never changing the landscape, just slightly altering the infrastructure."

The use of preexisting dams to develop hydro-power reduces the initial investment and allows CPP to keep the cost of renewable power at an affordable rate for City of Cleveland residents and businesses.



ONCE OPERATIONAL, CPP WILL RECEIVE A COMBINED 60 MEGAWATTS OF POWER.

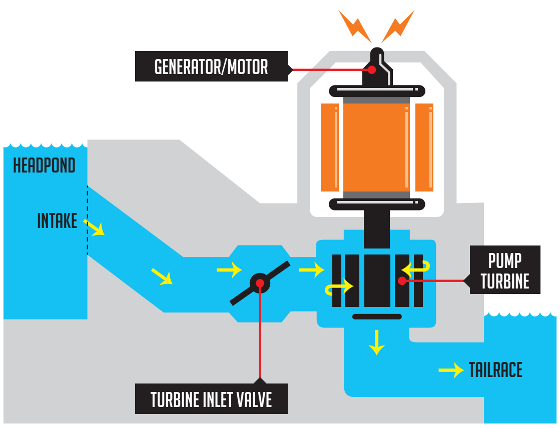
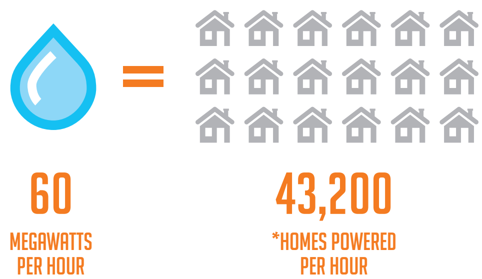


DIAGRAM OF A TYPICAL HYDROELECTRIC STATION

All four power plants are new with Cannelton being the first to "go live" in 2014 and the other three following suit in 2015. "Once the kinks are worked out, and the power plants become fully operational, CPP stands to receive seventeen and a half percent of hydroelectric power" said Henderson.



*based on an average home using 1,000 kwh per month

THE CANNELTON HYDROELECTRIC PLANT LOCATED ON THE OHIO RIVER HAS AN ESTIMATED CAPACITY OF 88 MEGAWATTS.

"CLEVELAND PUBLIC POWER HAS JOINED FORCES WITH AMERICAN MUNICIPAL POWER TO INVEST IN SEVERAL HYDROELECTRIC POWER PLANTS ALONG THE GREAT LAKES."


THE NINE IS TWENTY-NINE STORIES TALL

THE NEWLY RENOVATED CATWALK

> CLEVELAND PUBLIC POWER WORKED WITH DEVELOPERS FRED AND GREG GEIS OF GEIS COMPANIES, TO OVERHAUL THE TWENTY-NINE STORY AMERITRUST COMPLEX.

CUYAHOGA COUNTY ADMINISTRATION HEADQUARTERS

LIGHTING THE WAY TO A REVITALIZED EAST 9TH STREET

Downtown Cleveland is still abuzz over the opening of family-owned Heinen's in the historic rotunda of the Ameritrust bank building. The full service grocery store serves up high quality food with superior customer service.

Co-owner brothers, Jeff and Tom Heinen, strategically utilized the 27,000 square-foot floor plan at the East 9th Street and Euclid Avenue building. The store's design takes advantage of the rotunda's beautifully ornate and circular features which now display fresh produce, meats, deli, bakery and prepared food counters on the lower level. In the meantime, shoppers can complete their dinner menu with selections from the fine wine and beer section featured on the balcony level of the rotunda. Cleveland Public Power (CPP) worked with developers Fred and Greg Geis of Geis Companies to overhaul the 29-story Ameritrust complex which, in addition to Heinen's, includes the Cuyahoga County Administration headquarters and The Metropolitan at the 9 hotel and apartment complex.

During the height of one of Cleveland's most unforgiving winters, CPP crews, along with other utility crews and Geis contractors, worked nearly around the clock and under the tightest of deadlines to revamp the circa 1908 facility. The repurposed structure has been turned into an alluring complex home to an upscale hotel, luxury apartments and Adega, a modern Mediterranean restaurant.

The entire complex added 20 megawatts of power to CPP's portfolio while also emphasizing energy efficiency. The Cuyahoga County headquarters is LEED (Leadership in Energy & Environmental Design) certified which adds to the City of Cleveland's efforts to reduce its carbon footprint.

One of the keys to the success of this project was the fostering of public-private partnerships. "We have enhanced relationships with many Cleveland developers based on our commitment to quality and the timely completion of work. Projects like this represent the fruits of our labor," said Christine Leyda, assistant commissioner of sales and marketing for Cleveland Public Power.

Coalition building is also important to the Heinen's brothers. "Relationships are at the very core of our goal to know the sources of the products we sell," states Tom Heinen. "We look forward to serving the needs of downtown residents and businesses in this historic 1908 building containing the famous murals of Francis David Millet and the immense stained-glass dome ceiling."

HEINEN'S MAGNIFICENT ROTUNDA

LOCAL BUSINESS SERVING UP SWEET SCOOPS

Cleveland Public Power (CPP) prides itself on being the local electric utility provider in Cleveland. Connecting with businesses that exhibit that same fervor for the city is an added value for the utility.

One such business is Mitchell's Ice Cream which this year renovated space on West 25th Street in Cleveland's Ohio City neighborhood as its business headquarters.

Mike and Pete Mitchell are proud to call Cleveland their home; and for nearly two decades the brothers, who are business partners, have been creating memories with their delicious ice cream in and around the city. The choice for the new headquarters was simple.

