

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, 1999 and 1998**

PricewaterhouseCoopers LLP
1500 One Cleveland Center
1375 East Ninth Street
Cleveland OH 44114-1700
Telephone (216) 875 3000
Facsimile (216) 575 0170

REPORT OF INDEPENDENT ACCOUNTANTS

The Honorable Michael R. White, Mayor
and Members of Council
City of Cleveland, Ohio

In our opinion, the accompanying balance sheets and the related statements of income and retained earnings and cash flows present fairly, in all material respects, the financial position of the City of Cleveland, Department of Public Utilities - Division of Water Pollution Control as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the City's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

July 27, 2000

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
BALANCE SHEETS
December 31, 1999 and 1998

	<i>(in thousands of dollars)</i>	
	December 31,	
	1999	1998
ASSETS		
PROPERTY, PLANT AND EQUIPMENT		
Land	\$ 297	\$ 297
Utility plant in service	105,049	95,007
Furniture, fixtures and equipment	107	107
	105,453	95,411
Less: accumulated depreciation	42,295	38,908
	63,158	56,503
Construction in progress	401	6,687
PROPERTY, PLANT AND EQUIPMENT, NET	63,559	63,190
RESTRICTED ASSETS		
Cash and cash equivalents	5	196
Loans receivable	-	580
TOTAL RESTRICTED ASSETS	5	776
CURRENT ASSETS		
Cash and cash equivalents	7,756	8,807
Investments at market	21,666	17,382
Accounts receivable for billings on behalf of others	26,519	26,712
Accounts receivable	3,105	3,134
Unbilled revenue	2,392	1,915
Due from other City of Cleveland departments, divisions or funds	1,086	837
Accrued interest receivable	327	160
Materials and supplies-at average cost	301	206
TOTAL CURRENT ASSETS	63,152	59,153
TOTAL ASSETS	\$ 126,716	\$ 123,119

(in thousands of dollars)

December 31,

1999 1998

EQUITY AND LIABILITIES

EQUITY

Contributions in aid of construction	\$	39,885	\$	39,456
Contributed capital		3,444		3,444
Retained earnings		34,274		30,871
TOTAL EQUITY		<u>77,603</u>		<u>73,771</u>

LIABILITIES

LONG TERM DEBT-excluding amounts due within one year 7,412 7,705

PAYABLE FROM RESTRICTED ASSETS 491 583

CURRENT LIABILITIES

Current portion of long-term debt		461		638
Accounts payable		141		900
Amounts due for billings on behalf of others		36,142		35,564
Due to other City of Cleveland departments, divisions or funds		3,555		2,547
Accrued expenses		64		55
Accrued wages and benefits		847		1,356
TOTAL CURRENT LIABILITIES		<u>41,210</u>		<u>41,060</u>

TOTAL LIABILITIES 49,113 49,348

TOTAL EQUITY AND LIABILITIES \$ 126,716 \$ 123,119

See notes to financial statements.

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CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENTS OF INCOME AND RETAINED EARNINGS
For the Years Ended December 31, 1999 and 1998

	<i>(in thousands of dollars)</i>	
	For the	
	Years Ended December 31,	
	1999	1998
OPERATING REVENUES	\$ 18,815	\$ 18,465
OPERATING EXPENSES		
Operations	6,003	5,944
Maintenance	6,928	6,791
Depreciation	3,387	2,864
TOTAL OPERATING EXPENSES	<u>16,318</u>	<u>15,599</u>
OPERATING INCOME	2,497	2,866
OTHER INCOME (EXPENSE)		
State insurance refund	-	650
Interest income	1,272	1,370
Interest expense	(366)	(595)
TOTAL OTHER INCOME, NET	<u>906</u>	<u>1,425</u>
NET INCOME	3,403	4,291
RETAINED EARNINGS, beginning of year	30,871	26,580
RETAINED EARNINGS, end of year	<u>\$ 34,274</u>	<u>\$ 30,871</u>

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 1999 and 1998

	<i>(in thousands of dollars)</i>	
	For the	
	Years Ended December 31, 1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 18,338	\$ 18,011
Cash payments to suppliers for goods or services	(7,112)	(6,654)
Cash payments to employees for services	(6,385)	(6,455)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,841	4,902
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
State insurance refund	-	650
Agency activity on behalf of other sewer authorities, net	771	399
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	771	1,049
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(3,419)	(3,678)
Principal paid on long-term debt	(484)	(514)
Proceeds from water pollution control loan	14	927
Interest paid on long-term debt	(366)	(595)
Capital grant proceeds	580	2
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(3,675)	(3,858)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(14,770)	(23,351)
Proceeds from sale and maturity of investment securities	10,486	16,498
Interest received on investments	1,105	1,472
NET CASH USED FOR INVESTING ACTIVITIES	(3,179)	(5,381)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,242)	(3,288)
Cash and cash equivalents, beginning of year	9,003	12,291
Cash and cash equivalents, end of year	\$ 7,761	\$ 9,003