MITCHELL'S ICE CREAM
ENERGY AMBASSADOR AWARD WINNER

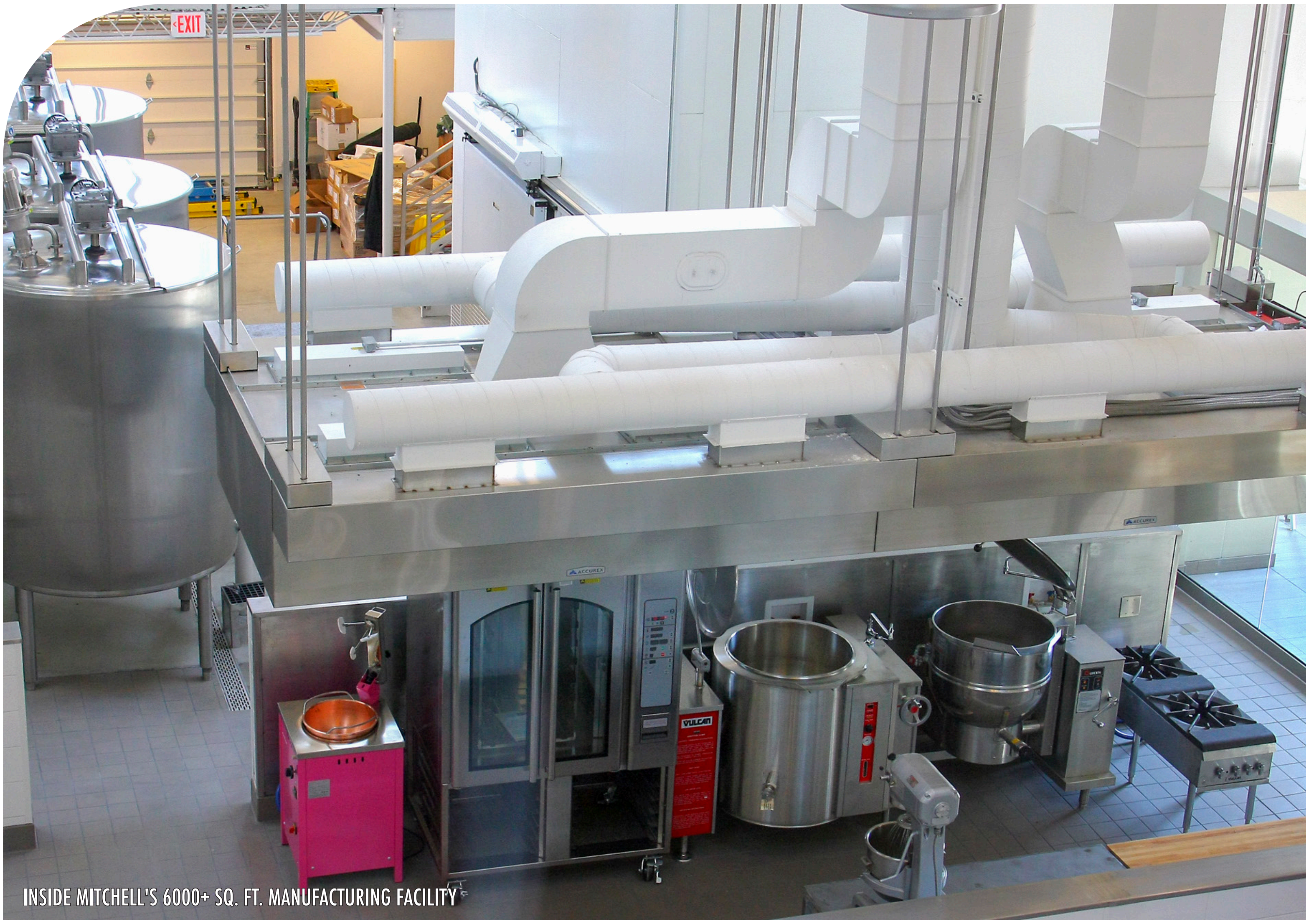
"We believe in Cleveland. It's the only place we've ever called home," said the brothers. "Our customers are our community. The life of Cleveland is our life. We buy from local suppliers and use local service professionals—from our carpenters to our accountant."

When the Mitchells chose CPP, they took advantage of the utility's partnership with Efficiency Smart. Efficiency Smart helps customers lower their electric bills through energy efficiency education, guiding them to savings with financial incentives and expert advice.

Mitchell's efficiencies included LED lighting throughout; skylights; efficient refrigeration compressors and controls; LED light fixtures controlled by daylight sensors; a high efficiency HVAC system; and large commercial fans to allow the cooling temperature set points to be increased. This commitment will add a savings of up to 182,200 annual kilowatt hours and an annual carbon dioxide reduction of 341,300 pounds.

Not only did Mitchell's lower its bottom line expenses, they were also recognized as an "Energy Ambassador" for their extensive installation of energy efficient equipment resulting in major savings in their kilowatt hour usage.

MITCHELL'S WEST 25TH STREET ENTRANCE



INSIDE MITCHELL'S 6000+ SQ. FT. MANUFACTURING FACILITY

2014 ENERGY AMBASSADOR AWARD WINNER

STREETLIGHT PILOT PROGRAM CONTINUES WITH SMART PHOTOCELLS

As Cleveland Public Power embarked on a two-year Streetlight Pilot Program, James Ferguson, chief of the streetlight bureau was introduced to smart photocells, a tool that increases the efficiency of LED street lights.

A typical photocell is a small sensor that allows light to be detected. The pilot photocells are considered "smart" because they include an embedded computer chip programmed to collect data and allow the user to communicate with the device remotely.

"The advantage for CPP," Ferguson said, "is these photocells will allow us to deliver a service that is proactive by establishing predetermined event Alerts that would typically be called in by residents." Currently, the utility receives calls into its automated voicemail system which allows residents to report street light outages, day burners or low voltages.

Smart photocells will send alerts to a designated computer, allowing CPP to schedule repairs and reducing calls for minor repairs. They will also give CPP the ability to inform callers the situation is noted and scheduled for repair when it is a more complicated problem.

The "smart" element also opens the door for the collection of real-time data and control over lighting. As an example, lights can be dimmed in support of outdoor events without deploying crews.

> THE PILOT PHOTOCELLS ARE CONSIDERED **"SMART"** BECAUSE THEY INCLUDE AN EMBEDDED COMPUTER CHIP PROGRAMMED TO COLLECT DATA AND ALLOW THE USER TO COMMUNICATE WITH THE DEVICE REMOTELY.

A CLOSER LOOK AT THE CAPACITY EXPANSION PROJECT

It's easy to think only of the wires and poles above ground when thinking of how electricity works, but really, there's much more to electricity than what can be seen. Cleveland Public Power's capacity expansion project, including construction of a new, massive underground circuit, is proof.

The new Southern Transmission Line tie circuit is being constructed to connect the Ridge Road and Pofok substations. This tie is required to provide backup service during planned maintenance outages of the utility's interconnection with First Energy. The 138kV circuit has a total length of approximately 9 miles.

The eastern portion of the line is 6.25 miles above ground, and the western portion is 2.5 miles in duct bank below ground. It also includes ten new manholes approximately 26 feet long, nine feet wide and eight feet high. The size of these large (non-standard) manholes is required to accommodate high circuits and cable.

> "THE SIZE OF THESE LARGE (NON-STANDARD) MANHOLES IS REQUIRED TO ACCOMMODATE HIGH AMPACITY 3 PHASE CIRCUIT UTILIZING 1000KCMIL RATED XLPE CABLE."

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 years ended December 31, 2014 and 2013. Please read this information in conjunction with the Division's financial statements and footnotes that begin on page 16.

The Division was created in 1906 and charged with the responsibility for the distribution of electricity and related electric service to customers within its service areas. The Division operates a municipal electric system that is the largest in the State of Ohio and the thirty-ninth largest in the United States according to the American Municipal Power Association's statistics for 2012. The Division serves an area that is bound by the City limits and presently serves approximately 73,000 customers.