(in thousands of dollars)
 For the
 Years Ended December 31,
 1999 1998

**RECONCILIATION OF OPERATING INCOME TO
 NET CASH PROVIDED BY OPERATING ACTIVITIES**

OPERATING INCOME	\$	2,497	\$	2,866
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation		3,387		2,864
Change in assets and liabilities:				
Accounts receivable, net		29		(278)
Unbilled revenue		(477)		(152)
Due from other City of Cleveland departments, divisions or funds		(249)		(519)
Materials and supplies		(95)		(55)
Accounts payable		(759)		398
Due to other City of Cleveland departments, divisions or funds		1,008		(256)
Accrued expenses		9		(6)
Accrued wages and benefits		(509)		40
TOTAL ADJUSTMENTS		<u>2,344</u>		<u>2,036</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$	4,841	\$	<u>4,902</u>

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS
December 31, 1999 and 1998

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Division of Water Pollution Control ("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 ("City") primary government. The Division was created for the purpose of providing sewage services to customers and to maintain the local sewer system of the City of Cleveland. The following is a summary of the more significant accounting policies.

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

The Division of Water provides billing and collection services for sewage fees and assessments charged by the Division of Water Pollution Control and other municipalities. The accounts receivable from users, cash received in payment thereof and the liability for amounts billed on behalf of these systems, but not remitted, are included in the accounts of the Division. Cash and investments collected and due to other municipalities included in the accompanying balance sheets total \$10,117,000 and \$10,557,000 at December 31, 1999 and 1998, respectively.

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 Nonexpendable 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 investing activities.

Cash and Cash Equivalents: Cash and cash equivalents represent cash on hand and cash deposits maintained by the City Treasurer on behalf of the Division. Cash equivalents are defined as highly liquid investments with a maturity of three months or less when purchased and include certificates of deposit, U. S. Treasury bills, Star Ohio (See Note I) 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: Effective January 1, 1998, the Division adopted 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.

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

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS-Continued
December 31, 1999 and 1998

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Property, Plant and Equipment: Property, plant and equipment is stated on the basis of cost. Maintenance and repair costs are charged to expense as incurred. Depreciation is provided on the straight-line method at rates designed to amortize the cost of depreciable assets over their estimated useful lives which range from 6 to 75 years.

Contributed Capital: Contributed capital represents contributions from the City of Cleveland which are not subject to mandatory repayment.

Contributions in Aid of Construction: Contributions in aid of construction represent federal and other grants which are not subject to repayment. The Division participates in the State Issue 2 program and the Local Transportation Improvement Program. Through these programs, the State of Ohio ("State") provides financial assistance to the Division for its storm water detention facilities. The Ohio Public Works Commission ("OPWC") is the State agency which oversees the allocation of State bond proceeds and tax revenue to selected projects which have met funding requirements. Upon approval by the OPWC, the Division and the State create project agreements establishing each entity's financial contribution toward each project. As of December 31, 1999, and 1998 the State funded \$5,829,000 and \$5,400,000 respectively, for storm water detention facilities.

Reclassifications: Certain reclassifications have been made to the 1998 amounts to conform to the 1999 presentation.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS-Continued
December 31, 1999 and 1998

NOTE B—LONG TERM DEBT

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

	<u>Interest Rate</u>	<u>Outstanding Principal Amount</u>	
		<u>1999</u>	<u>1998</u>
		<i>(in thousands of dollars)</i>	
Ohio Water Development Authority Construction Loans due in annual installments of \$282,000 including interest, through 2003	5.25-6.25%	\$ 863	\$ 1,078
Water Pollution Control loans-due in annual installments of \$295,000 to \$521,000 including interest, through 2017	4.04-4.18%	7,010	7,265
		7,873	8,343
Less: current portion		(461)	(638)
Total Long-Term Debt		\$ 7,412	\$ 7,705

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<i>(in thousands of dollars)</i>		
2000	\$ 461	\$ 341	\$ 802
2001	521	315	836
2002	578	287	865
2003	467	257	724
2004	347	236	583
Thereafter	5,499	1,518	7,017
	\$ 7,873	\$ 2,954	\$ 10,827

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS-Continued
December 31, 1999 and 1998

NOTE B—LONG TERM DEBT—Continued

The Ohio Water Development Authority Construction Loans are payable from the revenues derived from operations of the Water Pollution Control system.

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, that along with 20 percent state matching funds, are used 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 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 seven SRF loan awards related to projects as of December 31, 1999.

NOTE C—EMPLOYEES' RETIREMENT PLAN

The City utilizes GASB Statement No. 27, "Accounting for Pensions of State and Local Government Employees," which establishes standards for the measurement, recognition, and display of pension expense and related liabilities, assets and note disclosures in the financial reports of state and local government employers.