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

According to the 2013 census estimates, the City's population is 390,000 people. There are approximately 216,000 residential dwelling units and 11,000 commercial units. 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. 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 new/emerging alternative energy technologies.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The Division's net position was $212,390,000, $208,402,000 and $208,545,000 at December 31, 2014, 2013 and 2012, respectively. Of these amounts, $41,196,000, $41,764,000 and $49,824,000 are unrestricted net position at December 31, 2014, 2013 and 2012, respectively, that may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's total net position increased by $3,988,000 in 2014 and decreased by $143,000 in 2013. The increase in net position in 2014 was mainly due to an increase in non-operating revenue (expense) of $6,198,000.

- Operating revenue increased by $11,501,000 or 6.8%. Purchased power increased by $14,994,000 or 14.9% and total operating expenses increased by $13,182,000 or 8.3% for 2014. Other non-operating revenue increased by $3,459,000, most of which was $2,801,000 of Deregulation Tax returned to CPP by the City's General Fund (for further information see Note J).

- During 2014, the Division had an increase in capital assets, net of accumulated depreciation of $12,599,000 or 3.7%. The principal capital expenses in 2014 were for the Lake Road project, Denison Ave. project and East 9th Street Duct Bank. These additions were offset by current year depreciation.

- The Division's total long-term bonded debt decreased by $2,630,000 and $12,710,000 for the years ended December 31, 2014 and 2013, respectively. The decrease in 2014 is from scheduled principal payments, which were offset by the issuance of $76,885,000 in refunding bonds as noted below. In 2013, the decrease is attributed to scheduled debt service payments made to bondholders.

- Effective October 30, 2014, the City issued $76,885,000 Public Power System Taxable Revenue Refunding Bonds, Series 2014. These bonds were issued to refund $68,745,000 of Public Power System Bonds issued in 2006, 2008, 2010 and 2012 for the purpose of restructuring the Division's debt.

- In 2005, the Division was impacted by the introduction of Seams Elimination Cost Adjustment (SECA), which was mandated by the Federal Energy Regulatory Commission (FERC). Seams are price inefficiencies arising from operational or rate schedule differences in markets that cross borders. For additional information see Note K. The Division paid SECA charges totaling $10,800,000 to Midwest Independent System Operator from December 2004 to March 2006 and has been refunded $5,655,000 as of December 31, 2014. The remaining amounts will be billed to customers in current and future years.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

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 of Cleveland Public Power Fund is considered an enterprise fund because the operations of the Division are similar to a private sector business enterprise. Accordingly, in accounting for the activities of the Division, the economic resources measurement focus and 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 23–27 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 28–45 of this report.

CONDENSED STATEMENT OF NET POSITION INFORMATION

Provided below is condensed statement of net position information for the Division as of December 31, 2014, 2013 and 2012.

	Restated 2014	2013	2012
		(In thousands)	
ASSETS			
Capital assets, net of accumulated depreciation	$ 353,620	$ 341,021	$ 335,627
Restricted assets	30,342	46,456	54,862
Current assets	79,806	79,284	80,470
DEFERRED OUTFLOWS OF RESOURCES	19,496	12,459	14,189
Total assets and deferred outflows of resources	483,264	479,220	485,148
NET POSITION AND LIABILITIES:			
NET POSITION:			
Net investment in capital assets	166,363	162,124	153,436
Restricted for capital projects	482	473	1,309
Restricted for debt service	4,349	4,041	3,976
Unrestricted	27,190	41,764	49,824
Total net position	198,384	208,402	208,545
LIABILITIES:			
Long-term obligations	255,224	234,806	242,658
Current liabilities	29,656	36,012	33,945
Total liabilities	284,880	270,818	276,603
Total net position and liabilities	**$ 483,264**	**$ 479,220**	**$ 485,148**

RESTRICTED ASSETS:

The Division's restricted assets decreased by $16,114,000 and $8,406,000 in 2014 and 2013, respectively. The decreases for both years are primarily related to use of revenue bond funds for capital project expenses.

CURRENT ASSETS:

The Division's current assets increased by $522,000 in 2014 and decreased by $1,186,000 in 2013. The increase in 2014 is mainly due to increases of $1,002,000 in materials and supplies as well as $398,000 in due from other City of Cleveland departments, divisions or funds, offset by a decrease of $963,000 in accounts receivable (net of allowance for doubtful accounts).

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED STATEMENT OF NET POSITION INFORMATION – CONTINUED

The decrease in 2013 is mainly due to a decrease of $10,235,000 in cash and cash equivalents and a decrease of $1,012,000 in materials and supplies, offset by an increase of $10,063,000 in recoverable costs of purchased power, of which $3,045,000 is for Energy Adjustment Charge, $5,144,000 for SECA and $1,874,000 for AMP. For additional information on SECA see Note K.

CAPITAL ASSETS:

The Division's capital assets as of December 31, 2014 amounted to $353,620,000 (net of accumulated depreciation). The total increase in the Division's net capital assets for the current year was $12,599,000. A summary of the activity in the Division's capital assets during the year ended December 31, 2014 is as follows:

	Balance January 1 2014	Additions	Reductions	Balance December 31 2014
		(In thousands)		
Land	$ 5,029	$	$	$ 5,029
Land improvements	305			305
Utility plant	512,756	7,919	(550)	520,125
Buildings, structures and improvements	21,348		(33)	21,315
Furniture, fixtures, equipment and vehicles	82,193	2,369	(1,144)	83,418
Construction in progress	48,087	25,772	(5,107)	68,752
TOTAL	669,718	36,060	(6,834)	698,944
Less: Accumulated depreciation	(328,697)	(18,354)	1,727	(345,324)
Capital assets, net	$ 341,021	$ 17,706	$ (5,107)	$ 353,620

The principal additions to construction in progress during 2014 included the following:

- Lake Road Project
- Denison Ave.
- East 9th Street Duct Bank
- Harvard Substation

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED STATEMENT OF NET POSITION INFORMATION – CONTINUED

A summary of the activity in the Division's capital assets during the year ended December 31, 2013 is as follows:

	Balance January 1 2013	Additions	Reductions	Balance December 31 2013
	(In thousands)			
Land	$ 5,249	$	$ (220)	$ 5,029
Land improvements	305			305
Utility plant	495,234	22,281	(4,759)	512,756
Buildings, structures and improvements	21,413	6	(71)	21,348
Furniture, fixtures, equipment and vehicles	81,036	2,215	(1,058)	82,193
Construction in progress	46,583	20,944	(19,440)	48,087
TOTAL	649,820	45,446	(25,548)	669,718
Less: Accumulated depreciation	(314,193)	(18,106)	3,602	(328,697)
Capital assets, net	$ 335,627	$ 27,340	$ (21,946)	$ 341,021

The principal additions to construction in progress during 2014 included the following:

- Lake Road Project
- Flats East Bank
- Emergency Transformer Repair
- 800 MGHz Radio System
- New Vehicles

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

CURRENT LIABILITIES:

The decrease in current liabilities of $6,356,000 in 2014 is mainly due to the decrease of $5,695,000 in current portion of long-term debt.

LONG-TERM OBLIGATIONS:

The long-term obligation increase of $20,418,000 in 2014 is primarily derived from a refunding issue which added a net increase of $8,140,000 in par value as well as an increase in net pension liability of $116,054,000, offset by scheduled repayments of $10,770,000.

At December 31, 2014, the Division had total bonded debt outstanding of $229,773,000. All bonds are backed by the revenues generated by the Division.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 and 2012, 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, 2014, is summarized in the following table (excluding unamortized discounts, premiums and accreted interest):

	Balance January 1 2014	Debt Issued	Debt Refunded	Debt Retired	Balance December 31 2014
			(In thousands)		
REVENUE BONDS:					
Revenue Bonds 2006 A-1	$ 95,265	$	$ (49,980)		$ 45,285
Revenue Bonds 2006 A-2	12,295		(6,280)		6,015
Revenue Bonds 2008 A	21,105		(2,065)		19,040
Revenue Bonds 2008 B-1	42,855		(2,145)	(975)	39,735
Revenue Bonds 2008 B-2	27,903				27,903
Revenue Bonds 2010	23,470		(415)	(8,145)	14,910
Revenue Bonds 2012	9,510		(7,860)	(1,650)	-
Revenue Bonds 2014		76,885			76,885
TOTAL	$ 232,403	$ 76,885	$ (68,745)	$ (10,770)	$ 229,773

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED STATEMENT OF NET POSITION INFORMATION – CONTINUED

The activity in the Division's debt obligations outstanding during the year ended December 31, 2013, is summarized in the following table (excluding unamortized discounts, premiums and accreted interest):

	Balance January 1 2013	Debt Issued	Debt Refunded	Debt Retired	Balance December 31 2013
			(In thousands)		
REVENUE BONDS:					
Mortgage Revenue Bonds 1994 A	$ 7,325	$	$	(7,325)	$ -
Revenue Bonds 2006 A-1	95,265				95,265
Revenue Bonds 2006 A-2	12,295				12,295
Revenue Bonds 2008 A	21,105				21,105
Revenue Bonds 2008 B-1	43,795			(940)	42,855
Revenue Bonds 2008 B-2	27,903				27,903
Revenue Bonds 2010	23,915			(445)	23,470
Revenue Bonds 2012	13,510			(4,000)	9,510
TOTAL	$ 245,113	$ -	$ -	$ (12,710)	$ 232,403

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

Moody's Investors Service	Standard & Poor's
A3	A-

On July 2, 2014, Moody's Investors Service changed its rating on Cleveland Public Power's debt to A3 (negative outlook) from A2 (stable). The outlook was returned to stable in October 2014.

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 2014, 2013 and 2012 was 147%, 130% and 143%, respectively. Additional information on the Division's long-term debt can be found in Note B to the basic financial statements on pages 27– 31.

NET POSITION:

Net position serves as a useful indicator of a government's financial position. In the case of the Division, assets and deferred outflows exceeded liabilities by $198,384,000, $208,402,000 and $208,545,000 at December 31, 2014, 2013 and 2012, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED STATEMENT OF NET POSITION INFORMATION – CONTINUED

Of the Division's net position at December 31, 2014, $166,363,000 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. In addition, $482,000 denotes funds restricted for use in capital projects and $4,349,000 represents resources subject to debt service restrictions. The remaining $27,190,000 reflects unrestricted funds available to meet the Division's ongoing obligations to customers and creditors.

Of the Division's net position at December 31, 2013, $162,124,000 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. In addition, $473,000 denotes funds restricted for use in capital projects and $4,041,000 represents resources subject to debt service restrictions. The remaining $41,764,000 reflects unrestricted funds available to meet the Division's ongoing obligations to customers and creditors.

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

The Division increased its net position by $3,988,000 in 2014, compared to a decrease in its net position of $143,000 in 2013. Provided below are key elements of the Division's results of operations as of and for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
		(In thousands)	
Operating revenues	$ 181,843	$ 170,342	$ 165,227
Operating expenses	172,469	159,287	153,958
Operating income (loss)	9,374	11,055	11,269
NON-OPERATING REVENUE (EXPENSE):			
Investment income	37	59	80
Interest expense	(9,285)	(10,023)	(9,677)
Amortization of bond premiums and discounts	(133)	68	78
Gain (loss) on disposal of assets		(2,224)	
Other	3,995	536	164
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	(5,386)	(11,584)	(9,355)
INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	3,988	(529)	1,914
Capital and other contributions		386	981
INCREASE (DECREASE) IN NET POSITION	3,988	(143)	2,895
NET POSITION, BEGINNING OF YEAR	208,402	208,545	205,650
NET POSITION, END OF YEAR	$ 212,390	$ 208,402	$ 208,545

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

- In 2014, operating revenues increased by $11,501,000, mostly from increased power costs passed on to customers through the Energy Adjustment Charge. There was a 0.2% decrease in KWH sold.
- In 2013, operating revenues increased by $5,115,000, mostly from deferred costs carried through to revenue in the Energy Adjustment Charge. There was a 0.2% increase in KWH sold.
- In 2014, the cost of purchased power increased $14,994,000 due to the increased price of purchased power on the market. This increase in the cost of purchased power is passed through to customers via an Energy Adjustment Charge.
- In 2013, the cost of purchased power increased $5,141,000 due to the increased price of purchased power on the market. This increase in the cost of purchased power is passed through to customers via an Energy Adjustment Charge.
- Operating expenses increased by $13,182,000 in 2014. Other than purchased power, the majority of this is due to an increase of $513,000 in professional services and an increase in capital improvement inventory cost of $1,738,000. This was offset by a decrease in other supplies expense in 2014 of $2,921,000, full time permanent labor decreased by $873,000 and bad debt expense decreased by $585,000. Maintenance expense decreased by $1,345,000 in 2014. Most of this was in labor maintenance accruals, from an estimated allocation between operations and maintenance. All labor decreased by $3,837,000 or 14%, due to reallocation of administrative staff to department wide services and capitalization of labor on various capital assets completed by Division staff.
- Operating expenses decreased by $5,329,000 in 2013. The majority of this is due to an increase of $2,428,000 in wages and benefits that were capitalized. The Division is using the Safe Harbor method in 2013 to calculate this; in 2012 an itemized figure was used. This was offset by an increase in Workers' Compensation expense in 2013 of $849,000, other supplies increased by $2,565,000, other contractual increased by $338,000 and professional services decreased by $648,000.