The Division contributes to a cost-sharing multiple-employer defined plan, Public Employees Retirement System of Ohio ("PERS"). The plan provides retirement, disability, health care coverage, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

The funding policy for the above plan is as follows: The Ohio Revised Code provides statutory authority for employee and employer contributions. During 1999, PERS employees contributed 8.5% of their salary to the plan and the Division contributed 13.55% of covered payrolls to the plan, of which 4.2% was applied towards the health care program for retirants. The required employer contributions to PERS for the years ending December 31, 1999 and 1998 were \$637,000 and \$657,000, respectively, equal to 100% of the required employer contributions for each year.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS-Continued
December 31, 1999 and 1998

NOTE D—OTHER POST EMPLOYMENT BENEFITS

The Division provides post-employment health care benefits, defined by GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Government Employers," through its contribution to PERS.

PERS provides post-retirement health care coverage to service retirants with 10 years or more of qualifying Ohio service credit. The post-retirement health care benefits cover disability recipients and primary survivor recipients. Post-retirement health care coverage is funded by a portion of the Division's contribution to PERS. During 1999, the Division's portion that was used to fund health care was 4.2% of covered payroll. Post-retirement health care benefits are established by state statute.

The post-retirement health care coverage is financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely. Expenditures for post-employment health care benefits during 1999 for PERS as a whole were approximately \$524 million. As of December 31, 1999, the unaudited estimated net assets available for future post-employment health care benefit payments for PERS as a whole were approximately \$9.8 billion. The number of benefit recipients eligible for post-employment health care benefits at December 31, 1999 for PERS as a whole was 118,062.

NOTE E—DEFERRED COMPENSATION

Eligible employees of the City of Cleveland may elect to participate in the Ohio Public Employees Deferred Compensation Program created in accordance with Internal Revenue Code Section 457. The program allows employees to defer up to 33.3% of their annual salary not to exceed \$8,000 per year until a future date, usually after retirement. The deferred wages and any earned income are not subject to Federal or State income taxes until actually received by the employee.

Effective September 1, 1998, the Ohio Public Employees Deferred Compensation Program board implemented a trust to hold the assets of the program in accordance with Internal Revenue Code Section 457. The program assets are now property of the trust, which holds the assets on behalf of the participants. Therefore, in accordance with GASB 32 "Accounting and Financial Reporting for Internal Revenue Service Code Section 457 Deferred Compensation Plans", the assets of this program are no longer reported in an agency fund of the City.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS-Continued
December 31, 1999 and 1998

NOTE F—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.

NOTE G—RELATED PARTY TRANSACTIONS

The Division provides sewage services to the City of Cleveland, including its various departments and divisions. All non self-supporting municipal functions of the City are provided free sewage service.

The Division of Water performs billing and collection services for the Division. The fee for these services was 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. In 1999 and 1998, the expense of billing services was approximately \$2,202,000 and \$2,151,000, respectively.

The Division is provided various other intra-city services. Charges are based on actual use or on a reasonable pro rata basis. The more significant costs, included in the statements of income, for the years ended December 31 were as follows:

	1999	1998
	<i>(in thousands of dollars)</i>	
Employee and other services provided		
by the Division of Water	\$290	\$454
City administration	371	205
Motor vehicle maintenance	294	363
Street maintenance	384	218
Electricity	141	166
Utilities Administration and Fiscal Control	169	169

NOTE H—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. For the year ended December 31, 1999 and 1998, the estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately \$16,000 and \$17,600, respectively.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS-Continued
December 31, 1999 and 1998

NOTE I—DEPOSITS AND INVESTMENTS

Deposits: The Division's carrying amount of deposits at year-end totaled \$1,502,000. The Division's bank balance was \$1,368,000 and was insured or collateralized with securities held by the City or by its agent in the City's name.

Investments: GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," required the Division to Categorize its deposits and investments into one of three categories: Category 1 includes Insured or Registered, or Securities Held by the City or its Agent in the City's Name; Category 2 includes Uninsured and Unregistered, with Securities Held by the Counter party's Trust Department or Agent in the City's Name; Category 3 includes Uninsured and Unregistered, with Securities Held by the Counter party, or its Trust Department or Agent but not in the City's Name. The Division's investments at December 31, 1999 are as follows:

<u>Type of Investment</u>	<u>Category</u>	<u>Market Value</u>		<u>Cost</u>	
		<i>(in thousands of dollars)</i>			
U.S. Agency Securities	1	\$	22,452	\$	22,739
State Treasurer Asset Reserve Fund (Star Ohio)	n/a		5,473		5,473
Total Investments			27,925		28,212
Total Deposits			1,502		1,502
Total Deposits and Investments		\$	29,427	\$	29,714

Certain investments included above are classified as cash and cash equivalents in the accompanying balance sheets since they have a maturity of three months or less.

Star Ohio is an investment pool created pursuant to Ohio statutes and managed by the Treasurer of the State of Ohio. Star Ohio investments are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 3.