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 Division is currently evaluating strategic options to address competitive factors likely to impact the division over the next several years.

The Capacity Expansion Program has been an ongoing project for the Division. Two major components remain and are expected to be completed in the future. The Capacity Expansion Program is designed to support and improve the Division's electric system reliability and provide for future load growth opportunities.

SOUTHERN PROJECT:

Construction is beginning on the Southern Project. In 2014, the Division acquired easements for the project. The Southern Project includes modification of the Ridge Road Substation to create a ring bus to support the new 138 kV transmission loop which routes from Ridge Road Substation to the newly completed Pofok Substation. A portion of the 138 kV transmission line will be underground. The Division has successfully partnered with the City, Cuyahoga County and the Ohio Department of Transportation to combine the construction of the duct line with a streetscapes project. The joint project lessens the Division's costs while simultaneously reducing construction related disturbances. The design is complete on the duct line and an award was made in January 2014 for the construction of the duct line. The overhead portion of the 138 kV transmission line will complete the loop. The final engineering design of the overhead line is complete and the land acquisition is nearly complete.

The Southern Transmission Line will be built to provide additional reliability to the Division's system and has an anticipated in service date of 2nd quarter 2016.

LAKE ROAD PROJECT:

The Lake Road Project includes the construction of a duct line and feeder cables to the 11th Street Substation. The refeeding of the 11th Street Substation will increase capacity in this area of downtown and along the corridor between the Lake Road Substation and the 11th Street Substation. In addition, a new step-up substation known as the South Marginal Substation is complete. It provides capacity from the 11.5 kV distribution system located downtown to a portion of the 13.8 kV distribution system situated east and southeast of downtown. The Lake Road Substation is scheduled to be energized in 2nd quarter of 2015.

The Division is focusing its marketing efforts on those sections of the City that were part of its earlier system expansion to increase the density of customers served. As the Division competes with CEI in these areas, density is measured as the number of the Division's customers on a given street versus the total customers available on that street. New customers can be added with little additional expense.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The Division purchases most of its power requirements via contracts in the power markets. The Division is reducing its dependence on the purchased power market by acquiring interests in certain generating facilities. The Division's long-term base load supply will include a mix of power provided by participation in AMP Inc. hydroelectric projects, the Fremont Energy Center, the Prairie State Energy Campus project and new/emerging alternative energy technologies. The Division is currently scheduled to purchase a total of approximately 50 MW from the AMP Inc.'s hydroelectric projects, which are expected to be in operation in 2015. The Division purchases 25 MW from AMP Inc.'s share of the Prairie State Energy Campus project, an Illinois coal-fired generating plant that came on-line in November 2012. The Division also purchases 60-80 MW from the Fremont Energy Center, a 707 MW natural gas-fired generating plant, which came on-line in January 2012. Like other power expenses, the Division's payments for the Prairie State and Fremont projects power will be an operating expense for the Division as purchased power and the cost will be passed through to its customers via an Energy Adjustment Charge on its bills. As power costs rise, sales revenue will also increase commensurately through the Energy Adjustment Charge.

The Division owns and operates approximately 67,000 street lights, including 18,000 that were purchased in 2008 from CEI for $4,000,000. The Division provides street lighting service to its customer, the City of Cleveland, under a published rate schedule. CEI will continue to provide the power to street lights where the Division lacks distribution facilities but will charge an energy-based rate under CEI's tariff for municipally owned street lights. The Division intends to continue to charge the City the current CEI rate for the newly acquired lights for eight years until September 2016, after which the lights will be billed at the Division's then-current standard rate. In addition to adding a new revenue stream, the transfer will enable the City to avoid future increases in CEI's street lighting tariff charges, potentially affecting the General Fund, and will allow for improved maintenance of the new lights by increasing responsiveness.

In early 2001, Ohio Electric Choice legislation created a new kilowatt-hour excise tax on electric power distributed to end-users of electricity in the State by both investor-owned and municipal utilities. For municipal utilities, the State law requires the utility to remit the tax receipts to the municipality's General Fund. Under Ordinance No. 193-13 passed in March 2013, the General Fund retained 100% of the tax remittance in 2013 and returned 50% to CPP during the calendar year 2014. Ordinance No. 1350-14 was passed in December 2014, authorizing the General Fund to return 50% of the excise tax to CPP for calendar years 2015 and 2016.

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.

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENTS OF NET POSITION

December 31, 2014 and 2013

	(In thousands) 2014	2013
ASSETS		
CAPITAL ASSETS		
Land	$ 5,029	$ 5,029
Land improvements	305	305
Utility plant	520,125	512,756
Buildings, structures and improvements	21,315	21,348
Furniture, fixtures, equipment and vehicles	83,418	82,193
	630,192	621,631
Less: Accumulated depreciation	(345,324)	(328,697)
	284,868	292,934
Construction in progress	68,752	48,087
CAPITAL ASSETS, NET	353,620	341,021
RESTRICTED ASSETS		
Cash and cash equivalents	30,342	46,456
TOTAL RESTRICTED ASSETS	30,342	46,456
CURRENT ASSETS		
Cash and cash equivalents	47,870	47,862
Restricted cash and cash equivalents	1,677	1,415
Receivables:		
Accounts receivable - net of allowance for doubtful accounts of $9,611,000 in 2014 and $10,522,000 in 2013	5,999	6,962
Recoverable costs of purchased power	9,634	10,063
Unbilled revenue	2,590	2,346
Due from other City of Cleveland departments, divisions or funds	3,053	2,655
Materials and supplies - at average cost	8,816	7,814
Prepaid expenses	167	167
TOTAL CURRENT ASSETS	79,806	79,284
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on debt refunding	17,448	12,459
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 481,216	$ 479,220

(Continued)

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENTS OF NET POSITION

December 31, 2014 and 2013

	(In thousands) 2014	2013
NET POSITION AND LIABILITIES		
NET POSITION		
Net investment in capital assets	$ 166,363	$ 162,124
Restricted for capital projects	482	473
Restricted for debt service	4,349	4,041
Unrestricted	41,196	41,764
TOTAL NET POSITION	212,390	208,402
LIABILITIES		
LONG-TERM OBLIGATIONS -excluding amounts due within one year		
Revenue bonds	223,572	221,127
Accreted interest payable	11,707	9,686
Accrued wages and benefits	436	495
Other	3,455	3,498
TOTAL LONG-TERM OBLIGATIONS	239,170	234,806
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	7,500	13,195
Accounts payable	9,661	10,626
Current payable from restricted assets	1,677	1,415
Due to other City of Cleveland departments, divisions or funds	5,214	4,656
Accrued interest payable	1,455	1,205
Current portion of accrued wages and benefits	2,572	3,370
Other accrued expenses	440	445
Customer deposits and other liabilities	1,137	1,100
TOTAL CURRENT LIABILITIES	29,656	$ 36,012
TOTAL LIABILITIES	268,826	$ 270,818
TOTAL NET POSITION AND LIABILITIES	$ 481,216	$ 479,220

See notes to financial statements. (Concluded)

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENTS OF NET POSITION

December 31, 2014 and 2013

	(In thousands) 2014	2013
OPERATING REVENUES		
Charges for services	$ 181,843	$ 170,342
TOTAL OPERATING REVENUES	181,843	170,342
OPERATING EXPENSES		
Purchased power	115,923	100,929
Operations	20,688	21,338
Maintenance	17,504	18,849
Depreciation	18,354	18,171
TOTAL OPERATING EXPENSES	172,469	159,287
OPERATING INCOME (LOSS)	9,374	11,055
NON-OPERATING REVENUE (EXPENSE)		
Investment income	37	59
Interest expense	(9,285)	(10,023)
Amortization of bond premiums and discounts	(133)	68
Gain (loss) on disposal of assets		(2,224)
Other	3,995	536
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	(5,386)	(11,584)
INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	3,988	(529)
Capital and other contributions		386
INCREASE (DECREASE) IN NET POSITION	3,988	(143)
NET POSITION, BEGINNING OF YEAR	$ 208,402	$ 208,545
NET POSITION END OF YEAR	$ 212,390	$ 208,402

See notes to financial statements.

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENTS OF NET POSITION

December 31, 2014 and 2013

	(In thousands) 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 184,299	$ 171,139
Cash payments to suppliers for goods or services	(18,814)	(15,350)
Cash payments to employees for services	(17,637)	(19,172)
Cash payments for purchased power	(116,276)	(106,074)
Electric excise tax payments to agency fund and other	(5,371)	(5,407)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	26,201	25,136
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grants		984
Electric Deregulation tax receipts	2,801	
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	2,801	984
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds	76,885	
Acquisition and construction of capital assets	(27,164)	(22,255)
Principal paid on long-term debt	(10,770)	(12,710)
Interest paid on long-term debt	(8,074)	(9,767)
Cash paid to escrow agent for refunding	(75,763)	
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(44,886)	(44,732)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities		(39,987)
Proceeds from sale and maturity of investment securities		43,726
Interest received on investments	40	77
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	40	3,816
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(15,844)	(14,796)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	$ 95,733	$ 110,529
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 79,889	$ 95,733

(Continued)

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2014 and 2013

	(In thousands)	
	2014	2013
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$ 9,374	$ 11,055
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	18,354	18,171
CHANGES IN ASSETS AND LIABILITIES:		
Accounts receivable, net	963	(59)
Unbilled revenue	(244)	(415)
Recoverable costs of purchased power	429	(10,063)
Due from other City of Cleveland departments, divisions or funds	(398)	658
Materials and supplies, net	(1,002)	1,012
Prepaid expenses		(77)
Accounts payable	(965)	1,894
Due to other City of Cleveland departments, divisions or funds	558	157
Accrued wages and benefits	(857)	(489)
Other accrued expenses	(5)	(62)
Customer deposits and other liabilities	37	(144)
Other long-term liabilities	(43)	3,498
TOTAL ADJUSTMENTS	16,827	14,081
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 26,201	$ 25,136

See notes to financial statements. (Concluded)

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 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 Operation* 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.

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

BASIS OF ACCOUNTING:

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

REVENUES:

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

STATEMENT OF CASH FLOWS:

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

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 Fund of Ohio (STAROhio), commercial paper, 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.

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 in the balance sheet 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 prices.

NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The City has invested funds in STAROhio during fiscal year 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.

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 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 land, furniture, fixtures, equipment and vehicles and $10,000 for all other assets. When capital assets are disposed, the cost and related accumulated depreciation are removed from the accounts with gains or losses on disposition being reflected in operations. The estimated useful lives are as follows:

UTILITY PLANT	5 TO 100 YEARS
LAND IMPROVEMENTS	15 TO 100 YEARS
BUILDINGS, STRUCTURES AND IMPROVEMENTS	5 TO 60 YEARS
FURNITURE, FIXTURES, EQUIPMENT AND VEHICLES	3 TO 60 YEARS

The Division's policy is to capitalize interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest is included in the cost of the assets and is depreciated on the straight-line basis over the estimated useful lives of such assets. The Division applies GASB guidance pertaining to capitalization of interest cost for its revenue bonds. This guidance requires capitalization of interest cost of eligible borrowings less interest earned on investment of the related bond proceeds from the date of borrowing until the assets constructed from the bond proceeds are ready for their intended use.

For 2014 and 2013, total interest costs incurred amounted to $11,730,000 and $13,399,000 respectively, of which $2,443,000 and $3,359,000, respectively, was capitalized, net of interest income of $2,000 in 2014 and $17,000 in 2013.

NOTES TO FINANCIAL STATEMENTS

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 and is amortized over the shorter of the defeased bond or the newly issued bond.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES:

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

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.

NOTE B - DEBT AND OTHER LONG-TERM OBLIGATIONS

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

	Interest Rate	Original Issuance	2014	2013
		(In thousands)		
REVENUE BONDS:				
Series 2006 A-1, due through 2024	5.00%	$ 95,265	$ 45,285	$ 95,265
Series 2006 A-2, due through 2016	5.00%	12,295	6,015	12,295
Series 2008 A, due through 2024	4.00%-4.50%	21,105	19,040	21,105
Series 2008 B-1, due through 2038	4.00%-5.00%	44,705	39,735	42,855
Series 2008 B-2, due through 2038	5.13%-5.40%	27,903	27,903	27,903
Series 2010, due through 2017	5.00%	23,915	14,910	23,470
Series 2012, due through 2016	2.00%	15,325		9,510
Series 2014, due through 2038	5.50%	76,885	76,885	
		$ 317,398	$ 229,773	$ 232,403
LESS:				
Unamortized discount-zero coupon bonds				(768)
Unamortized premium (discount) -current interest bonds (net)			1,299	2,687
Current portion			(7,500)	(13,195)
TOTAL LONG TERM DEBT			$ 223,572	$ 221,127

NOTES TO FINANCIAL STATEMENTS

NOTE B - DEBT AND OTHER LONG-TERM OBLIGATIONS – CONTINUED

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

	Balance January 1 2014	Increase	Decrease	Balance December 31, 2014	Due Within One Year
			(In thousands)		
REVENUE BONDS:					
Series 2006 A-1, due through 2024	$ 95,265	$	$ (49,980)	$ 45,285	$
Series 2006 A-2, due through 2016	12,295		(6,280)	6,015	1,580
Series 2008 A, due through 2024	21,105		(2,065)	19,040	
Series 2008 B-1, due through 2038	42,855		(3,120)	39,735	
Series 2008 B-2, due through 2038	27,903			27,903	
Series 2010, due through 2017	23,470		(8,560)	14,910	5,920
Series 2012, due through 2016	9,510		(9,510)	-	
Series 2014, due through 2038		76,885		76,885	
TOTAL REVENUE BONDS	232,403	76,885	(79,515)	229,773	7,500
Accrued wages and benefits	3,865	2,513	(3,370)	3,008	2,572
TOTAL	$ 236,268	$ 79,398	$ (82,885)	$ 232,781	$ 10,072

NOTES TO FINANCIAL STATEMENTS

NOTE B - DEBT AND OTHER LONG-TERM OBLIGATIONS – CONTINUED

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)		
REVENUE BONDS:					
Series 1994 A, due through 2013	$ 7,325	$	$ (7,325)	$ -	$
Series 2006 A-1, due through 2024	95,265			95,265	
Series 2006 A-2, due through 2016	12,295			12,295	
Series 2008 A, due through 2024	21,105			21,105	
Series 2008 B-1, due through 2038	43,795		(940)	42,855	975
Series 2008 B-2, due through 2038	27,903			27,903	
Series 2010, due through 2017	23,915		(445)	23,470	8,145
Series 2012, due through 2016	13,510		(4,000)	9,510	4,075
TOTAL REVENUE BONDS	245,113	-	(12,710)	232,403	13,195
Accrued wages and benefits	4,354	3,366	(3,855)	3,865	3,370
TOTAL	$ 249,467	$ 3,366	$ (16,565)	$ 236,268	$ 16,565

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

	Principal	Interest	Total
		(In thousands)	
2015	$ 7,500	$ 10,410	$ 17,910
2016	8,055	9,859	17,914
2017	8,455	9,457	17,912
2018	8,845	9,065	17,910
2019	9,255	8,655	17,910
2020 - 2024	53,195	36,367	89,562
2025 - 2029	42,105	47,446	89,551
2030 - 2034	47,763	41,793	89,556
2035 - 2038	44,600	27,044	71,644
TOTAL	$ 229,773	$ 200,096	$ 429,869

NOTES TO FINANCIAL STATEMENTS

NOTE B - DEBT AND OTHER LONG-TERM OBLIGATIONS – CONTINUED

The City has pledged future power system revenues, net of specified operating expenses, to repay $229,773,000 in various Public Power System Revenue Bonds issued in various years since 2006. 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 68 percent of net revenues. The total principal and interest remaining to be paid on the various Power System Revenue Bonds is $429,869,000. Principal and interest paid for the current year and total net revenues were $18,832,000 and $27,762,000, respectively.

Effective October 30, 2014, the City issued $76,885,000 Public Power System Taxable Revenue Refunding Bonds, Series 2014. These bonds were issued to refund $68,745,000 of outstanding Public Power System Bonds for the purpose of restructuring the Division's debt in order to level out the annual principal and interest payments over the life of CPP's bonds. The 2014 Bonds refunded $49,980,000 of outstanding Series 2006A-1 Bonds, $6,280,000 of Series 2006A-2 Bonds, $2,065,000 of Series 2008A Bonds, $2,145,000 of Series 2008B-1 Bonds, $415,000 of Series 2010 Bonds and $7,860,000 of Series 2012 Bonds. Net proceeds of $75,755,473 were placed in an irrevocable trust account to pay the principal and interest on the refunded bonds as it comes due. Consequently, the refunded bonds were defeased and the liability for these bonds has been removed from long-term debt. As a result of this restructuring, the Division will pay approximately $4 million less in annual debt service payments through 2024, with annual debt service payments of approximately $18 million from 2014 through 2038.

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 aggregate amount of defeased debt outstanding at December 31, 2014 and 2013 is as follows:

Bond Issue	**2014**	**2013**
	(In thousands)	
Series 2006A-1	$ 49,980	$
Series 2006A-2	6,280	
Series 2008A	2,065	
Series 2008B-1	2,145	
Series 2010	415	
TOTAL	$ 60,885	$ -

NOTES TO FINANCIAL STATEMENTS

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.

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, 2014 and 2013, 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. However, the Division has elected, pursuant to provisions of the indenture governing the Division's bonds, to satisfy the bond reserve requirement with a surety bond in an aggregate amount at least equal to the bond reserve requirement. The Series 2014 Bonds 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, 2014 and 2013, the Division had $24,752,000 and $42,011,000, respectively, of outstanding commitments for future constructions that will be funded by available bond proceeds and operating revenue. Capital costs include all costs of additions, extensions, renewals, replacements, alterations, betterments and any other capital improvements to the system. Amounts held in this fund are subject to a lien in favor of bondholders and may be used to pay principal of outstanding bonds to the extent that amounts in all other funds are insufficient. No payment needs to be made into a fund if the amounts in such fund are equal to the required fund balance, if any.

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

NOTE C - DEPOSITS AND INVESTMENTS

DEPOSITS:

At December 31, 2014 and 2013, the Division's carrying amount of deposits totaled $12,569,000 and $13,543,000, respectively, and the Division's bank balances totaled $12,688,000 and $13,029,000, 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, $12,688,000 and $13,029,000 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 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.

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.

NOTES TO FINANCIAL STATEMENTS

NOTE C - DEPOSITS AND INVESTMENTS - CONTINUED

CREDIT RISK:

The Division's investments as of December 31, 2014 and 2013 include STAROhio, commercial paper and mutual funds. The Division maintains the highest ratings for its investments. Investments in STAROhio and the First American Government Obligations Fund carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Division's investment in U.S. Bank N.A. Open Commercial Paper carries a Standard & Poor's rating of A-1+.

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, 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	$36,603	$36,603	$35,182	$35,182	$36,603
Commercial Paper	1,135	1,135	1,134	1,134	1,135
Mutual Funds	29,582	29,582	45,874	45,874	29,582
Total Investments	67,320	67,320	82,190	82,190	67,320
Total Deposits	12,569	12,569	13,543	13,543	12,569
Total Deposits and Investments	$ 79,889	$ 79,889	$ 95,733	$ 95,733	$ 79,889

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, commercial paper and mutual funds are approximately 54%, 2% and 44%, respectively, of the Division's total investments. As of December 31, 2013, the investments in STAROhio, commercial paper and mutual funds are approximately 43%, 1%, and 56%, 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	$ 5,029	$	$	$ 5,029
Construction in progress	48,087	25,772	(5,107)	68,752
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED:	53,116	25,772	(5,107)	73,781
CAPITAL ASSETS, BEING DEPRECIATED:				
Land improvements	305			305
Utility plant	512,756	7,919	(550)	520,125
Buildings, structures and improvements	21,348		(33)	21,315
Furniture, fixtures, equipment and vehicles	82,193	2,369	(1,144)	83,418
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	616,602	10,288	(1,727)	$ 625,163
LESS: ACCUMULATED DEPRECIATION	(328,697)	(18,354)	1,727	(345,324)
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	287,905	(8,066)	-	279,839
CAPITAL ASSETS, NET	$ 341,021	$ 17,706	$ (5,107)	$ 353,620

NOTES TO FINANCIAL STATEMENTS

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	$ 5,249	$	$ (220)	$ 5,029
Construction in progress	46,583	20,944	(19,440)	48,087
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED:	51,832	20,944	(19,660)	53,116
CAPITAL ASSETS, BEING DEPRECIATED:				
Land improvements	305			305
Utility plant	495,234	22,281	(4,759)	512,756
Buildings, structures and improvements	21,413	6	(71)	21,348
Furniture, fixtures, equipment and vehicles	81,036	2,215	(1,058)	82,193
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	597,988	24,502	(5,888)	$ 616,602
LESS: ACCUMULATED DEPRECIATION	(314,193)	(18,106)	3,602	(328,697)
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	283,795	6,396	(2,286)	287,905
CAPITAL ASSETS, NET	$ 335,627	$ 27,340	$ (21,946)	$ 341,021

COMMITMENTS:

The Division has outstanding commitments of approximately $36,675,000 and $53,669,000 for future capital expenditures 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 $2,100,000, $2,513,000 and $2,037,000 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 POST-EMPLOYMENT 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 $350,000 in 2014, $193,000 in 2013 and $815,000 in 2012. The required payments due in 2014, 2013 and 2012 have been made.

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:

The City is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio. The City's share was 21,000 kilowatts of a total 771,281 kilowatts, giving the City a 2.72 percent share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. These costs were therefore deemed impaired and participants were obligated to pay costs already incurred. In prior years, the payment of these costs was not considered probable due to AMP's pursuit of legal action to void them. As a result of a March 31, 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The City's estimated share at March 31, 2014 of the impaired costs is $3,638,459. The City received a credit of $1,182,083 related to their participation in the AMP Fremont Energy Center (AFEC) Project, and another credit of $949,722 related to the AMPGS costs deemed to have future benefit for the project participants, leaving a net impaired cost estimate of $1,506,654. Because payment is now probable and reasonably estimable, the City is reporting a payable to AMP in its business-type activities and in its electric enterprise fund for these impaired costs. AMP financed these costs on its revolving line of credit. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact the City's liability. These amounts will be recorded as they become estimable. The City made payments in 2014 totaling $124,933 leaving a net impaired cost estimate of $3,704,495 at December 31, 2014.

The City intends to recover these costs and repay AMP over the next 15 years through a power cost adjustment, thus this incurred cost has been capitalized and reported as a regulated asset, as allowed by GASB Statement 65. The City intends to recover 50% of these costs from the customers through the Energy Adjustment Charge passed along to customer's monthly bills.

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

RISK MANAGEMENT:

The Division is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Division carries insurance to cover particular liabilities and property protection. Otherwise, the Division is generally self-insured. No material losses, including incurred but not reported losses, occurred in 2014. There were no significant decreases in any insurance coverage in 2014.

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 Divisions are charged a monthly rate per employee by type of coverage. The City participates in the State of Ohio's Workers' Compensation retrospective rating program. As the result of a claim incurred in 2013, the expense for workers compensation increased.

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 reported as part of accounts payable on the statement of net position and is immaterial.

NOTE H - RELATED PARTY TRANSACTIONS

REVENUES AND ACCOUNTS RECEIVABLE:

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

OPERATING EXPENSES:

The Division is provided various intra-city services. Charges are based on actual use or on a reasonable pro-rata basis. The more significant costs for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
	(In thousands)	
City Administration	$ 1,106	$ 1,109
Telephone Exchange	1,227	994
Division of Water	444	414
Utilities Administration and Fiscal Control	1 ,279	1,128
Motor Vehicle Maintenance	658	611

NOTE I – CUYAHOGA COUNTY REAL PROPERTY TAXES

The Division is required by ordinance to keep records of the estimated property taxes which would be payable to Cuyahoga County were it subject to such taxes. The estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately $1,029,000 and $1,048,000 for the years ended December 31, 2014 and 2013, respectively.

NOTE J – KILOWATT PER HOUR TAX

In May 2001, the Division started billing its customers the electric deregulation kilowatt-hour tax according to the laws of the State of Ohio. This law requires the Division to remit the proceeds to the City's General Fund, except for any proceeds attributable to sales outside the City which are remitted to the State of Ohio. The Division billed $5,356,000 and $5,304,000 for this tax in 2014 and 2013, of which $7,333 and $6,593 was remitted to the State. As directed by City Ordinance the General Fund retained 100% of the tax remittance during calendar years 2013, 2012, and 2011. In accordance with Ordinance No. 193-13 passed in March 2013, the General Fund retained 50% of the tax remittance during the calendar year 2014. Ordinance No. 1350-14, passed December 2014, also directed 50% of the proceeds of the tax to the General Fund in 2015 and 2016.

NOTE K– SEAMS ELIMINATION COST ADJUSTMENT (SECA) PAYMENTS

Seams are price inefficiencies arising from operational or rate schedule differences in markets that cross borders. Between December 2004 and March 2006, the Division was required by the FERC to pay SECA payments totaling $10,800,000. The payments arose from a transmission restructuring effort aimed at reducing transmission costs by allowing users such as Cleveland Public Power to pay a single rate for transmission across a regional system consisting of multiple utilities. These payments, made subject to refund and the outcome of litigation proceedings, were intended as a temporary replacement for revenues previously received by transmission owners in neighboring regional systems for transmission access across their systems.

Through litigation and settlements, the Division recovered about $5,656,000 of the $10,800,000 initially charged. The Division is not anticipating any additional refunds. The Division intends to pass through the unrecovered SECA charges to customers and began billing customers for such charges in July 2014.

NOTE L – SUBSEQUENT EVENTS

On or about April 3, 2015, an oily substance was discovered on Lake Erie. Pollution responders with the U.S. Coast Guard and U.S. Environmental Protection Agency (EPA) worked with a contractor to place booms, skimmers, and other equipment in the water to clear the oily water mixture that was last reported to be about 2,900 gallons. The Division agreed to cooperate as a potentially responsible party under the Oil Pollution Control Act of 1990 and Federal Water Pollution Control Act when a leaking tank containing lube oil at their facility was believed to be the cause of the spill. The Division entered into an emergency purchase order to continue the clean-up and is negotiating a contract to conduct additional clean-up work. The Coast Guard ordered the Division to set up a claims process as well. The City estimates the liability could exceed $500,000.


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